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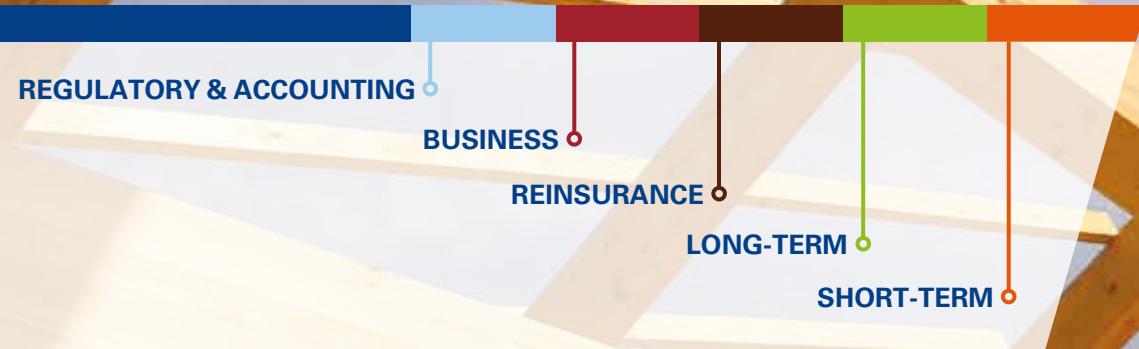
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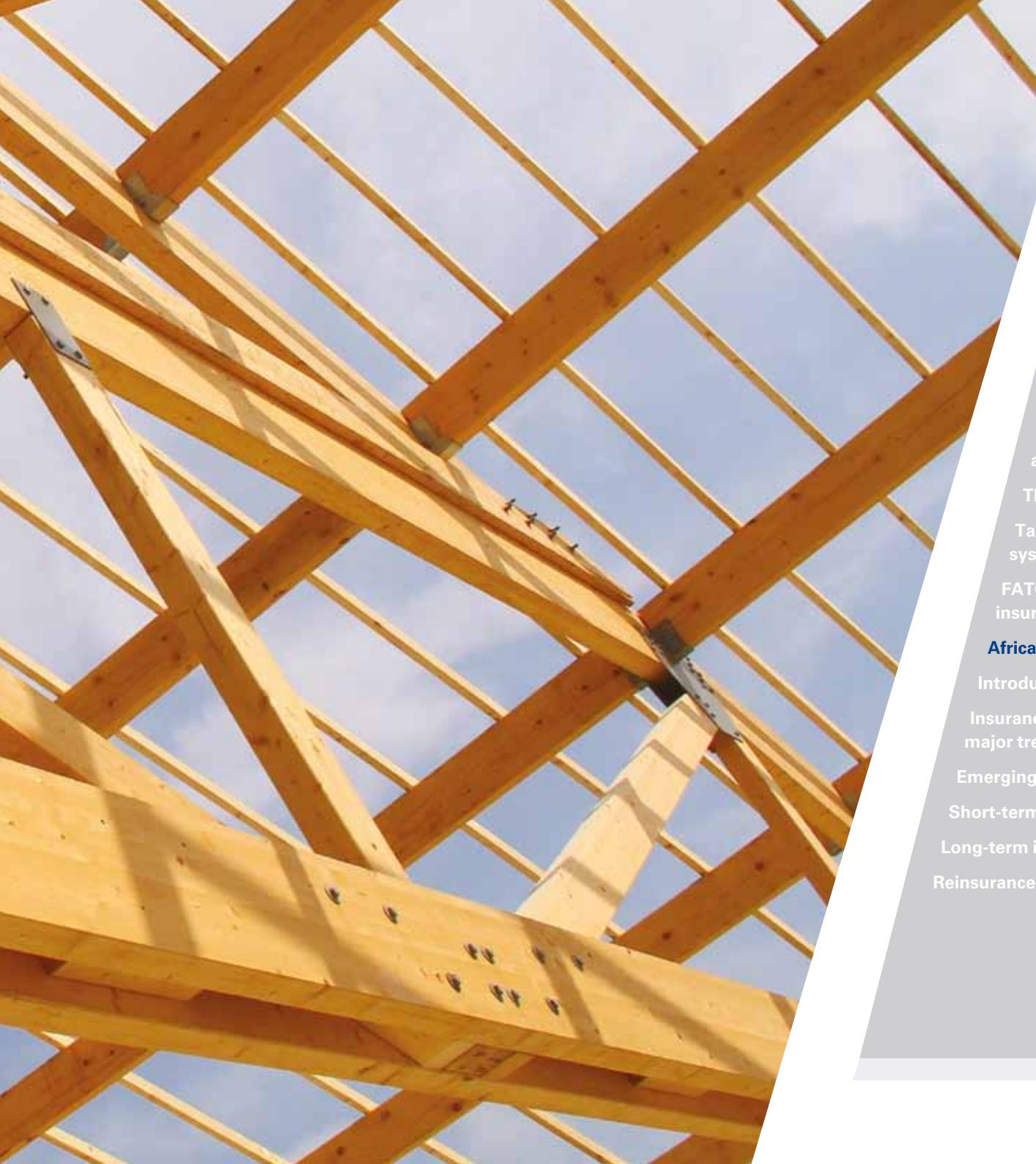
# The South African Insurance Industry Survey 2013

August 2013

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# The South African Insurance Industry Survey 2013

The interconnectedness of these markets also means that individual shocks can have a snowball effect throughout the market. In the current climate of smaller margins, worse claims ratios, soft markets and poor investment returns nobody wants a nasty surprise. But as the FSB said in a published statement some years ago: "in this type of business (the insurance business) despite good faith, good intentions and many skills; things can go wrong, and need to be actively watched and properly managed at



# Introduction

We are pleased to present our 2013 KPMG South African Insurance Industry Survey and we anticipate that this once again will be as interesting and thought provoking as our previous editions.



Our wide spectrum of articles that have been included in this edition touch on business, regulatory and accounting aspects that are currently topical and the subject matters of many debates. We explore the future of microinsurance, the challenges brought about by the implementation of IFRS 10 and its impact on the consolidation principles applied to insurance cells, the implications of the release of BGR 14 on the short-term insurance industry and many other issues the industry is facing.

The statistical information contained in the 2013 survey, as in previous years, was compiled from the annual financial statements of participating insurers supplemented by public available information. The analysis of each of the industry sectors aims to identify trends impacting their performance.

Expansion in Africa is a topic of discussion in many business conversations and in our 2012 edition we explored these business opportunities on a high level by including an analysis of the insurance industry in Africa covering thirteen countries. This analysis documented items such as macro-economic conditions, regulatory framework and size of the insurance industry. In the 2013 edition we focus on the insurance industries in two of the countries featured last year, namely Nigeria and Angola.

We have made every effort to ensure that the content in this publication is fresh, thought provoking and pertinent. We trust that you will find this publication insightful and we invite you to contact us should you require any additional information or assistance.



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# FACING FACTS: things can and do go wrong

The fallout of the credit crisis has brought into focus once again the susceptibility of financial institutions to rapid and unexpected losses. The interconnectedness of these markets also means that individual shocks can have a snowball effect throughout the market. In the current climate of smaller margins, worse claims ratios, soft markets and poor investment returns nobody wants a nasty surprise. But as the FSB said in a published statement some years ago: "in this type of business (the insurance business) despite good faith, good intentions and many skills; things can go wrong, and need to be actively watched and properly managed at all times." In this context we intend to look back at a few things that have "gone wrong" in the South African insurance industry, in particular some of those arising outside the normal course of insurance business, and we consider what processes management and the FSB could put in place to limit these exposures in the years to come.

One can't talk about nasty surprises in the South African insurance industry without thinking of Sage Life and the Sage Group.

In a nutshell Sage came under pressure after a venture into the United States started to rapidly burn capital. To help finance this costly operation the Group issued equity linked notes in 2001. These instruments were linked to the dollar price of local Absa shares. However, fair value movements in the Absa shares held by the Sage Group did not result in an equal and opposite movement in the liability (arising from the equity linked notes) due to an imperfect hedge and the impact of unexpected currency movements. As the rand exchange rate moved, so the disparity between these two balance sheet items increased and the difference was required to be funded out of the Group's equity. Over a similar period the Group continued to declare dividends, which were not covered by the returns earned over that same period. Despite concluding financial arrangements with some shareholders, notably Absa and Remgro, to obtain bridging finance to settle the notes, the liquidity strain arising from this deal, and the general lack of capital, was too significant which resulted in the Group becoming vulnerable to a take-over. This transpired when Momentum acquired the Group's shares.



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The message here is clear: venturing into a new market can be a risky enterprise. The capital requirements related to these ventures can often be greater than initially anticipated. Where possible, the financing of these ventures should entail as little risk as possible. In particular new ventures should be structured so as to limit the destabilising effects on existing businesses and their capital. With the perfect hindsight of the credit crisis we all understand that derivative instruments of any sort need close, continuous and expert attention. Equally in performing one's Own Risk and Solvency Assessment ("ORSA") the medium term downside risk of ventures and instruments should be shocked to develop a worst case scenario before considering the possibility of declaring dividends to shareholders.

Although on a much smaller scale there are a few lessons to learn from the recent demise of Resolution Life, which is currently under curatorship. Like any new start-up individual life insurer Resolution Life struggled with scale and looked to reinsurance arrangements to help fund new business expenses.

With the perfect hindsight of the credit crisis we all understand that derivative instruments of any sort need close, continuous and expert attention.

The interconnectedness of these markets also means that individual shocks can have a snowball effect throughout the market. In the current climate of smaller margins, worse claims, soft markets and poor investment returns nobody is a nasty surprise. But FSB said in a published report some years ago that this type of business (insurance business) needs good faith, good ethics and many skills; and can go wrong, and needs to be actively watched.



Reinsurance has a well documented role to play in managing the liquidity and capital of insurers but needs to be balanced with the shareholders own capital at risk. As was the case with Resolution Life, ceding too much reinsurance becomes an addictive drug that does not allow the company to retain sufficient profits to build a capital base from which to grow.

It is for this reason that management need to be performing a regular assessment of the risk and solvency requirements of the company. The ORSA needs to be tailored to the specific nuances of the risks and solvency requirements of the company. Only the management and board of a company can ever be intimately familiar enough with a company to understand the extent and details of the risks faced by the company; and although a standard formula issued by the regulator might provide a reasonable proxy for this number, the subtle details can never be adequately encompassed in such a standardised model. In this case what the company required was a capital management plan that clearly showed those scenarios that required additional share capital and how the shareholders would fund the capital.

However executive management will inevitably have a vested interest in the transactions of the company. They are appointed for exactly that purpose, to make the tough decisions and stick by them. It is therefore imperative that the board has strong, well informed and suitably empowered independent non-executives to at least encourage a robust debate around the strategic decisions of the company, whether they are new ventures or reinsurance structures.

Other groups have also come under significant pressure from their underperforming subsidiaries. Prior to its purchase by Capital Alliance in 2005 Rentmeester placed

Rentsure Holdings Limited under significant pressure. Prior to its disposal, the Rentmeester insurance business accounted for 93% of the headline losses of the parent company. That was not the only problem for the Group though. The forced disposal of their property holdings to meet the liquidity and capital needs of the subsidiary and onerous costs arising from a restructuring within the group are just two of the many examples often cited in relation to the Group's ultimate disbandment. But just a few years prior Rentmeester had been a successful and profitable part of the listed Rentsure Holdings Limited. It was from 1998 that this started to change with constant reference to expense strain resulting in increasing transfers to the policyholder liabilities. Furthermore the Group had a textile business which, while not contributing in any synergistic way to the assurance business, was contributing to the loss. Part of the proposed solution to this situation was a merger with Assupol, the result of which would be an increase in the scale of the life operations and a resultant decrease in the expense strain being experienced by the business. The results of 2000 and 2001 included various expenses incurred in "restructuring and curtailing" of the branch network and work force in anticipation of this deal. When the deal fell through the group entered into an extended legal battle with Assupol for a particular funeral book of business which was finally settled in November 2004 with an order of the high court to split the policies of that book evenly between both parties.

It is easy to comment with hindsight, but the Rentsure scenario appears to be a case of various structural weaknesses coming together at the wrong time. Firstly the Group had a concentrated exposure in the investment property space. Fixed property accounted for almost 30% of the total assets prior to the late 2002 disposal of many

of these assets. Secondly, Retnmeester had allowed for a variety of different policy terms and structures to be introduced. The build up of these products had introduced significant complexity to the business making it cumbersome and expensive to maintain.

And lastly the Group had a significant concentration of capital in a non-core business – the Alnet textiles business. Under current and proposed regulation, some of these concentrations may have been limited; in particular the exposure to property. However the reality remains that such concentrations arise from a strong belief that certain assets or investments will outperform others. When these beliefs prove correct the company's success is praised, even if it is nothing more than fortuitous gain.

Apart from a robust challenge from suitably independent and non-executive individuals, it appears unlikely that present regulation or proposed best practice would have had anything unique to add on either the Assupol merger or the Alnet business.

Perhaps worthy of mention is that Rentsure Holdings Limited had minimum capital adequacy cover of less than 1 as early as 2001 and it is in part as a result of this that management embarked upon the property as well as the Assupol transactions. The property deal was in an attempt to rebalance the balance sheet and inject some liquidity. The Assupol deal was intended to introduce scale to the business and reduce the expense strain on the company. Would the proposed solutions differ significantly under current regulations?

Nasty surprises are not always in the form of underperforming assets and write downs. In more recent years, with the plethora of laws and regulations, and

the creation of the FSB Enforcement Committee, there has been a sharp increase in the number and value of fines and penalties dished out for non-compliance. Since December 2006 there have been over one hundred and twenty enforcement actions from the Committee with administrative penalties ranging from R10,000 to R2 million. The nature and scope of these are quite varied, from many early charges against individuals for insider trading and market manipulation, to an increased incidence of penalties levied against companies for non-compliance. This non-compliance includes the whole range of financial laws including: the Short-Term and Long-Term Insurance Acts; FICA; FAIS; and the Pension Funds Act. These actions can also have a detrimental impact upon public image if not managed appropriately in the media. Not to mention the ever lengthening shadow of the Competition Tribunal, which has scared and dragged the skeletons out of the closet in many other industries to date.

The most recent construction industry settlements have shown how the past practices of subsidiaries, purchased subsequent to those practices, can still result in fines and penalties for a group.

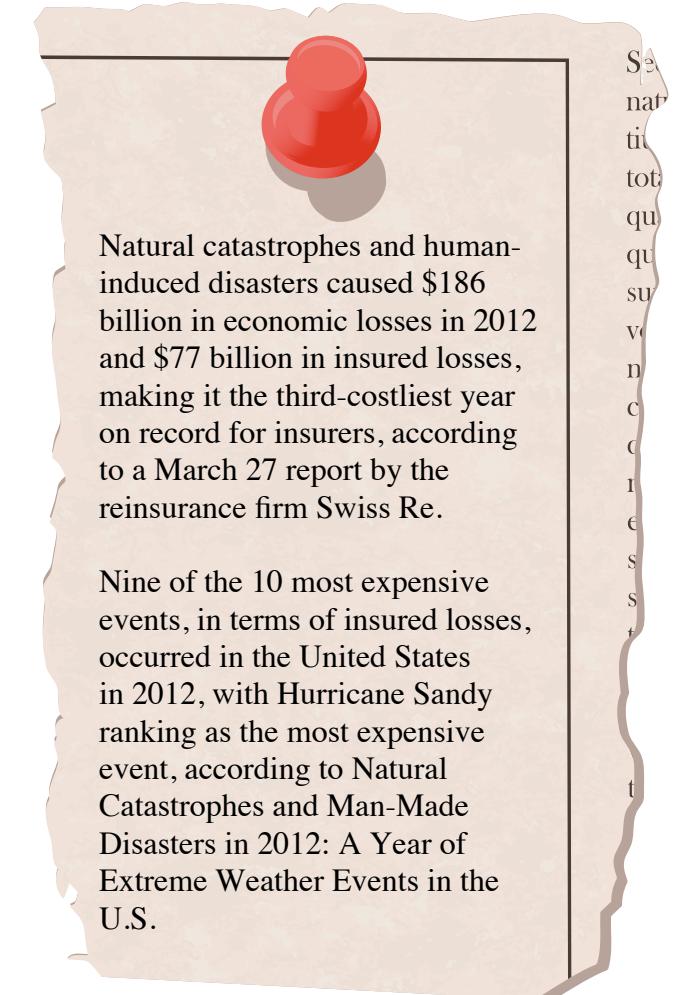
In this context the role of the compliance officer has become even more important. The ability to find, hire and retain suitably skilled and qualified individuals in this space is crucial. Almost every financial transaction crosses the path of three, four or five pieces of major legislation. Furthermore the actions of agents and employees, sometimes in years gone by, can come back to haunt a company. It is impossible for any one board member to remain intimately familiar with the nuances of each piece of legislation and therefore it is vital that compliance risk is built into the risk assessment process of the company and worked into the ORSA.

Ultimately the lessons from our local history are that things can and do go wrong. It remains the responsibility of the board to manage these risks through the appropriate delegation of responsibility for the risk identification, mitigation and reaction. Building these into one's ORSA is essential to ensure that on a periodic basis the whole risk of the company (or group) is assessed and the potential impact upon solvency is assessed.

With the new scramble for investments in Africa, this process is essential. Investments into foreign jurisdictions, as indicated above, can be costly and a drain on capital. Furthermore the local laws can introduce new compliance risk into the business. A strong, suitably skilled and independent thinking risk management and compliance function is no longer optional.

Natural catastrophes and human-induced disasters caused \$186 billion in economic losses in 2012 and \$77 billion in insured losses, making it the third-costliest year on record for insurers, according to a March 27 report by the reinsurance firm Swiss Re.

Nine of the 10 most expensive events, in terms of insured losses, occurred in the United States in 2012, with Hurricane Sandy ranking as the most expensive event, according to Natural Catastrophes and Man-Made Disasters in 2012: A Year of Extreme Weather Events in the U.S.



# Proudly insurance

The insurance industry has, traditionally, been misunderstood and is perceived by many as a necessary evil. The perception is all but alluring - a male dominated industry with staid values and principles, poor market conduct and vanilla offerings.

The industry, however, is the backbone to a successful economy with market perceptions being somewhat outdated and incorrect. I came across an article reflecting on how insurance benefits an economy by encouraging businesses to better manage the risks of their everyday operations and prevents excessive losses and premium hikes. The payment of policy benefits and claims and significant investment by insurance companies stimulates the economy and facilitates financial markets. Businesses operate a little easier every day by minimising the risk of significant liability with regard to routine transactions. Insurance cover permits businesses and home owners to recover quickly after major events and protects purchases like our homes, motor vehicles and valuables.

As direct insurers have challenged the broker model by cutting out the middle man and providing insurance

at more competitive rates, they have unwittingly increased the perception that the traditional insurer takes advantage of the policyholder by means of "additional fees".

Complaints about unfair claim repudiations, misleading policy wording, undue premium rate increases and poor customer service adds fuel to the fire.

The industry has become complacent when it comes to managing their image and reputation in the market due to other top of mind matters such as increased regulatory and legislative requirements, climate change, landscape and economic changes. Although companies like Dial Direct and Outsurance have flooded the airwaves with effective advertising, catchy slogans and international celebrities, the stigma attached to the industry is not addressed and customers are disappointed when insurers do not live up to their value propositions.

Many perceptions have been created by the public due to lack of knowledge and it is those perceptions



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that need to be managed to improve the industry's image and the insurance brand in South Africa.

The insurance ombudsman received close on 9 000 complaints in 2011, with 51% relating to motor vehicle claims. One of the major concerns with regard to the motor book in South Africa is that insurers are making sizeable profits at the expense of the customer. Claims relating to Johannesburg's summer downpours and hailstorms, or the numerous potholes that have become a familiar part of our travels, are repudiated due to limited scope or policy exclusions.

Policyholders don't understand the benefit of nominated versus regular drivers, the importance of car and home alarms when it comes to honouring claims or the value of updating insured values so that proportionality is not applied during claim settlement.

The economic reality is that motor insurance is expensive as it is the least profitable book of business for any insurer due to the high costs associated with vehicle repair and the frequency and severity of South African crime and car accidents.

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While the complaints are publicised, many are unaware of the impact of initiatives like the Dial Direct pothole brigade or the Outsurance pointsmen who do their part for road rage by manning problematic intersections. The Dial Direct pothole brigade were able to repair over 50 000 potholes in and around Gauteng in the space of 18 months. The Pothole Brigade, however, could not be sustained without the buy-in and support of government and as such the initiative was abandoned.

Although the country has moved forward with renewed focus on transformation, the insurance industry is struggling to obtain momentum and this contributes to the negative perception of the industry by government and National Treasury.

### **The South African Insurers Association ("SAIA")**

SAIA have undertaken an initiative to address the poor market perception of the insurance industry. I sat down with Vivienne Pearson, the General Manager of Projects, to discuss SAIA's proposed plan of action.

The solution starts with identifying the key stakeholders and the key perceptions. Treating Customers Fairly ("TCF") goes a long way to address some of the negative perceptions, especially the notion that an insurer will find any excuse to repudiate a claim. However the implementation of TCF is in its infancy stage and the industry must be proactive in raising awareness amongst key industry players. Insurance companies need to be aware of the impact their behaviour has on industry products.

SAIA members, who represent about 99% of the short-term insurance industry, include most of the industry players who are being negatively impacted by poor perception in the market. They are therefore committed

to being involved in the solution. Some of the key industry members collaborating in this effort include – Santam, Mutual & Federal, Outsurance, Hollard and Etana.

The perceptions of consumers are minimised by the perception of role players and important shareholders who have an impact on industry through regulation and legislation.

Targeted sessions will focus on identifying key market perceptions and the rationale of these perceptions.

This will create a dialogue with members, generating awareness and encouraging participation and involvement.

The re-launch of SAIA's code of conduct seeks to strengthen self regulation in the insurance industry. The code will ensure consistency in behaviour amongst its member in terms of market conduct, claims settlement, ethics, communications, advertising and third party relationships.

Members will roll out the code to staff and conduct surveys or competitions within the business to ensure practical application and buy-in.

For direct insurers, call centre staff are often the only contact point the insurer has with its customer or prospective customer. Members have been tasked to ensure call centre staff are trained and able to deal with the policyholder's varying needs even if the solution is not part of the pre-determined script.

Information sessions are being planned with parliament and National Treasury to address popular misconceptions and talk to market conduct. It is important to set the right tone at the top to ensure that National Treasury and the Financial Services Board ("FSB") can improve its

understanding of the industry and can support industry wide initiatives.

In Vivienne's words, "It is difficult to make short term insurance sexy but we're at fault, we haven't been telling these stories – we don't have the information. Information is the key."

Access to information will be imperative and the industry will need to support SAIA in their initiatives to gather useful information to influence National Treasury and the country's decision makers.

Theme events will be held with opinion makers in the media as media personalities help inform all role-players. Targeted marketing in low income markets will ensure the needs of the many are not overshadowed by the needs of the few.

Current policyholders will be educated on insurance products with information booklets or sessions.

A customer can only experience the service of a good insurer after a claim when they have experienced the value of their cover. The adverse weather conditions that concluded the 2012 calendar year was the ideal opportunity for the industry to capitalise on as all eyes were focussed on how the claims resulting from the Johannesburg and KwaZulu Natal hailstorms and the St Francis fires would be managed.

Thatch Risk Acceptances ("TRA") embraced this opportunity to profile themselves, and in turn the industry, in their treatment of the St Francis fire claims in November 2012.

TRA specialises exclusively in fire insurance for thatch risks. Their response to the event was targeted, with the help of their business partner Compass Insurance, and

in collaboration with brokers and loss adjustors. Claim payments to permanent residents were made on the day of the event to ensure they were not inconvenienced or disadvantaged by the fires.

Claims in respect of household contents were settled quickly to allow clients to recover financially.

To further ensure the policyholder was not prejudiced by the event, TRA elected cash settlement so that the policyholder could choose their individual finishes. This was at the expense of supplier discounts that could have been negotiated. This was a major marketing opportunity for TRA and included significant media coverage.

Short-term insurers experienced a substantial number of claims due to the severe hailstorms in the Gauteng area in November 2012. The claims volume was high and the extent of the damage severe due to the severity of these storms and size of the hailstones. The insurers had to deal with high volumes of claims in a short space of time and manage congestion at repair shops challenging the existing claims processes. Fast track hail claims were introduced and claims finalised as they were reported. Windscreen repairs were simpler and faster due to the insurer's investment in hail doctors, specialists from overseas who could repair windscreens rather than replace them, which would have come with significant delays and costs. Hail agreements were utilised by the Telesure Group, for example, where the panel of repairers was extended and solutions found to ensure the new repairers maintained a good quality service.

The devastation of the St Francis fires and the harsh hail storms gave the industry ample opportunity to reassure the public that the South African insurance industry is equipped to address this type of exposure.

These incidents will encourage changes and improvements to our lifestyles and risk exposure. SAIA initiatives with municipalities will address issues such as sustainability, climate change and community risk to assist people with risks at a community level.

Short-comings in fire protection services will be identified and municipalities will be supported to test the processes implemented. An agricultural insurance initiative is being discussed which could lead to a public private partnership with government to make insurance more accessible and cost effective. Objectives include minimising government risk and helping farmers and insurers put cost effective solutions in place with commercial farmers. SAIA is also working with the National Disaster Management Centre to provide support with risk management, expertise and data collection. Building regulations are being amended in high risk areas and town development plans are being prepared considering access roads, fire and water design and fire services.

First for Women have invested in the women of South Africa and have shown that they not only care for their customers but care for the women in South Africa as well. The First for Women Trust was set up to support gender based violence and cervical cancer initiatives and support programmes. A percentage of premiums collected by First for Women is donated to the trust and over R17 million has been collected and distributed to date.

These are a few of the innovative initiatives that will be or are being implemented to better service the policyholder. These initiatives and others should be celebrated and publicised by the industry. It's time to challenge the perception and be Proudly Insurance!

The short-term insurance industry - spearheaded by the South African Insurance Association (SAIA) and the Financial Intermediaries Association (FIA) - has determined that changing environmental, social and governance (ESG) issues will have a significant impact on the health and sustainability of the industry.

Bizcommunity.com, 19 March, 2013

**Malory**



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# Microinsurance: Micro impact?

Our comparison of the financial and regulatory implications of the proposed microinsurance framework suggest some insurers could halve their capital requirements and significantly reduce their cost base.

Only 15% of South Africa's population has a short-term insurance policy. Recent catastrophic and near-catastrophic events affected the insured and uninsured population of South Africa alike. This affirms the need for insurance for lower income groups in particular. The proposed microinsurance legislation may not only make insurance affordable for lower income groups but also more profitable for insurance companies.

In this article we'll discuss the background of microinsurance in South Africa and the key features of microinsurance products. We'll also consider how insurers' balance sheets would be presented under different regulatory regimes and the role of actuaries in microinsurance. Lastly we'll comment on how

the insurance industry is likely to be impacted by the implementation of both Solvency Assessment and Management (SAM) framework and the proposed microinsurance framework.

## The microinsurance framework in South Africa

The main aim of the legislation is to provide the framework within which low-income households would have access to good-value insurance products. This would support improved financial inclusion in South Africa. These products would be simple, would meet the needs of its target market and would be affordable. The regulatory framework governing these products therefore should support simple policy designs and should not result in material barriers to entry for new companies.

Unsophisticated consumers and investors who find it difficult to evaluate the quality of financial products and related information would have a limited ability to protect themselves in their dealings with the financial services industry. They therefore need assurance that the financial institutions operating in the market



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comply with rules and principles that are fair, transparent and monitored.

Similarly the providers of such products need a framework that is not onerous but would be expected to prevent a systemic melt-down from occurring.

The regulatory framework for microinsurance in South Africa has been in development for the past decade. The first discussion document about a microinsurance regulatory framework was circulated for comment in 2008. In 2011 National Treasury released their policy document titled "The South African Microinsurance Regulatory Framework". It is expected that the draft legislation will be published this year, although there is some debate as to whether it will be presented to Parliament in 2014 as stand-alone legislation or be combined with other insurance legislation.

## Key features of microinsurance

Microinsurance has many definitions emphasizing different aspects of low income or low net worth individuals, community oriented insurance or a "micro" level tool to improve economic conditions and promote growth. This makes it particularly relevant to the South African industry.

The proposed microinsurance legislation may not only make insurance affordable for lower income groups but also more profitable for insurance companies.



According to the policy framework, insurance products that will be classified as microinsurance products have very specific features:

1. Policy terms are limited to one year which implies that the policyholder is expected to renew their policy each year and their premiums are not guaranteed.
2. Products are limited to risk-only type products, i.e. no savings products are to be offered.
3. The benefits that can be provided are limited; benefit caps are set at R50 000 for death products, R100 000 relating to insurance on assets and R50 000 for all other risk events such as disability or retrenchment. It is interesting to note that policies may not be sold on an indemnity basis. The basic reason for this is that the underwriting costs at the claim stage may be too expensive. It is possible that this might change when the legislation is enacted.
4. No exclusions are allowed for pre-existing conditions.
5. Products must be simple and easy to understand. The Registrar may even decide to issue norms and standards with regards to terminology.
6. Policyholders should be allowed a grace period should premiums not be paid when due. During the grace period premiums are not paid to the insurer but cover remains intact (although any benefit payments may be reduced by outstanding premium payments including interest). The grace period that should be allowed grows from one month in the first year that a policy is on the books to a maximum of six months in the sixth year that the policy is on the books and

thereafter. This could potentially affect the cashflow of an insurer quite significantly and introduces an additional risk that traditional insurers don't face.

It is envisaged that a separate microinsurance licence type will be introduced which will be a requirement for all insurers wishing to operate in this market.

The policy framework proposes that a licensed microinsurer should be permitted to write both long-term and short-term insurance business.

### Comparison of Minimum Capital Requirements (MCRs) under different regimes

The minimum capital requirement is a fairly simple calculation under all three regimes considered.

The table below compares the minimum capital requirements under the proposed microinsurance policy framework, the existing regulatory framework and under SAM (as per the SAM Quantitative Impact Study (QIS) 2 technical specification).

**Comparison of Minimum Capital Requirements**

Company type	Microinsurance	Current rules (2013)	SAM QIS2
Long-term	max{R3m, 15% of maximum of prior 2 years' NWP}	max{R10m, 13 weeks' operating expenses, 0.3% of gross liabilities}	AMCR = max{R15m, 25% of annualised operating expenses in prior year}
Short-term	max{R3m, 15% of maximum of prior 2 years' NWP}	max{R10m, 13 weeks' operating expenses, 15% of maximum of prior 2 years' NWP}	AMCR = max{R15m, 25% of annualised operating expenses in prior year}
Composite	max{R3m, 15% of maximum of prior 2 years' NWP}	Sum of Life and Non-Life requirements	AMCR = max{R30m, 25% of annualised operating expenses in prior year}

NWP = Net Written Premium

It is clear that the minimum capital a company would need to hold could be five times under SAM and also materially higher under the current rules compared to what it will be under the microinsurance framework.

The significantly more complex Solvency Capital Requirement (SCR) under SAM will also be potentially a multiple of the Absolute Minimum Capital Requirement (AMCR) and it is expected that insurers will meet the SCR rather than only the AMCR. There is no more complex, higher capital requirements proposed for microinsurance.

The proposed capital requirement for microinsurers is therefore significantly less burdensome than the requirements under the current regulatory framework and SAM.

## Comparison of statement of financial position under different regimes

### Background

In order to understand the financial implications of writing business under different licence types (i.e. a microinsurance licence vs. a long or short-term licence) we compared hypothetical statements of financial position under each licence. Specifically, we compared the statements under the microinsurance policy framework, the current insurance rules (or interim measures) for short-term insurers (as defined in Board Notice 169 of 2011) as well as under SAM QIS2.

The calculation of policyholder liabilities is similar under the microinsurance framework and the interim measures. However, the SAM requirements are quite different.

The microinsurance policy framework and the interim measures both require the incurred but not reported (IBNR) reserve to be based on a specified percentage of the net earned premium (where the percentage varies by product class under the interim measures and also varies between the two regimes). There are no differences in the methodology for determining the outstanding claims reserve (OCR) and the unearned premium provision (UPP) (the UPP is sometimes also referred to as the unearned premium reserve or UPR).

Under SAM the policyholder liabilities are divided into claims reserves (related to claim events occurring in the past) and premium reserves (related to future claims and premiums). SAM also requires a discounted cashflow approach (gross premium valuation or GPV) which is different from the other regimes (although some simplifications are allowed).

The Solvency Capital Requirements (SCRs) under the three regimes are also very different from each other.

The SCR under the microinsurance framework is determined using a very simple formula based approach. The SCR under the interim measures is determined using a modular approach where the insurer has to hold capital for insurance, market, credit and operational risks and the capital requirement in each case is determined as a percentage of assets, business exposure or some other metric. The approach under SAM is similar to the interim measures, but significantly more complicated.

### Product types considered

We selected six product types that we anticipate may be popular in the future microinsurance market. The product set included six different product types representing both the long-term and short-term industries:

1. An individual life policy (term assurance contract that pays out upon death within a specified term)
2. A group life policy (same as above, as a group contract)
3. An individual disability policy (contract that pays out upon disability within a specified term)
4. A group disability policy (same as above, as a group contract)
5. A cell phone insurance policy (contract that pays out upon theft or accidental damage of a cell phone)
6. A property insurance policy (contract that pays out upon fire to property)

The reason why both individual and group policies were considered for the life and disability product types is that under SAM QIS2 the mass lapse stress is different for

these two product classes (namely 45% for individual policies and 70% for group policies). We were interested to see whether the fact that this particular stress is significantly different would have a large enough impact to render the microinsurance framework the most capital efficient for one but not both of the individual and group products. This is particularly relevant since a significant portion of the microinsurance industry is likely to consist of group policies.

For the short term products we originally intended to include a typical household insurance policy (covering the building and contents). However, due to the requirement that policies may not be sold on an indemnity basis, it was not obvious to us how a typical household insurance policy (which we would expect would be relevant in the microinsurance market) would operate. It is possible that the Microinsurance Act would be changed from what has been set out in the policy framework to either allow household insurance policies on a non-indemnity basis or to remove the requirement for indemnity altogether.

### Approach

For each of the product types considered, we performed the necessary calculations to be able to produce statements of financial position under each of the regimes considered. This included the microinsurance framework, the interim measures (for short term product types) and the SAM QIS2 requirements.

Where these were not prescribed, we based our base set of parameters on what we have observed for similar product types in the market.

The capital efficiency of the three regimes was compared by considering a number of metrics, including:

- free assets as a percentage of capital requirements (higher is better);
- free assets as a percentage of premiums (higher is better); and
- capital requirements as a percentage of premiums (lower is better).

The table below shows the statements under the three regimes considered as well as the capital efficiency measures considered for the cell phone product type in the base scenario.

#### Statement of financial position comparison: Cell phone policy

	<b>SAM</b>	<b>Micro Insurance</b>	<b>Interim Measures</b>
Assets	4 302	4 302	4 302
Premium debtors	N/A	1 100	1 100
<b>Total assets</b>	<b>4 302</b>	<b>5 402</b>	<b>5 402</b>
<b>Liabilities</b>			
GPV	(74.37)	N/A	N/A
UPR	N/A	1 200	1 200
IBNR	54	84	71.76
OCR	18	18	18
Risk margin	119.28	N/A	N/A
<b>Total liabilities</b>	<b>116.91</b>	<b>1 302</b>	<b>1 289.76</b>
<b>Capital requirements</b>			
SCR	4 087.72	N/A	341.95
MCR	1 021.93	N/A	180
15% NWP	N/A	180	N/A
<b>Total capital requirements</b>	<b>4 087.72</b>	<b>180</b>	<b>341.95</b>
Free surplus (A - L - C)	97.37	3 920	3 770.29
Assets (liabilities+capital requirements)	102%	365%	331%
Free surplus/capital requirements	2%	2 178%	1 103%
Free surplus/premiums	8%	327%	314%
Capital requirements/premiums	341%	15%	28.5%

We have compared the statement of financial position for each of the product types under the different regimes for a number of different scenarios using different sets of parameters for various aspects of the calculations.

#### Observations

Based on the analysis we performed it became clear that the microinsurance framework would be the most capital efficient for all six of the product types we considered.

The table below shows the solvency capital requirement (SCR) for a portfolio of each of the policy types included in the analysis as a percentage of premiums (which is one of the capital efficiency metrics we considered).

#### Comparison of Capital Requirements

<b>Policy</b>	<b>Microinsurance</b>	<b>SAM QIS2</b>	<b>Interim Measures (BN 169)</b>
Life (individual)	15.0%	28.6%	N/A
Life (group)	15.0%	29.2%	N/A
Disability (life)	15.0%	41.2%	N/A
Disability (group)	15.0%	41.7%	N/A
Cell phone	15.0%	340.6%	28.5%
Property	15.0%	218.5%	28.5%

As can be seen from the table above, for all six of the product types modelled, the SCR as a percentage of premiums under the proposed microinsurance

framework is significantly lower compared to the same metric under both the SAM QIS2 and the interim measures requirements.

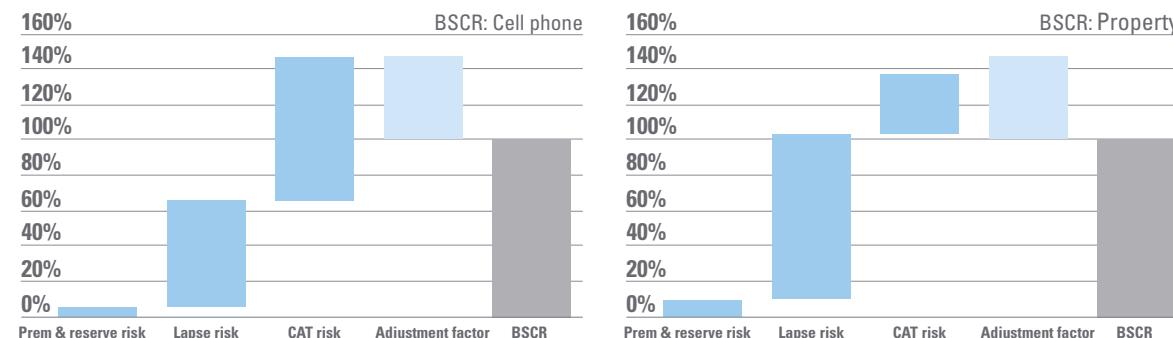
Also, as expected, for all six of the product types modelled, the SCR as a percentage of premiums is the same (15%) under the microinsurance framework. However, under the SAM QIS2 and the interim measures requirements the SCR as a percentage of premiums differs significantly between the product types.

Looking at the comparison of the SCRs for each of the product types in more detail, the most noticeable observation is that the SAM QIS2 SCRs are significantly larger for the two non-life policies. This result is driven by the size of the catastrophe risk component in the SAM QIS2 SCR (calibrated as per the SAM QIS2 technical specification).

Another key observation is that under SAM the best estimate liabilities (BELs) are typically negative. However, the impact of having a negative BEL is more than negated by the large capital requirements under SAM.

Under SAM, the SCR is calculated by combining the Basic Solvency Capital Requirement (BSCR), Operational Risk Capital requirement and a capital requirement related to participations (which was not relevant for the purposes of this exercise). In turn, the BSCR is calculated by combining capital requirements for market risk, life underwriting risk, non-life underwriting risk and intangible asset risk (which was not relevant for the purposes of this exercise).

In the table below the breakdown of the BSCR for both the short-term policies is shown. The BSCR comprises 99% of the SCR for both policies (since the operational risk component is low in both cases).



The SAM QIS2 technical specification allowed two different approaches (namely what is referred to as the "factor-based" method and the "scenario-based" method) to be used for the purposes of the catastrophe risk component. The reason why the catastrophe risk component is significantly different for these two product types is due to the factor-based method for catastrophes that was used for the cell phone policy, whereas the scenario-based method was used for the property policy. Both methods still resulted in a Solvency Capital Requirement significantly larger than under the microinsurance framework and the interim measures.

We anticipate that the calibration of this module might be amended as part of the QIS3 exercise and would recommend that this is an area that should be monitored closely by short-term insurance companies.

It is also interesting to note that, for the short-term products, the capital requirement related to lapse risk is significantly higher compared to that for the long-term products with the same premium level.

The SAM solvency capital requirements are higher for the disability policies as a result of the morbidity stress applied in the SAM QIS2 SCR calculation being larger than the mortality stress.

#### ***Model assumptions***

All six of the policy types used in the comparison had the same annual premium, sum assured, loss ratio, expense ratio and commission ratio. In other words, the policies were very similar and the differences in capital requirements are only a result of SAM requirements.

To simplify the calculations for the purposes of this exercise, we have ignored the grace period mentioned above and assumed a contract boundary of three months for all policies. (The contract boundary of three months has been chosen since according to the microinsurance framework, although premiums can be changed, policyholders will require a notice period of three months before premiums can be changed.) No consideration has been given to the potential impact of reinsurance.

For the purposes of comparing the balance sheets for the six product types under the different regimes, we have based the capital requirement in each case on the Solvency Capital Requirement with no consideration of the Minimum Capital Requirement.

The comparisons are therefore valid should the insurer's premium volume be enough that the MCR becomes irrelevant. (Where the insurer's premium volume is not large enough, the comparison of the minimum capital requirements as set out above should be considered instead.)

### **The actuary's role in the microinsurance framework**

The role of a Statutory Actuary has been around for a long time for long-term insurance companies. It is expected that the new role of an Appointed Actuary, which will replace the role of a Statutory Actuary, will be mandatory for long-term and short-term insurance companies when the Solvency Assessment and Management regime (SAM) is implemented (currently expected on 1 January 2016).

Similarly, the microinsurance policy proposes that microinsurers secure actuarial sign-off by a "Microinsurance Actuarial Technician" on the total premium (not only the risk premium, i.e. also including the allowance made for expenses and profit) for all new products as well as any changes in pricing. The FSB may require actuarial sign-off on capital, but this is not expected to be required by law.

Microinsurance Actuarial Technicians will have to be approved by the Actuarial Society of South Africa (ASSA).

It is currently envisaged that there will be an experience requirement and that candidates would have to be recommended by peers. Work is also in progress to develop a course (and exam) which would form part of the set of the courses offered by ASSA.

### **Lower regulatory burden of microinsurance compared to expectations of SAM**

The policy framework is constructed in such a way to promote financial inclusion and hence the regulatory requirements for insurers who wish to operate in this market reflect this goal.

The requirements regarding product design, investments and capital are aligned to achieve simplicity and result in lower administration costs and lower capital requirements compared to what might have been the case in the existing regulatory environment. The requirements are also significantly less onerous than those under the proposed SAM regulatory environment.

The expectation that microinsurers will be able to provide both long and short-term insurance cover under one insurance licence means that the additional regulatory costs of obtaining both a long-term and a short-term insurance licence (which is required under the current regulatory regime) is avoided.

Potential microinsurers will be allowed a three year transitional period from the effective date in order to become fully compliant with the Microinsurance Act. Currently the transitional arrangements under SAM are not clear.

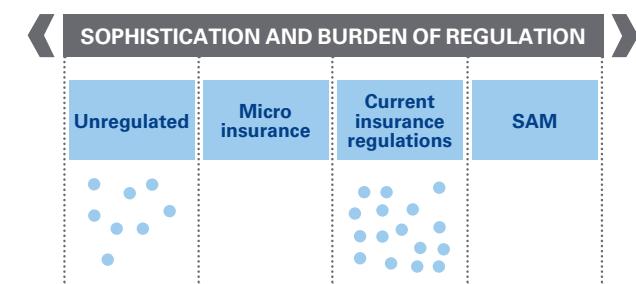
In light of the short term nature of the policies, the investment requirements are that all investments that support liabilities and shareholder assets should be held in cash and cash equivalents. This may not be the most tax efficient way of investment given the expected returns on these assets being lower than those on other asset classes. The microinsurer may apply to the Registrar to invest free assets into other types of asset classes.

### **Potential future position of microinsurance vs. SAM licences**

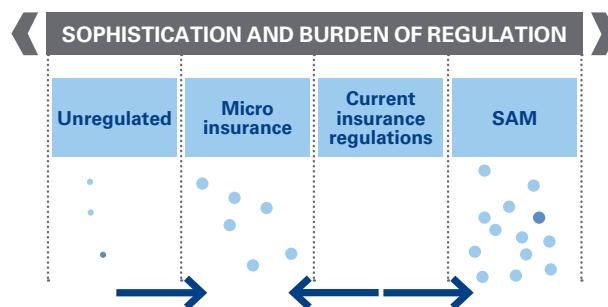
There are currently many informal providers, for example funeral homes, of microinsurance products in South Africa who are unregulated. With the introduction of microinsurance legislation we expect that some of these providers will obtain microinsurance licenses and become regulated. This will leave only a few small informal providers (e.g. burial societies that do not guarantee benefits and have less than 2,500 members) that will remain unregulated by the FSB (although they will be required to act in accordance with the regulatory framework for co-operatives as supervised by the Department of Trade and Industry).

The market also consists of insurance companies that are compliant with current insurance regulations. These companies are now faced with a choice between adopting SAM and obtaining a microinsurance license.

The diagram below depicts the current provider population is (where each red circle represents a number of insurance providers).



Following the implementation of the Microinsurance Act and SAM, some of the currently unregulated insurers may be licensed as microinsurers. Those insurers who are currently licensed under the existing insurance regulations would either be licensed as microinsurers or would be regulated under SAM. The diagram above, updated to reflect the updated position of the provider population following the implementation of the Microinsurance Act and SAM, may look like this:



Unfortunately, until the microinsurance regime becomes effective, companies will need to work towards meeting the requirements under SAM regardless of whether they intend to obtain microinsurance licences. This means that these insurers also need to meet the Financial Services Board's (FSB's) interim requirements leading up to the implementation date of 1 January 2016. This could be a significant expense with little value for these insurers.

### Conclusion

Once it is implemented the microinsurance regulatory regime is expected to be a more cost efficient and capital efficient regulatory environment compared to the alternative (SAM).

Insurance companies that currently write products that would classify as microinsurance type products should therefore keep a close eye on the proposed regulations.

However, as a result of the uncertainty around the microinsurance framework implementation date, companies should continue working towards meeting the SAM requirements since the SAM implementation date of 1 January 2016 might precede the microinsurance implementation date.

We are able to support companies with preparing for the SAM regime, and also to assist with analysing the potential financial and non-financial implications of obtaining microinsurance licences vs. remaining licensed under the current (to become the SAM) regime.

Britain's insurers took a fresh sideswipe at Brussels yesterday over the continued uncertainty caused by Solvency II.

Tidjane Thiam, the chief executive of Prudential, warned the European Union that it risks damaging the sector if the capital rules are not implemented properly.

His comments, at the Association of British Insurers' biennial conference, reflect growing anger at Solvency II, which is meant to ensure that insurers hold the right amount of capital to cover the risks they hold. Insurers believe the rules have already cost them more than £3bn in red tape and compliance.

The independent, 1 July 2013

# Building a digital strategy

New digital technologies are allowing insurers to leverage information technology beyond traditional automating of standard process flows and to engage customers, partners and employees in more meaningful and effective ways. Customer information becomes an insurer's most valuable asset in the digital world and its strategy has to address what it will capture, when, where and how. And then how to enrich it, analyse it and use it to drive value.

The social internet allows customers, partners and employees to easily share information and collaborate. This significantly changes the balance of power. Gone are the days when the insurer was at the centre of all interactions and clients were mostly passive with limited access to information. This shift creates significant opportunities for insurers to

interact with clients in more meaningful and effective ways to gain a competitive advantage in an industry where insurers are grappling with the difficulties of attracting a more significant market share. But it also poses several important risks too.

Digital technology is driving profound economic and social change around the world. Technology solutions encapsulate the internet, all mobile devices, e-commerce, social media, data analytics, cloud computing, video content and contactless payments. However, a digital strategy is not just about distributing products through electronic channels; it has the potential to drive a complete change to the way an insurer operates, interacts with customers and uses information to be more relevant and personal. Understanding your customer is the key benefit of a digital strategy.

The last fifteen years have seen more economic and societal change driven by digital technology than any equivalent period in recorded history – on the one hand entire industries have been transformed and on the other major companies have been driven out of business. Right now, European and American



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insurance companies are experiencing the changes that digital technology enables on a daily basis as traditional strongholds are being penetrated by on-line only competitors. That's not to say that local insurers are resting on their laurels. Elements of digital strategy are already starting to manifest in South Africa. For example, personal location data and real-time traffic information is being used by some local insurers to inform navigation or re-price insurance premiums based on how and where people live and drive.

The customer's experience and convenience is the primary driver of success and knowing what the customers' key motivations or needs are, through the optimal use of all the data available, is the insurers' competitive advantage. If it is not relevant, personal, simple, intuitive and available through the customers' preferred channel at the time they want it, success will have its challenges. While the appetite to be customer-centric is compelling, it conflicts with a corporate mindset that emphasises near-term priorities and the delivery of short-term shareholder value.

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This significantly changes the balance of power.

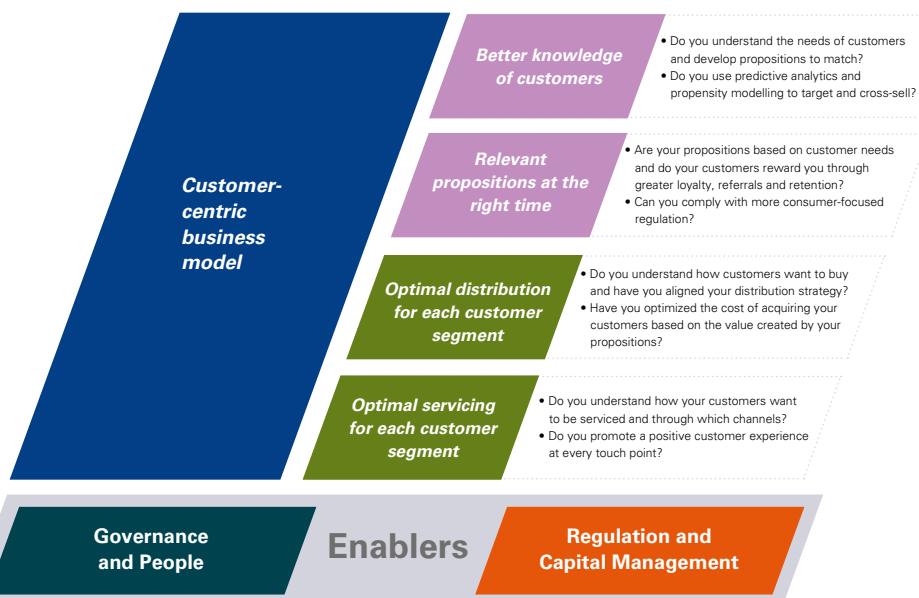
Digital technology is having profound economic and social change around the world. Technology solutions encapsulate the use of mobile devices, online social media, analytics, cloud computing, video content, contactless payments. However, a digital strategy is not about distributing content through on-line channels; it is potential to drive change to the way an insurer operates, with customers information to be relevant.



The time required to gather customer perspectives, refine propositions and take them to market spans more than a few quarters. However, those insurers focussed on long-term sustainable value creation for their customers will be rewarded by investors. Globally, the most successful insurers have transformed how they do business, placing their customers at the heart of everything they do, including strategic decision-making, business and operating model design and product delivery and service techniques. They leverage opportunities to win over customers at every interaction. By doing so they:

- Are more innovative and productive, through greater collaboration and information-sharing within their own business and with partners like intermediaries;
- Improve customer experience, creating greater propensity to buy additional products where these are appropriate for customers' needs;
- Increase efficiency through rationalisation and elimination of redundant processes and products, aligning propositions with changing customer needs; and
- Enjoy greater brand loyalty, customer persistency and increased referrals.

#### Components of a customer-centric business model



As the need for convenience increases and insurance products become increasingly viewed as a commodity, opportunities for face-to-face sales will decline, making it more difficult for an insurer to know its customers. It will be crucial to leverage segmented customer data and use big data / predictive analytics to differentiate propositions.

Big data refers to the analysis of large quantities of raw customer data extracted from the digital trail left behind when customers make use of the internet or social media tools for buying, researching or communicating and using the data to model the propensity of those customers to buy certain products in future based on their characters or situations. It is often said that ninety percent of the data in the world today has been created in the last two years and every day we are estimated to create 2.5 quintillion bytes of data. This data is all around us in tweets, posts to social media sites, digital pictures and videos, purchase transaction records and cell phone GPS signals. By accessing big data, insurers can identify trends in sentiments about their products and changes in customer behaviour. The goal is to harness this for sustainable profitable growth. Big data is greatly enhancing the effectiveness of the insurance value chain by allowing insurers to create highly specific segmentations and to tailor products to match the needs of their customers. This includes how current and future customers will want to interact with the insurer to purchase products and services, obtain information/servicing, update information, transact, pay premiums and submit claims in the digital world. In simple terms, the more you know about a customer, the better placed you are to offer products and services that they will have a higher propensity to buy.

The benefit is that insurers, intermediaries and customers spend less time on low-value adding tasks and more on high value ones. This is by no means a new concept for insurers who have been collecting data for years and using it to price the risks associated with a policyholder. Making use of more sophisticated big data techniques externalises the use of the data to promotions and advertising.

Using big data will become a competitive differentiator for existing insurers and it will open up a new market to insurers who are willing to embrace the change and have the savvy to capture new technologies to unlock this value.

In a developing economy, big data has significant potential as long as the right conditions are in place. Cell phones are widely used across Africa for transactional banking including the sale of insurance policies and the collection of premiums. On-line marketing and sales are increasing and insurance is being sold at cash machines. All the while, data is

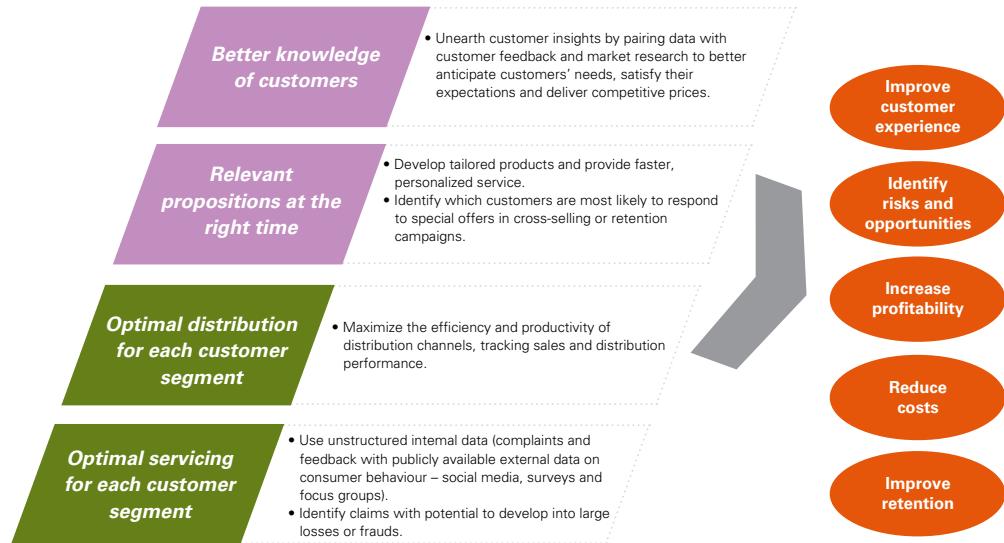
accumulating until it becomes big enough to mine. The advantage of developing economies having newer and therefore more sophisticated IT systems which can store and analyse big data without significant modification, should not be under-estimated. The South African banking system is a good example of an industry that has benefited from having newer systems than its European counterparts, and ranks highly in the world for sophistication.

The challenges associated with big data are by no means insignificant:

- Many insurers do not have the technical know-how to make optimal use of big data. Change management practices may need to be enhanced to ensure that those driving the strategy of the company understand the extent of the potential value to be gained;
- Having multiple or older systems may impede an insurer's ability to collate data into a single format so that it can be analysed optimally to create the value that big data can bring. New technology, both hardware and software, will be required unless existing systems can be modified; and
- Big data relies on personal and therefore potentially sensitive information. Many countries have a multitude of data protection laws governing what data may be used, how it may be collected, what it can be used for, how long it may be retained and how and to what extent it must be secured. Risk management policies which achieve compliance and allow for the optimal use of the data are becoming increasingly important. Again, insurers are not strangers to the collection of personal information and the next logical step would be to enhance rating data they already have with this other "situational" data to really unlock value.

Big data / data analytical techniques make use of statistics, modelling and data mining to extract information from data, using it to analyse current and historical facts and predict trends and behaviour patterns:

#### What is predictive analytics?



Source: The Valued Insurer, KPMG International, 2013

In conclusion, inactivity is not an option. It is clear that the benefits are significant and the call to action is compelling but the mind-set change will be difficult for many. Customers will become your advocates. New technology and media present opportunities not threats to a positive customer outcome. Clear processes must be put in place along every route to customer interactions against the backdrop of a customer –focussed operating model.

# How will IFRS 10 impact third party cell captive arrangements?

## How will IFRS 10 impact third party cell captive arrangements?

The new consolidation standard, IFRS 10 Consolidated Financial Statements (IFRS 10), may impact the accounting of third party cell captive arrangements. We will explore to what extent it will impact the cell insurer.

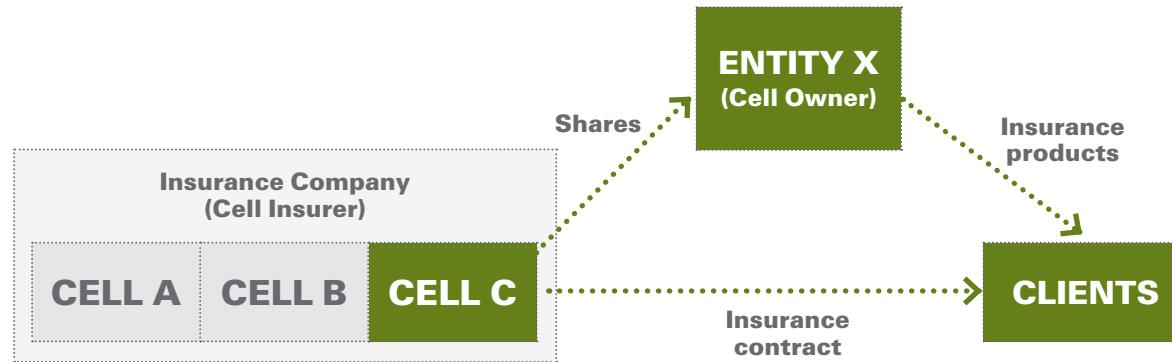
### Purpose of cell captive arrangements

An entity is required to own an insurance licence to provide insurance products to the public. The Financial Services Board is the regulator of this industry and requires compliance with numerous regulations.

Entities, in other industries, for which it may be difficult and burdensome to obtain an insurance licence, may enter into cell captive arrangements with insurers. The entities use these arrangements to provide insurance products to their clients, effectively using the insurer's licence.

In South Africa, cell captive arrangements generally have typical terms which have to be considered to determine if IFRS 10 will impact these arrangements.

## A typical third party cell captive arrangement in the South African environment



A registered insurer (cell insurer) and an entity will enter into a subscription agreement. The entity subscribes for shares (ordinary or preference) issued by the cell insurer to "purchase" the cell. The entity becomes the cell owner and through the agreement, it will be able to offer insurance as a complimentary product to its clients. The subscription price will initially provide capital to the cell.

The cell insurer will administer the cell and charge the cell an administration fee. The cell insurer will underwrite the insurance policies. The insurance contract will be between the cell insurer and the client. Therefore, the cell insurer will be legally responsible for any claims submitted by the clients.

The cell owner will collect the insurance premiums from the clients and pay them to the cell insurer, which will allocate the premiums to the cell.



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Entities, in other industries, for which it may be difficult and burdensome to obtain an insurance licence, may enter into cell captive arrangements with insurers.

The cell insurer will administer the cell and charge the cell an administration fee. The cell owner will underwrite the insurance policies. The insurance contract will be between the cell insurer and client. Therefore, the insurer will be responsible for all claims submitted by the clients. The cell owner will collect the insurance premiums from the clients and remit them to the cell insurer which will allocate premiums to the cell.



The cell insurer allocates assets to the cell which are legally in the name of the cell insurer. If these assets are insufficient to settle claims received from clients, the cell insurer has to contribute cash to meet these obligations. The cell insurer then has the right to require the cell owner to recapitalise the cell, generally through a further subscription of shares. In the event that the cell owner is unable to provide further assets to the cell, the cell insurer will suffer the loss.

The cell owner is entitled to excess profits in the cell, i.e. any residual in the cell after claims have been paid. During the life of the arrangement the cell insurer, at its discretion, may distribute the profits in the cell to the cell owner in the form of dividends. On termination of the agreement, the cell insurer is required to redeem all the shares held by the cell owner. Generally, it will be at a price based on the net asset value of the cell.

The assets and liabilities of the cell are ring-fenced and cannot be utilised for other cells in the cell insurer. However, in the event that the cell insurer is liquidated, the cell's assets are not protected from the cell insurer's creditors.

Previously (before the application of IFRS 10), the cell was seen as a special purpose entity separate from the insurer, controlled by the cell owner. As a result, the cell was "extracted" from the cell insurer and consolidated in the cell owner's consolidated financial statements.

With the introduction of the new consolidation standard, IFRS 10, will this outcome change?

### **The new single control model at a glance**

The objective of IFRS 10 was to develop a single enhanced consolidation model applicable to all types of entities or portions of entities. It supersedes

IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities.

This new standard is effective for entities with financial reporting periods beginning on or after 1 January 2013.

In terms of IFRS 10, an investor controls (and therefore should consolidate) an investee when the investor has power over the investee, is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

An investee can either be a separate legal entity or a deemed separate entity. The deemed separate entity is often called a "silo". A silo is effectively a "division" or a "branch" of an entity. All the assets, liabilities and equity of such a deemed entity are ring-fenced from the overall entity.

The cell is not a separate entity from the cell insurer, as the insurer is the legal entity. Therefore, we will assess whether the cell meets the definition of a silo, i.e. can it be seen as a ring-fenced entity separate to the cell insurer.

### **Does the cell meet the definition of a silo?**

Based on the typical characteristics discussed for the third party cell captive arrangement, the cell's assets and liabilities are separately identifiable. However from a legal perspective, the cell and the cell insurer are not seen as separate. The assets of the cell insurer have to be used to settle the claims of the cell if there are insufficient funds within the cell, as the insurance contract is between the cell insurer and the client. In addition, if the cell insurer is liquidated, the assets of the cell will not be protected from the cell insurer's creditors. Therefore, the cell does not meet the definition of a silo as the claims from clients are potentially not only paid from the cell's assets.

This conclusion may not be the same for all third party cell captive arrangements, as different subscription agreements, facts and circumstances may change the conclusion.

If the cell meets the definition of a silo, a control analysis in terms of IFRS 10 would need to be performed to determine who controls the cell.

The party that controls the cell would consolidate it in its consolidated financial statements.

In our scenario, the cell will remain part of the cell insurer. As a result of this conclusion, we will consider how the cell insurer should account for the subscription agreement with the cell owner.

### **Cell insurer's accounting treatment of the subscription agreement**

It should be considered whether the subscription agreement should be accounted for as a reinsurance contract by the cell insurer. A reinsurance contract would transfer significant insurance risk from the cell insurer to the cell owner. One could argue that the cell owner could be exposed to financial risks (for example credit risk of the cell insurer). IFRS 4 Insurance Contracts (IFRS 4) states that a contract may expose an insurer to insurance and financial risk. If the significant risk is insurance risk, the contract is recognised as an insurance contract. If not, the contract is accounted for as a financial instrument in terms of IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) (or IFRS 9 Financial Instruments (IFRS 9)).

It could also be argued that the cell owner is merely recapitalising the cell as it would have recapitalised any of its business operations when the operations were making losses. As a result, no reinsurance contract is recognised but a financial instrument in terms of IAS 39 (or IFRS 9) is recognised.

## Conclusion

Based on the discussions above, IFRS 10 may have an impact on cell insurers. In a South African environment, the cell will no longer be "carved-out" from the cell insurer and consolidated into the cell owner's consolidated financial statements, as it does not meet the definition of a silo.

Cell insurers should carefully consider the accounting of the third party cell captive subscription agreements. The cell insurer should consider whether it should recognise these agreements as a reinsurance contract or a financial instrument.

Gross premiums of primary insurers in the short-term insurance industry grew by 12.5% in 2006 compared to a 14.2% increase in 2005 and an increase of 12.1% in 2004. The increase in 2006 is mainly attributable to increases in the values of residential property, which is the second largest class of business underwritten by the short-term insurance industry, inflationary adjustments to premiums and growth in credit in the household sector where credit insurance policies are issued as protection for credit arrangements.

Underwriting results for the primary short-term insurance industry showed a decrease from 8.9% in 2005 to 8.4% in 2006, with all classes of business showing underwriting profits. The only significant natural disaster reported during the 2006 calendar year was the storms and related floods in KwaZulu-Natal province.

The ninth annual report of the Registrar of short-term insurance - 2006

# Let's get practical

Practical considerations for phase II of the insurance contracts project (IFRS 4)

The IASB has issued its targeted re-exposure draft on insurance contracts, marking a major step forward towards implementing a common insurance reporting framework across much of the world. The debate has run for more than 15 years and the conclusion of the insurance project is now in sight.

The new proposals apply to all insurance contracts, including certain financial guarantees, rather than insurance entities, and to investment contracts with a discretionary participation feature (DPF) issued by insurance companies.

The new accounting model for insurance contracts proposed by the IASB would introduce more volatility to the profit and loss account but more accurately reflect the risks and liabilities undertaken by insurers, bringing insurance accounting into the 21st century – but not without a cost. The level of change and the complexities associated with implementing these proposals should not be underestimated. Insurers would be likely to feel the consequences throughout their organisations. The devil is in the detail and the scale of change would depend on the accounting bases that insurers use today.

The IASB has made great efforts to improve the proposals by addressing the key concerns of constituents while retaining the objective of a current value basis for measuring insurance contract liabilities – bringing a final IFRS for insurance a great deal closer. The length of the debate on the insurance project indicates there is not a single model that will please everyone. The proposals are likely to be complex and this is the last chance for insurers and users to influence the outcome of the project. Given the current diversity in practice, KPMG considers it essential that the IASB finalises a global insurance standard.

The IASB's proposals would affect the way in which insurers report their profitability and financial position and would likely result in an overall increase in volatility in profit or loss and equity for most insurers as a result of having to continually remeasure insurance contract liabilities at a current value, rather than on an historical cost basis. This is especially true for life insurers. Some of the remeasurement will be through other comprehensive income (OCI) and the extent to which this mitigates volatility in

The new accounting model for insurance contracts proposed today by the IASB would introduce more volatility to the profit and loss account but more accurately reflect the risks and liabilities undertaken by insurers, bringing insurance accounting into the 21st century – but not without a cost. The level of change and the complexities associated with implementing these proposals should not be underestimated. Insurers would be likely to feel the consequences throughout their organisations. The devil is in the detail and the scale of change would depend on the accounting bases that insurers use today.



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profit or loss and equity would be highly influenced by whether financial assets which are linked to the insurance contract liability under proposed revisions to IFRS 9 Financial Instruments are measured at fair value through OCI, fair value through profit or loss or amortised cost. The need to consider the implications for asset-liability management would be accelerated, as the requirements of IFRS 9 are currently expected to come into effect before the insurance proposals. The re-exposure also introduces a new presentation approach for both the statement of profit or loss and OCI and statement of financial position, which would dramatically change the way insurers – especially life insurers – report performance. Insurance contract revenue would be allocated over the coverage period in proportion to the value of the services provided in each period, which would be completely different to the premium figures presented today.

The comment period with regard to the exposure draft will be open until 25 October 2013 and it is expected that a final accounting standard will be issued in the second half of 2014 with an effective

The new proposals apply to all insurance contracts, including certain financial guarantees, rather than insurance entities, and to investment contracts with a discretionary participation feature (DPF) issued by insurance companies.

The new accounting model for insurance contracts proposed today by the IASB would introduce more volatility to the profit and loss account but more accurately reflect the risks and liabilities undertaken by insurers, bringing insurance accounting into the 21st century – but without a cost. The cost of change and the complexities associated with implementing these changes should not be underestimated. The cost of inaction is likely to be even greater.



implementation date approximately three years after the date of issuance.

The question really is whether the re-exposed draft addresses the industry's concerns that were raised when the initial exposure draft was released in 2010 being:

- the quantum of volatility that the standard will introduce in the measurement of insurance contracts; and
- anticipated transitional provisions.

When compared to the original exposure draft :

- minimal changes have been made to the premium allocation approach (simplified measurement approach that can be used for pre-claims liabilities only where claims are concluded within a twelve month period)<sup>1</sup>;
- moderate changes are proposed for the building block model; and
- significant changes are proposed in the areas of discount rate, presentation and transition.

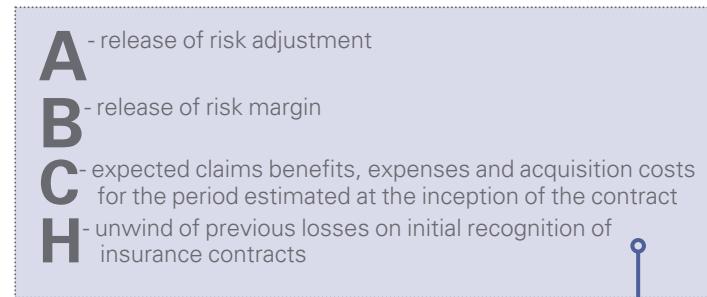
The four building blocks supporting the building blocks approach and that is currently the preference of the IASB are illustrated below:

<p><b>Expected future cash flows</b></p> <p>Explicit unbiased and probability weighted estimates of future cash inflows less future cash outflows. This will represent the premium and claims (within the contract boundary), directly attributable expenses, and certain acquisition costs.</p> <p><b>No advertising costs should be taken account of.</b></p> <p><b>These can change on day 2 and are remeasured through profit and loss.</b></p>	<p><b>Time value of money</b></p> <p>Discounted using current rates to reflect the time value of money.</p> <p><b>Changes occurring on day 2 are accounted for in other comprehensive income.</b></p>
<p><b>Risk adjustment</b></p> <p>To adjust for the effects of uncertainty about the amount and timing of future cash flows.</p>	<p><b>Residual margin</b></p> <p>To remove any profit at inception – can be unlocked for prospective cashflows only relating to future coverage or future services. Adjusted prospectively and released.</p> <p><b>Day 1 losses recognised in profit and loss.</b></p>

<sup>1</sup>If you are a reinsurer considering using the premium allocation method you need to take into consideration the acceptance dates of the underlying contracts underwritten to determine whether the claims liabilities are finalized within a twelve month period. The determination whether the claim is finalized within twelve months is not impacted if the claims recoveries are finalized after that period as these recoveries will form part of the post claims liability.

## How will this be presented on the statement of other comprehensive income?

One of the objectives of the standard is to bring about consistency in the measurement and disclosure of the financial results of insurance companies - but how are the four building blocks going to be presented on the statement of other comprehensive income? An example is illustrated below:



<b>Statement of other comprehensive income</b>	
Earned premiums	<b>A + B + C - H</b>
Claims and benefits incurred	-E
Attributable expenses – including acquisition costs	-E
Changes in estimates of future claims, benefits and expenses – where not offset against the residual margin	+/- F
Unwind of previous changes on estimates	+/- D
Losses on initial recognition of insurance contracts	-G
Unwind of previous losses on initial recognition of insurance	+H
Non-attributable expenses	-I
Investment income	J
Interest on insurance liability, based on locked in discount rate	-K
<b>Profit or loss</b>	L
Effect of discounting rate changes in insurance contract liability	+/- M
<b>Total comprehensive income</b>	<b>Z</b>

for contracts that suffer losses

<b>Advantages</b>	<b>Disadvantages</b>
<ul style="list-style-type: none"> <li>• Clearer representation of revenue in the SOCI</li> <li>• Consistent with revenue recognition principles</li> <li>• Broadly consistent with the premium allocation approach</li> </ul>	<ul style="list-style-type: none"> <li>• Operationally complex and not used in practice today</li> </ul>

## How is this going to work in real-life?

The practical application of this ED is illustrated by means of a simplistic example that has been run through a measurement model to determine the financial outcome of the insurance underwritten.

### Sketching the scenario

- Portfolio of multiple premium products with no lapses
- Discount rate at inception of contracts – 8%
- Discount rate at the end of period 1 – 9%
- Premiums are received and claims and expenses are paid at the end of the period
- Annual expenses not directly attributable to contracts – R20
- Advertising costs incurred in period 0 – R80
- Term of contract – 5 years



Set out on the following pages is an example based on KPMG's current interpretation (June 2013) of the proposals included in the exposure draft.

Expenses not directly attributable to insurance contracts has been an area of contention and it is expected that the IASB will release more guidance to address the concerns raised by the industry.

### Measurement at inception

	<b>Period</b>					
	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Probability weighted cash flows</b>						
Premiums received		100	105	110	115	120
Claims paid					(230)	
Acquisition costs and expenses	(23)	(12)	(12.6)	(13.2)	(13.8)	(14.4)
	(23)	88	92.4	96.8	(128.8)	105.6
Present value of cash flows	(23)	81.5	79.2	76.8	(94.7)	71.9
<b>Net present value of all cash flows</b>						
Risk margin		(67)				
Residual margin		(124.7)				
Profit and loss impact on day one		-				
<b>Expected unwinding of the residual margin</b>						
Release of residual margin <sup>4</sup>		21.3	23.0	24.8	26.8	28.9
Interest paid <sup>5</sup>		31.2	31.2	31.2	31.2	31.2
<b>Residual margin at each reporting date</b>	<b>(124.7)</b>					
<b>Statement of comprehensive income at inception</b>						
Non-attributable expenses						(80.0)
(Loss)/profit						(80.0)
<b>Statement of financial position at inception</b>						
Bank						(80.0)
Policyholder liabilities						-
Equity/(loss)						80.0
						-

<sup>4</sup>Released evenly

<sup>5</sup>Discounted at the original rate of 8%

## Measurement at period end 1

	Period					
	0	1	2	3	4	5
<b>Probability weighted cash flows<sup>6</sup></b>						
Premiums received		100	105	110	115	120
Claims paid		(45)	(90)		(142)	
Acquisition costs and expenses	(23)	(12)	(14.7)	(15.4)	(16.1)	(16.8)
	(23)	43	0.3	94.6	(43.1)	103.2
Present value of cash flows <sup>7</sup>	(23)	43	0.3	79.6	(33.3)	73.1
<b>Residual margin at the beginning of period</b>						
Current year release of profit and loss		21.3				
Differences in estimates of prospective cash flows		21.9				
Residual margin at end of period	(81.6)					
<b>Expected unwinding of the residual margin</b>						
Release of residual margin <sup>6</sup>		21.3	18.1	19.6	21.1	22.8
Interest paid <sup>7</sup>		(10)	(6.5)	(5.1)	(3.5)	(1.8)
<b>Residual margin at each reporting date</b>						
Risk margin		(81.6)	(55)			
Net present value of future cash flows			119.7			
Total liability at reporting date			(16.9)			

<sup>6</sup>The actual and prospective cash flows will be different and are now discounted at a different rate.

<sup>7</sup>Discounted at the year 1 rate of 9%

**Statement of comprehensive income at end of period 1****Earned premiums**

Release of risk adjustment <sup>10</sup>	12.0
Release of residual margin	31.2
Expected claims, benefits, expenses, and acquisition costs <sup>11</sup>	12.0
Unwind of previous losses on initial recognition of insurance contracts	-

Actual claims and benefits incurred<sup>12</sup>

Actual attributable expenses

Changes in estimates of future claims, benefits and expenses

Unwind of previous changes in estimates

Losses on initial recognition of insurance contracts

Unwind of previous losses on initial recognition of insurance

Gross underwriting margin

Investment income

Interest accrued on insurance contract liability<sup>13</sup>

Non-attributable expenses

**(Loss)/profit****Other comprehensive income**

Change in discount rate <sup>15</sup>	(3.4)
	<b>(17.9)</b>

**Total comprehensive income****55.2**

12.0

31.2

12.0

-

(45.0)

(12.0)

-

-

-

(1.8)

7.2

(20.0)

**(14.6)**

(3.4)

**(17.9)**

Used in the case  
of an onerous contract

<sup>10</sup>Risk margin moved from 67 to 55<sup>11</sup>Actual cash flows<sup>12</sup>Actual cash flows<sup>13</sup>Prospective cash flow one year later<sup>14</sup>Accretion of interest on 31.2<sup>15</sup>Does not impact the residual margin but will impact the prospective cash flows

**Statement of financial position at end of period 1**

Bank	(81.0)
Policyholder liabilities	(16.9)
Equity (loss) <sup>16</sup>	97.9
	-

**Policy liability roll forward**

Liability at beginning of period	-
Expected cash flows (period 0 and period 1) <sup>17</sup>	(65.0)
Expected unwinding of discount rate	17.2

Release of residual margin (net of discount rate)

Change in the risk adjustment

Sub-total

Change in prospective cash flows (net of discount rate)

Change in discount rate

Unexplained

**Liability at end of period 1**

43.2	43.2
12.0	12.0
7.4	7.4
(21.9)	(21.9)
(3.4)	(3.4)
1.0	1.0
	(16.9)

It is evident from the simplistic example above that insurance measurement and presentation principles as we know it are going to undergo drastic changes. Even though these changes are only envisaged to be part and parcel of our operations in 2018 there are critical questions to be considered such as system capabilities, up-skilling of staff, asset-liability management, product design etc.

Albert Einstein once said " the hardest thing to understand in the world is the income tax." Would he have changed his mind after reading the exposure draft released for insurance contracts.

Credit insurers are seeing a huge increase in the number of claims in South Africa, a clear indication of the struggling economy.

Insurance junction, 24 July 2009

<sup>16</sup>Represented by the 80 in year 0 and 17.9 in year 1.

<sup>17</sup>At inception: 88-23

t perspiciatis unde omnis iste natus error sit voluptatem accusan  
oremque laudantium, sequentiam facilius quam expeditu



*cutting through complexity*

## Do you have SAM sorted?

Insurers have a lot to do to prepare for the imminent Solvency Assessment and Management (SAM) regime.

KPMG is working with a number of insurers to help them get ready and extract business benefits from compliance. Independent SAM assurance, implementation advice or best practice planning.

**SAM - sorted.**

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# Risk mitigation under the Solvency Assessment and Management framework

Many insurance companies currently use risk mitigation techniques as an instrument to reduce capital requirements and to stabilise earnings. The Financial Services Board ("FSB") has issued a Discussion Paper for comment on the "Treatment of risk mitigation techniques in the Solvency Capital Requirement ("SCR")". The proposals, as in the discussion paper, are broadly based on the Solvency II Directive and the draft Level II regulations. As the FSB's proposals are consistent with the draft Solvency II proposals it is expected that the recommended approach will be deemed equivalent. It is important to note that the treatment of reinsurance as risk mitigation technique discussed in the proposals and in this paper may change depending on the outcome of the FSB's reinsurance investigation that is being carried out separately.

The Solvency Assessment and Management ("SAM") framework recognises the economic substance of insurance activities and focuses on

risks and the management of these risks. The SAM risk mitigation proposals allow insurers to use risk mitigation techniques to get appropriate solvency capital relief from the use thereof. The proposals define risk mitigation techniques as "all techniques which enable insurance and reinsurance undertakings to transfer part or all of their risks to another party".

To allow a level of detail on specific risk mitigation techniques we have in this paper made reference to specific Solvency II draft regulations. The Solvency II Directive sets clear principles that govern the recognition of risk mitigation techniques and under the Level 2 Implementing Measures, three different papers on financial risk mitigation, reinsurance and special purpose vehicles have been issued providing advice on the use of these techniques. In this article we will be exploring some risk mitigating techniques and their regulatory context.

The calculation of the SCR is directly deduced from the risks that an insurance company is exposed to.



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Thus if appropriate strategies are implemented to mitigate exposures to risks it will reduce the SCR directly. According to the Solvency II Directive the effect of risk mitigation techniques on the SCR shall only be recognised if the following two conditions are satisfied:

- Credit risk and other risks arising from the use of such techniques are properly reflected in the SCR (Article 101(5)).
- The instrument provides for an effective transfer of risk from the undertaking to a third party (Article 111(1) (f)).

The Solvency Assessment and Management ("SAM") framework recognises the economic substance of insurance activities and focuses on risks and the management of these risks.



# Can a financial risk mitigation technique be used to protect Own Fund?

Some commonly used risk mitigation techniques are:

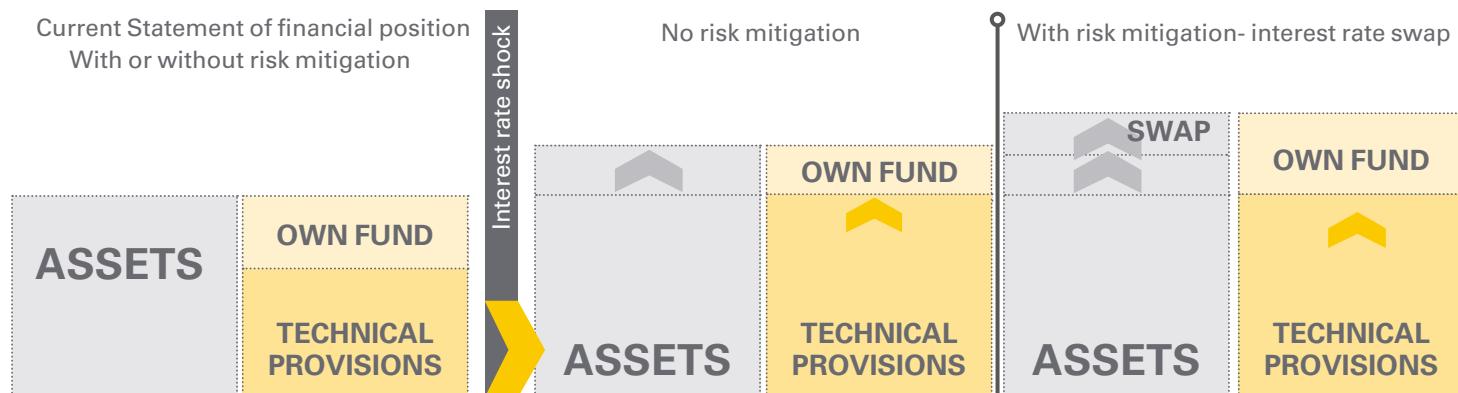
• Market risk	• Put options • Interest rate swaps • Currency swaps
• Life risks	• Reinsurance • Longevity swaps • Catastrophe bonds
• Non-life/Health risk	• Catastrophe bonds • Reinsurance
• Counterparty default risk	• Credit default swaps

## Financial risk mitigation

Insurance companies are faced with different risks as a result of varying investment strategies. The main concern is to protect the solvency of the company at the level consistent with its risk profile. To do so require assets and liabilities to move in a similar way but this happens only when they are perfectly matched. In reality there is always some mismatch that can have an impact on the level of solvency whenever there is movement in the value of the financial assets. Interest rate swaps and put options are most commonly used instruments to mitigate the financial risks in the current regulatory regime. Under the proposed new regulatory regime when the majority of the companies are expecting an increase in the capital requirements the importance of looking at risk mitigation cannot be overemphasised. The example below illustrates how risk mitigation techniques can be used to protect the own funds.

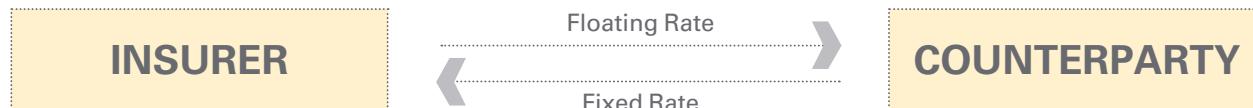
### Interest rate swap

When there is a mismatch between assets and liabilities on the life insurance balance sheet, the insurer is exposed to interest rate risk. Interest rate movements can have different impacts on different companies.



The diagram illustrates that under the interest rate shock without any risk mitigation the value of assets increases but the technical provisions also increases. In this instance the increase in the value of technical provisions is more than the increase in the value of the assets and thus the own funds decrease.

The risk of decline in the value of own funds due to interest rate shock can be mitigated by the insurer by entering into an interest rate swap arrangement. In this arrangement the insurer receives a fixed and pays a floating rate of interest. As the interest rate decreases the value of the swap to the insurer increases and it assists in protecting the value of own funds.



Similarly other risk mitigation tools such as options, currency swaps etc can be used to protect the value of assets under different market shocks.

There are also instruments to mitigate credit risk from the portfolio and to reduce the SCR for credit risk. Insurers can buy protection through credit derivatives to cover amongst others the risk of failure and the downgrade in credit quality. Credit derivatives are financial contracts designed to hedge credit risk exposure by providing protection against losses due to credit events. Thus a credit derivative transfers the ownership of credit risk from protection buyer to protection seller.

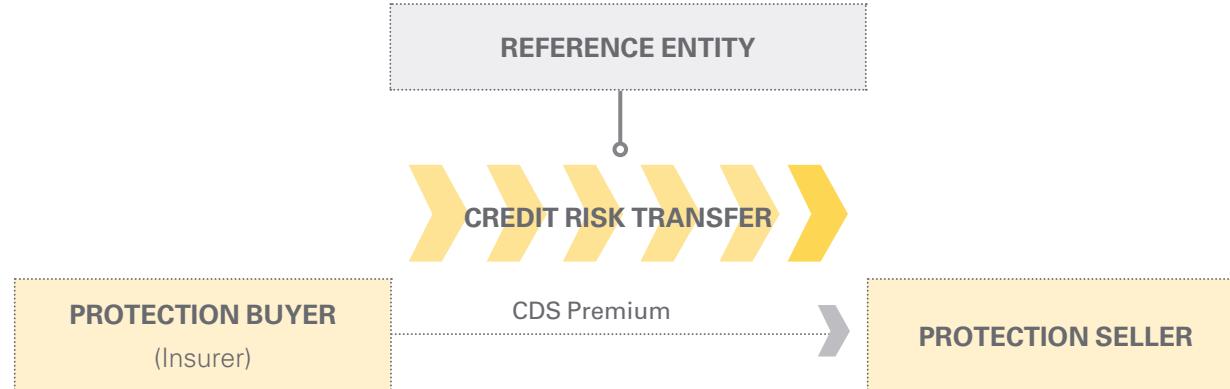
#### **Credit default swap**

One of the most popular instruments of credit protection is a credit default swap ("CDS"). CDS is a bilateral over-the-counter derivative contract and the mechanics are as follows:

- The insurer (assumed protection buyer) pays a fixed regular premium to the protection seller.
- The protection seller assumes the credit risk on the reference entity for an agreed notional amount.
- On the trigger of the defined credit event the protection seller pays to the insurer. There could be two ways of payments under the CDS agreement being physical settlement or cash settlement.
- In the case of a physical settlement the reference obligations with the face value equal to the agreed notional amount are transferred to the protection seller and the protection seller pays the notional amount to the insurer.
- In the case of a cash settlement the protection seller pays the notional less the price assigned to the reference obligations.

Instruments such as credit default swaps may be used to mitigate credit risk from a portfolio and to reduce Solvency Capital Requirement

Reinsurance is an important risk management tool used within the insurance industry to spread the uncertain cost of risk exposure over a larger global capital base.



As the credit risk of an insurer for the reference entities has been transferred to the protection seller the insurer will have a reduced capital requirement for the credit risk module. However in the process the insurer has acquired credit risk on the counterparty to this CDS unless it is collateralised. The insurer is thus required to consider this risk while deriving the credit risk capital. If the agreement is collateralised the insurer will be required to follow the rules regarding collateral including but not limited to legal certainty, effectiveness and the liquidation of collateral.

### Reinsurance

Reinsurance is an important risk management tool used within the insurance industry to spread the uncertain cost of risk exposure over a larger global capital base. Reinsurance contracts can have various different characteristics and also the reinsurance markets are constantly changing and developing. Thus the proposed Solvency II regulations set the criteria to ensure effective risk transfer instead of providing a list of different types of arrangements. Insurers need to follow these principles to determine whether the reinsurance risk mitigation technique effectively transfers risk and the extent to which credit for such transfer of risk may be taken within the calculation of the SCR.

### ***Regulatory context: Financial risk mitigation & reinsurance***

The general principles governing the use of reinsurance and financial risk mitigation techniques as documented in the Solvency II draft regulations are:

### **Principle 1: Economic effect takes precedence over legal form**

Risk mitigation techniques should be recognised and handled consistently regardless of their legal form. The SCR shall reflect the economic substance of the arrangements and in principle, this would be through:

- a reduction in requirements appropriate to the extent of risk transfer, and
- an appropriate treatment of any corresponding risks that are acquired in the process

### **Principle 2: Legal certainty, effectiveness and enforceability**

The transfer of risk must be clearly defined, legally effective and enforceable in all relevant jurisdictions and on an ongoing basis. In circumstances where the full effectiveness or ongoing enforceability cannot be verified, the risk mitigation technique shall not be recognised in the SCR calculations.

### **Principle 3: Liquidity and ascertainability of value**

The transfer of risk should be valued consistently in line with the principles prescribed for the valuation of assets and liabilities. Further, this value shall be over time sufficiently reliable and appropriate to provide certainty as to the risk mitigation achieved.

### **Principle 4: Credit quality of the provider of the risk mitigation technique**

To ensure that the insurer is buying a risk mitigation instrument or arrangement from a creditworthy party, the provider must have at least a BBB credit rating. Also the

reinsurance arrangements will not be recognised if the reinsurer does not meet the SCR or equivalent.

### **Principle 5: Direct, explicit, irrevocable and unconditional features**

The risk mitigation technique can only reduce the capital requirements if:

- they provide the insurer/reinsurer with a direct claim on the protection provider;
- they contain explicit reference to specific exposure;
- the protection provider is not allowed to unilaterally cancel or alter the terms of protection; and
- they are not subject to any clauses that are outside the direct control of the insurer that could prevent protection provider from its obligation to pay out in a timely manner in the event that a loss occurs.

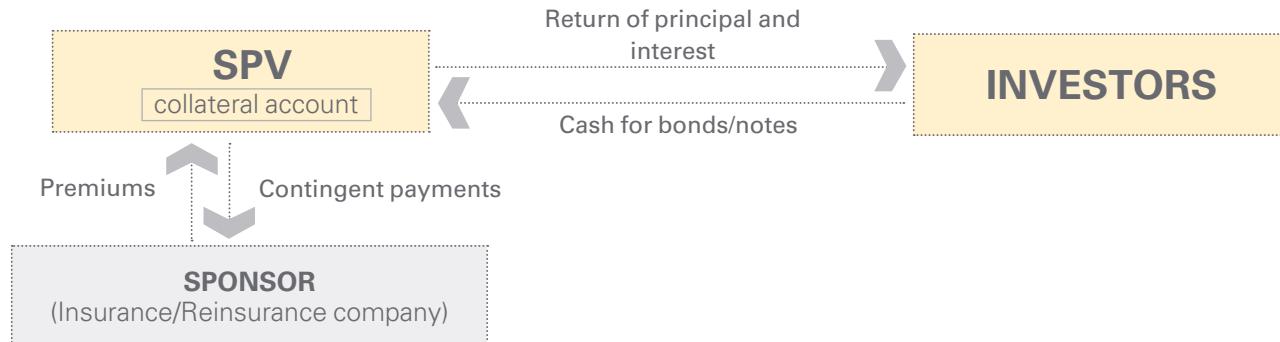
### **Special purpose vehicles (SPVs)**

The purpose of SPVs is to facilitate alternative risk transfer and bespoke risk management solutions that enable companies to better align their risk profile with their risk tolerance. SPVs also provide additional reinsurance capacity at times when cover through traditional channels is limited. Special purpose vehicles have been used by life and non-life insurers/reinsurers for transferring risks, the most popular being the transferring of natural catastrophe risks such as earthquake and windstorm to the capital markets. Some of the other risks SPVs have assumed in the past include lapse risk, mortality and motor claims.

### **Mechanics of SPVs**

- The structure of an SPV transaction could take on a number of different forms depending on the nature of the risks transferred and the structure of the arrangement itself. The basic structure of an SPV is described below:
  - An insurer/reinsurer ("sponsor") establishes an SPV to transfer risks through a contract similar to transferring risks to a typical reinsurer. The undertaking pays an adequate premium to the SPV which is necessary to offer investors a rate of return commensurate with the level of risks undertaken.
  - The SPV funds its obligations through the issue of bonds/notes to the capital market. The SPV's obligation is equal to the maximum liability of the contract. The regulations outline how amounts recoverable from an SPV must be calculated. The undertakings are required to take account of the timing difference between its insurance obligations to policyholders and the speed with which it can recover amounts owing from the SPV.

Currently the most popular use of Special Purpose Vehicles (SPV's) is for transferring natural catastrophe risks such as earthquake and windstorm to the capital market.



- The SPV deposits the initial funds from investors in a segregated collateral account with restrictions on investments and withdrawals. The collateralised solution has the advantage of minimising the credit and counterparty risks.
- The SPV pays the investors the return in the form of regular coupons and the return of principal. However, the payments are dependent on the non-occurrence of a predefined event. In the case of a trigger of a predefined event, the investors may lose coupons and/or principal payments depending on the size of the loss event.

#### Trigger types

There are number of mechanisms used by SPVs as trigger events that would require SPVs to make payments to the sponsoring insurer/reinsurer. These triggers could include:

- Indemnity- an indemnity trigger is based on the actual loss to the sponsoring insurer/reinsurer. Indemnity transactions triggered by direct insurance or reinsurance losses have a clear benefit to the sponsor. As the sponsoring insurer/reinsurer's specific loss experience is used as the trigger, the funds recovered from the SPV will match the underlying claims very closely. This will minimise the sponsor's basis risk.
- Parametric- actual reported physical event.
- Model loss- insurance losses are determined by inputting actual parameters into an agreed fixed model which then calibrates the loss.
- Industry index- based on an industry wide index of insurance losses. Industry loss based structures are essentially pooled indemnity solutions i.e. the indemnity loss experiences of many insurers/reinsurers are used to determine the industry loss experience.
- Hybrid- a trigger combining more than one of the above triggers.

## **Regulatory context: SPVs**

SPVs are specifically addressed in the Solvency II Directive and the implementing measures. It has been recognised that appropriate rules should be provided for SPVs as they differ from more traditional reinsurance. This is to provide alternatives to reinsurance contracts and reinsurance undertakings. There are risks inherent in the use of SPVs and thus CEIOPS (Committee of European Insurance and Occupational Pensions Supervisors) has issued measures on authorisation, governance, reporting and solvency requirements for SPVs.

### **Article 13(26) of the Level 1 text defines an SPV as**

“ any undertaking, whether incorporated or not, other than an existing insurance or reinsurance undertaking, which assumes risks from insurance or reinsurance undertakings and which fully funds its exposure to such risks through the proceeds of a debt issuance or any other financing mechanisms where the repayment rights of the providers of such debt or financing mechanisms are subordinated to the reinsurance obligations of such undertaking.”

### **Establishing SPV: mandatory conditions**

There are a number of principles that should be included in the mandatory conditions of the contracts issued in relation to the establishment of an SPV.

#### **Principle 1- Fully funded**

This principle requires the SPV at all times to have assets that are equal to or greater than the aggregate limit of its obligations including any fees and expenses. To assess the fully funded concept, assets and liabilities should be measured on the Solvency II basis, and the level of assets

should be continuously monitored to ensure compliance with the fully funded concept.

#### **Principle 2- Investors have a subordinated claim on SPV assets**

The assets of the SPV must be first available to meet its obligations to the sponsoring insurer/reinsurer. The rights of the finance providers will be fully subordinated to the obligations of the SPV.

#### **Principle 3- Prudent person**

The SPV should adhere to the “prudent person” investment principle. These include duration, matching of assets and liabilities, high quality assets, sufficient diversification of counterparty exposure. Derivatives should be used only for the risk reduction and efficient portfolio management.

#### **Principle 4- Effective risk transfer**

The SPV transaction should effectively transfer the risk from insurer/reinsurer to the SPV and thereby to the investors. The amount of risk transfer will determine the amount of credit that the insurer/reinsurer can take for the SPV in terms of any reduction in capital requirements or the ability to recognise the recoverable as covering parts of the technical provisions.

#### **Principle 5- No-recourse**

Investors in the SPV will have no recourse to the assets of the sponsoring insurer/reinsurer under any circumstances. The payments due to investors are the obligations of the SPV only.

Under Solvency II regulations SPVs can also be allowed to transfer non-insurance risks for the purpose of regulatory capital relief such as for securitisation.

The use of any risk mitigation technique will depend on the complexity of the business, risk exposure and the risk appetite of an insurer/reinsurer. It will also depend on the business objectives and whether any risk mitigation technique is efficient or not. Currently the most commonly used insurance risk mitigation technique is reinsurance and under the new SAM regime organisations may explore the various other risk mitigation techniques to meet the business objectives and to maintain a desired level of own funds.

## Have you considered VAT BGR 14?

**The South African Revenue Service (SARS) recently issued Value Added Tax (VAT) Binding General Ruling No 14 (BGR 14) for short-term insurers. BGR 14 addresses several topical VAT issues applicable in the short-term insurance industry.**

BGR 14's salient features include:

- Clarification on the time of supply in the short-term insurance industry and related transactions – a deviation from the existing position
- Clarification regarding tax invoices, debit notes and credit notes where the policy documents contain certain information – changes could necessitate documentary changes
- Guidance on when an insurer may issue recipient-created tax invoices and debit or credit notes
- Guidance on the zero rating of supplies relating to international transport, marine, hull insurance and insurance relating to fixed and movable property in an export country – read with the documentary requirements, it contains a deviation from the existing position
- Guidance on the VAT treatment of excesses a critical deviation from the existing position
- Clarification of the VAT treatment for group accident insurance where the employer acts as an agent or as principal
- Guidance on the documentary proof required in respect of zero-rated supplies and input VAT deductions for short-term insurance transactions – read in conjunction with the SARS Interpretation Note, this could require critical changes for the insurer

BGR 14 does not contain transitional measures and the original effective date of 1 July left little time for insurers and reinsurers to effect changes to documentation, processes and systems.

SARS granted the Short-Term industry an extension of time to implement BGR14. SARS will update BGR14 and the effective date is moved to 1 November 2013. Insurers can use this extension to make the necessary adjustments to their systems to be compliant with BGR14. The principles in BGR14 will remain unchanged, although certain wording will be updated to clarify certain matters. SARS has advised that where insurers find that they cannot comply with BGR14 they must apply to SARS for a specific ruling as opposed to a binding general ruling.

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# The implications of VAT BGR 14

SARS issued Binding General Ruling 14 (BGR14) on 22 March 2013, which deals with the VAT treatment of supplies in the short-term insurance industry. The short-term insurance industry has up to now relied mainly on rulings issued by SARS in 1991 which formed the basis of a VAT and short-term insurance manual issued in June 1992.

The short term insurance industry is currently faced by a number of VAT challenges. One set of challenges has been introduced by BGR14 which was planned to come into effect on 1 July 2013 but which will now come into effect on 1 November 2013.

BGR14 introduces a number of challenges or changes when comparing it to the current (pre 1 November 2013) position. These include a slight change on the time of supply; documentary requirements (which may not necessarily have been brought about solely by BGR14); zero rating of certain insurance services; and the treatment of insurance excesses for VAT purposes.

Short-term insurers currently account for VAT on the supply of insurance when they or the intermediaries receive the premium, namely on the cash basis.

Currently, the accounting for VAT is postponed to the next VAT period where premiums are received after the 15th of the month. This differentiation for VAT timing purposes of premiums received pre and post the 15th of the month is not catered for in BGR14. It is unsure whether this change will have a material impact on the industry as a whole. Intermediaries account for VAT on its services when it receives payment for its services or where the invoice or tax invoice issued for the insurance or the intermediation precedes payment, the insurer or intermediary must account for VAT when the invoice or tax invoice is issued.

BGR14 allows the insurer to not issue a tax invoice for the insurance where the policy contains:

- the insurer's and insured's name, address and VAT registration number (where applicable) and policy number;
- the premium amount and either the value of supply, amount of VAT and the consideration for the supply, or where the VAT is calculated by applying the tax fraction, the consideration and either the VAT, or a statement that it includes the VAT and the rate of the VAT;



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- a statement confirming BGR14's direction; and
- a statement informing the insured vendor that it must be in possession of the policy and proof that the premium has been paid to claim a VAT deduction.

BGR14 also provides that the bordereau or commission statement relating to the intermediation does not have to contain the words "tax invoice".

Insurers who determine the consideration for the intermediation may issue recipient-created tax invoices which comply with the VAT Act. A bordereau or commission statement issued by the insurer does not have to contain the word "tax invoice" and insurers must comply with SARS' Interpretation Note 56.

The VAT Act contains four main zero rating provisions which applies to short-term insurance. These include insurance of international transport; insurance of land or improvements outside South Africa; insurance of goods situated outside South Africa; and insurance services supplied to non-residents. BGR14 read in conjunction with SARS' Interpretation Note 31 (IN31) gives guidance on the documentation required to apply and substantiate the zero rate.

The short term insurance industry is currently faced by a number of VAT challenges. One set of challenges has been introduced by BGB14 which was planned to come into effect on 1 July 2013 but which will now come into effect on 1 November 2013. BGB14 introduces a number of challenges or changes when comparing it to the current (pre 1 November) position. These changes are slight changes in the time of supply; statutory requirements may not necessarily change.



The VAT Act read with the 1991 VAT Short-Term Insurance ruling catered comprehensively for services spanning the South African border.

Short-term insurance of international transport services can be zero-rated where the policy is entered into before the supply of the transport services. Zero-rating applies where the insurer, within 90 days of the date of the supply, obtains proof that the services were zero-rated. The insurer must account for VAT when the 90 days end, if it fails to comply with the 90 days. The insurer can claim the VAT where it receives the documentation within 5 years from the supply. In terms of the VAT Act, the zero rate applies to insurance or the arranging of insurance (brokerage or intermediation) of the transport of passengers or goods between places outside of South Africa. The zero rate also applies to insurance or arranging of insurance in respect of the transport of passengers or goods between South Africa and a foreign country or the transport of passengers by air in South Africa where it constitutes international carriage. The insurance or arranging of insurance of the transport of goods in South Africa, which is part of the foreign journey of passengers or goods between places outside of South Africa or between South Africa and a foreign country, and the domestic and foreign service if supplied by the same supplier can also be zero rated. To substantiate the zero rate, IN31 requires that the vendor's copy of the zero-rated tax invoice; a copy of the insurance or transport contracts; and in the case of the arranging of international transportation of goods: a copy of the transport document; and proof of delivery of the goods be retained.

Short-term insurance supplied directly in connection with land or improvement situated in an export country can also be zero rated. This is in line with the principle that the VAT system seeks to tax final domestic consumption. The

zero rate will apply irrespective of whether the insured is a resident of South Africa or not. To substantiate the zero rate, IN31 requires that the vendor's copy of the zero-rated tax invoice; and the recipient's order or the contract between the recipient and the vendor, confirming that the land is situated in an export country be retained.

Short-term insurance supplied directly in respect of movable property situated in an export country at the time the service is rendered is zero rated. The zero rate will apply irrespective of whether the insured is a resident of South Africa or not. To substantiate the zero rate, IN31 requires that the vendor's copy of the zero-rated tax invoice; the recipient's order or contract between the recipient and the vendor; and confirmation from the recipient that the movable property was situated in an export country at the time that the services were rendered, if this is not stated in the order or contract be retained.

Marine insurance supplied directly (not through an agent) to a person who is not a resident of South Africa and not a vendor covering loss to a "foreign-going ship" can be zero-rated. Hull insurance supplied directly (not through an agent) to a person who is not a resident of South Africa and not a vendor covering loss to a "foreign-going aircraft" or "foreign-going ship" can be zero rated. Temporary presence in South Africa of the foreign-going aircraft or ship will still qualify for zero-rating. IN31 requires that written confirmation from the recipient that the ship or aircraft is a "foreign-going ship" or a "foreign-going aircraft" be retained. Short-term hull insurance to a resident of South Africa is standard rated.

The terms "foreign-going ship" and "foreign going aircraft" are defined to include transportation of passengers or goods for reward between South Africa and other countries; naval ships or military aircraft; and in the case

of ships also those registered outside South Africa where they are used for commercial, fishing or other concerns conducted outside South Africa by a non-resident non-vendor.

Where an insured pays an excess (for replacement or repair of goods or services which are lost, damaged or destroyed) directly to a supplier, the supplier must issue a tax invoice for the taxable supply of goods or services. The supplier can issue two tax invoices, one to the insured for the excess and another to the insurer for the amount up to the trade payment or value. The insurer can claim a VAT deduction on the goods or services acquired. An insured vendor, in possession of a tax invoice, can claim VAT on the goods or services acquired to the extent that they will be used to make taxable supplies. The insurer issues a notice to the insured of the deemed VAT liability resulting from the indemnity payment made. An insured vendor can claim the VAT on the goods or services acquired to make taxable supplies, subject to the normal requirements of the VAT Act.

BGR14 introduces a changed treatment in respect of excesses. Currently (pre-BGR14) the short term insurance industry treats excesses effectively as VAT sensitive, meaning where a policy is VAT inclusive, excesses are calculated on an inclusive basis and where a policy is VAT exclusive, excesses are calculated on an exclusive basis. In a legal sense, excesses are not subject to VAT as it represents the non-insured portion of a policy. BGR14 gives effect to the legal substance of excesses and views excesses as non-VATable. BGR14 would now require that excesses be calculated on a VAT exclusive basis.

VAT claims relating to payments of suppliers would also have to be limited to the net of excess amounts.

An insurer can claim a notional deduction equal to the tax fraction of the indemnity payment made under a policy. The deduction cannot be made where the payment relates to a supply of a non-taxable supply; trade payments; zero rated supplies where the insured is not a vendor and not a resident of South Africa when payment is made; or a supply of goods or services to the insured where the goods are outside or the services are physically performed outside South Africa when the supply was made.

An insured vendor must account for VAT on the deemed supply resulting from an indemnity payment received relating to a loss incurred in the course of the insured vendor's enterprise. This deemed supply takes place when the indemnity payment is received or made. A deemed supply does not occur in respect of non-taxable supplies or where payment relates to total reinstatement of goods stolen or damaged beyond economic repair and a VAT deduction was denied on, for example, motor cars. Third parties do not have to account for VAT on indemnity payments.

Insurers do not have to account for VAT on amounts recovered from third parties or their insureds as these amounts do not constitute payment for supplies to third parties or third parties' insurers.

BGR14 caters specifically for the VAT effects of personal accident insurance. BGR14 does not introduce new principles in this regard but clarifies existing principles. Where a vendor employer acquires group personal accident insurance it can claim a VAT deduction to the extent acquired to make taxable supplies, subject to the normal provisions of the VAT Act. An employer will be liable to account for VAT on the deemed supply resulting from an indemnity payment received in terms of a policy.

The insurer is entitled to claim a deduction on the indemnity paid. The employer will not be entitled to deduct VAT in respect of amounts subsequently paid to the employee. Where an employer acts as agent for its employees in respect of group personal accident insurance with an insurer, the employer will not be entitled to a VAT deduction in respect of premiums paid.

As illustrated above, BGR14's zero-rating provisions are dependent on retention of proof as per the VAT Act and SARS' Interpretation Note 31. BGR14's VAT deduction provisions are conditional on the retention of proof as per SARS' Interpretation Note 49. BGR14 addresses many issues relating to VAT on short-term insurance addressed previously and is welcomed in this regard. BGR14, however, does not contain transitional measures, especially considering the effective date of 1 November 2013 which leaves little time to effect changes to documentation and processes. BGR14 also implicitly relies on current VAT provisions relating to dual rate supplies which may not be practically implementable.

BGR14 does not specifically address a number of situations, including inward policies where the insured is not on board the ship or aeroplane; hull policies to South African residents where they only temporarily enter South Africa; hull policies to non-residents where the ship or aeroplane does not meet the technical definition of "foreign going..."; and policies in respect of movable goods situated outside South Africa where it may re-enter South Africa temporarily. Of interest is also that BGR14 does not contain guidance on the principles of section 11(2) (l) of the VAT act which is the cornerstone of the zero rating of services.

BGR14 is welcomed and SARS should definitely be recognised for their work and effort into its creation. BGR14 does not address all the pertinent issues which should be addressed. It should be realised by the industry that BGR14 will impose substantial administrative and process burdens on some insurers.

European reinsurer Swiss Re has estimated its losses resulting from recent flooding in central and eastern Europe will be in the region of R3 billion, while the industry-wide burden will likely be between R35 billion and R45 billion.

RiskSA 9 July 2013

Adolor

# Tax changes and the impact on electronic reporting systems

## Changes on the horizon

The South African long-term insurance industry is in the process of unprecedented changes following the global financial crisis of 2008. The Financial Services Board (FSB) is implementing a risk-based supervisory regime for the prudential regulation of the insurance industry in South Africa. In addition, National Treasury announced during the 2012 National Budget that, as a result of the local insurance industry undergoing reforms with regard to Solvency Assessment and Management (SAM), it would be an appropriate opportunity to consider changes to South African insurance tax laws.

## Meanwhile ... in the periphery

While long-term insurers are furiously preparing for the implementation of SAM, and patiently awaiting further guidance on the future tax regime, there have been a number of other recent changes to the Income Tax Act No 58 of 1962 ("the ITA") that have had a significant impact on client, internal and external financial reporting. The shift towards automating tax reporting processes has increased significantly over the last few years.

The challenge of placing reliance on an electronic reporting system is that the practical application of ITA frequently requires significant judgement and interpretation. Typically when automated electronic systems are used, a database of information will need to be maintained. Inadequacies in system functionality and design are often only identified by evaluating the results of actual transactions and data permutations. The South African Revenue Service ("SARS") has become focussed on analysing systems and data used in reporting capital gains as well as interest and dividends tax information, for both internal and external stakeholders.

This article will highlight some of the complexities recently faced by long-term insurers in respect of seemingly innocuous changes to the ITA and the impact on electronic reporting systems.

## Deemed disposal provisions

During April 2012, National Treasury issued a media statement in which it announced the principle of the deemed disposal and reacquisition of policyholder assets on 29 February 2012 (amongst other comments).



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This announcement came as a result of the increase in the inclusion rate for capital gains tax purposes, and the deemed disposal concept was a solution proposed and subsequently implemented by National Treasury in order to *"... remedy this misallocation of additional capital gains tax among policyholders in an administratively viable manner (and without causing undue distortionary benefits vis-a-vis other classes of taxpayers ...".*

The deemed disposal legislation was eventually promulgated into the ITA and deemed to have come into operation on 29 February 2012. The impact of this legislation was to give effect to the above mentioned media statement issued by National Treasury, and deemed a long-term insurer to have disposed of each qualifying asset on 29 February 2012 held in respect of all its policyholder funds. Effectively, the aforementioned assets were deemed to have been disposed of at market value (defined as the amount that might reasonably be expected to be obtained from a sale in an open market (in respect of a financial instrument) or the investment value of that asset as reported to the owners of the policy (in respect of any other asset).

The South African Revenue Service ("SARS") has become focussed on analysing systems and data used in reporting capital gains as well as interest and dividends tax information, for both internal and external stakeholders.

While long-term insurers are furiously preparing for the implementation of SAM and impatiently awaiting further guidance on the surety tax regime, there have been a number of other recent changes to the Income Tax Act No 58 of 1962 ("the ITA"). These have had a significant effect on client, internal and external financial reporting. The shift towards reporting tax reporting issues has increased significantly over the last few years. The challenge is to rely on



In our experience, a number of long-term insurers had to develop a separate programme to give effect to the deemed disposal provisions on their existing electronic capital gains tax systems. The deemed disposal was not merely a disposal and reacquisition to crystallise the capital gain/loss on 29 February 2012; it defined which assets had to be carved out for purposes of the deemed disposal, and specified which loss-limitation rules had to be disregarded for purposes of the deemed disposal. To further complicate matters, the base cost of all policyholder assets carved out for purposes of the deemed disposal provisions had to be accounted for on the weighted average method going forward, and in addition, one of the loss limitation rules was no longer applicable after 1 March 2012.

A practical example to describe the unforeseen complexity of the practical application of the deemed disposal legislation is the instance where a long-term insurer historically calculated the base cost of its identical policyholder assets using the specific identification election method. As a consequence of the deemed disposal provisions, these policyholder assets now have to be accounted for on the weighted average election method, while the interest bearing instruments (policyholder assets) continue to be accounted for on the specific identification election method. At first glance this may seem to be a trivial difference, however, in order to accommodate this change from a system perspective, the long-term insurer now has to maintain two separate databases. One database records those policyholder assets on the weighted average election method while the interest bearing instruments (together with the other non-qualifying assets that were not deemed to have been disposed of on 29 February 2012) are recorded on a

separate database where the base cost is recorded on the specific identification election method.

**The seemingly straight forward changes required extensive changes to the electronic capital gains tax systems used by long-term insurance companies in order to give effect to the deemed disposal legislation, and also to provide accurate reporting of both realised and unrealised capital gains for policyholders, SARS and financial reporting purposes.**

**Dividends tax**

Dividends tax was first announced in 2007 as the replacement for secondary tax on companies. The first phase of dividends tax was legislated and effective on 1 April 2012. SARS, during the roll out of dividends tax, announced that in order for it to administer dividends tax and ensure a complete audit trail, all entities involved in the dividend distribution chain would be required to submit supporting data. While SARS was clear conceptually on the information that it required, a number of stakeholders including long-term insurers had to develop a mechanism for recording a dividend trail, applying exclusions (such as instances where exemptions to dividends tax applies, or when to apply double taxation agreement rates) in order to meet SARS' requirements.

Achieving these objectives is undoubtedly a challenge and a solution applied by certain regulated intermediaries was the use of 'dividend buckets' and 'beneficial owner buckets'. The concept of these buckets was meant to create a number of categories into which dividends (based on the nature of the dividend and the declaring company) and beneficial owners (based on signed declaration forms) could be recorded. Completeness of the dividend buckets in particular was always going to be

a challenge, and the universe of dividend buckets have been through a number of revisions.

As the interface between the dividends and beneficial owners' buckets is an automated process (ie dividends tax obligations are calculated based on this interface), at certain stages once regulated intermediaries identified that all permutations of dividends received were not covered by the universe of 'dividend buckets' used, then manual interventions had to be applied in order to maintain accurate records for dividends tax purposes. The manual interventions were then applied until such time that dividends tax systems have been upgraded by means of additional (and more appropriate) buckets being created. All permutations should be catered for in the automated dividends tax system, however unlikely the event may be, in order for the correct information to be reported to SARS, and if applicable, the correct amount of dividends tax to be withheld and paid over to SARS.

Teething problems were expected with the initial implementation of dividends tax, and as the dividends tax legislation settles and the legislation is refined in this regard, system updates or enhancements will have to be coded in order to remain current with the requirements of the ITA, and also with the information required and to be reported to SARS.

While many would argue that the implementation of the dividends tax regime has aligned the South African tax system with its foreign counterparts, it has certainly come at a massive cost and the implementation thereof would certainly have tied up a number of resources within many organisations.

## Other practical implementation challenges

As mentioned earlier, long-term insurers utilise electronic systems to calculate and report capital gains tax, interest (s24J) and dividends tax information. The coding of these systems is complex, and programming these systems in strict accordance with the ITA is not always a simple matter. There have been a number of instances where business decisions have been made to apply the practical interpretation of the ITA.

A current example is the wording for substitutive share-for-share transactions. While the wording in the ITA is clear, there is a permutation, which could give rise to a processing error (circular referencing) on an electronic system. For example, the 'new' shares must be acquired on the last acquisition date of the 'old' shares. If we assume a scenario where there have been multiple purchases of the 'old' shares, and the date of acquisition of the 'new' shares precedes the disposal of the 'old' shares, this would result in a processing error in the electronic system.

The ITA does not cater for a scenario, as described above, where there is a disposal between the last acquisition date of the 'old shares' and the date of the share-for-share transaction. There would be a mismatch between bringing in 'new' shares into a portfolio on 1 February 2013, but only have the 'old' shares leave on 31 March 2013. This will result in a scenario where a portfolio is over-valued or the holdings are overstated. Similarly, one cannot dispose of the 'old' shares on 1 February 2013 already, as there could have been subsequent sales of 'old' shares and should there be a zero holding from 1 February 2013 onwards, then the system would report an error due to there being no holding to sell in respect of the actual sale.

Scenarios such as these are encountered by long-term insurers while attempting to automate the processing and reporting function. This is only one of many examples of practical implementation challenges where, in the absence of legislative amendments, a practical interpretation is required to circumvent processing errors based on a strict interpretation of the ITA.

## Where to from here?

While the majority of the legislative changes discussed are often driven by providing the taxpayer with a favourable outcome or position, the unintended consequences we have identified are that it has resulted in complex system projects within the long-term insurance industry. One only has to refer back to the deemed disposal event at 29 February 2012 for long-term insurers which, conceptually, is straight forward, but the impact it has had on the electronic systems used for reporting purposes were extensive. Changes that are seemingly minor can have extensive consequences for (not only) long-term insurance companies. It is important for long-term insurers to keep abreast of developments to plan and assess future legislative changes in order to minimise the disruptions on business operations. In addition, given the complexity of income tax legislation, a unique skill set of tax technical knowledge is required to guide and direct the practical implications thereof on electronic systems.

SARS and National Treasury could also play a role in engaging and consulting with long-term insurance companies to understand the implementation challenges that could be faced with regard to legislative changes. There should be engagement with SARS where practical implementation difficulties are experienced (for example, where a business decision has to be made because

the legislation cannot be practically implemented in an electronic system). SARS should in such instances adopt a pragmatic approach and will need to understand and appreciate the complexities facing long-term insurers (and other companies for that matter) when developing systems for the purposes of accounting and reporting the appropriate liabilities to SARS.

One can only imagine the number of system changes that will be required for long-term insurers once the future amendments are eventually finalised. On the positive side, it seems that the long-term insurance industry is largely involved with changes that are being considered. National Treasury has also alluded to the conceptual changes to be made (such as the provisional indication that in the interim risk business will be separated from non-risk business and taxed separately in the shareholder fund). This could certainly pave the way for long-term insurers to identify and flag any potential implementation issues before these changes are legislated.

**Globally telematics remains a relatively small but fast-growing industry, yet insurance providers must already be considering how to best incorporate telematics into their business models in order to remain relevant.**

Cover Magazine, 24 July 2013



*cutting through complexity*

# KPMG's Tax Reporting Cube

## For an efficient and reliable tax reporting process

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# FATCA: Considerations for the South African long-term insurance industry

## Introduction to FATCA

The Foreign Accounts Tax Compliance Act ("FATCA") had a very controversial reception by the global financial services community, and saw a robust lobbying effort against its more onerous obligations.

It is now, however, a reality and is set to impose itself on South Africa's regulatory framework. It will have a substantial impact on the operations of all affected financial institutions, regardless of where these are situated. South African financial institutions are no different, and it will definitely be necessary for them to assess the impact, and where necessary to take the required steps to comply with the FATCA obligations.

Although FATCA has become common parlance in some circles, it remains shrouded in mystery in others. In order to combat FATCA's many misunderstandings and interpretational challenges, it is necessary that South African financial institutions educate themselves on FATCA and its imperatives as well as the steps that will be taken to incorporate these into South African law.

FATCA is a piece of United States ("U.S") legislation that introduces onerous identification and reporting obligations on foreign financial institutions in an effort

to curb tax abuses by US citizens in foreign jurisdictions or those with offshore investments. A failure to comply with FATCA may result in a punitive withholding tax of 30% on U.S source income payable to non-compliant foreign financial institutions. The FATCA obligations are detailed in the FATCA Regulations.

The implementation of FATCA raised a number of concerns, with the foremost amongst these being that in certain jurisdictions local data privacy laws created local legal impediments to complying with FATCA, specifically, financial institutions in certain jurisdictions are prevented by their local data privacy laws from reporting on client confidential information directly to the US, as required by the FATCA Regulations. To their credit the US Department of Treasury recognized these concerns and developed an alternative means to complying with FATCA. They were of the view that an intergovernmental agreement approach would facilitate a more effective implementation of FATCA in a manner intended to address the domestic legal impediments to FATCA compliance. To this end, the U.S made the decision to draft two model intergovernmental agreements (being model 1 and model 2).



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## Intergovernmental Agreement Approach

National Treasury and the South African Revenue Service ("SARS") have expressed their intention to sign an intergovernmental agreement with the U.S and are currently in negotiations with the U.S Internal Revenue Service ("IRS") with a view to concluding a proposed South African Intergovernmental Agreement ("SA IGA"). The SA IGA is a treaty entered into between the governments of South Africa and the U.S and after its conclusion the SA IGA will be given force and effect by local South African enabling legislation ("the local FATCA laws"). This means that FATCA will be directly incorporated into South African law. The local FATCA laws will be phased in from June 2014, in order to comply with the timelines set out in the SA IGA.

While the SA IGA is not yet signed and accordingly that South Africa is not yet an IGA jurisdiction, considering the commitment made by SARS and National Treasury to sign the SA IGA, we consider it reasonable at this stage to focus only on the SA IGA obligations rather than also on the FATCA Regulations, on the basis that South Africa will become a IGA jurisdiction in due course.

In order to combat FATCA's many misunderstandings and interpretational challenges, it is necessary that South African financial institutions educate themselves on FATCA and its imperatives as well as the steps that will be taken to incorporate these into South African law.

The implementation of FATCA raised a number of concerns, with the foremost amongst these being that in certain jurisdictions local data privacy laws created legal impediments to complying with FATCA, specifically, financial institutions in certain jurisdictions are prevented from reporting client information to the US, as required by FATCA Regulations. credit the US Department of Treasury



As a result of the commitments given and notwithstanding that the South African government signs the SA IGA in future, the FATCA Regulations may still have indirect application to those South African financial institutions that have Related Entities (as defined in the SA IGA) in non-IGA jurisdictions and/or have clients that are Non Participating Financial Institutions (as defined).

The SA IGA will mean that all South African financial institutions will be obligated under local FATCA laws to identify and report certain information to SARS on clients that are US Persons that, under the FATCA Regulations, would have otherwise have had to report directly to the IRS. SARS will then exchange this information with the IRS on an automatic basis.

South Africa's decision to enter into the SA IGA will have a significant impact on South African financial institutions. Under the SA IGA compliance with FATCA will become a statutory obligation under local South African law and no longer envisages a contractual arrangement between individual South African financial institutions and the IRS as per the FATCA Regulations.

### Potential Impact on the South African long-term insurance industry

The SA IGA imposes the client identification and reporting obligations on a wide variety of South African financial institutions and will have a significant impact on the South African financial services industry as a whole. Broadly, South African financial institutions will include depository institutions (like banks), custodial institutions (for example, CSD Participants, brokers and nominees), investment entities (CISs, private equity funds, hedge funds, securitization vehicles and asset managers) and certain specified insurance companies.

As is evident, a wide variety of institutions will be impacted by the SA IGA. In particular, there will be direct impact on many long term insurers in South Africa. The SA IGA defines a Specified Insurance Company as meaning,

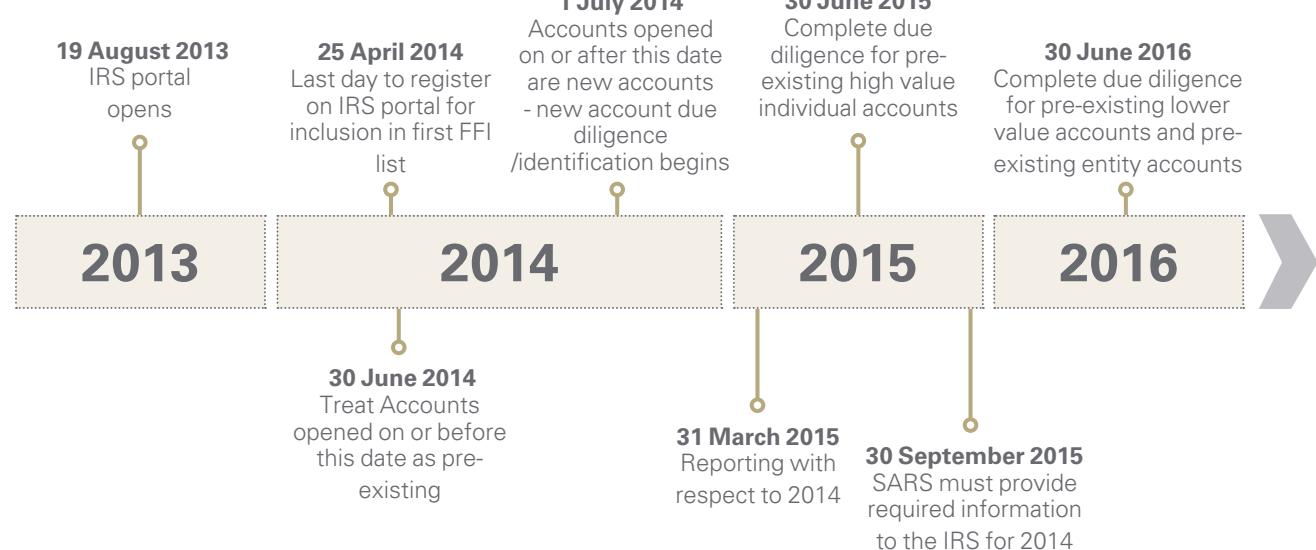
*"any insurance company (or holding company of an insurance company) that issues, or is obligated to make payments with respect to, a Cash Value Insurance Contract or Annuity Contract."*

This definition excludes pure risk products and so will typically exclude short-term insurers and certain pure risk life companies from the scope of the SA IGA. In scope, however, are those long-term insurers offering Cash Value Insurance Contracts and Annuity Contracts as these terms are defined in the SA IGA. In this article, we discuss these definitions in general terms only, but would recommend that interested parties analyse the terms as they are specifically defined in the SA IGA.

In essence a Cash Value Insurance Contract is an insurance contract that has a cash value of greater than \$50 000, where cash value denotes the greater of the amount that a policyholder is entitled to receive upon surrender or termination of the contract and the amount that the policyholder can borrow under, or with regard to, the contract. If we consider the South African long-term insurance industry, Cash Value Insurance Contracts would reasonably include investment products issued under the Long-term Insurance Act, such as endowment policies and possibly universal life products where there is a savings element as a feature of the policy. It is worth noting that the \$50 000 threshold may be applied at the election of the insurance company. This means that the insurance company may elect to comply with the SA IGA obligations in respect of all its cash value insurance contracts, not only those meeting the \$50 000 threshold.

We would reasonably consider Annuity Contracts would include pure life and guaranteed annuities, conventional compulsory annuities, certain term annuities and living annuities. Very importantly, the SA IGA expressly excludes from the definition of an Annuity Contract "*a non investment-linked, non transferrable immediate life annuity that is issued to an individual and monetizes a pension or disability benefit...*". We would certainly consider this to remove conventional compulsory annuities from the scope of the SA IGA. It does not remove living annuities from scope, considering that they are by their nature investment-linked, however, considering the function and purpose of a living annuity, ASISA is in the process of motivating to SARS for their exclusion from scope of the SA IGA too.

### IGA time line for Financial Institutions



## Significant obligations on South African Financial Institutions

Some of the more significant obligations imposed by the SA IGA will broadly include:

- identification and classification of financial institutions. South African financial institutions are encouraged to conduct impact assessments to ascertain their SA IGA status and, where necessary, the extent of their SA IGA compliance obligations;
- registration on IRS portal – South African financial institutions should register on the IRS Portal, as required, between 19 August 2013 and 25 April 2014, in order to ensure their inclusion in the first list of foreign financial institutions to be published by the IRS on 2 June 2014, and receive the appropriate registration identification number, which will serve as evidence of the South African financial institutions' FATCA status;
- identification of financial accounts – South African financial institutions should determine whether they maintain any financial accounts (as defined in the SA IGA), which will enable South African financial institutions to determine whether they are required to report information to SARS on these accounts or not;
- perform client classification – to identify any US Persons, Non-Participating Financial Institutions (as defined in the SA IGA), which should enable a high level view of the scale of the FATCA impact on business operations;
- systems and process updates to comply with enhanced SA IGA due diligence and reporting requirements; and
- reporting details of client accounts where necessary - systems may have to be developed or adapted to allow for this new reporting burden.

## In summary

Based on the commitments given by National Treasury and SARS, it appears that the signature of the SA IGA is reasonably imminent. As a result, financial institutions must start considering their SA IGA obligations, if any. It is clear that there are a number of steps that South African financial institutions, including many long-term insurance companies, are required to take in order to ensure compliance with the local FATCA laws (we have touched on only a few of these). The signature of the SA IGA and the promulgation of the local FATCA laws will render compliance with these obligations mandatory for all South African financial institutions. It is therefore advisable that South African financial institutions commence this process as soon as possible, as the deadlines are fast approaching. South African financial institutions are also encouraged to keep abreast of the developments in the negotiation of the SA IGA, and to contact their industry representative bodies in order to understand the steps their industry may be taking in assessing the SA IGA and ascertaining the need for compliance by their members. With the SA IGA's requirements set to be phased in from 1 July 2014, it is critical that South African financial institutions be prepared to prioritize their impact assessments and where impacted, the project planning and implementation.

Insurers are seeking to achieve global competitiveness and are expanding both overseas and in Africa. Old Mutual completed their demutualization in May and on 12 July 1999 they successfully listed on the London and Johannesburg stock exchanges.

**KPMG Insurance Survey – 1999**



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# AFRICA

**The darkest thing  
about Africa has  
always been our  
ignorance of it**

George Kimble, Africa Today, Lifting the Darkness



The continent's economic outlook for 2013 and 2014 is promising, confirming its healthy resilience to internal and external shocks and its role as a growth opportunity in an ailing global economy. Africa's economy is projected to grow by 4.8% in 2013 and accelerate further to 5.3% in 2014 as reported by the African Economic Outlook 2013 on 27 May 2013. The report further shows that growth has been accompanied by insufficient poverty reduction, persisting unemployment, increased income inequalities and in some countries, deteriorating levels of health and education.

Africa is increasingly able to draw attention globally in terms of attracting investment. Foreign Direct Investment (FDI) into Africa has followed the oil resources in the past decade and as a result the top six African oil producing countries, being Nigeria, Algeria, Angola, Libya, Egypt and Sudan are among the top eight recipients of FDI .

The continent's larger economies are situated in the Southern African region and North Africa, and it is these regions that have benefited most from FDI and it is expected that this trend will continue. In a 2012 KPMG publication "the rise of the phoenix" it was reported that Nigeria offers significant potential and it along with Angola, Kenya, perhaps Egypt at a later stage, and South Africa are and will remain the key entry points into Africa over the next decade. Ghana is a potential additional West Africa entry point, but as in all cases it is the nature of the proposed business that would play a key role in determining the entry point.

The report further states that there is reliable empirical evidence to suggest that in the space of a few years South Africa will no longer be the largest economy on the continent. Nigeria is expected, with several others, to close the gap.



It is thus not surprising that expansion in Africa is featuring on the agenda of many Board Committee's. There are however many challenges that companies face when exploring expansion possibilities. In a recent report issued by KPMG – "Confronting Complexity", 63% of the African respondents participating in the research see regulation as contributing to the complexity of running their business. It is further highlighted that the greatest causes of complexity are (ranked from greatest to lowest):

- regulation (excluding tax);
- tax policy;
- information management;
- increased speed of innovation;
- government oversight;

- operating in more countries; and
- doing mergers and acquisitions.

There are however many opportunities that the continent also presents. The opportunities from an insurance industry perspective include:

- new untapped areas such as micro-insurance, Takaful and funeral business;
- compulsory insurances;
- improved communications network; and
- a large population.

In our 2012 Insurance survey KPMG documented a high-level review of 13 of the key economies in the African continent, principally from an insurance perspective. The review touched on the status of the insurance industry,

regulatory and macroeconomic environments, FDI and exchange control conditions. Africa's share of the global insurance business approximates 1.3%, with the South African insurance industry accounting for 73% of the continent's premium income. The Africa insurance penetration level is a mere 3.5%.

In this edition we focus on two key countries from an insurance perspective highlighted above, being Nigeria and Angola. Based on non-life premiums underwritten Nigeria is the second ranked African country in terms of premium volume, following South Africa. Angola is placed third. Penetration levels as reported in the 2012 survey are however below 1% for both countries based on the information available at that time. These statistics however echo the sentiment that there are significant growth opportunities to be explored.

# KPMG launches its new Africa Business Guide iPad app

**Is your organisation interested in investing in Africa?**

- This application is your companion to understanding business in Africa
- It is an all-in-one app to understand the economies, countries, and nuances of investing in Africa
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- All content is stored offline so it is accessible without an internet connection

**Access the app by visiting the Apple App Store and follow us on twitter @KPMGAfrica.**

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*\*Please note that the app is only compatible with an iPad and requires iOS 5.0 or later.*



# Insurance sector in Angola – market performance and major trends

## Market composition

The Angolan Insurance market has been growing and developing since its liberalization in 2000. Since then, there have been a number of visible market transformations. The Angolan insurance industry increased from consisting of one market player to the current thirteen in 2013.

The increase in the number of players reveals the interest this market has been generating in Angola and its attractiveness for new investments. Given the growth rates in the sector and its reduced maturity, the number of players is expected to continue to increase in the coming years.

The 13 insurance companies, as per the listing provided by Instituto de Supervisão de Seguros (ISS), organized by year of establishment are as follows:

- ENSA SEGUROS DE ANGOLA, S.A. (1978-2000)
- AAA SEGUROS, S.A. (2001)
- NOSSA SEGUROS, S.A. (2005)
- G.A. ANGOLA SEGUROS, S.A. (2005)
- A MUNDIAL SEGUROS, S.A. (2006)
- GLOBAL SEGUROS, S.A. (2006)
- GARANTIA SEGUROS, S.A. (2007)
- CONFIANÇA SEGUROS, S.A. (2008)
- UNIVERSAL SEGUROS, S.A. (2009)
- CORPORAÇÃO ANGOLANA DE SEGUROS, S.A. (2009)
- TRIUNFAL SEGUROS (2011)
- MANDUME SEGUROS (2012)
- PROTEJA SEGUROS (2012)

## Insurance market performance (short-term and long-term)

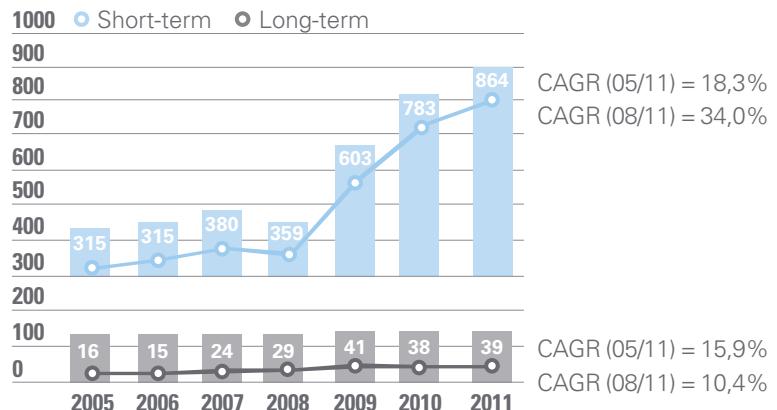
The strong economic development experienced in the last few years, combined with a more regulated environment, has contributed strongly to the development and attractiveness of this sector. In the last few years the insurance sector has maintained a consistent growth rate with direct insurance premiums reaching 864 Million USD, with an average annual growth rate consistently above 15%.

The Angolan insurance market has been growing and developing since its liberalization in 2000. Since then, there have been a number of visible market transformations. The Angolan insurance industry increased from consisting of one market player to the current thirteen in 2013. The increase in the number of players reveals the interest this market has been generating in Angola and its attractiveness for new investments.



**Jose Silva**

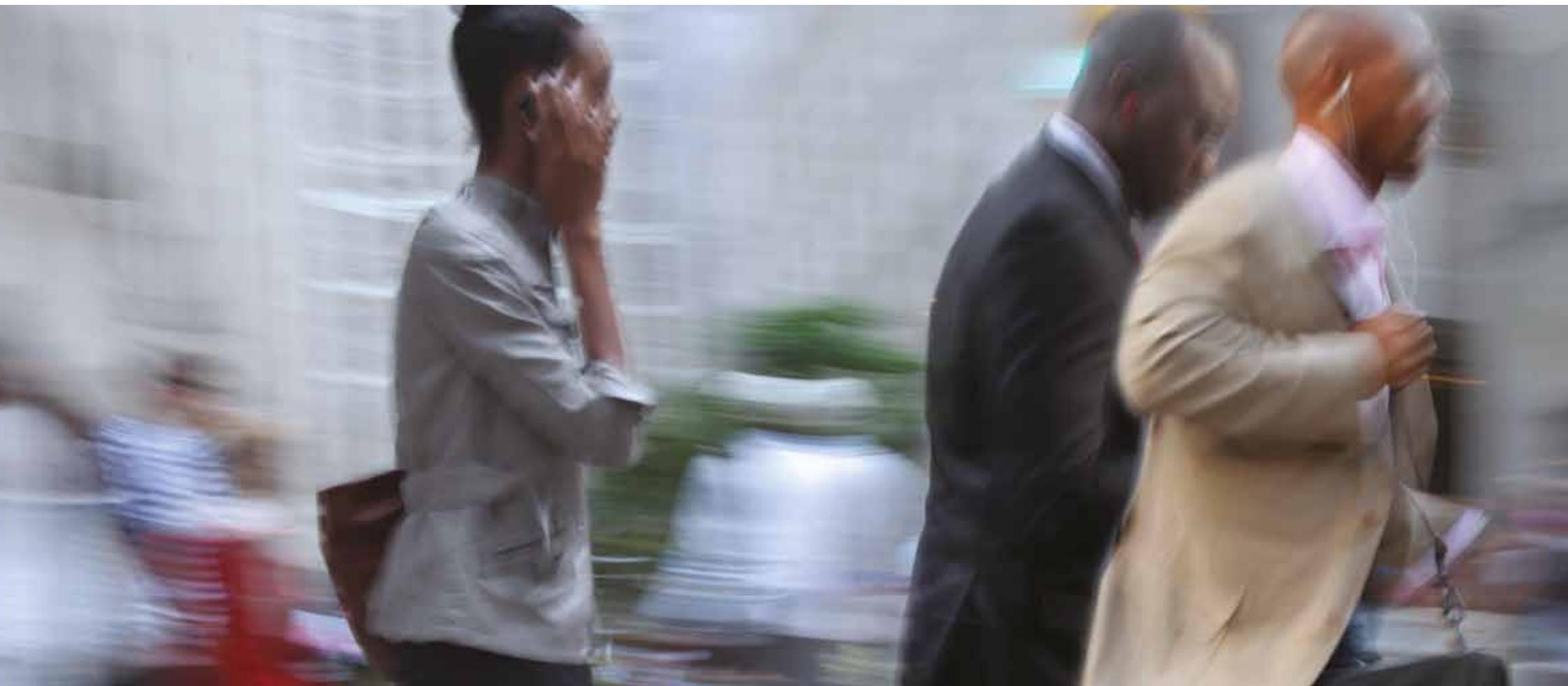
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Premiums (MUSD)	2005	2006	2007	2008	2009	2010	2011
Short-term	315	337	380	359	603	783	864
Long-term	16	15	24	29	41	38	39
Total	332	352	404	388	644	821	903

Source: Instituto de Supervisão de Seguros (ISS)

The increase in the number of players reveals the interest this market has been generating in Angola and its attractiveness for new investments.



Regarding product structure, in relative terms, the short-term sector has increased its relative proportion, representing over 95% of total premiums written.

Insurance Classes	2009	2010	2011
Long-term	6,4%	4,6%	4,4%
Short-term	93,6%	95,4%	95,6%
• Accident, health and travel insurance	23,7%	26,4%	31,9%
• Motor insurance	19,0%	27,9%	20,4%
• Oil and petrochemicals	27,3%	17,9%	15,6%
• Fire and natural disasters insurance	12,7%	7,9%	10,2%
• Property damages insurance	4,7%	2,2%	3,9%
• Transportation	3,3%	7,6%	4,2%
• Civil liability insurance	2,5%	4,1%	6,9%
• Others	0,3%	1,5%	2,2%

*Source: Instituto de Supervisão de Seguros (ISS)*

The analysis of the sector evolution also demonstrates the diminishing weight of the oil and petrochemical insurance sector revealing not only the greater maturity of the sector, but also its capacity to offer products that can serve and assure the various sectors and activities of the Angolan economy.

Accident, health and travel insurance has grown consistently in the last number years, representing in 2011 approximately 32% of the market.

Regarding motor insurance, despite the introduction of the Decree Law no 35/09, (relating to the compulsory motor general liability insurance), the total market share experienced a reduction of 7 basis points (from 27% to 20%). The level of premiums is also linked to the level of control from the Angolan authorities.

The long-term insurance industry has been losing relative importance, representing less than 5% of the total insurance premiums in the market. With the growth of the Angolan economy, the revision of the tax and fiscal system, the development of the capital market/stock exchange and the development of bancassurance models, an inversion of this trend is expected, primarily due to the increase in the consumption of products of a financial nature, in line with the main international markets.

The low claims ratios which are averaging at approximately 30% are supporting the strong performance in this industry.

Claims Ratio	2009	2010	2011
Short-term	23,9%	21,3%	27,1%
Long-term	31,1%	-7,1%	27,8%
Total	24,4%	20,0%	27,1%

*Source: Instituto de Supervisão de Seguros (ISS)*

Despite the increase of almost 50% in insurance indemnities, the strong growth in the total premium volume contributed to a relatively low claims ratio.

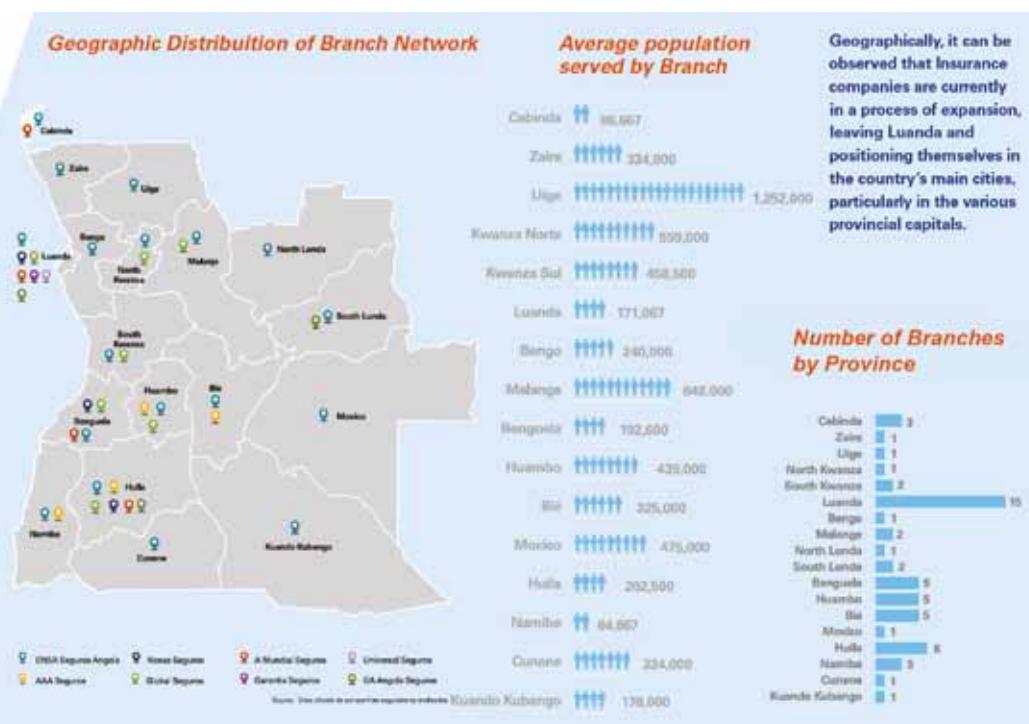
In a more detailed analysis, the accident, health and travel insurance indemnities have increased considerably (116%), achieving a total claims ratio of 49,3%. An inverse trend, mostly due to the reduction in indemnities paid, was visible in motor insurance, despite the high road accidents rate in Angola. This trend should reverse as the insurance policy holders gain increased knowledge of their rights.

Regarding reinsurance, the total volume of reinsurance premiums has grown at the same rate as insurance premiums in the last two years. The average cession rate is around 50% of the total premiums written. This amount is very high and a progressive alignment with the rates observed in the more mature markets is expected. In line with this, as the local insurance companies strengthen their risk management procedures, attain a larger scale and increase their maturity level, a contribution to the reduction of the cession rate is expected.

The insurance penetration rates still represent reduced amounts, with levels below 1,0%, significantly lower than other mature markets. This figure is evidence of the high level of potential and opportunities presented by the market, particularly in an economy with such

high growth potential. An analysis of markets with different levels of maturity confirms this reality and trend. Note that the insurance sector has grown within norms, but the ratio of premiums/GDP has fluctuated due to the exponential growth of GDP. The reduced penetration can also be explained by many other factors that range from the difficulty that some segments of the population still have in accessing insurance products, to financial reasons as well as due to geographical factors affecting access and knowledge. Yet again, the expected economic development of the country and the emergence of a middle class that encompasses a larger section of the population, may boost the values of this indicator in particular and of the entire sector in general. According to the ISS forecasts, presented in the strategic plan for the period 2012 through 2017, a satisfactory penetration rate should in the coming years approximate levels of 3% and 5% of GDP. Regarding distribution, in this phase of development, the insurance market in Angola, despite the first sales experiences through the Banking sector, direct sales through the companies' branches are still predominant. Furthermore, despite the recent growth, the number of agents operating in the market is still considerably small, making this channel one with a comparatively reduced weight in total sales. Geographically, it can be observed that insurance companies are currently in a process of expansion, leaving Luanda and positioning themselves in the country's main cities, particularly in the various provincial capitals.

Source:  
KPMG Analysis,  
Jan. 2012



Amongst these, their presence in Benguela (the country's second largest city) and in Huila, where the majority of the operators are now active, should be highlighted. In this phase of rapid growth in the insurance sector, there are still many provinces in which the number of branches is extremely low, and it will be most interesting to follow/study the expansion methods that will be adopted. Emphasis should be placed on the provinces of Kwanza Norte, Malanje and Moxico, with some half a million inhabitants being served by branch, a fact highlighting the tremendous opportunities available for the implementation of new innovative distribution channels.

The need to rapidly reach a greater number of people, at controlled costs, should boost the development of new channels, such as offering insurance through banking channels (bancassurance) or agents.

### Major trends in the Angolan economy and main challenges for the insurance sector

The insurance sector has evolved significantly over the last few years. To maintain this momentum, it is important to overcome some challenges:

- **Innovate and develop new products**

In a market with reduced penetration, the compulsory adoption of some insurance products has presented insurance companies with an opportunity to increase their total sales volume. The progressive improvement of the disposable income level in Angola, together with an increase in the level of information on clients, should be followed by a more differentiated offer, which includes, amongst others, an offer for the long-term insurance areas.

Despite the average income increase, the levels of asymmetry in the distribution of that income are still high, with a very significant part of the population having a low income level. In this context, the development of micro-insurance may also be an important growth initiative for the insurance sector. The last few years were characterized by the important development and implementation of micro-insurance, with increased frequency in developing countries. The Angolan market can also follow this trend.

- **Reinforce new distribution channels**

The development of new distribution channels based on a structured multi-channel strategy is crucial to guarantee greater geographical coverage and to better respond to the needs of the various client segments. Bancassurance should play a progressive role in this strategy, enabling access to different segments of clients in different regions, and the cross-selling between banking and insurance products.

In addition, the number of agents operating in the market has tripled in the last two years, growing from around 100 to 300. This number is still insufficient, but it illustrates an important trend. Associated with this significant growth, is also an expectation of a significant increase in the supervision of such entities, forcing the mediation activity to become more sophisticated and professionalized, for the benefit of its clients and insurance consumers. In a few years, this channel may also represent an important part of insurance distribution in the Angolan market.

The expectation is that over the coming years the diversification of the distribution channels and the development of products to respond to the needs of these populations, that generally have, lower income

levels and different consumption profiles, will continue to grow.

- **Improve operational efficiency**

In the context of rapid expansion, during which some insurance companies have doubled their premium volume over periods of one to two years, the strengthening of the operative model supporting the development of the business is a fundamental factor in guaranteeing the quality of the services rendered and the adequacy of these levels of services. Even though the market has, for now, no aggregate information available on cost indicators, the expected increase in the claims ratio, primarily due to the motor business's increased relative weight in the companies' overall portfolios, will almost certainly force the companies to concern themselves more with improving their efficiency levels and reducing their operating costs. In this context, the increased efficiency of the business and supporting processes and the greater automation of some of the processes will assume growing importance as a means to maintain the desired levels of profitability and solvability of the sector.

In a market in which the companies' level of process and procedure formalization is generally still reduced, the design and improvement of business and supporting processes as a means to increase the efficiency and predictability of the operations, and to improve, simultaneously, the level of control over these, is fundamental and may constitute a differentiating factor regarding competition.

- **Strengthen training and improve the mechanisms to retain talent**

The last few years have seen a progressive improvement in the human resource qualification and skills levels within

the insurance companies in Angola. Nevertheless, the average level of skills, particularly in technical areas such as Actuarial Analysis, Risk Management, Strategic and Operational Marketing, amongst others, needs to be improved.

The significant market growth implies an increase in the number of human resources and a growing need for their qualification and development, and it is imperative that company strategies leverage from the attraction and retention of best employees. Human Resource Management should be articulated with the companies' strategies and objectives, namely in matters such as the capacity to develop teams in the critical skills required. In this context, it is necessary to adopt a Skills Management process, that enables integrated development at the Training, Recruitment and Selection and Career Management levels, guaranteeing their articulation with the Remuneration and Benefits Policy, Performance Evaluation and Mobility Management.

## Conclusion

The insurance sector in Angola has undergone strong growth at rates exceeding those of the economy. Notwithstanding this strong growth, the penetration level is still low when compared to that existing in other economies in which this sector is more mature, clearly displaying the local opportunities for growth and development.

Considering the trends and challenges mentioned above, we foresee that the insurance sector in Angola will continue to present a high dynamic, although it must overcome and adapt to the challenges and emerging trends.



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# Transformation

**Transformation impacts the body and soul of our business, and is nurtured by our commitment to create a culture of inclusion which allows all of our people to be successful.**

**Our AAA rating equates to a Level 2 Contributor per the Generic Chartered Accountancy Sector code. We are also a Value-Adding Enterprise. As such, our clients can claim 156.25% of amounts spent with us as procurement spend.**

## **First of the big 4 to:**

- Elect a black African Chief Executive
- Appoint a black African Head of Audit
- Appoint a black African female Head of People and Transformation

## **Achievements to date:**

- 56% of our Policy Board is black
- 33% of our Policy Board is female
- 50% of our Executive Committee is black
- 25% of our directors are female
- 43% (1451) of our people are black
- 41% (1243) of our fee-earning staff are black
- 55% (1823) of our people are female
- 48% (198) of our 2013 graduate intake are black
- 52% (215) of our 2013 graduate intake are female
- 75% (287) of our 2012 vacation student intake was black



# Emerging trends in the insurance sector in Nigeria

## Overview

The Nigerian insurance market, the largest in the West Africa sub-region, recorded a total premium of US1.54 billion in 2011. However the penetration in Nigeria is currently considered very low when this is compared with the population of over 165 million people.

The Nigerian insurance industry has witnessed positive changes in recent times arising from the new reforms embarked upon by the Nigerian Insurance Commission ("NAICOM"), the primary regulator of the Nigerian insurance industry. These reforms were intended primarily to deepen insurance penetration to become the insurance industry of choice among the emerging markets in terms of capacity, safety, transparency and efficiency.

Non-life insurance contributed to approximately 70% of total insurance premiums generated in 2011. This can partly be attributed to the regulatory reforms which mandated insurance in different sectors, although the full measure of the reforms is yet to be realized.

## Nigeria's total insurance premium



Source: Swiss Re

## Legal and regulatory development

With the advent of global and regional reforms in the financial services landscape, the insurance industry has experienced regulations aimed at reforming the industry. The latest reforms include the:

- no premium, no cover policy;
- adoption of International Financial Reporting Standard ("IFRS") in Nigeria;
- promulgation of the Local Content Act; and
- the requirement to implement an Enterprise Risk Management framework ("ERM")

The Nigerian insurance industry witnessed positive changes in times arising from the new reforms embarked upon by the Nigerian Insurance Commission ("NAICOM"), the primary regulator of the Nigerian insurance industry. These reforms were intended primarily to deepen insurance penetration to become the insurance industry of choice among the emerging markets in terms of capacity.



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The no premium, no cover policy, which has been enshrined in the Insurance Act of 2003 but was not strictly enforced, has been given a regulatory life-line with effect from January 2013. The regulation seeks to ensure that only policies, for which premiums have been settled, either directly or indirectly by the insured, for not more than 30 days after the issue of the policy, can be considered a valid insurance contract. This should increase cash inflows and enhance investments resulting in improved generation of investment income from premiums written. While the implementation of this policy may have immediate short-term bottlenecks; as policyholders and brokers are not used to this practice, in the long-term it will strengthen the entire industry as insurance entities will have reduced working capital tied up in uncollectible receivables, improved cash flows and an enhanced capacity to settle claims.

The Financial Reporting Council of Nigeria ("FRC") released the roadmap for the adoption of IFRS for companies operating in Nigeria in 2011. In terms of the roadmap, insurance companies adopted IFRS in 2012 and the financial statements for financial year ends 31 December 2012 and thereafter were

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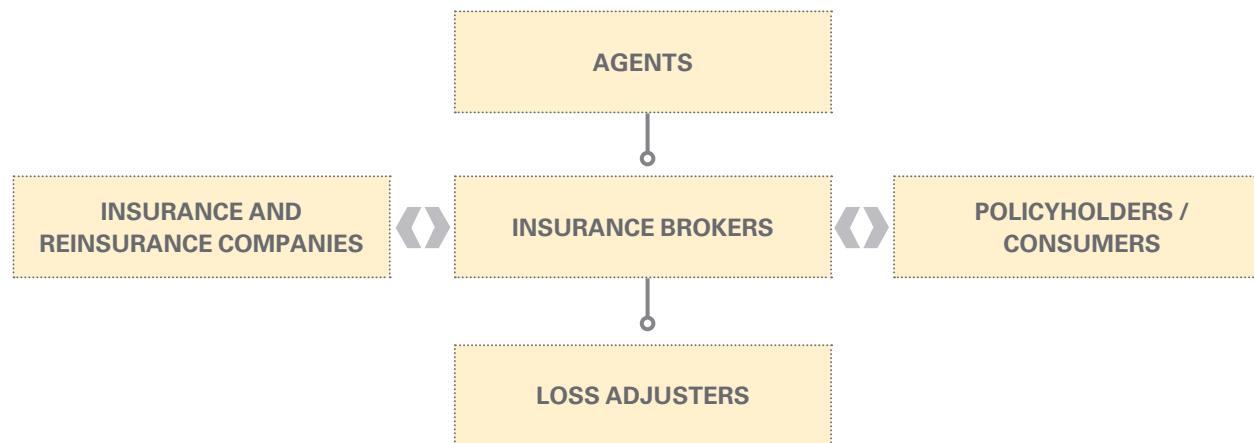
prepared in compliance with IFRS. With the adoption of IFRS, the financial statements of insurance entities in Nigeria will be comparable with other global players who prepare their financial statements in line with IFRS. In addition, insurance entities in Nigeria that are subsidiaries of other global companies in IFRS reporting jurisdictions will no longer need to maintain dual reporting frameworks. Furthermore, the adoption of IFRS will bring greater transparency to the financial statements of insurance entities through the enhanced disclosure requirements.

In order to increase the participation of Nigerian insurance companies in the insurance of oil and gas risks, the Local Content Act was passed in 2010. This act requires that all life, 70% of non-life and 40% of marine insurance businesses be underwritten locally. Business, which hitherto were wholly contracted with insurance entities outside Nigeria have been brought into the local pot. The introduction of this Act has significantly benefited a lot of local insurance players.

### Market and business model

The Nigerian insurance industry players are structured into four groups: Insurers and reinsurers, insurance brokers, agents and loss adjusters.

The insurance and reinsurance companies underwrite risks while the insurance brokers and agents act as intermediaries between the underwriters and the policy holders in the sale of insurance products and the collection of premiums. The loss adjusters, on the other hand, determine the appropriate valuation of the loss incurred in the event of a claim.



### Changing market focus

- The Nigerian insurance industry has been broker-dominated as insurance brokers play a central role in the activities of the industry accounting for about 70% of industry premiums. In particular, insurance brokers dominate the corporate segment of the industry and have grown significantly. There were approximately 585 registered brokers and 54 loss adjustors in Nigeria in 2012.
- Brokers in Nigeria drive insurance business by intermediating between the corporate organizations and insurance companies. Brokers bid for underwriting contracts and then contract the underwriting policy to insurance companies. This has given the brokers significant influence in the market and their activities have impacted insurance companies both positively and negatively.
- In an effort to diversify the market, reduce the significant influence of brokers and deepen insurance penetration, insurance companies are beginning to explore the potential of the insurance retail market. Considering the growing middle class in Nigeria, rising disposable income and the population, the opportunities in the retail segment of the market appear to be compelling for insurance companies looking to grow.

### Introduction of new insurance products

As insurance companies look to capture the retail market, new insurance products are being developed and tailored to serve the retail consumers. Some of the new insurance product developments include:

- (i) Micro insurance

## (ii) Takaful insurance

Micro insurance relates to insurance products designed for the low-income consumers who are underserved or underinsured. The development of micro insurance products seeks to provide insurance policies with low levels of premiums, customized and easy to understand products, as well as simple collection and claims processes. Some of the micro insurance products that have been introduced include:

- life micro insurance;
- health micro insurance;
- agricultural micro insurance;
- livestock micro insurance;
- property micro insurance; and
- personal accident micro insurance

Takaful insurance is a form of insurance that is compatible with the principle of the Shari'ah (Islamic Law). It is comparable with elements of mutual insurance and ethical finance and is open to all regardless of faith. There is great potential for this business as there is a significant Muslim population in Nigeria.

## Changing distribution model

While brokers remain the largest distribution channel in the insurance market, the development of the retail market is changing how insurance products are being distributed as underwriters now seek to directly market and distribute their products to consumers. This is creating a rebalance of the sector's distribution mix and is also significantly impacting on the net cash positions as

well as customer acquisition. Insurance companies now seek to reach the retail market through:

- community based organizations;
- micro finance banks;
- non-governmental organizations ("NGOs");
- religious organizations;
- employers; etc

## Attraction of new foreign players

The low insurance penetration, rising middle class and strong demographics in Nigeria have presented a compelling case for foreign players to enter the market. As a result, the industry has witnessed the entry of three foreign players through the acquisition of local insurance companies within the last 24 months.

- Old Mutual, a South African insurance company, acquired a majority stake in Oceanic Life Assurance from EcoBank Transnational Incorporated.
- NSIA Participations SA Holdings, a Pan African insurance company based in Cote D'Ivoire, acquired a majority interest in ADIC Insurance, a subsidiary of Diamond Bank Plc, one of Nigeria's leading banks.
- Sanlam, another South African insurance company, acquired a minority stake in FBN Life, a subsidiary of First Bank Nigeria Plc, a leading Nigerian bank.

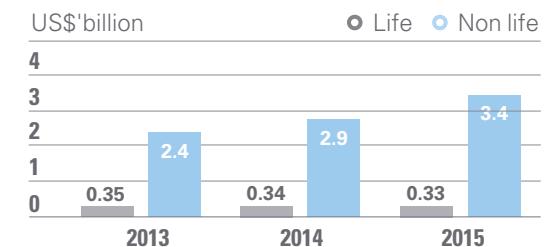
There are strong expectations that other foreign players will enter the Nigerian market through acquisition of insurance businesses that have been earmarked for disposal from banking groups since changes in banking regulation no longer allow universal banking business for banks or through organic entry into the market.

## Outlook of the insurance market in Nigeria

The Nigerian insurance market, both life and non-life, has been projected to grow at about 16% between 2013 and 2015. However, enormous potential for very strong double-digit growth exists given the low penetration rate when compared to similar emerging markets. The following is the expected outlook for the industry.

- New regulatory developments are expected to drive market depth and transparency.
- Further consolidation is expected in the near future as industry players seek scale to drive business growth.
- Increased foreign participation due to low penetration and strong retail potential which will ultimately increase industry competitiveness.

## Forecast insurance premium





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# Bespoke insurance training

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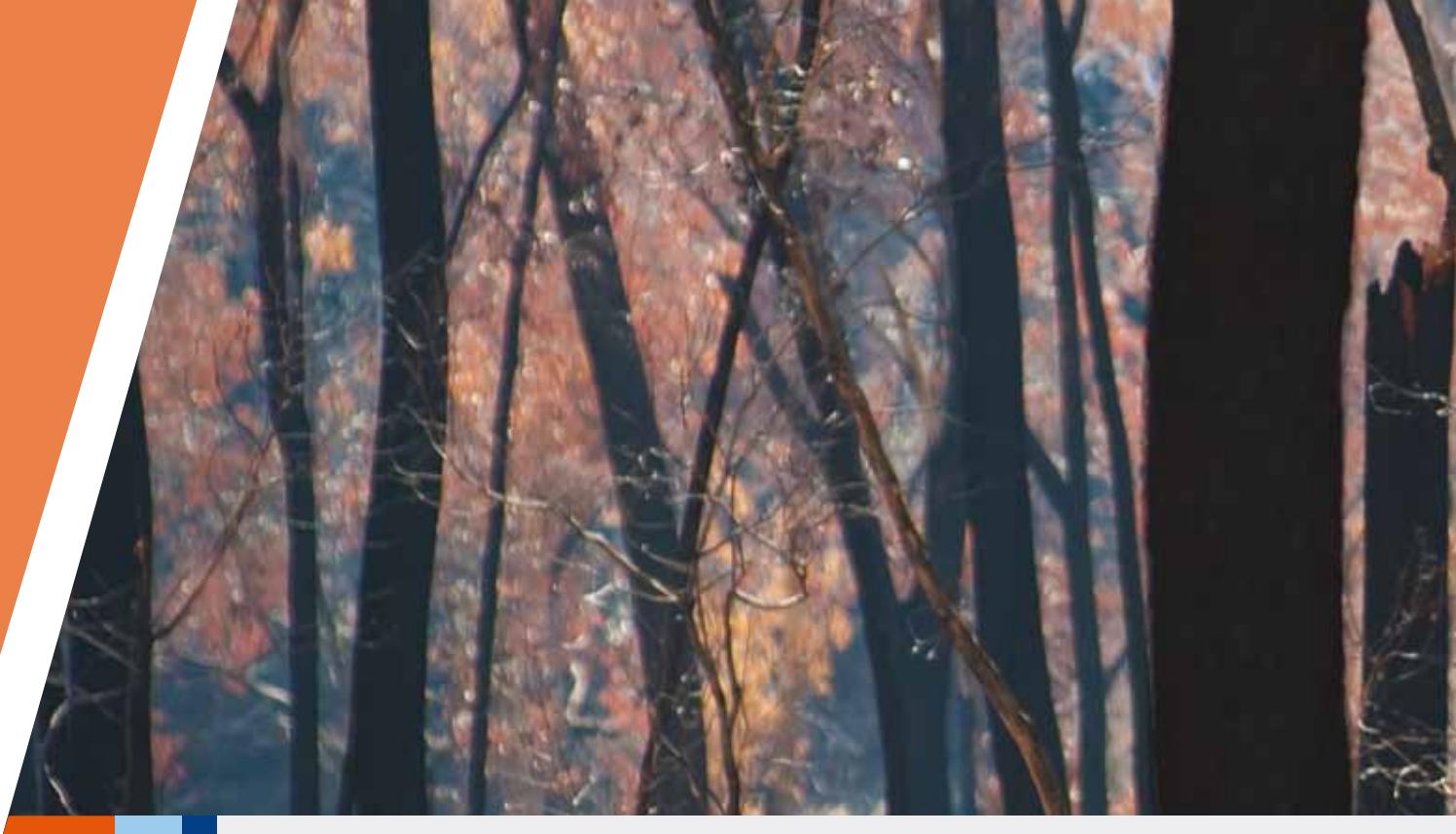
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# Short-term insurance industry



Growth in the short-term insurance industry has been under pressure with the industry recording a disappointing increase in net written premium in 2012 of 6.9%. Deteriorations in both the claims ratio and expense margins have culminated in a worsening of the underwriting result for the 2012 year increasing the combined ratio by 2.7%.

The 10 largest short-term insurance companies measured on gross written premiums participated in this edition of the survey together with a good representation of niche and cell captive insurers. The net premiums written of the companies featured in this publication approximate 88.2% (2011: 88.6%) of the industry's net written premiums and based on that, the survey results are a fair representation of the results of the overall industry.

The participants (referred to as the industry) reported gross written premiums of R71.6 billion in 2012, an increase of 7.9% when compared to the R66.3 billion written in 2011 and

exceeding the recorded CPI by 2.2%. This is slightly down from the 2011 growth rate of 8.0%, illustrating the difficult prevailing market conditions but still at levels significantly higher than the 2010 growth rate of 3.7%.

Financial highlights of featured participants	2012	2011
Increase in gross written premium	7.9%	9.3%
Increase in net earned premiums	6.0%	8.5%
Increase / (decrease) in investment income	17.8%	(5.9%)
Claims incurred	60.8%	58.9%
Combined ratio	95.7%	93.0%
Operating ratio	84.2%	82.7%

## Market share

The charts following reflect the gross written premiums<sup>1</sup> of the ten largest short-term insurance companies which has undergone one change when compared to 2011. AIG who was the 10th largest insurer in 2011 had to make way for Etana in 2012. Etana increased their market share from 2.5% to 2.8% or R205 million premiums whilst AIG lost 0.2% market share or R114 million premiums. It is worth mentioning that even though Regent has lost 0.1% market share, they fall short of the top ten list by only R170 million gross written premiums compared to R223 million in 2011 illustrating the fragmentation of premiums in the South African insurance industry. An analysis of the industry based on premium volumes underwritten is illustrated alongside.

The insurance companies falling outside of the top ten have not gained any market share and their market share has remained flat at 19.1%. The market is still being dominated by the four largest insurers that underwrite 51.2% (2011: 50.9%) of the market's gross premiums. Market share has remained flat amongst these four players with only Hollard losing market share of 1%. The only top ten player gaining more than 1% in market share was Guardrisk.

The medium and smaller entities that have posted growth in excess of 15% are Alexander Forbes, Shoprite, HDI Gerling and Safire. Together they have increased their market share by R0.5 billion or 0.6% of the total market.

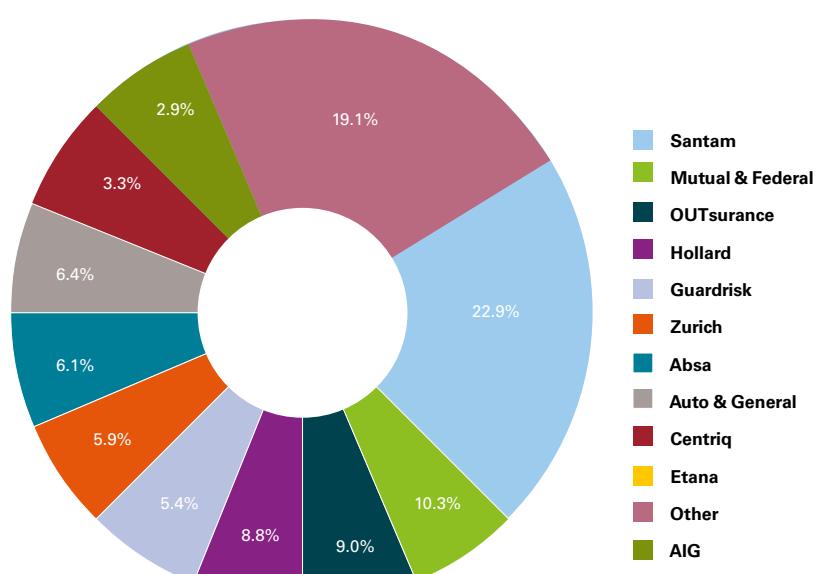
GWP volume	R 'billion	Participation %	Number of companies
Above R5 billion	R 36.7	51%	4
Between R2 billion and R5 billion	R 19.2	27%	5
Between R1 billion and R2 billion	R 9.6	13%	6
Between R500 million and R1 billion	R 3.8	5%	5
Below R500 million	R 2.3	3%	12

<sup>1</sup>The gross written premiums for Absa include the premiums for Absa idirect and Absa Insurance Risk Management Services. Premiums for Auto & General include premiums written by the other Telesure Group short-term underwriters being Dial Direct and Unity.

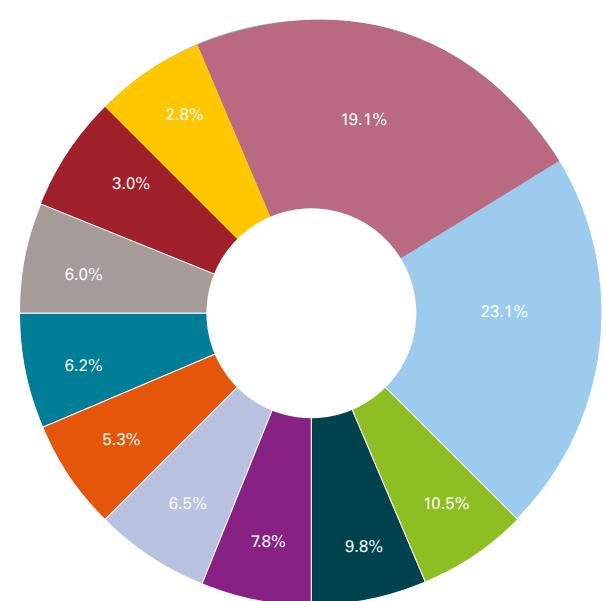
# Short-term insurance industry continued



2011 Market Share Based on GWP



2012 Market Share Based on GWP





Santam, Mutual & Federal, OUTsurance, Guardrisk, Etana and Absa are the top ten players that have grown their gross written premium in excess of the market average of 7.9% with Guardrisk recording premium growth of 30% and Etana 21%.

Santam reported that positive growth was achieved across all significant insurance classes, with MiWay reaching gross written premiums of over R1 billion, an increase of 38% compared to 2011. Their traditional intermediary and direct business were under bottom-line pressure in the fourth quarter of 2012, whilst the specialist and reinsurance business used their market position and expertise to protect the margins and continue growing premiums which is evident by their reported premium growth.

After the first six months of trading in 2012 Mutual & Federal reported increased premiums but a drop in profitability, mainly attributable to softening rates, particularly on the commercial side of the business, and a few big commercial fire claims in the first quarter. Growth was experienced in the credit guarantee business as well as the African operations. iWyse was yielding more revenue growth than anticipated but due to the infancy of the business still required significant levels of investment.

OUTsurance reported that some of their premium growth was attributable to Business OUTsurance following an investment in the in-house agency force. Youi (OUTsurance's

Australian operation launched in August 2008) does not form part of this analysis, but has gained significant traction in the year under review and delivered an impressive operational performance with solid new business volumes and a satisfactory improvement in claims experience. OUTsurance and Dial Direct were the direct underwriters to gain growth above the market average.

Bancassurers increased their market share by only R600 million in the year under review – this is in sharp contrast to their impressive growth rate in 2011, recording an increase in gross written premium in the year of almost 14%.

Zurich continued their state of remission posting a decrease in market share of 3%, partially due to the run-off of their cell captive business in combination with the soft market conditions and the deterioration of loss ratios in the property and motor portfolios. Property losses can be attributed to large fire claims with motor losses influenced by an escalation in repair costs and severe weather conditions experienced in the last quarter. Management have indicated that they have started to see the tide turn and that 2013 may see a growth in their gross written premiums.

### **Profitability**

The loss events in the fourth quarter of 2012 tainted the profitability for the whole year.

# Short-term insurance industry continued



Insurance companies were inundated with claims reported after the hail storms in Gauteng and the floods in the Eastern Cape. The year was concluded with the fires in St Francis (estimated that damages would reach at least R500 million) and floods and hailstorms in Ladysmith.

Our discussions with insurers with significant motor books highlighted their disappointment with the average repair cost for the motor hail claims being substantially higher than the historical averages for these types of claims. It appears that the volume of the hail claims put substantial strain on the repair shops in Gauteng which culminated in the insurers not being able to manage the cost of the claims as under normal circumstances. Many insurers have as a result reassessed their claims settlement procedures that will apply if such an event occurs again.

The industry's claims incurred ratio deteriorated from 58.9% in 2011 to 60.8% in 2012. Industry players hardest hit by the above mentioned claim events were Absa idirect, Regent, Alexander

Forbes, Zurich and Mutual & Federal, all recording a deterioration in claims incurred ratio of between 7% and 13%. Corporate insurance specialists, Gerling and Allianz also recorded claims incurred statistics far worse than 2011, these being for different reasons than the rest of the industry. It should be noted that industry players with June year-ends, notably the companies in the Telesure stable, OUTsurance and Hollard are still disclosing favourable claims incurred ratios in this analysis.

The result of the above is a significant decrease in the underwriting margin of 7% in 2011 to 4.3% in 2012. Due to investment returns only improving by 1% from the average industry return of 11% in 2011, the deteriorated underwriting result had a direct impact on the profits recorded by the industry. With some exceptions the short-term insurance industry's exposure to the local equity markets is limited and as a result the industry did not benefit significantly from the strong equity performance in 2012 with the JSE All Share Index closing 23% higher than in 2011.

Despite the deteriorating claims incurred ratio reported by Absa idirect, they still managed to record an underwriting margin of 25.4% mostly the result of a favourable reinsurance commission structure. Most industry players recording underwriting margins in excess on the industry average are those of a specialised nature and include: CGIC, Unitrans, Mutual & Federal Risk Financing, Shoprite, ECIC, Sasria and Enpet. Excluded from this list are the insurers with a June year-end. The claims incurred ratio for the companies that have November and December year-ends soared to 69% for 2012. Nedgroup Insurance and Standard Bank Insurance were able to shield themselves from the claims epidemic by their reinsurance structures and their product mix.

#### **Corporate news**

Subsequent to the 2011 calendar year Zurich announced on 1 March 2012 the appointment of Edwyn O' Neill as CEO effective 21 May 2012. Also the group on, 7 May 2012, announced that Royal Bafokeng Finance Proprietary Limited (RBF) and SA Fire House Limited (a subsidiary of Zurich Insurance Company Limited, Switzerland) (Zurich) had entered into a mutual agreement whereby Zurich would purchase from RBF its 25.1% stake in Zurich South Africa increasing Zurich's shareholding in Zurich South Africa to 84.05%

In April New National Assurance Company announced its new partnership with its exclusive corporate underwriting manager, Transition Risk Solutions. Transition was formed to focus on Corporate/Property and Industrial Insurance, and, under the new arrangement, Transition would expand the size of its portfolio by looking to broaden the scope of products offered.

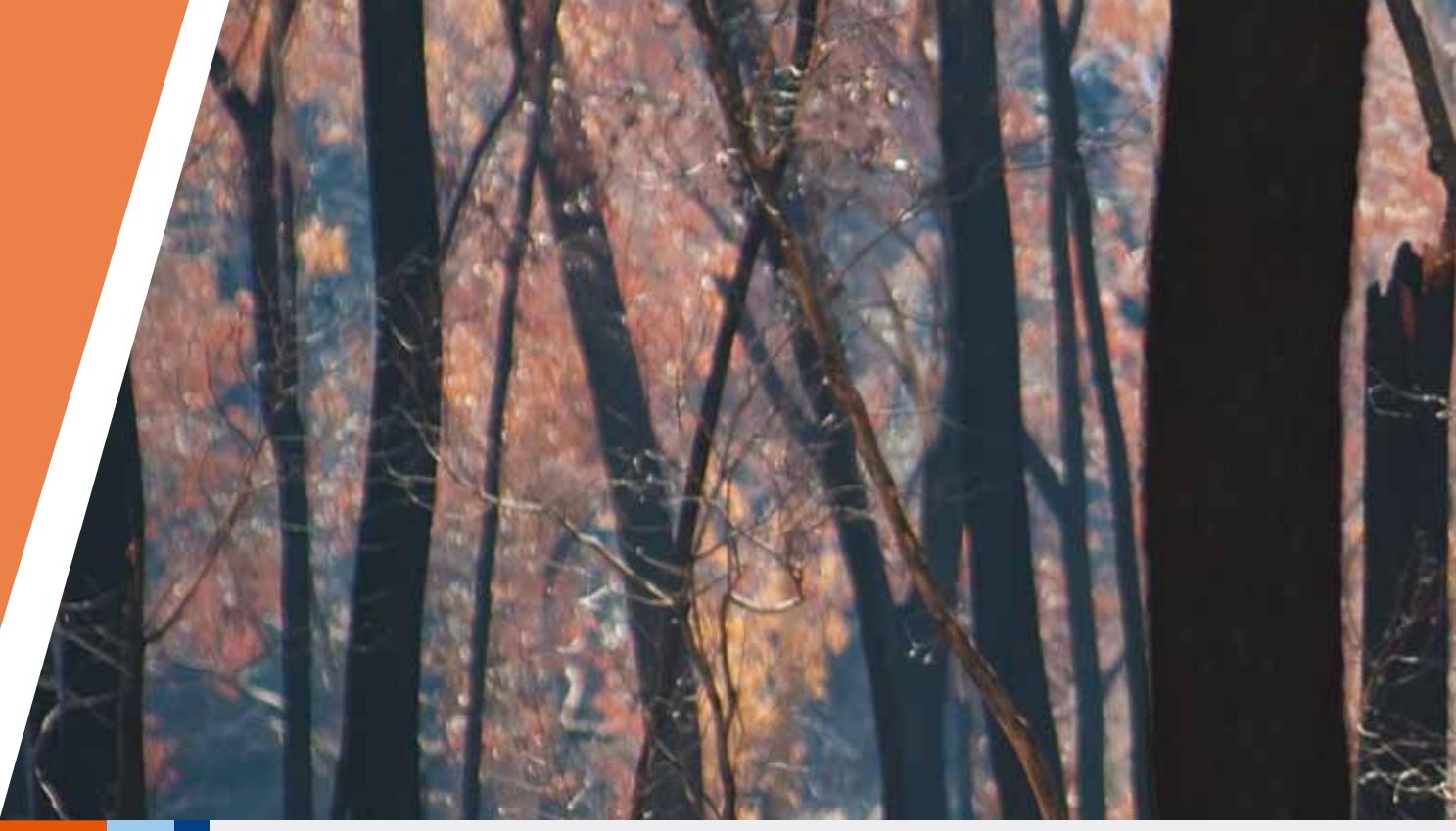
CIB Insurance Administrators (CIB) and i-Truck announced in September that they have entered into a partnership that will see CIB able to offer the range of i-Truck products to its entire panel of brokers throughout South Africa.

Five months later in February 2013 it was announced that RMB SI Investments, the holding company of RMB Structured Insurance, and a subsidiary of JSE listed Rand Merchant Insurance Holdings had acquired a Strategic stake in CIB for an undisclosed amount.

#### **Capital and Solvency**

QIS 2 was the last voluntary Quantitative Impact Study (QIS). QIS 3, expected in the latter part of 2013, will be compulsory and a parallel run is expected in 2014 and 2015 to ensure that insurers are ready for full SAM implementation in 2016. 98.5% of South African insurers (by volume of premium) participated in this study.

# Short-term Insurance industry continued



The table below summarizes some of the findings from the latest Quantitative Impact Study (QIS). It illustrates the proportion of insurers who meet the Minimum Capital Requirement (MCR) and/or the Solvency Capital Requirement (SCR) :

	<b>QIS 1</b>	<b>QIS 2</b>
<b>Meeting both MCR &amp; SCR</b>	82%	79%
<b>Meeting MCR but not SCR</b>	14%	17%
<b>Meeting SCR but not MCR</b>	0%	0%
<b>Not meeting MCR or SCR</b>	4%	4%

While the SCR is the amount of capital that an insurer needs to hold to remain solvent in a 1-in-200 year extreme event,

the MCR is the amount of capital at which point the regulator would be expected to take immediate action to ensure that the policyholders are protected.

The results are fairly consistent with the previous QIS, the most significant change being capital strain on non-life insurers, with a greater proportion not meeting the SCR requirement. This is in part due to greater participation of smaller insurers in this QIS.

## **The outlook**

Continued competitive rates, a subdued outlook for economic growth and a spate of regulatory requirements will ensure that the insurance industry remains challenging. Looming on the horizon is the mandatory QIS 3 and the implementation of Treating Customers Fairly. Brainstorming about innovation in terms of product design and distribution and expansion into different territories will continue – all this in an environment where scarcity in quality resources is rife.

Consolidation in the market is expected being led by the announcement that Guardrisk is for sale and the planned intentions of Hollard to acquire Etana by the end 2013 pending regulatory approval. It is expected that the now limited binder holder space will see many brokers repositioning themselves and some traditional non-specialised underwriting management agencies (UMAs) that have no clear differentiator may struggle to keep their current business model going. The trend for smaller UMAs to merge will also continue, as they seek to create stronger and bigger entities in order to shoulder the increasing legislative and compliance burden more effectively.

The FSB's current investigation of the cell captive business in South Africa is placing strain on the Alternative Risk Transfer underwriters.

In addition to the business challenges there is the wave of regulatory changes to be considered. The cost of regulatory change will have a direct impact on expense ratios and place pressure on profit margins even further – meaning that insurance business being underwritten must be of a high quality to ensure that poor underwriting results do not put further strain on profit margins. Some relief was provided during the year with the extension of the SAM implementation date.

It is fair to say that stability in the South African short-term insurance market is not on the horizon and that insurance companies should be well prepared for the changes in the regulatory framework and business practices that are imminent.

**Antoinette Malherbe**



• **SHORT TERM INSURERS | Statement of Financial Position | R'000**

Accounting Year end	Dec-12	Dec-11	Dec-12	Dec-11	Dec-12	Dec-11	Nov-12	Nov-11	Mar-12	Mar-11
Group /Company	Absa idirect Limited		Absa Insurance Company Limited		Absa Insurance Risk Management Services Limited		AIG South Africa Limited		Alexander Forbes Insurance Company Limited	
<i>FSB classification</i>	<i>Traditional</i>		<i>Traditional</i>		<i>Cell Captive</i>		<i>Traditional</i>		<i>Traditional</i>	
Share capital and share premium	118 510	118 510	31 000	31 000	20 000	20 000	182 500	2 500	11 915	11 915
Retained earnings/(deficit)	12 727	(23 221)	1 563 806	1 341 321	10 345	11 217	229 286	210 019	57 131	29 773
Reserves, including contingency reserve	-	12 572	(2 354)	307 108	-	-	-	40 466	-	12 200
<b>Total shareholders' funds</b>	<b>131 237</b>	<b>107 861</b>	<b>1 592 452</b>	<b>1 679 429</b>	<b>30 345</b>	<b>31 217</b>	<b>411 786</b>	<b>252 985</b>	<b>69 046</b>	<b>53 888</b>
<b>Total shareholders' funds and non-controlling interests</b>	<b>131 237</b>	<b>107 861</b>	<b>1 592 452</b>	<b>1 679 429</b>	<b>30 345</b>	<b>31 217</b>	<b>411 786</b>	<b>252 985</b>	<b>69 046</b>	<b>53 888</b>
Gross outstanding claims	45 840	36 538	625 846	523 387	173 596	122 005	1 154 067	2 224 373	181 429	142 845
Gross unearned premium reserve	11 784	9 662	945 512	871 012	29 802	19 548	663 931	677 167	23 648	23 874
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	12 039	33 817
Owing to cell owners	-	-	-	-	88 181	127 938	-	-	-	-
Deferred reinsurance commission revenue	-	-	41 458	26 215	-	-	116 034	119 326	5 042	4 798
Deferred tax liability	-	-	-	-	-	-	-	-	-	-
Other liabilities	20 058	15 402	345 971	238 375	6 307	-	532 398	489 931	43 135	21 713
<b>Total liabilities</b>	<b>77 682</b>	<b>61 602</b>	<b>1 958 787</b>	<b>1 658 989</b>	<b>297 886</b>	<b>269 491</b>	<b>2 466 430</b>	<b>3 510 797</b>	<b>265 293</b>	<b>227 047</b>
<b>Total investments including investments in subsidiaries</b>	<b>132 023</b>	<b>97 486</b>	<b>2 104 811</b>	<b>2 040 991</b>	<b>98 288</b>	<b>92 540</b>	<b>334 515</b>	<b>291 805</b>	<b>117 798</b>	<b>84 322</b>
Deferred tax asset, intangible assets and PPE	5 465	5 719	232 032	204 653	-	680	59 800	59 282	8 150	6 690
Reinsurers' share of outstanding claims	38 524	27 844	184 507	109 465	173 596	122 005	962 879	2 052 877	155 627	121 056
Reinsurers' share of unearned premium reserve	45	124	211 838	148 576	29 802	19 548	551 602	552 355	20 704	20 901
Gross expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Deferred aquisition costs	-	-	135 857	132 012	-	-	97 300	100 131	3 070	3 104
Cash and cash equivalents	9 349	12 183	255 855	367 780	16 151	44 686	580 511	381 628	5 225	11 678
Other assets	23 513	26 107	426 339	334 941	10 394	21 249	291 609	325 704	23 765	33 184
<b>Total assets</b>	<b>208 919</b>	<b>169 463</b>	<b>3 551 239</b>	<b>3 338 418</b>	<b>328 231</b>	<b>300 708</b>	<b>2 878 216</b>	<b>3 763 782</b>	<b>334 339</b>	<b>280 935</b>
International solvency margin	151%	99%	56%	59%	N/A	N/A	104%	63%	51%	8%
Total assets/Total liabilities	269%	275%	181%	201%	110%	112%	117%	107%	126%	124%
Change in shareholders' funds	22%		(5%)		(3%)		63%		28%	

Accounting Year end	Dec-12	Dec-11	Jun-12	Jun-11	Dec-12	Dec-11	Mar-12	Mar-11	Dec-12	Dec-11
Group /Company	Allianz Global and Corporate Speciality South Africa Limited		Auto & General Insurance Company Limited		Centriq Insurance Company Limited		Corporate Guarantee (South Africa) Limited		Credit Guarantee Insurance Corporation of Africa Limited	
FSB classification	Traditional		Traditional		Cell Captive		Niche		Niche	
Share capital and share premium	90 500	90 500	53 506	53 506	55 000	55 000	20 500	15 500	2 649	2 649
Retained earnings/(deficit)	12 299	3 976	751 567	830 059	94 196	14 449	7 258	(321)	598 564	389 790
Reserves, including contingency reserve	-	14 272	-	156 084	-	60 639	-	5 375	40 000	92 424
<b>Total shareholders' funds</b>	<b>102 799</b>	<b>108 748</b>	<b>805 073</b>	<b>1 039 649</b>	<b>149 196</b>	<b>130 088</b>	<b>27 758</b>	<b>20 554</b>	<b>641 213</b>	<b>484 863</b>
<b>Total shareholders' funds and non-controlling interests</b>	<b>102 799</b>	<b>108 748</b>	<b>805 073</b>	<b>1 039 649</b>	<b>149 196</b>	<b>130 088</b>	<b>27 758</b>	<b>20 554</b>	<b>641 213</b>	<b>484 863</b>
Gross outstanding claims	443 984	208 677	414 137	429 881	509 917	594 803	4 045	3 762	628 402	555 369
Gross unearned premium reserve	191 786	350 787	87 991	99 892	1 371 823	1 266 126	205 405	177 787	104 612	96 195
Reinsurers' share of expected salvages and recoveries	-	-	37 226	42 492	-	-	-	-	15 329	15 395
Owing to cell owners	-	-	-	-	1 020 779	1 041 919	-	-	-	-
Deferred reinsurance commission revenue	17 718	14 464	-	-	51 872	68 616	-	-	-	232
Deferred tax liability	-	-	-	-	-	-	-	-	47 661	35 838
Other liabilities	2 038 072	314 600	136 520	199 896	330 025	390 163	2 680	2 332	177 265	177 731
<b>Total liabilities</b>	<b>2 691 560</b>	<b>888 528</b>	<b>675 874</b>	<b>772 161</b>	<b>3 284 416</b>	<b>3 361 627</b>	<b>212 130</b>	<b>183 881</b>	<b>973 269</b>	<b>880 760</b>
<b>Total investments including investments in subsidiaries</b>	-	-	<b>70 009</b>	<b>70 009</b>	<b>2 037 116</b>	<b>1 882 131</b>	<b>24 738</b>	<b>18 211</b>	<b>503 567</b>	<b>439 576</b>
Deferred tax asset, intangible assets and PPE	10 069	8 593	59 616	80 951	40 177	51 416	809	665	103 140	103 302
Reinsurers' share of outstanding claims	440 395	207 397	48 757	41 158	432 217	461 442	-	-	118 928	107 585
Reinsurers' share of unearned premium reserve	190 942	350 605	-	-	272 617	311 478	-	-	9 071	7 852
Gross expected salvages and recoveries	-	-	124 422	84 985	-	-	-	-	73 746	70 198
Deferred aquisition costs	8 780	6 762	-	-	57 120	71 861	-	-	-	-
Cash and cash equivalents	1 952 042	234 093	583 159	916 543	200 918	241 510	84 543	82 118	638 237	484 968
Other assets	192 131	189 826	594 985	618 164	393 447	471 877	129 798	103 441	167 793	152 142
<b>Total assets</b>	<b>2 794 359</b>	<b>997 276</b>	<b>1 480 947</b>	<b>1 811 810</b>	<b>3 433 612</b>	<b>3 491 715</b>	<b>239 888</b>	<b>204 435</b>	<b>1 614 482</b>	<b>1 365 623</b>
International solvency margin	6876%	4044%	52%	66%	26%	25%	85%	38%	115%	92%
Total assets/Total liabilities	104%	112%	219%	235%	105%	104%	113%	111%	166%	155%
Change in shareholders' funds	(5%)		(23%)		15%		35%		32%	

• **SHORT TERM INSURERS | Statement of Financial Position | R'000**

Accounting Year end	Jun-12	Jun-11	Jun-12	Jun-11	Dec-12	Dec-11	Mar-12	Mar-11	Jun-12	Jun-11
Group /Company	Dial Direct Insurance Limited		Emerald Insurance Company Limited		Enpet Africa Insurance Limited		Escap SOC Limited		Etana Insurance Company Limited	
FSB classification	Traditional		Traditional		Captive		Captive		Traditional	
Share capital and share premium	20 001	20 001	83 509	83 509	3 000	3 000	379 500	379 500	165 000	165 000
Retained earnings/(deficit)	171 866	166 790	(2 278)	-	93 432	88 582	1 113 603	926 977	254 613	104 509
Reserves, including contingency reserve	-	37 126	-	-	18 743	9 511	90 518	112 052	-	61 702
<b>Total shareholders' funds</b>	<b>191 867</b>	<b>223 917</b>	<b>81 231</b>	<b>83 509</b>	<b>115 175</b>	<b>101 093</b>	<b>1 583 621</b>	<b>1 418 529</b>	<b>419 613</b>	<b>331 211</b>
<b>Total shareholders' funds and non-controlling interests</b>	<b>191 867</b>	<b>223 917</b>	<b>81 231</b>	<b>83 509</b>	<b>115 175</b>	<b>101 093</b>	<b>1 583 621</b>	<b>1 418 529</b>	<b>419 613</b>	<b>331 211</b>
Gross outstanding claims	123 226	124 970	112 415	262 750	68 333	64 193	1 664 679	2 331 413	623 297	611 675
Gross unearned premium reserve	98 342	90 623	-	380	1 524	10 766	978 284	1 034 218	442 788	469 929
Reinsurers' share of expected salvages and recoveries	10 685	12 175	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	-	-	-	-	70	714	35 534	37 665	51 888	55 131
Deferred tax liability	-	-	-	-	1 833	729	3 257	10 944	529	677
Other liabilities	61 962	59 249	13 190	32 617	2 296	3 195	38 308	113 906	450 710	745 021
<b>Total liabilities</b>	<b>294 215</b>	<b>287 017</b>	<b>125 605</b>	<b>295 747</b>	<b>74 056</b>	<b>79 597</b>	<b>2 720 062</b>	<b>3 528 146</b>	<b>1 569 212</b>	<b>1 882 433</b>
<b>Total investments including investments in subsidiaries</b>	-	-	<b>83 118</b>	<b>78 224</b>	<b>117 148</b>	<b>108 182</b>	<b>3 072 113</b>	<b>2 919 145</b>	<b>132 801</b>	<b>132 649</b>
Deferred tax asset, intangible assets and PPE	32 173	32 645	1 208	322	-	-	-	-	11 245	10 335
Reinsurers' share of outstanding claims	16 969	19 650	58 116	181 922	7 002	12 243	212 695	973 697	308 272	445 084
Reinsurers' share of unearned premium reserve	-	-	-	-	403	3 943	355 348	376 654	257 808	347 278
Gross expected salvages and recoveries	35 327	24 350	-	-	-	-	-	-	-	-
Deferred acquisition costs	-	-	-	47	-	-	17 767	18 833	68 243	63 080
Cash and cash equivalents	269 976	292 490	47 620	65 954	56 636	53 209	58 805	33 177	755 555	854 066
Other assets	131 637	141 800	16 774	52 787	8 042	3 113	586 955	625 169	454 901	361 152
<b>Total assets</b>	<b>486 082</b>	<b>510 934</b>	<b>206 836</b>	<b>379 256</b>	<b>189 231</b>	<b>180 690</b>	<b>4 303 683</b>	<b>4 946 675</b>	<b>1 988 825</b>	<b>2 213 644</b>
International solvency margin	45%	60%	5309%	(827%)	453%	371%	195%	147%	39%	62%
Total assets/Total liabilities	165%	178%	165%	128%	256%	227%	158%	140%	127%	118%
Change in shareholders' funds	(14%)		(3%)		14%		12%		27%	

Accounting Year end	Mar-12	Mar-11	Mar-12	Mar-11	Dec-12	Dec-11	Jun-12	Jun-11	Jun-12	Jun-11
Group /Company	Export Credit Insurance Corporation of South Africa Limited		Guardrisk Insurance Company Limited		HDI-Gerling Insurance Company of South Africa Limited		The Hollard Insurance Company Limited		Kingfisher Insurance Company Limited	
FSB classification	Niche		Cell Captive		Traditional		Traditional		Captive	
Share capital and share premium	316 051	316 051	14 414	14 414	17 955	17 955	85 850	85 850	34 988	34 988
Retained earnings/(deficit)	2 015 452	1 918 111	142 279	(36 672)	25 123	22 735	3 695 364	2 286 071	89 460	90 006
Reserves, including contingency reserve	315 067	(47 542)	-	166 125	30	109	4 012	514 076	10 000	14 998
<b>Total shareholders' funds</b>	<b>2 646 570</b>	<b>2 186 620</b>	<b>156 693</b>	<b>143 867</b>	<b>43 108</b>	<b>40 799</b>	<b>3 785 226</b>	<b>2 885 997</b>	<b>134 448</b>	<b>139 992</b>
<b>Total shareholders' funds and non-controlling interests</b>	<b>2 646 570</b>	<b>2 186 620</b>	<b>156 693</b>	<b>143 867</b>	<b>43 108</b>	<b>40 799</b>	<b>3 785 226</b>	<b>2 885 997</b>	<b>134 448</b>	<b>139 992</b>
Gross outstanding claims	325 785	172 220	840 480	862 214	119 049	71 803	1 324 482	1 449 519	29 247	9 477
Gross unearned premium reserve	678 742	777 195	2 501 937	1 558 593	163 625	55 868	1 027 035	1 348 451	46 942	41 768
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	2 191 717	1 931 658	-	-	-	-	-	-
Deferred reinsurance commission revenue	-	-	29 053	20 830	13 856	9 780	-	-	3 600	3 916
Deferred tax liability	31 528	-	18 516	21 089	-	-	261 345	194 584	-	-
Other liabilities	187 029	30 515	127 592	73 751	136 301	48 371	1 441 523	1 396 736	2 905	5 131
<b>Total liabilities</b>	<b>1 223 084</b>	<b>979 930</b>	<b>5 709 295</b>	<b>4 468 135</b>	<b>432 831</b>	<b>185 822</b>	<b>4 054 385</b>	<b>4 389 290</b>	<b>82 694</b>	<b>60 292</b>
<b>Total investments including investments in subsidiaries</b>	<b>2 023 888</b>	<b>1 529 942</b>	<b>4 499 706</b>	<b>3 649 218</b>	<b>63 064</b>	<b>58 998</b>	<b>4 153 008</b>	<b>3 476 025</b>	<b>89 027</b>	<b>59 370</b>
Deferred tax asset, intangible assets and PPE	648	4 618	4 995	2 805	200	207	89 611	111 701	2 261	291
Reinsurers' share of outstanding claims	-	-	139 111	61 618	116 761	70 086	322 424	302 250	-	-
Reinsurers' share of unearned premium reserve	-	-	505 568	372 277	162 560	55 049	94 767	228 941	45 864	40 222
Gross expected salvages and recoveries	-	-	-	-	-	-	177 969	340 040	-	-
Deferred aquisition costs	-	-	25 041	20 815	9 297	6 980	141 064	195 574	2 644	3 087
Cash and cash equivalents	1 651 134	1 396 374	198 352	73 460	6 013	19 294	1 785 948	1 838 275	67 078	89 910
Other assets	193 984	235 616	493 215	431 809	118 044	16 007	1 074 820	782 481	10 268	7 404
<b>Total assets</b>	<b>3 869 654</b>	<b>3 166 550</b>	<b>5 865 988</b>	<b>4 612 002</b>	<b>475 939</b>	<b>226 621</b>	<b>7 839 611</b>	<b>7 275 287</b>	<b>217 142</b>	<b>200 284</b>
International solvency margin	1324%	563%	7%	9%	2776%	3523%	79%	57%	1897%	2400%
Total assets/Total liabilities	316%	323%	103%	103%	110%	122%	193%	166%	263%	332%
Change in shareholders' funds	21%		9%		6%		31%		(4%)	

• **SHORT TERM INSURERS | Statement of Financial Position | R'000**

Accounting Year end	Dec-12	Dec-11	Dec-12	Dec-11	Dec-12	Dec-11	Jun-12	Jun-11	Dec-12	Dec-11
Group /Company	Mutual & Federal Insurance Company Limited		Mutual & Federal Risk Financing Limited		Nedgroup Insurance Company Limited		OUTsurance Holdings Limited		The Parktown Insurance Company Limited	
<i>FSB classification</i>	<i>Traditional</i>		<i>Cell Captive</i>		<i>Traditional</i>		<i>Traditional</i>		<i>Traditional</i>	
Share capital and share premium	1 797 000	1 797 000	4 550	4 550	5 000	5 000	932 914	929 643	38 581	38 581
Retained earnings/(deficit)	2 702 000	2 086 000	118 843	155 991	396 655	297 370	2 941 471	1 773 205	2 558	1 150
Reserves, including contingency reserve	13 000	625 000	-	61 054	-	69 526	207 984	621 076	337	7 604
<b>Total shareholders' funds</b>	<b>4 512 000</b>	<b>4 508 000</b>	<b>123 393</b>	<b>221 595</b>	<b>401 655</b>	<b>371 896</b>	<b>4 082 369</b>	<b>3 323 924</b>	<b>41 476</b>	<b>47 335</b>
<b>Total shareholders' funds and non-controlling interests</b>	<b>4 512 000</b>	<b>4 508 000</b>	<b>123 393</b>	<b>221 595</b>	<b>401 655</b>	<b>371 896</b>	<b>4 157 664</b>	<b>3 387 749</b>	<b>41 476</b>	<b>47 335</b>
Gross outstanding claims	2 448 000	1 964 000	176 485	173 798	167 756	93 364	1 261 268	1 206 565	-	1 554
Gross unearned premium reserve	765 000	636 000	207 511	247 889	90 999	45 959	1 219 838	832 277	-	-
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	645 241	599 449	-	-	-	-	-	-
Deferred reinsurance commission revenue	59 000	54 000	33 313	28 114	453	1 457	-	-	-	-
Deferred tax liability	162 000	85 000	2 082	-	809	907	-	-	-	-
Other liabilities	1 473 000	1 162 000	35 507	15 816	138 674	40 984	595 466	355 129	944	654
<b>Total liabilities</b>	<b>4 907 000</b>	<b>3 901 000</b>	<b>1 100 139</b>	<b>1 065 066</b>	<b>398 691</b>	<b>182 671</b>	<b>3 076 572</b>	<b>2 393 971</b>	<b>944</b>	<b>2 208</b>
<b>Total investments including investments in subsidiaries</b>	<b>6 334 000</b>	<b>5 836 000</b>	<b>263 093</b>	<b>276 943</b>	<b>394 934</b>	<b>280 699</b>	<b>4 205 325</b>	<b>3 462 630</b>	<b>6 504</b>	<b>7 707</b>
Deferred tax asset, intangible assets and PPE	625 000	499 000	558	957	679	540	817 550	353 461	1 271	19 066
Reinsurers' share of outstanding claims	319 000	247 000	40 830	36 291	69 717	6 138	50 786	23 594	-	187
Reinsurers' share of unearned premium reserve	251 000	245 000	166 121	168 358	8 672	22 368	-	-	-	-
Gross expected salvages and recoveries	157 000	153 000	-	-	-	-	-	-	-	-
Deferred aquisition costs	152 000	123 000	33 313	28 114	44 916	31 672	4 946	10 416	-	-
Cash and cash equivalents	272 000	194 000	634 475	713 270	269 274	171 690	1 356 557	1 689 234	25 822	15 200
Other assets	1 309 000	1 112 000	85 142	62 728	12 154	41 460	799 072	242 385	8 823	7 383
<b>Total assets</b>	<b>9 419 000</b>	<b>8 409 000</b>	<b>1 223 532</b>	<b>1 286 661</b>	<b>800 346</b>	<b>554 567</b>	<b>7 234 236</b>	<b>5 781 720</b>	<b>42 420</b>	<b>49 543</b>
International solvency margin	69%	74%	1241%	352%	52%	55%	60%	57%	N/A	N/A
Total assets/Total liabilities	192%	216%	111%	121%	201%	304%	235%	242%	4494%	2244%
Change in shareholders' funds	-	-	(44%)	-	8%	-	23%	-	(12%)	-

Accounting Year end	Jun-12	Jun-11	Jun-12	Jun-11	Mar-12	Mar-11	Dec-12	Dec-11
Group /Company	Regent Insurance Company Limited		Renasa Insurance Company Limited		Safire Insurance Company Limited		Santam Limited	
<i>FSB classification</i>	<i>Traditional</i>		<i>Traditional</i>		<i>Traditional</i>		<i>Traditional</i>	
Share capital and share premium	455 504	455 504	55 500	55 500	10 053	10 053	107 000	107 000
Retained earnings/(deficit)	140 547	242 833	(8 595 )	(16 328)	56 871	39 921	5 059 000	4 419 000
Reserves, including contingency reserve	(2 856)	142 062	-	6 520	5 933	13 086	-	1 360 000
<b>Total shareholders' funds</b>	<b>593 195</b>	<b>840 399</b>	<b>46 905</b>	<b>45 692</b>	<b>72 857</b>	<b>63 060</b>	<b>5 166 000</b>	<b>5 886 000</b>
<b>Total shareholders' funds and non-controlling interests</b>	<b>873 626</b>	<b>1 047 355</b>	<b>46 905</b>	<b>45 692</b>	<b>72 857</b>	<b>63 060</b>	<b>5 166 000</b>	<b>5 886 000</b>
Gross outstanding claims	531 472	554 626	96 146	87 427	62 603	31 078	5 635 000	4 742 000
Gross unearned premium reserve	391 572	393 371	17 227	12 923	44 296	40 491	1 929 000	1 753 000
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	50 053	35 137	-	-
Deferred reinsurance commission revenue	-	-	-	-	-	-	131 000	110 000
Deferred tax liability	6 320	7 310	-	-	2 690	2 112	223 000	51 000
Other liabilities	186 277	177 545	83 892	68 754	59 131	32 909	3 356 000	2 857 000
<b>Total liabilities</b>	<b>1 115 641</b>	<b>1 132 852</b>	<b>197 265</b>	<b>169 104</b>	<b>218 773</b>	<b>141 727</b>	<b>11 274 000</b>	<b>9 513 000</b>
<b>Total investments including investments in subsidiaries</b>	<b>1 232 310</b>	<b>1 388 124</b>	<b>21</b>	<b>21</b>	<b>99 451</b>	<b>68 746</b>	<b>10 602 000</b>	<b>10 940 000</b>
Deferred tax asset, intangible assets and PPE	86 949	78 132	5 602	5 688	13 045	12 388	52 000	29 000
Reinsurers' share of outstanding claims	126 509	139 936	81 235	76 998	55 624	13 195	940 000	851 000
Reinsurers' share of unearned premium reserve	6 030	12 508	15 205	11 414	5 933	5 020	536 000	441 000
Gross expected salvages and recoveries	7 329	11 667	-	-	1 770	2 255	-	-
Deferred aquisition costs	-	-	2 988	2 330	8 617	7 856	275 000	276 000
Cash and cash equivalents	378 312	340 034	63 116	56 638	4 232	7 303	1 645 000	930 000
Other assets	151 828	209 806	76 003	61 707	102 958	88 024	2 390 000	1 932 000
<b>Total assets</b>	<b>1 989 267</b>	<b>2 180 207</b>	<b>244 170</b>	<b>214 796</b>	<b>291 630</b>	<b>204 787</b>	<b>16 440 000</b>	<b>15 399 000</b>
International solvency margin	52%	70%	62%	70%	78%	79%	35%	43%
Total assets/Total liabilities	178%	192%	124%	127%	133%	144%	146%	162%
Change in shareholders' funds	(17%)		3%		16%		(12%)	

• **SHORT TERM INSURERS | Statement of Financial Position | R'000**

Accounting Year end	Mar-12	Mar-11	Dec-12	Dec-11	Jun-12	Jun-11	Mar-12	Mar-11	Dec-12	Dec-11
Group /Company	Sasria Limited		Saxum Insurance Limited		Shoprite Insurance Company Limited		South African Reserve Bank Captive Insurance Company Limited		Standard Insurance Limited	
<i>FSB classification</i>	<i>Niche</i>		<i>Traditional</i>		<i>Captive</i>		<i>Captive</i>		<i>Traditional</i>	
Share capital and share premium	-	-	32 817	32 817	20 230	20 230	10 000	10 000	30 000	30 000
Retained earnings/(deficit)	3 646 218	3 397 988	(21 848)	(25 242)	327 160	255 133	83 662	78 595	961 584	826 649
Reserves, including contingency reserve	221 132	73 019	-	2 343	-	33 536	-	439	140	146 647
<b>Total shareholders' funds</b>	<b>3 867 350</b>	<b>3 471 007</b>	<b>10 969</b>	<b>9 918</b>	<b>347 390</b>	<b>308 899</b>	<b>93 662</b>	<b>89 034</b>	<b>991 724</b>	<b>1 003 296</b>
<b>Total shareholders' funds and non-controlling interests</b>	<b>3 867 350</b>	<b>3 471 007</b>	<b>10 969</b>	<b>9 918</b>	<b>347 390</b>	<b>308 899</b>	<b>93 662</b>	<b>89 034</b>	<b>991 724</b>	<b>1 003 296</b>
Gross outstanding claims	247 378	194 955	17 006	18 894	107 236	110 729	3 097	2 223	272 560	194 337
Gross unearned premium reserve	221 154	206 465	7 741	1 535	178 408	156 521	-	-	41 827	35 023
Reinsurers' share of expected salvages and recoveries	-	-	8 277	3 215	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	21 387	27 537	13	68	-	-	-	-	3 015	271
Deferred tax liability	47 203	49 176	-	-	-	-	-	221	5 643	-
Other liabilities	82 913	166 243	23 424	16 917	8 764	8 110	240	13	34 772	30 656
<b>Total liabilities</b>	<b>620 035</b>	<b>644 376</b>	<b>56 461</b>	<b>40 629</b>	<b>294 408</b>	<b>275 360</b>	<b>3 337</b>	<b>2 457</b>	<b>357 817</b>	<b>260 287</b>
<b>Total investments including investments in subsidiaries</b>	<b>3 062 567</b>	<b>2 663 032</b>	-	-	-	-	<b>94 487</b>	<b>90 013</b>	<b>1 119 786</b>	<b>1 137 653</b>
Deferred tax asset, intangible assets and PPE	7 032	37 868	779	75	-	-	-	-	720	3 719
Reinsurers' share of outstanding claims	52 130	66 697	14 785	10 118	42 042	52 071	1 019	825	30 442	1 491
Reinsurers' share of unearned premium reserve	51 637	65 564	56	235	-	-	-	-	16 334	1 476
Gross expected salvages and recoveries	-	-	12 987	8 037	-	-	-	-	-	-
Deferred aquisition costs	44 125	41 293	969	217	46 184	39 552	-	-	5 635	3 550
Cash and cash equivalents	957 532	936 507	12 038	16 671	446 552	322 902	-	39	96 867	75 133
Other assets	312 362	304 422	25 816	15 194	107 020	169 734	1 493	614	79 757	40 561
<b>Total assets</b>	<b>4 487 385</b>	<b>4 115 383</b>	<b>67 430</b>	<b>50 547</b>	<b>641 798</b>	<b>584 259</b>	<b>96 999</b>	<b>91 491</b>	<b>1 349 541</b>	<b>1 263 583</b>
International solvency margin	498%	575%	39%	42%	90%	92%	2081%	2028%	64%	69%
Total assets/Total liabilities	724%	639%	119%	124%	218%	212%	2907%	3724%	377%	485%
Change in shareholders' funds	11%	-	11%	-	12%	-	5%	-	(1%)	-

Accounting Year end	Jun-12	Jun-11	Jun-12	Jun-11	Dec-12	Dec-11
Group /Company	Unitrans Insurance Limited		Unity Insurance Limited		Zurich Insurance Company South Africa Limited	
<i>FSB classification</i>	<i>Traditional</i>		<i>Traditional</i>		<i>Traditional</i>	
Share capital and share premium	15 150	15 150	60 001	60 001	4 650	4 650
Retained earnings/(deficit)	203 885	162 946	8 044	41 754	1 665 411	1 420 435
Reserves, including contingency reserve	-	4 777	-	13 989	349 672	589 860
<b>Total shareholders' funds</b>	<b>219 035</b>	<b>182 873</b>	<b>68 045</b>	<b>115 744</b>	<b>2 019 733</b>	<b>2 014 945</b>
<b>Total shareholders' funds and non-controlling interests</b>	<b>219 035</b>	<b>182 873</b>	<b>68 045</b>	<b>115 744</b>	<b>2 019 733</b>	<b>2 014 945</b>
Gross outstanding claims	22 414	16 240	31 604	45 636	1 533 216	1 139 419
Gross unearned premium reserve	117 684	107 439	2 933	3 985	672 987	680 978
Reinsurers' share of expected salvages and recoveries	-	-	2 307	3 504	-	-
Owing to cell owners	-	-	-	-	109 292	183 831
Deferred reinsurance commission revenue	25 372	18 080	-	-	16 346	14 610
Deferred tax liability	1 148	322	-	-	8 094	19 451
Other liabilities	71 253	70 230	18 505	20 800	692 014	846 539
<b>Total liabilities</b>	<b>237 871</b>	<b>212 311</b>	<b>55 349</b>	<b>73 925</b>	<b>3 031 949</b>	<b>2 884 828</b>
<b>Total investments including investments in subsidiaries</b>	<b>59 160</b>	<b>53 977</b>	-	-	<b>2 268 792</b>	<b>2 146 587</b>
Deferred tax asset, intangible assets and PPE	-	-	2 181	3 112	123 482	150 555
Reinsurers' share of outstanding claims	17 957	10 768	4 397	5 408	763 307	429 459
Reinsurers' share of unearned premium reserve	56 164	48 853	-	-	145 255	156 451
Gross expected salvages and recoveries	-	-	7 199	7 008	39 934	28 844
Deferred aquisition costs	36 888	31 963	-	-	95 308	94 504
Cash and cash equivalents	82 308	79 533	71 567	135 950	611 945	981 803
Other assets	204 429	170 090	38 050	38 191	1 003 659	911 570
<b>Total assets</b>	<b>456 906</b>	<b>395 184</b>	<b>123 394</b>	<b>189 670</b>	<b>5 051 682</b>	<b>4 899 773</b>
International solvency margin	442%	384%	57%	83%	69%	68%
Total assets/Total liabilities	192%	186%	223%	257%	167%	170%
Change in shareholders' funds	20%		(41%)		-	

2001 was a year that the international insurance industry will not soon forget. The industry experienced the largest loss it had ever seen from one event and the ripple effect has been enormous.

KPMG Insurance survey – 2002

• **SHORT TERM INSURERS | Statement of Comprehensive Income | R'000**

Accounting Year end	Dec-12	Dec-11	Dec-12	Dec-11	Dec-12	Dec-11	Nov-12	Nov-11	Mar-12	Mar-11
<b>Group /Company</b>	<b>Absa idirect Limited</b>		<b>Absa Insurance Company Limited</b>		<b>Absa Insurance Risk Management Services Limited</b>		<b>AIG South Africa Limited</b>		<b>Alexander Forbes Insurance Company Limited</b>	
	<i>Traditional</i>		<i>Traditional</i>		<i>Cell Captive</i>		<i>Traditional</i>		<i>Traditional</i>	
Gross premiums written	237 216	243 595	3 426 990	3 266 215	747 967	550 136	1 960 812	1 927 643	926 382	805 129
Net premiums written	87 171	109 185	2 856 588	2 825 265	-	-	394 989	404 663	135 996	683 118
<b>Earned premiums</b>	<b>87 178</b>	<b>109 733</b>	<b>2 845 350</b>	<b>2 787 591</b>	-	-	<b>407 470</b>	<b>406 665</b>	<b>136 025</b>	<b>121 984</b>
<b>Total net investment income</b>	<b>7 315</b>	<b>6 053</b>	<b>149 059</b>	<b>147 545</b>	<b>7 661</b>	<b>6 842</b>	<b>53 899</b>	<b>33 855</b>	<b>8 081</b>	<b>8 018</b>
Reinsurance commission revenue	53 015	50 764	100 710	75 510	-	-	332 674	330 527	203 260	167 100
Other income	2 975	3 131	35 113	98 976	102	1 617	-	-	36 765	31 900
<b>Total income</b>	<b>150 483</b>	<b>169 681</b>	<b>3 130 232</b>	<b>3 109 622</b>	<b>7 763</b>	<b>8 459</b>	<b>794 043</b>	<b>771 047</b>	<b>384 131</b>	<b>329 002</b>
Net claims incurred	64 642	67 083	1 931 480	1 804 005	-	-	219 108	216 086	89 777	69 269
Acquisition costs	39 005	42 815	569 168	536 178	-	-	290 193	291 377	35 320	26 468
Interest allocated to cell owners	-	-	-	-	8 094	6 428	-	-	-	-
Employee benefit expense	-	-	-	-	-	-	-	-	-	-
Management and other expenses	14 386	23 223	358 528	384 864	993	1 185	309 192	294 907	238 036	220 961
<b>Total expenses</b>	<b>118 033</b>	<b>133 121</b>	<b>2 859 176</b>	<b>2 725 047</b>	<b>9 087</b>	<b>7 613</b>	<b>818 493</b>	<b>802 370</b>	<b>363 133</b>	<b>316 698</b>
<b>Net profit/(loss) before taxation</b>	<b>32 450</b>	<b>36 560</b>	<b>271 056</b>	<b>384 575</b>	<b>(1 324)</b>	<b>846</b>	<b>(24 450)</b>	<b>(31 323)</b>	<b>20 998</b>	<b>12 304</b>
Taxation	9 074	7 430	73 686	82 982	(452)	318	(3 251)	(9 826)	5 841	2 945
<b>Net profit/(loss) after taxation</b>	<b>23 376</b>	<b>29 130</b>	<b>197 370</b>	<b>301 593</b>	<b>(872)</b>	<b>528</b>	<b>(21 199)</b>	<b>(21 497)</b>	<b>15 157</b>	<b>9 359</b>
Other comprehensive income/(expense)	-	-	2 092	7 231	-	-	-	-	-	-
<b>Total comprehensive income/(loss) for the year</b>	<b>23 376</b>	<b>29 130</b>	<b>199 462</b>	<b>308 824</b>	<b>(872)</b>	<b>528</b>	<b>(21 199)</b>	<b>(21 497)</b>	<b>15 157</b>	<b>9 359</b>
Transfer to/(from) contingency reserve	(12 572)	(2 201)	(307 115)	12 553	-	-	(40 466)	(2 573)	(12 201)	1 286
Transfer to/(from) retained earnings	-	-	-	32	-	-	-	-	-	-
Other comprehensive (income)/expense	-	-	(2 092)	(7 231)	-	-	-	-	-	-
Dividends	-	-	282 000	85 000	-	-	-	-	-	24 474
<b>Change in retained earnings</b>	<b>35 948</b>	<b>31 331</b>	<b>222 485</b>	<b>204 072</b>	<b>(872)</b>	<b>528</b>	<b>19 267</b>	<b>(18 924)</b>	<b>27 358</b>	<b>(16 401)</b>
Net premium to gross premium	37%	45%	83%	86%	0%	0%	20%	21%	15%	85%
Claims incurred to earned premium	74%	61%	68%	65%	N/A	N/A	54%	53%	66%	57%
Management and other expenses to net earned premium	17%	21%	13%	14%	N/A	N/A	76%	73%	175%	181%
Combined ratio	75%	75%	97%	95%	N/A	N/A	119%	116%	118%	123%
Operating ratio	66%	70%	92%	90%	N/A	N/A	106%	108%	112%	116%
Return on equity	18%	27%	12%	18%	(3%)	2%	(5%)	(8%)	22%	17%

Accounting Year end	Dec-12	Dec-11	Jun-12	Jun-11	Dec-12	Dec-11	Mar-12	Mar-11	Dec-12	Dec-11
<b>Group /Company</b>	<b>Allianz Global and Corporate Speciality South Africa Limited</b>		<b>Auto &amp; General Insurance Company Limited</b>		<b>Centriq Insurance Company Limited</b>		<b>Corporate Guarantee (South Africa) Limited</b>		<b>Credit Guarantee Insurance Corporation of Africa Limited</b>	
	<i>Traditional</i>		<i>Traditional</i>		<i>Cell Captive</i>		<i>Niche</i>		<i>Niche</i>	
Gross premiums written	479 472	479 410	3 152 661	3 200 312	2 164 757	2 157 808	32 810	54 204	776 246	722 787
Net premiums written	1 495	2 689	1 542 376	1 565 460	564 849	530 046	32 612	53 747	558 771	524 238
<b>Earned premiums</b>	<b>833</b>	<b>2 565</b>	<b>1 554 277</b>	<b>1 573 356</b>	<b>420 292</b>	<b>492 780</b>	<b>4 752</b>	<b>4 812</b>	<b>551 573</b>	<b>518 165</b>
<b>Total net investment income</b>	<b>13 298</b>	<b>9 651</b>	<b>94 082</b>	<b>84 340</b>	<b>146 002</b>	<b>125 516</b>	<b>15 236</b>	<b>12 954</b>	<b>98 316</b>	<b>48 907</b>
Reinsurance commission revenue	42 263	35 152	727 436	739 390	154 950	97 188	-	-	76 383	61 081
Other income	4 368	8 932	108 946	112 147	56 915	78 044	782	38	135 159	129 602
<b>Total income</b>	<b>60 762</b>	<b>56 300</b>	<b>2 484 741</b>	<b>2 509 232</b>	<b>778 159</b>	<b>793 528</b>	<b>20 770</b>	<b>17 804</b>	<b>861 431</b>	<b>757 755</b>
Net claims incurred	2 609	827	784 810	849 574	340 349	439 453	1 625	1 889	362 358	314 019
Acquisition costs	21 229	17 716	371 630	371 126	208 389	167 148	567	564	58 852	52 243
Interest allocated to cell owners	-	-	-	-	-	-	-	-	-	-
Employee benefit expense	-	-	-	-	-	-	-	-	-	-
Management and other expenses	45 101	26 611	935 046	921 715	164 259	156 267	16 380	13 789	142 081	145 852
<b>Total expenses</b>	<b>68 939</b>	<b>45 154</b>	<b>2 091 486</b>	<b>2 142 415</b>	<b>712 997</b>	<b>762 868</b>	<b>18 572</b>	<b>16 242</b>	<b>563 291</b>	<b>512 114</b>
<b>Net profit/(loss) before taxation</b>	<b>(8 177)</b>	<b>11 146</b>	<b>393 255</b>	<b>366 817</b>	<b>65 162</b>	<b>30 660</b>	<b>2 198</b>	<b>1 562</b>	<b>298 140</b>	<b>245 641</b>
Taxation	(2 228)	3 013	82 831	93 122	17 795	7 600	(7)	(7)	78 338	67 249
<b>Net profit/(loss) after taxation</b>	<b>(5 949)</b>	<b>8 133</b>	<b>310 424</b>	<b>273 695</b>	<b>47 367</b>	<b>23 060</b>	<b>2 205</b>	<b>1 569</b>	<b>219 802</b>	<b>178 392</b>
Other comprehensive income/(expense)	-	-	-	-	-	-	-	-	-	-
<b>Total comprehensive income/(loss) for the year</b>	<b>(5 949)</b>	<b>8 133</b>	<b>310 424</b>	<b>273 695</b>	<b>47 367</b>	<b>23 060</b>	<b>2 205</b>	<b>1 569</b>	<b>219 802</b>	<b>178 392</b>
Transfer to/(from) contingency reserve	(14 272)	12 334	(156 084)	(2 954)	(60 640)	18 623	(5 374)	(592)	(52 424)	3 278
Transfer to/(from) retained earnings	-	-	-	-	-	-	-	-	-	-
Other comprehensive (income)/expense	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	545 000	111 000	28 260	-	-	-	63 452	54 205
<b>Change in retained earnings</b>	<b>8 323</b>	<b>(4 201)</b>	<b>(78 492)</b>	<b>165 649</b>	<b>79 747</b>	<b>4 437</b>	<b>7 579</b>	<b>2 161</b>	<b>208 774</b>	<b>120 909</b>
Net premium to gross premium	-	1%	49%	49%	26%	25%	99%	99%	72%	73%
Claims incurred to earned premium	313%	32%	50%	54%	81%	89%	34%	39%	66%	61%
Management and other expenses to net earned premium	5 414%	1 037%	60%	59%	39%	32%	345%	287%	26%	28%
Combined ratio	3 202%	390%	88%	89%	133%	135%	391%	338%	88%	87%
Operating ratio	1 606%	14%	82%	84%	98%	110%	70%	68%	70%	78%
Return on equity	(6%)	7%	39%	26%	32%	18%	8%	8%	34%	37%

• **SHORT TERM INSURERS | Statement of Comprehensive Income | R'000**

Accounting Year end	Jun-12	Jun-11	Jun-12	Jun-11	Dec-12	Dec-11	Mar-12	Mar-11	Jun-12	Jun-11
Group /Company	Dial Direct Insurance Limited		Emerald Insurance Company Limited		Enpet Africa Insurance Limited		Escap SOC Limited		Etana Insurance Company Limited	
	Traditional		Traditional		Captive		Captive		Traditional	
Gross premiums written	890 672	776 539	(419)	2 828	36 540	42 479	1 077 731	1 242 037	1 994 312	1 636 302
Net premiums written	424 630	371 264	1 530	(10 098)	25 443	27 215	813 642	968 021	1 072 023	530 814
<b>Earned premiums</b>	<b>416 911</b>	<b>368 187</b>	<b>1 910</b>	<b>(13 724)</b>	<b>31 145</b>	<b>20 733</b>	<b>848 269</b>	<b>846 917</b>	<b>1 018 100</b>	<b>538 173</b>
<b>Total net investment income</b>	<b>25 805</b>	<b>52 270</b>	<b>7 242</b>	<b>18 634</b>	<b>9 211</b>	<b>8 220</b>	<b>187 994</b>	<b>262 066</b>	<b>57 446</b>	<b>56 788</b>
Reinsurance commission revenue	210 263	182 834	(133 )	(701)	2 998	2 449	8 895	15 849	281 764	298 413
Other income	27 789	26 346	-	-	-	28	-	-	6 908	-
<b>Total income</b>	<b>680 768</b>	<b>629 638</b>	<b>9 019</b>	<b>4 209</b>	<b>43 354</b>	<b>31 430</b>	<b>1 045 158</b>	<b>1 124 832</b>	<b>1 364 218</b>	<b>893 374</b>
Net claims incurred	245 537	234 578	(7 185)	6 442	22 458	7 108	755 684	910 598	613 081	289 514
Acquisition costs	172	186	(36)	3 178	178	214	1 166	425	324 595	255 241
Interest allocated to cell owners	-	-	-	-	-	-	-	-	-	-
Employee benefit expense	-	-	-	-	-	-	-	-	-	-
Management and other expenses	299 079	308 887	20 357	17 832	4 306	3 238	62 925	69 543	312 017	253 413
<b>Total expenses</b>	<b>544 788</b>	<b>543 651</b>	<b>13 136</b>	<b>27 452</b>	<b>26 942</b>	<b>10 560</b>	<b>819 775</b>	<b>980 566</b>	<b>1 249 693</b>	<b>798 168</b>
<b>Net profit/(loss) before taxation</b>	<b>135 980</b>	<b>85 987</b>	<b>(4 117)</b>	<b>(23 243)</b>	<b>16 412</b>	<b>20 870</b>	<b>225 383</b>	<b>144 266</b>	<b>114 525</b>	<b>95 206</b>
Taxation	38 030	5 599	1 839	75	4 406	6 025	58 449	36 114	26 123	22 511
<b>Net profit/(loss) after taxation</b>	<b>97 950</b>	<b>80 388</b>	<b>(2 278)</b>	<b>(23 168)</b>	<b>12 006</b>	<b>14 845</b>	<b>166 934</b>	<b>108 152</b>	<b>88 402</b>	<b>72 695</b>
Other comprehensive income/(expense)	-	-	-	-	2 076	2 082	(1 842)	(2 583)	-	-
<b>Total comprehensive income/(loss) for the year</b>	<b>97 950</b>	<b>80 388</b>	<b>(2 278)</b>	<b>(23 168)</b>	<b>14 082</b>	<b>16 927</b>	<b>165 092</b>	<b>105 569</b>	<b>88 402</b>	<b>72 695</b>
Transfer to/(from) contingency reserve	(37 126)	4 362	-	(13 390)	7 156	27	(19 692)	54 529	(61 702)	7 991
Transfer to/(from) retained earnings	-	-	-	-	-	-	-	-	-	-
Other comprehensive (income)/expense	-	-	-	-	(2 076)	(2 082)	1 842	2 583	-	-
Dividends	130 000	150 500	-	24 826	-	40 000	-	-	-	-
<b>Change in retained earnings</b>	<b>5 076</b>	<b>(74 474)</b>	<b>(2 278)</b>	<b>(34 604)</b>	<b>4 850</b>	<b>(25 182)</b>	<b>186 626</b>	<b>53 623</b>	<b>150 104</b>	<b>64 704</b>
Net premium to gross premium	48%	48%	(365%)	(357%)	70%	64%	75%	78%	54%	32%
Claims incurred to earned premium	59%	64%	(376%)	(47%)	72%	34%	89%	108%	60%	54%
Management and other expenses to net earned premium	72%	84%	1066%	(130%)	14%	16%	7%	8%	31%	47%
Combined ratio	80%	98%	695%	(205%)	77%	39%	96%	114%	95%	93%
Operating ratio	74%	84%	316%	(69%)	47%	(1%)	73%	83%	89%	82%
Return on equity	51%	36%	(3%)	(28%)	10%	15%	11%	8%	21%	22%

Accounting Year end	Mar-12	Mar-11	Mar-12	Mar-11	Dec-12	Dec-11	Jun-12	Jun-11	Dec-12	Dec-11
<b>Group /Company</b>	<b>Export Credit Insurance Corporation of South Africa Limited</b>		<b>Guardrisk Insurance Company Limited</b>		<b>HDI-Gerling Insurance Company of South Africa Limited</b>		<b>The Hollard Insurance Company Limited</b>		<b>Kingfisher Insurance Company Limited</b>	
	<i>Niche</i>		<i>Cell Captive</i>		<i>Traditional</i>		<i>Traditional</i>		<i>Captive</i>	
Gross premiums written	199 864	388 410	4 624 764	3 554 973	335 814	86 730	5 566 673	5 829 506	184 147	164 230
Net premiums written	199 864	388 410	2 272 329	1 653 208	1 553	1 158	4 765 645	5 100 642	7 086	5 834
<b>Earned premiums</b>	<b>388 622</b>	<b>171 572</b>	<b>1 462 275</b>	<b>1 661 248</b>	<b>1 306</b>	<b>926</b>	<b>4 952 887</b>	<b>5 288 228</b>	<b>7 555</b>	<b>7 300</b>
<b>Total net investment income</b>	<b>221 611</b>	<b>207 238</b>	<b>265 885</b>	<b>243 468</b>	<b>3 635</b>	<b>3 003</b>	<b>1 156 463</b>	<b>776 444</b>	<b>9 913</b>	<b>9 451</b>
Reinsurance commission revenue	-	-	124 748	115 830	18 327	14 514	-	-	14 598	21 634
Other income	31 898	158 040	103 624	75 976	745	478	136 765	88 797	179	106
<b>Total income</b>	<b>642 131</b>	<b>536 850</b>	<b>1 956 532</b>	<b>2 096 522</b>	<b>24 013</b>	<b>18 921</b>	<b>6 246 115</b>	<b>6 153 469</b>	<b>32 245</b>	<b>38 491</b>
Net claims incurred	(3 361)	(30 151)	414 315	544 676	817	191	2 484 683	2 713 791	24 777	(880)
Acquisition costs	1 425	1 452	280 139	231 908	11 962	10 360	620 836	734 736	10 932	15 773
Interest allocated to cell owners	-	-	-	-	-	-	-	-	-	-
Employee benefit expense	-	-	-	-	-	-	-	-	-	-
Management and other expenses	296 729	42 367	1 178 441	1 240 728	8 094	7 079	1 798 016	1 694 754	4 052	6 135
<b>Total expenses</b>	<b>294 793</b>	<b>13 668</b>	<b>1 872 895</b>	<b>2 017 312</b>	<b>20 873</b>	<b>17 630</b>	<b>4 903 535</b>	<b>5 143 281</b>	<b>39 761</b>	<b>21 028</b>
<b>Net profit/(loss) before taxation</b>	<b>347 338</b>	<b>523 182</b>	<b>83 637</b>	<b>79 210</b>	<b>3 140</b>	<b>1 291</b>	<b>1 342 580</b>	<b>1 010 188</b>	<b>(7 516)</b>	<b>17 463</b>
Taxation	158 769	110 817	20 811	18 896	869	345	118 039	263 539	(1 971)	4 508
<b>Net profit/(loss) after taxation</b>	<b>188 569</b>	<b>412 365</b>	<b>62 826</b>	<b>60 314</b>	<b>2 271</b>	<b>946</b>	<b>1 224 541</b>	<b>746 649</b>	<b>(5 545)</b>	<b>12 955</b>
Other comprehensive income/(expense)	270 490	(163 711)	-	-	37	7	-	-	-	-
<b>Total comprehensive income/(loss) for the year</b>	<b>459 059</b>	<b>248 654</b>	<b>62 826</b>	<b>60 314</b>	<b>2 308</b>	<b>953</b>	<b>1 224 541</b>	<b>746 649</b>	<b>(5 545)</b>	<b>12 955</b>
Transfer to/(from) contingency reserve	(39 732)	23 154	(166 125)	-	(117)	27	(510 064)	63 375	(4 999)	1 729
Transfer to/(from) retained earnings	(130 960)	-	-	-	-	-	-	-	-	-
Other comprehensive (income)/expense	(270 490)	163 711	-	-	(37)	(97)	-	-	-	-
Dividends	-	-	50 000	39 000	-	-	325 312	205 670	-	-
<b>Change in retained earnings</b>	<b>97 341</b>	<b>389 211</b>	<b>178 951</b>	<b>21 314</b>	<b>2 388</b>	<b>919</b>	<b>1 409 293</b>	<b>477 604</b>	<b>(546)</b>	<b>11 226</b>
Net premium to gross premium	100%	100%	49%	47%	-	1%	86%	87%	4%	4%
Claims incurred to earned premium	(1%)	(18%)	28%	33%	63%	21%	50%	51%	328%	(12%)
Management and other expenses to net earned premium	76%	25%	81%	75%	620%	764%	36%	32%	54%	84%
Combined ratio	76%	8%	120%	114%	195%	337%	99%	97%	333%	(8%)
Operating ratio	19%	(113%)	101%	100%	(83%)	12%	76%	83%	202%	(138%)
Return on equity	7%	19%	40%	42%	5%	2%	32%	26%	(4%)	9%

• **SHORT TERM INSURERS | Statement of Comprehensive Income | R'000**

Accounting Year end	Dec-12	Dec-11	Dec-12	Dec-11	Dec-12	Dec-11	Jun-12	Jun-11	Dec-12	Dec-11
<b>Group /Company</b>	<b>Mutual &amp; Federal Insurance Company Limited</b>		<b>Mutual &amp; Federal Risk Financing Limited</b>		<b>Nedgroup Insurance Company Limited</b>		<b>OUTsurance Holdings Limited</b>		<b>The Parktown Insurance Company Limited</b>	
	<i>Traditional</i>		<i>Cell Captive</i>		<i>Traditional</i>		<i>Traditional</i>		<i>Traditional</i>	
Gross premiums written	7 538 000	6 819 000	670 398	656 503	862 823	805 210	7 032 047	5 990 181	-	-
Net premiums written	6 672 000	6 078 000	9 944	63 026	778 761	674 034	6 916 955	5 922 355	-	-
<b>Earned premiums</b>	<b>6 549 000</b>	<b>6 064 000</b>	<b>48 085</b>	<b>47 776</b>	<b>720 025</b>	<b>674 571</b>	<b>6 599 166</b>	<b>5 767 533</b>	-	-
<b>Total net investment income</b>	<b>602 000</b>	<b>649 000</b>	<b>55 180</b>	<b>48 715</b>	<b>41 225</b>	<b>28 929</b>	<b>344 038</b>	<b>294 237</b>	<b>1 514</b>	<b>1 785</b>
Reinsurance commission revenue	135 000	191 000	75 178	90 901	18 007	61 712	-	-	-	-
Other income	6 000	6 000	-	-	23 421	23 119	-	11 686	4 006	7 108
<b>Total income</b>	<b>7 292 000</b>	<b>6 910 000</b>	<b>178 443</b>	<b>187 392</b>	<b>802 678</b>	<b>788 331</b>	<b>6 943 204</b>	<b>6 073 456</b>	<b>5 520</b>	<b>8 893</b>
Net claims incurred	4 958 000	4 090 000	30 783	29 855	394 182	402 373	3 134 976	3 035 166	-	(3 081)
Acquisition costs	1 140 000	1 064 000	79 366	95 931	149 122	160 584	98 120	87 008	-	-
Interest allocated to cell owners	-	-	37 107	32 068	-	-	-	-	-	-
Employee benefit expense	-	-	-	-	-	-	-	-	-	-
Management and other expenses	1 056 000	1 064 000	59	53	79 022	57 814	1 857 772	1 495 045	11 378	12 930
<b>Total expenses</b>	<b>7 154 000</b>	<b>6 218 000</b>	<b>147 315</b>	<b>157 907</b>	<b>622 326</b>	<b>620 771</b>	<b>5 090 868</b>	<b>4 617 219</b>	<b>11 378</b>	<b>9 849</b>
<b>Net profit/(loss) before taxation</b>	<b>138 000</b>	<b>692 000</b>	<b>31 128</b>	<b>29 485</b>	<b>180 352</b>	<b>167 560</b>	<b>1 852 336</b>	<b>1 456 237</b>	<b>(5 858)</b>	<b>(956)</b>
Taxation	(26 000)	100 000	9 138	8 226	50 593	46 558	382 840	511 328	-	-
-	<b>164 000</b>	<b>592 000</b>	<b>21 990</b>	<b>21 259</b>	<b>129 759</b>	<b>121 002</b>	<b>1 469 496</b>	<b>944 909</b>	<b>(5 858)</b>	<b>(956)</b>
Other comprehensive income/(expense)	-	(1 000)	-	-	-	-	83 339	28 231	-	-
<b>Total comprehensive income/(loss) for the year</b>	<b>164 000</b>	<b>591 000</b>	<b>21 990</b>	<b>21 259</b>	<b>129 759</b>	<b>121 002</b>	<b>1 552 835</b>	<b>973 140</b>	<b>(5 858)</b>	<b>(956)</b>
Transfer to/(from) contingency reserve	(612 000)	21 000	(61 054)	1 982	(69 526)	17 128	(504 760)	88 148	-	-
Transfer to/(from) retained earnings	-	-	-	-	-	-	(11 470)	(9 531)	7 266	98
Other comprehensive (income)/expense	-	1 000	-	-	-	-	(83 339)	(28 231)	-	-
Dividends	160 000	938 000	120 192	-	100 000	-	794 520	443 696	-	-
<b>Change in retained earnings</b>	<b>616 000</b>	<b>(367 000)</b>	<b>(37 148)</b>	<b>19 277</b>	<b>99 285</b>	<b>103 874</b>	<b>1 168 266</b>	<b>403 534</b>	<b>1 408</b>	<b>(858)</b>
Net premium to gross premium	89%	89%	1%	10%	90%	84%	98%	99%	N/A	N/A
Claims incurred to earned premium	76%	67%	64%	62%	55%	60%	48%	53%	N/A	N/A
Management and other expenses to net earned premium	16%	18%	-	-	11%	9%	28%	26%	N/A	N/A
Combined ratio	107%	99%	73%	73%	84%	83%	77%	80%	N/A	N/A
Operating ratio	98%	89%	(42%)	(29%)	78%	79%	72%	75%	N/A	N/A
Return on equity	4%	13%	18%	10%	32%	33%	35%	28%	(14%)	(2%)

Accounting Year end	Jun-12	Jun-11	Jun-12	Jun-11	Mar-12	Mar-11	Dec-12	Dec-11
Group /Company	Regent Insurance Company Limited		Renasa Insurance Company Limited		Safire Insurance Company Limited		Santam Limited	
	Traditional		Traditional		Traditional		Traditional	
Gross premiums written	1 823 704	1 704 457	585 889	545 158	238 182	155 128	16 527 000	15 162 000
Net premiums written	1 690 340	1 506 912	75 958	65 199	93 092	79 961	14 606 000	13 593 000
<b>Earned premiums</b>	<b>1 685 664</b>	<b>1 567 130</b>	<b>75 445</b>	<b>64 879</b>	<b>93 659</b>	<b>80 379</b>	<b>14 562 000</b>	<b>13 615 000</b>
<b>Total net investment income</b>	<b>163 447</b>	<b>154 335</b>	<b>3 936</b>	<b>3 496</b>	<b>7 295</b>	<b>6 565</b>	<b>1 365 000</b>	<b>1 029 000</b>
Reinsurance commission revenue	27 132	37 101	114 035	103 917	28 027	18 503	396 000	321 000
Other income	41 355	28 130	12 329	11 685	10 970	8 600	-	-
<b>Total income</b>	<b>1 917 598</b>	<b>1 786 696</b>	<b>205 745</b>	<b>183 977</b>	<b>139 951</b>	<b>114 047</b>	<b>16 323 000</b>	<b>14 965 000</b>
Net claims incurred	933 771	758 686	48 547	51 004	55 189	50 365	9 962 000	8 686 000
Acquisition costs	429 420	379 043	90 239	82 593	38 611	27 654	2 715 000	2 494 000
Interest allocated to cell owners	-	-	-	-	2 983	956	-	-
Employee benefit expense	-	-	-	-	-	-	-	-
Management and other expenses	371 535	315 431	60 334	43 477	28 163	23 642	2 007 000	1 871 000
<b>Total expenses</b>	<b>1 734 726</b>	<b>1 453 160</b>	<b>199 120</b>	<b>177 074</b>	<b>124 946</b>	<b>102 617</b>	<b>14 684 000</b>	<b>13 051 000</b>
<b>Net profit/(loss) before taxation</b>	<b>182 872</b>	<b>333 536</b>	<b>6 625</b>	<b>6 903</b>	<b>15 005</b>	<b>11 430</b>	<b>1 639 000</b>	<b>1 914 000</b>
Taxation	31 982	81 531	2 959	851	3 861	3 123	543 000	460 000
<b>Net profit/(loss) after taxation</b>	<b>150 890</b>	<b>252 005</b>	<b>3 666</b>	<b>6 052</b>	<b>11 144</b>	<b>8 307</b>	<b>1 096 000</b>	<b>1 454 000</b>
Other comprehensive income/(expense)	-	-	-	-	751	547	-	-
<b>Total comprehensive income/(loss) for the year</b>	<b>150 890</b>	<b>252 005</b>	<b>3 666</b>	<b>6 052</b>	<b>11 895</b>	<b>8 854</b>	<b>1 096 000</b>	<b>1 454 000</b>
Transfer to/(from) contingency reserve	(150 692)	5 616	(6 520)	45	(7 904)	727	(1 360 000)	90 000
Transfer to/(from) retained earnings	(85 459)	(67 746)	-	-	-	-	(103 000)	48 000
Other comprehensive (income)/expense	-	-	-	-	(751)	(547)	-	-
Dividends	318 409	138 000	2 453	3 737	2 098	1 824	1 713 000	627 000
<b>Change in retained earnings</b>	<b>(102 286)</b>	<b>40 643</b>	<b>7 733</b>	<b>2 270</b>	<b>16 950</b>	<b>5 756</b>	<b>640 000</b>	<b>785 000</b>
Net premium to gross premium	93%	88%	13%	12%	39%	52%	88%	90%
Claims incurred to earned premium	55%	48%	64%	79%	59%	63%	68%	64%
Management and other expenses to net earned premium	22%	20%	80%	67%	30%	29%	14%	14%
Combined ratio	101%	90%	113%	113%	100%	103%	98%	93%
Operating ratio	92%	81%	108%	107%	93%	95%	89%	86%
Return on equity	17%	24%	8%	13%	15%	13%	21%	25%

• **SHORT TERM INSURERS | Statement of Comprehensive Income | R'000**

Accounting Year end	Mar-12	Mar-11	Dec-12	Dec-11	Jun-12	Jun-11	Mar-12	Mar-11	Dec-12	Dec-11
<b>Group /Company</b>	<b>Sasria Limited</b>		<b>Saxum Insurance Limited</b>		<b>Shoprite Insurance Company Limited</b>		<b>South African Reserve Bank Captive Insurance Company Limited</b>		<b>Standard Insurance Limited</b>	
	<i>Niche</i>		<i>Traditional</i>		<i>Captive</i>		<i>Captive</i>		<i>Traditional</i>	
Gross premiums written	1 087 133	1 010 915	103 481	100 511	456 726	386 902	14 485	14 270	1 645 198	1 506 320
Net premiums written	777 252	603 269	28 164	23 607	386 771	335 363	4 500	4 390	1 540 973	1 447 141
<b>Earned premiums</b>	<b>748 637</b>	<b>601 409</b>	<b>21 779</b>	<b>23 440</b>	<b>364 884</b>	<b>321 140</b>	<b>4 500</b>	<b>4 390</b>	<b>1 542 594</b>	<b>1 456 245</b>
<b>Total net investment income</b>	<b>299 277</b>	<b>296 789</b>	<b>775</b>	<b>560</b>	<b>27 328</b>	<b>24 277</b>	<b>5 864</b>	<b>6 664</b>	<b>102 895</b>	<b>77 430</b>
Reinsurance commission revenue	146 140	158 900	16 783	14 434	-	-	129	120	5 317	2 700
Other income	1 770	13 462	894	2 881	-	-	405	603	215	19 822
<b>Total income</b>	<b>1 195 824</b>	<b>1 070 560</b>	<b>40 231</b>	<b>41 315</b>	<b>392 212</b>	<b>345 417</b>	<b>10 898</b>	<b>11 777</b>	<b>1 651 021</b>	<b>1 556 197</b>
Net claims incurred	206 854	167 151	12 983	17 839	80 898	58 768	2 398	1 808	738 412	665 537
Acquisition costs	208 791	200 225	16 454	14 828	66 884	57 838	882	949	235 090	234 904
Interest allocated to cell owners	-	-	-	-	-	-	-	-	-	-
Employee benefit expense	-	-	-	-	-	-	-	-	42 502	35 991
Management and other expenses	100 366	86 980	9 742	9 567	3 471	4 283	1 353	1 035	172 321	139 435
<b>Total expenses</b>	<b>516 011</b>	<b>454 356</b>	<b>39 179</b>	<b>42 234</b>	<b>151 253</b>	<b>120 889</b>	<b>4 633</b>	<b>3 792</b>	<b>1 188 325</b>	<b>1 075 867</b>
<b>Net profit/(loss) before taxation</b>	<b>679 813</b>	<b>616 204</b>	<b>1 052</b>	<b>(919)</b>	<b>240 959</b>	<b>224 528</b>	<b>6 265</b>	<b>7 985</b>	<b>462 696</b>	<b>480 330</b>
Taxation	156 814	194 018	-	-	67 468	62 896	1 637	1 955	121 267	127 053
<b>Net profit/(loss) after taxation</b>	<b>522 999</b>	<b>422 186</b>	<b>1 052</b>	<b>(919)</b>	<b>173 491</b>	<b>161 632</b>	<b>4 628</b>	<b>6 030</b>	<b>341 429</b>	<b>353 277</b>
Other comprehensive income/(expense)	-	-	-	-	-	-	-	-	-	-
<b>Total comprehensive income/(loss) for the year</b>	<b>522 999</b>	<b>422 186</b>	<b>1 052</b>	<b>(919)</b>	<b>173 491</b>	<b>161 632</b>	<b>4 628</b>	<b>6 030</b>	<b>341 429</b>	<b>353 277</b>
Transfer to/(from) contingency reserve	(73 019)	9 107	(2 342)	(1 544)	(33 536)	4 509	(439)	(21)	(146 506)	14 405
Transfer to/(from) retained earnings	(221 132)	-	-	-	-	-	-	-	-	-
Other comprehensive (income)/expense	-	-	-	-	-	-	-	-	-	-
Dividends	126 656	153 299	-	-	135 000	100 000	-	-	353 000	205 000
<b>Change in retained earnings</b>	<b>248 230</b>	<b>259 780</b>	<b>3 394</b>	<b>625</b>	<b>72 027</b>	<b>57 123</b>	<b>5 067</b>	<b>6 051</b>	<b>134 935</b>	<b>133 872</b>
Net premium to gross premium	71%	60%	27%	23%	85%	87%	31%	31%	94%	96%
Claims incurred to earned premium	28%	28%	60%	76%	22%	18%	53%	41%	48%	46%
Management and other expenses to net earned premium	13%	14%	45%	41%	1%	1%	30%	24%	11%	10%
Combined ratio	49%	49%	103%	119%	41%	38%	100%	84%	74%	71%
Operating ratio	9%	-	99%	116%	34%	30%	(30%)	(68%)	67%	66%
Return on equity	14%	12%	10%	(9%)	50%	52%	5%	7%	34%	35%

Accounting Year end	Jun-12	Jun-11	Jun-12	Jun-11	Dec-12	Dec-11
Group /Company	Unitrans Insurance Limited		Unity Insurance Limited		Zurich Insurance Company South Africa Limited	
	Traditional		Traditional		Traditional	
Gross premiums written	174 156	159 112	237 992	281 256	3 766 534	3 890 028
Net premiums written	49 516	47 621	118 607	139 709	2 938 230	2 977 533
<b>Earned premiums</b>	<b>46 582</b>	<b>37 133</b>	<b>119 659</b>	<b>140 390</b>	<b>2 934 445</b>	<b>3 001 609</b>
<b>Total net investment income</b>	<b>10 599</b>	<b>17 367</b>	<b>8 791</b>	<b>7 071</b>	<b>310 237</b>	<b>234 526</b>
Reinsurance commission revenue	41 332	35 557	53 923	63 889	146 366	163 249
Other income	9 629	10 062	7 362	7 235	7 163	16 181
<b>Total income</b>	<b>108 142</b>	<b>100 119</b>	<b>189 735</b>	<b>218 585</b>	<b>3 398 211</b>	<b>3 415 565</b>
Net claims incurred	7 668	9 164	56 450	78 311	2 202 655	1 977 622
Acquisition costs	37 642	28 365	28 876	32 803	586 011	623 568
Interest allocated to cell owners	-	-	-	-	5 597	12 182
Employee benefit expense	-	-	-	-	-	-
Management and other expenses	12 572	11 878	37 330	41 240	625 582	608 397
<b>Total expenses</b>	<b>57 882</b>	<b>49 407</b>	<b>122 656</b>	<b>152 354</b>	<b>3 419 845</b>	<b>3 221 769</b>
<b>Net profit/(loss) before taxation</b>	<b>50 260</b>	<b>50 712</b>	<b>67 079</b>	<b>66 231</b>	<b>(21 634)</b>	<b>193 796</b>
Taxation	13 708	13 823	18 779	17 689	(23 710)	69 231
<b>Net profit/(loss) after taxation</b>	<b>36 552</b>	<b>36 889</b>	<b>48 300</b>	<b>48 543</b>	<b>2 076</b>	<b>124 565</b>
Other comprehensive income/(expense)	-	-	-	-	39 251	18 732
<b>Total comprehensive income/(loss) for the year</b>	<b>36 552</b>	<b>36 889</b>	<b>48 300</b>	<b>48 543</b>	<b>41 327</b>	<b>143 297</b>
Transfer to/(from) contingency reserve	(4 777)	184	(13 990)	6 595	(279 439)	(61 270)
Transfer to/(from) retained earnings	-	-	-	-	-	-
Other comprehensive (income)/expense	-	-	-	-	(39 251)	(18 732)
Dividends	390	139 378	96 000	29 000	36 539	12 179
<b>Change in retained earnings</b>	<b>40 939</b>	<b>(102 673)</b>	<b>(33 710)</b>	<b>12 948</b>	<b>244 976</b>	<b>173 656</b>
Net premium to gross premium	28%	30%	50%	50%	78%	77%
Claims incurred to earned premium	16%	25%	47%	56%	75%	66%
Management and other expenses to net earned premium	27%	32%	31%	29%	21%	20%
Combined ratio	36%	37%	57%	63%	111%	101%
Operating ratio	13%	(9%)	50%	58%	101%	94%
Return on equity	17%	20%	71%	42%	-	6%

The principle of regulating solvency based on actual insurance, investment and operational risk, rather than the current situation where net premium volume is the main driver, is generally well accepted. The devil, however, is in the detail.

KPMG Insurance survey - 2006

# Long-term insurance industry

## Long-term insurance review 2012

An often maligned part of the financial services industry again proved the doomsayers wrong. Long-term insurers included in the survey reported a 70% aggregate increase in profit before tax. The profit before tax of these insurers increased from R29.5 billion to R50.1 billion in 2012. It is important to contextualize the results. Some of the main drivers are:

- Whilst the local equity markets were relatively stable in the first six months of 2012 the second six months traded substantially higher. Overall, the JSE ALSI increased by 23% during the calendar year. The correlation between a stable but increasing investment market and insurers' profits is well documented. Insurers benefit from higher asset based fees and lower investment guarantee liabilities. Generally insurers' investment guarantee reserves decreased or, for those insurers where the investment guarantee reserves were left unchanged, the discretionary margin component as part of the total reserve became more substantial.

- The South African economy is experiencing strain. The year 2012 was marked by labour unrest and increasing unemployment. Notwithstanding these challenging economic conditions many insurers were able to increase their Present Value of New Business ("PVNB") as it relates to volume of business, as well as margin. Generally new business sales were higher than in 2011 and it is not uncommon to see 2012 margins on present value of new business premiums in excess of 3%. For example, Sanlam Group reported a 3.22% margin for 2012 (2011: 3.05%). As expected the more striking margins were achieved in the entry level segments. Sanlam's Personal Finance business reported a 6% increase in new business flows in the entry level market at a 8.59% margin (2011: 5.64%). In turn, Old Mutual Emerging Markets ("OMEM") reported that it achieved a 21% increase in annual premium equivalent in its Mass Foundation business unit which was a significant contributor to the R1.8 billion (2011: R1.2 billion) value of new business generated by OMEM.





- Many of the larger insurers, who have strategic shareholder investments in subsidiaries, such as Old Mutual with Nedbank and Sanlam with Santam also benefited directly from the higher JSE values. For example, integrated in Old Mutual's 2012 results is an R8.1 billion unrealised gain that originates from its investment in Nedbank.
- Direct insurers are continuing their search for scale. Included for the first time in this year's survey is FRANK Life, which albeit of from a small base, is showing growth in net premiums. On the more mature side of the spectrum is 1Life which has been operational for 5 years and reported a R240 million (2011: R184 million) pre-tax profit.
- Most bancassurers and insurers with strong credit life footprints have continued the momentum created in previous years. In its 2012 integrated report Liberty Holdings notes that the number of credit life policies across the Liberty's group grew from 2.0 million in 2011 to 2.2 million in 2012. For obvious reasons insurers with a vested interest in credit life and affinity products are continuing to develop and refine their Treating Customers Fairly practices and structures in anticipation of an increased focus from regulators in the future.
- The year 2012 shows substantially lower yields for longer term bonds with the 10 year bond yield decreasing by as much as 1.3% during the year. The lower yields resulted in the lower discount rates being applied in policyholder liability calculations which assisted profits

from insurance books with substantial negative reserves or future asset based fees but had a detrimental effect on the valuation of insurance books with guarantees. Generally the more traditional life insurers which have a diverse policy book reported a reduction in profit from the lower yields whilst the new generation risk underwriters saw their 2012 profits boosted. Much of these interest rate profits and losses have reversed in the first part of 2013 with interest rates volatile in this period but tending upwards.



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# Long-term insurance industry continued



Set out below are some other interesting observations from the financial information included in the survey:

Area of focus	KPMG comment
Administration and management costs	<p>Administration and management costs increased by 9.5% to R28.8 billion which is well ahead of consumer inflation for the same period. In the past two decades life insurers have invested in product innovation to drive growth. Over time this proliferation of products has produced a legacy of multiple policy administration systems that is creating difficulties in managing the expense line.</p> <p>An interesting development during 2012 was Old Mutual opting to no longer offer administration services to standalone retirement funds. Insurers and other administrators have over years struggled to recoup fully the costs of their employee benefit administration through fees collected from the retirement funds. It will be interesting to observe, in years to come, how increased fee pressure from administrators will impact on the retirement fund industry.</p>



Area of focus	KPMG comment
Tax incurred	<p>Tax incurred increased from R5.2 billion in 2011 to R8.9 billion, which mostly follows on from the improved trading result. Insurers also in 2012 had to account for deemed disposals of policyholder assets for Capital Gains Tax ("CGT") purposes. A deemed disposal was recognised for all unrealised gains and losses arising before 1 March 2012 being the effective date of the increased capital gains tax inclusion rates for policyholders. The aggregate CGT payable from the deemed disposal rule is spread over a period of four years (the current year and following three years of assessment). The accounting treatment for the deemed disposal change amongst the insurers varied with some classifying the liability as current tax whilst others deemed it a deferred tax liability. The taxation basis for life insurance will be subject to substantial change in the next few years. The changes include a revised expense allocation formula as well as an intention to tax risk business in the corporate tax fund. The uncertainty around these changes poses interesting questions to statutory actuaries who have to consider future tax cash flows now when estimating policyholder liabilities.</p>
Dividends paid	<p>Dividends paid to shareholders increased considerably from R8.2 billion in 2011 to R19.1 billion. The higher dividends paid in part are for compensating shareholders, who from 1 April 2012, incur dividend withholding tax. The 2012 dividends also stem from group capital management decisions with Old Mutual Life Assurance Company being a notable example, declaring dividends of R9.8 billion during 2012 (2011: R1.5 billion).</p>
<p>In looking forward the tendency of insurers diversifying their income base will continue in 2013 as insurers capitalise from a unique liquidity risk position. The payment profile of insurance contracts allows insurers an ability to project more reliably the outflow of funds when compared to other industries. We have noted that as consequence insurers are increasing their exposure to structured transactions and advancing credit. The year 2013 may also see more insurers amend their group structure where their current structure leads to capital</p>	<p>inefficiency or additional regulatory oversight. For example, under the SAM group supervision proposals an insurer included in a retail group may find the regulator applying oversight over the whole group unless the insurer is contained to a sub-group. Next year is likely to see its fair share of corporate activity. The drive of South African insurers into Africa and Asia is continuing with transactions lead by local insurers announced during 2013 in Kenya, Ghana and Nigeria. During March 2013 Old Mutual announced its intention to invest R5 billion in Africa over a period of three to five years. The industry's resilience, evident from its 2012 financial results, will again be needed to deal with declining disposable income of policyholders, interest rate volatility, increased regulatory scrutiny and tax basis uncertainty that will dictate 2013 trading conditions. - <b>Gerdus Dixon</b></p>

● **LONG TERM INSURERS | Statement of Financial Position | R'000**

Accounting Year end	Jun-12	Jun-11	Dec-12	Dec-11	Nov-12	Nov-11	Mar-12	Mar-11	Jun-12	Jun-11
Group / Company	1Life Direct Insurance Limited		Absa Life Limited		AIG Life Limited		Alexander Forbes Life Limited		Assupol Life Limited	
FSB classification	Traditional		Traditional		Traditional		Traditional		Traditional	
Share capital and premium	305 000	305 000	24 000	24 000	10 000	10 000	10 000	10 000	490 019	490 019
Retained earnings/(deficit)	297 581	124 549	1 457 527	1 452 559	385 949	413 543	209 924	134 313	837 674	572 008
Other reserves	-	-	-	-	-	-	-	-	22 146	6 772
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
<b>Total shareholders' funds</b>	<b>602 581</b>	<b>429 549</b>	<b>1 481 527</b>	<b>1 476 559</b>	<b>395 949</b>	<b>423 543</b>	<b>219 924</b>	<b>144 313</b>	<b>1 349 839</b>	<b>1 068 799</b>
Policy holder liabilities under insurance contracts and contracts with DPF's	-	-	1 720 852	1 431 089	230 063	216 480	278 280	223 648	766	156 290
Policy holder liabilities under investment contracts	-	-	13 125 173	14 118 819	-	-	35 072 165	27 232 389	1 011 492	919 999
Cell owners interest	-	-	-	-	-	-	-	-	-	-
Deferred tax liability/(asset)	149 764	82 473	22 299	12 392	-	-	3 807	4 008	131 986	63 053
Other liabilities	144 029	150 802	287 992	349 549	27 233	17 487	866 317	805 718	286 063	218 002
<b>Total liabilities</b>	<b>293 793</b>	<b>233 275</b>	<b>15 156 316</b>	<b>15 911 849</b>	<b>257 296</b>	<b>233 967</b>	<b>36 220 569</b>	<b>28 265 763</b>	<b>1 430 307</b>	<b>1 357 344</b>
<b>Total investments</b>	-	-	<b>16 090 799</b>	<b>16 783 317</b>	<b>411 532</b>	<b>403 192</b>	<b>35 147 931</b>	<b>27 302 507</b>	<b>2 383 035</b>	<b>2 030 494</b>
Assets arising from insurance contracts	666 480	463 534	-	-	-	-	-	-	-	-
PPE; goodwill and intangible assets	1 272	821	237 600	252 156	-	-	3 978	4 650	26 781	14 714
Reinsurers' share of policyholder liabilities	24 848	40 638	71 202	73 955	-	-	253 940	204 965	-	-
Deferred acquisition costs	-	-	41 256	61 616	-	-	-	-	19 555	22 306
Cash and cash equivalents	172 646	151 743	56 843	67 840	140 531	150 906	915 069	747 245	176 258	166 700
Other assets	31 128	6 088	140 143	149 524	101 182	103 412	119 575	150 709	174 517	191 929
<b>Total assets</b>	<b>896 374</b>	<b>662 824</b>	<b>16 637 843</b>	<b>17 388 408</b>	<b>653 245</b>	<b>657 510</b>	<b>36 440 493</b>	<b>28 410 076</b>	<b>2 780 146</b>	<b>2 426 143</b>
Regulatory surplus assets to CAR	3,2	2,8	3,0	2,9	7,6	8,6	1,6	1,4	2,1	1,9
Total assets/total liabilities	305%	284%	110%	109%	254%	281%	101%	101%	194%	179%
Increase in shareholders' funds	40%		0%		(7%)		52%		26%	

Accounting Year end	Jun-12	Jun-11	Dec-12	Dec-11	Dec-12	Dec-11	Dec-12	Dec-11	Mar-12	Mar-11
Group /Company	AVBOB Mutual Assurance Society		Capital Alliance Life Limited (Liberty)		Centriq Life Insurance Company Limited		FRANK Life Limited		Guardrisk Life Limited	
<i>FSB classification</i>	<i>Traditional</i>		<i>Traditional</i>		<i>Cell Captive</i>		<i>Traditional</i>		<i>Cell Captive</i>	
Share capital and premium	-	-	896 164	896 164	21 000	21 000	57 153	35 653	10 000	10 000
Retained earnings/(deficit)	3 703 015	3 198 989	1 891 641	1 331 324	105	1 901	15 639	10 600	25 730	20 547
Other reserves	-	-	282	282	-	-	-	-	-	-
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
<b>Total shareholders' funds</b>	<b>3 703 015</b>	<b>3 198 989</b>	<b>2 788 087</b>	<b>2 227 770</b>	<b>21 105</b>	<b>22 901</b>	<b>72 792</b>	<b>46 253</b>	<b>35 730</b>	<b>30 547</b>
Policy holder liabilities under insurance contracts and contracts with DPF's	2 916 535	2 557 041	15 996 026	15 097 499	12 876	9 259	7 224	2 759	1 410 513	888 482
Policy holder liabilities under investment contracts	-	-	1 142 450	1 172 455	62 031	56 017	-	-	-	-
Cell owners interest	-	-	-	-	75 304	59 600	-	-	1 488 795	1 157 467
Deferred tax liability/(asset)	56 825	16 579	228 134	(32 846)	(1 326)	(948)	6 082	4 122	(206 899)	(221 952)
Other liabilities	353 575	303 998	649 388	858 931	7 848	6 358	15 676	9 714	61 589	37 244
<b>Total liabilities</b>	<b>3 326 935</b>	<b>2 877 618</b>	<b>18 015 998</b>	<b>17 096 039</b>	<b>156 733</b>	<b>130 286</b>	<b>28 982</b>	<b>16 595</b>	<b>2 753 998</b>	<b>1 861 241</b>
<b>Total investments</b>	<b>5 542 395</b>	<b>4 876 011</b>	<b>19 337 778</b>	<b>17 565 052</b>	<b>137 333</b>	<b>117 611</b>	<b>14 000</b>	<b>14 000</b>	<b>2 717 214</b>	<b>1 838 007</b>
Assets arising from insurance contracts	-	-	-	-	-	-	59 041	34 697	-	-
PPE; goodwill and intangible assets	103 600	89 022	-	-	-	-	-	-	182	293
Reinsurers' share of policyholder liabilities	7 497	6 380	515 951	463 873	1 747	1 336	7 977	2 067	4 641	1 636
Deferred acquisition costs	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	1 142 110	863 173	774 454	1 093 192	833	19 725	16 399	11 747	24 573	30 185
Other assets	234 348	242 021	175 902	201 692	37 925	14 515	4 357	337	43 118	21 667
<b>Total assets</b>	<b>7 029 950</b>	<b>6 076 607</b>	<b>20 804 085</b>	<b>19 323 809</b>	<b>177 838</b>	<b>153 187</b>	<b>101 774</b>	<b>62 848</b>	<b>2 789 728</b>	<b>1 891 788</b>
Regulatory surplus assets to CAR	4,3	4,8	2,9	2,1	4,6	6,0	1,6	1,5	4,8	3,8
Total assets/total liabilities	211%	211%	115%	113%	113%	118%	351%	379%	101%	102%
Increase in shareholders' funds	16%		25%		(8%)		57%		17%	

● **LONG TERM INSURERS | Statement of Financial Position | R'000**

Accounting Year end	Jun-12	Jun-11	Dec-12	Dec-11	Dec-12	Dec-11	Dec-12	Dec-11	Jun-12	Jun-11
Group /Company	Hollard Life Assurance Company Limited		Liberty Active Limited		Liberty Group Limited		Liberty Growth Limited		Metropolitan Life Limited	
<i>FSB classification</i>	<i>Traditional</i>		<i>Traditional</i>		<i>Traditional</i>		<i>Traditional</i>		<i>Traditional</i>	
Share capital and premium	20 000	20 000	943 001	193 001	29 000	29 000	251 280	251 280	624 000	624 000
Retained earnings/(deficit)	1 670 953	1 473 462	905 405	1 020 093	12 128 000	10 795 000	129 172	131 335	4 517 000	4 363 000
Other reserves	9 303	9 303	(593)	(135)	(580 000)	(468 000)	-	-	302 000	277 000
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
<b>Total shareholders' funds</b>	<b>1 700 256</b>	<b>1 502 765</b>	<b>1 847 813</b>	<b>1 212 959</b>	<b>11 577 000</b>	<b>10 356 000</b>	<b>380 452</b>	<b>382 615</b>	<b>5 443 000</b>	<b>5 264 000</b>
Policy holder liabilities under insurance contracts and contracts with DPF's	6 681 337	4 911 241	26 776 665	21 450 747	122 490 000	109 672 000	1 726 067	1 626 280	51 221 000	48 368 000
Policy holder liabilities under investment contracts	4 709 907	4 301 587	1 940 583	1 633 118	73 795 000	62 972 000	35 735	35 558	8 690 000	10 096 000
Cell owners interest	-	-	-	-	-	-	-	-	-	-
Deferred tax liability/(asset)	392 224	296 249	111 976	98 470	2 215 000	2 501 000	24 197	27 511	377 000	338 000
Other liabilities	927 592	839 884	1 915 503	1 476 652	15 065 000	10 468 000	37 414	39 621	6 496 000	3 887 000
<b>Total liabilities</b>	<b>12 711 060</b>	<b>10 348 961</b>	<b>30 744 727</b>	<b>24 658 987</b>	<b>213 565 000</b>	<b>185 613 000</b>	<b>1 823 413</b>	<b>1 728 970</b>	<b>66 784 000</b>	<b>62 689 000</b>
<b>Total investments</b>	<b>12 352 358</b>	<b>9 952 723</b>	<b>31 534 559</b>	<b>23 571 106</b>	<b>217 453 000</b>	<b>188 548 000</b>	<b>2 159 746</b>	<b>1 999 680</b>	<b>64 641 000</b>	<b>59 006 000</b>
Assets arising from insurance contracts	-	-	-	-	-	-	-	-	-	-
PPE; goodwill and intangible assets	1 000	-	574	856	2 084 000	2 278 000	2 855	5 139	759 000	751 000
Reinsurers' share of policyholder liabilities	100 530	76 156	4 126	4 053	431 000	425 000	-	-	601 000	585 000
Deferred acquisition costs	-	-	1 358	1 798	437 000	386 000	497	1 246	-	-
Cash and cash equivalents	1 436 781	1 317 287	653 853	1 966 577	2 052 000	1 411 000	21 946	85 179	4 028 000	5 607 000
Other assets	520 647	505 560	398 070	327 556	2 685 000	2 921 000	18 821	20 341	2 198 000	2 004 000
<b>Total assets</b>	<b>14 411 316</b>	<b>11 851 726</b>	<b>32 592 540</b>	<b>25 871 946</b>	<b>225 142 000</b>	<b>195 969 000</b>	<b>2 203 865</b>	<b>2 111 585</b>	<b>72 227 000</b>	<b>67 953 000</b>
Regulatory surplus assets to CAR	3,0	2,9	1,6	1,6	2,7	2,9	2,3	3,9	2,5	2,3
Total assets/total liabilities	113%	115%	106%	105%	105%	106%	121%	122%	108%	108%
Increase in shareholders' funds	13%		52%		12%		(1%)		3%	

Accounting Year end	Jun-12	Jun-11	Mar-12	Mar-11	Dec-12	Dec-11	Mar-12	Mar-11	Mar-12	Mar-11
Group /Company	Momentum Group Limited		Nestlife Assurance Corporation Limited		Old Mutual Life Assurance Company (South Africa) Limited		Prescient Life Limited		Real People Assurance Company Limited	
FSB classification	Traditional		Traditional		Traditional		Traditional		Traditional	
Share capital and premium	1 541 000	1 541 000	25 000	25 000	6 254 000	6 254 000	10 000	10 000	10 000	10 000
Retained earnings/(deficit)	8 172 000	8 188 000	(6 281)	(10 840)	54 457 000	51 489 000	21 670	12 736	94 025	78 127
Other reserves	857 000	402 000	-	-	580 000	580 000	-	-	-	-
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
<b>Total shareholders' funds</b>	<b>10 570 000</b>	<b>10 131 000</b>	<b>18 719</b>	<b>14 160</b>	<b>61 291 000</b>	<b>58 323 000</b>	<b>31 670</b>	<b>22 736</b>	<b>104 025</b>	<b>88 127</b>
Policy holder liabilities under insurance contracts and contracts with DPF's	54 798 000	54 584 000	24 936	14 454	151 304 000	138 806 000	-	-	3 040	3 754
Policy holder liabilities under investment contracts	123 319 000	110 769 000	-	-	254 514 000	223 933 000	4 782 822	5 146 740	10 504	-
Cell owners interest	-	-	-	-	-	-	-	-	-	-
Deferred tax liability/(asset)	871 000	872 000	-	-	(16 000)	489 000	739	105	(9 446)	(10 770)
Other liabilities	14 363 000	18 352 000	18 428	9 716	32 066 000	28 088 000	1 033	2 383	13 764	13 487
<b>Total liabilities</b>	<b>193 351 000</b>	<b>184 577 000</b>	<b>43 364</b>	<b>24 170</b>	<b>437 868 000</b>	<b>391 316 000</b>	<b>4 784 594</b>	<b>5 149 228</b>	<b>17 862</b>	<b>6 471</b>
<b>Total investments</b>	<b>186 439 000</b>	<b>175 563 000</b>	<b>14 152</b>	<b>9 160</b>	<b>454 601 000</b>	<b>411 370 000</b>	<b>4 814 842</b>	<b>5 170 330</b>	<b>93 116</b>	<b>39 428</b>
Assets arising from insurance contracts	-	-	-	-	-	-	-	-	-	-
PPE; goodwill and intangible assets	3 309 000	3 279 000	975	677	3 413 000	3 489 000	-	-	-	-
Reinsurers' share of policyholder liabilities	934 000	734 000	8 448	3 896	889 000	509 000	-	-	2 575	2 636
Deferred acquisition costs	-	-	-	-	1 064 000	1 105 000	-	-	-	-
Cash and cash equivalents	8 068 000	10 290 000	15 964	11 827	14 578 000	10 124 000	369	215	11 626	33 694
Other assets	5 171 000	4 842 000	22 544	12 770	24 614 000	23 042 000	1 053	1 419	14 570	18 840
<b>Total assets</b>	<b>203 921 000</b>	<b>194 708 000</b>	<b>62 083</b>	<b>38 330</b>	<b>499 159 000</b>	<b>449 639 000</b>	<b>4 816 264</b>	<b>5 171 964</b>	<b>121 887</b>	<b>94 598</b>
Regulatory surplus assets to CAR	2,3	2,3			3,9	3,9	2,2	1,5	9,2	7,9
Total assets/total liabilities	105%	105%	143%	159%	114%	115%	101%	100%	682%	1462%
Increase in shareholders' funds	4%		32%		5%		39%		18%	

● LONG TERM INSURERS | Statement of Financial Position | R'000

Accounting Year end	Jun-12	Jun-11	Dec-12	Dec-11
Group /Company	Regent Life Assurance Company Limited		Sanlam Life Insurance Limited	
<i>FSB classification</i>	<i>Traditional</i>		<i>Traditional</i>	
Share capital and premium	144 688	144 688	5 000 000	5 000 000
Retained earnings/(deficit)	282 447	301 682	43 830 000	33 682 000
Other reserves	(1 998)	(10 154)	5 429 000	5 429 000
Non-controlling interests	54 991	53 986	-	-
<b>Total shareholders' funds</b>	<b>480 128</b>	<b>490 202</b>	<b>54 259 000</b>	<b>44 111 000</b>
Policy holder liabilities under insurance contracts and contracts with DPF's	225 686	218 420	129 601 000	119 876 000
Policy holder liabilities under investment contracts	78 149	67 360	133 857 000	108 850 000
Cell owners interest	-	-	-	-
Deferred tax liability/(asset)	94 366	72 402	927 000	585 000
Other liabilities	279 385	213 696	46 045 000	46 689 000
<b>Total liabilities</b>	<b>677 586</b>	<b>571 878</b>	<b>310 430 000</b>	<b>276 000 000</b>
<b>Total investments</b>	<b>748 947</b>	<b>585 652</b>	<b>353 377 000</b>	<b>307 654 000</b>
Assets arising from insurance contracts	-	-	-	-
PPE; goodwill and intangible assets	22 223	23 717	1 406 000	1 386 000
Reinsurers' share of policyholder liabilities	103 322	81 350	512 000	454 000
Deferred acquisition costs	-	-	2 236 000	2 045 000
Cash and cash equivalents	147 711	294 920	520 000	352 000
Other assets	135 511	76 441	6 638 000	8 220 000
<b>Total assets</b>	<b>1 157 714</b>	<b>1 062 080</b>	<b>364 689 000</b>	<b>320 111 000</b>
Regulatory surplus assets to CAR	4,7	5,1	4,3	3,7
Total assets/total liabilities	171%	186%	117%	116%
Increase in shareholders' funds	(2%)		23%	

Insurance fraud in South Africa reached an all-time high, according to authorities dealing in crime prevention in the country. The head of South African fraud prevention services said that false claims and applications cost insurance members R1.1 billion - with most of these losses resulting from identity theft. Insurance junction, 17 November 2008

LONG TERM INSURERS | Statement of Comprehensive Income | R'000

Accounting Year end	Jun-12	Jun-11	Dec-12	Dec-11	Nov-12	Nov-11	Mar-12	Mar-11	Jun-12	Jun-11
Group /Company	1Life Direct Insurance Limited		Absa Life Limited		AIG Life Limited		Alexander Forbes Life Limited		Assupol Life Limited	
<i>FSB classification</i>	<i>Traditional</i>		<i>Traditional</i>		<i>Traditional</i>		<i>Traditional</i>		<i>Traditional</i>	
Recurring premiums	no split provided (total is R321 274)	no split provided (total is R257 604)	2 483 205	2 304 259	no split provided (total is R692 484)	no split provided (total is R666 490)	no split provided (total is R407 311)	no split provided (total is R375 832)	639 690	495 065
Single premiums			-	-					7	28
Other premiums			-	-					586 065	503 288
Reinsurance premiums	97 856	76 150	371 524	332 782	26 697	22 006	297 740	264 742	101 212	88 841
<b>Net premium income</b>	<b>223 418</b>	<b>181 454</b>	<b>2 111 681</b>	<b>1 971 477</b>	<b>665 787</b>	<b>644 484</b>	<b>109 571</b>	<b>111 090</b>	<b>1 124 550</b>	<b>909 540</b>
<b>Service fees from investment contracts</b>	-	-	<b>32 473</b>	<b>(2 039)</b>	-	-	<b>242 952</b>	<b>174 884</b>	<b>58 239</b>	<b>52 806</b>
<b>Total net investment income</b>	<b>8 163</b>	<b>7 022</b>	<b>938 271</b>	<b>1 119 518</b>	<b>37 947</b>	<b>36 753</b>	<b>3 213 128</b>	<b>2 436 920</b>	<b>220 443</b>	<b>311 387</b>
Commission received	21 932	4 428	-	-	-	-	41 703	28 084	3 068	3 130
Other unallocated income	19 983	19 194	-	-	-	-	178 634	151 459	815	1 190
<b>Total income</b>	<b>273 496</b>	<b>212 098</b>	<b>3 082 425</b>	<b>3 088 956</b>	<b>703 734</b>	<b>681 237</b>	<b>3 785 988</b>	<b>2 902 437</b>	<b>1 407 115</b>	<b>1 278 053</b>
Death/Disability	no split provided (total is R81 739)	no split provided (total is R65 995)	547 905	537 894	173 707	184 043	268 484	253 669	128 898	111 032
Maturities			-	-	-	-	-	-	110 937	12 783
Annuities			-	-	3 127	3 466	28 842	21 028	-	-
Surrenders			121 942	111 992	-	-	-	-	15 182	80 797
Withdrawals and other benefits			23 569	19 419	-	-	3 020	481	379 517	348 287
Reinsurance recoveries	(44 608)	(33 868)	(129 274)	(119 498)	(6 727)	(7 030)	(257 496)	(235 159)	(100 385)	(82 617)
<b>Net policyholder benefits under insurance contracts</b>	<b>37 131</b>	<b>32 127</b>	<b>564 142</b>	<b>549 807</b>	<b>170 107</b>	<b>180 479</b>	<b>42 850</b>	<b>40 019</b>	<b>534 149</b>	<b>470 282</b>
Change in assets arising from insurance contracts	(198 923)	(155 920)	-	-	-	-	-	-	-	-



*... continued from page 109*

*... continued from 'Change in assets arising from insurance contracts'*

LONG TERM INSURERS | Statement of Comprehensive Income | R'000

Accounting Year end	Jun-12	Jun-11	Dec-12	Dec-11	Dec-12	Dec-11	Dec-12	Dec-11	Mar-12	Mar-11
Group /Company	AVBOB Mutual Assurance Society		Capital Alliance Life Limited (Liberty)		Centriq Life Insurance Company Limited		FRANK Life Limited		Guardrisk Life Limited	
<i>FSB classification</i>	<i>Traditional</i>		<i>Traditional</i>		<i>Cell Captive</i>		<i>Traditional</i>		<i>Cell Captive</i>	
Recurring premiums	1 476 674	1 290 722	split provided but includes investment contracts	split provided but includes investment contracts	no split provided (total is R80 230)	no split provided (total is R59 932)	27 663	9 474	750 512	582 987
Single premiums	1 947	1 464					9 235	-	62 430	63 112
Other premiums	-	-					-	-	-	-
Reinsurance premiums	1 467	978	160 750	165 938	76 944	57 137	5 562	(9 126)	774 386	617 303
<b>Net premium income</b>	<b>1 477 154</b>	<b>1 291 208</b>	<b>2 126 071</b>	<b>2 152 663</b>	<b>3 286</b>	<b>2 795</b>	<b>31 336</b>	<b>18 600</b>	<b>38 556</b>	<b>28 796</b>
<b>Service fees from investment contracts</b>	-	-	<b>20 125</b>	<b>29 899</b>	<b>1 822</b>	<b>2 425</b>	-	-	-	-
<b>Total net investment income</b>	<b>673 602</b>	<b>827 927</b>	<b>3 157 669</b>	<b>1 489 729</b>	<b>11 931</b>	<b>26 507</b>	<b>1 396</b>	<b>1 243</b>	<b>196 035</b>	<b>115 807</b>
Commission received	-	-	-	-	2 232	1 547	-	-	49 679	30 330
Other unallocated income	556	42	-	-	151	159	-	-	-	-
<b>Total income</b>	<b>2 151 312</b>	<b>2 119 177</b>	<b>5 303 865</b>	<b>3 672 291</b>	<b>19 422</b>	<b>33 433</b>	<b>32 732</b>	<b>19 843</b>	<b>284 270</b>	<b>174 933</b>
Death/Disability	349 287	298 543	split provided but included payments to investment contracts	split provided but included payments to investment contracts	no split provided (total is R33 868)	no split provided (total is R22 485)	no split provided (total is R10 167)	no split provided (total is R626)	no split provided (total is R175 640)	no split provided (total is R137 578)
Maturities	726	542								
Annuities	-	-								
Surrenders	77 849	87 124								
Withdrawals and other benefits	50 830	46 099								
Reinsurance recoveries	(225)	(264)	(152 145)	(143 791)	(31 496)	(20 895)	3 732	233	(143 007)	(124 689)
<b>Net policyholder benefits under insurance contracts</b>	<b>478 467</b>	<b>432 044</b>	<b>2 594 819</b>	<b>2 495 064</b>	<b>2 372</b>	<b>1 590</b>	<b>6 435</b>	<b>393</b>	<b>32 633</b>	<b>12 889</b>
Change in assets arising from insurance contracts	-	-	-	-	-	-	(25 789)	(33 604)	-	-



... continued from page 111

... continued from 'Change in assets arising from insurance contracts'

Group /Company	AVBOB Mutual Assurance Society		Capital Alliance Life Limited (Liberty)		Centriq Life Insurance Company Limited		FRANK Life Limited		Guardrisk Life Limited	
<i>FSB classification</i>	<i>Traditional</i>		<i>Traditional</i>		<i>Cell Captive</i>		<i>Traditional</i>		<i>Cell Captive</i>	
Change in policy holder liabilities under insurance contracts	354 342	339 896	846 448	(183 995)	3 512	3 032	-	-	(6 034)	9 861
Fair value adjustments on policyholder liabilities under investment contracts	-	-	141 492	75 530	6 902	22 162	-	-	177 594	101 967
Acquisition costs	255 706	227 137	113 726	227 625	2 727	1 858	38 190	28 076	-	-
Administration, management and other expenses	394 562	328 961	380 695	615 408	2 535	2 670	6 897	2 508	53 107	29 014
<b>Total expenses</b>	<b>1 483 077</b>	<b>1 328 038</b>	<b>4 077 180</b>	<b>3 229 632</b>	<b>18 048</b>	<b>31 312</b>	<b>25 733</b>	<b>(2 627)</b>	<b>257 300</b>	<b>153 731</b>
<b>Profit/(Loss) before tax</b>	<b>668 235</b>	<b>791 139</b>	<b>1 226 685</b>	<b>442 659</b>	<b>1 374</b>	<b>2 121</b>	<b>6 999</b>	<b>22 470</b>	<b>26 970</b>	<b>21 202</b>
Tax	164 209	214 974	351 992	20 485	170	404	1 960	6 292	7 787	6 185
<b>Profit/(Loss) after tax</b>	<b>504 026</b>	<b>576 165</b>	<b>874 693</b>	<b>422 174</b>	<b>1 204</b>	<b>1 717</b>	<b>5 039</b>	<b>16 178</b>	<b>19 183</b>	<b>15 017</b>
<b>Other comprehensive income</b>	-	-	-	-	-	-	-	-	-	-
<b>Total comprehensive income/(loss) for the year</b>	<b>504 026</b>	<b>576 165</b>	<b>874 693</b>	<b>422 174</b>	<b>1 204</b>	<b>1 717</b>	<b>5 039</b>	<b>16 178</b>	<b>19 183</b>	<b>15 017</b>
Other transfers to/(from) retained income	-	-	-	-	-	-	-	-	-	-
Other comprehensive income not charged against retained earnings	-	-	(9 376)	-	-	-	-	-	-	-
Ordinary dividends	-	-	305 000	350 000	3 000	-	-	-	14 000	11 000
Allocated to preference shareholders	-	-	-	-	-	-	-	-	-	-
<b>Change in retained earnings</b>	<b>504 026</b>	<b>576 165</b>	<b>560 317</b>	<b>72 174</b>	<b>(1 796)</b>	<b>1 717</b>	<b>5 039</b>	<b>16 178</b>	<b>5 183</b>	<b>4 017</b>
Management expenses to net premium and service fees on investment contracts	27%	25%	18%	28%	50%	51%	22%	13%	138%	101%
Tax as a % of NIBT	25%	27%	29%	5%	12%	19%	28%	28%	29%	29%
Comments	Society	Society	Company	Company	Company	Company	Company	Company	Company	Company



LONG TERM INSURERS | Statement of Comprehensive Income | R'000

Accounting Year end	Jun-12	Jun-11	Dec-12	Dec-11	Dec-12	Dec-11	Dec-12	Dec-11	Jun-12	Jun-11
Group /Company	Hollard Life Assurance Company Limited		Liberty Active Limited		Liberty Group Limited		Liberty Growth Limited		Metropolitan Life Limited	
FSB classification	Traditional		Traditional		Traditional		Traditional		Traditional	
Recurring premiums	3 870 279	3 262 007	split provided but includes investment contracts	no split provided (total is R9 556 000)	no split provided (total is R4 843 000)					
Single premiums	1 816 049	1 150 015								
Other premiums	57 727	18 616								
Reinsurance premiums	558 145	485 128	14 593	17 220	616 000	572 000	6	2	447 000	225 000
<b>Net premium income</b>	<b>5 185 910</b>	<b>3 945 510</b>	<b>9 742 630</b>	<b>8 854 397</b>	<b>16 312 000</b>	<b>14 523 000</b>	<b>77 784</b>	<b>82 292</b>	<b>9 109 000</b>	<b>4 618 000</b>
<b>Service fees from investment contracts</b>	-	-	4 266	3 422	852 000	824 000	1 577	1 518	206 000	72 000
<b>Total net investment income</b>	<b>868 829</b>	<b>736 282</b>	<b>3 952 288</b>	<b>1 706 878</b>	<b>33 101 000</b>	<b>14 413 000</b>	<b>215 092</b>	<b>171 668</b>	<b>6 709 000</b>	<b>1 518 000</b>
Commission received	-	-	-	-	-	-	-	-	-	-
Other unallocated Income	44 349	55 646	-	-	573 000	578 000	(99)	619	-	-
<b>Total income</b>	<b>6 099 088</b>	<b>4 737 438</b>	<b>13 699 184</b>	<b>10 564 697</b>	<b>50 838 000</b>	<b>30 338 000</b>	<b>294 354</b>	<b>256 097</b>	<b>16 024 000</b>	<b>6 208 000</b>
Death/Disability	1 227 175	1 089 132	split provided but included payments to investment contracts	split provided but included payments to investment contracts	split provided but included payments to investment contracts	split provided but included payments to investment contracts	split provided but included payments to investment contracts	split provided but included payments to investment contracts	2 323 000	1 099 000
Maturities	114 516	-							1 854 000	865 000
Annuities	174 790	150 505							942 000	453 000
Surrenders	182 103	146 987							2 047 000	945 000
Withdrawals and other benefits	104 641	74 708							1 851 000	1 389 000
Reinsurance recoveries	(471 295)	(404 518)	(3 210)	(3 212)	(427 000)	(396 000)	(124)	2 450	(315 000)	(143 000)
<b>Net policyholder benefits under insurance contracts</b>	<b>1 331 930</b>	<b>1 056 814</b>	<b>4 857 483</b>	<b>3 638 755</b>	<b>16 038 000</b>	<b>15 569 000</b>	<b>91 716</b>	<b>128 750</b>	<b>8 702 000</b>	<b>4 608 000</b>
Change in assets arising from insurance contracts	-	-	-	-	-	-	-	-	-	-



... continued from page 113

... continued from 'Change in assets arising from insurance contracts'

Group / Company	Hollard Life Assurance Company Limited	Liberty Active Limited	Liberty Group Limited	Liberty Growth Limited	Metropolitan Life Limited
<i>FSB classification</i>	<i>Traditional</i>	<i>Traditional</i>	<i>Traditional</i>	<i>Traditional</i>	<i>Traditional</i>
Change in policy holder liabilities under insurance contracts	1 774 285	1 016 382	5 325 846	4 043 017	12 812 000
Fair value adjustments on policyholder liabilities under investment contracts	-	-	319 727	138 129	2 442 000
Acquisition costs	442 856	423 532	1 267 666	898 054	1 942 000
Administration, management and other expenses	1 476 314	1 255 854	1 780 552	1 245 095	1 710 000
<b>Total expenses</b>	<b>5 025 385</b>	<b>3 752 582</b>	<b>13 551 274</b>	<b>9 963 050</b>	<b>45 529 000</b>
<b>Profit/(Loss) before tax</b>	<b>1 073 703</b>	<b>984 856</b>	<b>147 910</b>	<b>601 647</b>	<b>27 549 000</b>
Tax	327 976	275 490	240 546	265 879	1 976 000
<b>Profit/(Loss) after tax</b>	<b>745 727</b>	<b>709 366</b>	<b>(92 636)</b>	<b>335 768</b>	<b>2 789 000</b>
<b>Other comprehensive income</b>	-	-	(458)	(135)	(151 000)
<b>Total comprehensive income/(loss) for the year</b>	<b>745 727</b>	<b>709 366</b>	<b>(93 094)</b>	<b>335 633</b>	<b>3 182 000</b>
Other transfers to/(from) retained income	-	-	(22 052)	-	(8 000)
Other comprehensive income not charged against retained earnings	-	-	458	135	17 000
Ordinary dividends	548 236	437 979	-	-	151 000
Allocated to preference shareholders	-	-	-	-	(85 000)
<b>Change in retained earnings</b>	<b>197 491</b>	<b>271 387</b>	<b>(114 688)</b>	<b>335 768</b>	<b>1 333 000</b>
Management expenses to net premium and service fees on investment contracts	28%	32%	18%	14%	23%
Tax as a % of NIBT	31%	28%	163%	44%	37%
Comments	Company	Company	Company	Company	Company



## LONG TERM INSURERS | Statement of Comprehensive Income | R'000

Accounting Year end	Jun-12	Jun-11	Mar-12	Mar-11	Dec-12	Dec-11	Mar-12	Mar-11	Mar-12	Mar-11
Group /Company	Momentum Group Limited		Nestlife Assurance Corporation Limited		Old Mutual Life Assurance Company (South Africa) Limited		Prescient Life Limited		Real People Assurance Company Limited	
FSB classification	Traditional		Traditional		Traditional		Traditional		Traditional	
Recurring premiums	no split provided	no split provided	240 523	151 215	no split provided	no split provided	-	-	no split provided	no split provided
Single premiums	(total is R9 916 000)	(total is R9 861 000)			(total is R30 627 000)	(total is R26 367 000)	-	-	(total is R297 445)	(total is R189 714)
Other premiums										
Reinsurance premiums	2 194 000	1 480 000	(45 665)	(13 260)	811 000	819 000	-	-	28 432	45 660
<b>Net premium income</b>	<b>7 722 000</b>	<b>8 381 000</b>	<b>194 858</b>	<b>137 955</b>	<b>29 816 000</b>	<b>25 548 000</b>	<b>-</b>	<b>-</b>	<b>269 012</b>	<b>144 054</b>
<b>Service fees from investment contracts</b>	<b>1 320 000</b>	<b>1 268 000</b>	<b>-</b>	<b>-</b>	<b>2 033 000</b>	<b>1 876 000</b>	<b>17 162</b>	<b>18 321</b>	<b>-</b>	<b>-</b>
<b>Total net investment income</b>	<b>18 385 000</b>	<b>20 506 000</b>	<b>539</b>	<b>977</b>	<b>72 051 000</b>	<b>29 146 000</b>	<b>340 101</b>	<b>354 207</b>	<b>5 996</b>	<b>5 926</b>
Commission received	-	-	-	-	857 000	710 000	-	-	2 276	26 183
Other unallocated Income	617 000	663 000	713	780	142 000	60 000	-	-	360	941
<b>Total income</b>	<b>28 044 000</b>	<b>30 818 000</b>	<b>196 110</b>	<b>139 712</b>	<b>104 899 000</b>	<b>57 340 000</b>	<b>357 263</b>	<b>372 528</b>	<b>277 644</b>	<b>177 104</b>
Death/Disability	3 684 000	3 509 000	96 726	83 398	no split provided	no split provided	-	-	no split provided	no split provided
Maturities	2 291 000	2 311 000								
Annuities	1 746 000	1 723 000								
Surrenders	856 000	963 000								
Withdrawals and other benefits	1 849 000	2 615 000								
Reinsurance recoveries	(1 149 000)	(1 167 000)	(25 626)	(14 479)	(1 047 000)	(754 000)			(8 590)	(11 672)
<b>Net policyholder benefits under insurance contracts</b>	<b>9 277 000</b>	<b>9 954 000</b>	<b>71 100</b>	<b>68 919</b>	<b>57 235 000</b>	<b>29 793 000</b>	<b>-</b>	<b>-</b>	<b>33 818</b>	<b>20 505</b>
Change in assets arising from insurance contracts	-	-	(861)	(292)	-	-	-	-	-	-

*... continued from page 115*

*... continued from 'Change in assets arising from insurance contracts'*

● **LONG TERM INSURERS | Statement of Comprehensive Income | R'000**

Accounting Year end	Jun-12	Jun-11	Dec-12	Dec-11
Group /Company	Regent Life Assurance Company Limited		Sanlam Life Insurance Limited	
<i>FSB classification</i>	<i>Traditional</i>		<i>Traditional</i>	
Recurring premiums	607 285	568 116	no split provided (total is R8 061 000)	no split provided (total is R7 485 000)
Single premiums	-	-		
Other premiums	-	-		
Reinsurance premiums	66 940	71 208	689 000	504 000
<b>Net premium income</b>	<b>540 345</b>	<b>496 908</b>	<b>7 372 000</b>	<b>6 981 000</b>
<b>Service fees from investment contracts</b>	-	-	<b>419 000</b>	<b>503 000</b>
<b>Total net investment income</b>	<b>100 378</b>	<b>84 025</b>	<b>51 768 000</b>	<b>22 419 000</b>
Commission received	-	-	37 000	43 000
Other unallocated Income	33 959	7 255	2 521 000	2 302 000
<b>Total income</b>	<b>674 682</b>	<b>588 188</b>	<b>62 117 000</b>	<b>32 248 000</b>
Death/Disability	198 844	199 220	no split provided (total is R3 917 000)	no split provided (total is R3 745 000)
Maturities	3 591	-		
Annuities	14 006	13 532		
Surrenders	40 820	37 392		
Withdrawals and other benefits	-	-		
Reinsurance recoveries	(40 771)	(42 768)	(531 000)	(312 000)
<b>Net policyholder benefits under insurance contracts</b>	<b>216 490</b>	<b>207 376</b>	<b>3 386 000</b>	<b>3 433 000</b>
Change in assets arising from insurance contracts	-	-	-	-

South Africans are more budget conscious than they were two years ago, re-examining their finances and developing innovative ways to cope with a slowing economy and the subsequent strain this places on their spending power.

While there is a direct correlation between an increase in income and an increase in saving for retirement, the survey found that all income brackets prioritise paying off debt, while the drop in the incidents of saving for education is apparent across all income levels, too.

Almost 40 per cent of respondents said they would rely on their children to take care of them financially in their old age.

RiskSA – July 2013

... continued from page 117

... continued from 'Change in assets arising from insurance contracts'				
Group / Company	Regent Life Assurance Company Limited	Sanlam Life Insurance Limited		
<i>FSB classification</i>	<i>Traditional</i>			<i>Traditional</i>
Change in policy holder liabilities under insurance contracts	(8 068)	(32 580)	19 515 000	8 489 000
Fair value adjustments on policyholder liabilities under investment contracts	-	-	19 140 000	7 161 000
Acquisition costs	174 132	172 223	1 261 000	1 247 000
Administration, management and other expenses	148 271	164 176	3 827 000	3 475 000
<b>Total expenses</b>	<b>530 825</b>	<b>511 195</b>	<b>47 129 000</b>	<b>23 805 000</b>
<b>Profit/(Loss) before tax</b>	<b>143 857</b>	<b>76 993</b>	<b>14 988 000</b>	<b>8 443 000</b>
Tax	40 242	26 778	2 040 000	1 363 000
<b>Profit/(Loss) after tax</b>	<b>103 615</b>	<b>50 215</b>	<b>12 948 000</b>	<b>7 080 000</b>
<b>Other comprehensive income</b>	-	-	-	-
<b>Total comprehensive income/(loss) for the year</b>	<b>103 615</b>	<b>50 215</b>	<b>12 948 000</b>	<b>7 080 000</b>
Other transfers to/(from) retained income	(15 823)	(20 095)	-	-
Other comprehensive income not charged against retained earnings	(6 945)	-	-	-
Ordinary dividends	100 082	5 000	2 800 000	2 100 000
Allocated to preference shareholders	-	-	-	-
<b>Change in retained earnings</b>	<b>(19 235)</b>	<b>25 120</b>	<b>10 148 000</b>	<b>4 980 000</b>
Management expenses to net premium and service fees on investment contracts	27%	33%	49%	46%
Tax as a % of NIBT	28%	35%	14%	16%
Comments	Company	Company	Company	Company

With the Consumer Protection Act, 68 of 2008, partially coming into effect from 30 April 2010, companies across the full spectrum of economic activity will be required to re-assess every aspect of their business to ensure that they are adequately geared to protect the interests of consumers to the extent required by the Act. The same holds true for Insurance companies, subject to temporary reprieve.

KPMG Insurance Survey - 2009

# Reinsurance industry

## Global reinsurance market

The 2012 financial year for the global reinsurance market was characterised by natural catastrophes most notably Hurricane Sandy in the United States of America. In a report released by Aon Benfield titled Reinsurance Market Outlook: Reinsurance Capacity Growth Continues to Outpace Demand (January 2013), the following was noted: "Reinsurer capital grew by more than 10 percent in 2012 with three strong quarters of capital growth and a fourth quarter that is expected to show lower capital growth (but still growth) due to losses from Hurricane/Superstorm Sandy. 2012 has been a strong year for reinsurers with loss ratios for most well within their annual

budgets. Substantially all of the losses from Hurricane Sandy will be retained by insurers; however, affected insurers are benefiting from the fact that reinsurance is reducing their uncertainty from any adverse consequences from the ultimate resolution from the remaining event uncertainties." In a subsequent report released by Aon Benfield titled Reinsurance Market Outlook 2013 (June and July 2013 updated), tropical cyclones, severe weather events and drought contributed substantially to global losses experienced during 2012. Only one global reinsurer with presence in South Africa, Munich Re, participated in the losses arising from Hurricane Sandy. The losses experienced from severe weather events experienced in South

Africa primarily during October 2012 are estimated to be in excess of ZAR 200 million.

Globally, these events have resulted in the June and July 2013 catastrophe reinsurance program renewals to include many U.S. hurricane catastrophe exposed insurers, most Australia / New Zealand exposed insurers, many Asia ex-Japan exposed insurers, and a substantial portion of Latin American exposed insurers. The following was noted in the Reinsurance Market Outlook 2013 (June and July 2013 updated): "Even where alternative market capacity was not deployed, the traditional reinsurance market responded to the competition to drive meaningful value for cedants.





Relationships and continuity continue to be highly valued by cedants and leading reinsurers are taking positive actions to lower their costs of managing assumed volatility."

#### **Market share and growth**

The two largest South African reinsurance market players, Hannover Re and Munich Re, continue to lead the South African reinsurance market. Together they underwrite 69% of the local reinsurance market. None of the reinsurers in the local market had increased or decreased their market share significantly in the year under review. Growth (measured by gross written premiums) has been experienced across most reinsurance participants included in this survey, with the exception of Saxum Re, which is currently in run-off, and African Re. African Re

experienced a 5.5% decline in gross written premiums over the 2012 financial year, resulting in an underwriting loss margin of 2.8%. Most reinsurers have suffered a decline in their underwriting margins, with Hannover Re's short-term book of business producing the highest underwriting margin at 7.4% of all surveyed participants. Of the six participants, Scor continues to deliver the highest premium growth at 38% or ZAR 86 million, albeit being one of the smaller market players. They have increased their market share in terms of gross written premium by 1%.

The Munich non-life division experienced exceptional performance with its net earned premium showing growth of 18.4% or R 133 million. In our 2012 survey we noted that the Munich life division showed a growth in net

premiums of R 263 million or 21% over the 2011 financial year. During the 2012 financial year this division experienced growth of 8.4% growth or R152 million in net earned premiums.

It is also worth noting that Hannover Life Re experienced positive growth of 18% (2011: 13.5%) in net premiums. Hannover Re's short term book experienced nominal growth of 5% (2011: 7.2%) in net premiums.

#### **Investment returns**

Net investment income continued to show positive growth of 41% for all participants combined.

Looking at the investment return for all participants combined, the return has improved slightly by 1.2%. This performance

is in line with that of the market which showed significant recovery during 2012. A considerable portion of the recovery was experienced during the second half of 2012 with the JSE closing 23% higher than in 2011. However most reinsurers are not exposed to the equity market to a significant degree and the volatility that it brings with it, but are rather invested more with money market instruments which provide more stability to investment returns. As a result they have not benefited as much from the improved equity markets.

Funds withheld by reinsurers from retrocessionaires for all participants combined increased by 9.4%. The cost of such deposits remained surprisingly stable at 3.1%.

# Reinsurance industry continued



Thus it is apparent that reinsurers are continuing to closely monitor and manage their cost of capital.

## **Insurance performance**

The aggregated loss ratio (policyholder benefits as a percentage of earned premiums) of all participants included in the 2013 survey remained stable at 77%. On the short-term side this appears contradictory to what the primary insurers have been exposed to as a result of the extreme weather-related events experienced in the fourth quarter of 2012 together with the devastating fires at St Francis Bay. We can however deduce that this is as a result of the South African reinsurers not having significant exposure to these losses as a result of higher retention levels by primary insurers. Another contributing factor would be the impact of the retrocession agreement and structure between reinsurers and their retrocessionaires.

When compared to 2011 the short-term book of business for Munich Re's loss ratio was stable and Hannover Re experienced an improvement of 2.9% in its loss ratio for 2012. African Re,

however, experienced deterioration in its loss ratio by 8.5%. On the long-term book of business, the movement in loss ratios was more varied. Munich Re experienced an improvement of 6.4% in its loss ratio with Hannover Re experiencing a decline of 5.7%.

Once again, gross short-term premiums showed remarkable growth of 11.8%, when compared to the previous year where growth of 9.31% was experienced. This growth far exceeds the growth margins obtained in the short-term insurance industry.

## **Commissions and expenses**

Reinsurance commission income rates have increased marginally with a 2.8% increase from 28.1% in 2011 to 30.9% of all participants included in this survey. The most notable changes can be attributed to a 5.6% increase relating to Gen Re, 4.4% increase relating to Scor and an exceptional 27.8% increase relating to Hannover Life Re. Saxum Re, being in run-off experienced an 8.4% decline in reinsurance commission



revenue – impacted by commutations in their reinsurance programme.

Commission expense as a percentage of gross written premiums has once again remained relatively flat with just a 2% negative variance. The most notable variations relate to Scor Re where these rates have increased by 5.3%, Hannover Re's short-term business with a 4.9% increase and Hannover Re's life book of business with a 4.1% increase.

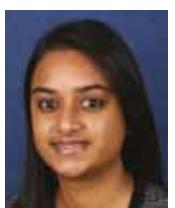
The combined ratio has deteriorated just breaching the 100% level which is directly attributable to the increase in acquisition expenses and a slight increase in the management expense ratios. The slight increase in the investment returns has ensured that overall profitability (net profit before tax as a percentage of earned premium) has remained flat at 13%.

The ratio of expenses to earned premiums, has remained flat at 7%. We noted the following in our 2012 survey: "Despite the looming implementation of the SAM regulatory framework, the costs related

to this change have been kept fairly modest." This statement is holding true once again based on the results of reinsurers for 2012. We have still not seen any significant costs incurred by reinsurers relating to this regulatory implementation to date.

#### **Other developments**

Catastrophe events are predicted to continue for 2013 as a result of climate change and extreme weather events. Thus the demand for reinsurance cover will continue to be of importance to insurers and reinsurers. In addition, economic development in emerging market economies and the increase in commercial property values in high-risk coastal areas are expected to contribute to this demand. In South Africa we can expect to experience trends commensurate with the global market, particularly as a result of the extreme weather-related events.



**Kashmira Naran**

## REINSURERS | Statement of Financial Position | R'000

Accounting Year end	Dec-12	Dec-11	Dec-12	Dec-11	Dec-12	Dec-11	Dec-12	Dec-11
Group /Company	African Reinsurance Corporation (South Africa) Limited		General Reinsurance Africa Limited		Hannover Life Reassurance Africa Limited		Hannover Reinsurance Africa Limited	
Share capital and share premium	80 300	80 300	4 000	4 000	112 500	57 500	72 778	72 778
Retained earnings/(deficit)	329 671	221 551	563 795	537 809	275 216	282 893	512 346	426 045
Reserves including contingency reserve	51 702	51 702	113 526	48 954	28 493	24 677	196 399	289 040
<b>Total shareholders' funds</b>	<b>461 673</b>	<b>353 553</b>	<b>681 321</b>	<b>590 763</b>	<b>416 209</b>	<b>365 070</b>	<b>781 523</b>	<b>787 863</b>
Gross outstanding claims	930 074	906 170	1 232 337	1 187 159	253 707	366 352	1 588 813	1 518 907
Gross unearned premium reserve	213 312	181 370	161 699	140 918	18 548	16 664	495 253	636 452
Provision for profit commission	-	-	-	-	343 743	205 288	211 937	78 883
Policy holder liabilities under insurance contracts	-	-	1 360 642	1 078 993	1 490 953	1 158 814	-	-
Liabilities in respect of investment contracts	-	-	-	-	316 469	304 872	-	-
Deferred reinsurance commission revenue	44 678	31 758	-	-	50 587	61 745	62 923	73 184
Deferred tax liabilities/(assets)	22 290	6 494	(19 184)	(20 980)	-	-	3 995	2 153
Funds withheld	1 092 147	1 085 330	690	1 010	335 300	352 330	690 058	600 424
Other liabilities	204 818	123 520	153 446	119 315	84 889	66 777	353 229	267 063
<b>Total liabilities</b>	<b>2 507 319</b>	<b>2 334 642</b>	<b>2 889 630</b>	<b>2 506 415</b>	<b>2 894 196</b>	<b>2 532 842</b>	<b>3 406 208</b>	<b>3 177 066</b>
<b>Total investments</b>	<b>1 969 998</b>	<b>1 719 228</b>	<b>2 958 874</b>	<b>2 556 907</b>	<b>2 223 202</b>	<b>1 894 757</b>	<b>1 953 213</b>	<b>2 013 151</b>
Funds withheld	134	37 499	-	-	79 091	71 739	360 976	311 934
PPE and intangible assets	625	1 047	1 819	1 466	-	-	2 704	2 489
Retrocessionaires' share of outstanding claims	655 047	642 687	95 679	53 159	49 857	42 408	714 914	598 103
Retrocessionaires' share of unearned premium reserve	149 318	126 959	13 323	14 686	-	-	303 427	380 404
Retrocessionaires' share of profit commissions	-	-	-	-	12 510	39 263	148 086	63 106
Retrocessionaires' share of liabilities under life insurance contracts	-	-	1 397	451	275 037	281 718	-	-
Deferred aquisition cost	57 417	40 849	-	-	141 417	146 522	107 769	127 380
Cash and cash equivalents	4 307	295	174 137	111 129	102 099	75 850	124 318	16 301
Other assets	132 146	119 631	325 722	359 380	427 192	345 655	472 324	452 061
<b>Total assets</b>	<b>2 968 992</b>	<b>2 688 195</b>	<b>3 570 951</b>	<b>3 097 178</b>	<b>3 310 405</b>	<b>2 897 912</b>	<b>4 187 731</b>	<b>3 964 929</b>
CAR ratio	N/A	N/A	4,2	3,7	2,7	2,7	N/A	N/A
Return on equity	23%	19%	28%	27%	(2%)	5%	19%	22%
Total assets/total liabilities	118%	115%	124%	124%	114%	114%	123%	125%
Change in shareholders' funds	31%		15%		14%		(1%)	

Accounting Year end	Dec-12	Dec-11	Dec-12	Dec-11	Dec-12	Dec-11
Group /Company	Munich Reinsurance Company of Africa Limited (Group)		saXum Reinsurance Limited		Scor Africa Limited	
Share capital and share premium	34 915	34 915	11 500	11 500	150 000	150 000
Retained earnings/(deficit)	1 788 497	1 530 161	22 606	20 493	40 120	6 908
Reserves including contingency reserve	349 775	315 021	(1 050)	3 710	25 503	26 715
<b>Total shareholders' funds</b>	<b>2 173 187</b>	<b>1 880 097</b>	<b>33 056</b>	<b>35 703</b>	<b>215 623</b>	<b>183 623</b>
Gross outstanding claims	1 856 744	2 343 098	17 336	30 427	502 781	251 835
Gross unearned premium reserve	882 033	824 892	-	-	232 634	193 782
Provision for profit commission	-	-	-	-	-	-
Policy holder liabilities under insurance contracts	1 608 531	1 490 935	31 944	38 850	10 769	15 563
Liabilities in respect of investment contracts	-	-	-	-	-	-
Deferred reinsurance commission revenue	162 329	182 717	-	-	40 266	33 221
Deferred tax liabilities/(assets)	61 710	19 921	(5 971)	(4 879)	3 599	(589)
Funds withheld	8 478	21 951	-	21 024	386 217	215 283
Other liabilities	1 158 187	513 781	11 369	2 298	189 188	157 130
<b>Total liabilities</b>	<b>5 738 012</b>	<b>5 397 295</b>	<b>54 678</b>	<b>87 720</b>	<b>1 365 454</b>	<b>866 225</b>
<b>Total investments</b>	<b>3 994 348</b>	<b>3 233 250</b>	<b>62 249</b>	<b>67 305</b>	<b>587 751</b>	<b>273 455</b>
Funds withheld	79 846	63 756	-	-	-	-
PPE and intangible assets	233 736	292 453	2 117	2 655	241	444
Retrocessionaires' share of outstanding claims	1 310 238	1 497 420	447	21 448	285 650	145 976
Retrocessionaires' share of unearned premium reserve	618 820	577 425	-	-	136 568	110 655
Retrocessionaires' share of profit commissions	-	-	-	-	-	-
Retrocessionaires' share of liabilities under life insurance contracts	26 772	34 603	6 785	10 855	1 992	1 864
Deferred aquisition cost	206 653	241 512	-	-	77 392	67 426
Cash and cash equivalents	369 225	487 286	14 758	19 796	190 345	230 987
Other assets	1 071 561	849 687	1 378	1 364	301 138	219 041
<b>Total assets</b>	<b>7 911 199</b>	<b>7 277 392</b>	<b>87 734</b>	<b>123 423</b>	<b>1 581 077</b>	<b>1 049 848</b>
CAR ratio	6,1	3,6	1,3	1,4	2,0	2,7
Return on equity	19%	16%	(8%)	(25%)	14%	10%
Total assets/total liabilities	138%	135%	160%	141%	116%	121%
Change in shareholders' funds	16%		(7%)		17%	



• **REINSURERS | Statement of Comprehensive Income | R'000**

Accounting Year end	Dec-12	Dec-11	Dec-12	Dec-11	Dec-12	Dec-11	Dec-12	Dec-11
Group /Company	African Reinsurance Corporation (South Africa) Limited		General Reinsurance Africa Limited		Hannover Life Reassurance Africa Limited		Hannover Reinsurance Africa Limited	
Gross premiums written	1 687 667	1 785 810	1 850 841	1 591 572	1 862 159	1 649 039	2 298 618	2 162 361
Net premiums written	489 379	517 017	1 789 961	1 534 325	1 502 315	1 273 600	994 593	945 694
<b>Earned premiums</b>	<b>479 796</b>	<b>512 821</b>	<b>1 767 816</b>	<b>1 503 859</b>	<b>1 500 898</b>	<b>1 279 538</b>	<b>1 058 199</b>	<b>942 791</b>
Total net investment income	158 442	80 893	212 761	189 099	93 332	89 851	115 801	118 623
Reinsurance commission revenue	310 327	336 157	13 796	9 763	143 442	45 463	486 910	425 961
Other income	-	-	-	880	2 820	-	217	219
<b>Total income</b>	<b>948 565</b>	<b>929 871</b>	<b>1 994 373</b>	<b>1 703 601</b>	<b>1 740 492</b>	<b>1 414 852</b>	<b>1 661 127</b>	<b>1 487 594</b>
Policyholder benefits and entitlements	356 193	336 957	1 724 332	1 386 227	1 260 849	1 001 708	544 632	512 716
Acquisition expense	397 163	436 114	21 258	16 181	405 227	291 149	848 778	707 636
Management and other expenses	50 158	63 543	71 610	63 742	86 198	87 106	74 056	56 542
<b>Total expenses</b>	<b>803 514</b>	<b>836 614</b>	<b>1 817 200</b>	<b>1 466 150</b>	<b>1 752 274</b>	<b>1 379 963</b>	<b>1 467 466</b>	<b>1 276 894</b>
<b>Net profit/(loss) before tax</b>	<b>145 051</b>	<b>93 257</b>	<b>177 173</b>	<b>237 451</b>	<b>(11 782)</b>	<b>34 889</b>	<b>193 661</b>	<b>210 700</b>
Tax	36 931	26 644	49 187	72 663	(4 105)	15 673	46 988	64 424
<b>Net profit/(loss) after tax</b>	<b>108 120</b>	<b>66 613</b>	<b>127 986</b>	<b>164 788</b>	<b>(7 677)</b>	<b>19 216</b>	<b>146 673</b>	<b>146 276</b>
Other comprehensive income/(loss)	-	-	64 572	(3 654)	-	-	1 986	25 279
<b>Total comprehensive income/(loss) for the year</b>	<b>108 120</b>	<b>66 613</b>	<b>192 558</b>	<b>161 134</b>	<b>(7 677)</b>	<b>19 216</b>	<b>148 659</b>	<b>171 555</b>
Minority shareholders' interest	-	-	-	-	-	-	-	-
Transfer to/(from) contingency reserve	-	3 566	-	-	-	-	(94 628)	(4 534)
Transfer to/(from) retained earnings	-	-	-	-	-	-	-	-
Dividends	-	-	102 000	70 000	-	70 000	155 000	110 000
<b>Change in retained earnings</b>	<b>108 120</b>	<b>63 047</b>	<b>25 986</b>	<b>94 788</b>	<b>(7 677)</b>	<b>(50 784)</b>	<b>86 301</b>	<b>40 810</b>
Net premiums to gross premiums	29%	29%	97%	96%	81%	77%	43%	44%
Policyholder benefits and entitlements to earned premium	74%	66%	98%	92%	84%	78%	51%	54%
Management and other expenses to earned premium	10%	12%	4%	4%	6%	7%	7%	6%

Accounting Year end	Dec-12	Dec-11	Dec-12	Dec-11	Dec-12	Dec-11
Group /Company	Munich Reinsurance Company of Africa Limited (Group)		saXum Reinsurance Limited		Scor Africa Limited	
Gross premiums written	5 268 175	4 571 632	16 141	19 644	767 410	556 570
Net premiums written	2 676 556	2 379 972	10 527	12 998	314 405	228 573
<b>Earned premiums</b>	<b>2 663 958</b>	<b>2 378 227</b>	<b>10 527</b>	<b>12 998</b>	<b>301 696</b>	<b>190 419</b>
Total net investment income	379 682	200 560	(3 086)	204	23 305	16 883
Reinsurance commission revenue	772 802	640 186	957	1 694	119 558	72 222
Other income	6 984	1 051	-	-	444	-
<b>Total income</b>	<b>3 823 426</b>	<b>3 220 024</b>	<b>8 398</b>	<b>14 896</b>	<b>445 003</b>	<b>279 524</b>
Policyholder benefits and entitlements	1 932 381	1 878 528	1 482	15 127	196 886	112 433
Acquisition expense	1 180 952	895 633	1 280	1 238	202 529	117 552
Management and other expenses	255 492	179 983	9 375	9 240	26 986	25 599
<b>Total expenses</b>	<b>3 368 825</b>	<b>2 954 144</b>	<b>12 137</b>	<b>25 605</b>	<b>426 401</b>	<b>255 584</b>
<b>Net profit/(loss) before tax</b>	<b>454 601</b>	<b>265 880</b>	<b>(3 739)</b>	<b>(10 709)</b>	<b>18 602</b>	<b>23 940</b>
Tax	137 091	49 701	(1 092)	(1 879)	6 001	7 412
<b>Net profit/(loss) after tax</b>	<b>317 510</b>	<b>216 179</b>	<b>(2 647)</b>	<b>(8 830)</b>	<b>12 601</b>	<b>16 528</b>
Other comprehensive income/(loss)	89 580	84 739	-	-	17 105	2 145
<b>Total comprehensive income/(loss) for the year</b>	<b>407 090</b>	<b>300 918</b>	<b>(2 647)</b>	<b>(8 830)</b>	<b>29 706</b>	<b>18 673</b>
Minority shareholders' interest	-	37	-	-	-	-
Transfer to/(from) contingency reserve	(61 129)	4 612	-	-	(20 611)	7 724
Transfer to/(from) retained earnings	(6 303)	9 934	4 760	2 475	-	-
Dividends	114 000	40 000	-	-	-	-
<b>Change in retained earnings</b>	<b>258 336</b>	<b>181 464</b>	<b>2 113</b>	<b>(6 355)</b>	<b>33 212</b>	<b>8 804</b>
Net premiums to gross premiums	51%	52%	65%	66%	41%	41%
Policyholder benefits and entitlements to earned premium	73%	79%	14%	116%	65%	59%
Management and other expenses to earned premium	10%	8%	89%	71%	9%	13%



# A new world for insurance

The International Accounting Standard Board (IASB) has issued its targeted re-exposure draft on insurance contracts, marking a major step forward towards implementing a common insurance reporting framework across much of the world. The debate has run for more than 15 years and the conclusion of the insurance project is now in sight.

The new proposals apply to all insurance contracts, including certain financial guarantees, rather than insurance entities, and to investment contracts with a discretionary participation feature (DPF) issued by insurance companies.

***"This would be the biggest ever financial reporting change for most insurers – far surpassing the adoption of IFRS. The extent of change would be far-reaching, and there is no question that insurers' financial statements would look very different compared to today."***

**Joachim Kölschbach, KPMG's global IFRS insurance leader**

- The re-exposure draft introduces:
- A revised measurement model
- A new presentation approach
- Several other major changes, including:
- An unlocked contractual service margin, which would change the timing of profit recognition
- A mirroring approach, which would better align the measurement of participating contracts with their underlying items
- A retrospective approach for the transition to the new standard.

## **Broad business impacts**

The proposals would be likely to have a profound impact across an organisation, affecting asset-liability management and decisions over product design, features and pricing. Capital management and regulatory requirements may also be affected in some jurisdictions. And the new data collection and retention requirements could necessitate systems upgrades, increased demand for resources and additional training.

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