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FINANCIAL SERVICES

The South African Insurance Industry Survey 2015

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kpmg.co.za

"To be inspired is great, to inspire is incredible"

anonymous

THE HISTORY of insurance

describes the development of the modern business of insurance against risks, especially regarding cargo, property, death, automobile accidents, and medical treatment.

The industry helps to eliminate risks, spreads risks from the individual to the larger community, and provides an important source of long-term finance for both the public and private sectors.

CONTENTS

The Sutherland Telescope

The Southern African Large Telescope (SALT) is the largest single optical telescope in the southern hemisphere and among the largest in the world.

SALT is situated at the South African Astronomical Observatory (SAAO) field station near the small town of Sutherland, in the Northern Cape province. SALT is funded by a consortium of international partners from South Africa, the United States, Germany, Poland, India, the United Kingdom and New Zealand.

INTRODUCTION

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It is once again with great pleasure and pride that the KPMG Insurance Survey is unveiled – and in the 2015 edition, we are celebrating the uniqueness of South Africa and its continued ability to inspire.

Our connectivity with the market has ensured that the thought leadership that we share in this issue is topical, interesting, inspiring and most importantly, what you want to read. This year's edition kicks off with a light-hearted look at the slightly more bizarre aspects of insurance – some of these alternative insurance products could be the inspiration for your next growth initiative.

Our regulatory topics this year focus on market conduct facets as we take a closer look at the successes and challenges of the Retail Distribution Review implementation in the United Kingdom, as well as the aspects to consider in terms of the supervision of financial conglomerates. If regulation in other African territories is something you are considering as part of your expansion plans, we may have some answers for you in our Africa regulatory piece.

On the accounting side, we explore the impact of IFRS 4 Phase 2 by ways of a detailed example using the building block approach – keep your calculator handy when you read this article! We also raise the question on the applicability of IFRS 15 (the new revenue standard) on the insurance industry.

In our Africa section, we have included a broad-brush review of the insurance industry in some of the African regions. We further report on the latest expansion initiatives and aspirations of some of our local players. On a more serious note, we evaluate the impact that the recent spate of xenophobic attacks has had on our economy as well as how South Africans are protected against political risk.

These are only a few of the topics featured in this year's edition.

As always, we have included and analysed the financial results of the year gone by for the short-term insurance, long-term insurance and reinsurance industries.

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

> **"It always seems impossible until IT IS DONE."**
>
> **NelsonMandela**

Mark Shuttleworth

South African born **Mark Richard Shuttleworth** became the first citizen of an independent African country to travel to space

"A BIG part of WILLPOWER is having something to ASPIRE TO, something to LIVE FOR."

OUTLIERS AND THE ABSURD

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Whether you are in product development or a risk officer considering the completeness of your risk universe, one place to look for inspiration is to the outliers and the absurd. We have done some research on the stranger side of insurance and we can confidently say people insure against some very strange things. Many are just good for a laugh, but a few might be worth considering especially in the current tough trading conditions and market saturation. Expect to see appearances from the Love UMA, asteroids, aliens, Hollywood superstars and the supernatural.

The Love UMA

As Hugh Grant says in Love Actually "if you look for it, I've got a sneaky feeling you'll find that love actually is all around." However as the movie goes on to show, Cupid's arrows are random. So why not insure against losing the love of your life? We already have death benefits and life policies. Not surprisingly, there are a host of other "lost lover" potions. Wedding Insurance is one. Most of these policies cover the fixed costs of a wedding. Imagine that perfect rose garden was destroyed by hail. Alternatively, they can cover the cost of trauma therapy due to a run-away bride. Furthermore, there is more than one instance of a wedding dress catching fire[1]. Perhaps what the market needs is a Love UMA.

After the big day, life carries on. Kids come along and then nappies and school fees. Many responsible parents, who want to provide for their children if anything should go wrong, already have life policies. However, the Love UMA could also provide cover against other parental surprises. I have one little boy. He is fantastic and I love him. So naturally, I would not mind having a second child. But what if two turns into three or four… or five? Insurance against such surprises is a logical next step and already sold by Lloyds of London[2].

We have all heard about the increasing rate of twins. You have probably wondered about what the chances of having twins actually are. Recent UK statistics suggest that approximately 1.5% of British pregnancies result in multiples[3]. In the United States, this number is higher at around 3.3%[4]. Both sources agree that the probability has increased by over 50% in the last few generations. The increase is mainly attributable to both age (with 35 being the magic number) and fertilisation treatment. There is a positive correlation for various other factors: family history; a history of twin births; number of pregnancies; and size. Yes, you read that right – taller and bigger women tend to have more twins. Good things to be aware of when doing your underwriting. Interestingly the probability of having identical twins has remained constant at about 1 in 285. Whatever the case, these are high probabilities. The probabilities cited above are probably higher than vehicle accident statistics. However, the policyholder would only be "on risk" for a shorter period.

For six years, Britishinsurance.com insured a group of women against the Immaculate Conception[5]. These responsible ladies were concerned that they would not be able to provide for their new families should such a miracle occur. They planned and took out insurance against such an eventuality. Something the Love UMA would need to consider in the twins, triplets and quintuplets insurance policy wording.

[1] www.listverse.com
[2] www.toptenz.net
[3] www.twinsuk.co.uk
[4] www.babycentre.com
[5] www.toptenz.net

Asteroids

Turning our gaze on the heavens, you might also have wondered about whether you should take out insurance against an asteroid impact. Hollywood has made enough money from the idea that some people have decided there might just be a real need for asteroid impact insurance! It sounds crazy, but on 15 February 2013 an asteroid impact over Chelyabinsk in Russia left more than 1,000 people injured[6]. "Asteroids as small as 131 feet – less than half the size of a (rugby) field – have the potential to level a city.[7]" That is an expensive catastrophe event, which makes the Tohoku earthquake and Tsunami of 2011 at $35 billion[8] seem small. Many believe one of these bad boys caused the end of the dinosaurs. This problem is so real that some very rich people have funded a $250 million infrared space telescope called Sentinel to keep an eye out for us[9]. Talking of midsized asteroid collisions, NASA states that "the effect of the larger pieces would be comparable to having a car suddenly drop in at supersonic speeds" and "such an event occurs about once per decade somewhere on Earth, but most of them are never recorded, occurring at sea or in some remote region such as Antarctica.[10]" Well that is a relief, until one drops on the Michelangelo in Sandton.

It is worth noting that Lloyds has already written policies to insure against injury or death from falling satellites[11]. There are currently around 3,700 manmade satellites in orbit. Of these satellites only 1,100 are working. Given that these objects are "supposed to be put in an orbit that will make them fall to Earth and burn up within 25 years", there is a lot of falling space debris waiting to make an insurance claim!

There is clearly a significant potential loss from asteroids. There is also a reasonable probability that an asteroid strike may occur. It might be time for insurers to call their reinsurance brokers and have some serious conversations. It might also be time for underwriters to consider more carefully the exclusion clauses for natural disasters.

…and aliens

Over 20,000 people in the United States have insurance against alien abduction. But really – what are the chances? A group of scientists have been working on the Drake Equation for some years now. This amazing little bit of maths effectively tries to "estimate the number of potential intelligent civilisations in our galaxy." It is enough to get most actuaries quite excited. The equation itself (N = R*fp*ne*fl*fi*fc*L) is quite entertaining to work through (when your child is having an afternoon nap and Star Trek reruns are just not doing it for you). For a full explanation, refer to HowStuffWorks.com.

Now these guys are not a bunch of Area51 hunting madmen. They have full time jobs calculating things on very expensive equipment. One of them, Carl Sagan estimated that there might be as many as one million intelligent civilisations in our galaxy. More recently and with better information, these estimates have decreased dramatically. Michael Shermer of Skeptic magazine recently put the number for our galaxy below one. Still ours is not the only galaxy that exists so chances remain that intelligent life might exist beyond our blue planet. Whether intelligent life would abduct Americans to experiment on them is another question.

Clearly, there is a possibility. Putting it on your risk register might not go down well. However, another source estimates that there are another 30,000 alien abduction policyholders in Europe. Apparently, "typical policies cost around $150 per $1.5million in cover.[12]" If you owned the United States and European alien abduction market that would be over 50,000 policyholders. If you charged a measly R100 per year that would be R5 million on top-line. That would also be R5 million on the bottom-line because really, how would a policyholder prove they had been abducted by aliens?[13]

Insure my assets

Not surprisingly, asset insurance comes up on the list. Assets in the information age are more akin to a resource than a physical thing but physical parts are still important. Ugly entertainers just do not cut it. Injured sportsmen cannot compete. Moreover, a guitarist with a broken arm is just some dude on the stage. Therefore, it is not surprising that various superstars have insured their assets against loss. Tom Jones insured his chest hair for $7 million. Jennifer Lopez, Heidi Klum and Dolly Parton insured their respective assets for $27, $2.2 and $0.6 million each. Beckham had insurance at one point of $151 million against a career threatening injury[14]. Keith Richards has a $1.5 million disability income protection and Michael Flatley could dance all the way to the bank with his $40 million cover. These are all relatively normal. More interesting is Gene Simmons (from the band KISS), who has insured his tongue for $1 million[15]. In addition, it is possible to insure your fantasy league against a sporting injury[16]. Not surprisingly, Lloyds underwrites many of these risks as only the Lloyds market can get sufficient scale and numbers to pool the risks effectively.

Thinking about South Africa: where would Malema be without his right hand? Whether pumping a fist, wagging a finger or saluting a comrade – that one appendage holds the future of the EFF. And JZ's smile? Perhaps not worth the $10 million Aquafresh have insured Ugly Betty star America Ferrera's teeth for, but still a national asset. No doubt, Louis Oosthuisen, Retief Goosen, Steven Pienaar, Jacque Kallis and Jacque Fourie already have their assets insured against Golfer's elbow and other such horrors. Anyway, at the rate they are earning, they are probably set for retirement already[17].

[6] www.space.com
[7] www.jpl.nasa.gov
[8] www.businessinsider.com
[9] www.reuters.com
[10] www.jpl.nasa.gov
[11] www.bankrate.com
[12] www.propertycasualty360.com
[13] Is it a TCF issue if there is no real way to prove the loss event occurred?
[14] www.businessinsider.com
[15] www.bankrate.com
[16] www.personalinsure.about.com
[17] www.afkinsider.com

Something for our wine connoisseurs to consider is that "Dutch winemaker Ilja Gort… insured his nose for $8 million"[18]. Is this an untapped insurance market in the Western Cape? With the proliferation of coffee houses in South Africa, it is worth noting a coffee master's tongue was insured for $14 million[19]. Furthermore, a food critic, Egon Ronay insured his taste buds for $400,000; clearly, niche income protection plans have their place in the Western Cape.

As a company in the service industry, people are your resources. So why not protect them against the extreme? A British company has taken out insurance against the possible loss of two employees due to their winning the lottery[20]. More sensibly, a new mom/fee earning director is not charging time for her three months maternity leave. Understandably in Europe, where maternity leave can be measured in years, this is not a regular insurance cover (except indirectly by the Government). However, with our relatively short maternity leave periods in South Africa, perhaps it would make sense.

Regularly listed on the internet as outlandish, but actually common, is kidnapping and ransom insurance. One only has to consider the stories about Nigerian oil workers to realise there is a market for these.

Film producers and model photographers can also insure their prize models against pregnancy and marriage[21] – nothing changes a photo-shoot like a pregnant belly. More business for the Love UMA.

Supernatural

You have no doubt received a pamphlet from Prophet Ncube or one of his followers at an intersection. South Africans are not unique in having concerns about supernatural attacks or curses. The British in particular seem to have a fancy for insurance against the supernatural – Loch Ness, Haunted Houses etc. but it is not limited to them. A cursory search online reveals that witchcraft remains a hotly debated and emotional issue for many South Africans. Life insurance offices already cover being unable to work (for various reasons), as well as the required support and intervention. Therefore, it seems plausible that there would be a market for insurance protection related to loss of income or inability to work related to the supernatural. To limit our cover to the traditional dread disease or injury at work seems to be ignoring the multiple worldviews that are the backbone of our great country.

Claims Paid

You have probably heard the one about the cigars. An American lawyer insured his expensive cigars against fire damage! He then proceeded to smoke them and submitted a claim because "the cigars were lost in a series of small fires." Although originally repudiated a judge overturned this decision and the insurance company settled the $15,000 claim (apparently the policy wording was not specific enough). Not to be outdone the insurers then proceeded to lay charges against him for arson. He received 24 months jail time and a $24,000 fine.

You have probably also heard the common saying that coconuts kill more people than sharks each year. Consequently, you should not be surprised to know that you can take out travel insurance that includes death by coconut. However the commonly quote statistic of 150 deaths per year from coconuts appears to be complete junk. There appears to be no real evidence on the amount of coconut deaths at all. The more realistic question for travel insurance to South Africa is whether your policy covers shark attacks. National Geographic however seems quite confident that "only 5 people die from shark attacks yearly" and "since 1905 Natal has had 89 shark attacks and 27 fatalities.[22]"

Relativity

One day you might be able to buy insurance against the effects of relativistic time dilation, but for now, as Albert said, "if at first an idea is not absurd, there is no hope for it.[23]"

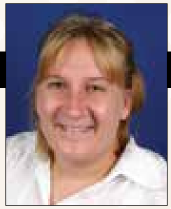
[18] www.bankrate.com (insured through Lloyds)
[19] www.bankrate.com
[20] www.usinsuranceagents.com
[21] www.businessinsider.com
[22] www.natgeotv.com
[23] www.wordpress.com

The Apartheid Museum opened in 2001 and is acknowledged as the pre-eminent museum in the world dealing with 20th century South Africa, at the heart of which is the apartheid story.

Apartheid Museum

Real Desire to Reform

RDR should inspire us to innovate



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It is not surprising that many CEO's, COO's and CFO's in the insurance industry feel as though there is a huge target on their back. When counting sheep is being interrupted by matters such as SAM, BN 158, IFRS 4, IFRS 9, IFRS 15, market conduct, TCF and RDR it may seem difficult to see the silver lining emerge behind the vast volume of dark regulatory and accounting clouds. Adding to the already pressurised environment is the difficult trading conditions, a strained economy and a saturated market.

The Retail Distribution Review (RDR) was undertaken in response to the fact that, despite the significant progress achieved through the Financial Advisory and Intermediary Services (FAIS) Act in raising intermediary professionalism, improving disclosure to clients and mitigating certain conflicts of interest, significant concerns about poor customer outcomes and mis-selling of financial products remain. The RDR paper outlines a number of key risks inherent in the current distribution landscape, including distribution relationships and intermediary remuneration models that contribute to poor outcomes and mis-selling, and puts forward a number of proposals aimed at addressing these risks. There are 55 proposals to be considered by the industry.

Key structural changes include placing greater responsibility on product suppliers for ensuring the delivery of fair customer outcomes through their chosen distribution channel; limitations on the types of remuneration that intermediaries can earn and from whom, designed to address conflicts of interest; and enabling customers to understand and compare the nature, value and cost of advice and other services that intermediaries provide.

The paper advocates a consistent cross-sectorial approach to regulating the distribution of financial products. The primary aim of the RDR is to ensure that financial products are distributed in ways that support the delivery of TCF outcomes.

Desired outcomes of the RDR are distribution models that:

- Support the delivery of **suitable products** and provide **fair access** to suitable advice for financial customers;
- Enable customers to **understand and compare** the nature, value and cost of advice and other services intermediaries provide;
- **Enhance standards of professionalism** in financial advice and intermediary services to build consumer confidence and trust;
- Enable customers and distributors to **benefit from fair competition** for quality advice and intermediary services, at a price more closely aligned with the nature and quality of the service; and
- Support **sustainable business models** for financial advice that enable adviser businesses to viably deliver fair customer outcomes over the long-term.

It is clear from the objectives above that RDR will have a far reaching impact, not only on insurers, but also financial advisers, suppliers in the distribution channel and asset managers. It is going to be pivotal to be pro-active in this regard and to not sit and wait on the bench and see what the rest of the market is doing before active steps are taken to address deficiencies in product design and distribution channels.

What can we learn from the RDR in the UK?

Europe Economics published a post implementation review in December 2014 dissecting the aftermath of the implementation of RDR in the UK. The 107 page document seeks to find answers on a number of questions, including questions such as:

- Has professionalism improved?
- Has RDR improved consumer trust?
- Has clarity of services increased?
- Has RDR resulted in an advice gap?
- Impact on products?
- Are firms better able to meet their long-term commitments?

We will explore some of the answers to the above questions later in this article.

But to start off with: the key findings of the research highlighted the following main trends post- RDR implementation:

RDR has resulted in an increased level of professionalism among advisers

This finding has been evidenced by an increase in membership to professional bodies as well as advisers obtaining higher levels of qualification. Advisers are also more attentive to provide holistic ongoing advice services that stretch far beyond the date of sale.

Ban on third-party commissions

The ban on third-party commissions has reduced product bias in the industry. How was this evidenced?

There has been a rebalance in the number of products sold with higher/lower commissions pre-RDR. So a decline in the previously high commissioned products and an uptake in the previously lower commissioned products.

Shopping around

More and more consumers are using the opportunity to shop around between different D2C[1] platforms and exerting competitive pressure on platform charges.

RDR driving costs down

Charges for retail investment products have been decreasing since the implementation of RDR. It is estimated that the decrease in the advisory charges is at least equal to the commissions paid pre-RDR and due to increased competition in certain areas more. Cost of advice has however increased. The net impact on total cost of impact at this stage is difficult to determine with certainty.

Long-term commitments

It appears that advisory firms are better placed to meet their long-term commitments. Post- RDR implementation evidence indicates that average revenues, profitability and capital reserves of advisory firms have increased. The statistics for the larger advisory firms is however weaker.

What did RDR cost the industry?

It would seem that the actual cost of implementation is lower than initially expected.

Did RDR in the UK meet its objectives?

Objective set	Outcome
Standards of professionalism that inspire consumer confidence and trust	**In progress** with no evidence of increased consumer confidence and trust
An industry that engages with consumers in a way that delivers more clarity on products and services	**Disclosure has improved** but there is still a lack of clarity amongst consumers on services and charges
Remuneration arrangements that allow competitive forces to work in favour of consumers	Removal of commission = reduction in product bias Removal of platform rebates = reduced complexity of D2C charges Cost of advice has increased
An industry where firms are sufficiently able to deliver on their longer term commitments and where they treat the customer fairly	Improvements evidenced
A market which allows more consumers to have their needs and wants addressed	Improvements evidenced
A regulatory framework that can support delivery of all aspirations and does not inhibit future innovation where this benefits consumers	Signs of innovation in the market particularly in simplified automated advice

[1] Direct to consumer

But let's focus on some of the pertinent questions that can guide us in our local implementation.

Has RDR improved consumer trust?

The mere fact that consumer trust and confidence are impacted by a host of actions makes it difficult to draw a direct correlation with RDR implementation. The post-review in the UK indicates that where people had already received advice from advisors pre-RDR, the impact can be noted. However, amongst the broader population where advice was not given pre-RDR no conclusions of increased trust could be made. The 2014 Omnibus survey shows that around 36% of respondents disagreed that banks and building societies, insurance providers or financial advisers were trusted to act in the best interest of their customers (2010: 34%).

What is also of concern is that consumers do not perceive that problems in the industry have improved post- RDR.

On the positive side there has been a decrease in customer complaints relating to financial advisers from 1.5% in 2010 to 0.5% in 2014 – does this mean that levels of unsuitable advice is dropping?

Has clarity of services increased?

The disclosure of information by firms to consumers in relation to the nature of advice they offer has improved with the majority of firms compliant with the requirements to clearly disclose whether they provide independent or restricted advice, although concerns remain in relation to disclosing the scope of restricted advice.

What is also of concern is that a significant proportion of customers do not fully comprehend the difference between independent and restricted advice – assuming that advice is independent unless clearly stated otherwise. According to the Consumer Purchasing Outcomes survey in 2010, around 40% of respondents indicated a lack of understanding of the type of services provided by their advisers. More recent NMG Consulting research indicates that it is still complex for consumers to fully understand the type of services that are available and offered by an adviser since the scope of restricted services can be very wide ranging and vary across advisers. KPMG research undertaken for the FCA[2] Practitioner Panel found that disclosure about the services offered by advisers has not brought clarity to the majority of consumers of average or low capability, with the meaning and materiality of the regulatory definitions of "independence" and "restricted" unclear to consumers.

Changes in the supply of advice

The majority of firms had to rethink their business model and strategy as a result of the ban on commissions on investment products in the UK. One of the notable outcomes is the segmentation of customers and the consideration of the bouquet of services rendered to every segment with a focus on those segments with higher level of investable assets.

Firms had to focus on the following key areas with regards to their service offering:

- Independent vs restricted advice
- Reassessment of clients and the segmentation of clients
- Once-off services vs ongoing
- Charging structures offered

Prior to RDR becoming effective many anticipated that advisers need to offer the full range of investment products to remain "independent" and that this would increase the costs and resources required to operate. The expectation was that it would incentivise the adoption of the restricted model, with more advisers specialising in advising on particular products. Surveys[3] conducted by NMG Consulting indicated the following:

- Gradual increase in proportion of restricted advisers;
- Most advisers are still independent
- Most revenue is derived from independent advisers

KPMG research for the FCA[4] indicates that the restricted model will make up 50% to 75% of advised business. This alleviates some pressure associated with the regulatory risk with operating too widely in areas where advisers are not skilled.

A concern due to the ban on commissions was that customers with low level investable wealth and who require ongoing advice will no longer be profitable – at least not at the fee levels that these customers would have an appetite for. This is why it is no surprise that significant client segmentation has taken place post- RDR. The segmentation is then the driving force behind which services are delivered to which customer.

[2] Financial Conduct authority
[3] NMG Consulting (Q2 2014), "Financial adviser census – Business trends report."
[4] KPMG, 2014, "Initial impacts of RDR – research summary" on behalf of the FCA Practitioner Panel.

Advisers are also moving towards higher net-worth customers by implementing minimum thresholds of wealth levels – indications are that these levels are set between 50 000 pounds and 100 000 pounds, but some thresholds could be as low as 25 000 pounds. Mintel further contends that the availability of advice has declined post-RDR especially for customers with less than 20 000 pounds to invest[4]. Although these statistics seem not to be aligned with the desired outcomes of TCF, research undertaken by Schroders found that less than 15% of advisers have asked smaller clients to leave.

Impact on products

With the ban on commissions there was no more product bias and as a result the mix of products being sold has changed substantially. One significant example from the UK is the decline in investment bonds which had an initial charge of 7.5% of initial funds invested. On the flip side, investments such as tracker funds, which had a low investment cost, are now becoming more popular. The positive outcome is that the adviser is no longer biased and motivated by the level of commission on products, but is now focussing on product characteristics and suitability for the client.

Distorted incentives may also still remain in relation to adviser charging. Majority of advisers have a charging structure based on a percentage of funds invested. This may therefore partly undermine the aim of RDR to better align advisers' incentives with those of consumers, at least to the extent that it creates an incentive for the adviser to recommend investing more funds which may not be suitable for a specific client.

Charges for retail investment products have declined, partly due to the introduction of simpler products and funds which are more straightforward to manage and thus carry lower charges. This is one area where RDR has resulted in innovation in the industry.

[4]Mintel (2014), Consumers and Financial Advice, UK April 2014.

Conclusion

There is no doubt that RDR has had a significant impact in the UK and that the implementation in South Africa will be no different. There are certain aspects that differ between the two models, but we anticipate the impact to be very much aligned.

This is an area where preparation and readiness will be key to success. The more information can be obtained about the successes and pitfalls in the UK the better a business can prepare for the local implementation. To sit back and wait for competitors to implement their strategies, will not be a winning solution.

Strategies around product design and distribution channels will need to be clear, simple, innovative and achievable – and the industry is well equipped to actively and positively respond.

Source: Europe Economics "Retail Distribution Review Post Implementation Review, 16 December 2014".

> **"In time, we shall be in a position to bestow on SOUTH AFRICA the greatest possible gift — a more human face."**
>
> **Steven Biko**

Groote Schuur Hospital in Cape Town South Africa was placed centre stage in the world's spotlight when Professor Christiaan Barnard performed the world's first human heart transplant on the 3rd of December 1967.

"Suffering isn't ennobling, recovery is."

Christiaan Barnard

STRATEGIES TO DRIVE DIGITAL CHANNELS

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The world is in the midst of a technology driven business revolution, not just another modular or incremental change in business processes, or a new version of software, or updates to existing global insurance capital standards, or the next phone iteration; but a transformation to a technology enabled world with many facets and ecosystems that will yield itself in a constant state of evolution or change.

In the past 50 years we have seen how the world has taken concepts like the first computer and matured it into the personal computer, to the laptop, to the personal digital assistant, to the tablet. While simultaneously the concept of a cordless telephone was introduced and adapted into the first mobile telephone, to the first internet enabled phone, to the first smartphone – and recently a convergence with the personal computer to form phablets (arguably the convergence started with the emergence of smartphones). All of these large waves of technological change brought about a complete transformation in the business domain.

As the world continues with the same flight path of increased digitisation at escalated levels, we see the convergence of so many industries and the commercialisation of new opportunities brought on by the trends seen in many markets. Big data[1], smart phones, smart cities, the evolution of smart cars, smart wearables, cloud services and, of course, the Internet of Things[2]. What do all these trends mean for the respective industries? How can the senior executives of enterprises utilise these trends in technology to improve their current business operations, reduce their time to market, and build new models whilst increasing their market share?

Now the question regarding this revolution, is not regarding whether it will be televised (that is obvious), but rather how should business, consumers and all the other stakeholders approach it or rather, survive it and drive a successful transformation through the optimal use of digital channels?

In this article we explore the meaning, and associated application of digital channels through various industries. We also take a look at the challenges that digitisation faces and how to successfully address the concerns. The article concludes with a practical African approach.

What is Digital?

"Signal transmission that conveys information through a series of coded pulses representing 1s and 0s (binary code)." (Source: Gartner)

Digital channels have become known as enablement and distribution channels in the digital form. It includes web, mobile – smartphones, tablets, applications (apps), social media, cloud computing, analytics and technology platforms (including the Internet of Things and BIG Data).

With such a wide definition of the term, it follows that most, if not all, organisations or enterprises are touched by digitisation, and are in fact experiencing it at varying degrees of advancement. Industries across the world are acknowledging the power of digital as a factor driving customer needs and expectations, albeit some, like the insurance industry, are slower to embrace this in comparison with the telecommunications, retail, media and entertainment industries.

Practical applications of Digital Channels

Digitisation allows enterprises to collect more information on their customers and tailor their products and services to the specific needs of these customers. This becomes extremely important due to the rising hyper relevance trend among customers. The customer of today, whether they be for telecoms products or insurance services, is looking for that personal touch from their providers – they expect their needs to be understood and met at an individual level. And why should they not when they have shared so much information with these providers.

[1] Big data is an evolving term that describes any voluminous amount of structured, semi-structured and unstructured data that has the potential to be mined for information.
[2] The Internet of Things (IoT) is a scenario in which objects, animals or people are provided with unique identifiers and the ability to transfer data over a network without requiring human-to-human or human-to-computer interaction.

Enterprises have a wealth of information on their current customers which they can analyse and segment and give attention to as dictated by their needs. In KPMG's 2013 Insurance Industry survey, 35% of senior insurance executives use data insights for customer acquisition, the second most frequent use after risk management, yet in a research conducted by eConsultancy in 2013, it was found that companies who are personalising web experiences are seeing an average 19% uplift in sales. There is a missed opportunity by companies with the data that they already have.

In the regions of Asia-Pacific, Latin America and Africa for example, there is a growing young middle class (the median age of Asia-Pacific being 28.1, Source: worldstat.info) who are looking for engagement in a manner which is familiar to them (often using latest technologies). The untapped revenue potential for this middle class in the Asia-Pacific region for 2020 is estimated at USD 40 trillion in the insurance industry alone. Another trend picked up in the region is the increasing life expectancy and improving healthcare which means that the older generation needs to reconsider their retirement investment and life insurance products. This segment of customers is looking for new innovative products and services from enterprises.

In 2015, it was estimated that 70% of the world population has a mobile phone, whereas only 28% have a bank account (source: Gartner). There is a distinct global move by customers from using conventional online channels (i.e. desktop and laptops) to mobile channels (i.e. smartphones and tablets). This trend is most felt in China with their customers preferring to consume products and services mostly through their mobiles. Due to the increase in the mobile and online population, there is a sharp increase in online transactions, leading to transformation in the payments space – globally this will amount to under USD 1 trillion in 2015 (source: Gartner).

In the telecommunications and banking sectors in India and Russia, the implementation of successful loyalty programmes has resulted in more customer interaction. Particularly with the implementation of gamification[3] it was found that enterprises could use the concept to target a specific customer segment. A good example would be to use it on a mobile app or web interface for young professionals who needed to be educated on the basic principles of prudent financial planning.

Personal financial management tools are increasing the customer experience and satisfaction for financial institutions, however these are not being leveraged by the banks, insurers and other enterprises in the industry. Rather, third party financial technology companies, known as Fintechs, have started on this innovation (the likes of Mint, Personal Capital and BillGuard). However, consumer adoption has been slowed by reluctance by both financial institutions and consumers citing data privacy and security as a concern. There is a clear opportunity in the market for financial institutions to partner with these Fintechs or (if they can spare the time and cash) build these tools in order to differentiate themselves through a better customer experience and also leverage of the unique insights these tools could bring in the form of cross/up selling opportunities.

The increased amount of sensors sending information to manufacturers and other third parties is making the life of a car owner easier. The evolution of smart cars in the future will enable automobile insurers to be notified on collision for potential claims or through the press of a button on a built in app in the car. As noted earlier, the insurance industry worldwide is behind the curve when measuring the utilisation of digital channels. The concept of the Internet of Things suggests that the car sensors may be able to interact with the insurers' app on the owners' phone. This will be the next evolution from the telemetry trend.

From a survey which was conducted by KPMG in 2014, it was clear that the largest practical application of digitalisation within enterprises was cloud services – in particular Software-as-a-Service (SaaS), Platform-as-a-Service (PaaS) and Infrastructure-as-a-Service (IaaS). However in the local market there is still resistance to embracing this technology.

A growing industry trend in the mature insurance markets of the UK and US is cyber insurance. Cyber insurance refers to a broad range of insurance products designed to cover operational risks affecting confidentiality, availability or integrity of information and technology assets. Cyber insurance products can include coverage for various risks including data breach, cyber extortion, identity theft, disclosure of sensitive information, business interruption, network security, and breach notification and remediation. The trend is picking up due to increased US and European regulation on notification regulation that require enterprises to notify consumers if their personal data is breached. The ability of the insurance enterprises to gear their products in this new offering will place them in an ideal position to capture the current market opportunities and take further advantage of the growing trend of cryptocurrency (i.e. digital currency) which looms on the horizon.

Challenges and concerns

No major transformation, or in this case a revolution, has come to pass without challenges or concerns from the market. Those discussed here relate to privacy and security, regulation and compliance, and complexity and cost.

[3] Gamification is the use of game thinking and game mechanics in non-game contexts to engage users in solving problems and increase users' contributions.

Privacy and Security

As much as information is freely available and accessible, consumers are continuing to be educated by themselves and other enterprise driven campaigns on the dangers of having this information "out there." As many incidents have occurred over the past 5 years of information breaches and incorrect dissemination of information, both enterprises and consumers are widely aware of the risks associated with giving and receiving of information. As the only major concern raised consistently by consumers when new technologies emerge, it is in the interest of enterprises to put those concerns to rest by openly sharing with the consumers the necessary steps taken to limit the risk of information leaking.

Enterprises also need to adopt a continuous improvement approach to their traditional security threats. Gone are the days when a patch needs to be released for vulnerabilities to be addressed, but due to the speed of change, proactive measures must be taken to ensure that all is and remains well.

Due to the use of new technologies and broadening the scope of using digital channels, this also introduces more possible areas where malicious attacks can take place. For those enterprises looking at the cloud, they need to ensure the vendors are maintaining the infrastructure and gateways with the correct controls.

Cyber security expands to mobile applications and web portals, and the ability for the enterprise to safeguard itself from large scale attacks at any time. Maintaining this becomes critical to preserve and sustain an enterprise's trust with its customers. KPMG's solution offerings relates to ensuring you have the controls in place; prevention rather than reaction; early threat detection and immediate remediation action; and ensuring the communication to the customer is addressed.

Regulation and Compliance

Different regions in the world have their own data processing requirements. Where in the past an international bank in the UK with subsidiaries in Africa would be able to process all its transactions in a central hub in India, that may no longer be the case in certain regions. Where in the past all Research and Development costs were realised in a telecommunications and technology company in Asia and IP rights registered in the USA, that may no longer be the case today.

Cross regional regulation is fast changing and enterprises need to be aware of the changes as they happen in order to ensure compliance. The revolution will require that enterprises know where it is cheaper to host certain of their operations, but also be well aware what that entails from a risk management perspective. Currently no one knows what would be the implications of a widely accepted international digital currency (also known as cryptocurrency), however there is a sentiment of readiness in the market (source: KPMG Tech Innovation survey, 2014).

Complexity and Costs

The Asia-Pacific Financial Institutions' annual technology spend is over 50% higher than the other industries in the region. This spend is an annual 6.3% of their revenue. (Source: Gartner) Yet estimations for mobile payments spend is approximated to be USD 170 billion with a majority of the current consumers saying they would increase their spending with an increase of data security.

Is the expected revenue worth the anticipated cost and complexity? That is the question CIO's need to have a ready answer for – a simple return on investment (ROI) response. However in order to estimate the cost, what complexity are we working with?

World over, the largest enterprises are plagued with similar technology constraints – most are underpinned by legacy systems. Financial institutions, including insurance companies, across the world are increasing their IT spend with a focus in data analytics and digitisation (in the form of multi-channel integration). In the light that very few organisations can throw away their old systems and switch to new ones, most enterprises are stuck having to wrap their existing systems with layers of integration. Most often, the answer to the cost question is not easily received by the CFO's and CEO's.

The common mistake lies in the multitude and inflexibility of the integration layers. Each project comes with its integration requirements and they are designed in isolation with other projects in flight or in planning. There needs to be a consideration of a seamless integration layer which caters for a majority of foreseeable requirements in the present and future. A platform which works in the cloud or on premises, with structured and unstructured data, that jointly interacts with the internet of things and runs analytics on live data and gives you real time responses – a platform of platforms.

Digital in Africa – A suggestive approach to driving digitisation

Digitisation is by no means a new phenomenon in Africa, neither is the revolution far from our shores. Rather the canvas to paint the digital masterpiece is much unused or relatively blank in this case. We will now discuss a possible approach to adopting digital channels using Africa as the context.

Stakeholder commitment

Only 16% of Africans are using the internet, 10% of these internet users (with a fixed wired connection) have access to speeds of up to 2 Mbps in comparison to + 16Mbps speeds experienced in India, Japan and China (source: ITU). From an external stakeholder perspective, state authorities on the continent have a pivotal role ensuring these numbers are increased through the development of correct infrastructure. Of course this needs to be in partnership with the corporates that reside within the borders. This investment in infrastructure ensures that countries in the region are well equipped to handle the growing demand of business growth – which translates to a growing GDP.

For internal stakeholders in the organisation, creating a digitally friendly organisation is probably least on the mind of the CEO who is looking to grow and expand across the continent. However, in order to have a sustainable footprint in the world today, digital has to be part of the CEO's agenda. The challenge becomes how it is presented in ROI terms which they can receive. Although the CEO is not necessarily the owner of an enterprises' digital strategy, their buy-in is crucial for its successful implementation.

There is a growing trend among the emerging markets of setting up regional start-up hubs, like Silicon Valley in the US. The trend noted in the Middle East, Asia-Pacific and Russia has had a positive effect in ensuring that innovation is encouraged and rewarded in the regions. These start-ups are well received in business environments and are doing well in creating sustainable solutions to challenges that have been plaguing enterprises. These innovative solutions are often found in the waves of the new technologies available.

State authorities, corporates and small business should show this commitment through collaboration: co-source, co-fund and co-develop sustainable efforts to drive adoption of digital channels and take the continent forward.

Know your customers and broader market

As noted in the earlier section of the practical application of digitisation, one of the key drivers for enterprises increasing their customer's experience and satisfaction was the ability to deliver customisable or personalised content and/or products and services. An interesting observation refers to the converse trend of increasing mobile penetration (with mobile subscriptions over 900 million as cited from the Ericsson Mobility Report) and internet usage in Africa yet there is still a slow adoption for internet banking. A major concern for customers is the uneasy flow on the internet banking platforms. Financial institutions can do a lot in increasing this adoption through three principles: Simplicity – reducing complexity in navigations; Relevance – customisable dashboards and other functionality which speeds up transactions; Internalise – use their employees as advocates for the new digital channel.

According to the World Bank, Africa is leading with mobile money penetration with 12% of adults in Sub-Saharan Africa with an account in comparison to 2% in the rest of the world. WorldRemit places half the world's mobile money service providers in Africa, estimating transactions to reach USD 33 billion. Mobile money is seen a key enabler for financial inclusion on the continent where only 34% of the population has a bank account (source: World Bank). However consumer adoption of the technology innovations in the region has limited their growth, mainly driven by age and culture.

Drive an agile organisational culture of innovation and collaboration

There needs to be closer collaboration among the senior executives in harnessing the ability of these digital channels and trends. As these senior leaders advocate for innovation and collaboration, they need to break the mental and structural silos that exist in order to create an agile environment. This agility will result in faster time to market which makes for a competitive advantage in fiercely contented markets like insurance. Consider moving towards the digital channels for delivery of the content, products or services – in the African banking industry transactions delivered through the online and mobile channels cost as little as USD 0.1 per transaction, while branches (the most preferred channel) costs USD 4.

Rethink your technology

Banks in the emerging markets, Africa included, are looking at increasing their investments in BIG Data, data analytics and other digital channels. As noted in the challenges enterprises face when it comes to execution, is realising the limitations of the legacy systems in order to fulfil the digital mandate. Adopting a robust Enterprise Architecture framework is a start. Ensuring that the integration layer is built for the future state and not fit and fixed for one digital channel becomes the new thinking. This new integration platform thinking ensures even future development can plug onto this platform and can handle external interfaces becoming a Platform of Platforms.

Conclusion

With the various waves of the revolution hitting enterprises at different angles, stakeholder commitment remains essential, followed by useful insight of the customers and the market. The approach then takes a look at how to run things in a more lean and flexible manner, and having the right technology enablement layer to ensure that the old speaks to the new.

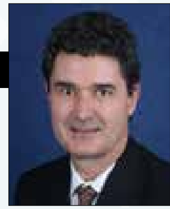
At the end technology driven business revolution is being televised, experienced in enterprises, consumers, relevant entities and other things alike at different stages already.

"I sin if I submit to the indignities that are hurled at me. I am a guardian of the divine and it is my duty to defend it."

Albert Luthuli, South Africa's first Nobel Peace laureate

Albert John Mvumbi Luthuli was awarded the Nobel Peace Prize in 1960 for advocating non-violent resistance to racial discrimination in South Africa. Though the apartheid government restricted his movements, Luthuli was granted special permission in 1961 to attend the award ceremony in Oslo, Norway. In his speech he said that he considered the award "a recognition of the sacrifices made by the peoples of all races in South Africa particularly the African people who have endured and suffered so much for so long". The chairperson of the Nobel Peace Prize Committee, Gunnar Jahn, praised him for his commitment to the peaceful struggle for human rights in South Africa.

ARE WE SERIOUS ABOUT TAX RISK MANAGEMENT?



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Introduction

The final day of the 2014 SAIT Tax Indaba focused on Tax Risk Management ("TRM"). The session was well-attended. Numerous South African flagship companies' Group Tax managers were there – and they participated enthusiastically.

Day Five of the 2015 Tax Indaba (during June 2015) will again be dedicated to TRM, including how to make tax governance part of the overall corporate governance process.

On the face of it, it would appear that there is a healthy interest in TRM developments in the South African context.

But, how serious is South Africa really about TRM?

A recent press report titled *"Tax issues take back seat on SA boards"*[1] indicated that 60% of directors say their boards had not discussed public perceptions regarding their company's effective tax rate or their use of tax havens. This statistic is mind-boggling when taking into account the reputational carnage so-called "aggressive tax planning" recently inflicted on Starbucks, Google, Amazon, etc. This is even more so, considering the widely-publicised Base Erosion and Profit Shifting ("BEPS") initiatives currently actioned by the OECD.

The Tax Administration Act, No. 28 of 2011 specifically provides that a taxpayer can be selected for audit by SARS on a random basis or on *"a risk assessment basis"*[2]. Audit selection on the basis of risk propensity is accepted globally[3].

What is not clear is exactly how, and to what extent, a company's TRM (or lack thereof) feeds into SARS' risk-profiling criteria?[4]

In a 2014 SARS' presentation to the Standing Committee on Finance it was stated that 19 568 "in-depth audits" had been carried out[5]. The question is, however, whether a company practising sophisticated TRM would have been treated any differently by SARS during such an audit, i.e. how does TRM, embedded as part of the company's corporate governance processes, actually benefit a company when SARS, firstly, risk-profiles, and secondly, undertakes an in-depth audit of that company? The real issue is: to what extent is TRM a differentiator for SARS, if any?

In its latest Strategic Plan[6], SARS does indicate that it intends migrating from a *"uniform service offering"* to a *"differentiated service offering (based on compliance behaviour and segment")*. This could mean that, in future, SARS might be more nuanced in its risk profiling, and auditing, of corporate taxpayers by differentiating (i.e. giving "credit" through a light touch audit approach[7]) where the company has in place sophisticated TRM as part of its corporate governance regime.

Unfortunately, international trends suggest that South Africa might be lagging in the TRM space.

Why is TRM important?

The importance of TRM has been explained as follows[8]:

"The need to address risk management at all in a tax context arises due to the inherent indeterminacy of tax laws, which give rise to uncertainty around their interpretation. Where there is uncertainty, there is a risk to be quantified and managed, which ultimately links risk management with degrees of tax aggressiveness and attitudes to the law."

What is the purpose of TRM?

It should be pointed out that:

"Tax risk management is not necessarily about minimising tax risk but rather about a determination of the level of risk that is acceptable to the particular corporation and putting in place processes and procedures that ensure tax risks do not exceed acceptable levels."[9]

It is for this reason that TRM invariably addresses the particular corporate taxpayer's so-called *"tax risk appetite"*.

The global push to embed TRM as part of overall corporate governance[10]

Globally revenue authorities have signalled their expectation that large corporates *"…will strengthen their corporate governance in the area of tax-risk management."*

It is stated that: *"It is possible to manage tax risk in a global business environment by using leading practices that address both the needs of business and the expectations of tax administrators. The goal is to achieve a level of certainty about tax positions, tax reporting and tax planning that aligns with the principles of good corporate governance and that will satisfy the concerns of both parties."*[11]

An interesting point is made, namely that TRM should not be undertaken purely to satisfy the expectations of revenue authorities, but also because TRM could bring competitive advantages: *"Those that succeed will incorporate tax risk management into the core of their business decisions – from the boardroom and audit committee agendas to the operations on the ground in various tax jurisdictions. Getting global tax risk management wrong can mean material financial and reputational damage. Getting it right can yield significant competitive advantages."*[12]

In light of the above it is noteworthy that the leading South African Corporate Governance seminar series[13] in its advertisements specifically mentions, e.g. *"IT governance and how its targets technology risks"*. But, it is totally silent on tax governance and how that could mitigate tax risks?

There are, however, South African corporates that are progressive when it comes to TRM. SABMiller plc, in June 2014, published a document [14] "Our approach to tax". The foreword mentions *"In this report we include disclosures about our tax contribution, as well as some further explanation about tax management."* The document spells out SABMiller's approach to e.g. tax governance, tax responsibilities, operations in tax havens, meetings with tax authorities (i.e. "*… our dealings with revenue authorities should be based on respect and trust*"), tax disclosures, etc.

Another example is Vodacom. Its parent Vodafone has a very detailed document on *"Tax risk management strategy"* which is publicly available on the Internet.

The Australian approach to TRM

It is known that the SARS tax compliance model has been adapted from that of the Australian Tax Office ("ATO").

So what can we learn from down-under when it comes to TRM and embedding TRM processes and procedures into the corporate governance regime? And are there any benefits? How does the ATO support TRM by its corporate taxpayers?

The ATO expects robust TRM from corporates[15]

The ATO states: *"Managing your tax risk well is core to good corporate governance, particularly if you are operating in international markets. We work with you to build an environment that fosters good corporate governance and supports your tax-risk management."*[16]

The ATO sees TRM as a multi-role function within any large corporate taxpayer. The role of the corporate board, external scrutineers and the ATO's own responsibility are set out in detail within a conceptual model (the *"Tax operating model"*).

TRM is evaluated as part of the ATO's risk-profiling of corporate taxpayers

The approach of the ATO is that *"… in carrying out their risk review of large corporate taxpayers, the tax risk management practices of the taxpayer will be a consideration in the determination of the level of risk to the revenue and the extent to which that taxpayer will be subject to ATO scrutiny."*[17]

In carrying out its compliance interventions the ATO follows the procedures outlined in a detailed manual which is publicly available. In the run up to an audit the ATO would first develop a *"risk hypothesis"* regarding the specific taxpayer. The corporate taxpayer's TRM practices (or, lack thereof) would feature as part of such risk evaluation.

To the extent that a corporate taxpayer practices sound TRM, it would enable a revenue authority to apply a "light touch" compliance / audit approach to that particular taxpayer. This should enable the revenue authority to redirect limited resources to high risk areas, alternatively to those corporate taxpayers that do little, or no, TRM. This is what the HMRC is doing in the UK.[18]

The ATO makes space for proper TRM

Because the ATO demands robust TRM from Australian corporate taxpayers, it has also taken a conscious decision to allow those taxpayers room to develop and implement proper TRM practices.

The applicable ATO Practice Statement[19] encourages TRM in the following manner:

- There is recognition that managing a company's tax risk compliance requires that stakeholders should be able to robustly interrogate tax risks. Therefore: *"The ATO recognises that those responsible for managing a company's tax compliance risks need to be able to undertake broad ranging and candid communications.*

Those persons would include the company's employees, its external advisors and its directors undertaking governance of tax compliance issues."[20]

- To encourage TRM, and create space for same, the ATO has developed the concept of *"Corporate board documents on tax compliance risk"*. Although the ATO has the statutory power to request access to most documents, it has formulated a safe-habour and has given an undertaking not to access the above-mentioned class of documents (unless there are "exceptional circumstances");
- Corporate board documents on tax compliance risk qualifying for the safe-habour protection are those:
  - Created by advisors (being suitably qualified in-house or independent advisors);
  - Created for the sole purpose of providing advice or opinion to the board of directors (including properly constituted sub-committees) on tax compliance risk and their likelihood and impact; and
  - That address tax risks associated with major transactions and arrangements and / or tax risks arising from corporate systems and processes.
- The above-mentioned documents are therefore off-limits to the ATO, enabling TRM to take place unhindered, i.e. without the ATO accessing the TRM documentation produced solely for purposes of the company's tax governance processes;
- The safe-habour in relation to the above-mentioned document class operates alongside, and in addition to, the protections of legal professional privilege[21] and the so-called "Accountants' concession" (which limits access to auditors' working papers)[22];
- The exceptional circumstances that allow the ATO to gain access to the *Corporate board documents on tax compliance risk*, are:
  - The taxpayer's non-cooperation with the ATO in regard to information-gathering;
  - Important risk review or audit information cannot be sufficiently established from the taxpayer's source documents and other enquiries;
  - The taxpayer has a history of serious non-compliance (e.g. involving fraud / evasion / persistent avoidance).

Clearly the ATO acknowledges that its expectation (that corporate taxpayers should practise robust TRM) is only achievable when the revenue authority itself respects, and actually creates, the space for TRM to be fostered and embedded as part of the total corporate governance regime.

What is the state of TRM in South Africa and what is the SARS approach?

Reference has already been made to the fact that certain SA corporate taxpayers practise sophisticated TRM. They are on par with international best practice.

It would appear, therefore, that corporate taxpayers in South Africa are willing to commit the necessary resources towards TRM.

But, are local corporate taxpayers being "rewarded" or "encouraged" by SARS to initiate and invest in TRM (e.g. through risk-profiling differentiation and / or a "light touch" audit approach like in the UK?)

It is difficult to answer the question above. There is scant information available on how SARS sees the trade-off / linkages between TRM and its own risk-profiling / audit approach in respect of corporate taxpayers.[23]

Unfortunately South Africa seems to be heading in the wrong direction: Of late SARS has been requesting[24] detailed information and documentation in relation to *"…executive meeting board packs, minutes, related correspondence and presentations"*, including full access to Audit Committee and Tax Committee packs.

SARS' push for the above-mentioned information and documentation has persisted despite claims of legal professional privilege in respect of large portions of the so-called Tax Committee packs. As can be expected, said packs contain, *inter alia*, opinions from internal and / or external advisers – the very purpose of which was to assist Tax Committee members to properly evaluate and manage potential tax risks.

Unfortunately, there is some disconnect between the expectation that South Africa corporate taxpayers should follow international best practice when it comes to TRM, and the manner in which SARS is exercising its information-gathering powers under the Tax Administration Act.

The reality is that the very documents which are crucial for robust tax governance (and which are required by directors and Tax Committee members to discharge their statutory governance obligations) have now become sought-after by the revenue authority. TRM documentation is perceived as some short-cut mechanism to unearth and detect so-called hidden "tax risks".

There is little doubt that, under the Australian dispensation and the safe-habour that applies in relation to *Corporate board documents on tax compliance risk*, the above-mentioned documentation would be inaccessible to the ATO (bar the carve-out relating to "exceptional circumstances").

Conclusion

For now, TRM appears to be reasonably *"well and alive and living in South Africa"*.

The attention TRM is attracting at the upcoming SAIT Tax Indaba with a full-day stream bears testimony that TRM is no longer a *"nice to have"* – it has become an imperative. And this is acknowledged by South African corporate taxpayers.

But, for TRM to flourish and come into its own in South Africa, space must be created for it to grow. That means that options like the Australian safe-habour for tax governance documentation should be considered (and hopefully adopted) locally. It will mean that SARS should desist from information requests that undermine TRM, especially in relation tax risk information found in Board, Audit Committee and Tax Committee packs.

An over-broad push by any revenue authority for tax corporate governance documentation invariably runs the risk that Tax Committee packs will become "leaner", written submissions / opinions to the Tax Committee substituted with oral feedback and tax risks discussions happening in hushed tones in dark corners.

That will benefit nobody. It will merely drive TRM underground and ultimately, into oblivion.

In future SARS will have to do more, with less. SARS' 2014/ 15 to 2016/17 Resource Plan[25] show that both money and human resources will be tight (e.g. the total SARS head count actually shows a loss of a 1 000 staff leading into 2016/17).

To the extent that SARS, when risk-profiling and auditing corporate taxpayers, could rely on the TRM and tax governance (embedded as part of a corporate taxpayer's overall corporate governance processes), that should allow SARS to refocus limited resources towards areas in the SA economy where evasion and non-compliance is really rife – as opposed to indiscriminately throwing resources at corporate taxpayers with good TRM and tax governance. In this way SARS gets *"more bang for its buck"* and corporate taxpayers are incentivised to up their TRM game.

Tax Risk Management should be encouraged and given adequate space – South Africa need more of it, not less.

1 BDlive 19 January 2015, Amanda Visser, *Tax issues take back seat on SA boards*;

2 Section 40;

3 IBFD, *"Tax Risk Management From Risk to Opportunity"*, at p. 117: *"The approach to compliance outlined above is often used in conjunction with risk assessment, involving the risk profiling of taxpayers, using risk indicators (risk rating) in order to decide where to focus resources to achieve maximum compliance with what is available."*

4 A search for *"Tax Risk Management"* on the SARS website search facility did not produce any results;

5 Presentation by SARS to the Standing Committee of Finance, 1 July 2014, *"2014/15 – 2018/19 Strategic Plan & 2014/15 Annual Performance Plan"*;

6 SARS, 2014/15 – 2018/19 Strategic Plan, at p. 20;

7 The "light touch" approach is practiced by the UK's HMRC, where appropriate. Judith Freedman, Geoffrey Loomer and John Vella, *"Corporate Tax Risk and Tax Avoidance; New Approaches"*, state: *"LBS is awarded a risk rating, which determines the volume of HMRC's interventions in the company's affairs and the nature of the working relationship between the two. In essence, a light touch is adopted for low risk companies, thus releasing resources that can be directed towards higher risk companies"*;

8 Emer Mulligan and Lynne Oates, *"Tax Risk Management: Evidence from the US"*.

9 Catriona Lavermicocca, *"Managing tax risk and compliance"*, the tax specialist, Volume 13, No 2, October 2009, at p. 69;

10 The OECD has been active in pushing the TRM agenda. Refer e.g. the publication by its Centre for Tax Policy and Administration, *"Information Note General Administrative Principles: Corporate governance and tax risk management"*, published in July 2009;

11 Fred O'Riordan, *"Governance and risk in a global economy"*, CAmagazine.com, June-July 2011 edition;

12 *"Governance and risk in a global economy"*;

13 See, for example, *"The FINAL 2014 Corporate Governance Update Seminar"*, 17th October 2014, Johannesburg presented by Professor Mervyn King (in BusinessDay Investors Monthly, August 2014 edition);

14 SABMiller plc, *"Tax and Development 2014"*, published June 2014. Other examples of similar documents are Diageo, *"TAX Global Policy"*, Unilever, *"Our approach to tax"* which are all publicly available;

15 Australian Tax Office, *"Large business and tax compliance publication"*, 14 October 2014 version, available on the ATO website;

16 *"Large business and tax compliance publication"* at par. 3 under *"Good tax governance – Sound tax-risk management processes"*;

17 Catriona Lavermicocca, *"Tax Risk Management Practices and their Impact on Tax Compliance Behaviour – The Views of Tax Executives from Large Australian Companies"*, eJournal of Tax Research, Volume 9, Number 1, July 2011, p. 89 – 115, at p. 90;

18 Refer footnote 7 above;

19 ATO Practice Statement Law Administration, *"PS LA 2004/14"*, available on the ATO website as well as the ATO's publication, *"Our approach to information gathering"*, November 2013 version (available on the ATO website), at p. 42;

20 "PS LA 2004/14", at par. 11;

21 *"Our approach to information gathering"*, at p. 36;

22 *"Our approach to information gathering"*, at p. 40;

23 See for example, a recent MComm (Tax) dissertation dealing with TRM in the South African context. There is no reference to SARS's views on TRM and whether TRM plays any role / influences its risk-profiling of SA corporate taxpayers. L. Jansen van Rensburg, *"Tax Risk Management: a framework for implementation"*, MComm dissertation, University of Pretoria, submitted on 31 August 2012;

24 In terms of section 46 of the Tax Administration Act, 2012.

25 *SARS, "2014/15 – 2018/19 Strategic Plan"*, at p.42;


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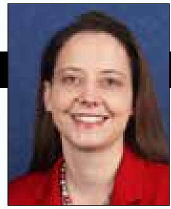
Table Mountain

Table Mountain in Cape Town is believed to be one of the oldest mountains in the world.

There are an estimated 2,200 species of plants found on the mountain alone – many of which are endemic to the mountain and can be found nowhere else.

PUTTING NUMBERS TO THE BLOCKS



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To think of the measurement of insurance contracts as a building block exercise was quite a new concept for many insurers. In the May 2007 discussion paper, insurers were introduced by the International Accounting Standards Board (IASB) to a "building block approach"[1] for measuring insurance contracts. Since then, the building blocks have been refined and developed by the IASB up to a point where many insurers may feel that their measurement block tower may tumble down before it is even built!

We are expecting the long awaited insurance standard next year and we have therefore put numbers to the building blocks to illustrate the practical implications of applying the proposed measurement model.

We have developed a worked example for a portfolio of non-participating insurance contracts, based on the Insurance Contracts Exposure Draft published in June 2013 and subsequent tentative decisions by the IASB up to February 2015. Through this example, we would like to improve insurers' understanding of the proposed measurement model, but also would like to highlight the complexities involved. The example will illustrate the impact on the statement of comprehensive income and statement of financial position of the insurer, throughout the life of the portfolio.

Although the effective date of the final standard is expected to be approximately three years after the standard is issued, we hope that insurers will be *inspired* by this example to perform a gap analysis and to start planning for the new standard.

Background to the example

- Insurer ABC had obtained its insurance licence recently and entered into term policies with its customers in period 0, which represents ABC's first financial year-end.
- ABC received an invoice for commission (acquisition costs) of R23 payable to its broker. The commission related to services performed by the broker before the coverage period of the term policies started and was paid when the first premium instalment was received.
- The term of all the contracts is five years.
- ABC made an accounting policy election to recognise the impact of changes in discount rates in other comprehensive income ("OCI").

> **"It is not enough to stare up the steps – we must step up the stairs."**
>
> **Vaclav Havel**

[1] The proposed measurement model is based on a current 'fulfilment' objective which reflects the fact that an entity generally expects to fulfil its liabilities over time by paying benefits and claims to policyholders as they become due, rather than transferring the liabilities to a third party.

Key assumptions

- A portfolio[2] of contracts with zero lapses is assumed.
- Annual premiums are received at the beginning ("beg") of each period.
- Claims and expenses are paid at the end of the period.
- The risk adjustment at inception of the contracts is 67.
- The changes in the discount rates and risk adjustment as well as the other expenses incurred are provided in the table below:

	Period					
	0	1	2	3	4	5
Discount rate at the end of the period	8% (a)	9%	9%	7%	7%	7%
Change in the risk adjustment at the end of the period[3] (b)		12	5	20	15	15
• Relating to the current and past periods		5	2	14	12	15
• Relating to future periods		7	3	6	3	0
Advertising costs incurred during period *	8					
Annual expenses incurred *		2	3	3,5	2,5	2

* Not regarded as probability weighted cash flows

(a) Locked-in discount rate

The discount rate of 8% at inception of the contracts (period 0) is referred to as the locked-in discount rate. At each reporting period the discount is updated based on the latest current rate.

The IASB concluded that, in principle, the discount rate for an insurance contract should reflect the liquidity characteristics of the item being measured. Thus the discount rate should equal the return on the underlying non-tradable investment as the insurer cannot sell or put the liability without significant cost.

The IASB observed that in estimating liquidity adjustments to a current discount rate, an entity could apply either:

- a 'bottom-up' approach that would be based on risk-free rates, adjusted to include a liquidity premium; or
- a 'top-down' approach that would be based on the expected returns of a reference portfolio of assets, adjusted to eliminate factors that were not relevant to the liability. For example adjusting for a market risk premium for expected credit losses as well as unexpected credit losses.

It is important that insurers keep track of the locked-in rate as the effects of changes in the discount rate (i.e. between the current rate and the locked-in rate) should be presented in OCI or profit or loss, depending on the entity's accounting policy choice for each portfolio of insurance contracts.

(b) Adjustments to the risk adjustment

The IASB indicated that differences in the current and previous estimates of the risk adjustment relating to coverage and other services in the future should unlock (i.e. adjust) the contractual service margin (CSM) – but not to the extent that they result in a negative margin. However according to the IASB, changes in risk relating to future coverage or changes in risk relating to incurred claims would arise when there are unexpected changes in circumstances.

Changes that relate to coverage and other services provided in the current and past periods should be recognised in profit or loss.

[2] A portfolio is defined as insurance contracts that provide coverage for similar risks and are managed together as a single pool.
[3] The compensation that an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arise as the entity fulfils the insurance contract.

Adjusting the CSM for changes in the risk adjustment relating to coverage and other services that are to be provided in future periods would increase complexity, because entities would need to decompose the changes in risk adjustment into:

- Changes relating to current and past coverage; and
- Changes in risk relating to coverage provided in future periods.

Building block approach

Expected future cash flows Explicit, unbiased and probability-weighted future cash outflows less future cash inflows
Time value of money Discounted using current rates to reflect the time value of money
Risk adjustment To adjust for the effects of uncertainty about the amount and timing of future cash flows
Contractual service margin To remove any profit at inception Release over coverage period Interest accreted on the contractual service margin

All the elements representing the four building blocks will together be used to measure the insurance liability. It is important that insurers keep track of the different elements separately, as subsequent measurement of each block could be different. Each element should be remeasured at each reporting period.

Building block 1 and 2:
Present value of expected future cash flows

The present value of the explicit, unbiased and probability-weighted cash outflows, less future cash inflows as estimated at inception (period 0), are provided below:

Cash flow projections:										
Inflows and (Outflows)	Beg 1	End 1	Beg 2	End 2	Beg 3	End 3	Beg 4	End 4	Beg 5	End 5
Premiums received	100,0		105,0		110,0	0,0	115,0		120,0	0,0
Claims paid								(230,0)		
Acquisition costs	(23,0)									
Expenses relating to claims		(12,0)		(12,6)		(13,2)		(13,8)		(14,4)
	77,0	**(12,0)**[4]	**105,0**	**(12,6)**	**110,0**	**(13,2)**	**115,0**	**(243,8)**	**120,0**	**(14,4)**
Present value of cash flow projections (discounted at 8%)	**226,6**									

[4] The highlighted numbers represent the amounts taken into account when calculating revenue for each period (refer to statements of comprehensive income)

Updated cash flow projections for each period

At the end of each reporting period, the difference between the actual and estimated cash flows is determined and the future cash flows are re-estimated, as follows:

Probability weighted cash flows	0	Beg 1	End 1	Beg 2	End 2	Beg 3	End 3	Beg 4	End 4	Beg 5	End 5	PV future cash flows
Premiums received		100,0		105,0		110,0		115,0		120,0		
Claims paid									(230,0)			
Acquisition costs and expenses		(23,0)	(12,0)		(12,6)		(13,2)		(13,8)		(14,4)	
Estimated at period 0	**0,0**	**77,0**	**(12,0)**	**105,0**	**(12,6)**	**110,0**	**(13,2)**	**115,0**	**(243,8)**	**120,0**	**(14,4)**	**226,6**
Actual	0,0											
Estimated to actual adjustment	**0,0**											
Premiums received		100,0		105,0		110,0		115,0		120,0		
Claims paid					(90,0)				(142,0)			
Acquisition costs and expenses		(23,0)	(12,0)		(14,7)		(15,4)		(16,1)		(16,8)	
Estimated at period 1		**77,0**	**(12,0)**	**105,0**	**(104,7)**	**110,0**	**(15,4)**	**115,0**	**(158,1)**	**120,0**	**(16,8)**	**152,4**
Actual		77,0	(57,0)									
Estimated to actual adjustment		**0,0**	**45,0**									
Premiums received				105,0		110,0		115,0		120,0		
Claims paid					(90,0)		(50,0)		(142,0)			
Acquisition costs and expenses					(14,7)		(16,5)		(17,3)		(18,0)	
Estimated at period 2				**105,0**	**(104,7)**	**110,0**	**(66,5)**	**115,0**	**(159,3)**	**120,0**	**(18,0)**	**107,5**
Actual				105,0	(95,0)							
Estimated to actual adjustment				**0,0**	**(9,7)**							
Premiums received						110,0		115,0		120,0		
Claims paid							(50,0)		(150,0)		(50,0)	

Probability weighted cash flows	0	Beg 1	End 1	Beg 2	End 2	Beg 3	End 3	Beg 4	End 4	Beg 5	End 5	PV future cash flows
Acquisition costs and expenses							(16,5)		(18,4)		(19,2)	
Estimated at period 3						**110,0**	**(66,5)**	**115,0**	**(168,4)**	**120,0**	**(69,2)**	**9,3**
Actual						110,0	(56,0)					
Estimated to actual adjustment						**0,0**	**(10,5)**					
Premiums received								115,0		120,0		
Claims paid									(150,0)		0,0	
Acquisition costs and expenses									(18,4)		(19,2)	
Estimated at period 4								**115,0**	**(168,4)**	**120,0**	**(19,2)**	**102,1**
Actual								115,0	(174,0)			
Estimated to actual adjustment								**0,0**	**5,6**			
Premiums received										120,0		
Claims paid											0,0	
Acquisition costs and expenses											(19,2)	
Estimated at period 5										**120,0**	**(19,2)**	**0,0**
Actual										120,0	(29,2)	
Estimated to actual adjustment										**0,0**	**10,0**	

Building block 3: Risk adjustment

The inclusion of a risk adjustment in the proposed measurement model provides information about the entity's perception of the economic burden of the risk it bears. The IASB did not limit the number of techniques to calculate the risk adjustment, but indicated that a principle-based approach for measuring the risk adjustment should be followed.

In addition the IASB believed that it would contradict the objective of the risk adjustment to specify a level of aggregation for determining the risk adjustment which is not consistent with the way in which the entity views the burden of bearing risk.

Building block 4: Contractual service margin

The CSM, in essence, is the profit that relates to an insurance contract and should therefore be deferred over the period of the contract.

The CSM represents an amount that is equal to the sum of the amount of the fulfilment cash flows for the insurance contract at initial recognition (i.e. building blocks 1 to 3) and any pre-coverage cash flows. There is no CSM if the portfolio of insurance contracts is onerous at initial recognition. The contractual service margin shall not be negative and any unfavourable change is recognised immediately as an expense in profit or loss.

The CSM is calculated after the time value of money has been taken into account. Consequently interest should be accreted on the CSM. The IASB indicated that the locked-in rate should be used as the interest accretion should reflect only the time difference between the initial recognition of the contract and the time when the service is provided, rather than reflecting the current price that the entity would charge for the service at the reporting date.

The CSM should be recognised in profit or loss based on the passage of time as this is consistent with the primary service under an insurance contract which is the provision of insurance coverage – i.e. standing ready to compensate a policyholder if an insured event takes place during the coverage period.

The amount of insurance coverage transferred under a portfolio of contracts in a reporting period depends on the number of contracts in force during the period. The IASB believed that accounting for expected contract terminations (i.e. when calculating the amount of the CSM to be recognised in profit or loss) would result in a more accurate reflection of the service provided by avoiding catch-up adjustments when derecognising the CSM for contracts that are no longer in force.

The CSM is unlocked for differences between current and previous estimates of:

- the present value of future cash flows; and
- the risk adjustment that relates to future coverage and other future services.

Once the CSM is zero, unfavourable changes between the current and previous estimates of the present value of the cash flows and risk adjustment should be recognised in profit or loss.

Insurance liability/asset of ABC in period 0

Net present value of all cash flows	226,6
Risk adjustment	(67,0)
CSM	(159,6)
Profit or loss impact at inception	**0,0**

Actual cash flows over the five years of the portfolio

Actual cash flows	0	Beg 1	End 1	Beg 2	End 2	Beg 3	End 3	Beg 4	End 4	Beg 5	End 5
Premiums received		100,0		105,0		110,0		115,0		120,0	
Claims paid			(45,0)		(80,0)		(40,0)		(155,0)		(10,0)
Acquisition costs		(23,0)									
Expenses relating to the claims			(12,0)		(15,0)		(16,0)		(19,0)		(19,2)
Subtotal		**77,0**	**(57,0)**	**105,0**	**(95,0)**	**110,0**	**(56,0)**	**115,0**	**(174,0)**	**120,0**	**(29,2)**
Non-probability weighted cash flows	(8,0)		(2,0)		(3,0)		(3,5)		(2,5)		(2,0)
		77,0	(59,0)	105,0	(98,0)	110,0	(59,5)	115,0	(176,5)	120,0	(31,2)
Bank balance at period end	**(8,0)**		**10,0**		**17,0**		**67,5**		**6,0**		**94,8**

Subsequent measurement of the insurance contracts

An insurer should perform the following in subsequent reporting periods (period 1 – 5):

Estimated cash flows

- Determine the present value of the cash flows relating to future periods.

Discount rate

- The accretion of interest should be calculated for the different layers of cash flows:
- Accrete interest on the previous estimate of the cash flows (as determined in the prior period) at the locked-in rate.
- Accrete interest on the previous estimate of the cash flows (as determined in the prior period) at the current rate and calculate the difference between the accretion at the current rate and the locked-in rate. This amount will be recognised in profit or loss or OCI depending on the accounting policy election of the insurer.
- Discount the future cash flows at the current discount rate. The CSM is adjusted for (unlocked with) future cash flows discounted at the locked-in rate. The difference between the future cash flows discounted at the current rate and the locked-in rate is recognised in profit or loss or OCI depending on the accounting policy election.

Risk adjustment

- Determine the portion of the risk adjustment relating to changes that relate to coverage and other services provided in the current and past periods as it should be recognised in profit or loss.

CSM

The following should be determined:

- The interest accreted at the locked-in rate (8%) on the balance of the CSM.
- The amount of CSM that will be recognised in profit or loss on a straight-line basis.
- The change in cash flows relating to future periods discounted at the locked-in rate (8%) that will adjust the CSM.
- The change in the risk adjustment (set out above) relating to future periods that will adjust the CSM.
- Any adjustment necessary to ensure that the CSM is not reduced below zero.

The movement in the present value (PV) of the cash flows

	Opening balance	Adjustment from estimate to actual for the period[5]	Cash inflow – premiums	Cash outflow – acqusition costs and expenses	Cash outflow – claims	Unwinding (at locked-in rate)[6]	Change in future cash flows (at locked-in rate) – will adjust CSM)	Change in rate (from locked-in to current rate)[7]	Closing balance of PV of cash flows
Period 0	226,6								226,6
Period 1	226,6	(45,0)	(100,0)	35,0	45,0	12,0	(20,9)	(0,3)	152,4
Period 2	152,4	9,7	(105,0)	15,0	80,0	3,8	(49,3)	0,9	107,5
Period 3	107,5	10,5	(110,0)	16,0	40,0	(0,2)	(52,3)	(2,1)	9,3
Period 4	9,3	(5,6)	(115,0)	19,0	155,0	(8,3)	46,3	1,4	102,1
Period 5	102,1	(10,0)	(120,0)	19,2	10,0	(1,4)	-	0,2	0,0

Reconciliation of the CSM

	1	2	3	4	5
Opening balance	159,6	124,0	54,2	-	42,0
Interest accreted at 8%	12,8	9,9	4,3	-	3,4
Release of CSM to profit or loss	(34,5)[8]	(33,5)	(19,5)	-	(45,3)
Change in future cash flows	(20,9)	(49,3)	(52,3)	46,3	-
Change in future risk adjustment *(refer to key assumptions used)*	7,0	3,0	6,0	3,0	-
Capped to zero, recognise further losses in profit or loss	-	-	7,3[9]	(7,3)	
Closing	**124,0**	**54,2**	**-**	**42,0**	**-**

Interest is accreted on the CSM at the locked-in rate of 8%, even in years 3 to 5 where there is a change in rate.

In year 4, there is again a favourable change in the future cash flows. The favourable change is recognised in profit or loss to the extent that it represents a reversal of losses previously recognised in profit or loss.

[5] Refer to *updated cash flow projection for each period.*
[6] This represents the unwinding of the locked-in discount rate relating to the previous estimates of the cash flows – recognised in profit or loss.
[7] This represents the difference between the current rate and the locked-in rate for the previous estimates of cash flows as well as the future cash flows – recognised in profit or loss or OCI (depending on policy election).
[8] Calculated as follows: (159.6 + 12.8) / 5.
[9] We have determined the adjustment to limit the CSM to zero as an amount after the impact of the change in future cash flows as well as the risk adjustment have been taken into account.

Statements of comprehensive income

	Note	1	2	3	4	5
Statement of comprehensive income for each period						
Premium revenue		**56,1**	**144,8**	**104,6**	**185,0**	**84,1**
Release of risk adjustment	1	5,0	2,0	14,0	12,0	15,0
Release of contractual service margin	2	34,5	33,5	19,5	-	45,3
Expected claims, benefits and expenses	3	12,0	104,7	66,5	168,4	19,2
Acquisition costs (23/5)	4	4,6	4,6	4,6	4,6	4,6
Actual claims incurred	5	(45,0)	(80,0)	(40,0)	(155,0)	(10,0)
Actual attributable expenses	6	(12,0)	(15,0)	(16,0)	(19,0)	(19,2)
Acquisition costs	7	(4,6)	(4,6)	(4,6)	(4,6)	(4,6)
Changes in estimates of future benefits and expenses (not adjusted to CSM)	8	-	-	(7,3)	7,3	-
Gross underwriting margin		**(5,5)**	**45,2**	**36,7**	**13,7**	**50,3**
Interest accreted on insurance contract liability	9	(0,8)	(6,1)	(4,6)	(8,3)	(4,8)
Change in discount rate reclassified from OCIs						0,1
Non-attributable expenses	10	(2,0)	(3,0)	(3,5)	(2,5)	(2,0)
(Loss)/profit		**(8,3)**	**36,1**	**28,6**	**2,9**	**43,6**
Other comprehensive income						
Change in discount rate	11	(0,3)	0,9	(2,1)	1,4	0,2
Reclassified to profit and loss						(0,1)
Total comprehensive income		**(8,7)**	**37,0**	**26,5**	**4,3**	**43,7**

It is evident that over time there is a great deal of volatility in the amount of revenue recognised. Revenue is calculated as follows:

- Change in risk adjustment (1 – refer to key assumptions);
- Amount of CSM recognised in profit or loss (2 – refer to *reconciliation* of CSM);
- *Latest estimates* of expected claims and expenses relating to coverage for the current period (3 – *refer to updated cash flow projection for each period*);
- Premium for recovering acquisition costs allocated based on the passage of time (4 – calculated as 23/5).

The same amount of the acquisition costs recognised in revenue is also recognised as an expense as effectively the insurer incurs the expense over the coverage period (see 7 above).

For the actual claims and attributable expense incurred (5 and 6), refer to actual *cash flows over the five years of the portfolio*. For the amount of the present value of future cash flows recognised in profit or loss (8), refer the *reconciliation* of the CSM.

The interest accreted on the insurance contract liability is the sum of the interest accreted on the CSM and the unwinding of the discount relating to previous estimates of the cash flows (at the locked-in discount rate) (9). Refer to *the movement in the PV of the cash flows*.

The non-attributable expenses are provided in key assumptions (10).

The difference between the current rate and the locked-in rate is recognised in OCI which is the accounting policy of ABC (11 – refer to the *movement in the present value of the cash flows*).

Statements of financial position

	Note	0	1	2	3	4	5
Statement of financial position at the end of the period							
Bank	1	-8,0	10,0	17,0	67,5	6,0	94,8
Policyholder asset/(liability)	2	0,0	(26,7)	3,4	(20,7)	45,1	0,0
Equity (loss)/profit		8,0	16,7	(20,4)	(46,8)	(51,1)	(94,8)
		-	-	-	-	-	-

Refer to *actual cash flows over the five years of the portfolio* for the bank balance (1).

Refer to the *reconciliation of the insurance liability/asset* for each period below (2).

Reconciliation of the insurance liability/asset for each period

	Period 0				Period 1				Period 2			
Policy asset/liability roll forward	Total	PV	RA	CSM	Total	PV	RA	CSM	Total	PV	RA	CSM
Asset/Liability at beginning of period	-	-	-	-	0	226,6	(67,0)	(159,6)	(26,7)	152,4	(55,0)	(124,0)
Initial recognition	-	226,6	(67,0)	(159,6)	-	-	-	-	-	-	-	-
Cash inflows for the period	-	-	-	-	(100,0)	(100,0)	-	-	(105,0)	(105,0)	-	-
Cash outflows for the period	-	-	-	-	80,0	80,0	-	-	95,0	95,0	-	-
Difference between actual and estimate	-	-	-	-	(45,0)	(45,0)	-	-	9,7	9,7	-	-
Unwinding of discount rate (at locked-in rate)	-	-	-	-	(0,8)	12,0	-	(12,8)	(6,1)	3,8	-	(9,9)
Release of CSM to profit or loss	-	-	-	-	34,5	-	-	34,5	33,5	-	-	33,5
Change in the risk adjustment	-	-	-	-	5,0	-	12,0	(7,0)	2,0	-	5,0	(3,0)
Sub-total	**-**	**226,6**	**(67,0)**	**(159,6)**	**(26,3)**	**173,6**	**(55,0)**	**(144,9)**	**2,4**	**155,9**	**(50,0)**	**(103,5)**
Change in prospective cash flows	-	-	-	-	-	(20,9)	-	20,9	-	(49,3)	-	49,3
Change in discount rate (from locked-in to current rate)	-	-	-	-	(0,3)	(0,3)	-	-	0,9	0,9	-	-
Capped to zero, recognise further losses in profit or loss	-	-	-	-	-	-	-	-	-	-	-	-
Asset/Liability at end of period	**-**	**226,6**	**(67,0)**	**(159,6)**	**(26,7)**	**152,4**	**(55,0)**	**(124,0)**	**3,4**	**107,5**	**(50,0)**	**(54,2)**

	Period 3				Period 4				Period 5			
Policy asset/liability roll forward	Total	PV	RA	CSM	Total	PV	RA	CSM	Total	PV	RA	CSM
Asset/Liability at beginning of period	3,4	107,5	(50,0)	(54,2)	-20,7	9,3	(30,0)	-	45,1	102,1	(15,0)	(42,0)
Initial recognition	-	-	-	-	-	-	-	-	-	-	-	-
Cash inflows for the period	(110,0)	(110,0)	-	-	(115,0)	(115,0)	-	-	(120,0)	(120,0)	-	-
Cash outflows for the period	56,0	56,0	-	-	174,0	174,0	-	-	29,2	29,2	-	-
Difference between actual and estimate	10,5	10,5	-	-	(5,6)	(5,6)	-	-	(10,0)	(10,0)	-	-
Unwinding of discount rate (at locked-in rate)	(4,6)	(0,2)	-	(4,3)	(8,3)	(8,3)	-	-	(4,8)	(1,4)	-	(3,4)
Release of CSM to profit or loss	19,5	-	-	19,5	-	-	-	-	45,3	-	-	45,3
Change in the risk adjustment	14,0	-	20,0	(6,0)	12,0	-	15,0	(3,0)	15,0	-	15,0	-
Sub-total	**(11,2)**	**63,8**	**(30,0)**	**(45,0)**	**36,4**	**54,4**	**(15,0)**	**(3,0)**	**(0,2)**	**(0,2)**	**-**	**-**
Change in prospective cash flows	-	(52,3)	-	52,3	-	46,3	-	(46,3)	-	-	-	-
Change in discount rate (from locked-in to current rate)	(2,1)	(2,1)	-	-	1,4	1,4	-	-	0,2	0,2	-	-
Capped to zero, recognise further losses in profit or loss	(7,3)	-	-	(7,3)	7,3	-	-	7,3	-	-	-	-
Asset/Liability at end of period	**(20,7)**	**9,3**	**(30,0)**	**-**	**45,1**	**102,1**	**(15,0)**	**(42,0)**	**0,0**	**0,0**	**-**	**-**

The way forward

Some inspiration for each insurer's journey towards getting to grips with the proposed measurement model …

"Steady perseverance is taking small steps to get to your achievement and toward which effort is directed. As long as you make movement toward a goal, that's what matter most in life."

Kemmy Nola.

The Cape Floral Kingdom

The Cape Floral Region, one of South Africa's eight World Heritage sites, comprises eight protected areas stretching from the Cape Peninsula to the Eastern Cape, containing some of the richest plant biodiversity in the world.

FINANCIAL CONGLOMERATE (GROUP) SUPERVISION IS COMING SOON TO SOUTH AFRICA

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Background

Included in the material changes embodied in the Second Draft of the Financial Sector Regulation Bill, is the definition of financial conglomerates and the related enablement of the authorities to regulate and supervise such groups in their entirety, rather than only on an individual bank or insurance licence silo basis.

Conglomerate prudential supervision principles are well documented in the 1999 BCBS Joint Forum paper, duly updated in 2012 to take account of the 2007 Global Financial Crises "fault line" learnings.

"Fault lines" principally related to:

- intra-group contagion risk;
- inter-company and intra-group functional dependencies;
- inadequacies of whole-of-group exposure measurement and risk management;
- inadequacies in group corporate governance; and
- lack of separability for resolution purposes.

Our understanding is that the overriding high level objective of the 2012 paper was to provide a set of international agreed principles (i.e. not rules) that are to be applied in a proportionate and flexible (i.e. non-prescriptive) manner to group-wide risks posed.

The scope of conglomerate regulation normally covers corporate governance, capital adequacy & liquidity and risk management & risk exposures.

The **best precedent** for what is deemed to be required in terms of conglomerate "whole-of-group" capital and risk Level 3 supervision is provided by the Australian prudential regulators (APRA), as currently applied to eight designated conglomerates.

"Level 3" supervision envisages circumstances where a financial services group may have a mixture of Level 2 and Level 1 banking, insurance, asset management and non-traditional entities in their group construct. The difference between a Level 2 and a Level 1 entity is that the former may be a sub-consolidated group of similar sector entities within a Level 3 group, whereas the latter envisages a stand-alone single entity.

Potential future state "whole-of-group" governance, capital and risk management framework in South Africa

It is likely that the South African regulators, in designating financial conglomerate groups, will look at them through the Australian Prudential model of principles, standards and practical application processes, as codified in the APRA discussion document entitled "Supervision of conglomerate groups".

Assuming an APRA Level 3 lens will be applied to our South African designated financial conglomerate groups, it is worth highlighting the following when considering what the ramifications could be:

- APRA's primary objective in developing the Level 3 framework has been to ensure that APRA's supervision adequately captures those risks over and above the Level 2 or Level 1 existing prudential arrangements – ie the so called supervisory "blind spots" that may result in **risks building up without adequate and timely remediation**. APRA's other key objective for Level 3 requirements is to promote stronger governance and risk management at Head of Group level, focusing on the whole-of-group, as they did not believe that all conglomerates in Australia had adequate whole-of-group arrangements in place.
- The Level 3 framework is intended to provide APRA with **formal oversight of the material risks** faced by the Level 3 groups, supported by the implementation of Level 3 specific standards.
- These prudential standards establish overarching requirements for a robust Level 3 **governance framework**, the transparent and prudent management of intra-group and external aggregate exposures, an effective group-wide risk management framework and sufficiency of capital to meet adverse impacts arising from non-APRA regulated institutions in the Level 3 group.

- The informal feedback from the designated eight Australian conglomerates is that group governance and risk management requirements are already largely met through existing group policies and that no **additional capital is likely to be required to be raised following the implementation of the proposed Level 3 framework**. It would seem that none of the conglomerates covered by the Level 3 framework would have to raise further capital solely because of the Level 3 requirements. However, the Level 3 requirements will ensure that the Head of the Level 3 group (whether it be a bank, insurer or Non-Operating Holding Company (NOHC) holds sufficient capital to cascade to other entities in the group that require a top-up.
- The Level 3 requirements developed by APRA will have major implications for the affected conglomerates' **risk management arrangements**, especially the development of a risk appetite framework, risk management strategy and risk management framework (currently applicable only at Levels 1 and 2) into a set of policies and arrangements that apply in a cohesive and integrated way at Level 3. This will involve considerable challenge for most, and probably all, of the affected conglomerates. Other challenges arising from Level 3 requirements will include the development of stress testing capacity and arrangements for application at Level 3, and the development of risk management policies dealing with intra-group risk exposures and aggregated large exposures.

Importantly, our SA regulators will continue to place reliance on Level 2 entity Governance, Capital and Risk policies, processes, reporting and organisational/ committee structures from both a Prudential and Conduct point of view.

A key consideration will be the level of decision making that could or should be made at Level 3 relative to the decision making at Level 2. This will depend on the precise nature of the group structure and the allocation of responsibilities across the group.

Subject to that, it could be expected that the Head of the Level 3 group would have responsibility for such matters as the overall strategic direction of the group, its overall risk appetite, risk culture, risk management framework, capitalisation for the Level 3 group (taking into account regulatory requirements, intra-group contagion etc.), assessment and management of Level 3 exposure risks, recovery strategies for the Level 3 group, recapitalisation arrangements for entities in the group (eg whether via recapitalisation at the Level 3 Head or at Head of Level 2 groups in each jurisdiction) etc.

The Level 2 Head entities would have similar responsibilities for their Level 2 groups (by jurisdiction or across regional groupings), subject to complying with the Level 3 requirements imposed by the Level 3 Head. Clearly, regulatory requirements in each jurisdiction would need to be complied with by the head licensed entity in that jurisdiction.

Governance

The newly formed South African Prudential and Conduct regulatory authorities will expect conglomerate "whole of group" Level 3 governance to demonstrate tangible evidence of a sound governance framework.

The objective of good governance is to ensure the conglomerate is managed soundly and prudently by a competent Board, which can make reasonable and impartial business judgements in the best interests of the institution and which duly considers the impact of its decisions on depositors, policyholders and other stakeholders.

Key considerations for a financial conglomerate in this regard will relate to Board composition, chairperson and key committees, including Audit, Risk and Remuneration committees.

Other subjects to be covered by governance from a conglomerate perspective will include outsourcing, business continuity management and certain audit and related matters.

Financial conglomerates will be able to leverage significantly off existing Level 2 entity related governance documentation, processes and structures in order to meet regulatory requirements.

Group governance structures should include a Board Risk Committee that would have responsibility for such matters as:

- Overseeing the development and maintenance of risk appetite framework, risk management framework and risk management strategy for the Level 3 group.
- Approving a risk culture that applies across the Level 3 group, with appropriate variations permitted for different entities in the group.
- Overseeing the performance of the Risk Management function at Level 3.
- Ensuring that there are comprehensive, regular and timely reports to the Board Risk Committee and Board in respect of all Level 3 risk matters, including reports relating to compliance with risk management requirements, risk metrics, risk dashboard, exception reports etc.

Risk exposures

The overall objective is to ensure:

- aggregate risk exposures external to Level 3 group does not expose regulated entities within the group to excessive risk; and
- regulated entities within the group are not exposed to excessive risk as a result of their association and dealings within the group.

The financial conglomerate group will be required to produce policy documents plus evidence that effective systems and processes are in place to enable appropriate reporting.

Types of group risk exposure reports, would include:

- Aggregated credit risk concentration at Level 3;
- Intra-group inter-entity exposures; and
- Assessment of contagion channels between entities and divisions in the Level 3 group, and the risk mitigations in place.

Risk management framework

The financial conglomerate will be able to draw extensively on existing Level 2 enterprise-wide risk management policies, processes and reporting templates in designing a Level 3 risk management framework that is appropriate to the size, business mix and complexity of the group.

Consideration will however need to be given to understanding what this means from a Level 3 perspective as it relates to risk appetite, risk strategy, business planning, strategic objectives, compliance and any significant breaches. A mere uplifting of policies, processes, systems and procedures from Level 2 groups will not suffice; there will be a need to assess the nature of the modifications that would be appropriate for application to a Level 3 group.

Capital adequacy

The overall objective would be to maintain sufficient group Level 3 eligible capital, taking into account the capital levels of Level 2 subsidiaries and any additional capital requirements arising from risk considerations relating to non-SA regulated entities in the bigger group.

Capital management is an integral part of Level 3 group risk management, requiring the alignment of risk appetite and risk profile with capacity to absorb losses.

Types of Level 3 Capital reports should include:

- Assessment of capital levels at Level 3 and within each regulated entity and sub-group, by jurisdiction, against regulatory requirements;
- ICAAP[1] (ORSA[2] for South Africa) at Level 3;
- Total loss absorbing capacity across the group (eg for bail-in purposes), including the location of such capacity by legal entity and jurisdiction, and the capacity to move it to under-capitalised entities when necessary;
- Stress testing of capital positions at Level 3; and
- Leverage positions at Level 3.

In conclusion

The South African regulators still have to codify what they expect of financial conglomerates from a regulatory supervision and reporting perspective.

It is worth noting that, although the APRA Level 3 requirements have been substantially finalised, the finalisation of the Level 3 requirements, and the determination of a commencement date, have been placed on hold pending the Australian Government's decisions in relation to recommendations made by the Australian Government-sponsored Financial System Inquiry. This may result in the Level 3 requirements not coming into force until sometime in 2017 or potentially later.

The fact that the Australian authorities may further defer their conglomerate supervision implementation date, which was initially set down for 1 January 2015, and that the South African regulatory authorities have yet to issue any detailed guidelines, suggests that South Africa banking and insurance groups, who have been or are expecting to be designated as financial conglomerates, will continue to struggle to work out the nature and extent of what their prepared response to "whole-of-group" supervision and related reporting should be.

[1] Internal Capital Adequacy Assessment Process
[2] Own Risk and Solvency Assessment

Sources of info were:

- National Treasury "Chapter 4 on Financial Stability from Twin Peaks in South Africa: Response and explanatory document accompanying the Second Draft of the Financial Sector Regulation Bill – December 2014"
- Basel Committee on Banking Supervision – Joint Forum – Principles for the supervision of financial conglomerates
- Australian Prudential Regulatory Authority - Responses to Submissions – Supervision of conglomerate groups – 3. Prudential standards and draft guidance
- KPMG G-SIFI benchmarking survey 2015 – regulatory reporting

"To improve is to change, to be perfect is to change often."

Winston Churchill

KPMG

cutting through complexity

2015 is seeing international developments dominate regulatory change in the insurance industry. By being proactive and engaged in these fast-moving and important developments, insurers can meet the challenges and stay ahead of the game.

KPMG's Regulatory Centre of Excellence provides insights into the implications of regulatory change and the direction of developments around the world.

For more information, please contact

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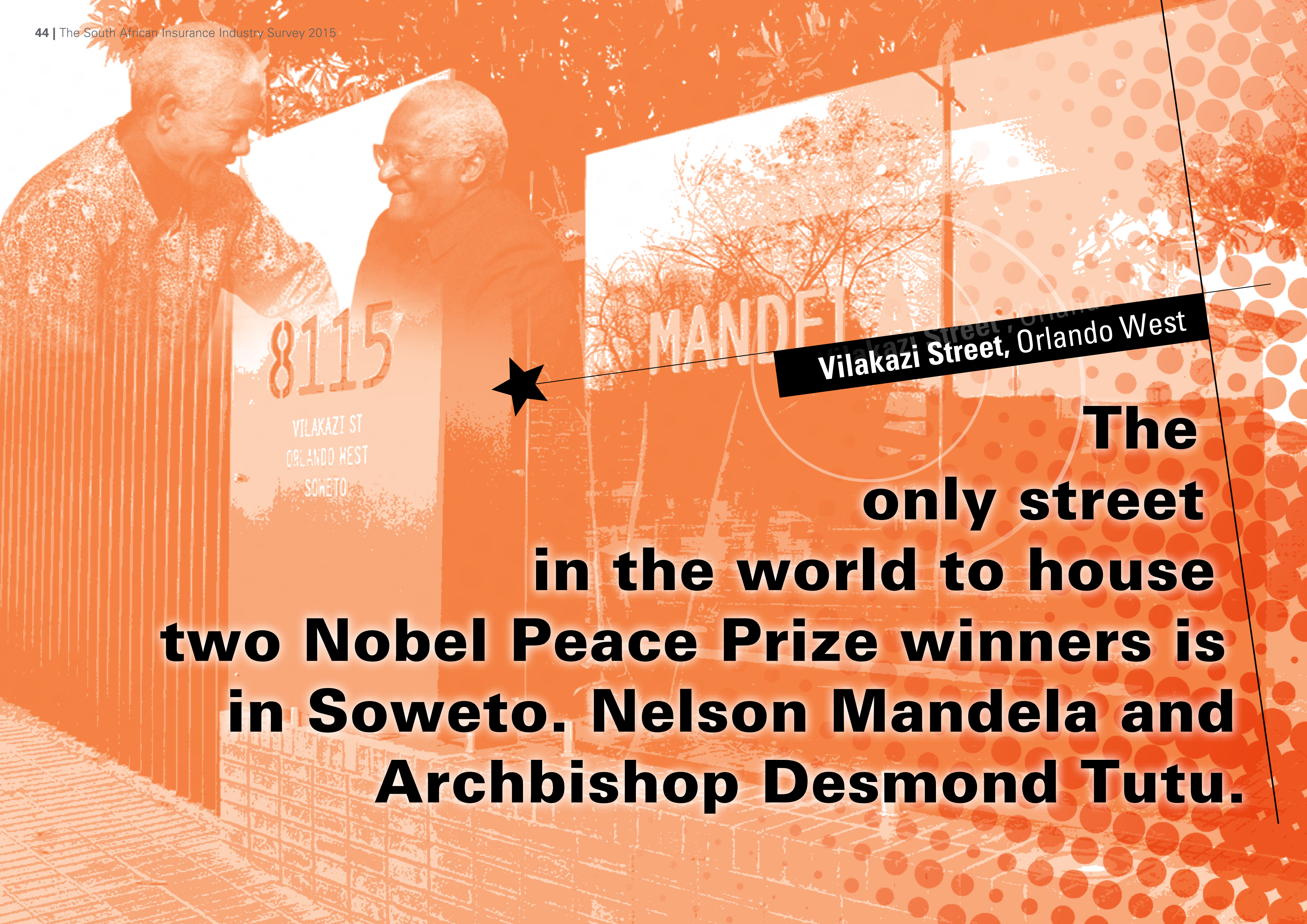

Vilakazi Street, Orlando West

The only street in the world to house two Nobel Peace Prize winners is in Soweto. Nelson Mandela and Archbishop Desmond Tutu.

POLITICAL RISK – IT CAN'T BE AVOIDED AND SHOULD BE MANAGED

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Political risk is broadly defined as the impact of politics on markets.

The global risk landscape is marred by political conflict in both emerging and developed markets.

The top geopolitical risks of 2015 were assessed as being:

- tensions between the USA and Russia;
- the politics of Europe;
- the spread of The Islamic State of Iraq and Greater Syria (ISIS);
- political uncertainty in Turkey, the Gulf Arab states, Brazil and India; and
- the impact of an economic slowdown in China.

Investing in these markets or other developing markets can offer great opportunities if you are able to effectively manage your exposure to the prevailing political risks.

Political risk insurance is a means of managing the risk that political conditions that you are exposed to will result in financial loss that is outside of your risk appetite.

Political risk may deprive a company of its assets, restrict its ability to fulfill a contract and / or prevent it from meeting loan repayments. The range of potential scenarios is very broad but all could have a critical impact on the balance sheet and in severe cases even have a going concern implication.

The underwriting of political risk insurance, locally and internationally, is a dynamic and growing business. The challenges faced by business today are fundamentally different to those 20-30 years ago. Current worldwide events highlight the growing need for political risk insurance globally.

Sasria (SOC) Ltd ("Sasria") is a South African-based political risk insurer with humble beginnings.

Sasria was established by South Africa's apartheid government after the Soweto riots in 1976. Political and social instability gave rise to a growing number of politically motivated riots. Private-sector insurers were reluctant to provide insurance cover to help companies mitigate their losses due to the exposure to these riots.

The South African Insurance Association ("SAIA") managed to persuade the government to form an association in 1979 to provide insurance cover for terrorism, riots, and other politically motivated acts. This association became known as the South African Special Risks Insurance Association ("SASRIA").

Sasria widened its cover in 1987 after reinsurance companies refused to provide cover for losses arising from common strikes and riots.

Sasria seems to be one of the few state-owned enterprises not disgraced by significant losses, corrupt executives and a poor balance sheet. Comparatively, Sasria has shown profitable results and a strong balance sheet despite increased regulatory capital requirements under the FSB's new solvency regime, Solvency Assessment and Management ("SAM").

Sasria administrates and sells cover through a wide distribution of non-mandated intermediaries throughout South Africa. Sasria cover is sold, together with conventional insurance cover, by short term insurers. All claims are administered by Sasria. Risks that are currently covered include riots, strikes, civil commotion, lockout, terrorism and labour disturbances.

Sasria dominates the South Africa insurance market when it comes to political risk cover.

Although similar cover may be obtained from a conventional short-term insurer, private insurance companies are still hesitant to provide this type of cover in South Africa. Difficulties in the quantification of political risk factors make these products complicated.

Internationally, political risk insurance in the private market has grown over the last decade with the increased demand for insurance cover for political risks. Specialist underwriters, including a cluster of Lloyds' syndicates, account for about half of the market with more established insurers now providing political risk cover.

However, there are still few global insurance carriers who are prepared to offer political risk insurance.

Political risk insurance in the private market includes traditional insurance offerings for political violence, expropriation of assets, currency inconvertibility, contract repudiation, wrongful calling of guarantees and non-delivery by foreign suppliers due to political events.

Political violence includes coverage for politically motivated acts of violence including terrorism, war and civil war which result in physical damage to property.

Traditional political risk insurance can be obtained from global insurers like AIG, the ACE Group, Euler Hermes, Meridian Finance Group, Chubb Insurance and Zurich Insurance. Many have extended their product offerings to accommodate the changing political risk landscape and offer coverage for sovereign payment default or "creeping" expropriation. Creeping expropriation is when a series of individual government actions, when taken together, result in expropriation and political violence.

Sovereign Risk Insurance, a Bermuda based company, is one of the world's leading underwriters of political risk insurance and reinsurance. Since its establishment in 1997, Sovereign has paid over $80 million in claims.

In addition, some property and casualty insurers may provide political risk insurance as an additional benefit underwritten by a Lloyds syndicate.

The use of specialised brokers to manage political risk is important. Aon, Marsh and Willis are leading insurance brokers who specialise in the management of political risk. It is interesting to note that in 1972 the founders of Aon Group became the world's first political risk brokers.

State owned underwriters like national export-development agencies, the World Bank's Multilateral Investment Guarantee Agency ("MIGA") and the Overseas Private Investment Corporation ("OPIC") offer a wide range of political risk insurance coverage including coverage of expropriation, political violence, currency inconvertibility, transfer restriction, war, terrorism and breach of contract. Special coverage is available for institutional loans, capital markets, leasing, oil and gas, natural resources and contractors and exporters.

OPIC also provides coverage to facilitate and mitigate risks associated with renewable resource projects while MIGA offers guarantees for the non-honoring of sovereign financial obligations.

Since 1971, OPIC has made 295 insurance claim settlements totaling $976.8 million. MIGA has issued guarantees for over 620 projects since inception in 1988 but has experienced very few claims on its traditional political risk insurance products – only six claim payouts since inception totaling around $16 million.

With the increase in political risk insurance in the private market, these companies have had to adapt. Some national agencies are no longer supported by their governments, while others are focusing on new markets or the gaps in the market not covered by private insurers.

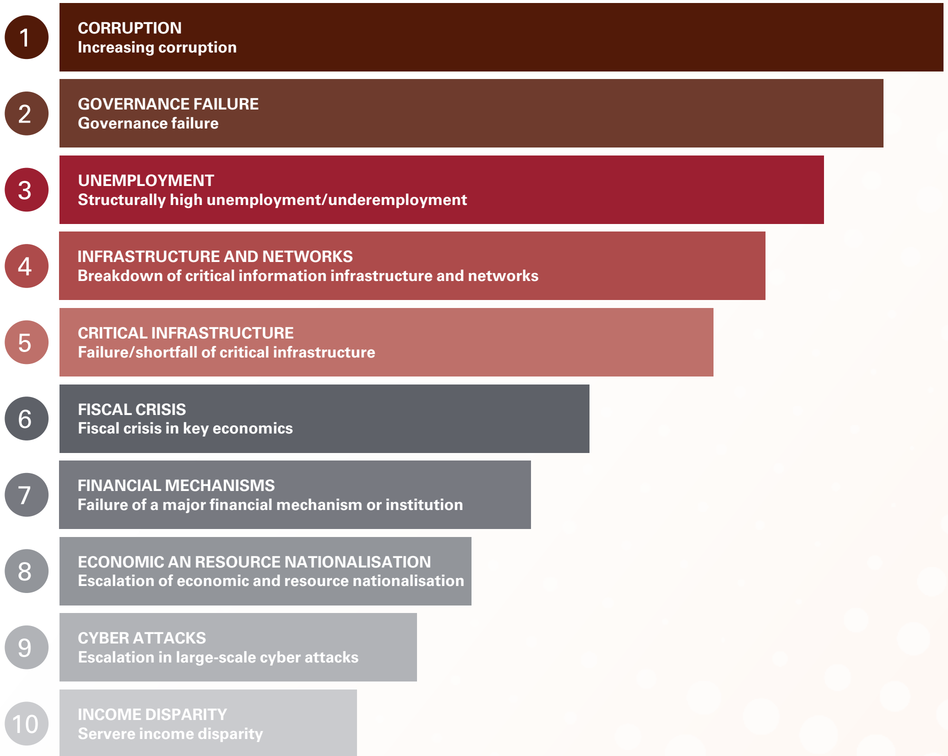
The Institute of Risk Management South Africa's ("IRMSA") first annual South Africa Risks report 2015 shows the top 10 SA risks by likelihood and consequence. The report polled 620 participants from the industry in both the public and private sector.

"And as we let our own light shine, we unconsciously give other people permission to do the same. As we are liberated from our own fear, our presence automatically liberates others."

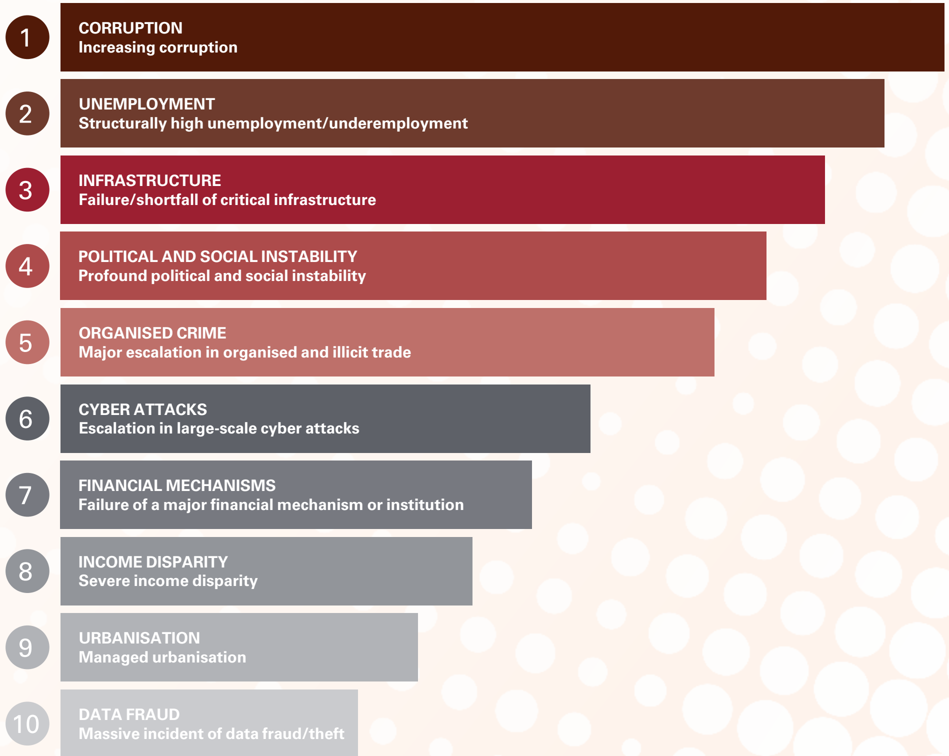
Nelson Mandela

The top 4 or 5 risks on each illustration have a direct impact on political risk.

Top 10 SA risks by consequence



Top 10 SA risks by likelihood



Sasria is undoubtedly the leader in political risk insurance in South Africa. The private market is less established as discussed earlier in this article. Sasria is experiencing higher claim volumes and claim complexity now than it did five years ago. This is not surprising as the South African economy has been struggling to recover after the economic crisis and challenges such as unemployment are not being addressed adequately. All of this is a dangerous combination which easily progresses into strikes, riots and xenophobic attacks which is also featured in this survey.

Although premium income has increased steadily from 2010, the increase in claims has been comparatively larger and growing more rapidly.

The number of new claims in 2010/ 2011 was 506 with total claims incurred of R227 million compared to 2 349 in 2014/2015 with total claims incurred of R476 million. Loss ratios have increased considerably from 6.35% in the 2008/ 2009 financial year to 31.5% in 2014/ 2015 financial year. The trend is a lower claims experience in alternate years.

About 70% of Sasria's claims are strike-related and 30% stem from service delivery protests, the majority of which are in the mining, transport and agriculture sectors. Sasria cover helps those who own property, live, work or commute in areas that have a high propensity for protest and strike action.

The 2012/2013 financial year saw Sasria's highest claims rate ever with claims incurred of R554 million and a loss ratio of approximately 45%. This was an increase in claims frequency of 91% and claims severity of 135%, primarily due to the increase in the number and financial impact of labour strikes, particularly in the mining and agricultural sectors.

In the 2012/2013 financial year, Sasria received high claims volumes from unrest in the country's platinum belt culminating in the killings at Marikana in August 2012. Massive claims were also incurred from the farm workers' strikes in the Western Cape, the national truck drivers' strike and gold miners' strike.

One of Sasria's top emerging risks is the continued power blackouts (more commonly referred to as load shedding) experienced across the country in 2014/ 2015. Governance failure and increasing corruption has impacted infrastructure development and the provision of basic services - water, power and transport. The structural integrity of the electricity generating network seems to be one of the biggest challenges at the moment.

Although the government adopted a National Infrastructure Plan in 2012, the progress to plan and current state of infrastructure development is cause for concern. These structural constraints are not temporary and have a systemic impact on the country with far reaching effects on economic growth and investor confidence. Load shedding has a significant impact on critical infrastructure including communication, transport, heating, water supply and production processes.

When load shedding occurs mining operations are shut down, traffic management systems and traffic lights fail causing considerable congestion, offices reliant on internet services and technology and many government administration services such as Home Affairs have no option but to close while hospitals come under increased pressure.

The risk is an increase in politically motivated protests and service delivery strikes which could lead to property losses and further business interruption.

The failure/ shortfall of critical infrastructure has fueled service delivery protests where illegal electricity connections are overloading existing connections resulting in power outages in certain areas. There are increased demands for better water sanitation and refuse removal.

Sasria is firmly established as the leader in political risk cover in South Africa. The threat of new entrants seems low as conventional short-term insurers remain reluctant to offer these product types.

The effective management of claims despite the factors mentioned above is critical. Better mapping and tracking of political action will allow Sasria and other political risk insurers to proactively manage risk and institute measures to limit losses suffered.

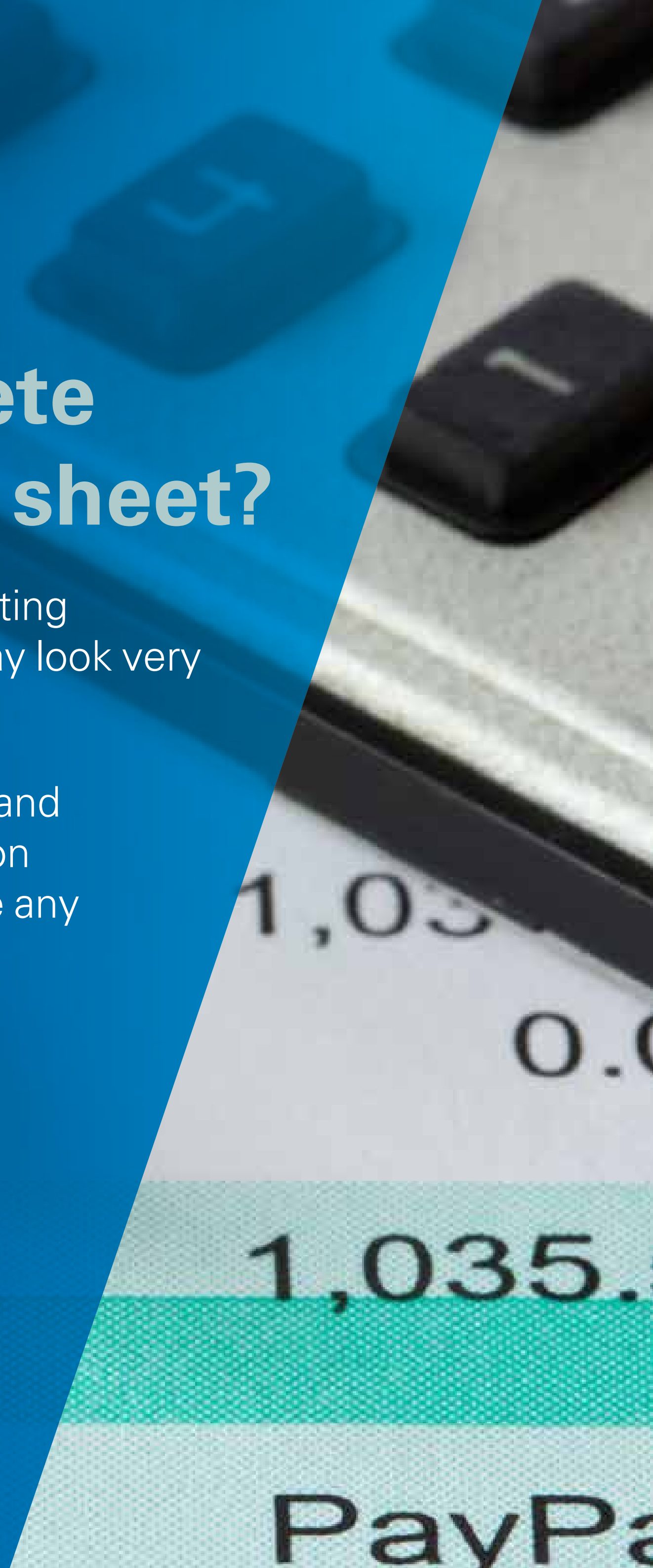
As many business are expanding and investing in Africa consideration should be given to political risk insurance to insure projects against uncontrollable turmoil in those countries.

Political Risk Can't Be Avoided, But It Can Be Managed.

Political risks are taking new and different forms. In advanced economies, governments are dealing not only with real and perceived income inequalities but with high levels of sovereign debt, as illustrated by the Eurozone discussions.

Other types of political risk – including state actions to promote state-owned companies; actions to tap into the cash flow of companies operating within national borders; and the building of trade barriers – are ongoing and have the potential to pose significant problems to many companies. The instruments used by many organisations are simply too blunt for the changing, complex political environment in which they operate.

Political risk may have different characteristics than other types of risk, but it can, and should, be managed. Effective management of political risk can enable companies to enter and navigate new markets and business environments, providing a potential for competitive advantage. Organisations can gain significant benefits from managing political risk and ignore this risk at their peril. Effective management of political risk can enable companies to tap new revenue streams through access to markets and joint ventures that, without careful management, might seem too risky.



Sterkfontein **Caves**

The place where a specimen of the species Australopithecus africanus – the Taung Skull – was found. The area is rich in traces of human occupation and evolution dating back some 3.3 million years.

The famous pre-human skull affectionately known as 'Mrs Ples', and an almost complete hominid skeleton called 'Little Foot', dating 2.3 and 4.17 million years old respectively, were found at the world-renowned Sterkfontein Caves – home to the oldest and most continuous paleaontological dig in the world.

HOW WILL THE NEW REVENUE STANDARD IMPACT THE INSURANCE INDUSTRY?

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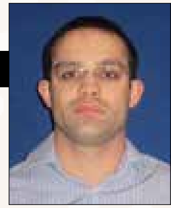

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Premium revenue from insurance contracts falls outside the scope of IFRS 15 Revenue from Contracts with Customers (IFRS 15), so does it mean that entities in the insurance industry can ignore the new revenue standard? The answer is definitely no!

An insurance contract could contain a component within the scope of IFRS 15. Non-insurance services such as asset management, insurance broking or pension administration provided by an entity in the insurance industry is likely to be impacted by IFRS 15.

IFRS 15 is effective for year-ends commencing on or after 1 January 2017 (this date may be deferred to 1 January 2018). While the effective date may seem far away, it is not. Entities should start performing a gap analysis of IFRS 15 to assess the impact and plan the timing of implementation and possible changes to their systems.

Impact on insurance contracts

Components of insurance contracts

An insurance contract could contain elements which are not standard to a normal insurance contract, for example the insurance premium charged could also be for the following:

- Medical emergency services such as the use of an ambulance;
- Breakdown services such as towing of a vehicle; or
- Trauma counselling.

The question is whether these elements should be separated and accounted for in terms of IFRS 15. To answer the question, it should be determined whether each element represents a distinct performance obligation. A performance obligation is a promise to deliver a good or service and it is distinct if both the following criteria are met:

- The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer; and
- The promise to transfer the good or service is separately identifiable from other promises in the contract.

In addition the Insurance Contracts Exposure Draft (Insurance ED) issued in June 2013, states that a performance obligation to provide a good or service is not distinct if:

- The cash flows and risks associated with the good or service are highly interrelated with the cash flows and risks associated with the insurance components in the contract; and
- The entity provides a significant service of integrating the good or service with the insurance components.

> **“Unless you're willing to have a go, fail miserably, and have another go, success won't happen.”**
>
> **Professor Philip Tobias**

The Insurance ED states that performance obligations do not include activities that an entity must undertake to fulfil a contract unless the entity transfers a good or service to the policyholder as those activities occur. For example, an entity may need to perform various administrative tasks to set up a contract.

When one refers to elements in the insurance contracts listed above, it is unlikely that they will be distinct and therefore they will be accounted for in terms of the new insurance standard (to be issued in 2016).

Where there is a service provided in terms of an insurance contract which meets the definition of a distinct performance obligation, for example the insurer agrees to provide weekly house cleaning services to the policyholder, the revenue for this service should be accounted for in terms of IFRS 15. The insurer should follow the five step approach to recognise revenue (refer to Impact on non-insurance contracts for the five step model).

Fixed-fee service contract

The Insurance ED and subsequent tentative decisions of the International Accounting Standards Board (IASB) indicated that fixed-fee service contracts such as roadside assistance programmes and capitation and fixed-fee medical service arrangements in the healthcare sector, should be accounted for in terms of the forthcoming insurance standard or IFRS 15.

A fixed-fee service contract is a contract with the primary purpose of providing services and meets all of the following criteria:

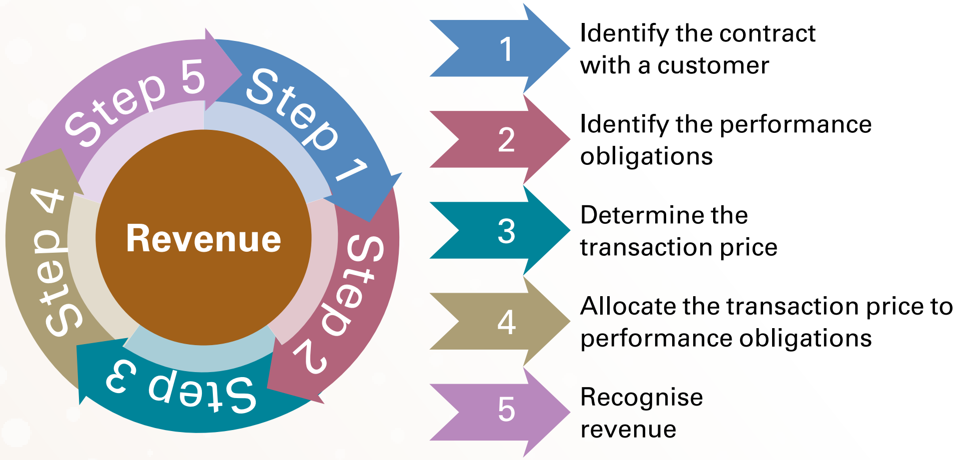
- the risk associated with an individual customer is not reflected in setting the contract price;
- the contract compensates customers by providing a service rather than by making cash payments; and
- the insurance risk that is transferred by the contract arises primarily from the customer's use of services.

Where insurers issue these fixed-fee service contracts, an accounting policy election should be made to either account for the contracts in terms of the new insurance standard or IFRS 15.

Impact on non-insurance contracts

Where other services are provided to customers, such as asset-management, insurance broking or pension administration, IFRS 15 may have an impact on the revenue recognition.

For these services, entities will follow a five-step approach to determine when to recognise revenue, and at what amount:



The model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount at which the entity expects to be entitled.

Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

For some entities, there may be little change in the timing and amount of revenue recognised. However arriving at this conclusion will require an understanding of the new model and an analysis of its application to particular transactions.

The impact of the new standard will vary by industry:

- Step 3 of the model is most likely to affect the current practice of the asset manager industry as a result of the performance fees charged by asset managers.
- Step 5, i.e. when to recognise revenue, may impact insurance broking and pension administration.

The way forward ...

Entities in the insurance industry should obtain an understanding of the model to analyse if there will be any impact on their business operations. The amount or timing of recognition of the revenue may change. Change remains an important part of our lives, so be prepared.

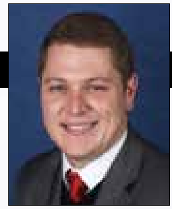
"I can't change the direction of the wind, but I can adjust my sails to always reach my DESTINATION."

Jimmy Dean

The Cape Winelands

South Africa's Cape Winelands have around 560 wineries and 4 400 primary producers. Included in the Cape Winelands region is Route 62, considered the longest wine route in the world.

SHIFTING OF POWERS



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The financial services industry has been acclimatising itself to the concept and broad objectives of Market Conduct since National Treasury launched its review of the South African financial regulatory system in 2007. Despite the eight years since then, there are not many good examples of how firms interpreted and approached Market Conduct to achieve good customer outcomes and attain strategic advantages in doing so. This article explores some avenues available to financial institutions to turn conduct risk into a benefit that exceeds the associated costs.

Let's first take a look at the background to Market Conduct.

What is Market Conduct?

Interestingly Market Conduct has not been formally defined, but it is the solution to the poor customer outcomes in the financial sector and the need for stronger oversight of how financial institutions conduct their business and treat their customers. To better protect customers the financial sector must be held to higher standards, other than generic consumer protection laws and legislation.

> **"A gift to the earth."**
>
> **Nelson Mandela**

Government is taking steps to transform the financial sector by regulating it for Market Conduct through a dedicated Market Conduct regulator. In an effort to achieve this, National Treasury published various policy documents, for example:

- Discussion paper entitled, *"Treating Customers Fairly in the Financial Sector; A Draft Market Conduct Policy Framework in South Africa"* ("the Market Conduct paper")
- Second draft *Financial Sector Regulation Bill* ("FSR Bill"), which implements the principles outlined by the policy document, "A Safer Financial Sector to serve South Africa better", commonly known as the "Red Book". The bill also includes the principle that all financial service providers must be appropriately licensed or regulated, and that fit-and-proper standards should be in place for all providers.
- *"Implementing a Twin Peaks model of Financial Regulation in South Africa (2013)"* ("the Roadmap").

All of these give effect to a South African regulatory reform to a Twin Peaks model of financial regulation. The Twin Peaks model contemplates that the financial services sector will have two primary regulators, being a prudential regulator, which is referred to as the Prudential Authority ("PA") and a new Market Conduct regulator, the Financial Sector Conduct Authority ("FSCA"), which will replace the Financial Services Board ("FSB").

The PA's objective will be to maintain and enhance the safety and soundness of financial institutions which provide financial products. It will assist in maintaining financial stability. The PA will be structured within the South African Reserve Bank ("Reserve Bank"). The Reserve Bank will lead the macro-prudential (promote systemic stability) and micro-prudential (safety and soundness of institutions) supervision role. According to treasury, the new regulations are meant to protect customers as well as tax payers from any intuitional failures which in the past, for instance, have relied on tax payers to save them.

The FSCA will be responsible for the supervision of the conduct of business of all financial institutions and the integrity of the financial markets. By this, it will protect customers by:

- ensuring that financial institutions treat customers fairly
- enhancing the efficiency and integrity of the financial system
- promoting financial literacy and financial capability

The regulatory reform to a Twin Peaks model was driven by the following events:

1. The 2005 Statement of Intent, which addressed unfair practices in the long-term insurance industry. This introduced measures that were implemented in respect of retirement annuity fund member policies and other savings products offered by the long-term insurance industry. This was in order to promote a culture of saving in our country.
2. The 2006 launch of the Competition Commission Banking Enquiry and which was concluded in 2008. This enquiry included recommendations to ensure greater competition in the retail banking sector to achieve real benefits for customers through lower costs and greater access to the national payments system. This had an impact on how competitive banking services can be provided so that the costs to consumers and businesses can be reduced.
3. The 2007 Fidentia fraud against 47 000 widows and orphans. This was one of the biggest financial scandals South Africa has seen.
4. The 2008 Global Financial Crisis raised concerns over the "light-touch" approach to prudential and conduct supervision over banks.

Similar events in other countries have led to Market Conduct reform globally. The United Kingdom ("UK") conduct authority, the FCA, is arguably the most sophisticated conduct regulator and its elevation was as a result of some very public conduct malpractices.

The miss-selling of Payment Protection Insurance ("PPI") in the UK is perhaps the most notorious of these. PPI is designed to cover loan or credit card payments if one becomes unable to work, for example, due to illness or loss of employment. Banks and other lenders sold PPI to their customers without fully explaining what it covered. In the worst case scenarios, the banks/lenders lied to customers by telling them it was a compulsory element of a loan, or they simply added it to the underlying loan without the borrowers' consent.

The UK High Court rejected the British Bankers Association's ("BBA") claims that the rules were unfair because they were retrospective and consequently thousands of cases of redress were processed. The banks were told to re-examine complaints they had previously rejected and to contact all past PPI customers, even those who have never complained.

More recently banks like Barclays and Citigroup, amongst others have paid significant fines for Libor and foreign exchange rate rigging and the role that they had on the financial market integrity.

It was clear in the above events that there is a linkage between the supervisory levers of Financial Stability, Prudential and Market Conduct. In South Africa, prudential supervision has come a long way since the 2008 crises, however the same cannot be said for Market Conduct.

"In dancing with the enemy one follows his steps even if counting under one's breath."

Breyten Breytenbach

The need for a Twin Peaks reform was further supported by the challenges experienced by the South African regulatory market, for example:

- Each regulator applies laws differently to institutions in the South African financial sector. In addition to this, most financial firms are regulated by a number of financial regulators, for example, major banks in South Africa are regulated by the SARB, FSB, Financial Intelligence Centre ("FIC") and the National Credit Regulator ("NCR"). This fragmentation causes playing fields to be uneven and compromised regulatory coordination.
- Many laws exist, however, the right outcomes are often not properly achieved and the wrong products are still sold to the wrong customers. This is what led to the move towards principles-based legislation, allowing the regulator to apply the principles of conduct even where the letter of the law may have been complied with.
- The International Monetary Fund ("IMF") and the World Bank have been focussing in their Financial Sector Assessments on conduct issues and have urged jurisdictions to implement active oversight and enforcement programmes. The new Twin Peaks model aligns South Africa with global standards. It is common that the South African policymakers and regulators leverage from tried and tested foreign models, laws and policies.

The regulatory reform to a Twin Peaks model will take place in two phases:

Phase one:
The two new regulatory authorities, being the PA and the FSCA, will be established. The FSR Bill gives effect to the two new regulatory authorities. During this phase, the FSB will be dissolved and replaced by the FSCA. The FSR Bill is expected to be passed by parliament later this year.

Phase two:
This phase of the implementation process will be focused on revising, consolidating and harmonising the legal framework for prudential and market conduct in the financial sector. As it pertains to market conduct, phase two contemplates structural change by repealing current sector specific laws and introducing new streamlined and overarching financial sector legislation - the Conduct of Financial Institutions Act ("COFI Act"). It is envisaged that the harmonisation of the legislative framework will also support proactive, pre-emptive and more intrusive supervisory oversight.

A Twin Peaks model to supervision will increase regulatory coverage and minimise potential regulatory gaps as Market Conduct aims to "catch-all", for example, firms that offer financial services whether or not they meet the historical definitions of banks, insurers or other providers of financial services. This enables regulators to be forward looking, pro-active and judgement-based in their supervisory approach. It will allow for proportionality as the new supervisory approach is risk-based.

Considering all of the above it is clear that conduct risk is one of the key risks for financial institutions taking into account its evolving nature and regulatory expectations.

Conduct Risk

Each country is prescribing different requirements and treatment of consumer expectations, leaving many financial institution uncertain as to how best to approach the management of conduct risk within their organisations. The development of Twin Peaks separating conduct issues from prudential supervision has likely increased the diversity in approaches.

Broadly speaking, conduct risk is the risk of a firm treating its customers unfairly and delivering inappropriate outcomes. Firms have the opportunity to define conduct risk in a way which is relevant and appropriate to their business. While many firms are dissatisfied at regulators' unwillingness to define conduct risk the alternative view is that leaving it undefined makes it easier for firms to design solutions that fit into existing structures, reducing complexity and cost. This does mean that many firms are uncertain as to how best to approach the management of Market Conduct. Firms are entering a new reality of applying principles rather than rules. This is foreign territory for business, risk officials and compliance officers.

Some quotes from market participants on interpretations of conduct risk:

"Conduct Risk is defined as the risk of regulatory censure and/or a reduction in earnings/value, through financial or reputational loss, from inappropriate or poor customer treatment.

Firm A: Large Retail Bank

"The risk of creating detriment to a client, counterparty, the Group or market arising from inappropriate conduct of business.

Firm B: Capital Markets

"The risk that we treat our customers unfairly and deliver inappropriate customer outcomes.

Firm C: General Insurer

Approach and key challenges:

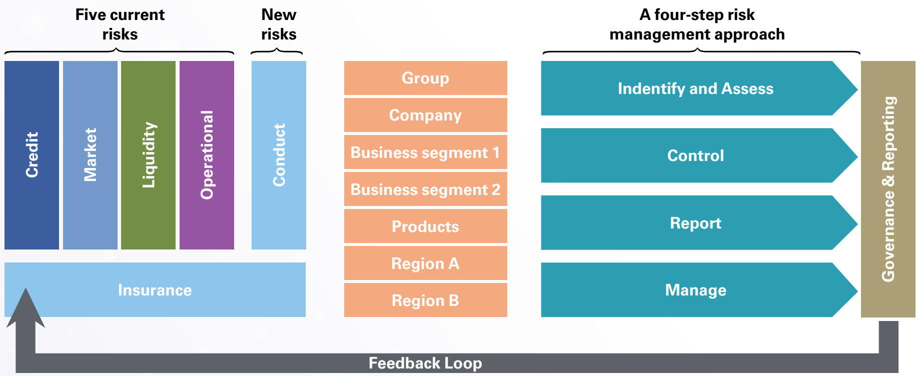
Firms are realising that organisations based on foundations other than customer-centricity will not be sustainable. With markets becoming more saturated, it is increasingly important for firms to build long-term relationships with its customers. On a mirco basis, this establishes consumer confidence in the integrity and ability of firms and on a marco basis, the markets in which the consumer operates.

The onus is on firms to define and manage conduct risk explicitly as part of their risk management framework and to adjust their strategies where they don't facilitate fair customer treatment. A firm's strategy must empower management to make the necessary changes to avoid poor customer outcomes, which in the short-term may be counter to traditional shareholders' goals.

It is important for conduct risks to be identified before they crystallise. This will allow firms to modify their business strategies to prevent poor customer outcomes. As a starting point it is important for management to set the scene for a *culture transformation*. This transformation will be challenging for management as a culture of profitmaking and shareholder wealth at the expense of all else will be difficult to dethrone. The key to this culture change is for stakeholders to realise that the commercial benefit to a client-centric organisation will ultimately be shareholder wealth as a result of customer loyalty and longevity. While early movers might suffer lost profits against competitors who do not change their poor practises, the benefits of avoiding subsequent fines, remediation costs and reputational damage are clear - a sustainable, growing book of loyal customers. UK firms have spent approximately £30 billion on fines and redress to customers who have been treated unfairly since the inception of TCF in the UK. There is no evidence to suggest that the FSCA will not take an equally rigorous approach to enforcement. In the UK, our experience with some firms suggests that for every £1 spent on compliance, up to as much as £16 has been spent on remediation.

What firms need to do?

In our view the mechanics of formulating an approach to ensure customer fair treatment is best explained by the following diagram:



The key challenge is to establish where conduct risk *fits within the enterprise wide risk management process*. For some time, insurers have focused heavily on principal risks such as insurance, credit, market and liquidity risks; with conduct risk sometimes being a subset of operational risks - particularly in instances where risks crystallise into incidents and issues. However, many insurers are now viewing conduct risk as a new risk type, separate from operational risk. The introduction of this as a new risk category inevitably impacts the management of existing risks in the areas where they interact.

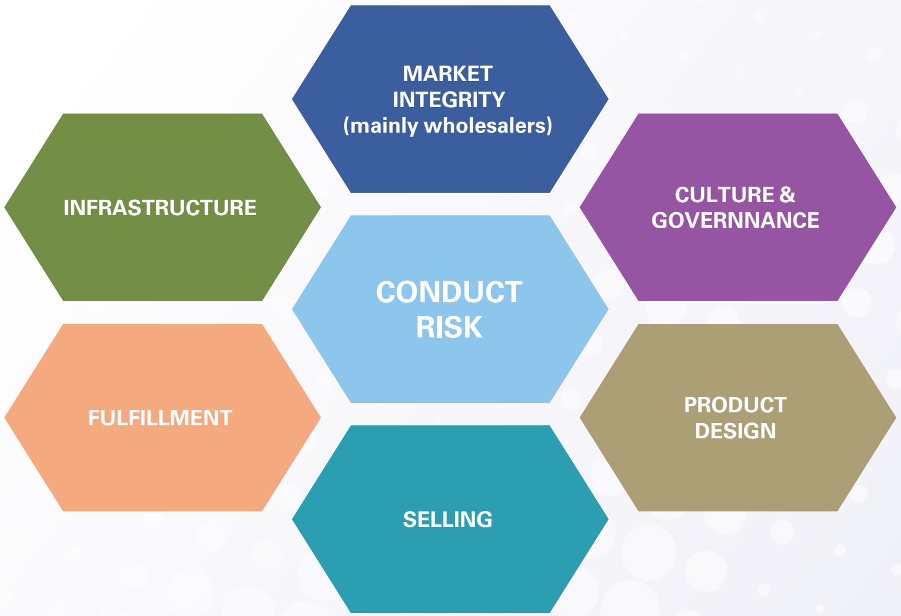
Management would need to *agree on a sensible conduct risk appetite*. Globally, however, for many insurers, the management of conduct risk is still at a very early stage. Developing a conduct risk appetite that drives decision-making is a necessary first step in addressing compliance. This could include a combination of quantitative and qualitative tolerance statements and metrics. Similar to the new regulatory approach to risk management, conduct risk supervision will seek to change the culture of firms.

Firms can follow a four step risk management approach to address conduct risk and to ensure fair treatment of customers.

Identify and assess conduct risk:

In order for firms to identify the inherent gross state conduct risks in a firm's business model and the materiality of those risks, it is necessary to perform a top down assessment of the firm's business model and strategy. The risk identification process needs to be appropriate to the nature and complexity of the business and must be conducted by those in the business who have the ability and understanding to interrogate the identified customer touch points.

As part of the risk identification process management should focus on the organisation values, business environment, processes and controls, products as well as clients' needs. It is also a good idea to review historic decisions made and the consequences they have had on customers. Firms can also turn to external indications of risk areas and content on social media. Firms need to be honest when determining the individual conduct risk areas, for example, business processes where customer fairness is not at the forefront of decision making. The risks identified should be included in a conduct risk matrix to establish which risks materially affect fair customer outcomes. Firms can utilise the following framework from a KPMG Conduct Solution to assist in identifying conduct risks:



Control:

Market Conduct should be considered in every business process to ensure customers are treated fairly. It is therefore important for core processes to be updated to include controls which prevent and detect conduct failures. The primary responsibility for internal controls in respect of conduct risk should be with those who face it when making day-to-day or strategic decisions. This is also referred to as the front line or the first line of defence.

Management:

The manner in which these risks will be managed will be key. Decisions will need to be made about who will take ownership and govern the process. Managing conduct risk is, however, the responsibility of all parts of a firm. Many insurers believe that the management of conduct risk remains with the Compliance function. This is far from appropriate. Compliance will in this regard play an oversight role and serve as a second line of defence. A delegate of the Chief Risk Officer ("CRO") should be accountable for establishing the framework around conduct risk. Establishing the conduct risk framework requires all business segments within the firm to provide input. Practically, this function reports into, for example, the Chief Executive Officer ("CEO"), CRO or a board sub-committee such as the Social and Ethics Committee. Some firms have established specific committees with the primary purpose of governing conduct risk, while others have utilised existing frameworks.

Firms need to establish defence lines. Depending on the independent assurance model of the firm, we suggest firms incorporate conduct risk procedures in quality assurance audit programmes or in internal audit plans.

The following diagram illustrates the key principles of setting up a Market Conduct framework:

Managing conduct risk effectively					
Fit with Enterprise Wide Risk Management	Agreeing a sensible conduct risk appetite	Cultural transformation	Ownership and governance – 1st and 2nd line activities	Reporting on customer outcomes	Upgrading core processes

Reporting:

The information requests currently required by the regulators will not reduce. There will be increased focus on the quality and type of management information. The supervisor will move beyond merely reviewing company policies and frameworks. They are now assessing whether firms are operating in the customer's interests when making business decisions.

- The FSCA expects firms to be able to demonstrate that consumers are central to their strategy and business and that these deliver fair consumer outcomes.
- The FSCA expects firms to be taking a proactive approach to the mitigation of conduct risk to minimise the potential for customer detriment and to have the systems and processes in place to be able to identify risk exposures before they materialise.
- The FSCA considers business model analysis, for example, what can go wrong to proactively identifying the drivers of a firm's conduct risks before they manifest as actual poor customer outcomes.
- If the FSCA has concerns they will use more intrusive supervisory tools, for example, they may directly influence a firm's strategy or prevent a new product being released to the market.

This information is not just about tone from the top, it is tone throughout the firm – particularly the 'tone from the middle' where issues often arise. The compliance function will shift from a rules based approach to a risk-based approach and the regulator will follow suit in its regulatory style. Those who can see the benefits of treating customers fairly and who have adapted appropriately will appreciate the regulator's risk-based approach and the level playing field that it brings. Those who don't will experience the effects of a mightier regulator.

> **"SOUTH AFRICA is blessed to have women and men like yourselves who have little to give but give what you have with open hands and open hearts."**
>
> **Mangosuthu Buthelezi**

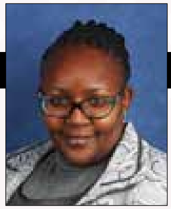

KPMG
Quality matters when you're choosing your suits.Barclays has selected KPMG as its first new auditor in 120 years.
KPMG is now the Clear Choice for Banks in Africa.

“It was hard to be away from HOME, but I am glad that I am HOME now.”

Singer Miriam Makeba was the first South African to win a Grammy award. She received the Grammy Award for Best Folk Recording in 1966 together with Harry Belafonte for ‘An Evening With Belafonte/ Makeba’. The album dealt with the political plight of black South Africans under apartheid. Also a human rights activist, she was exiled for 30 years. She addressed the General Assembly of the United Nations on two occasions.

Miriam Makeba

THE INDUSTRY FACES BEE DOWNGRADES



Boitumelo Ngutshane
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While the Black Economic Empowerment Act (BEE Act) and The Financial Sector Codes of Good Practice (Codes) have achieved degrees of success, there were still considerable shortcomings noted that needed to be addressed.

While the Revised Codes are effective 1 May 2015, The Department of Trade and Industry (DTI) has indicated that companies with financial periods ending on, or before, 30 April 2015 may still be rated under the old codes regardless of when their BEE certificates are verified.

Sector charters have been given an extension to 31 October 2015 to align with the revised codes and failure to comply with this deadline will result in the charter being repealed. This means that all companies being rated under the sector charter may use the current code until 31 October 2015.

Why the need for revised codes

In order to understand the reasons for the revised codes, one needs to look back at the BEE Act and the Codes gazetted in 2007. The intention and objective of these were to address the moral, social and financial growth imperatives.

Moral imperative – Black people were previously excluded from the mainstream economy. The BEE Act and Codes were introduced in order to intervene and root out economic inequalities.

Social imperative – The top 10% of income earners in South Africa contributed more than 50% towards consumption of goods and services. The average consumption is about 30% in developed countries. Growth of the black middle class and stabilisation of the economy was important.

Financial and growth imperative – the South African unemployment rate was too high and an increase in operational black business expertise was required.

The Codes of 2007 achieved a measure of success in increasing black ownership and management in companies, up-skilling and employment of black people, developing and procuring from black businesses and then finally assisting with socio-economic development for the greater good of everyone.

The "old" codes are also criticised for benefiting a connected few individuals – there were many different interpretations of these codes. In many instances companies that achieved high ratings (level 1 or 2) had no meaningful transformation within the organisations. Unemployment levels still remain unacceptably high. In contracts the skills and level of entrepreneurship in South Africa remains critically low. As a result, the Codes did not achieve all of its intended purpose and had to be revised and updated.

The revised codes were published in the Government Gazette on 11 October 2013. They seek to enhance the implementation of BBBEE.

The Revised codes provide for five elements, as opposed to seven elements in the old codes. The five elements include Ownership, Management Control, Skills Development, Enterprise and Supplier Development, and Socio-Economic Development. Employment Equity is now merged with Management Control, while Preferential Procurement and Enterprise Development were merged into Enterprise and Supplier Development.

Significant changes in the new codes relate to improving black skills and encouraging growth and investment in small black business. **Black ownership net of debt is encouraged**. The new enterprise and supplier development element will encourage entrepreneurship and **encourage big business to act as mentors for small and medium enterprises.**

There is also an introduction of priority elements which brings along minimum thresholds. The three priority elements are Ownership, Skills Development and Enterprise, and Supplier Development. Entities need to achieve at least 40% of these targets or else the total score is discounted by one level. In other words, businesses that fail to meet minimum threshold in any of the three priority elements will result in their BBBEE score being reduced by one level.

Major challenges

Some of the major challenges relate to recognising **Empowered Suppliers** in the Enterprise and Supplier development. A lot of companies will not meet these requirements easily. A measured entity will be recognised as an **Empowered Supplier** if it complies with at least three of the following criteria:

- At least 25% of cost of sales excluding labour costs and depreciation must be procured from local producers or local suppliers in South Africa;
- 50% of jobs created are for black people;
- At least 25% transformation of raw material/beneficiation which include local manufacturing, production and assembly;
- At least 12 days per annum of productivity deployed in assisting Black EME's[1] and QSE[2] beneficiaries to increase their operation or financial capacity; and
- At least 85% of labour cost, for entities in the service industry should be paid to South African employees.

However there are advantages that business can utilise

As the new revised codes are aimed at creating meaningful transformation to organisations and the country, they will enhance implementation in a meaningful and sustainable manner. Some of the advantages include:

- The revised codes provide a competitive advantage for companies who deal with both private and public sector;
- There is an increased focus on long- term goals and sustainability (not just a quick scoring exercise). This is made visible by:
  - Increased focus on **black women ownership** and participation at all management levels. Transfer of ownership cannot be a short term decision. The codes have further introduced a 40% sub-minimum on net value ownership.
  - Greater focus on attracting the right talent, develop, empowering and rewarding them and ultimately **retaining** them.
  - **Procurement expenditure with black owned QSEs and EMEs**, with a three year contract that has a multiplier effect. This means that their scores will be increased by 1,2 times.
  - **Increased skills expenditure** on black people from 3% to 6% of the leviable amount. Companies will need to develop their black employees resulting in increased skilled staff and ultimately, an increased skilled nation. The new codes introduce points for training of unemployed black people. This will help unemployed black people improve their CV and ensure that they are more employable thereafter. Companies can now train other people outside their organisation and still earn BEE points.
  - The new codes have introduced supplier development contributions which reward companies for developing small black companies that form part of the entity's supply chain. Big business is expected to "mentor" smaller businesses. The enterprise development criteria encourages entrepreneurship and innovation.
  - EME's threshold has been increased from R5 million turnover to R10 million. This will increase the number of companies included in this category. Furthermore, EME's need not obtain a BEE rating but rather affidavits. EME's that are 100% or greater than 51% black owned are rated level 1 and 2 respectively.

The revised Financial Services Charter ("FSC")

The table presented on the following page provides a summary of some of the initial proposals to align the revised codes to the FSC.

The main features of the revised FSC are that

- Employment Equity is now included in Management Control. Preferential Procurement and Enterprise Development have been merged with Enterprise and Supplier Development;
- Introduction of priority elements which introduces minimum thresholds. The three priority elements are Ownership, Skills Development, and Enterprise and Supplier Development. Entities need to achieve at least 40% of these targets otherwise the total scorecard is discounted by one level;
- The EME threshold has been increased from R5 million to R10 million and the removal of the requirement to have a BEE certificate for these companies. Totally black owned EMEs are to be rated level 1. The threshold for QSEs has also been increased from R10 million to R50 million turnover. QSEs that are at least 51% black owned are also exempt from producing BEE certificates. QSEs only need to comply with two of the three priority elements.

[1] Exempt Micro Enterprise
[2] Qualifying Small Enterprise

<table>
<tr><th></th><th colspan="4">Old FSC</th><th colspan="2">New DTI</th><th colspan="4">Proposed FSC</th></tr>
<tr><th>Element</th><th>Life offices and banks Main scorecard</th><th>Short Term Insurers Main scorecard</th><th>Other Main scorecard</th><th>Bonus points</th><th>DTI</th><th>Bonus points</th><th>Life offices and banks Main scorecard</th><th>Short Term Insurers Main scorecard</th><th>Other Main scorecard</th><th>Bonus points</th></tr>
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<tr><td>Socio Economic Development</td><td>3</td><td>3</td><td>3</td><td>0</td><td>5</td><td>0</td><td>5</td><td>5</td><td>5</td><td>2</td></tr>
<tr><td>Total</td><td>100</td><td>95</td><td>83</td><td>7</td><td>109</td><td>9</td><td>105</td><td>100</td><td>88</td><td>21</td></tr>
</table>

“Transformation is not a future event – it is a present day activity.”

Julian Michaels

Direct empowerment

Under the ownership element, bonus points are now allocated to entities that not only meet minimum requirements but to those that exceed the targets. A bonus point is allocated for each 5% of economic interest and voting rights above 25%. There is a greater focus in the codes to increase ownership of these institutions by black people. The new entrants target has also been increased from R20m to R50m.

Human resource empowerment

The management control elements focus on attracting, empowering, retaining and rewarding people. The codes encourage all entities to comply with the economic active population targets. Many entities have not been able to comply with the "old" codes especially on the levels of senior and middle management. The revised compliance targets are even more of a challenge.

The most significant increase in target noticed in all the codes is the skills development expense that has been increased from 3% of leviable amount to 6%. If black staff numbers are not increased in an entity over time, then the amount of training would need to increase significantly for those staff members. South Africa's unemployment rate of 25,2% is very high compared to developed countries like the USA and the UK at 5,6% and 5,9% respectively. Internships, learnerships and skills development programmes aimed at unemployed people are encouraged in the revised codes.

Indirect empowerment

The most significant change in the procurement element is that only empowering suppliers will be recognised in the procurement spend. The possible attainment of empowering supplier status by any entity is being questioned.

In conclusion

There is no doubt that there will be a significant impact of the revised codes on many industry lines including the insurance market. Those who are slow to react to align business practices with the revised codes will see the impact on their verified BEE rating. Transformation will need to be at the core of organisations and embedded in all business activities.

> **"Your ordinary acts of LOVE and HOPE point to the extraordinary promise that every human life is of inestimable value."**
>
> **Desmond Tutu**


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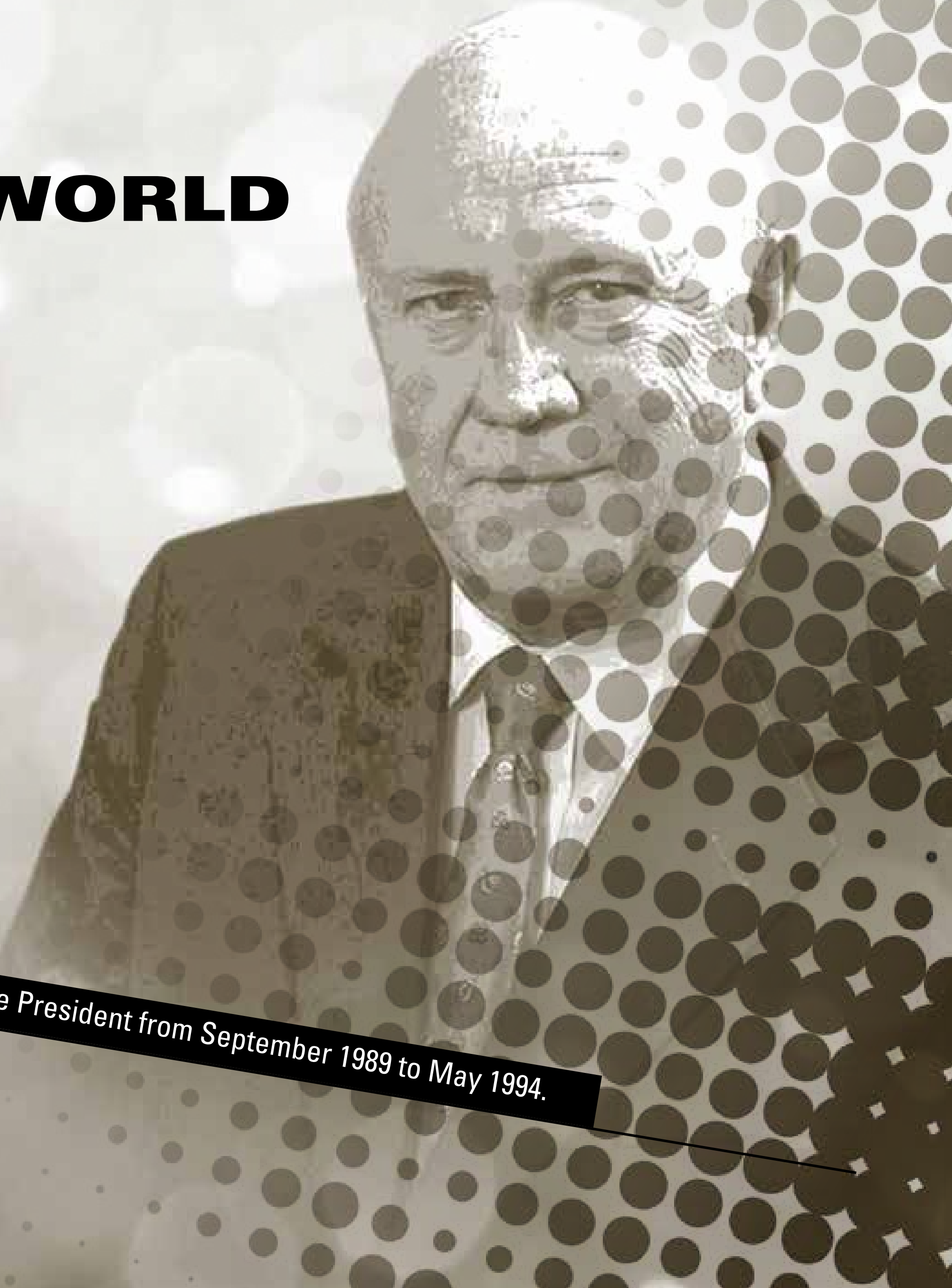
**"Above all,
we owe it to
THE CHILDREN OF THE WORLD
to stop the conflicts
and to create
NEW HORIZONS
for them."**



Frederik **Willem de Klerk**

Frederik Willem de Klerk is a South African politician who served as the country's State President from September 1989 to May 1994.

INSURANCE IN AFRICA

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INSURANCE HAS A BIG ROLE TO PLAY IN AFRICA'S GROWTH, STARTING NOW

It is easy to see why Africa is an economic focal point for investors around the world. Even with falling commodity prices, growth in the world's second largest continent is only projected to fall to 4% in 2015 – which is double Europe's figure of 1.7%. The International Monetary Fund estimates that, in the next five years, Africa will have the world's fastest growing economy.

With investment in Africa proliferating across countless markets, the insurance sector is no different. The latest figures from Swiss RE indicates that while Africa's insurance penetration rate stood at 3.5% in 2013, the market recorded a growth rate of 10.2% versus 2.5% worldwide.

With a presence in twelve African countries (including Nigeria, Kenya and Ghana), CEO of the International division of MMI Holdings Limited, Blum Khan believes now is the time for the insurance services sector, especially in South Africa, to take the leap and start growing the continent. According to Khan, this is good news for Africa, both economically and socially.

With South African economic growth slowing in recent years and the insurance market nearing saturation, South Africa's insurance companies have ventured into the rest of Africa. Indeed, the rest of Africa contributes to a sizable proportion of South Africa's major insurers' new business, as is shown in the accompanying table. According to Business Day, Sanlam invested around R5bn in its African operations in 2012-13. The news agency also noted that **Sanlam** has R2.5bn ($200m) to spend on acquisitions and expansion in the rest of Africa in 2015. Moreover, **Old Mutual** and **MMI Holdings** have R1.4bn and R1bn, respectively, to spend on expansions in the rest of Africa.

South African insurance companies have a strong presence across Southern and East Africa. As shown in the table below, all four major insurance companies have operations in Botswana, Malawi, Namibia and Swaziland, while interest in Lesotho, Mozambique, Zambia and Zimbabwe is also strong. Further afield, the key targets for South African insurers are Kenya, Nigeria and Ghana.

South African Insurers' Operations in the Rest of Africa					
Country	**Sanlam**	**Old Mutual**	**MMI**	**Liberty**	**Region**
Kenya	56% stake in Pan Africa	Subsidiary - Old Mutual Kenya; 61% stake in UAP Holdings	Subsidiary - Metropolitan Life Kenya; Cannon Assurance	Subsidiary - Liberty Kenya Holdings	East
Tanzania	64% stake in African Life Assurance; 41% stake in Nico Tanzania	–	Subsidiary - Metropolitan Life Tanzania	Strategis Insurance	East
Uganda	100%-owned Sanlam Life Insurance Uganda; 61% stake in Nico Uganda	–	–	Subsidiary - Liberty Life Uganda	East
Rwanda	63% stake in Soras	–	–	–	East
Zambia	70% stake in African Life Assurance; 62% stake in Nico Zambia	–	Subsidiary - Metropolitan Zambia	Madison Life Insurance	Southern
Mozambique	Stake in Nico Mozambique Vida	–	Subsidiary - Metropolitan Mozambique	Emose	Southern
Botswana	54% stake in Botswana Insurance Holdings	Subsidiary - Old Mutual Botswana	Subsidiary - Metropolitan Botswana	Subsidiary - Liberty Holdings Botswana	Southern
Zimbabwe	–	Subsidiary - Old Mutual Zimbabwe	–	Eagle Insurance	Southern
Namibia	100%-owned Sanlam Namibia	Subsidiary - Old Mutual Namibia	Subsidiary - Metropolitan Namibia	Subsidiary - Liberty Life Namibia	Southern
Mauritius	–		Subsidiary - Metropolitan Mauritius	Swan Group	Southern
Malawi	25% stake in Nico Holdings	Subsidiary - Old Mutual Malawi	Subsidiary - Metropolitan Malawi	Medical Aid Society of Malawi	Southern
Swaziland	Sanlam Investment Management Swaziland	Subsidiary - Old Mutual Swaziland	Subsidiary - Metropolitan Swaziland	Subsidiary - Liberty Life Swaziland	Southern
Lesotho	–	–	Subsidiary - Metropolitan Lesotho	Liberty Life Lesotho	Southern
Nigeria	35% stake in FBN Insurance	Subsidiary - Old Mutual Nigeria	Joint ventures between UBA Bank and Metropolitan Life	Total Health Trust	West
Ghana	49% stake in Enterprise Life Assurance Company	Majority stake in Old Mutual Ghana (Previously operated as Provident Life Assurance)	Subsidiary - Metropolitan Ghana	Med-X Health Systems	West

Sources: Company websites

One of **Sanlam's** most recent acquisitions in Africa came in June 2014, when it acquired a 63% stake in Rwanda's Soras Group. This company has a 35% market share in Rwanda's insurance industry. In July 2014, Sanlam bought a stake in Niko Insurance's Tanzanian operations. In February 2015, Sanlam also finalised the purchase of a 40% stake in Ghana's Enterprise Group. According to CNBC Africa, the chief executive of Sanlam Emerging Markets said *"[Ghana's] insurance market has grown at an average rate of 26% p.a. over the past five years. The investment diversifies our financial services interests in Ghana to also include general insurance lines like motor and household insurance."*

South African Insurers in Rest of Africa		
Insurer	Share of Company's New Business in Rest of Africa	Number of African Countries where Company Operates
Sanlam	22%	12
Old Mutual	14%	8
MMI	6%	12
Liberty	3%	15

Source: Business Day

Although **Old Mutual** operated in eight other African countries, the bulk of its African operations are in Namibia. The company has also had a presence in East Africa since 1998 via its subsidiary Old Mutual Kenya. In January 2015, Old Mutual expanded its footprint in Kenya by buying a 60.7% stake in UAP Holdings, which is one of the biggest insurance companies in East Africa. Following the acquisition, Old Mutual Emerging Markets CEO Ralph Mupita said that *"this transaction is key to building our East African business,"* as UAP has subsidiaries in Tanzania, Uganda, Rwanda and South Sudan. In 2014, Old Mutual also bought a 67% stake in Faulu Microfinance Bank, which provides micro-insurance to a large customer base. By 2013, Faulu already had over 100 outlets and more than 400,000 customers.

MMI Holdings has a sizable presence in the rest of Africa via Metropolitan Life. In February 2014, MMI expanded further by buying a significant majority stake in Kenya's Cannon Assurance, which has been in business for 40 years and has offices in four main Kenyan cities. MMI had already been operating in Kenya for eight years through Metropolitan Life Kenya. However, MMI sees East Africa as a key growth region and therefore further expansion can be expected. According to the CEO of MMI, Nicolaas Kruger, *"the acquisition of Cannon represents an important milestone to fast-track MMI's organic growth strategy in Africa and strengthens MMI's presence in East Africa."*

Another major South African insurer, **Liberty**, established a new branch called Liberty Africa in 2008 to expand into Africa. At present, the company has operations in fifteen other African countries. On 15 April 2015, Business Day reported that Liberty plans to expand its business in Nigeria (which is currently focussed only on health insurance) by offering asset management services. Such services are already provided in Ghana through its Stanbic Investment Management division. "Clearly the big area where we looking to establish ourselves is Nigeria, both in insurance and asset management," CEO Thabo Dloti told Reuters on the sidelines of the World Economic Forum Africa in Cape Town.

Africa in a global context

According to Swiss Re, the total value of Africa's insurance premiums was just shy of $70bn in 2013, down 2% from the $71.35bn in 2012. This means that Africa's share in the global market approximated 1.5%. South Africa accounted for nearly 74% ($51.6bn) of all African insurance premiums in 2013, with the other 53 countries contributing only $18.3bn, which is only 0.4% of the global insurance market.

South Africa is particularly dominant in terms of life insurance, accounting for 88.6% of the continent's life insurance premiums in 2013. South Africa has a sophisticated and well-developed life insurance industry; however, the rest of the continent remains a long way behind. Life insurance dominated the global insurance market, accounting for 55.3% of all insurance premiums. In South Africa, life insurance is even more dominant, accounting for 81% of all insurance premiums. Outside of South Africa, however, life insurance is a small player on the continent, accounting for only 29.5% of total insurance premiums. Life insurance premiums in the rest of Africa totalled a mere $5.4bn in 2013 (0.2% of the global market).

"SOUTH AFRICA belongs to all who live in it, black and white."

Thabo Mbeki

African Insurance Market, 2013					
Country	Insurance Premiums ($bn)	Population (millions)	Density (Premiums per Capita, $)	GDP ($bn)	Penetration (Premiums as % of GDP)
South Africa	51.6	53.2	970.8	366.2	14.1
Morocco	3.2	32.9	96.8	103.8	3.1
Egypt	1.9	84.7	22.3	271.4	0.7
Nigeria	1.6	169.3	9.7	521.8	0.3
Kenya	1.5	41.8	36.4	55.2	2.8
Algeria	1.5	37.9	40.1	208.8	0.7
Angola	1.1	23.7	47.4	124.2	0.9
Namibia	1.0	2.2	437.2	13.1	7.2
Tunisia	0.8	10.9	77.3	47.0	1.8
Mauritius	0.7	1.3	570.3	11.9	6.0
Other Countries	4.9	628.7	7.9	652.0	0.8
Total	**69.9**	**1,086.4**	**64.4**	**2,375.6**	**2.9**
Africa excluding South Africa	18.3	1,033.3	17.7	2,009.3	0.9

Source: Swiss Re

Main determinants of insurance penetration

Affordability

According to an article by Imara, insurance companies in Africa traditionally target only the richest 5% of the adult population, with most poor people having no insurance. Even in South Africa, which has a well-developed insurance market, less than 30% of low-income adults have insurance. This presents an opportunity for micro-insurers to sell low-cost products to the poor. In the past few years, the advent of mobile money has also brought a new dimension to Africa's insurance industry. As most Africans have a mobile phone, buying insurance on a mobile phone is an exciting growth area as it offers a more affordable way for Africans, especially in remote regions, to gain access to insurance products. It only needs the cooperation of telecommunications companies, banks, and insurance companies.

Maturity of financial system

South Africa's insurance penetration rate is among the highest in the world and well above the level one would expect it to be given its GDP per capita. In contrast to the rest of the continent, South Africa has a very well developed financial system, which is generally an important driver of growth in the insurance industry. According to the **World Economic Forum's** 2013/14 Global Competitiveness Index (GCI), South Africa is ranked seventh in the world (out of 144 countries) in terms of financial market development. Other African countries that perform well on that index are Kenya (ranked 24th in the world), Mauritius (ranked 26th), and Namibia (46th).

Restriction due to religion

Another notable result from the comparison between penetration rates and GDP per capita is that countries in the Middle East and North Africa (MENA) region perform very poorly, and this is true even for the oil-rich countries like Qatar, Bahrain and the United Arab Emirates (UAE) that have well-developed financial markets. Apart from Morocco, the North African countries also perform very poorly. This is largely because conventional insurance is forbidden in Islam. Takaful, which is compliant with Sharia law, is therefore an important component of the insurance industry in Muslim countries.

Inflation

Many studies have found that inflation is a key determinant of the demand for insurance. Inflation erodes the value of insurance policies, thereby making them less attractive. Although inflation has declined significantly in Africa in recent decades, it is still higher than in most regions in the world, and many countries in Africa continue to struggle with high rates of inflation. According to data from the International Monetary Fund, inflation averaged more than 10% p.a. in 16 African countries over the last decade. The insurance sectors in countries like Egypt, Nigeria and Ghana may have strong long-term growth prospects, but for that to be realised, more prudent fiscal and monetary policies must be implemented to reduce the magnitude and volatility of inflation so that long-term savings are encouraged.

Drivers of African growth

Apart from South Africa, the other main contributors to African insurance growth were Morocco, Kenya, and Algeria, while Nigeria and Angola also contributed notably. Although Mauritius had one of the fastest-growing insurance sectors, the fact that it is a comparatively small market meant that it contributed slightly less than 0.1 percentage point to Africa's total insurance sector growth. In the following section, we will analyse these growth drivers more closely.

Insurance Premiums by Country ($bn)

Country	2010	2011	2012	2013	Share of African Premiums (%)	Avg Growth, 2010-13 (%)	Contribution to African Growth, 2010-13 (ppt)
South Africa	48.58	53.03	54.37	51.60	73.79	2.04	1.54
Morocco	2.60	2.84	3.02	3.18	4.55	6.96	0.30
Egypt	1.72	1.71	1.79	1.89	2.70	3.21	0.09
Nigeria	1.34	1.55	1.48	1.64	2.35	7.03	0.15
Kenya	1.00	1.03	1.28	1.52	2.17	15.05	0.27
Algeria	1.09	1.19	1.38	1.52	2.17	11.62	0.22
Angola	0.83	1.00	1.00	1.12	1.60	10.63	0.15
Namibia	0.89	1.00	1.01	0.95	1.36	2.31	0.03
Tunisia	0.78	0.80	0.81	0.84	1.20	2.80	0.03
Mauritius	0.57	0.67	0.67	0.72	1.03	8.00	0.08
Other Countries	4.11	4.45	4.55	4.95	7.07	6.37	0.43
Total	**63.49**	**69.27**	**71.35**	**69.94**	**100.00**	**3.27**	**3.27**
Africa excluding South Africa	14.92	16.24	16.99	18.33	26.21	7.11	1.74

Source: Swiss Re

Country analysis

South Africa

South Africa is the only African country that has a well-developed comprehensive and mature insurance market – both in the life and non-life insurance segments. The country's life insurance sector in particular is miles ahead of the rest of the African continent. Apart from its sophisticated financial sector, reasons for the country's high insurance penetration rate include the following:

- A high level of competition within the insurance market;
- Despite the relatively low GDP per capita compared to global standards, there is a sizable group of wealthy people that can afford insurance;
- People trust the local financial providers enough to allow them to manage their long-term savings; and
- A high level of risk awareness, which is perhaps intensified by the high level of crime and car accidents in the country.

Kenya

The Kenyan insurance market is one of the more sophisticated on the continent. As of 2013, total premiums reached just over $1.5bn, having maintained an annual average growth rate of 15.5% from 2005 to 2013. According to the Insurance Regulatory Authority (IRA), there were 49 licensed insurance companies in the country in 2014. The sector is fairly competitive with no particularly large companies that dominate the market. Although full foreign ownership is not allowed, various foreign companies – mainly from South Africa – have entered the market in recent years.

As is the case across most of the African continent, the Kenyan insurance market is dominated by non-life insurance. According to Sigma Re, non-life insurance premiums accounted for 65.8% of total premiums. This figure is however down from 69% in 2005, as life insurance premiums have grown at a quicker tempo since then. In fact, the life segment grew by 16.9% p.a.

Approximately 41% of the non-life insurance market is for car insurance (split 24% commercial car insurance and 17% private car insurance). Medical insurance accounts for a further 22% while fire insurance accounts for just over 10% of the market.

At only 0.94% in 2013, Kenya's life insurance penetration is very low due to the high level of poverty in the country. Even so, the penetration rate is still better than in most other African countries – the average life insurance penetration rate for Africa outside of South Africa is a mere 0.27%. In recent years, Kenya has seen the entry of a few foreign market players, which is a very encouraging sign for future development. Pan Africa Life, which is the market leader in the life insurance segment, has a strategic relationship with the South African company, Sanlam. Metropolitan, Old Mutual and Liberty have also entered the market.

The well developed financial sector is partially the reason for the higher than average penetration rate in Kenya. Furthermore, Kenyan companies have a strong capacity for innovation. In the most recent Global Competitiveness Index (GCI), Kenya was ranked 33rd out of 144 countries globally and first in Africa for companies' innovative capacity. This seems to be particularly relevant for the insurance sector: according to BMI, Kenyan companies have been more innovative than those in other African countries. For example, Kenyans can pay premiums via their mobile phones through platforms like M-PESA and Airtel Money. An innovative product launched in 2009 was Kilimo Salama, whereby farmers can insure their investments such as fertiliser and seeds against severe weather conditions. It offers farmers with protection against extreme drought and excessive rain – even for plots of as small as one acre. Payouts are based on how severe the insured event is, which in turn is measured at the nearest weather stations. These weather stations are part of the reason why this project is so innovative. It uses solar power and computerised gauges to send out data on rainfall levels, sun and temperature every 15 minutes. Each farmer with insurance is linked to the nearest weather station, with nobody being further than 20 kilometres away from a station. If the insurance company detects that the weather had been sufficiently bad in a specific region, then all farmers linked to that weather station get a payout; no claims have to be filed. This saves costs for all parties, particularly the insurer. Regarding contributions, rather than paying a premium directly to the insurance company, UAP, farmers pay a premium of about 5% on their inputs when buying it.

These innovations have brought success to UAP. In fact, its after-tax profits have risen consistently from KSh0.21bn in 2009 to a record high KSh1.81bn in 2013.

Another Kenyan company that is very active in East Africa is the British-American Investments Company (Britam). The company first ventured outside of Kenya in 2010 when it incorporated Britam Uganda; since then, it also established subsidiaries in South Sudan in 2012 and Rwanda in 2013. Furthermore, in December 2013, Britam completed the acquisition of Real Insurance Company, which has subsidiaries in Kenya, Tanzania, Mozambique and Malawi, thereby giving Britam a further foothold in the East African market. In 2013, the Britam's CEO said that *"regional expansion is only logical; East Africa is a big market of 140 million people. If you really want to grow you must follow the lead of government [in East Africa cooperation] and open operations in these countries."*

Jubilee Insurance is not only Kenya's largest insurance company, but also East Africa's largest insurance company, having already been active in East Africa for many decades. It is currently active in Kenya, Tanzania, Uganda, Burundi, and Mauritius. In March 2015, Ventures Africa reported that Jubilee plans to buyout smaller insurers to expand its business. The company's chairman, Nizar Juma, told the news agency that *"[Jubilee's] aim is to remain number one, particularly in Kenya, where mergers and acquisitions have been happening. There [have been] about five mergers in the last one year but we managed to remain number one. We are looking for companies to acquire in the country and region because insurance is dynamic."*

Mauritius

Mauritius has one of the most developed insurance industries in Africa thanks to a relatively high level of income, macroeconomic stability, an established financial sector, a business-friendly investment climate, and good economic policy making. According to the Mauritian Financial Services Commission (FSC) there were 12 licensed non-life insurance companies and seven licensed life insurance companies at the end of 2013. The market is fairly concentrated, though. In the non-life segment, the top two companies – Swan Insurance and Mauritius Union Assurance (MUA) – account for 52.7% of total premiums. The top five companies have a market share of nearly 80%. Meanwhile, in the life insurance segment, the biggest company, British American Investment (BAI), has a market share of 48.2%. The next biggest is the State Insurance Company (SICOM) with a market share of 22.7%, while Anglo, which is a subsidiary of the Swan Group, accounts for 20% of premiums. These three companies account for 90.9% of total premiums.

According to the Bank of Mauritius's 2013 Financial Stability Assessment, the insurance industry is solvent and well-capitalised. The central bank also noted that "insurance companies that operate with weak solvency margins are being closely monitored." Various foreign companies have an interest in the Mauritian insurance industry. Notably, South Africa's Liberty owns Swan Group, while MMI has a subsidiary in the country called Metropolitan Mauritius. Furthermore, India's state-owned New India Insurance has a subsidiary in Mauritius, while Morocco's Saham and Kenya's Jubilee also have subsidiaries in Mauritius.

Mauritian companies have also ventured onto the African mainland. For example, BAI has operations in Kenya and Botswana. Furthermore, MUA completed the acquisition of a 66% stake in Kenya's Phoenix Transafrica Holdings, which in turn gave the company a presence in Kenya, Tanzania, Uganda and Rwanda. MUA also has a subsidiary in Seychelles.

Although the total volume of premiums of $718m in 2013 is small in absolute terms, the country has a penetration rate of 6%. Moreover, Mauritius has the second-highest insurance density in Africa after South Africa. Mauritius is also one of only three countries in Africa where the life insurance segment dominates, accounting for 68.1% of the market.

The government has provided generous tax incentives to encourage the development of the life insurance industry.

Car insurance is the largest component in the non-life insurance segment, accounting for 39.2% of premiums in 2013. This segment is supported by the fact that car insurance is mandatory.

Angola

Since 2000 the number of insurance companies grew from one to 15. The insurance penetration rate is only 0.86% and very few Angolans actually have access to insurance products. Life insurance is particularly undeveloped: it accounted for only 2.8% of the market in 2012 according to the Insurance Supervisory Institute (ISS), while Swiss Re estimates that the life insurance penetration rate was a mere 0.04% in 2013. The insurance market is dominated by accident, disease & travel insurance (31.5% of total premiums), car insurance (23.8%) and petrochemicals (15.8%).

Few foreign companies have ventured into the Angolan insurance market up to now, with the country's challenging business environment being the most significant concerns. One of the few foreign companies entering the market so far was Morocco's Saham Assurance in 2013. The country is however on the radar of various South African insurers due to its large untapped potential. That said, the sharp decline in the oil price since mid-2014 has made investing in Angola an even more daunting prospect, as the government announced foreign exchange controls to prevent a sharp depreciation of the kwanza. Fiscal spending cuts (such as subsidy cuts) will also weigh on consumers' purchasing power and will make it more difficult to save or buy insurance products.

Nigeria

The Nigerian insurance market is underdeveloped and fragmented. Although the number of insurance companies has fallen significantly, there are still 32 non-life insurers, 17 life insurers, and 10 mixed companies, all catering for a total market of $1.6bn as of 2013. That gives an average of $28m premiums per insurance company. In comparison, South Africa has 179 insurance companies, but as it serves a market of $51.6bn, the average company size is more than 10 times bigger than in Nigeria. This means that the country's insurers are too small to manage large risks. Larger companies, such as oil companies, therefore tend to use foreign insurers. The government has, however, set capital requirements for insurers in an attempt to consolidate the sector and increase the capacity of domestic insurance companies to handle large risks. Furthermore, a number of agreements have been signed between banks and telecoms operators in Nigeria, which is set to boost mobile banking services in the country. As has been shown in Kenya, 'mobile money' can have a significant impact on a country's financial access. This in turn also has the potential to support the insurance industry, which can use mobile money for some insurance products.

Apart from being undercapitalised, domestic insurance companies also lack the skills needed to manage specialised risks. According to the CEO of AIICO Insurance, Babatunde Fajemirokun, some other aspects that were holding back the development of the sector are a lack of customer awareness "as people hardly see advertisements" as well as a lack of trust in insurance companies.

Access to insurance products in Nigeria is amongst the lowest in the world. Given how undeveloped it currently is, Nigeria's insurance sector still has significant room for expansion in the medium to long term. The government is very optimistic in this regard, having set a target for insurance premiums of N1trn by 2017. This would represent a more than three-fold increase from current levels and an annual increase of around 50% p.a. in local-currency terms. In doing so, the number of policy holders is hoped to rise from three million (about 1.7% of the population) at present to 10 million. The finance minister, meanwhile, hopes to see the penetration rate rising to 1.6% by 2017. Mr Fajemirokun said that the most rapid growth in the insurance sector would come from the retail market (i.e. individuals and families) as opposed to the corporate sector, which currently accounts for 83% of premiums.

According to Lloyd's, around 60% of non-life premiums in 2012 were for car insurance. Even so, despite there being some seven million vehicles registered in the country at that time, less than a million of these were adequately insured. One way in which the government is looking to increase penetration is through compulsory insurance. Specifically, the following five types of insurance are compulsory:

- third-party car insurance;
- builders' liability;
- occupiers' liability;
- employers' liability (to protect workers and their families against injury, sickness, or fatality at the workplace); and
- health care professional indemnity insurance.

Ghana

Along with Nigeria, Ghana is generally considered the country with the strongest medium-term growth prospects in the insurance sector. The sector is currently still underdeveloped. In fact, the latest available data from the National Insurance Commission (NIC) shows that total premiums equalled only GH¢628.5m ($416m) in 2011, which translates into a penetration rate of only 1.1%. Moreover, a study by FinMark Trust, commissioned by the NIC, found that more than 23 million Ghanaians (89% of the population at that time) do not have any form of insurance. Excluding those with the national health insurance, only 5% of the population have an insurance product. However, things are changing: average growth in Ghana's insurance sector was an impressive 16.7% p.a. during 2007-11 in US dollar terms (and over 30% p.a. in cedi terms). The life segment was responsible for most of this expansion, increasing by 25.4% p.a. compared to 11.7% p.a. growth in non-life premiums. As a result of this strong growth, and the country's upbeat growth prospects, insurers from countries like South Africa, Morocco and the United Kingdom have shown a growing interest in entering the market.

As is the case with Nigeria, the market is fragmented, with some 47 insurance companies (of which 21 are life insurers). For now, insurance is dominated by businesses, but with a growing middle class, operators are expecting strong growth in the retail segment in the coming years. Strong levels of economic growth and the development of the oil & gas sector should provide the impetus for the expansion of the insurance industry.

The NIC has supported the development of microinsurance products for the informal sector with the hope that this will increase insurance penetration in the country. Regulations for microinsurance are part of the draft Insurance Bill which will in future be passed by Parliament. Another segment that has significant growth potential is funeral cover. Extravagant funerals have become the norm over the past decade and that families use funerals to show off their wealth to the community. Considering that the country's per capita GDP is less than $1,400, funerals represent a very large expense to Ghanaian families.

Morocco

Morocco has the second-largest insurance market in Africa, with total premiums of $3.4bn in 2014 and a penetration ratio of 3.1%. There are 17 insurance companies in Morocco, although the four largest private companies account for two-thirds of the market. These four companies are Wafa Assurance, RMA Watanya, Axa Assurance Maroc, and Saham Assurance (formerly CNIA Saada). The sector is open to foreign investment, and some of the top companies in the country – including Axa, La Marocaine Vie and Zurich – are foreign-owned or are subsidiaries of foreign companies.

According to the Oxford Business Group (OBG), growth in the insurance sector has consistently outpaced overall economic growth since the introduction of bancassurance in 2005. Bancassurance, has significantly increased access to insurance in the country, especially given the country's relatively well-developed banking sector. Most insurance companies are either subsidiaries of banks or are partnered by banks. Between 2006 and 2014, the volume of premiums grew by an average of 9% p.a. This has mainly been driven by the property and casualty segments. Car insurance, however, remains the largest component of the non-life segment, accounting for 47% of non-life insurance premiums. Physical injury and work-related injury are the next largest segments, accounting for 17% and 12% of non-life premiums, respectively.

The life insurance segment remains underdeveloped with a penetration of only 1%, or 32% of total premiums. Encouragingly, though, the segment has seen rapid growth since the introduction of bancassurance.

Morocco's Takaful (Islamic insurance) industry also has strong prospects given its large Muslim population and the underdevelopment of this industry up to now. The key constraint has been that only limited forms of Islamic finance has been allowed. This is set to change, however, with the government adopting a new Islamic Finance Law in November 2014, which should pave the way for the development of the Takaful market. The introduction of Islamic finance is partly a way to attract investments from Arab Gulf countries, especially as investment from Morocco's traditional source – Europe – has slowed since the global financial crisis. Capital inflows from the Gulf would help significantly to boost liquidity in the banking sector, and thereby supporting lending growth, and possibly more broad-based economic growth.

Algeria

As we noted earlier, data from Swiss Re shows that Algeria was the fourth-biggest driver of insurance sector growth in Africa over the 2010-13 period. Insurance premiums in the country grew by 11.6% p.a. from almost $1.1bn to just over $1.5bn over this period. In 2013, it was also the sixth-biggest insurance market in Africa, and third in North Africa.

The life insurance market is especially underdeveloped. It accounts for only 7% of the total insurance market, with the life insurance penetration rate a mere 0.05%. Within the non-life segment, car insurance and casualty insurance dominate. Car insurance accounts for 55.5% of the market, while casualty insurance accounts for 35.2% of the market, owing mainly to fire and building insurance.

The insurance sector remains dominated by the State, which we believe is a key constraint to development. CNA figures show that fully state-owned insurers account for 75% of premiums. They are especially dominant in providing agricultural insurance (over 94% of the market) as well as fire, building, air and maritime, and credit insurance (all above 80% of the market).

In a report in July 2014, the OBG wrote that local insurers are optimistic about the market's growth prospects. Notably, it quoted the chief executive of General Assurance Méditerranéenne as saying that his company is targeting 18% p.a. growth in premiums over the 2014-18 period. Unfortunately, though, the market remains relatively closed to foreign participation since Algerian law restricts foreign ownership to 49%. More generally, inhibitive State regulations – as is reflected in the country's rankings in the World Bank Doing's Business Index (154th out of 189 countries) and Heritage Foundation's Index of Economic Freedom (157th out of 178 countries) – are also constraining economic development. Nevertheless, we expect certain sectors to benefit from government support over the next few years. This includes cement, steel, pharmaceuticals, and vehicle industries. Therefore, insurers that are able to position themselves for the growing in these industries are expected to perform well.

Tunisia

Although persistent economic difficulties since the revolution at the end of 2010 and start of 2011 have stifled the development of Tunisia's insurance sector, it remains one of the most developed in Africa. According to Swiss Re, insurance penetration was 1.8% in 2013, which is second in North Africa behind Morocco and about eighth in Africa. Tunisia has 22 resident insurance companies and three offshore companies. Of the resident ones, four are exclusively life insurers, two insure against commercial and export loans, one is a reinsurer, two provide takaful, and 12 have a diverse offering.

Making Finance Work for Africa reported in January 2015 that the Comité Général des Assurances (CGA), which is a division of the Ministry of Finance, has started a reform programme for the insurance sector. The aim is to modernise the regulatory framework to match international standards. Insurance companies have been *"urged to create a standing committee on internal audit as well as a risk committee and a control system."*

Conclusion

The key determinants of an insurance sector in any particular country are income levels, political stability, the depth and sophistication of the financial sector, the level and volatility of inflation, religion, and the capacity of companies to innovate. A few African countries already have fairly high income levels and therefore sizable middle classes, which has spurred the development of insurance. Such countries include South Africa, Botswana, Namibia, and Mauritius. Although most North African countries also have fairly high income levels, these markets are still underdeveloped due to religious reasons, challenging business environments and restrictive government policies, as well as political and macroeconomic instability. In recent years, though, Morocco's insurance sector has shown strong growth thanks to the combination of reasonably high income levels by African standards, political and macroeconomic stability, low inflation, and a sophisticated financial sector. Moroccan insurance companies are also among the most aggressive investors in other African countries, having seen the opportunity to use the bancassurance model to expand to mainly French-speaking African countries.

In East Africa, Kenya performs particularly well in its ability to innovate while it also has a reasonably well-developed financial sector. These two factors may help to explain why Kenya's insurance sector is among the most developed in Africa despite still-low levels of income. Kenya has also been foremost among South Africa's major insurers' targets for expansion. These South African companies have also expanded to most Southern African countries due to their geographic proximity. Two of their key targets further afield are Ghana and Nigeria. Both these countries' insurance markets are still highly underdeveloped, and given that both economies have strong growth prospects, South African insurers have jumped for the opportunity to establish a first-mover advantage in these markets. In addition to strong economic growth, Ghana's relatively accommodative business environment and stable political environment helped to attract South Africa's leading insurers and perhaps to form a base from which to expand into the rest of West Africa. Despite less attractive business and political environments in Nigeria, the country is attractive due to its very large market size and strong economic growth. The entry for South African companies is also simplified by the fact that English is the business language in both countries, as opposed to the rest of French-speaking Central and West Africa, which Moroccan companies have generally favoured. In turn, Kenyan companies have successfully expanded into East African countries such as Tanzania, Uganda, and Rwanda.

Africa has one of the fastest-growing insurance industries in the world and therefore presents an opportunity for investors. Over the short term, we expect the non-life segment to continue to dominate. However, with the rising middle class, there will be more and more opportunities in the life segment as well.

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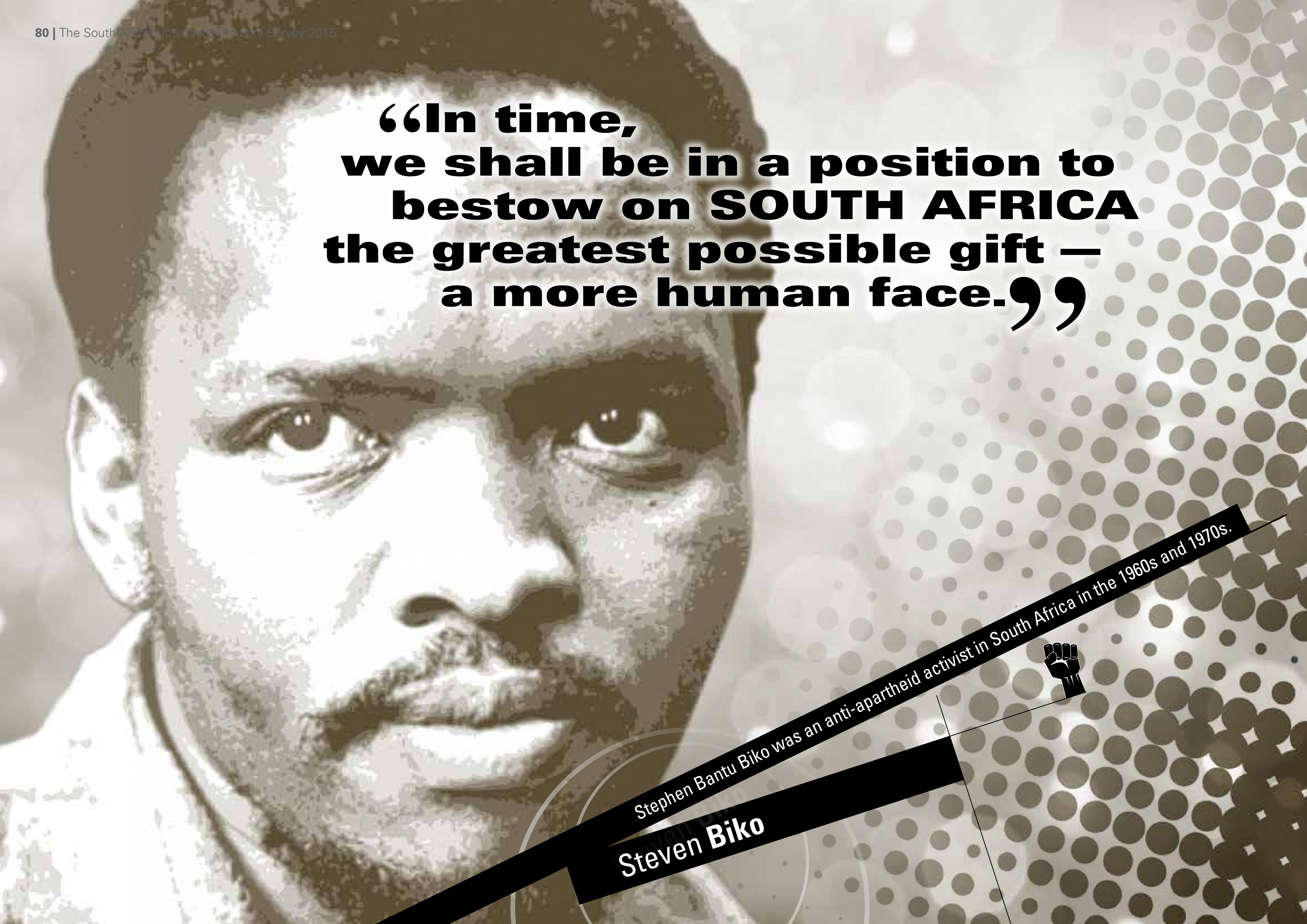
"In time,
we shall be in a position to
bestow on SOUTH AFRICA
the greatest possible gift –
a more human face."
Stephen Bantu Biko was an anti-apartheid activist in South Africa in the 1960s and 1970s.
Steven Biko

BUILDING AN AFRICAN INSURANCE GIANT

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Nigeria, Ghana, Botswana and the East African Community (EAC) are all developing (or have developed) more advanced insurance regulatory regimes. Furthermore, many South African insurance companies are in the process of expanding operations across the continent, or may possibly plan to do so in future. This article will cover a comparison of local insurance regulations to the South African Prudential framework Solvency Assessment Management (SAM) and will outline some key practical considerations for South African insurers planning to expand into Africa. The territories covered include EAC member states (Kenya, Tanzania, Uganda, Burundi and Rwanda), Ghana, Botswana, and Nigeria.

Regulatory review

The agreed Insurance Core Principles (ICP) methodology of the International Association of Insurance Supervisors (IAIS) provides the basic benchmark for insurance supervisors, for EAC Partner States, as well as the other African territories as a whole.

In order to carry out a SAM comparison, key themes were identified based on the 'Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009' – where the differences between SAM and Solvency II are not considered to be material for this purpose. A comparison was then carried out across all territories considered in respect of the requirements reflected in the Directive.

Compliance versus the ICP's

The following ICP principles were identified as being the most common among the regulations applied in the countries considered:

- Objectives, powers and responsibilities of the Supervisor;
- Preventive and corrective measures;
- Enforcement; and
- Winding-up and exit from the market.

Compliance versus the South African SAM

The greatest areas of strength in terms of compliance is with the presence of a Minimum Capital Requirement as well as the role of an actuarial function. Articles 35, 41, 44, 45, 48, 76 and 100 exhibit only partial observance on average. There are of course some anomalies present, but with respect to these principles, these are minor in most cases. In some cases, the standards for the applicable principle are largely not recognised in local regulations.

The greatest area of weakness relates to the capital requirements. Capital requirement being calibrated so as to ensure that all quantifiable risks to which an insurance or reinsurance undertaking is exposed to are taken into account and where the Minimum Capital Requirement represents the amount of eligible basic own funds below which policyholders and beneficiaries are exposed to an unacceptable level of risk.

Practical considerations for growth strategies into Africa insurance penetration

South Africa's life insurance market relative to its non-life insurance is unusually large. Business Monitor International also indicates that South Africa's life insurance industry accounts for 80.4% of all insurance premiums in the country during 2013.

According to the NKC report "Monitoring African Sovereign Risk", South Africa's life insurance density is 6.5 times that of South America, while the two regions' non-life insurance densities are almost equal. This suggests that South Africa's life insurance market may well be close to saturation, but that its non-life insurance market still has significant scope for expansion. The only other African country considered that has a larger life insurance segment than non-life segment is Botswana.

Insurance companies traditionally target only the richest 5% of the adult population, with most poor people having no insurance. Even in South Africa, which has a well-developed insurance market, less than 30% of low-income adults have insurance. The figure for the rest of Africa is even lower. This presents an opportunity for micro-insurers to sell low-cost products to the poor and hence increase insurance penetration across the African continent.

There is a large difference between the penetration of life and non-life insurance for the countries under consideration (as is generally the case for the rest of the continent). Life insurance is particularly underdeveloped outside of South Africa due to poverty. Individuals will only start to think about long-term savings once their short-term needs are fulfilled, which means that life insurance is not an affordable option for most people on the continent. Other reasons for the life insurance industry's underdevelopment are a lack of data on mortality and longevity as well as a lack of actuarial skills. Due to the near-absence of life insurance on the continent (outside of a few countries), the non-life insurance segment dominates the industry. As at July 2014 expected premium figures reported for 2013 by Business Monitor International indicates that after excluding South Africa, the life insurance segment accounts for approximately 37% of total premiums on the continent.

Consumer behaviour

Even though insurance seems to be a more popular financial services product than investment products or retirement savings, insurance is not used as a mitigation tool by the majority of consumers to protect themselves against various financial risks in Nigerian and Kenya. It is also likely that a similar (or perhaps even lower) reliance is put on insurance as a financial risk mitigation tool by consumers in the rest of Africa considering the comparative penetration rates observed in other countries.

Given that insurance is not generally used as a financial risk mitigation tool, one needs to consider the possible reasons for this. For example, insurance might simply not be a financially viable option to some consumers. Enhancing Financial Innovation & Access (a financial sector development organisation that promotes financial inclusion in Nigeria) found in their 2012 survey that Nigeria had about 1.3 million policyholders at the time, representing only 1.5% of the adult population. The top three barriers to having insurance were found to be a lack of understanding, affordability and that consumers don't know where to get insurance.

Distribution

Insurance companies use various means of distributing their products, with varying success across the globe. Their level of success is a factor of the specific environment that exists within that country such as: demographics, regulations, market maturity and consolidation, and consumer sentiment being some of the key variables. A successful distribution channel needs to address all of these variables and tailor both the product and sales process to suit the environment.

Although traditional distribution channels i.e. brokers and other intermediaries are used in more developed markets in Africa, insurance is mostly distributed through alternative distribution channels. These distribution channels include bancassurance and affinity partnerships/alternative distribution channels.

These distribution channels are preferred as traditional distribution channels serve affluent markets, mainly in industrialised countries, where insurance penetration is high and markets often seem saturated. When designing and distributing insurance in Africa, the following factors should be strongly considered:

(a) Wider reach and footprint

(b) Economies of scale

(c) Simple administration

One of the sales synergies of bancassurance comes through the extensive customer base that banks have. Some come from opportunities to sell insurance in addition to the banking products. Especially funeral cover, which can be sold when opening a bank account. Although borrowers are not obliged to buy insurance from the lender, many do as it is an easy option. Credit cards and personal loans create opportunities for banks and micro-finance lenders to sell protection insurance (another high margin business) and the knowledge a bank has of its customers' finances creates opportunities to sell other products. It should be recognised that legislation, similar to POPI[1], is not widespread beyond the borders of South Africa.

[1] Protection of Personal Information.

Mobile phone penetration in Africa is estimated to be 80% and is still increasing. This provides insurance companies with a greater reach and wide footprint. The products sold through this channel are usually simple to understand and little advice is required during point of sale.

Post offices have also proven to be a popular means of selling insurance mostly in the Sub-Saharan African countries. Given the large extent of the branch network across the countries, post offices are also a preferred way of distributing insurance products.

Product development

Optimal product design and development has become a key business focus point for profitable growth and for delivering new products to the market for today's insurers. Insurers that are innovative and invest in new solutions and use new ideas and technologies to change the underlying process, to automate and streamline their product-development processes will find themselves with greater sales volumes and more satisfied customers because of proper product fit.

The African continent is constantly undergoing changes, and the changes are different for every region and every individual country. The innovation of mobile money such as the M-Pesa[2], political unrest, a growing middle class and a widening gap between the rich and poor, amongst others are all driving insurers to work harder than ever before to remain competitive and profitable.

The consensus is that the insurance market will change and over time the most successful insurers will be the ones that can offer innovative, differentiating products that appeal to increasingly savvy and technologically empowered customers. Customised niche products in life, health and property are the next phase in insurance. Capitalising on that trend will require dynamic product life cycle models designed to quickly take advantage of fluctuating market and customer demands, as well as information systems and data to help identify, predict and manage those demands.

Constrains to product development and barriers to innovation

Some of the constraints to product design and development as well as business expansion in these African countries may be expected to include, and is not limited to the following:

(a) Lack of required and experienced human capital or skills. To develop new products and identify potential customer needs for new products, insurance companies need input from actuarial and underwriting professionals. These skills are scarce in most African countries.

(b) There are no bundling of products available that may be better suited to meet the customer needs.

(c) It may not be possible to quickly react to changes in the market conditions as the various steps in the product development process may take some time to complete before the product can enter the market.

(d) Lack of good quality or reliable data and the inability to properly access people's data.

(e) There are insufficient tools in place to analyse the data available and to manage the product during the various stages of the product life cycle.

(f) Lack of industry studies conducted by the regulator. Except for Botswana, Nigeria and Kenya, few African countries conduct insurance industry studies and trends. This makes it difficult for insurance companies to respond to any trends or development in the industry.

(g) Poor and rigid administration systems – systems that need minimal intervention and which rely on the provider (e.g. a bank) to screen the data are best fit for purpose.

(h) Product cost (can't be too high since insurance premiums approximate 6-10% of people's income).

(i) Customer trust in the industry (if there is a history of not paying claims or in terms of trusting a company based in an outside country).

(j) Access to customers in rural areas.

(k) Companies that operate from outside the country with a "partner" in country ("fronting") are falling out of favour with regulators in the African countries. This is also for example where business is written in the local territory but the majority of that risk is then taken to an offshore cell captive. To overcome this, companies will need an on the ground network of companies which they own and be willing to keep some risk in country.

(l) Paying claims may be a challenge where there is no formal government documentation such as death certificates.

(m) Fraud and corruption.

[2] M-Pesa is a mobile-phone based money transfer and microfinancing service.

Trends in insurance in Africa

In 2014 it was estimated that 53% of the population in Africa was Islamic. This makes it imperative to have insurance that is in line with Islamic principles. Therefore, Islamic insurance exists where each participant contributes into a fund that is used to support one another with each contributing sufficient amounts to cover expected claims. The objective of Takaful is to pay a defined loss from a defined fund. Islamic finance and Takaful is a growing global phenomenon, contributing positively and substantially to the world economy. The growth of the Takaful market in Africa may be hindered by the mindset of the insurers as this is a niche market that can service only a certain sector of the market.

Africa's Microinsurance industry is different from that of South Africa. In South Africa, most people have heard about insurance, even if they have not had insurance themselves before. In the rest of Africa a lot of people have never heard about or had insurance before. Where they have had insurance, they often have had poor experiences, for example, where previous socialist governments took over the insurance industry and then did not settle claims after receiving premiums for years. To offer insurance to people who face more risk but cannot afford to pay high premiums, products need to be kept very simple.

"The most POTENT WEAPON of the oppressor is the MIND of the oppressed."

Steven Biko

Conclusion

The big four South African life insurers are looking to the rest of Africa as the main source for future growth. While the contribution to profit from these ventures is small at this stage, looking forward, the rest of the continent will become a bigger contributor to local insurers' earnings.

A number of countries in Africa are attractive due to high economic growth rates and low insurance penetration rates. By 2020, 128 million African households will earn $5,000 a year or more, up from 85 million in 2008. This will present a further growth opportunity for South African insurers looking to expand into Africa.

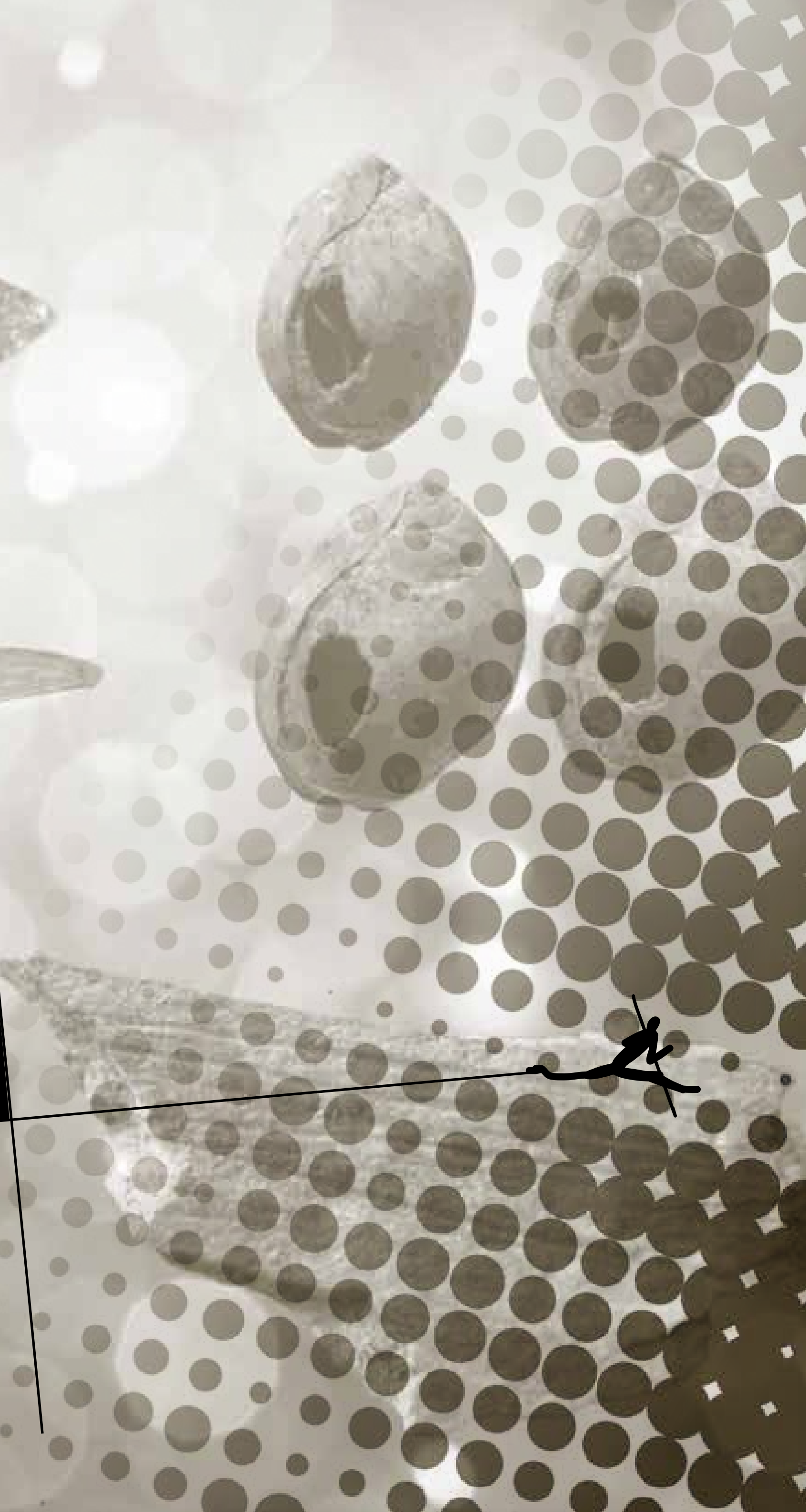
While the growth potential is great, insurers need to overcome many challenges. Building efficient distribution channels, educating consumers about insurance and other financial products, developing affordable offerings and finding ways to collect premiums are some of the main obstacles, faced. Regulatory and cultural differences also pose challenges and local market knowledge is essential to develop the right products.

Partnering with mobile operators is seen as a way to penetrate the informal market, which remains largely untapped. Finding a way to offer simple and affordable products and to build an effective distribution and payment collection system to service customers outside formal employment.

The race is on to build an African insurance giant. It can be observed that there are two key contributing factors to successful growth in Africa: understanding the changing needs of changing demographics and harnessing the use of technology to create value in the African insurance sector.

Blombos Cave in Western Cape contains some of the earliest known artwork in the world – at least 70,000 years old engraved pieces of ochre, also 75,000 years old beads of shell.

Blombos Cave Rock Art



XENOPHOBIA AND ITS IMPACT ON OUR ECONOMY

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Xenophobia is defined as:

- A hatred or fear of foreigners or strangers or of their politics or culture; and
- An unreasonable fear, distrust, or hatred of strangers, foreigners, or anything perceived as foreign or different.

This shared state-corporate project of building up a 'fortress South Africa' also reveals a deeply entrenched seam of xenophobia, in which undocumented migrants and refugees from other African countries are painted as a security risk akin to terrorism and organised crime. Parliamentary discussions on border security are rife with claims that foreign nationals are attempting to drain social grants and economic opportunities from local citizens. The packaging of illegal immigration as a national security threat, which often relies on unsubstantiated claims about the inherent criminality of foreign nationals, provides an official gloss on deeply entrenched governmental xenophobia, in which African immigrants are targets for regular harassment, rounding up and extortion by the police. This normalisation of immigrants as figures of resentment may also fuel outbreaks of xenophobic violence.

This hatred of foreigners or strangers is further amplified by poverty and inequality in South Africa. According to statistics:

- The unemployment rate is very high, at more than 25%, and the poor have limited access to economic opportunities and basic services. Poverty also remains a major problem. In 2006, two thirds of (66.8%) of black Africans were living in the upper-bound poverty line. This proportion remained relatively unchanged in 2009 (66.9%) before declining to 54.0% in 2011- this reflects a 19% decrease in the level of poverty amongst black Africans from 2006 to 2011. These levels are significantly higher than the levels amongst the other population groups. In 2006, two fifths of Coloureds (41.6%) were found to be poor, as were one eighth (13.0%) of Indians/Asians and 0.6% of Whites.
- It is projected that to successfully address unemployment South Africa should attain a growth in GDP of at least 5%. Current GDP growth approximates 1.8%.
- The high levels of unemployment and inequality are considered by the government and most South Africans to be the most salient economic problems facing the country. These issues, and others linked to them such as crime, have in turn damaged investment and growth, consequently having a negative feedback effect on employment. Crime is considered a major or very severe constraint on investment by 30% of enterprises in South Africa, putting crime among the four most frequently mentioned constraints.

> **"Using money in one's attempt to put an end to poverty is like using a border in one's attempt to put an end to XENOPHOBIA."**
>
> **Mokokoma Mokhonoana**

Prior to 1994, immigrants from elsewhere faced discrimination and even violence in South Africa, though much of that risk stemmed from the institutionalised racism of the time due to apartheid.

After democratisation in 1994, contrary to expectations, the incidence of xenophobia increased.

Between 2000 and March 2008, at least 67 people died in what were identified as xenophobic attacks. In May 2008, a series of riots left 62 people dead; although 21 of those killed were South African citizens. The attacks were apparently motivated by xenophobia. In 2015, another nationwide spike in xenophobic attacks against immigrants in general prompted a number of foreign governments to begin repatriating their citizens. Locals looted foreigners' shops and attacked immigrants in general, forcing hundreds to relocate to police stations across the country. The Malawian authorities subsequently began repatriating their nationals, and a number of other foreign governments also announced that they would evacuate their citizens.

This has had a negative impact on the world's perception of South Africa and has had an inevitable impact on foreign investors and their risk appetite.

How can we celebrate 21 years of South Africa's democracy by denying hard-working foreigners, the fundamental human rights that our Constitution affords us?

The recent xenophobic attacks have negatively impacted South African businesses both locally and throughout Africa as many people believe South Africa is biting the hand of the continent that feeds it. This is to the detriment of local and international business.

Two studies were released last year by the Migrating for Work Research Consortium (MiWORC), an organisation that examines migration and its impact on the South African labour market. According to the MiWORC data, international migrants in South Africa have much lower unemployment rates than others. This is unusual as in most other countries, international migrants tend to have higher unemployment rates than locals. South Africa's unemployment data shows that 26.16% of "non-migrants" *(someone who enters a country for a temporary stay; somebody who returns to his or her country after some time spent in another country)* are unemployed and 32.51% of "domestic migrants" *(people who habitually move from place to place especially in search of seasonal work)* are unemployed. By comparison, only 14.68% of international migrants *(when people cross state boundaries and stay in the host state for some minimum length of time)* are unemployed.

But while international migrants are less likely to be unemployed, most find themselves in positions of unstable, "precarious employment," unable to access benefits or formal work contracts.

According to the research, Migrants play a positive role in South Africa as international migrants are far more likely to run their own businesses – 11% are "employers" and 21% are classified as "self-employed."

It is important to note that not all immigrants are asylum seekers. Skilled African professionals who relocate to South Africa are actually creating jobs and employment opportunities. There are many other foreign business people and graduates who come here to offer rare skills and seek investment opportunities because the climate is good.

In a recent case of xenophobia the CCMA found in favour of a Liberian asylum seeker searching for work within our country. Described as a powerful ruling in the country's fight against xenophobia, the CCMA's ruling included monetary compensation for the profound and shocking impact on the employee's dignity.

Foreign nationals have similar rights to South Africans when it comes to the labour relations act and finding legal employment in the country.

There are numerous benefits for companies hiring culturally diverse employees. People from different cultures bring their own unique and valuable skill sets. A diverse and aware workforce can create a company culture of mutual respect and dignity, garnering a reputation as a fair employer in the job market. South Africa, unlike other emerging markets, has struggled through the late 2000s recession, and the recovery has been largely led by private and public consumption growth, while export volumes and private investment have yet to fully recover.

The classification of a business as small is a relative term. In developing countries like South Africa, a small business is one that is usually entrepreneurial in nature, and employs up to 100 people.

While small businesses in developed countries contribute around 50 percent to the GDP, those in Asia contribute around 40 percent. In South Africa small businesses contribute only 30 percent to the GDP, 70-80 percent in employment, but less than 4 percent to export earnings. Why is this so?

For one, the South African economy is riddled with problems like a low growth rate, raging unemployment, high inflation rates and high taxes, such as value-added tax (VAT). The low performance of small businesses in South Africa can also be attributed to poor education levels, lack of management and work skills, lack of access to working capital, and low outlays for research and development. Yet, there is wide consensus among economic thinkers that small businesses are the means to power South Africa's economy. The government is now waking up to the huge potential of small businesses, and has initiated efforts to invigorate this sector. Foreign investors consider the stability of a country very seriously, macro-economist Dr Harold Ngalawa told Fin24." Xenophobic attacks on African immigrants has escalated over the past week in the KwaZulu-Natal city, with the country's security cluster announcing measures to bring the situation under control."

"An economy characterised by violence and lawlessness is not good for investment," said Ngalawa a University of KwaZulu-Natal academic. "Foreign investors sit down and do an analysis of a country they want to invest in and stability is one of the factors they consider. If you put yourself in the shoes of an investor, you would sit back and wait to see where this is going to."

The micro economy of townships in Durban will see prices climbing due to the eradication of "elements" of competition, said Ngalawa. Most of the foreigners being attacked own spaza shops and have been forced to flee with whatever they can take with them.

"People who had similar businesses can now trade with less competition," Ngalawa said. "That presents problems to consumers as they will become less well-off," he added. Traders could justify it on the increasing electricity tariffs for example, and with weakened competition, the likelihood of prices going up in the townships is high."

It is unlikely that South Africa will see a drastic favorable change in the economy in the near future unless the needs of the poor are addressed. The poor need to be enabled through education and skills development as this is the only long term solution.

Many insurance companies have expressed their outrage at the recent xenophobic attacks and that they condemn these acts of crime in the media and on their websites. The negative impact on the economy will directly impact on the trading results of the industry in various ways – and it will not be limited to the actual losses in property and business interruption as a result of these acts. Of particular concern is the risk it poses to the expansion plans of local players into territories in the rest of Africa. Minister Jeff Radebe warned that South African businesses operating in other African countries could be at risk as a direct result of the xenophobic attacks. So as a result, growth through the use of distribution channels in the rest of Africa could be stifled and result in significant trading losses for certain players. In addition the volatility in the stock markets will result in a decrease in the investment returns that have buffered to some degree the difficult underwriting environment experienced in the last couple of years.

The 2014 trading year was a welcome reprieve for the insurance industry after tough trading conditions in 2012 and 2013 mostly driven by significant catastrophe events and a saturated market. However with continued high unemployment rates resulting in the unaffordability of insurance products for the lower end of the market, increased economic instability resultant from factors such as xenophobia and the struggles of the South African power utility it is likely that the 2015 trading year will be one to be reckoned with.

“Racism, XENOPHOBIA and unfair discrimination have spawned slavery, when human beings have bought and sold and owned and branded fellow human beings as if they were so many beasts of burden.”

Desmond Tutu

Namaqualand flowers

Between July and October each year the lifeless dry scrub of the Karoo and Kalahari transforms itself into a kaleidoscope of colour. Depending on rainfall, almost 4000 diverse species of plants burst forth and produce a floral carpet in Namaqualand and surrounds. This is one of the most crowded biodiversity hotspots in the world.

SHORT-TERM INSURANCE INDUSTRY

Against a backdrop of the gross domestic product (GDP) growth of 1.8% in 2014, one could mistake the increase in the gross written premium of 6.9% for the primary short-term insurance industry as a stellar performance. However this is far below the aspirations of the industry and is a direct reflection of the struggle to increase market penetration in a country where poverty levels are on the rise. It is estimated that to start addressing the unemployment crises GDP growth of at least 5% should be attained. The probability of this when considering the continued labour unrests, an unreliable power utility provider and increased national debt is unlikely. This is at the heart of why the insurance industry is battling for growth and is seeking alternative markets to achieve its growth aspirations.

The saturated markets, have forced insurers to seek alternative avenues to improve results. This was mainly done through efficiencies with claims handling processes, rate increases in excess of consumer price index (CPI) inflation, offloading of unprofitable business and a renewed focus on commercial lines of business. This was complimented by the lack of catastrophe events in the 2014 year.

Despite the saturation levels experienced at the gross written premiums level, the primary insurers recorded growth at a net written premium level of 11.2% (2013: 6.0%). With the incurred loss ratio peaking at 60% and expenses increasing by 1% to 24%, the industry's underwriting ratio has remained flat year-on-year at the 9% level.

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 written premiums of the companies featured in this publication approximate 87.4% 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 R81.8 billion in 2014 an increase of 8.0% when compared to the R75.8 billion written in 2013.

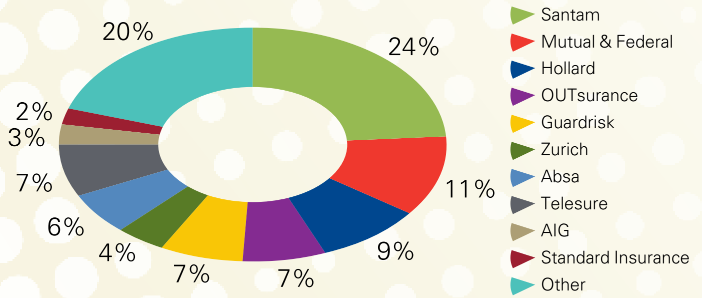
Salient features of featured participants	2014	2013
Increase in gross written premium	8.0%	8.1%
Increase in net earned premiums	5.4%	7.4%
Increase / (decrease) in investment income	5.7%	(3.5%)
Claims incurred	63.5%	64.7%
Combined ratio[1]	98.6%	99.2%
Operating ratio[2]	88.4%	89.0%

[1] The total of claims incurred, management expenses and net commissions as a percentage of net earned premiums
[2] The combined ratio adjusted for the impact of net investment income

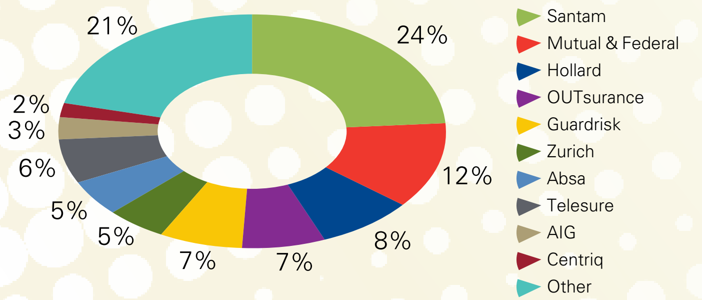
Market share

The charts below reflect the gross written premiums[1] of the ten largest short-term insurance companies which has undergone one change when compared to 2013. Standard Bank Insurance recorded growth of 7.7% and replaced Centriq as the 10th largest insurer. Centriq lost market share of 7.9% (due to the loss of a significant book of business).

2014 Market Share Based on GWP



2013 Market Share Based on GWP



An analysis of the industry based on premium volumes underwritten is illustrated below:

Gross written premiums volume	R 'billion	Participation %	Number of companies
Above R5 billion	R 53.1	65%	6
Between R2 billion and R5 billion	R 10.1	13%	3
Between R1 billion and R2 billion	R 10.4	13%	7
Between R500 million and R1 billion	R 6.9	8%	9
Below R500 million	R1.2	1%	8

[1] The gross written premiums for Absa include the premiums for Absa idirect and Absa Insurance Risk Management Services. Premiums for Telesure include premiums written by the Telesure Group short-term underwriters being Dial Direct, Budget and First for Women and Auto and General.

It is not a surprise that the market is still predominantly providing cover for motor vehicle risks. Motor net written premiums made up 44.8% of the total net written premiums and together with the property risks reached a level of 77.5%

The market is still being dominated by the four largest insurers that underwrite 51.7% (2013: 50.4%) of the market's gross written premium. Hollard's premium growth reached 27% as a result of the strategic initiative to incorporate Etana as a business division together with success stories on the African expansion front. Santam's premium growth of 11.23% once again reflected the benefits of having a diversified portfolio in terms of business underwritten. Corrective action taken on the property book resulted in a 12% growth in that class of business. The only other top 10 company to post growth levels in excess of the industry average was Guardrisk with a growth of 10%. Zurich's continued strategy to off-load sub-par quality business has resulted in a reduction of gross written premiums of 8%. Although not included in the results of this survey it is interesting to note that OUTsurance's Australian business (Youi) continues to show significant growth in its gross written premium. Youi experienced growth of 66% gross written premium for the calendar year ended 31 December 2014. Locally OUTsurance only achieved growth of 6.9%.

The incorporation of MUA Insurance Acceptance into Auto and General as part of their growth strategies has assisted in obtaining a growth in gross written premium of 12%.

On the corporate insurance front Allianz and Gerling have enjoyed growth far in excess of the industry average increasing their premiums by 48% and 23% respectively.

The bancassurers posted a disappointed growth in gross written premium of 7.2%, a level far below levels of growth that they enjoyed in previous years.

Profitability

It was expected that with the absence of natural catastrophes to the extent experienced in 2012 and 2013 that underwriting profitability would improve. Disappointingly the improvement amounted to only 0.87% to a combined ratio level of 98.56% on average for the industry. The improved loss ratios were offset by an increase in expense ratios for the industry. The impact of the improved weather conditions were largely also offset by the weakening Rand which had a significant impact on claim expenditure. Between 65% and 70% of motor repair costs relate to parts, of which a significant component are imported.

Some of the industry players experienced a worsening in the combined ratio. The market is well aware of the over-pressurisation incident at Duvha power station in March 2014. This has resulted in a loss ratio reported for the Eskom captive (Escap) of 222%.

On the credit insurance front, tough trading conditions continued. Charles Nortje (CEO of CGIC) commented: "Against this background many of our policyholders experienced tough trading conditions in 2014, especially in the key industries of steel, construction, manufacturing and retail. The high level of claims the company faced, especially in the first six months, emanated mainly from distressed businesses in these sectors."[2] A deterioration in the expense ratio of Ace and HDI Gerling have resulted in these companies reporting combined ratios in excess of 100%.

Due to an expense ratio of 32%, Hollard is the only top 4 company not outperforming the industry on a combined ratio basis. The combined ratio reported by the company exceeded 100%. Santam, M&F and OUTsurance reported combined ratios of 94%, 86% and 75% respectively – all due to improved claims experience.

The results above are also reflected in the FSB quarterly report indicating an improvement in motor claims of 2% and a deterioration in guarantee claims of 26% and liability of 14%.

The Johannesburg Stock Exchange (JSE) All Share Index closed the year 8% higher and was on average 17% higher than in 2013. 27% of the short-term insurance industry's investments are invested in shares and as a result there is an expectation that there should be an improvement noted in the investment returns. This however is not the case and the investment returns have remained flat year-on-year. However, one must keep in mind that the JSE has been experienced a bull run closing approximately 20% higher in 2013 when compared to 2012. This following a 23% increase in the 2012 year. 37% of the industry's assets is locked up in low interest earning cash deposits and 20% in assets earning no return such as debtors and fixed assets.

Corporate news

In November 2013, Alexander Forbes announced the sale of Guardrisk to MMI for R1,6 billion. The arrangement obtained final approval on 3 March 2014. Herman Schoeman, managing director of Guardrisk reported that he was pleased about the arrangement and that the new MMI structure will provide many exciting growth opportunities for the Guardrisk group of companies. They will also benefit from access to twelve African markets via the MMI network. Alexander Forbes disposed of their investment to reduce balance sheet debt ahead of their planned listing.

Also at the back end of 2013 it was announced that MUA (specialist high-net worth underwriter) had entered into an agreement with Telesure to underwrite on behalf of Auto and General.

In January 2014 the FSB gave the green light for the Hollard Group to acquire the outstanding 60% shareholding in Etana. Hollard is South Africa's largest privately-owned insurance group. Etana was a leading provider of broker-driven corporate, commercial and personal lines insurance products. Etana achieved remarkable success since being spun out of Hollard in 2007 (Hollard retained a 40% shareholding in the entity at the time). The approval by the FSB meant that insurance business currently placed with Etana would be transferred to the Hollard Insurance Company licence.

Santam announced its acquisition of a 100% shareholding in Brolink in May 2014. Brolink provides information technology and business process outsourcing services to the short-term insurance industry. Santam's objective with the acquisition is to provide greater scale and sustainability in insurance administration activities and to improve operating costs and efficiencies in intermediated distribution channels.

A new Underwriting Management Agency was added to the portfolio of RMB Structured Insurance (RMBSI) in May 2014. The UMA, Credit Insurance Solutions specifically focusses on the needs of both domestic and export trade businesses. The Managing Director of the new UMA , Johan Schnetler, reported "Our vision is to become a significant role player in the South African credit insurance industry within the next five years. The team aims to provide maximum returns on investments for our clients as we actively grow our market share."

On 18 March 2015 it was reported in FA News that RMBSI announced the creation of a new Risk Finance division, focused on providing risk finance and risk retention solutions to support the wide range of insurance structures currently offered by RMBSI.

The new division is dedicated to meet the increasing demand for alternative risk transfer mechanisms for small and medium enterprises as well as within the corporate market. With this customer-centric approach, RMBSI will develop a focused and dedicated approach necessary to help growing its customer base and expanding its broker and referrers network.

In May 2015 it was announced that Centriq Insurance is partners with Alternative Commercial Acceptances. Alternative Commercial Acceptances provides much needed short-term insurance solutions to small, medium and large commercial entities, including operators in the agriculture and farming as well as the hospitality industry.

[2]FA News 15 May 2015

Regulatory front

With the expectation of the SAM go-live date of 1 January 2016, the industry entered into the implementation phase of SAM during 2014, with the first parallel run concluding with the annual CPR returns to be submitted from May 2015 onwards. However it was announced in the first week of July 2015, that the SAM go-live date has been delayed. This decision has had mixed reactions in the industry.

The industry has been assaulted by increasing regulation during the year under review. In November 2014 the paper on the Retail Distribution Review was released with the commentary period closing March 2015. This paper does not only impact the insurance industry, but also the banking and asset management industries and will have wide reaching implications on fees paid for advice given in relation to financial service products.

In December 2014, BN 158 of 2014, *Governance and risk management framework for insurers* was released with an effective date of 1 April 2015. The Board Notice introduces a corporate governance, risk management and internal control framework for South African insurers. The framework forms part of the interim measures of the FSB's Solvency Assessment and Management (SAM) regime and it aligns the South African insurance market with the principles of Solvency II and the International Association of Insurance Supervisors (IAIS) for insurance supervision and regulation.

In April 2015 the reinsurance review discussion paper was released.
This Discussion paper –

- Outlines the results of the reinsurance regulatory review carried out by the FSB;
- Sets out the challenges inherent in the current regulatory framework relating to reinsurance;
- Puts forward a number of proposed reforms aimed at mitigating these challenges; and
- Invites feedback from industry regarding the above.

The objective of the review is to assess how best to revise and develop the current prudential regulatory framework to ensure that reinsurance arrangements within South Africa allow for and support the objective of insurance regulation – namely, *to promote the maintenance of a fair, safe and stable insurance market for the benefit and protection of policyholders.*[3]

[3]FSB Reinsurance review discussion paper

The outlook

Not losing business focus during 2015 amidst all the regulatory change will be key for the industry to ensure that growth levels improve from those seen in the last couple of years. Continued innovation in terms of new products, distribution channels and territories will be essential to address the current levels of market saturation. If benign weather conditions continue it will also provide much needed relief in terms of loss ratios experienced in 2012 and 2013.

The bedding down of the Twin Peaks regulation will also provide some answers to the industry in terms of market conduct and prudential regulation. The twin peaks regulatory framework will provide a comprehensive framework for regulating the financial sector.

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"Look deep into NATURE, and then you will understand everything better."

Albert Einstein

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

Accounting year end	Dec-14	Dec-13	Dec-14	Dec-13	Dec-14	Dec-13	Dec-14	Dec-13	Nov-14	Nov-13
Group /Company	**Absa idirect Limited**		**Absa Insurance Company Limited**		**Absa Insurance Risk Management Services Limited**		**ACE Insurance Limited**		**AIG South Africa Limited**	
FSB classification	*Traditional*		*Traditional*		*Cell Captive*		*Traditional*		*Traditional*	
Share capital and share premium	118 510	118 510	31 000	31 000	20 000	20 000	115 000	115 000	322 500	322 500
Retained earnings/(deficit)	29 595	15 515	1 408 122	1 505 523	15 047	12 039	17 284	17 209	152 442	207 395
Reserves	-	-	804	70		-	4 280	2 360	-	-
Total shareholders' funds	**148 105**	**134 025**	**1 439 926**	**1 536 593**	**35 047**	**32 039**	**136 564**	**134 569**	**474 942**	**529 895**
Total shareholders' funds and non-controlling interests	**148 105**	**134 025**	**1 439 926**	**1 536 593**	**35 047**	**32 039**	**136 564**	**134 569**	**474 942**	**529 895**
Gross outstanding claims	42 910	63 716	417 200	665 066	-	259 990	403 011	297 308	2 329 056	1 353 051
Gross unearned premium reserve	16 162	14 319	883 678	868 415	176	39 104	203 235	173 531	817 415	734 933
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	47 158	189 702	-	-	-	-
Deferred reinsurance commission revenue	-	-	33 201	22 472	-	-	44 769	38 486	170 094	139 617
Deferred tax liability	-	-	-	-	3	3	1 708	1 468	-	-
Other liabilities	26 656	40 500	236 838	133 806	408 010	-	92 729	119 889	1 567 471	411 895
Total liabilities	**85 728**	**118 535**	**1 570 917**	**1 689 759**	**455 347**	**488 799**	**745 452**	**630 682**	**4 884 036**	**2 639 496**
Total investments including investments in subsidiaries	**172 328**	**176 443**	**1 678 808**	**1 806 103**	**22 625**	**73 063**	**122 740**	**143 564**	**1 410 439**	**463 432**
Deferred tax asset, intangible assets and PPE	5 239	14 237	200 018	223 657	-	-	4 883	5 372	80 167	69 223
Reinsurers' share of outstanding claims	8 059	12 952	223 706	307 719	-	259 990	351 477	249 465	2 119 249	1 180 097
Reinsurers' share of unearned premium reserve	886	801	167 225	130 413	176	39 104	153 588	133 460	668 550	610 645
Gross expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Deferred aquisition costs	-	-	140 106	136 098	-	-	30 414	23 274	124 524	108 404
Cash and cash equivalents	27 158	31 304	248 965	287 793	6 322	28 399	132 325	109 182	456 265	341 197
Other assets	20 163	16 823	352 015	334 569	461 271	120 282	86 589	100 934	499 784	396 393
Total assets	**233 833**	**252 560**	**3 010 843**	**3 226 352**	**490 394**	**520 838**	**882 016**	**765 251**	**5 358 978**	**3 169 391**
International solvency margin	46%	51%	56%	62%	N/A	N/A	145%	124%	96%	143%
Total assets/Total liabilities	273%	213%	192%	191%	108%	107%	118%	121%	110%	120%
Change in shareholders' funds	11%		(6%)		9%		1%		(10%)	

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

Accounting year end	Mar-14	Mar-13	Dec-14	Dec-13	Jun-14	Jun-13	Jun-14	Jun-13	Dec-14	Dec-13
Group /Company	**Alexander Forbes Insurance Company Limited**		**Allianz Global Corporate and Specialty South Africa Limited**		**Auto and General Insurance Company Limited**		**Budget Insurance Company Limited**		**Centriq Insurance Company Limited**	
FSB classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Cell Captive*	
Share capital and share premium	67 915	31 915	90 500	90 500	53 506	53 506	80 001	80 001	55 000	55 000
Retained earnings/(deficit)	61 009	59 572	15 441	11 732	846 208	823 034	163 395	195 558	148 017	124 498
Reserves	-	-	-	-	-	-	-	-	-	-
Total shareholders' funds	**128 924**	**91 487**	**105 941**	**102 232**	**899 714**	**876 540**	**243 396**	**275 559**	**203 017**	**179 498**
Total shareholders' funds and non-controlling interests	**128 924**	**91 487**	**105 941**	**102 232**	**899 714**	**876 540**	**243 396**	**275 559**	**203 017**	**179 498**
Gross outstanding claims	267 157	227 880	1 584 880	469 610	340 911	289 734	192 403	182 269	554 707	606 481
Gross unearned premium reserve	23 612	23 146	226 876	191 823	132 007	92 259	3 581	4 000	1 410 556	1 325 728
Reinsurers' share of expected salvages and recoveries	-	-	-	-	28 779	19 451	16 257	14 654	-	-
Owing to cell owners	-	-	-	-	-	-	-	-	831 773	750 681
Deferred reinsurance commission revenue	4 603	4 989	80 817	79 251	-	-	-	-	4 585	7 986
Deferred tax liability	-	-	-	-	222	-	-	-	-	-
Other liabilities	84 781	62 152	153 541	64 402	143 469	112 322	82 154	53 639	436 459	403 684
Total liabilities	**380 153**	**318 167**	**2 046 114**	**805 086**	**645 388**	**513 766**	**294 395**	**254 562**	**3 238 080**	**3 094 560**
Total investments including investments in subsidiaries	**207 522**	**145 751**	**-**	**-**	**710 009**	**219 393**	**69 691**	**39 717**	**2 500 541**	**2 301 536**
Deferred tax asset, intangible assets and PPE	11 155	10 297	7 552	11 408	-	12 455	410	1 034	18 134	13 956
Reinsurers' share of outstanding claims	214 395	197 318	1 583 744	467 732	58 255	29 131	21 179	16 983	156 913	192 339
Reinsurers' share of unearned premium reserve	17 785	19 690	224 813	191 960	-	-	-	-	39 375	73 501
Gross expected salvages and recoveries	-	-	-	-	79 031	74 562	47 682	45 555	-	-
Deferred aquisition costs	2 597	2 549	35 669	15 241	10 121	-	-	-	22 843	29 887
Cash and cash equivalents	24 731	6 640	80 371	63 335	536 704	445 600	322 636	335 115	304 137	264 140
Other assets	30 892	27 409	219 906	157 642	150 982	609 165	76 193	91 717	399 154	398 699
Total assets	**509 077**	**409 654**	**2 152 055**	**907 318**	**1 545 102**	**1 390 306**	**537 791**	**530 121**	**3 441 097**	**3 274 058**
International solvency margin	40%	51%	173674%	8541%	72%	78%	42%	49%	23%	29%
Total assets/Total liabilities	134%	129%	105%	113%	239%	271%	183%	208%	106%	106%
Change in shareholders' funds	41%		4%		3%		(12%)		13%	

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

Accounting year end	Jun-14	Jun-13	Dec-14	Dec-13	Jun-14	Jun-13	Jun-14	Dec-13	Dec-14	Dec-13
Group /Company	**Clientele General Insurance Limited**		**Credit Guarantee Insurance Corporation of Africa Limited**		**Dial Direct Insurance Limited**		**Emerald Insurance Insurance Limited**		**Enpet Africa Insurance Limited**	
FSB classification	Traditional		Niche		Traditional		Captive		Captive	
Share capital and share premium	42 500	42 500	2 649	2 649	20 001	20 001	83 509	83 509	3 000	3 000
Retained earnings/(deficit)	71 214	60 805	673 286	656 337	245 014	226 492	20 210	(184)	60 543	47 174
Reserves	936	-	48 475	40 000	-	-	-	-	22 242	16 645
Total shareholders' funds	**114 650**	**103 305**	**724 410**	**698 986**	**265 015**	**246 493**	**103 719**	**83 325**	**85 785**	**66 819**
Total shareholders' funds and non-controlling interests	**114 650**	**103 305**	**724 410**	**698 986**	**265 015**	**246 493**	**103 719**	**83 325**	**85 785**	**66 819**
Gross outstanding claims	8 370	9 700	736 664	602 447	148 926	151 477	22 255	35 811	103 889	93 481
Gross unearned premium reserve	-	-	121 789	105 609	102 934	102 949	-	-	-	81
Reinsurers' share of expected salvages and recoveries	-	-	33 136	19 911	11 336	11 785	-	-	-	-
Owing to cell owners	-	-	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	-	-	-	-	-	-	-	-	-	-
Deferred tax liability	4 479	2 473	43 760	46 644	20	-	-	-	-	-
Other liabilities	22 653	13 891	287 287	217 726	54 067	59 301	7 762	9 294	1 640	856
Total liabilities	**35 502**	**26 064**	**1 222 636**	**992 337**	**317 283**	**325 512**	**30 017**	**45 105**	**105 529**	**94 418**
Total investments including investments in subsidiaries	**117 868**	**96 779**	**650 114**	**510 958**	**163 613**	**79 648**	**57 589**	**100 808**	**89 317**	**79 966**
Deferred tax asset, intangible assets and PPE	6 728	3 815	103 364	92 887	-	10 544	2 511	1 208	597	368
Reinsurers' share of outstanding claims	-	-	140 321	114 298	18 203	17 874	7 886	11 445	25 270	15 329
Reinsurers' share of unearned premium reserve	-	-	11 943	10 810	-	-	-	-	-	65
Gross expected salvages and recoveries	-	-	165 303	98 232	31 759	35 959	-	-	-	-
Deferred aquisition costs	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	24 208	27 653	614 740	684 152	260 496	311 824	13 016	3 948	66 301	56 334
Other assets	1 348	1 123	261 261	179 986	108 227	116 156	52 734	11 020	9 829	9 175
Total assets	**150 152**	**129 370**	**1 947 046**	**1 691 323**	**582 298**	**572 005**	**133 736**	**128 429**	**191 314**	**161 237**
International solvency margin	59%	67%	103%	116%	61%	56%	N/A	N/A	271%	197%
Total assets/Total liabilities	423%	496%	159%	170%	184%	176%	446%	285%	181%	171%
Change in shareholders' funds	11%		4%		8%		24%		28%	

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

Accounting year end	Mar-14	Mar-13	Jun-14	Jun-13	Mar-14	Mar-13
Group /Company	**Escap SOC Limited**		**First for Women Insurance Company**		**Guardrisk Insurance Company Limited**	
FSB classification	Captive		*Traditional*		*Cell captive*	
Share capital and share premium	379 500	379 500	82 000	82 000	114 414	114 414
Retained earnings/(deficit)	543 262	1 324 228	17 614	44 745	75 680	157 787
Reserves	(2 808)	(820)	-	-	-	-
Total shareholders' funds	**919 954**	**1 702 908**	**99 614**	**126 745**	**190 094**	**272 201**
Total shareholders' funds and non-controlling interests	**919 954**	**1 702 908**	**99 614**	**126 745**	**190 094**	**272 201**
Gross outstanding claims	5 862 063	2 154 142	107 824	104 562	1 118 933	1 206 653
Gross unearned premium reserve	1 061 417	954 480	22 588	21 489	2 836 652	2 577 683
Reinsurers' share of expected salvages and recoveries	-	-	16 744	14 965	-	-
Owing to cell owners	-	-	-	-	3 100 596	2 611 488
Deferred reinsurance commission revenue	38 869	34 088	-	-	101 751	89 884
Deferred tax liability	-	2 784	-	-	24 737	17 086
Other liabilities	75 167	5 515	57 802	90 185	489 832	426 152
Total liabilities	**7 037 516**	**3 151 009**	**204 958**	**231 201**	**7 672 501**	**6 928 946**
Total investments including investments in subsidiaries	**4 748 746**	**3 887 311**	**49 405**	**49 463**	**5 976 319**	**5 210 689**
Deferred tax asset, intangible assets and PPE	311 422	-	126	12 857	10 575	5 904
Reinsurers' share of outstanding claims	1 959 211	218 902	20 614	18 435	552 759	524 773
Reinsurers' share of unearned premium reserve	388 693	340 875	-	-	416 210	401 473
Gross expected salvages and recoveries	-	-	24 809	23 688	-	-
Deferred aquisition costs	19 435	17 044	-	-	100 201	100 675
Cash and cash equivalents	11 516	8 508	126 493	191 186	182 509	371 065
Other assets	518 447	381 277	83 125	62 317	624 022	586 568
Total assets	**7 957 470**	**4 853 917**	**304 572**	**357 946**	**7 862 595**	**7 201 147**
International solvency margin	76%	181%	504%	434%	5%	8%
Total assets/Total liabilities	113%	154%	149%	155%	102%	104%
Change in shareholders' funds	(46%)		(21%)		(30%)	

Accounting year end	Dec-14	Dec-13	Jun-14	Jun-13
Group /Company	**HDI-Gerling Insurance Company of South Africa Limited**		**The Hollard Insurance Company Limited**	
FSB classification	*Traditional*		*Traditional*	
Share capital and share premium	17 955	17 955	606 850	85 850
Retained earnings/(deficit)	31 633	28 466	3 469 268	3 795 425
Reserves	(2)	17	4 012	4 012
Total shareholders' funds	**49 586**	**46 438**	**4 080 130**	**3 885 287**
Total shareholders' funds and non-controlling interests	**49 586**	**46 438**	**4 080 130**	**3 885 287**
Gross outstanding claims	193 397	114 930	2 207 963	1 373 757
Gross unearned premium reserve	213 817	192 148	1 645 743	1 182 430
Reinsurers' share of expected salvages and recoveries	-	-	-	-
Owing to cell owners	-	-	-	-
Deferred reinsurance commission revenue	19 079	18 848	-	-
Deferred tax liability	-	-	311 747	298 141
Other liabilities	189 777	169 409	1 479 462	1 112 107
Total liabilities	**616 070**	**495 335**	**5 644 915**	**3 966 435**
Total investments including investments in subsidiaries	**70 871**	**58 239**	**4 099 484**	**3 276 582**
Deferred tax asset, intangible assets and PPE	280	256	111 749	109 684
Reinsurers' share of outstanding claims	191 692	113 238	839 975	401 830
Reinsurers' share of unearned premium reserve	212 650	190 758	447 678	118 695
Gross expected salvages and recoveries	-	-	272 451	194 181
Deferred aquisition costs	13 506	13 034	169 530	142 807
Cash and cash equivalents	6 022	18 830	1 673 466	1 457 554
Other assets	170 635	147 418	2 110 712	2 150 389
Total assets	**665 656**	**541 773**	**9 725 045**	**7 851 722**
International solvency margin	2685%	2301%	69%	78%
Total assets/Total liabilities	108%	109%	172%	198%
Change in shareholders' funds	7%		5%	

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

Accounting year end	Sep-14	Sep-13	Jun-14	Jun-13	Jun-14	Jun-13	Dec-14	Dec-13	Jun-14	Jun-13
Group /Company	**Indequity Group Limited**		**Kingfisher Insurance Company Limited**		**Legal Expenses Insurance Southern Africa Limited**		**Lion of Africa Insurance Company Limited**		**Momentum Short Term Insurance Company Limited**	
FSB classification	*Traditional*		*Captive*		*Niche*		*Traditional*		*Traditional*	
Share capital and share premium	11 434	12 152	34 988	34 988	16 634	16 634	155 972	105 965	148 005	148 005
Retained earnings/(deficit)	11 436	8 160	96 163	92 142	371 695	325 917	-114 535	25 136	1 495	23 247
Reserves	-	-	10 000	10 000	7 178	7 393		-	-	-
Total shareholders' funds	**22 870**	**20 312**	**141 151**	**137 130**	**395 507**	**349 944**	**41 437**	**131 101**	**149 500**	**171 252**
Total shareholders' funds and non-controlling interests	**22 870**	**20 312**	**141 151**	**137 130**	**395 507**	**349 944**	**41 437**	**131 101**	**149 500**	**171 252**
Gross outstanding claims	4 398	4 664	7 620	9 311	174 779	162 172	653 014	469 869	69 072	54 689
Gross unearned premium reserve	231	205	2 213	2 892	-	-	303 475	327 116	5 964	6 202
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	-	-	4 912	3 698	-	-	-	-	-	-
Deferred tax liability	-	-	-	-	8 083	5 354	-	-	-	-
Other liabilities	3 097	2 655	6 386	4 866	64 631	76 172	329 063	428 259	29 546	12 045
Total liabilities	**7 726**	**7 524**	**21 131**	**20 767**	**247 493**	**243 698**	**1 285 552**	**1 225 244**	**104 582**	**72 936**
Total investments including investments in subsidiaries	**-**	**-**	**129 635**	**140 877**	**471 384**	**429 938**	**245 544**	**258 968**	**213 129**	**221 766**
Deferred tax asset, intangible assets and PPE	1 236	1 277	386	916	39 915	25 952	40 148	42 726	8 621	196
Reinsurers' share of outstanding claims	45	26	-	-	-	-	482 813	356 069	2 005	1 169
Reinsurers' share of unearned premium reserve	-	-	-	-	-	-	203 237	239 008	-	-
Gross expected salvages and recoveries	1 707	1 552	-	-	-	-	-	-	-	-
Deferred aquisition costs	-	-	3 637	3 545	-	-	41 835	50 742	69	149
Cash and cash equivalents	27 554	24 938	17 341	1 312	118 936	116 023	66 815	73 939	18 265	14 119
Other assets	54	43	11 283	11 247	12 765	21 729	246 597	334 893	11 993	6 789
Total assets	**30 596**	**27 836**	**162 282**	**157 897**	**643 000**	**593 642**	**1 326 989**	**1 356 345**	**254 082**	**244 188**
International solvency margin	58%	55%	1608%	1195%	62%	60%	13%	38%	44%	59%
Total assets/Total liabilities	396%	370%	768%	760%	260%	244%	103%	111%	243%	335%
Change in shareholders' funds	13%		3%		13%		(68%)		(13%)	

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

Accounting year end	Dec-14	Dec-13	Dec-14	Dec-13	Dec-14	Dec-13	Dec-14	Dec-13	Dec-14	Dec-13
Group /Company	**Mutual & Federal Insurance Company Limited**		**Mutual & Federal Risk Financing Limited**		**Nedgroup Insurance Company Limited**		**New National Assurance Company Limited**		**Nova Risk Partners Limited**	
FSB classification	*Traditional*		*Cell Captive*		*Traditional*		*Traditional*		*Cell Captive*	
Share capital and share premium	1 797 000	1 797 000	4 550	4 550	5 000	5 000	14 000	14 000	3 000	3 000
Retained earnings/(deficit)	2 186 000	2 714 000	140 399	124 388	619 593	506 324	155 137	145 991	4 221	7 205
Reserves	53 000	61 000	-	-	-	-	25 713	20 666	-	-
Total shareholders' funds	**4 036 000**	**4 572 000**	**144 949**	**128 938**	**624 593**	**511 324**	**194 850**	**180 657**	**7 221**	**10 205**
Total shareholders' funds and non-controlling interests	**4 036 000**	**4 572 000**	**144 949**	**128 938**	**624 593**	**511 324**	**194 850**	**180 657**	**7 221**	**10 205**
Gross outstanding claims	2 815 000	3 158 000	275 485	234 269	107 997	166 420	440 691	486 804	12 842	32 260
Gross unearned premium reserve	799 000	898 000	285 591	224 725	165 141	156 976	83 863	77 655	-	6 222
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	681 887	570 735	-	-	-	-	2 808	620
Deferred reinsurance commission revenue	65 000	82 000	67 539	43 973	7 027	7 348	-	-	-	-
Deferred tax liability	-	-	-	-	22 338	5 150	4 840	2 757	-	-
Other liabilities	1 919 000	1 907 000	91 228	104 026	62 891	152 763	92 372	80 570	4 698	3 105
Total liabilities	**5 598 000**	**6 045 000**	**1 401 730**	**1 177 728**	**365 394**	**488 657**	**621 766**	**647 786**	**20 348**	**42 207**
Total investments including investments in subsidiaries	**5 548 000**	**6 152 000**	**723 155**	**515 596**	**793 344**	**461 828**	**77 081**	**40 132**	**18 259**	**14 246**
Deferred tax asset, intangible assets and PPE	516 000	616 000	-	1 801	897	1 704	16 908	16 516	123	787
Reinsurers' share of outstanding claims	600 000	562 000	123 381	94 439	26 834	39 498	288 558	339 173	6 682	20 110
Reinsurers' share of unearned premium reserve	281 000	360 000	265 187	193 341	3 323	6 299	63 581	56 716	-	6 222
Gross expected salvages and recoveries	216 000	208 000	-	-	-	-	-	-	-	-
Deferred aquisition costs	140 000	156 000	67 539	43 973	65 984	67 897	-	-	-	-
Cash and cash equivalents	367 000	283 000	246 776	388 945	76 680	397 180	262 603	282 787	574	1 203
Other assets	1 966 000	2 280 000	120 641	68 571	22 925	25 575	107 885	93 119	1 931	9 844
Total assets	**9 634 000**	**10 617 000**	**1 546 679**	**1 306 666**	**989 987**	**999 981**	**816 616**	**828 443**	**27 569**	**52 412**
International solvency margin	51%	59%	1064%	356%	72%	58%	53%	61%	2877%	N/A
Total assets/Total liabilities	172%	176%	110%	111%	271%	205%	131%	128%	135%	124%
Change in shareholders' funds	(12%)		12%		22%		8%		(29%)	

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

Accounting year end	Jun-14	Jun-13	Jun-14	Jun-13	Jun-14	Jun-13	Mar-14	Mar-13	Dec-14	Dec-13
Group /Company	**OUTsurance Insurance Company Limited**		**Regent Insurance Company Limited**		**Renasa Insurance Company Limited**		**Safire Insurance Company Limited**		**Santam Limited**	
FSB classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Traditional*	
Share capital and share premium	25 000	25 000	455 504	455 504	50 500	50 500	10 053	10 053	107 000	107 000
Retained earnings/(deficit)	2 456 024	2 304 756	119	60 189	(8 401)	(10 356)	83 446	70 728	6 715 000	5 700 000
Reserves	70 373	45 887	173 432	187 781	-	-	16 980	12 381	-	-
Total shareholders' funds	**2 551 397**	**2 375 643**	**629 055**	**703 474**	**42 099**	**40 144**	**110 479**	**93 162**	**6 822 000**	**5 807 000**
Total shareholders' funds and non-controlling interests	**2 551 397**	**2 375 643**	**915 430**	**960 704**	**42 099**	**40 144**	**110 479**	**93 162**	**6 822 000**	**5 807 000**
Gross outstanding claims	1 156 880	1 142 054	404 772	527 719	157 913	136 174	59 376	85 400	7 007 000	6 205 000
Gross unearned premium reserve	449 356	431 988	384 865	383 694	24 116	17 982	49 977	46 469	2 763 000	2 272 000
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	-	-	83 628	66 036	-	-
Deferred reinsurance commission revenue	-	-	-	-	-	-	-	-	215 000	155 000
Deferred tax liability	-	-	42 037	35 526	-	-	6 604	4 945	239 000	242 000
Other liabilities	456 010	368 957	209 818	188 341	104 437	73 143	53 451	68 412	4 166 000	4 444 000
Total liabilities	**2 062 246**	**1 942 999**	**1 041 492**	**1 135 280**	**286 466**	**227 299**	**253 036**	**271 262**	**14 390 000**	**13 318 000**
Total investments including investments in subsidiaries	**3 829 824**	**3 512 302**	**903 341**	**1 532 049**	**61**	**61**	**134 209**	**117 964**	**12 649 000**	**12 103 000**
Deferred tax asset, intangible assets and PPE	126 816	80 497	119 523	88 716	5 536	6 116	16 963	13 520	275 000	195 000
Reinsurers' share of outstanding claims	52 504	40 210	62 580	100 856	138 097	119 009	25 965	72 945	2 322 000	1 315 000
Reinsurers' share of unearned premium reserve	-	-	581	375	21 257	15 856	7 822	7 330	931 000	670 000
Gross expected salvages and recoveries	-	-	8 064	14 449	-	-	-	-	-	-
Deferred aquisition costs	-	2 952	-	-	4 183	3 343	9 669	9 041	408 000	328 000
Cash and cash equivalents	200 518	159 088	803 241	207 699	71 141	43 036	6 566	6 808	1 457 000	1 505 000
Other assets	403 981	523 593	59 592	151 840	88 290	80 022	162 321	136 816	3 170 000	3 009 000
Total assets	**4 613 643**	**4 318 642**	**1 956 922**	**2 095 984**	**328 565**	**267 443**	**363 515**	**364 424**	**21 212 000**	**19 125 000**
International solvency margin	43%	42%	65%	55%	41%	48%	86%	84%	43%	37%
Total assets/Total liabilities	224%	222%	188%	185%	115%	118%	144%	134%	147%	144%
Change in shareholders' funds	7%		(5%)		5%		19%		17%	

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

Accounting year end	Mar-14	Mar-13	Note [1]	Dec-13	Dec-14	Dec-13	Jun-14	Jun-13	Dec-14	Dec-13
Group /Company	**Sasria SOC Limited**		**Saxum Insurance Limited**		**Standard Insurance Limited**		**Unitrans Insurance Limited**		**Zurich Insurance Company South Africa Limited**	
FSB classification	*Niche*		*Traditional*		*Traditional*		*Traditional*		*Traditional*	
Share capital and share premium	-	-		42 817	30 000	30 000	15 150	15 150	4 650	4 650
Retained earnings/(deficit)	4 296 106	3 822 933		(25 665)	1 176 346	1 090 645	264 413	244 042	1 362 834	1 351 354
Reserves	350 610	245 142		-	140	140	-	-	302 796	396 888
Total shareholders' funds	**4 646 716**	**4 068 075**		**17 152**	**1 206 486**	**1 120 785**	**279 563**	**259 192**	**1 670 280**	**1 752 892**
Total shareholders' funds and non-controlling interests	**4 646 716**	**4 068 075**		**17 152**	**1 206 486**	**1 120 785**	**279 563**	**259 192**	**1 670 280**	**1 752 892**
Gross outstanding claims	394 061	639 226		12 711	299 327	472 229	8 466	9 361	1 242 672	1 280 519
Gross unearned premium reserve	282 943	262 244		24 231	71 882	58 757	133 553	128 306	587 984	628 991
Reinsurers' share of expected salvages and recoveries	-	-		12 478	-	-	-	-	-	-
Owing to cell owners	-	-		-	-	-	-	-	-	-
Deferred reinsurance commission revenue	4 159	13 127		5	5 445	5 238	17 219	24 439	25 754	23 461
Deferred tax liability	48 705	6 232		-	12 103	8 683	4 499	2 585	-	-
Other liabilities	102 147	112 462		20 173	44 855	64 704	97 489	90 424	919 844	971 110
Total liabilities	**832 015**	**1 033 291**		**69 598**	**433 612**	**609 611**	**261 226**	**255 115**	**2 776 254**	**2 904 081**
Total investments including investments in subsidiaries	**3 958 863**	**3 433 934**		**-**	**1 280 566**	**1 245 539**	**79 805**	**68 393**	**2 241 146**	**2 239 416**
Deferred tax asset, intangible assets and PPE	51 019	38 476		1 646	1 068	1 384	-	-	278 223	209 509
Reinsurers' share of outstanding claims	13 228	132 149		9 305	6 832	168 331	5 307	6 111	394 819	421 172
Reinsurers' share of unearned premium reserve	13 864	62 202		330	31 299	28 542	60 939	61 522	186 944	184 928
Gross expected salvages and recoveries	-	-		18 333	-	-	-	-	-	-
Deferred aquisition costs	-	-		3 030	8 758	8 140	39 950	39 798	62 067	68 018
Cash and cash equivalents	1 240 288	1 251 964		36 919	213 397	171 550	200 471	138 566	432 891	578 372
Other assets	201 469	182 641		17 187	98 178	106 910	154 317	199 917	850 444	955 558
Total assets	**5 478 731**	**5 101 366**		**86 750**	**1 640 098**	**1 730 396**	**540 789**	**514 307**	**4 446 534**	**4 656 973**
International solvency margin	368%	472%	N/A	33%	67%	69%	511%	510%	59%	57%
Total assets/Total liabilities	658%	494%	N/A	125%	378%	284%	207%	202%	160%	160%
Change in shareholders' funds	14%		N/A		8%		8%		(5%)	

Note [1]: Saxum Insurance Limited has changed its year end to 31 March and as a a result there are no 2014 results.

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

Accounting year end	Dec-14	Dec-13
Group /Company	**Zurich Risk Financing South Africa Limited**	
FSB classification	*Cell Captive*	
Share capital and share premium	24 995	24 995
Retained earnings/(deficit)	22 807	23 153
Reserves	-	-
Total shareholders' funds	**47 802**	**48 148**
Total shareholders' funds and non-controlling interests	**47 802**	**48 148**
Gross outstanding claims	4 467	6 972
Gross unearned premium reserve	731	1 123
Reinsurers' share of expected salvages and recoveries	-	-
Owing to cell owners	24 048	63 219
Deferred reinsurance commission revenue	-	-
Deferred tax liability	-	-
Other liabilities	4 821	5 440
Total liabilities	**34 067**	**76 754**
Total investments including investments in subsidiaries	-	**-**
Deferred tax asset, intangible assets and PPE	-	-
Reinsurers' share of outstanding claims	4 467	6 971
Reinsurers' share of unearned premium reserve	731	1 123
Gross expected salvages and recoveries	-	-
Deferred aquisition costs	-	-
Cash and cash equivalents	72 718	101 856
Other assets	3 953	14 952
Total assets	**81 869**	**124 902**
International solvency margin	N/A	(329%)
Total assets/Total liabilities	240%	163%
Change in shareholders' funds	(1%)	

"To forget how to dig the EARTH and to tend the SOIL is to forget ourselves."

Mahatma Gandhi

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

Accounting year end	Dec-14	Dec-13	Dec-14	Dec-13	Dec-14	Dec-13	Dec-14	Dec-13	Nov-14	Nov-13
Group /Company	**Absa idirect Limited**		**Absa Insurance Company Limited**		**Absa Insurance Risk Management Services Limited**		**ACE Insurance Limited**		**AIG South Africa Limited**	
Gross premiums written	339 661	271 317	3 115 574	2 922 067	1 060 309	982 793	562 701	484 209	2 174 561	2 002 448
Net premiums written	323 226	264 795	2 553 528	2 490 093	-	-	94 440	108 766	497 065	369 743
Earned premiums	**323 321**	**265 593**	**2 575 077**	**2 485 686**	**-**	**-**	**84 864**	**90 406**	**472 487**	**357 784**
Total net investment income	**11 596**	**8 647**	**119 176**	**124 686**	**17 236**	**8 896**	**10 335**	**7 570**	**50 176**	**45 463**
Reinsurance commission revenue	421	359	92 709	87 990	-	-	119 756	102 482	365 875	349 715
Other income	3 928	4 136	40 662	35 317	-	64	2 877	2 909	7 396	-8 444
Total income	**339 266**	**278 735**	**2 827 624**	**2 733 679**	**17 236**	**8 960**	**217 832**	**203 367**	**895 934**	**744 518**
Net claims incurred	241 145	212 201	1 790 034	1 742 870	-	-	65 728	66 819	348 127	182 722
Acquisition costs	51 897	43 280	504 786	477 653	-	-	103 259	91 947	284 710	284 261
Interest allocated to cell owners	-	-	-	-	12 369	5 121	-	-	-	-
Employee benefit expense	-	-	-	-	-	-	-	-	-	-
Management and other expenses	25 281	19 382	341 722	343 598	689	1 486	48 644	24 493	336 098	305 551
Total expenses	**318 323**	**274 863**	**2 636 542**	**2 564 121**	**13 058**	**6 607**	**217 631**	**183 259**	**968 935**	**772 534**
Net profit/(loss) before taxation	**20 943**	**3 872**	**191 082**	**169 558**	**4 178**	**2 353**	**201**	**20 108**	**(73 001)**	**(28 016)**
Taxation	5 863	1 084	51 483	45 841	1 170	659	126	5 680	(18 048)	(6 125)
Net profit/(loss) after taxation	**15 080**	**2 788**	**139 599**	**123 717**	**3 008**	**1 694**	**75**	**14 428**	**(54 953)**	**(21 891**
Other comprehensive income/(expense)	-	-	734	2 424	-	-	-	-	-	-
Total comprehensive income/(loss) for the year	**15 080**	**2 788**	**140 333**	**126 141**	**3 008**	**1 694**	**75**	**14 428**	**(54 953)**	**(21 891)**
Transfer to/(from) contingency reserve	-	-	-	-	-	-	-	(13 137)	-	-
Transfer to/(from) retained earnings	-	-	-	-	-	-	-	-	-	-
Other comprehensive (income)/expense	-	-	(734)	(2 424)	-	-	-	-	-	-
Dividends	1 000	-	237 000	182 000	-	-	-	-	-	-
Change in retained earnings	**14 080**	**2 788**	**(97 401)**	**(58 283)**	**3 008**	**1 694**	**75**	**27 565**	**(54 953)**	**(21 891)**
Net premium to gross premium	95%	98%	82%	85%	0%	0%	17%	22%	23%	18%
Claims incurred to earned premium	75%	80%	70%	70%	N/A	N/A	77%	74%	74%	51%
Management and other expenses to net earned premium	8%	7%	13%	14%	N/A	N/A	57%	27%	71%	85%
Combined ratio	98%	103%	99%	100%	N/A	N/A	115%	89%	128%	118%
Operating ratio	95%	100%	94%	95%	N/A	N/A	103%	81%	117%	105%
Return on equity	10%	2%	10%	8%	9%	5%	0%	11%	(12%)	(4%)

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

Accounting year end	Mar-14	Mar-13	Dec-14	Dec-13	Jun-14	Jun-13	Jun-14	Jun-13	Dec-14	Dec-13
Group /Company	**Alexander Forbes Insurance Company Limited**		**Allianz Global and Corporate Specialty South Africa Limited**		**Auto and General Insurance Company Limited**		**Budget Insurance Company Limited**		**Centriq Insurance Company Limited**	
Gross premiums written	1 222 933	1 065 635	559 808	378 336	2 569 104	2 289 701	1 179 857	1 129 064	1 756 380	1 906 568
Net premiums written	320 285	178 650	61	1 197	1 246 910	1 122 476	579 335	557 820	873 103	628 880
Earned premiums	**317 912**	**178 138**	**(2 165)**	**2 178**	**1 207 162**	**1 119 978**	**579 753**	**558 469**	**695 844**	**692 893**
Total net investment income	**10 564**	**9 253**	**7 050**	**61 280**	**71 146**	**105 013**	**18 257**	**10 106**	**177 466**	**139 095**
Reinsurance commission revenue	225 266	221 891	148 727	93 248	571 619	527 580	267 770	256 392	125 255	149 111
Other income	47 559	41 491	5 842	5 797	55 297	52 853	42 601	99 193	86 268	73 774
Total income	**601 301**	**450 773**	**159 454**	**162 503**	**1 905 224**	**1 805 424**	**908 381**	**924 160**	**1 084 833**	**1 054 873**
Net claims incurred	238 659	124 899	(1 592)	1 084	792 619	664 493	397 586	355 575	582 461	616 302
Acquisition costs	50 309	44 998	50 360	24 299	365 080	321 332	27 584	94 244	194 186	205 563
Interest allocated to cell owners	-	-	-	-	-	-	-	-	61 931	44 519
Employee benefit expense	-	-	-	-	-	-	-	-	-	-
Management and other expenses	309 727	277 452	104 435	137 854	548 636	650 501	375 019	249 918	189 399	147 203
Total expenses	**598 695**	**447 349**	**153 203**	**163 237**	**1 706 335**	**1 636 326**	**800 189**	**699 737**	**1 027 977**	**1 013 587**
Net profit/(loss) before taxation	**2 606**	**3 424**	**6 251**	**(734)**	**198 889**	**169 098**	**108 192**	**224 423**	**56 856**	**41 286**
Taxation	1 169	982	2 542	(167)	55 715	97 632	30 355	36 910	13 902	10 984
Net profit/(loss) after taxation	**1 437**	**2 442**	**3 709**	**(567)**	**143 174**	**71 466**	**77 837**	**187 513**	**42 954**	**30 302**
Other comprehensive income/(expense)	-	-	-	-	-	-	-	-	-	-
Total comprehensive income/(loss) for the year	**1 437**	**2 442**	**3 709**	**(567)**	**143 174**	**71 466**	**77 837**	**187 513**	**42 954**	**30 302**
Transfer to/(from) contingency reserve	-	-	-	-	-	-	-	-	-	-
Transfer to/(from) retained earnings	-	-	-	-	-	-	-	-	-	-
Other comprehensive (income)/expense	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	120 000	-	110 000	-	19 435	-
Change in retained earnings	**1 437**	**2 442**	**3 709**	**(567)**	**23 174**	**71 466**	**(32 163)**	**187 513**	**23 519**	**30 302**
Net premium to gross premium	26%	17%	0%	0%	49%	49%	49%	49%	50%	33%
Claims incurred to earned premium	75%	70%	74%	50%	66%	59%	69%	64%	84%	89%
Management and other expenses to net earned premium	97%	156%	(4824%)	6329%	45%	58%	65%	45%	27%	21%
Combined ratio	117%	127%	(207%)	3213%	94%	99%	92%	79%	121%	118%
Operating ratio	114%	121%	119%	400%	88%	90%	89%	78%	95%	98%
Return on equity	1%	3%	4%	(1%)	16%	8%	32%	68%	21%	17%

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

Accounting year end	Jun-14	Jun-13	Dec-14	Dec-13	Jun-14	Jun-13	Jun-14	Jun-13	Dec-14	Dec-13
Group /Company	**Clientele General Insurance Limited**		**Credit Guarantee Insurance Corporation of Africa Limited**		**Dial Direct Insurance Limited**		**Emerald Insurance Insurance Limited**		**Enpet Africa Insurance Limited**	
Gross premiums written	195 145	155 459	971 180	860 352	945 161	935 848	-	-	46 278	49 094
Net premiums written	194 709	155 103	704 248	602 913	436 742	439 292	-	-	31 650	33 913
Earned premiums	**194 709**	**155 103**	**689 201**	**603 655**	**436 758**	**434 685**	**-**	**-**	**31 666**	**35 018**
Total net investment income	**14 088**	**11 760**	**86 512**	**113 358**	**26 799**	**22 935**	**12 067**	**6 922**	**9 319**	**13 531**
Reinsurance commission revenue	-	-	82 483	70 567	225 630	222 542	-	-	2 775	3 249
Other income	1 018	837	231 145	164 644	20 873	25 829	201	658	5	-
Total income	**209 815**	**167 700**	**1 089 341**	**952 224**	**710 060**	**705 991**	**12 268**	**7 580**	**43 765**	**51 798**
Net claims incurred	22 559	18 544	683 502	429 887	353 738	336 784	(7 126)	(12 005)	17 790	28 477
Acquisition costs	-	-	81 314	70 245	1 266	347	-	-	279	270
Interest allocated to cell owners	-	-	-	-	-	-	-	-	-	-
Employee benefit expense	-	-	-	-	-	-	-	-	-	-
Management and other expenses	132 338	108 796	170 560	163 641	252 842	292 899	303	17 489	5 256	4 676
Total expenses	**154 897**	**127 340**	**935 376**	**663 773**	**607 846**	**630 030**	**(6 823)**	**5 484**	**23 325**	**33 423**
Net profit/(loss) before taxation	**54 918**	**40 360**	**153 965**	**288 451**	**102 214**	**75 961**	**19 091**	**2 096**	**20 440**	**18 375**
Taxation	14 155	10 241	35 944	69 282	28 692	21 335	(1 303)	-	5 641	4 633
Net profit/(loss) after taxation	**40 763**	**30 119**	**118 021**	**219 169**	**73 522**	**54 626**	**20 394**	**2 096**	**14 799**	**13 742**
Other comprehensive income/(expense)	-	-	8 475	(12 398)	-	-	-	-	4 167	(2 098)
Total comprehensive income/(loss) for the year	**40 763**	**30 119**	**126 496**	**206 771**	**73 522**	**54 626**	**20 394**	**2 096**	**18 966**	**11 644**
Transfer to/(from) contingency reserve	-	-	-	-	-	-	-	-	-	-
Transfer to/(from) retained earnings	(355)	-	(8 475)	-	-	-	-	-	(1 430)	-
Other comprehensive (income)/expense	-	-	-	-	-	-	-	-	(4 167)	2 098
Dividends	(30 000)	-	101 072	148 998	55 000	-	-	-	-	60 000
Change in retained earnings	**10 408**	**30 119**	**16 949**	**57 773**	**18 522**	**54 626**	**20 394**	**2 096**	**13 369**	**(46 258)**
Net premium to gross premium	100%	100%	73%	70%	46%	47%	N/A	N/A	68%	69%
Claims incurred to earned premium	12%	12%	99%	71%	81%	77%	N/A	N/A	56%	81%
Management and other expenses to net earned premium	68%	70%	25%	27%	58%	67%	N/A	N/A	17%	13%
Combined ratio	80%	82%	124%	98%	88%	94%	N/A	N/A	65%	86%
Operating ratio	72%	75%	111%	79%	81%	88%	N/A	N/A	35%	48%
Return on equity	36%	29%	16%	31%	28%	22%	20%	3%	17%	21%

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

Accounting year end	Mar-14	Mar-13	Jun-14	Jun-13	Mar-14	Mar-13	Dec-14	Dec-13	Jun-14	Jun-13
Group /Company	**Escap SOC Limited**		**First for Women Insurance Company**		**Guardrisk Insurance Company Limited**		**HDI-Gerling Insurance Company of South Africa Limited**		**The Hollard Insurance Company Limited**	
Gross premiums written	1 540 567	1 259 329	694 281	626 005	5 507 561	5 001 453	500 198	407 028	7 475 719	5 870 247
Net premiums written	1 214 844	938 554	19 773	29 185	3 682 334	3 451 182	1 847	2 018	5 907 724	4 998 292
Earned premiums	**1 155 724**	**947 885**	**18 673**	**26 988**	**3 443 743**	**3 393 905**	**2 070**	**1 694**	**5 953 919**	**4 866 825**
Total net investment income	**364 383**	**212 219**	**8 291**	**2 746**	**365 746**	**311 079**	**3 234**	**2 954**	**835 305**	**680 396**
Reinsurance commission revenue	19 428	19 055	189 589	168 238	298 144	287 700	35 799	26 797	-	-
Other income	-	-	19 410	22 437	69 401	53 418	1 690	1 206	65 671	71 520
Total income	**1 539 535**	**1 179 159**	**235 963**	**220 409**	**4 177 034**	**4 046 102**	**42 793**	**32 651**	**6 854 895**	**5 618 741**
Net claims incurred	2 566 000	948 710	37 258	75 065	1 099 525	1 419 762	927	180	3 503 719	2 722 973
Acquisition costs	1 080	1 681	4 810	5 467	706 932	663 237	25 042	16 693	642 702	548 156
Interest allocated to cell owners	-	-	-	-	-	-	-	-	-	-
Employee benefit expense	-	-	-	-	-	-	-	-	-	-
Management and other expenses	66 854	68 279	141 219	108 064	2 265 646	1 885 691	12 455	11 140	1 911 393	1 582 557
Total expenses	**2 633 934**	**1 018 670**	**183 287**	**188 596**	**4 072 103**	**3 968 690**	**38 424**	**28 013**	**6 057 814**	**4 853 686**
Net profit/(loss) before taxation	**(1 094 399)**	**160 489**	**52 676**	**31 813**	**104 931**	**77 412**	**4 369**	**4 638**	**797 081**	**765 055**
Taxation	(313 433)	40 325	14 807	(12 869)	28 168	16 904	1 201	1 294	127 644	123 949
Net profit/(loss) after taxation	**(780 966)**	**120 164**	**37 869**	**44 682**	**76 763**	**60 508**	**3 168**	**3 344**	**669 437**	**641 106**
Other comprehensive income/(expense)	(1 988)	(877)	-	-	-	-	(19)	(13)	-	-
Total comprehensive income/(loss) for the year	**(782 954)**	**119 287**	**37 869**	**44 682**	**76 763**	**60 508**	**3 149**	**3 331**	**669 437**	**641 106**
Transfer to/(from) contingency reserve	-	(90 461)	-	-	-	-	-	-	-	-
Transfer to/(from) retained earnings	-	-	-	-	-	-	-	-	(473 951)	-
Other comprehensive (income)/expense	1 988	877	-	-	-	-	19	13	-	-
Dividends	-	-	65 000	-	158 870	45 000	-	-	521 643	541 045
Change in retained earnings	**(780 966)**	**210 625**	**(27 131)**	**44 682**	**(82 107)**	**15 508**	**3 168**	**3 344**	**-326 157**	**100 061**
Net premium to gross premium	79%	75%	3%	5%	67%	69%	0%	0%	79%	85%
Claims incurred to earned premium	222%	100%	200%	278%	32%	42%	45%	11%	59%	56%
Management and other expenses to net earned premium	6%	7%	756%	400%	66%	56%	602%	658%	32%	33%
Combined ratio	226%	105%	(34%)	75%	110%	108%	127%	72%	102%	100%
Operating ratio	195%	83%	(78%)	65%	99%	99%	(29%)	(103%)	88%	86%
Return on equity	(85%)	7%	38%	35%	40%	22%	6%	7%	16%	17%

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

Accounting year end	Sep-14	Sep-13	Jun-14	Jun-13	Jun-14	Jun-13	Dec-14	Dec-13	Jun-14	Jun-13
Group /Company	**Indequity Group Limited**		**Kingfisher Insurance Company Limited**		**Legal Expenses Insurance Southern Africa Limited**		**Lion of Africa Insurance Company Limited**		**Momentum Short Term Insurance Company Limited**	
Gross premiums written	41 220	38 282	151 551	152 540	633 938	586 651	853 538	925 340	925 340	295 795
Net premiums written	39 702	36 917	8 778	11 472	633 938	586 651	316 531	348 463	337 978	292 622
Earned premiums	**39 676**	**36 863**	**9 457**	**9 658**	**633 938**	**586 651**	**304 401**	**397 893**	**338 215**	**292 322**
Total net investment income	**1 200**	**1 049**	**8 647**	**8 542**	**72 040**	**54 551**	**26 878**	**30 303**	**15 087**	**14 238**
Reinsurance commission revenue	-	-	18 274	14 572	-	-	108 954	104 458	-	-
Other income	76	74	143	9	4 361	3 099	-	-	-	-
Total income	**40 952**	**37 986**	**36 521**	**32 781**	**710 339**	**644 301**	**440 233**	**532 654**	**353 302**	**306 560**
Net claims incurred	18 696	17 478	6 705	7 888	78 669	71 650	275 683	312 112	203 915	158 449
Acquisition costs	2 985	2 767	14 338	13 164	96 629	81 570	146 460	154 478	60 838	45 639
Interest allocated to cell owners	-	-	-	-	-	-	-	-	-	-
Employee benefit expense	-	-	-	-	-	-	-	-	-	-
Management and other expenses	11 259	10 900	9 265	6 424	420 294	398 371	161 975	158 026	118 753	75 711
Total expenses	**32 940**	**31 145**	**30 308**	**27 476**	**595 592**	**551 591**	**584 118**	**624 616**	**383 506**	**279 799**
Net profit/(loss) before taxation	**8 012**	**6 841**	**6 213**	**5 305**	**114 747**	**92 710**	**(143 885)**	**(91 962)**	**(30 204)**	**26 761**
Taxation	2 273	1 901	2 192	2 622	19 012	16 459	(4 214)	(27 345)	(8 453)	7 510
Net profit/(loss) after taxation	**5 739**	**4 940**	**4 021**	**2 683**	**95 735**	**76 251**	**(139 671)**	**(64 617)**	**(21 751)**	**19 251**
Other comprehensive income/(expense)	-	-	-	-	(215)	(215)	-	-	-	-
Total comprehensive income/(loss) for the year	**5 739**	**4 940**	**4 021**	**2 683**	**95 520**	**76 036**	**(139 671)**	**(64 617)**	**(21 751)**	**19 251**
Transfer to/(from) contingency reserve	-	-	-	-	-	-	-	-	-	-
Transfer to/(from) retained earnings	-	-	-	-	-	-	-	-	-	1 410
Other comprehensive (income)/expense	-	-	-	-	215	215	-	-	-	-
Dividends	2 463		-	-	49 957	49 957	-	-	-	-
Change in retained earnings	**3 276**	**4 940**	**4 021**	**2 683**	**45 778**	**26 294**	**(139 671)**	**(64 617)**	**(21 751)**	**20 661**
Net premium to gross premium	96%	96%	6%	8%	100%	100%	37%	38%	98%	99%
Claims incurred to earned premium	47%	47%	71%	82%	12%	12%	91%	78%	60%	54%
Management and other expenses to net earned premium	28%	30%	98%	67%	66%	68%	53%	40%	35%	26%
Combined ratio	83%	84%	127%	134%	94%	94%	156%	131%	113%	96%
Operating ratio	80%	82%	36%	45%	83%	85%	147%	123%	109%	91%
Return on equity	25%	24%	3%	2%	24%	22%	(337%)	(49%)	(15%)	11%

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

Accounting year end	Dec-14	Dec-13	Dec-14	Dec-13	Dec-14	Dec-13	Dec-14	Dec-13	Dec-14	Dec-13
Group /Company	**Mutual & Federal Insurance Company Limited**		**Mutual & Federal Risk Financing Limited**		**Nedgroup Insurance Company Limited**		**New National Assurance Company Limited**		**Nova Risk Partners Limited**	
Gross premiums written	8 886 000	8 896 000	997 944	864 232	978 786	955 219	1 110 677	1 018 000	-	4 355
Net premiums written	7 874 000	7 738 000	13 618	36 228	863 216	874 746	369 108	296 296	251	-
Earned premiums	**7 893 000**	**7 716 000**	**24 598**	**46 234**	**852 075**	**806 396**	**369 765**	**291 930**	**251**	**-**
Total net investment income	**547 000**	**557 000**	**56 431**	**34 033**	**53 926**	**60 420**	**14 565**	**15 336**	**1 263**	**4 646**
Reinsurance commission revenue	243 000	174 000	118 244	109 179	10 558	7 086	117 460	126 182	1	-
Other income	3 000	4 000	-	-	33 195	28 183	7 669	5 584	4 168	2 361
Total income	**8 686 000**	**8 451 000**	**199 273**	**189 446**	**949 754**	**902 085**	**509 459**	**439 032**	**5 683**	**7 007**
Net claims incurred	5 469 000	6 032 000	5 962	27 707	395 799	418 887	285 656	240 380	(1 589)	663
Acquisition costs	1 436 000	1 389 000	120 826	111 729	178 651	149 090	174 372	154 407	4 832	374
Interest allocated to cell owners	-	-	37 690	36 825	-	-	-	-	436	1 754
Employee benefit expense	-	-	-	-	-	-	-	-	-	-
Management and other expenses	1 267 000	1 191 000	12 492	5 546	152 371	112 398	35 788	32 378	391	533
Total expenses	**8 172 000**	**8 612 000**	**176 970**	**181 807**	**726 821**	**680 375**	**495 816**	**427 165**	**4 070**	**3 324**
Net profit/(loss) before taxation	**514 000**	**(161 000)**	**22 303**	**7 639**	**222 933**	**221 710**	**13 643**	**11 867**	**1 613**	**3 683**
Taxation	81 000	(65 000)	6 292	2 094	59 664	67 391	3 818	3 011	597	(398)
Net profit/(loss) after taxation	**433 000**	**(96 000)**	**16 011**	**5 545**	**163 269**	**154 319**	**9 825**	**8 856**	**1 016**	**4 081**
Other comprehensive income/(expense)	3 000	57 000	-	-	-	-	5 047	6 739	-	-
Total comprehensive income/(loss) for the year	**436 000**	**(39 000)**	**16 011**	**5 545**	**163 269**	**154 319**	**14 872**	**15 595**	**1 016**	**4 081**
Transfer to/(from) contingency reserve	-	-	-	-	-	-	-	(27 175)	-	-
Transfer to/(from) retained earnings	2 000	-	-	-	-	5 350	-	-	-	-
Other comprehensive (income)/expense	6 000	(48 000)	-	-	-	-	(5 047)	(6 739)	-	-
Dividends	600 000	355 000	-	-	50 000	50 000	679	679	4 000	-
Change in retained earnings	**(156 000)**	**(442 000)**	**16 011**	**5 545**	**113 269**	**109 669**	**9 146**	**35 352**	**(2 984)**	**4 081**
Net premium to gross premium	89%	87%	1%	4%	88%	92%	33%	29%	N/A	0%
Claims incurred to earned premium	69%	78%	24%	60%	46%	52%	77%	82%	(633%)	N/A
Management and other expenses to net earned premium	16%	15%	51%	12%	18%	14%	10%	11%	156%	N/A
Combined ratio	100%	109%	86%	77%	84%	83%	102%	103%	1447%	N/A
Operating ratio	94%	102%	(144%)	4%	78%	76%	98%	98%	944%	N/A
Return on equity	11%	(2%)	11%	4%	26%	30%	5%	5%	14%	40%

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

Accounting year end	Jun-14	Jun-13	Jun-14	Jun-13	Jun-14	Jun-13	Mar-14	Mar-13	Dec-14	Dec-13
Group /Company	**OUTsurance Insurance Company Limited**		**Regent Insurance Company Limited**		**Renasa Insurance Company Limited**		**Safire Insurance Company Limited**		**Santam Limited**	
Gross premiums written	6 048 468	5 660 241	1 448 377	1 827 458	803 114	658 224	232 813	279 782	19 866 000	17 861 000
Net premiums written	5 947 347	5 597 921	1 408 541	1 742 563	102 839	84 274	128 870	111 194	15 879 000	15 510 000
Earned premiums	**5 929 979**	**5 608 377**	**1 407 576**	**1 744 786**	**102 105**	**84 167**	**127 782**	**111 513**	**15 654 000**	**15 303 000**
Total net investment income	**251 433**	**242 547**	**272 005**	**242 681**	**2 742**	**3 786**	**15 104**	**11 667**	**1 352 000**	**1 574 000**
Reinsurance commission revenue	-	-	12 488	14 935	144 166	123 265	16 720	26 176	1 013 000	460 000
Other income	-	-	32 665	43 593	17 122	12 467	14 213	12 533	-	-
Total income	**6 181 412**	**5 850 924**	**1 724 734**	**2 045 995**	**266 135**	**223 685**	**173 819**	**161 889**	**18 019 000**	**17 337 000**
Net claims incurred	3 130 979	2 839 860	752 019	1 067 305	72 900	58 513	76 677	62 460	9 847 000	10 601 000
Acquisition costs	28 744	33 444	321 363	399 258	123 299	102 251	38 165	45 093	3 327 000	2 941 000
Interest allocated to cell owners	-	-	-	-	-	-	-	-	-	-
Employee benefit expense	-	-	-	-	-	-	-	-	-	-
Management and other expenses	1 296 148	1 252 066	327 693	337 090	67 142	63 766	38 003	31 961	2 518 000	2 180 000
Total expenses	**4 455 871**	**4 125 370**	**1 401 075**	**1 803 653**	**263 341**	**224 530**	**152 845**	**139 514**	**15 692 000**	**15 722 000**
Net profit/(loss) before taxation	**1 725 541**	**1 725 554**	**323 659**	**242 342**	**2 794**	**(845)**	**20 974**	**22 375**	**2 327 000**	**1 615 000**
Taxation	511 497	513 334	68 165	30 522	839	(343)	5 435	6 109	515 000	227 000
Net profit/(loss) after taxation	**1 214 044**	**1 212 220**	**255 494**	**211 820**	**1 955**	**(502)**	**15 539**	**16 266**	**1 812 000**	**1 388 000**
Other comprehensive income/(expense)	24 486	19 211	-	-	-	-	4 599	627	-	-
Total comprehensive income/(loss) for the year	**1 238 530**	**1 231 431**	**255 494**	**211 820**	**1 955**	**(502)**	**20 138**	**16 893**	**1 812 000**	**1 388 000**
Transfer to/(from) contingency reserve	-	-	-	-	-	-	-	-	-	-
Transfer to/(from) retained earnings	474	43 235	(117 435)	(92 178)	-	-	-	-	32 000	31 000
Other comprehensive (income)/expense	-	-	-	-	-	-	(4 599)	(627)	-	-
Dividends	1 063 250	1 950 000	198 129	200 000	-	1 259	2 821	2 409	829 000	778 000
Change in retained earnings	**151 268**	**(694 545)**	**(60 070)**	**(80 358)**	**1 955**	**(1 761)**	**12 718**	**13 857**	**1 015 000**	**641 000**
Net premium to gross premium	98%	99%	97%	95%	13%	13%	55%	40%	80%	87%
Claims incurred to earned premium	53%	51%	53%	61%	71%	70%	60%	56%	63%	69%
Management and other expenses to net earned premium	22%	22%	23%	19%	66%	76%	30%	29%	16%	14%
Combined ratio	75%	74%	99%	103%	117%	120%	107%	102%	94%	100%
Operating ratio	71%	69%	79%	89%	114%	116%	95%	91%	85%	89%
Return on equity	48%	51%	28%	22%	5%	(1%)	14%	17%	27%	24%

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

Accounting year end	Mar-14	Mar-13	Note [1]	Dec-13	Dec-14	Dec-13	Jun-14	Jun-13	Dec-14	Dec-13
Group /Company	**Sasria SOC Limited**		**Saxum Insurance Limited**		**Standard Insurance Limited**		**Unitrans Insurance Limited**		**Zurich Insurance Company South Africa Limited**	
Gross premiums written	1 390 338	1 223 530		108 784	1 918 416	1 781 286	154 483	156 031	3 484 869	3 805 906
Net premiums written	1 263 765	861 054		52 593	1 796 717	1 632 813	54 734	50 824	2 832 790	3 058 843
Earned premiums	**1 194 730**	**830 527**		**36 376**	**1 777 305**	**1 622 192**	**48 904**	**45 560**	**2 875 812**	**3 054 881**
Total net investment income	**447 969**	**387 864**		**896**	**103 170**	**87 643**	**19 911**	**15 351**	**379 531**	**294 197**
Reinsurance commission revenue	22 632	112 645		10 899	17 065	10 014	15 500	32 343	89 768	117 943
Other income	37	12 394		1 797	1	1	25 771	10 484	22 391	3 176
Total income	**1 665 368**	**1 343 430**		**49 968**	**1 897 541**	**1 719 850**	**110 086**	**103 738**	**3 367 502**	**3 470 197**
Net claims incurred	306 382	507 433		21 731	869 442	846 644	7 794	5 309	2 126 463	2 443 890
Acquisition costs	120 987	109 951		18 208	274 274	249 580	38 699	35 412	612 055	646 343
Interest allocated to cell owners	-	-		-	-	-	-	-	-	-
Employee benefit expense	-	-		-	74 608	59 426	-	-	-	-
Management and other expenses	293 959	243 613		13 846	178 204	115 218	8 646	8 110	616 217	667 511
Total expenses	**721 328**	**860 997**		**53 785**	**1 396 528**	**1 270 868**	**55 139**	**48 831**	**3 354 735**	**3 757 744**
Net profit/(loss) before taxation	**944 040**	**482 433**		**(3 817)**	**501 013**	**448 982**	**54 947**	**54 907**	**12 767**	**(287 547)**
Taxation	258 113	124 807		-	139 172	126 762	14 498	14 750	(23 072)	(97 677)
Net profit/(loss) after taxation	**685 927**	**357 626**		**(3 817)**	**361 841**	**322 220**	**40 449**	**40 157**	**35 839**	**(189 870)**
Other comprehensive income/(expense)	-	-		-	-	-	-	-	(94 997)	51 480
Total comprehensive income/(loss) for the year	**685 927**	**357 626**		**(3 817)**	**361 841**	**322 220**	**40 449**	**40 157**	**(59 158)**	**(138 390)**
Transfer to/(from) contingency reserve	-	-		-	-	-	-	-	-	-
Transfer to/(from) retained earnings	(105 468)	(24 010)		-	-	-	-	-	-	-
Other comprehensive (income)/expense	-	-		-	-	-	-	-	94 997	(51 480)
Dividends	107 287	156 900		-	276 140	193 159	20 078	-	24 359	36 539
Change in retained earnings	**473 172**	**176 716**		**(3 817)**	**85 701**	**129 061**	**20 371**	**40 157**	**11 480**	**(226 409)**
Net premium to gross premium	91%	70%	N/A	48%	94%	92%	35%	33%	81%	80%
Claims incurred to earned premium	26%	61%	N/A	60%	49%	52%	16%	12%	74%	80%
Management and other expenses to net earned premium	25%	29%	N/A	38%	10%	7%	18%	18%	21%	22%
Combined ratio	58%	90%	N/A	118%	73%	74%	81%	36%	114%	119%
Operating ratio	21%	43%	N/A	115%	68%	69%	40%	2%	100%	110%
Return on equity	15%	9%	N/A	(22%)	30%	29%	14%	15%	2%	(11%)

Note [1]: Saxum Insurance Limited has changed its year end to 31 March and as a a result there are no 2014 results.

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

Accounting year end	Dec-14	Dec-13
Group /Company	**Zurich Risk Financing South Africa Limited**	
Gross premiums written	29 878	55 891
Net premiums written	-	(14 623)
Earned premiums	**-**	**(10 861)**
Total net investment income	**5 093**	**8 396**
Reinsurance commission revenue	-	-
Other income	414	829
Total income	**5 507**	**(1 636)**
Net claims incurred	-	(10 861)
Acquisition costs	-	-
Interest allocated to cell owners	2 330	4 748
Employee benefit expense		-
Management and other expenses	2 909	1 875
Total expenses	**5 239**	**(4 238)**
Net profit/(loss) before taxation	**268**	**2 602**
Taxation	613	3 313
Net profit/(loss) after taxation	**(345)**	**(711)**
Other comprehensive income/(expense)	-	-
Total comprehensive income/(loss) for the year	**(345)**	**(711)**
Transfer to/(from) contingency reserve	-	-
Transfer to/(from) retained earnings	-	-
Other comprehensive (income)/expense	-	-
Dividends	-	-
Change in retained earnings	**(345)**	**(711)**
Net premium to gross premium	0%	(26%)
Claims incurred to earned premium	N/A	100%
Management and other expenses to net earned premium	N/A	(17%)
Combined ratio	N/A	83%
Operating ratio	N/A	160%
Return on equity	(1%)	(1%)

"One touch of NATURE makes the whole world kin."

William Shakespeare

"Be the CHANGE you want TO SEE in the world"

Mahatma Gandhi

Leadership of Indian independence movement, philosophy of Satyagraha, Ahimsa or nonviolence, pacifism

LONG-TERM INSURANCE INDUSTRY

Life insurance

Overview of the industry financial results

The Johannesburg Stock Exchange (JSE) All Share Index year-on-year growth for 2014 was 9%. On face value, this is much lower than the 18% and 23% growth experienced during 2013 and 2012. However, when it is considered that 2014 represents the third year of continued growth, which then produces a compounding effect on assets under management, it is not surprising that larger predominantly asset generator insurers reported very healthy results. The total assets of all insurers covered by this survey increased from R1.71 trillion in 2013 to R1.87 trillion and total profit before tax of R47.36 billion, up from the R38.23 billion reported last year.

The margin between the total assets by industry, when compared to collective investment schemes (CIS), however, narrowed with insurers only achieving growth of 9.9% as opposed to the 13.1% achieved by the CIS industry during 2014. With the notable exception of Sanlam, most of the larger insurers have not managed to grow their life assets at the same pace as the CIS industry. This bears out in the net client cash flows reported by the insurance industry. The Association for Savings and Investment SA (ASISA) statistics covering the 2014 year show net positive client cash flows declining 29% from the R45.4 billion reported in 2013 to R32.1 billion in 2014. On closer scrutiny the reduction in net cash flows stem from group/institutional (as opposed to individual) business which for the first time in three years reported net client outflows of R19.1 billion. Some of this movement is explained by Alexander Forbes in its 2014 integrated report where reference is made to R25 billion of assets, previously managed under a reinsurance contract on behalf of another insurer, that were transferred during 2014 to an administration only arrangement. The buoyant retail single premium market continued with a 20% increase in the single individual premium investment product premiums reported. The challenge remains that the newer single premium products often have margins substantially lower than the older generation products that are maturing.

Underwriters of risk products, especially in the entry level markets, continued to report meaningful mortality profits. Actual deaths caused by human immunodeficiency virus (HIV) have proven less than what was allowed for in the original pricing. Old Mutual reported that its Mass Foundation business, who targets the lower income clients, grew profits with 36% as it benefited from the improved mortality experience. The increase in profitability in this market has largely been attributable to the success of the South African government in the roll-out of its antiretroviral (ARV) programme in the early 2000s which has increased the longevity of policyholders living with HIV. The mortality assumptions made by insurers at inception of policies didn't anticipate the longevity of policyholders following the ARV roll-out. Old Mutual reported that the changes in its mortality assumptions used in its embedded value calculations resulted in a R1.5 billion gain. Old Mutual also reported that it plans to share these profits with policyholders by enhancing their benefits. The sharing of profits with policyholders for without-profit products is not something which has previously been seen much of in the South African market and brings about an interesting new dynamic.

Sanlam's ongoing geographic and business line diversification has led to their life insurance activities representing only 56% of that group's 2014 operating profit. Notwithstanding, they also managed to grow their life operating earnings faster than most of its peers over the past 5 years which is a reflection of its disciplined expense management and new business margins.

MMI reported an impressive 19% return on embedded value for the year ended 30 June 2014. Merger-related savings achieved of R522 million has exceeded their target of R500 million over the three year period of 2012 to 2014. The incorporation of Guardrisk into the group has seen an increase in its employee benefits operating earnings which grew by 51%. Going forward MMI has earmarked R1 billion to spend on growth opportunities in South Africa and the rest of Africa. This will expand their existing footprint of operations in 12 African countries and further diversify its income base.

The aggregated tax of the survey participants expressed as a percentage of profit before tax reduced from 34% in the previous year to 31% in the current year. The lower rate was partly explained by tax on non-routine transactions within Old Mutual during 2013 as part of a group restructuring. Ignoring dividends in specie (from the Old Mutual group restructure) dividends declared reduced marginally to R14.7 billion from R14.9 billion in 2013.

The increased cost of capitalised software on insurers' balance sheets and references to technology plans in the operational overviews included in insurers' annual reports are noticeable. An area to monitor in future years is the return on investment that will be achieved from current year investments in new ways of digital distribution and servicing.

Structural changes and market developments

The credit life landscape is changing and the indirect effect of some credit providers being under financial pressure is evident in the new business volumes of insurers providing credit life cover. The number of new credit life policies issued, as reported by ASISA, decreased from 4.6 million in 2013 to 3.9 million in 2014. More recently, the National Credit Regulator has found that Lewis miss-sold insurance products by providing loss of employment cover as part of credit insurance to pensioners and self-employed customers. This comes after the release of National Treasury and the FSB's technical report on the consumer credit insurance market in South Africa which signals the structural changes to this part of the industry expected in the near future.

A new entrant to the market is the London Stock Exchange listed Just Retirement, which specialises in enhanced annuities. The National Treasury paper "Enabling a better income in retirement", released 21 September 2012, states the following: "Large players in the annuity market rate individual purchasers only by age and sex…expensive for the poor and sick, who may either subsidise the rich and healthy if they purchase annuities or be excluded from the market entirely." Just Retirement, through the introduction of their enhanced annuities, is hoping to address this opportunity in the market.

Banking group, FirstRand, have also announced during 2014 that they are seeking to further diversify by rebuilding a life insurance capability in South Africa subsequent to unbundling MMI in 2010.

As discussed elsewhere in this survey there are major regulatory changes on the horizon including the implementation of Twin Peaks and Solvency Assessment and Management (SAM) in the early part of 2016. Tax changes include the introduction of the fifth tax fund, Risk Policyholder Fund, for all new risk business sold after 1 January 2016 and the proposal of moving towards a new valuation method for the policyholder liabilities of life insurers based on an adjusted International Financial Reporting Standards method of valuation.

The march into Africa and other developing economies continues

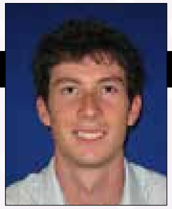
The low growth expectations for the South African economy, expected investment volatility, increasing unemployment and labour unrest does cause major challenges in the operating environments of South African life insurers. It is therefore not surprising that South African insurers are deploying their war chests in the rest of Africa and other developing economies. Some recent transactions include the acquisition by Old Mutual of UAP Holdings Ltd, a Kenyan based insurer who provides life insurance, general insurance, and premium financing services and have subsidiaries in Uganda, Tanzania, Rwanda and South Sudan and elsewhere in East Africa. Sanlam announced during April 2014 that it acquired a 51% stake in the Malaysian insurer, MCIS Zurich Insurance Berhad, for approximately R1.25 billion during April 2014. Further investments by industry players that have interests in India are also expected following on from the increase in the foreign ownership threshold in that country.

"THE BEST WAY TO FIND YOURSELF is to lose yourself IN THE SERVICE OF OTHERS."

Mahatma Gandhi

In summary

Throughout the industry signs exist of insurers preparing themselves for regulatory changes scheduled over the next two years. Juggling a rapidly changing regulatory agenda whilst at the same time keeping the business on a profitable growth path required skilful planning of priorities. Therefore the industry can rightfully view 2014 as a successful year. On the back of stable equity markets the industry was able to grow its asset based fees, and combined with mortality experience profits, the industry was able to absorb the pressure from continuing high lapses that are the product of an economy that remains under pressure.



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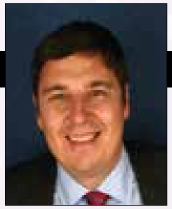

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LONG TERM INSURERS | Statement of Financial Position | R'000

Accounting year end	Jun-14	Jun-13	Dec-14	Dec-13	Nov-14	Nov-13	Jun-14	Jun-13	Dec-14	Dec-13
Group /Company	**1Life Direct Insurance Limited**		**Absa Life Limited**		**AIG Life Limited**		**AVBOB Mutual Assurance Society**		**Centriq Life Insurance Company Limited**	
FSB classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Cell Captive*	
Share Capital and premium	360 000	305 000	24 000	24 000	10 000	10 000	-	-	21 000	21 000
Retained Earnings/(deficit)	543 416	415 661	1 163 058	1 393 899	271 566	309 144	4 778 507	4 236 160	5 370	1 720
Other Reserves	-	-	-	-	-	-	-	-	-	-
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
Total Shareholder's Funds	**903 416**	**720 661**	**1 187 058**	**1 417 899**	**281 566**	**319 144**	**4 778 507**	**4 236 160**	**26 370**	**22 720**
Policy Holder Liabilities under insurance contracts and contracts with DPF's	-	-	1 972 202	1 841 475	236 615	239 488	5 401 892	3 946 334	38 219	24 685
Policy Holder Liabilities under investment contracts	-	-	20 276 315	19 772 665	-	-	-	-	1 900	47 136
Cell owners interest	-	-	95 436	93 429	-	-	-	-	109 507	84 899
Deferred Tax liability/(asset)	245 130	195 421	25 500	31 602	-	-	189 711	132 740	(454)	(515)
Other Liabilities	180 903	161 351	400 988	367 302	41 401	37 277	392 463	375 052	14 018	12 621
Total liabilities	**426 033**	**356 772**	**22 770 441**	**22 106 473**	**278 016**	**276 765**	**5 984 066**	**4 454 126**	**163 190**	**168 826**
Total Investments	**-**	**-**	**23 401 120**	**23 025 195**	**296 333**	**351 810**	**8 473 244**	**6 820 102**	**139 671**	**136 646**
Assets arising from insurance contracts	1 052 014	850 832	-	-	-	-	-	-	-	-
PPE; goodwill and intangible assets	-	13 192	265 464	247 722	-	-	142 206	119 493	-	-
Reinsurer's share of policyholder liabilities	(7 795)	7 199	18 459	24 502	-	-	12 092	7 321	11 204	4 730
Deferred acquisition costs	-	-	-	-	-	-	-	-	-	-
Cash & cash Equivalents	235 946	171 977	115 607	83 552	177 262	148 998	1 928 853	1 509 372	1 641	653
Other assets	49 284	34 233	156 849	143 401	85 987	95 101	295 073	233 998	38 690	49 517
Total Assets	**1 329 449**	**1 077 433**	**23 957 499**	**23 524 372**	**559 582**	**595 909**	**10 851 468**	**8 690 286**	**191 206**	**191 546**
Regulatory surplus assets to CAR	2,25	2,08		3,50	5,10	6,20	4,80	4,30	5,80	5,80
Total assets/Total liabilities	312%	302%	105%	106%	201%	215%	181%	195%	117%	113%
Increase in shareholders' funds	25%		(16%)		(12%)		13%		16%	

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

Accounting year end	Dec-14	Dec-13	Jun-14	Jun-13	Mar-14	Mar-13	Jun-14	Jun-13	Dec-14	Dec-13
Group /Company	**Channel Life Limited (Sanlam Group)**		**Clientele Life Limited**		**Guardrisk Life Limited**		**Hollard Life Assurance Company Limited**		**Liberty Group Limited**	
FSB classification	*Traditional*				*Cell Captive*		*Traditional*		*Traditional*	
Share Capital and premium	200 000	200 000	4 853	4 853	10 000	10 000	20 000	20 000	29 000	29 000
Retained Earnings/(deficit)	279 041	279 003	490 765	428 379	28 086	44 123	2 123 744	1 843 558	17 649 000	15 895 000
Other Reserves	-	-	21 783	14 603	-	-	-	9 303	(568 000)	(581 000)
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
Total Shareholder's Funds	**479 041**	**479 003**	**517 401**	**447 835**	**38 086**	**54 123**	**2 143 744**	**1 872 861**	**17 110 000**	**15 343 000**
Policy Holder Liabilities under insurance contracts and contracts with DPF's	589 978	521 630	695 554	736 950	467 335	2 116 052	6 242 485	6 470 350	203 009 000	187 685 000
Policy Holder Liabilities under investment contracts	2 673 692	1 556 850	998 338	1 283 311	1 541 752	-	6 855 446	5 311 542	80 833 000	73 174 000
Cell owners interest	-	-	-	-	1 948 040	1 894 085	-	-	-	-
Deferred Tax liability/(asset)	-	-	(9 742)	(6 265)	(107 279)	(173 939)	524 269	436 408	4 049 000	3 514 000
Other Liabilities	496 930	531 464	251 024	210 511	89 933	80 993	874 129	850 465	23 301 000	18 769 000
Total liabilities	3 760 600	2 609 944	**1 935 174**	**2 224 507**	**3 939 781**	**3 917 191**	**14 496 329**	**13 068 765**	**311 192 000**	**283 142 000**
Total Investments	**3 780 425**	**2 381 885**	**1 973 891**	**2 234 295**	**3 887 225**	**3 846 252**	**14 049 790**	**12 650 303**	**309 498 000**	**285 432 000**
Assets arising from insurance contracts	-	-	-	-	-	-	-	-	-	-
PPE; goodwill and intangible assets	8 840	4 224	48 052	47 183	97	175	4 300	1 000	2 178 000	2 480 000
Reinsurer's share of policyholder liabilities	148 238	132 210	3 242	3 337	15 668	3 050	131 585	88 337	1 245 000	1 120 000
Deferred acquisition costs	-	-	-	-	-	-	-	-	572 000	513 000
Cash & cash Equivalents	178 626	466 773	71 334	94 775	38 683	64 664	1 956 905	1 760 254	5 235 000	4 843 000
Other assets	123 512	103 855	356 056	292 749	36 194	57 191	497 493	441 732	9 574 000	4 097 000
Total Assets	**4 239 641**	**3 088 947**	**2 452 575**	**2 672 339**	**3 977 867**	**3 971 332**	**16 640 073**	**14 941 626**	**328 302 000**	**298 485 000**
Regulatory surplus assets to CAR	2,60	3,80	2,03	2,44	3,70	5,70	3,10	2,80	3,07	2,56
Total assets/Total liabilities	113%	118%	127%	120%	101%	101%	115%	114%	105%	105%
Increase in shareholders' funds	0%		16%		(30%)		14%		12%	

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

Accounting year end	Jun-14	Jun-13	Jun-14	Jun-13	Jun-14	Jun-13	Jun-14	Jun-13	Dec-14	Dec-13
Group /Company	**Metropolitan Life International Limited**		**Metropolitan Odyssey Limited**		**Momentum Ability Limited**		**MMI Group Limited**		**Nedgroup Life Assurance Company Limited**	
FSB classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Traditional*	
Share Capital and premium	40 000	40 000	35 000	35 000	10 000	10 000	1 041 000	1 041 000	55 000	55 000
Retained Earnings/(deficit)	43 218	60 729	23 514	13 532	57 704	74 284	9 188 000	8 871 000	998 267	641 728
Other Reserves	-	-	-	-	-	-	6 316 000	6 417 000	-	-
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
Total Shareholder's Funds	**83 218**	**100 729**	**58 514**	**48 532**	**67 704**	**84 284**	**16 545 000**	**16 329 000**	**1 053 267**	**696 728**
Policy Holder Liabilities under insurance contracts and contracts with DPF's	-	-	227 184	264 962	237 679	220 803	122 087 000	114 807 000	4 170 992	3 321 079
Policy Holder Liabilities under investment contracts	125 310	117 719	-	250	1 527 037	1 536 886	191 134 000	157 039 000	568 241	505 057
Cell owners interest	-	-	-	-	518 354	331 287	-	-	-	-
Deferred Tax liability/(asset)	-	-	(10 769)	(16 430)	12 170	909	1 628 000	1 408 000	(1 644)	(1 066)
Other Liabilities	210	2 014	46 379	2 500	40 776	101 156	18 047 000	22 205 000	203 426	325 912
Total liabilities	**125 520**	**119 733**	**262 794**	**251 282**	**2 336 016**	**2 191 041**	**332 896 000**	**295 459 000**	**4 941 015**	**4 150 982**
Total Investments	**196 025**	**211 391**	**278 570**	**256 721**	**1 278 605**	**1 408 346**	**319 705 000**	**285 433 000**	**5 078 126**	**3 999 406**
Assets arising from insurance contracts	-	-	-	-	183 465	-	-	-	-	-
PPE; goodwill and intangible assets	-	714	-	-	-	-	4 310 000	4 147 000	8 902	9 936
Reinsurer's share of policyholder liabilities	-	-	-	-	199 224	182 399	1 661 000	1 609 000	-	-
Deferred acquisition costs	-	-	-	-	-	-	-	-	-	-
Cash & cash Equivalents	12 219	8 092	42 559	42 531	600 755	505 025	15 447 000	11 620 000	601 807	650 331
Other assets	494	265	179	562	141 671	179 555	8 318 000	8 979 000	305 447	188 037
Total Assets	**208 738**	**220 462**	**321 308**	**299 814**	**2 403 720**	**2 275 325**	**349 441 000**	**311 788 000**	**5 994 282**	**4 847 710**
Regulatory surplus assets to CAR	8,00	10,20	5,90	4,80	3,90	5,10	2,40	2,30	10,10	6,90
Total assets/Total liabilities	166%	184%	122%	119%	103%	104%	105%	106%	121%	117%
Increase in shareholders' funds	(17%)		21%		(20%)		1%		51%	

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

Accounting year end	Dec-14	Dec-13	Dec-14	Dec-13	Dec-14	Dec-13	Jun-14	Jun-13	Dec-14	Dec-13
Group /Company	**Nedgroup Structured Life Limited**		**Old Mutual Alternative Risk Transfer Limited**		**Old Mutual Life Assurance Company (South Africa) Limited**		**OUTsurance Life Insurance Company Limited**		**Professional Provident Society**	
FSB classification	*Traditional*		*Cell Captive*		*Traditional*		*Traditional*		*Traditional*	
Share Capital and premium	26 351	26 351	12 425	12 425	6 423 000	6 423 000	325 002	205 002	-	-
Retained Earnings/(deficit)	28 351	20 356	11 662	9 014	42 113 000	32 323 000	(5 654)	(7 322)	200 515	166 348
Other Reserves	-	-	-	-	689 000	665 000	-	-	-	-
Non-controlling interests	-	-	-	-	-	-	-	-	1 992	412
Total Shareholder's Funds	**54 702**	**46 707**	**24 087**	**21 439**	**49 225 000**	**39 411 000**	**319 348**	**197 680**	**202 507**	**166 760**
Policy Holder Liabilities under insurance contracts and contracts with DPF's	-	-	882 311	767 192	157 742 000	156 089 000	48 010	-	24 646 747	22 217 379
Policy Holder Liabilities under investment contracts	11 178 329	11 018 274	-	-	336 996 000	303 755 000	-	-	825 699	617 920
Cell owners interest	-	-	-	-	-	-	-	-	5 848 820	4 259 060
Deferred Tax liability/(asset)	-	-	-	-	3 555 000	2 371 000	(4 353)	(3 750)	317 079	406 001
Other Liabilities	1 077	1 047	51 921	56 719	37 643 000	38 231 000	52 557	33 428	810 991	378 877
Total liabilities	**11 179 406**	**11 019 321**	**934 232**	**823 911**	**535 936 000**	**500 446 000**	**96 214**	**29 678**	**32 449 336**	**27 879 237**
Total Investments	**11 178 329**	**11 018 274**	**703 822**	**657 046**	**557 294 000**	**512 702 000**	**325 689**	**182 860**	**30 447 836**	**24 565 392**
Assets arising from insurance contracts	-	-	-	-	-	-	-	9 262	-	-
PPE; goodwill and intangible assets	-	-	-	-	2 860 000	3 558 000	298	447	195 750	170 017
Reinsurer's share of policyholder liabilities	-	-	270 270	233 114	477 000	766 000	41 815	6 272	2 827	878
Deferred acquisition costs	-	-	-	-	985 000	1 145 000	-	-	-	-
Cash & cash Equivalents	44 986	37 533	83 770	46 948	17 265 000	13 341 000	25 320	16 696	1 729 188	3 122 892
Other assets	10 793	10 221	79 234	78 412	6 280 000	8 345 000	22 440	11 821	276 242	186 818
Total Assets	**11 234 108**	**11 066 028**	**1 137 096**	**1 015 520**	**585 161 000**	**539 857 000**	**415 562**	**227 358**	**32 651 843**	**28 045 997**
Regulatory surplus assets to CAR	1,62	1,40	4,50	5,50	3,10	3,20	2,50	3,10	2,60	2,70
Total assets/Total liabilities	100%	100%	122%	123%	109%	108%	432%	766%	101%	101%
Increase in shareholders' funds	17%		12%		25%		62%		21%	

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

Accounting year end	Mar-14	Mar-13	Jun-14	Jun-13	Dec-14	Dec-13	Dec-14	Dec-13	Dec-14	Dec-13
Group /Company	**Prescient Life Limited**		**Regent Life Assurance Company Limited**		**Safrican Insurance Company Limited (Sanlam Group)**		**Sanlam Developing Markets Limited**		**Sanlam Life Insurance Limited**	
FSB classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Traditional*	
Share Capital and premium	10 000	10 000	144 688	144 688	10 000	10 000	853 563	853 563	5 000 000	5 000 000
Retained Earnings/(deficit)	37 101	29 237	308 648	282 172	219 031	209 461	1 713 566	3 616 823	57 727 000	48 931 000
Other Reserves	-	-	(7 576)	(4 352)	-	-	-	-	5 429 000	5 429 000
Non-controlling interests	-	-	42 035	53 195	-	-	-	-	-	-
Total Shareholder's Funds	**47 101**	**39 237**	**487 795**	**475 703**	**229 031**	**219 461**	**2 567 129**	**4 470 386**	**68 156 000**	**59 360 000**
Policy Holder Liabilities under insurance contracts and contracts with DPF's	-	-	191 170	286 890	29 827	26 440	2 982 680	2 796 039	148 804 000	135 333 000
Policy Holder Liabilities under investment contracts	6 685 086	5 990 084	254 684	95 570	2 420 949	1 470 541	13 628 050	12 108 796	191 255 000	166 363 000
Cell owners interest	-	-	-	-	-	-	-	-	-	-
Deferred Tax liability/(asset)	2 448	1 952	112 560	100 961	-	-	16 436	15 385	1 693 000	1 613 000
Other Liabilities	7 852	2 994	241 410	231 196	65 795	89 920	1 168 749	1 568 494	46 666 000	45 662 000
Total liabilities	**6 695 386**	**5 995 030**	**799 824**	**714 617**	**2 516 571**	**1 586 901**	**17 795 915**	**16 488 714**	**388 418 000**	**348 971 000**
Total Investments	**6 737 991**	**6 032 514**	**644 835**	**872 041**	**2 576 344**	**1 653 916**	**19 503 094**	**19 616 439**	**442 849 000**	**396 778 000**
Assets arising from insurance contracts	-	-	-	-	-	-	-	-	-	-
PPE; goodwill and intangible assets	-	-	18 498	15 934	2 442	1 564	55 774	55 473	1 690 000	1 482 000
Reinsurer's share of policyholder liabilities	-	-	142 089	123 451	-	-	36 287	37 534	642 000	532 000
Deferred acquisition costs	-	-	-	-	47 348	36 178	194 289	158 493	2 561 000	2 361 000
Cash & cash Equivalents	376	364	418 601	78 345	90 606	86 387	312 129	847 439	647 000	428 000
Other assets	4 120	1 389	63 596	100 549	28 862	28 317	261 471	243 722	8 185 000	6 750 000
Total Assets	**6 742 487**	**6 034 267**	**1 287 619**	**1 190 320**	**2 745 602**	**1 806 362**	**20 363 044**	**20 959 100**	**456 574 000**	**408 331 000**
Regulatory surplus assets to CAR	2,40	2,18	4,20	3,30	11,60	11,47	3,46	4,70	4,50	4,50
Total assets/Total liabilities	101%	101%	161%	167%	109%	114%	114%	127%	118%	117%
Increase in shareholders' funds	20%		3%		19%		833%		15%	

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

Accounting year end	Dec-14	Dec-13	Dec-14	Dec-13
Group /Company	**Stanlib Multi-Manager Limited**		**Zurich Life SA Limited**	
FSB classification	*Traditional*		*Traditional*	
Share Capital and premium	19 950	19 950	17 500	14 500
Retained Earnings/(deficit)	164 153	132 478	(4 890)	(267)
Other Reserves	81	75	-	-
Non-controlling interests	-	-	-	-
Total Shareholder's Funds	**184 184**	**152 503**	**12 610**	**14 233**
Policy Holder Liabilities under insurance contracts and contracts with DPF's	-	-	1 038	54
Policy Holder Liabilities under investment contracts	4 041 194	23 276 441	-	-
Cell owners interest	-	-	-	2 187
Deferred Tax liability/(asset)	(1 826)	(1 540)		-
Other Liabilities	28 116	42 874	2 366	2 867
Total liabilities	**4 067 484**	**23 317 775**	**3 404**	**5 108**
Total Investments	**4 041 216**	**23 276 463**	**-**	**-**
Assets arising from insurance contracts	-	-	-	-
PPE; goodwill and intangible assets	1 768	3 270	-	-
Reinsurer's share of policyholder liabilities	-	-	-	13
Deferred acquisition costs	-	-	-	-
Cash & cash Equivalents	143 224	130 436	14 566	15 304
Other assets	65 460	60 109	1 448	4 024
Total Assets	**4 251 668**	**23 470 278**	**16 014**	**19 341**
Regulatory surplus assets to CAR	4,00	2,10	1,30	1,42
Total assets/Total liabilities	105%	101%	470%	379%
Increase in shareholders' funds	21%		(11%)	

"SOUTH AFRICA has all the tools to compete in the new global village — an eager workforce, ready to take on any challenge."

Tom Peters

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

Accounting year end	Jun-14	Jun-13	Dec-14	Dec-13	Nov-14	Nov-13	Jun-14	Jun-13	Dec-14	Dec-13
Group /Company	**1Life Direct Insurance Limited**		**Absa Life Limited**		**AIG Life Limited**		**AVBOB Mutual Assurance Society**		**Centriq Life Insurance Company Limited**	
FSB classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Cell Captive*	
Recurring Premiums	no split provided (total is R604 967)	no split provided (total is R415 789)	2 696 693	2 637 871	no split provided (total is R657 283)	no split provided (total is R694 146)	1 968 042	1 702 258	no split provided (total is R196 372)	no split provided (total is R142 318)
Single Premiums			-	-			2 274	2 199		
Other Premiums			-	-			-	-		
Reinsurance premiums	122 327	108 395	460 308	428 843	29 559	25 374	2 175	2 024	188 934	134 537
Net premium income	**482 639**	**307 393**	**2 236 385**	**2 209 028**	**627 724**	**668 772**	**1 968 141**	**1 702 433**	**7 438**	**7 781**
Service fees from investment contracts	**-**	**-**	**62 919**	**41 322**	**-**	**-**	**-**	**-**	**4 514**	**3 973**
Total net investment income	**9 940**	**8 653**	**1 379 796**	**2 668 720**	**28 809**	**26 327**	**1 807 812**	**1 247 972**	**8 942**	**9 526**
Commission received	8 777	12 685	-	-	-	-	-	-	4 601	30 155
Other unallocated income	16 845	18 740	-	-	-	-	1 074	49	112	116
Total income	**518 201**	**347 471**	**3 679 100**	**4 919 070**	**656 533**	**695 099**	**3 777 027**	**2 950 454**	**25 607**	**51 551**
Death/disability	no split provided (total is R191 262)	no split provided (total is R106 239)	605 452	643 106	210 672	173 128	416 155	379 429	no split provided (total is R86 298)	no split provided (total is R63 419)
Maturities			26 985	-	-	-	786	639		
Annuities			-	-	3 103	2 962	-	-		
Surrenders			184 563	138 865	-	-	161 215	96 508		
Withdrawals and other benefits			23 694	29 487	-	-	89 144	54 311		
Reinsurance recoveries	(62 399)	(54 181)	(138 028)	(156 834)	(8 967)	(6 804)	(488)	(187)	(81 495)	(56 181)
Net policyholder benefits under insurance contracts	**128 863**	**52 058**	**702 666**	**654 624**	**204 808**	**169 286**	**666 812**	**530 700**	**4 803**	**7 238**
Change in preference share liability	-	-	-	-	-	-	-	-	-	-
Change in assets arising from insurance contracts	(171 896)	(159 255)	-	-	-	-	-	-	-	-
Change in policy holder liabilities under insurance contracts	-	-	138 960	150 560	(2 873)	9 424	1 448 868	1 023 786	5 745	4 565

LONG TERM INSURERS | Statement of Comprehensive Income | R'000 (continued)

Accounting year end	Jun-14	Jun-13	Dec-14	Dec-13	Nov-14	Nov-13	Jun-14	Jun-13	Dec-14	Dec-13
Group /Company	**1Life Direct Insurance Limited**		**Absa Life Limited**		**AIG Life Limited**		**AVBOB Mutual Assurance Society**		**Centriq Life Insurance Company Limited**	
FSB classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Cell Captive*	
Fair value adjustments on policyholder liabilities under investment contracts	-	-	987 944	2 200 569	-	-	-	-	886	3 192
Acquisition costs	-	-	441 958	437 916	289 789	310 717	376 907	296 252	4 776	31 182
Administration, management and other expenses	383 797	290 931	478 152	460 246	154 251	83 819	578 051	458 948	4 033	3 386
Total expenses	**340 764**	**183 734**	**2 749 680**	**3 903 915**	**645 975**	**573 246**	**3 070 638**	**2 309 686**	**20 243**	**49 563**
Profit/(Loss) before tax	**177 437**	**163 737**	**929 420**	**1 015 155**	**10 558**	**121 853**	**706 389**	**640 768**	**5 364**	**1 988**
Tax	49 682	45 657	268 261	280 783	2 036	38 158	164 042	107 623	426	373
Profit/(Loss) after tax	**127 755**	**118 080**	**661 159**	**734 372**	**8 522**	**83 695**	**542 347**	**533 145**	**4 938**	**1 615**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income/(loss) for the year	**127 755**	**118 080**	**661 159**	**734 372**	**8 522**	**83 695**	**542 347**	**533 145**	**4 938**	**1 615**
Other transfer to/(from) retained income	-	-	-	-	-	-	-	-	-	-
Other comprehensive income not charged against retained earnings	-	-	-	-	-	-	-	-	-	-
Ordinary dividends	-	-	892 000	798 000	46 100	160 500	-	-	1 288	-
Allocated to preference shareholders	-	-	-	-	-	-	-	-	-	-
Change in retained earnings	**127 755**	**118 080**	**(230 841)**	**(63 628)**	**(37 578)**	**(76 805)**	**542 347**	**533 145**	**3 650**	**1 615**
Management expenses to net premium and service fees on investment contracts	79,52%	94,64%	20,80%	20,45%	24,57%	12,53%	29,37%	26,96%	33,74%	28,81%
Tax as a % of NIBT	28,00%	27,88%	28,86%	27,66%	19,28%	31,31%	23,22%	16,80%	7,94%	18,76%
Comments	Company	Company	Company	Company	Company	Company	Society	Society	Company	Company

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

Accounting year end	Dec-14	Dec-13	Jun-14	Jun-13	Mar-14	Mar-13	Jun-14	Jun-13	Dec-14	Dec-13
Group /Company	**Channel Life Limited (Sanlam Group)**		**Clientele Life**		**Guardrisk Life Limited**		**Hollard Life Assurance Company Limited**		**Liberty Group Limited**	
FSB classification	*Traditional*		*Traditional*		*Cell Captive*		*Traditional*		*Traditional*	
Recurring Premiums	no split provided (total is R1 432 067)	no split provided (total is R1 286 271)	1 206 079	1 065 164	1 159 548	983 461	4 857 289	4 484 726	split provided, but includes investment contracts (Total is 39 708 000)	split provided, but includes investment contracts (Total is 26 023 000)
Single Premiums					77 706	64 968	1 181 912	846 524		
Other Premiums					-	-	94 943	82 776		
Reinsurance Premiums	323 589	305 489	99 125	77 971	652 295	1 016 908	726 611	597 154	905 000	754 000
Net Premium Income	**1 108 478**	**980 782**	**1 106 954**	**987 193**	**584 959**	**31 521**	**5 407 533**	**4 816 872**	**38 803 000**	**25 269 000**
Service fees from investment contracts	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**914 000**	**868 000**
Total Net Investment Income	**258 962**	**89 913**	**202 242**	**263 714**	**267 931**	**298 173**	**821 090**	**573 761**	**28 891 000**	**35 839 000**
Commission Received	(6 901)	19 800	-	-	19 529	68 239	-	-	-	-
Other unallocated Income	24 234	21 454	171 653	161 924	-	-	49 302	12 012	670 000	773 000
Total Income	**1 384 773**	**1 111 949**	**1 482 849**	**1 412 831**	**872 419**	**397 933**	**6 277 925**	**5 402 645**	**69 278 000**	**62 749 000**
Death/Disability	no split provided (total is R830 291)	no split provided (total is R684 166)	145 094	136 196	no split provided (total is R226 811)	no split provided (total is R173 737)	1 670 951	1 407 317	split provided but included payments to investment contracts (nett total is R31 534 000)	split provided but included payments to investment contracts (nett total is R18 064 000)
Maturities			-	-			680 976	1 009 065		
Annuities			-	-			166 783	172 095		
Surrenders			207 381	229 459			202 782	187 990		
Withdrawals & Other Benefits			31 376	46 591			81 578	128 822		
Reinsurance recoveries	(149 556)	(129 656)	(96 639)	(91 527)	(101 748)	(153 261)	(685 577)	(551 382)	(853 000)	(615 000)
Net policyholder benefits under insurance contracts	**680 735**	**554 510**	**287 212**	**320 719**	**125 063**	**20 476**	**2 117 493**	**2 353 907**	**30 681 000**	**17 449 000**
Change in preference share liability	-	-	-	-	-	-	-	-	-	-
Change in assets arising from insurance contracts	-	-	95	508	-	-	-	-	-	-
Change in policy holder liabilities under insurance contracts	30 773	44 875	(41 396)	(43 581)	(66 975)	522	432 854	(254 912)	15 187 000	20 372 000

LONG TERM INSURERS | Statement of Comprehensive Income | R'000 (continued)

Accounting year end	Dec-14	Dec-13	Jun-14	Jun-13	Mar-14	Mar-13	Jun-14	Jun-13	Dec-14	Dec-13
Group /Company	**Channel Life Limited (Sanlam Group)**		**Clientele Life**		**Guardrisk Life Limited**		**Hollard Life Assurance Company Limited**		**Liberty Group Limited**	
FSB classification	*Traditional*		*Traditional*		*Cell Captive*		*Traditional*		*Traditional*	
Fair value adjustments on policyholder liabilities under investment contracts	211 183	14 549	49 184	71 222	242 803	277 116	-	-	7 382 000	10 444 000
Acquisition costs	88 283	90 409	658 926	517 010	-	-	516 539	472 601	3 992 000	2 656 000
Administration, management and other expenses	93 726	97 733	144 173	182 395	537 404	64 451	1 630 360	1 502 817	7 237 000	5 329 000
Total expenses	**1 104 700**	**802 076**	**1 098 194**	**1 048 273**	**838 295**	**362 565**	**4 697 246**	**4 074 413**	**64 479 000**	**56 250 000**
Profit/(Loss) before tax	**280 073**	**309 873**	**384 655**	**364 558**	**34 124**	**35 368**	**1 580 679**	**1 328 232**	**4 799 000**	**6 499 000**
Tax	79 035	81 863	95 476	93 005	9 869	6 975	424 449	378 807	1 780 000	2 318 000
Profit/(Loss) after tax	**201 038**	**228 010**	**289 179**	**271 553**	**24 255**	**28 393**	**1 156 230**	**949 425**	**3 019 000**	**4 181 000**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(72 000)**	**(96 000)**
Total comprehensive income/(loss) for the year	**201 038**	**228 010**	**289 179**	**271 553**	**24 255**	**28 393**	**1 156 230**	**949 425**	**2 947 000**	**4 085 000**
Other transfer to/(from) retained income	-	20	(13 724)	(11 513)	-	-	9 303	-	17 000	915 000
Other comprehensive income not charged against retained earnings	-	-	-	-	-	-	-	-	80 000	110 000
Ordinary dividends	201 000	304 000	213 069	219 060	40 292	10 000	885 347	776 820	1 290 000	1 653 000
Allocated to preference shareholders	-	-		-	-	-	-	-	-	-
Change in retained earnings	**38**	**(75 970)**	**62 386**	**40 980**	**(16 037)**	**18 393**	**280 186**	**172 605**	**1 754 000**	**3 457 000**
Management expenses to net premium and service fees on investment contracts	8,46%	9,96%	13,02%	18,48%	91,87%	204,47%	30,15%	31,20%	18,22%	20,39%
Tax as a % of NIBT	28,22%	26,42%	24,82%	25,51%	28,92%	19,72%	26,85%	28,52%	37,09%	35,67%
Comments	Company	Company	Company	Company	Company	Company	Company	Company	Company	Company

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

Accounting year end	Jun-14	Jun-13					Jun-14	Jun-13	Dec-14	Dec-13
Group /Company	**Metropolitan Life International Limited**		**Metropolitan Odyssey Limited**		**Momentum Ability Limited**		**MMI Group Limited**		**Nedgroup Life Assurance Company Limited**	
FSB classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Traditional*	
Recurring Premiums					1 796 141	294 174				
Single Premiums	-	-	-	-	2 099	28	no split provided (total is R21 184 000	no split provided (total is R11 206 000)	no split provided (total is R3 506 042)	no split provided (total is R3 007 041)
Other Premiums					-	-				
Reinsurance Premiums	-	-	-	-	1 590 566	144 566	3 111 000	2 576 000	281 246	229 123
Net Premium Income	**-**	**-**	**-**	**-**	**207 674**	**149 636**	**18 073 000**	**8 630 000**	**3 224 796**	**2 777 918**
Service fees from investment contracts	**2 555**	**1 161**	**-**	**-**	**5 018**	**17 113**	**1 711 000**	**1 784 000**	**-**	**-**
Total Net Investment Income	**18 524**	**30 830**	**23 957**	**20 259**	**138 878**	**143 014**	**51 379 000**	**27 325 000**	**421 352**	**272 760**
Commission Received	-	-	-	-	-	-	-	-	70 726	22 632
Other unallocated Income	26	44	-	-	-	-	1 104 000	759 000	8 922	7 400
Total Income	**21 105**	**32 035**	**23 957**	**20 259**	**351 570**	**178 625**	**72 267 000**	**38 498 000**	**3 725 796**	**3 080 710**
Death/Disability	-	-			412 197	60 792	6 730 000	3 688 000	633 254	520 395
Maturities	-	-			-	-	5 739 000	2 976 000	181 099	135 225
Annuities	-	-	no split provided (nett total is R41 619)	no split provided (nett total is R6 595)	3 482	3 179	2 506 000	1 910 000	141 155	117 522
Surrenders	-	-			-	-	2 796 000	1 080 000	240 794	216 218
Withdrawals & Other Benefits	-	-			-	-	3 059 000	1 646 000	-	-
Reinsurance recoveries	-	-	-	-	(400 087)	(26 987)	(1 534 000)	(1 246 000)	(188 012)	(193 691)
Net policyholder benefits under insurance contracts	**-**	**-**	**41 619**	**6 595**	**15 592**	**36 984**	**19 296 000**	**10 054 000**	**1 008 290**	**795 669**
Change in preference share liability	-		-	-	-	-	-	-	-	-
Change in assets arising from insurance contracts	-	-	-	-	(200 291)	(2 016)	-	-	-	-
Change in policy holder liabilities under insurance contracts	-	-	(37 778)	5 138	254 444	6 764	7 276 000	(1 392 000)	849 913	342 410

LONG TERM INSURERS | Statement of Comprehensive Income | R'000 (continued)

Accounting year end	Jun-14	Jun-13					Jun-14	Jun-13	Dec-14	Dec-13
Group /Company	**Metropolitan Life International Limited**		**Metropolitan Odyssey Limited**		**Momentum Ability Limited**		**MMI Group Limited**		**Nedgroup Life Assurance Company Limited**	
FSB classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Traditional*	
Fair value adjustments on policyholder liabilities under investment contracts	14 419	17 832	(250)	9	107 113	2 825	32 221 000	20 852 000	63 184	110 120
Acquisition costs	-	-	-	-	-	-	2 970 000	1 856 000	433 354	478 723
Administration, management and other expenses	2 155	1 320	964	932	122 380	14 038	5 441 000	3 517 000	292 695	278 363
Total expenses	**16 574**	**19 152**	**4 555**	**12 674**	**299 238**	**58 595**	**67 204 000**	**34 887 000**	**2 647 436**	**2 005 285**
Profit/(Loss) before tax	**4 531**	**12 883**	**19 402**	**7 585**	**52 332**	**120 030**	**5 063 000**	**3 611 000**	**1 078 360**	**1 075 425**
Tax	2 042	3 151	9 420	6 841	14 628	28 809	1 820 000	885 000	301 821	301 125
Profit/(Loss) after tax	**2 489**	**9 732**	**9 982**	**744**	**37 704**	**91 221**	**3 243 000**	**2 726 000**	**776 539**	**774 300**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**201 000**	**5 068 000**	**-**	**-**
Total comprehensive income/(loss) for the year	**2 489**	**9 732**	**9 982**	**744**	**37 704**	**91 221**	**3 444 000**	**7 794 000**	**776 539**	**774 300**
Other transfer to/(from) retained income	-	-	-	-	-	-	301 000	8 000	-	-
Other comprehensive income not charged against retained earnings	-	-	-	-	-	-	(200 000)	(5 068 000)	-	-
Ordinary dividends	20 000	-	-	-	54 284	137 672	3 200 000	2 004 000	420 000	576 000
Allocated to preference shareholders	-	-	-	-	-	-	28 000	31 000	-	-
Change in retained earnings	**(17 511)**	**9 732**	**9 982**	**744**	**(16 580)**	**(46 451)**	**317 000**	**699 000**	**356 539**	**198 300**
Management expenses to net premium and service fees on investment contracts	84,34%	113,70%	N/A	N/A	57,54%	8,42%	27,50%	33,77%	9,08%	10,02%
Tax as a % of NIBT	45,07%	24,46%	48,55%	90,19%	27,95%	24,00%	35,95%	24,51%	27,99%	28,00%
Comments	Company	Company	Company	Company	Company	Company	Company	Company	Company	Company

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

Accounting year end	Dec-14	Dec-13	Dec-14	Dec-13	Dec-13	Dec-12	Jun-14	Jun-13	Dec-14	Dec-13
Group /Company	**Nedgroup Structured Life Limited**		**Old Mutual Alternative Risk Transfer Limited**		**Old Mutual Life Assurance Company (South Africa) Limited**		**OUTsurance Life**		**Professional Provident Society**	
FSB classification	*Traditional*		*Cell Captive*		*Traditional*		*Traditional*		*Traditional*	
Recurring Premiums Single Premiums Other Premiums	-	-	no split provided (total is R804 013)	no split provided (total is R683 244)	no split provided (total is R35 001 000)	no split provided (total is R34 594 000)	no split provided (total is R237 419)	no split provided (total is R162 607)	no split provided (total is R2 842 631)	no split provided (total is R2 516 188)
Reinsurance Premiums	-	-	798 338	678 101	998 000	900 000	(19 660)	(14 902)	177 638	155 256
Net Premium Income	**-**	**-**	**5 675**	**5 143**	**34 003 000**	**33 694 000**	**217 759**	**147 705**	**2 664 993**	**2 360 932**
Service fees from investment contracts	**10 209**	**8 340**	**-**	**-**	**2 769 000**	**2 756 000**	**-**	**-**	**-**	**-**
Total Net Investment Income	**2 454**	**2 026**	**51 462**	**59 957**	**65 004 000**	**71 010 000**	**16 935**	**6 695**	**2 538 574**	**3 817 391**
Commission Received	-	-	-	-	1 361 000	1 274 000	-	-	-	-
Other unallocated Income	1 979	1 018	15 996	14 571	323 000	200 000	-	-	310 713	281 811
Total Income	**14 642**	**11 384**	**73 133**	**79 671**	**103 460 000**	**108 934 000**	**234 694**	**154 400**	**5 514 280**	**6 460 134**
Death/Disability	-	-	no split provided (total is R289 948)	no split provided (total is R195 588)	no split provided (total is R54 622 000)	no split provided (total is R61 280 000)	35 280	26 725	no split provided (total is R1 766 617)	no split provided (total is R1 526 668)
Maturities	-	-					-	-		
Annuities	-	-					-	-		
Surrenders	-	-					-	-		
Withdrawals & Other Benefits	-	-					-	-		
Reinsurance recoveries	-	-	(796 080)	(637 975)	471 000	(1 052 000)	(12 776)	(8 227)	(75 852)	(87 575)
Net policyholder benefits under insurance contracts	**-**	**-**	**(506 132)**	**(442 387)**	**54 151 000**	**60 228 000**	**22 504**	**18 498**	**1 690 765**	**1 439 093**
Change in preference share liability	-	-	368 407	332 430	-	-	-	-	-	-
Change in assets arising from insurance contracts	-	-	-	-	-	-	-	-	-	-
Change in policy holder liabilities under insurance contracts	-	-	split not provided, included in claims expense line	split not provided, included in claims expense line	split not provided, included in claims expense line	split not provided, included in claims expense line	24 295	16 059	2 378 867	3 498 726

LONG TERM INSURERS | Statement of Comprehensive Income | R'000 (continued)

Accounting year end	Dec-14	Dec-13	Dec-14	Dec-13	Dec-13	Dec-12	Jun-14	Jun-13	Dec-14	Dec-13
Group /Company	**Nedgroup Structured Life Limited**		**Old Mutual Alternative Risk Transfer Limited**		**Old Mutual Life Assurance Company (South Africa) Limited**		**OUTsurance Life**		**Professional Provident Society**	
FSB classification	*Traditional*		*Cell Captive*		*Traditional*		*Traditional*		*Traditional*	
Fair value adjustments on policyholder liabilities under investment contracts	-	-	-	-	19 957 000	26 744 000	-	-	53 319	74 389
Acquisition costs	-	-	24 915	26 047	3 480 000	3 171 000	-	-	-	-
Administration, management and other expenses	3 538	2 873	39 007	33 329	9 602 000	10 234 000	185 394	113 197	1 089 494	973 016
Total expenses	**3 538**	**2 873**	**(73 803)**	**(50 581)**	**87 190 000**	**100 377 000**	**232 193**	**147 754**	**5 212 445**	**5 985 224**
Profit/(Loss) before tax	**11 104**	**8 511**	**146 936**	**130 252**	**16 270 000**	**8 557 000**	**2 501**	**6 646**	**301 835**	**474 910**
Tax	3 109	2 383	144 288	129 551	2 994 000	3 965 000	850	3 207	266 088	430 719
Profit/(Loss) after tax	**7 995**	**6 128**	**2 648**	**701**	**13 276 000**	**4 592 000**	**1 651**	**3 439**	**35 747**	**44 191**
Other comprehensive income	**-**	**-**	**-**	**2**	**96 000**	**234 000**	**-**	**-**	**1 548**	**8 066**
Total comprehensive income/(loss) for the year	**7 995**	**6 128**	**2 648**	**703**	**13 372 000**	**4 826 000**	**1 651**	**3 439**	**37 295**	**52 257**
Other transfer to/(from) retained income	-	-	-	-	(72 000)	-	-	-	(3 128)	(2 822)
Other comprehensive income not charged against retained earnings	-	-	-	-	-	-	17	-	-	-
Ordinary dividends	-	-	-	-	3 510 000	27 151 000	-	-	-	-
Allocated to preference shareholders	-	-	-	-	-	-	-	-	-	-
Change in retained earnings	**7 995**	**6 128**	**2 648**	**703**	**9 790 000**	**(22 325 000)**	**1 668**	**3 439**	**34 167**	**49 435**
Management expenses to net premium and service fees on investment contracts	34,66%	34,45%	687,35%	648,05%	26,11%	28,08%	85,14%	76,64%	40,88%	41,21%
Tax as a % of NIBT	28,00%	28,00%	98,20%	99,46%	18,40%	46,34%	33,99%	48,25%	88,16%	90,69%
Comments	Company	Company	Company	Company	Company	Company	Company	Company	Society	Society

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

Accounting year end	Mar-14	Mar-13	Jun-14	Jun-13	Dec-14	Dec-13	Dec-14	Dec-13	Dec-14	Dec-13
Group /Company	**Prescient**		**Regent Life Assurance Company Limited**		**Safrican Insurance Company Limited (Sanlam Group)**		**Sanlam Developing Markets Limited**		**Sanlam Life Insurance Limited**	
FSB classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Traditional*	
Recurring Premiums			706 810	654 591	no split provided (total is R753 883)	no split provided (total is R689 347)	no split provided (total is R3 373 990)	no split provided (total is R3 108 590)	no split provided (total is R9 454 000)	no split provided (total is R9 003 000)
Single Premiums	-	-	-	-						
Other Premiums			-	-						
Reinsurance Premiums	-	-	83 884	77 402	302	865	16 267	13 301	789 000	948 000
Net Premium Income	**-**	**-**	**622 926**	**577 189**	**753 581**	**690 212**	**3 357 723**	**3 095 289**	**8 665 000**	**8 055 000**
Service fees from investment contracts	**15 948**	**15 547**	**-**	**-**	**-**	**-**	**-**	**-**	**590 000**	**453 000**
Total Net Investment Income	**242 680**	**247 162**	**165 242**	**154 187**	**194 042**	**159 286**	**1 550 299**	**2 790 358**	**46 080 000**	**52 927 000**
Commission Received	-	-	-	-	-	-	-	-	2 000	43 000
Other unallocated Income	-	-	47 248	34 993	-	21	51 134	41 742	2 760 000	2 810 000
Total Income	**258 628**	**262 709**	**835 416**	**766 369**	**947 623**	**849 519**	**4 959 156**	**5 927 389**	**58 097 000**	**64 288 000**
Death/Disability			218 557	175 167	no split provided (total is R360 683)	no split provided (total is R336 344)	no split provided (total is R992 486)	no split provided (total is R969 132)	no split provided (total is R4 139 000)	no split provided (total is R4 327 000)
Maturities			3 394	4 511						
Annuities	-	-	10 157	12 692						
Surrenders			62 672	51 280						
Withdrawals & Other Benefits			-	-						
Reinsurance recoveries	-	-	(48 690)	(44 439)	-	-	(11 613)	14 090	661 000	(656 000)
Net policyholder benefits under insurance contracts	**-**	**-**	**246 090**	**199 211**	**360 683**	**336 344**	**980 873**	**983 222**	**3 478 000**	**3 671 000**
Change in preference share liability	-	-	-	-	-	-	-	-	-	-
Change in assets arising from insurance contracts	-	-	-	-	-	-	-	-	-	-
Change in policy holder liabilities under insurance contracts	-	-	26 402	41 676	5 654	3 812	220 536	345 783	16 464 000	16 408 000

LONG TERM INSURERS | Statement of Comprehensive Income | R'000 (continued)

Accounting year end	Mar-14	Mar-13	Jun-14	Jun-13	Dec-14	Dec-13	Dec-14	Dec-13	Dec-14	Dec-13
Group /Company	**Prescient**		**Regent Life Assurance Company Limited**		**Safrican Insurance Company Limited (Sanlam Group)**		**Sanlam Developing Markets Limited**		**Sanlam Life Insurance Limited**	
FSB classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Traditional*	
Fair value adjustments on policyholder liabilities under investment contracts	237 309	243 426	26 488	14 381	184 132	146 922	1 135 599	1 424 675	18 353 000	27 162 000
Acquisition costs	-	-	181 217	180 471	126 215	101 456	792 110	755 726	1 413 000	1 339 000
Administration, management and other expenses	11 043	9 366	164 635	163 482	131 692	137 124	732 408	686 406	4 460 000	4 143 000
Total expenses	**248 352**	**252 792**	**644 832**	**599 221**	**808 376**	**725 658**	**3 861 526**	**4 195 812**	**44 168 000**	**52 723 000**
Profit/(Loss) before tax	**10 276**	**9 917**	**190 584**	**167 148**	**139 247**	**123 861**	**1 097 630**	**1 731 577**	**13 929 000**	**11 565 000**
Tax	2 412	2 350	45 859	36 738	40 177	34 429	284 708	231 141	1 327 000	1 964 000
Profit/(Loss) after tax	**7 864**	**7 567**	**144 725**	**130 410**	**99 070**	**89 432**	**812 922**	**1 500 436**	**12 602 000**	**9 601 000**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**(373)**	**6 000**	**144 000**	**-**
Total comprehensive income/(loss) for the year	**7 864**	**7 567**	**144 725**	**130 410**	**99 070**	**89 432**	**812 549**	**1 506 436**	**12 746 000**	**9 601 000**
Other transfer to/(from) retained income	-	-	(20 051)	(19 890)	-	-	-	-	-	-
Other comprehensive income not charged against retained earnings	-	-	-	(3 689)	-	-	-	-	-	-
Ordinary dividends	-	-	98 198	107 106	89 500	-	2 715 806	137 613	3 950 000	4 500 000
Allocated to preference shareholders	-	-	-	-	-	-	-	-	-	-
Change in retained earnings	**7 864**	**7 567**	**26 476**	**(275)**	**9 570**	**89 432**	**(1 903 257)**	**1 368 823**	**8 796 000**	**5 101 000**
Management expenses to net premium and service fees on investment contracts	69,24%	60,24%	26,43%	28,32%	17,48%	19,87%	21,81%	22,18%	48,19%	48,70%
Tax as a % of NIBT	23,47%	23,70%	24,06%	21,98%	28,85%	27,80%	25,94%	13,35%	9,53%	16,98%
Comments	Company	Company	Company	Company	Company	Company	Company	Company	Company	Company

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

Accounting year end	Dec-14	Dec-13	Dec-14	Dec-13
Group /Company	**Stanlib Multi-Manager Limited**		**Zurich Life SA Limited**	
FSB classification	*Traditional*		*Traditional*	
Recurring Premiums	-	-	no split provided (total is R5 801)	no split provided (total is R191)
Single Premiums	-	-		
Other Premiums	-	-		
Reinsurance Premiums	-	-	10	118
Net Premium Income	**-**	**-**	**5 791**	**73**
Service fees from investment contracts	**347 489**	**364 848**	**-**	**2**
Total Net Investment Income	**2 408 268**	**3 041 217**	**1 027**	**461**
Commission Received	-	-	-	-
Other unallocated Income	-	-	-	-
Total Income	**2 755 757**	**3 406 065**	**6 818**	**536**
Death/Disability	-	-	no split provided (total is R306)	no split provided (total is R170)
Maturities	-	-		
Annuities	-	-		
Surrenders	-	-		
Withdrawals & Other Benefits	-	-		
Reinsurance recoveries	-	-	-	(15)
Net policyholder benefits under insurance contracts	**-**	**-**	**306**	**155**
Change in preference share liability	-	-	-	-
Change in assets arising from insurance contracts	-	-	997	(5)
Change in policy holder liabilities under insurance contracts	-	-	-	-

"For you in the West to hear the phrase 'All men are created equal' is to draw a yawn. For us, it's a miracle. We're starting out at rock bottom, man. But SOUTH AFRICA does have soul."

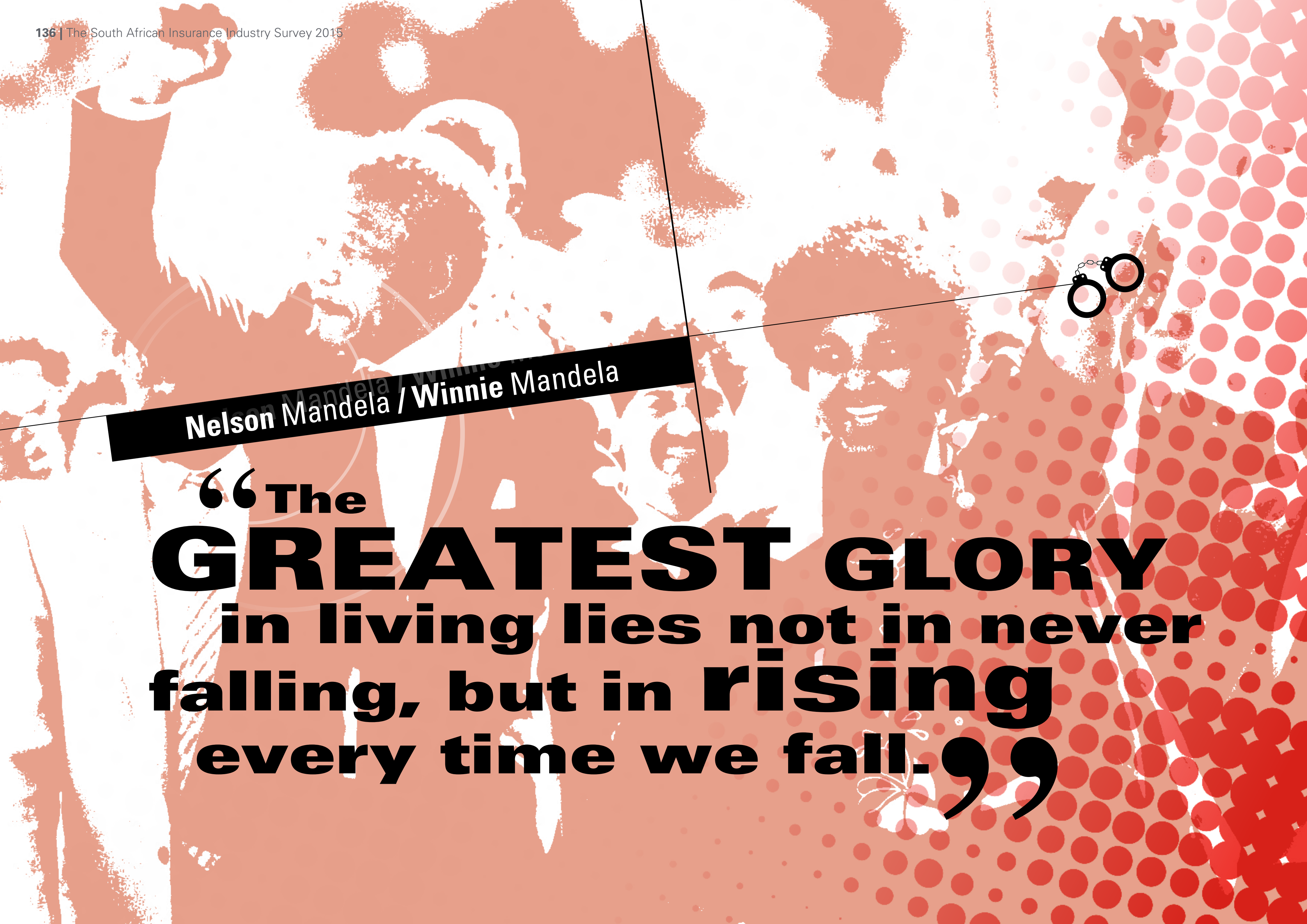
Athol Fugard

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

Accounting year end			Dec-14	Dec-13
Group /Company	**Stanlib Multi-Manager Limited**		**Zurich Life SA Limited**	
FSB classification	*Traditional*		*Traditional*	
Fair value adjustments on policyholder liabilities under investment contracts	2 402 884	3 035 939	-	-
Acquisition costs	-	-	1 307	-
Administration, management and other expenses	210 800	215 633	8 571	1 349
Total expenses	**2 613 684**	**3 251 572**	**11 181**	**1 499**
Profit/(Loss) before tax	**142 073**	**154 493**	**(4 363)**	**(963)**
Tax	40 398	43 720	260	(198)
Profit/(Loss) after tax	**101 675**	**110 773**	**(4 623)**	**(765)**
Other comprehensive income	**-**	**-**	**-**	**-**
Total comprehensive income/(loss) for the year	**101 675**	**110 773**	**(4 623)**	**(765)**
Other transfer to/(from) retained income	-	110 833	-	-
Other comprehensive income not charged against retained earnings	-	-	-	-
Ordinary dividends	70 000	74 000	-	-
Allocated to preference shareholders	-	-	-	-
Change in retained earnings	**31 675**	**147 606**	**(4 623)**	**(765)**
Management expenses to net premium and service fees on investment contracts	60,66%	59,10%	148,01%	1798,67%
Tax as a % of NIBT	28,43%	28,30%	(5,96%)	20,56%
Comments	Company	Company	Company	Company

"If you want to make PEACE with your enemy, you have to work with your enemy. Then he becomes your partner."

Nelson Mandela


Nelson Mandela / Winnie Mandela
"The GREATEST GLORY in living lies not in never falling, but in rising every time we fall."

REINSURANCE INDUSTRY

The South African Reinsurance Market

The South African reinsurance landscape is evolving. Regulation and competition are increasing. 2014 saw the first presentations of the Reinsurance Regulatory Review proposals from the Financial Services Board (FSB). These were then formally released for comment in 2015 and are intended to become legislatively enacted concurrently with the implementation of the new Insurance Bill[1]. These proposals could have far-reaching consequences on the local reinsurance market. In particular, the proposed adjustments to the credit ratings for counterparty default on reinsurance assets clearly favour locally incorporated entities and will effect the "go-to-market" strategy and pricing of reinsurance. The introduction of branches as a reinsurance incorporation option should continue to increase competition. The scrapping of the existing "approved versus non-approved" framework will affect the way reinsurance policies are written. Proposals on splitting composites are still being debated.

[1] Reinsurance regulatory review – discussion paper (April 2015). Financial Services Board.

Competition has increased in recent years with Emeritus Reinsurance Company SA Limited (Emeritus Re) reinvigorating an old existing license and GIC Re South Africa Limited (GIC Re) taking over the old Saxum Reinsurance Limited license. Emeritus Re is included in our survey for the first time. They operate as a short-term reinsurer. GIC Re's first financial reporting period will be 31 March 2015 and will therefore be included in our next instalment of the survey. They will initially be operating as a short-term reinsurer. We also include for the first time the results of RGA Reinsurance Company of South Africa Limited (RGA). RGA is a life reinsurer with an emphasis on facultative life reinsurance underwriting.

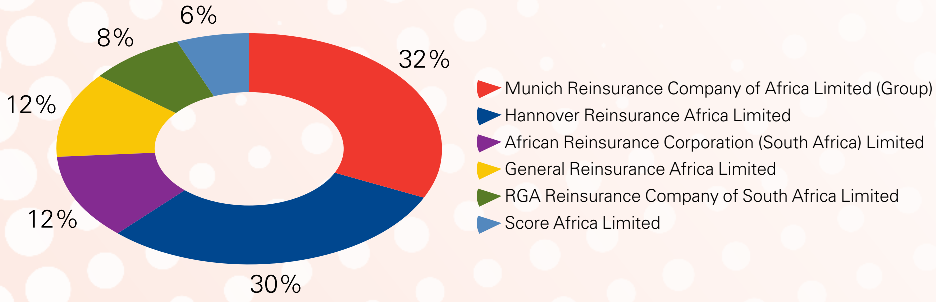
Overall market performance[2]

Our survey includes R17.5 billion of the total reinsurance premiums of R18.4 billion reported by the FSB for December 2014. Reinsurers for the purposes of this section are those insurers who offer specialists cover only to primary insurers. This distinction is important as the Reinsurance Regulatory Review highlighted that almost 25% of locally ceded short-term premium is actually ceded to other direct insurers and as much as 50% is ceded directly offshore (whether on a cross-border basis or through Lloyds of London). This suggests that local reinsurers accept only 25% of short-term reinsurance premiums. Excluding intra-group, investment related reinsurance and the unquantifiable amount of cross-border life reinsurance, the remaining cession of life risk was split roughly 25% with direct insurers and 75% with reinsurers. In aggregate the Reinsurance Regulatory Review estimated the local reinsurance market (including professional reinsurers, inward reinsurance by direct insurers, cross-border provision and reinsurance on investment products) to be R57 billion in 2013. However, a significant portion of this number is intragroup or investment related and consequently not necessarily reflective of genuine reinsurance protection or partnerships.

[2] For the purposes of overall market performance, Hannover Reinsurance Africa Limited and Hannover Life Reassurance Africa have been combined to make the results comparable to the composite licenses.

Below we have illustrated the composition of the reinsurance market by gross written premiums (as included in this survey).

Reinsurance gross written premium



Munich Reinsurance Company of Africa Limited (Munich Re) and Hannover Reinsurance Group Africa Proprietary Limited (Hannover Re) remain the most significant market participants. Gross written premiums for reinsurers increased in aggregate by 11% year on year. Emeritus Re recorded the largest gain with a significant 125% increase year on year followed by RGA with a 17% growth. The lowest growth excluding Saxum, which has ceased to exist, was recorded by GenRe at 4%. These amounts should be considered in the context of South African consumer price inflation, which began 2014 at 5.8%, peaked at 6.6% in June 2014 and decreased to 5.3% by year-end.

Gross premium growth is not necessarily a meaningful indicator as it can be impacted by large individual transactions. According to the accounting standards, multi-period and structured reinsurance contracts are often recognised in full at the inception of the contract and then earned over the contract period. Included in this 11% growth are structured deals that portray these characteristics.

On an industry wide basis, net earned premium grew by 7% with the retention percentage[3] decreasing by 2% from the comparative period to 52%. These factors indicate that growth was deferred and premium will only be earned in subsequent periods.

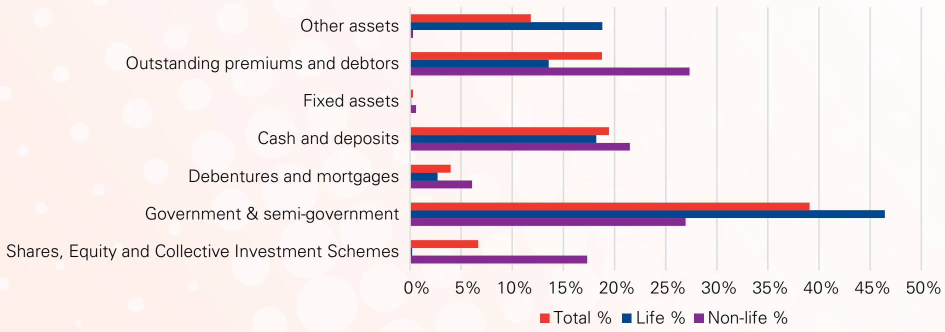
These retention percentages are well within the limits proposed in the Reinsurance Regulatory Review of 75% of premiums underwritten (increased to 85% for related parties). However on individual cases these limits might effect specific reinsurers or individual treaties, depending upon the final wording of the proposals.

[3] The proportion of net earned premium to gross written premium

Underwriting results before management expenses decreased significantly from the prior year with an overall decrease of 26% year on year. This is attributable to both higher net commission payments and deteriorating claims experience. Net commission outflows were 11% higher year on year, with five out of the seven reinsurers showing an increase in the net outflow. Furthermore net claims experience was 12% worse than in the prior period. Therefore, although a portion of the claims experience relates to growth in book (7% as mentioned above), a significant portion relates to worse actual or provided-for claims experience. This is particularly interesting given that there were fewer significant South African catastrophes in the current period, although this could reflect inadequate reserving for prior period catastrophes. One reinsurer experienced a particularly large loss, which is referred to in the FSB statistics to explain the movements for the period.

On average management expenses as a portion of net earned premium increased by 1.1% year on year. Given that the gross and net premium increases are in excess of South African consumer price index numbers (i.e. that inflation was already priced into the premium), this indicates a genuine increase in operating costs across the industry. It is not surprising that this increase has occurred over the period in light of the significant increase in legislation, notably upcoming Solvency Assessment and Management requirements, as well as increased emphasis on risk and actuarial operations at reinsurers. At 5% GenRe exhibits the best cost control for the period. Emeritus Re, still in a start-up phase has a very high expense ratio. Reinsurers achieved an average return on investments (including cash and cash equivalents) of 5.3% (comparative: 5.6%). Excluding the effects of cash this was 6.1% (comparative: 6%). These numbers are quite low when compared to an average prime rate of 9.13% and the average 10-year government bond yield of 8.07%. They are closest to the average three-month NCD rate of 5.87%. This does talk to the average asset allocation at 31 December 2014 as reported by the FSB for reinsurers and shown below.

Asset Allocation for Reinsurers



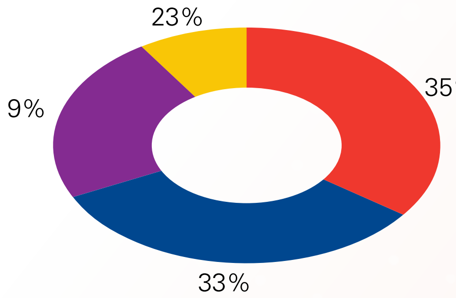
African Re was the top performer in terms of return on investment including cash (at 7%) and year on year increases in investment performance (at 20%). African Re has a sizeable investment in equity instruments. However, the next two top-performers managed to squeeze an extra two percentage points on their peers out of mostly government bonds and treasury bills.

Profits in total, for reinsurers surveyed, increased by 24% year on year. However, there is significant volatility in these results from GenRe showing a 63% growth in profits to Hannover showing a 44% reduction in profits.

Non-Life reinsurance

Of the R17.5 billion written premium for the period approximately R9.4 billion (54%; 2013: 53%) was non-life premium. Ranking remained unchanged from the prior period, with market share by gross premium largely unchanged for all participants.

Non-life reinsurance gross premium



Where gross premium for non-life reinsurers increased 13% year on year the net premium increased by 9%. The effective retention percentage for the non-life reinsurance business was 29%. This is much lower than for the reinsurance industry in total.

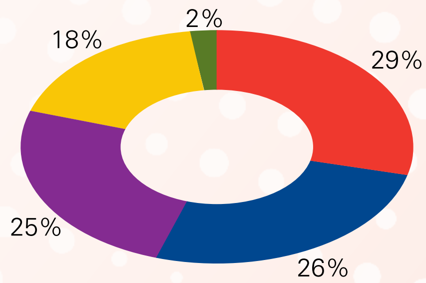
Of the retained risk, the FSB industry statistics to December 2014 suggest that 47.7% is motor premium, 35.9% is property premium with the next largest class, engineering, coming in at a 6.2% of net earned premium. Without the split at the gross level, it is difficult to establish if larger amounts of other classes are written, but not retained, in South Africa.

The non-life loss ratio increased in the 2014 year to 68% from 63% in the comparative. The FSB statistics for the 12 months to December indicate that only two of the eight statutory short-term classes (liability and miscellaneous) showed improved loss ratios. The three worst performing classes showed significant declines with Guarantee business at 167% (up from 68% in 2013 due to two reinsurers reporting significant claims in June 2014), motor at 78% (2013: 67%) and property at 75% (2013: 67%).

The non-life reinsurers hold significantly more amounts of assets in premium debtors than the life component of the industry. This is probably due to the proportional reinsurers pipelining on average three months of premium whereas a significant portion of life reinsurers have a shorter pipeline period. Certain non-life reinsurers also have investments in equity and collective investment schemes whereas these are almost non-existent for life reassurers.

Life reassurance

Of the R17.5 billion written premium for the period approximately R8.1 billion (46%; 2013: 47%) was life reassurance premium. The composition has remained largely unchanged from the comparative period except that Munich Re has re-established itself as the largest professional life reassurer in South Africa.



At 8%, gross premium grew by less than the non-life reinsurance industry. However, a much greater portion of this premium is retained in South Africa. The average industry retention was 80% (2013: 81%).

The net earned premium grew by 7% year on year. Not surprisingly, the majority of life reassurance net premiums are life risk (61%; 2013: 61.7%) and disability (17.4%; 2013: 18.8%). Fund and health reinsurance remain around 10% each. There is almost no reinsurance of assistance business (0.5%; 2013: 0.6%)[4].

Overall claims ratios for life reassurance were slightly worse at 82% than the 80% of the prior period. These numbers are materially different to the FSB statistics, which reported claims as a percentage of net premium at 72%. This is probably due to the treatment of fund and other investment business as discussed above.

Life reinsurers hold a much greater portion of their investments in government bonds and long dated instruments than their short-term counterparts.

[4]Financial services board insurance division: the quarterly report on the results of the long-term insurance industry for the period ended 31 December 2014.

The global reinsurance market

US treasury released a recent report, which ranked the global reinsurance players[5].

Reinsurer ($ millions)	Gross premium (total)	Gross premium (non-life)	Gross premium (life)
Munich Re	38 333	23 423	14 910
Swiss Re	32 934	20 670	12 264
Hannover Re	19 225	10 764	8 461
Lloyds	15 614	15 594	20
SCOR	14 116	6 675	7 441
Berkshire Hathaway Inc (Gen Re)	12 776	7 339	5 437
RGA	8 573	-	8 573

It is interesting to note that of the top seven players only Swiss Re lacks an active local reinsurance license. As at 23 February 2015, Swiss Re obtained a license to operate Swiss Re Corporate Solution in South Africa, underwritten by Guardrisk.

Both the US treasury report and the AON Reinsurance Market Outlook[6] highlighted the continued international growth and interest in catastrophe bonds. According to AON Benfield, "a record USD 1.7 billion of catastrophe bonds were issued in Q1 2015 and another USD 3.0 billion issued in Q2 2015. Investors continue to show broad interest in insurance linked securities." South Africa does not currently actively participate in this market.

Internationally the first half of 2015 has seen fewer natural disasters than in previous years and "global losses were below average for all major perils with the exception of winter weather.[7]" This trend is also true for the general middle east and Africa regions.

Online commentary from various parties also raises the hurricane drought experienced by the US. It has been almost ten years since the last category three hurricane landed on the US (being hurricane Wilma of 2005). One such event could clearly change the overall international reinsurance industry result.

Conclusion

These are without a doubt interesting times for reinsurers in South Africa. It is probable that the proposed reforms under the reinsurance regulatory review will increase competition. These same reforms will provide a competitive advantage to locally incorporated reinsurers in terms of the credit ratings their cedants can use for capital calculation purposes. This may result in a restructuring of the local market and the share of risk ceded locally versus on a cross border basis. The reinsurance review also sees South Africa as a hub for reinsurance into the rest of Africa. Currently different strategies are being employed in this space and only time will tell which of these is the more effective. We will also have to wait to see whether any locally incorporated reinsurers decide that the less onerous governance structures of a branch outweigh the increased cost of reinsurance for cedants. Lastly, the future of composites remains a debated point which could change the current landscape.

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[5] The breadth and scope of the global reinsurance market and the critical role such insurance in the United States. Federal Insurance Office, US Department of the Treasury. markets play in supporting
[6] Reinsurance Market Outlook – June and July 2015 Update. Aon Benfield.
[7] Reinsurance Market Outlook – June and July 2015 Update. Aon Benfield.

"We have a vision of
SOUTH AFRICA
in which
BLACK and WHITE
shall live and work
TOGETHER as EQUALS
in conditions of
PEACE and PROSPERITY."

Oliver Tambo

REINSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-14	Dec-13	Dec-14	Dec-13	Dec-14	Dec-13
Group/Company	**African Reinsurance Corporation (South Africa) Limited**		**Emeritus Reinsurance Company (SA) Limited**		**General Reinsurance Africa Limited**	
Share capital and share premium	80 300	80 300	73 888	73 888	4 000	4 000
Retained earnings/(deficit)	489 801	413 197	(56 254)	(53 903)	1 039 591	801 546
Reserves	51 702	51 702	-	-	15 384	19 566
Total shareholders' funds	**621 803**	**545 199**	**17 634**	**19 985**	**1 058 975**	**825 112**
Gross outstanding claims	992 067	873 866	2 742	1 392	1 350 796	1 214 069
Gross unearned premium reserve	156 612	181 451	4 785	2 117	180 863	172 852
Provision for profit commission	-	-	-	-	-	-
Policy holder liabilities under insurance contracts	-	-	-	-	1 766 526	1 579 355
Liabilities in respect of investment contracts	-	-	-	-	-	-
Deferred reinsurance commission revenue	28 679	34 623	389	260	-	-
Deferred tax liabilities/(assets)	33 786	27 268	-	-	(867)	(51)
Funds withheld	1 241 975	1 108 810	-	-	459	427
Other liabilities	148 984	207 183	3 399	3 070	206 057	177 154
Total liabilities	**2 602 103**	**2 433 201**	**11 315**	**6 839**	**3 503 834**	**3 143 806**
Total investments	**2 174 975**	**1 947 973**	**5 000**	**-**	**3 084 546**	**3 401 623**
Funds withheld	141	136	-	-	-	-
PPE and intangible assets	5 083	5 693	495	694	4 926	4 478
Retrocessionaires' share of outstanding claims	695 651	613 494	967	680	89 243	94 628
Retrocessionaires' share of unearned premium reserve	109 629	127 016	1 297	897	16 976	14 105
Retrocessionaires' share of profit commissions	-	-	-	-	-	-
Retrocessionaires' share of liabilities under life insurance contracts	-	-	-	-	1 128	388
Deferred aquisition cost	35 500	44 028	1 436	614	-	-
Cash & cash equivalents	3 061	1 936	12 431	20 556	1 000 975	142 392
Other assets	199 866	238 124	7 323	3 383	365 015	311 304
Total assets	**3 223 906**	**2 978 400**	**28 949**	**26 824**	**4 562 809**	**3 968 918**
CAR ratio	N/A	N/A	N/A	N/A	5,5	4,5
Return on equity	12%	15%	(13%)	(21%)	22%	29%
Total assets/total liabilities	124%	122%	256%	392%	130%	126%
Change in shareholders's funds	14%		(12%)		28%	

REINSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-14	Dec-13	Dec-14	Dec-13	Dec-14	Dec-13
Group/Company	**Hannover Life Reassurance Africa Limited**		**Hannover Reinsurance Africa Limited**		**Munich Reinsurance Company of Africa Limited (Group)**	
Share capital and share premium	112 500	112 500	72 778	72 778	34 915	34 915
Retained earnings/(deficit)	507 147	428 526	539 862	528 769	2 292 556	1 995 680
Reserves	(8 366)	(10 409)	139 420	134 434	429 456	311 027
Total shareholders' funds	**611 281**	**530 617**	**752 060**	**735 981**	**2 756 927**	**2 341 622**
Gross outstanding claims	267 093	228 574	1 623 220	1 461 273	3 621 254	3 422 438
Gross unearned premium reserve	27 219	15 545	1 230 404	776 526	701 058	697 136
Provision for profit commission	295 976	304 660	360 829	241 177	-	-
Policy holder liabilities under insurance contracts	1 957 129	1 731 995	-	-	954 235	635 984
Liabilities in respect of investment contracts	-	-	-	-	-	-
Deferred reinsurance commission revenue	44 881	47 322	83 900	73 605	201 771	164 797
Deferred tax liabilities/(assets)	(8 046)	-	(10 832)	(6 636)	123 511	92 297
Funds withheld	589 158	516 735	793 030	723 566	19 737	12 790
Other liabilities	191 551	78 253	312 880	269 806	1 041 008	936 298
Total liabilities	**3 364 961**	**2 923 084**	**4 393 431**	**3 539 317**	**6 662 574**	**5 961 740**
Total investments	**2 506 184**	**2 203 461**	**1 634 465**	**1 709 261**	**3 849 326**	**3 471 899**
Funds withheld	85 580	74 293	507 504	419 608	113 613	91 597
PPE and intangible assets	-	-	8 287	3 963	1 044 662	564 358
Retrocessionaires' share of outstanding claims	117 824	105 781	695 043	635 557	1 899 183	1 762 695
Retrocessionaires' share of unearned premium reserve	-	-	300 067	307 851	556 974	551 306
Retrocessionaires' share of profit commissions	164	151	280 853	171 135	-	-
Retrocessionaires' share of liabilities under life insurance contracts	471 197	410 877	-	-	9 919	7 780
Deferred aquisition cost	261 986	153 612	290 029	187 996	226 363	185 158
Cash & cash equivalents	157 444	113 774	193 123	158 435	572 472	670 009
Other assets	375 863	391 752	1 236 120	681 492	1 146 990	998 560
Total assets	**3 976 242**	**3 453 701**	**5 145 491**	**4 275 298**	**9 419 502**	**8 303 362**
CAR ratio	2,8	2,9	N/A	N/A	2,9	2,7
Return on equity	13%	38%	1%	13%	11%	13%
Total assets/total liabilities	118%	118%	117%	121%	141%	139%
Change in shareholders's funds	15%		2%		18%	

REINSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-14	Dec-13	Note 1	Dec-13	Dec-14	Dec-13
Group/Company	**RGA Reinsurance Company of South Africa Limited**		**Saxum Reinsurance Limited**		**Scor Africa Limited**	
Share capital and share premium	51 982	51 982	-	11 500	150 000	150 000
Retained earnings/(deficit)	101 346	80 565	-	22 969	81 981	62 748
Reserves	3 592	(10 891)	-	(9 104)	6 966	10 908
Total shareholders' funds	**156 920**	**121 656**	**-**	**25 365**	**238 947**	**223 656**
Gross outstanding claims	715 532	548 607	-	16 822	626 722	744 162
Gross unearned premium reserve	-	-	-	-	233 771	194 706
Provision for profit commission	-	-	-	-	-	-
Policy holder liabilities under insurance contracts	1 219 298	1 089 239	-	25 338	38 601	17 031
Liabilities in respect of investment contracts	-	-	-	-	-	-
Deferred reinsurance commission revenue	-	-	-	-	53 371	38 354
Deferred tax liabilities/(assets)	(684)	(709)	-	(5 971)	(825)	123
Funds withheld	724 436	673 377	-	-	535 579	586 560
Other liabilities	32 724	45 310	-	16 032	205 054	178 341
Total liabilities	**2 691 306**	**2 355 824**	**-**	**52 221**	**1 692 273**	**1 759 277**
Total investments	**1 497 921**	**1 361 407**		**51 803**	**818 064**	**736 520**
Funds withheld	-	-	-	-	-	-
PPE and intangible assets	7 280	8 383	-	740	318	326
Retrocessionaires' share of outstanding claims	-	-	-	2 192	423 931	494 976
Retrocessionaires' share of unearned premium reserve	-	-	-	-	148 117	124 867
Retrocessionaires' share of profit commissions	-	-	-	-	-	-
Retrocessionaires' share of liabilities under life insurance contracts	724 436	673 377	-	6 259	16 546	5 204
Deferred aquisition cost	-	-	-	-	82 900	60 939
Cash & cash equivalents	54 656	38 154	-	15 089	193 822	159 677
Other assets	563 933	396 159	-	1 503	247 522	400 424
Total assets	**2 848 226**	**2 477 480**	**-**	**77 586**	**1 931 220**	**1 982 933**
CAR ratio	4,0	4,3	N/A	1,8	2,3	2,6
Return on equity	13%	45%	N/A	(30%)	8%	10%
Total assets/total liabilities	106%	105%	N/A	149%	114%	113%
Change in shareholders's funds	29%		N/A		7%	

Note [1]: Saxum Reinsurance sold its license to GIC

REINSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-14	Dec-13	Dec-14	Dec-13	Dec-14	Dec-13
Group/Company	African Reinsurance Corporation (South Africa) Limited		Emeritus Reinsurance Company (SA) Limited		General Reinsurance Africa Limited	
Gross premiums written	2 146 143	1 879 305	13 185	5 870	2 116 230	2 025 601
Net premiums written	622 780	548 255	9 730	2 383	2 041 458	1 956 167
Earned premiums	**630 232**	**557 814**	**7 463**	**1 163**	**2 036 317**	**1 945 797**
Total net investment income	152 747	127 666	1 004	1 103	265 447	223 395
Reinsurance commission revenue	449 488	414 722	1 071	916	22 696	21 162
Other income	-	-	-	-	-	-
Total income	**1 232 467**	**1 100 202**	**9 538**	**3 182**	**2 324 460**	**2 190 354**
Policyholder benefits & entitlements	489 189	384 817	2 230	464	1 821 673	1 644 709
Acquisition expense	565 197	535 475	3 236	1 341	89 575	60 284
Management & other expenses	79 809	72 163	6 423	5 549	94 766	83 974
Total expenses	**1 134 195**	**992 455**	**11 889**	**7 354**	**2 006 014**	**1 788 967**
Net profit/(loss) before tax	**98 272**	**107 747**	**(2 351)**	**(4 172)**	**318 446**	**401 387**
Tax	21 668	24 221	-	-	80 401	163 633
Net profit/(loss) after tax	**76 604**	**83 526**	**(2 351)**	**(4 172)**	**238 045**	**237 754**
Other comprehensive income/(loss)	-	-	-	-	(4 182)	(93 960)
Total comprehensive income/(loss) for the year	**76 604**	**83 526**	**(2 351)**	**(4 172)**	**233 863**	**143 794**
Minority shareholders' interest	-	-	-	-	-	-
Transfer to/(from) contingency reserve	-	-	-	-	-	-
Transfer to/(from) retained earnings	-	-	-	-	-	-
Dividends	-	-	-	-	-	-
Change in retained earnings	**76 604**	**83 526**	**(2 351)**	**(4 172)**	**238 045**	**237 754**
Net premium to gross premium	29%	29%	74%	41%	96%	97%
Policyholder benefits & entitlements to earned premium	78%	69%	30%	40%	89%	85%
Management & other expenses to earned premium	13%	13%	86%	477%	5%	4%
Comments	Company		Company		Composite company	

REINSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-14	Dec-13	Dec-14	Dec-13	Dec-14	Dec-13
Group/Company	**Hannover Life Reassurance Africa Limited**		**Hannover Reinsurance Africa Limited**		**Munich Reinsurance Company of Africa Limited (Group)**	
Gross premiums written	2 137 612	2 161 496	3 078 265	2 664 478	5 633 727	4 936 257
Net premiums written	1 604 223	1 673 452	1 673 331	1 305 163	2 884 082	2 462 432
Earned premiums	**1 593 681**	**1 677 835**	**1 207 144**	**1 031 341**	**2 888 783**	**2 590 219**
Total net investment income	120 500	113 240	79 702	93 966	253 482	285 895
Reinsurance commission revenue	55 592	47 200	519 465	469 287	775 281	809 758
Other income	1 361	5 112	1 348	5 337	881	(784)
Total income	**1 771 134**	**1 843 387**	**1 807 659**	**1 599 931**	**3 918 427**	**3 685 088**
Policyholder benefits & entitlements	1 297 236	1 152 158	843 948	636 986	2 093 886	2 027 845
Acquisition expense	260 304	318 677	886 961	762 720	1 138 439	1 099 538
Management & other expenses	102 655	87 991	65 959	70 270	305 954	225 984
Total expenses	**1 660 195**	**1 558 826**	**1 796 868**	**1 469 976**	**3 538 279**	**3 353 367**
Net profit/(loss) before tax	**110 939**	**284 561**	**10 791**	**129 955**	**380 148**	**331 721**
Tax	32 318	81 251	(302)	33 532	79 330	24 575
Net profit/(loss) after tax	**78 621**	**203 310**	**11 093**	**96 423**	**300 818**	**307 146**
Other comprehensive income/(loss)	2 043	(38 902)	4 986	(61 966)	114 487	(38 711)
Total comprehensive income/(loss) for the year	**80 664**	**164 408**	**16 079**	**34 457**	**415 305**	**268 435**
Minority shareholders' interest	-	-	-	-	-	-
Transfer to/(from) contingency reserve	-	-	-	-	-	-
Transfer to/(from) retained earnings	-	-	-	-	(3 942)	37
Dividends	-	50 000	-	80 000	-	100 000
Change in retained earnings	**78 621**	**153 310**	**11 093**	**16 423**	**296 876**	**207 183**
Net premium to gross premium	75%	77%	54%	49%	51%	50%
Policyholder benefits & entitlements to earned premium	81%	69%	70%	62%	72%	78%
Management & other expenses to earned premium	6%	5%	5%	7%	11%	9%
Comments	Company		Company		Composite company	

REINSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-14	Dec-13	Note 1	Dec-13	Dec-14	Dec-13
Group/Company	RGA Reinsurance Company of South Africa Limited		Saxum Reinsurance Limited		Scor Africa Limited	
Gross premiums written	1 455 554	1 241 445	-	16 282	944 370	871 718
Net premiums written	463 639	418 484	-	10 502	378 345	343 979
Earned premiums	**466 913**	**400 536**	**-**	**10 502**	**363 845**	**372 380**
Total net investment income	94 988	95 386	-	(6 555)	19 621	25 916
Reinsurance commission revenue	148 362	21 796	-	669	154 084	146 080
Other income	75 992	61 412	-	-	7 343	834
Total income	**786 255**	**579 130**	**-**	**4 616**	**544 893**	**545 210**
Policyholder benefits & entitlements	417 815	363 076		(242)	224 136	231 983
Acquisition expense	183 621	38 703		320	252 856	247 948
Management & other expenses	157 561	116 185		12 228	42 914	32 359
Total expenses	**758 997**	**517 964**	**-**	**12 306**	**519 906**	**512 290**
Net profit/(loss) before tax	**27 258**	**61 166**	**-**	**(7 690)**	**24 987**	**32 920**
Tax	6 478	6 065	-	-	5 754	10 292
Net profit/(loss) after tax	**20 780**	**55 101**	**-**	**(7 690)**	**19 233**	**22 628**
Other comprehensive income/(loss)	12 483	(42 852)	-	-	(2 205)	(15 594)
Total comprehensive income/(loss) for the year	**33 263**	**12 249**	**-**	**(7 690)**	**17 028**	**7 034**
Minority shareholders' interest	-	-	-	-	-	-
Transfer to/(from) contingency reserve	-	-	-	-	-	-
Transfer to/(from) retained earnings	-	-	-	8 053	2 205	15 594
Dividends	-	-	-	-	-	-
Change in retained earnings	**20 780**	**55 101**	**-**	**363**	**19 233**	**22 628**
Net premium to gross premium	32%	34%	N/A	65%	40%	39%
Policyholder benefits & entitlements to earned premium	89%	91%	N/A	(2%)	62%	62%
Management & other expenses to earned premium	34%	29%	N/A	116%	12%	9%
Comments	Company		Company		Composite company	

Note [1]: Saxum Reinsurance sold its license to GIC

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Dave Matthews


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