KPMG

Business unusual

Financial Services
The South African Insurance Industry Survey 2016

July 2016

kpmg.co.za

Beyond the ordinary

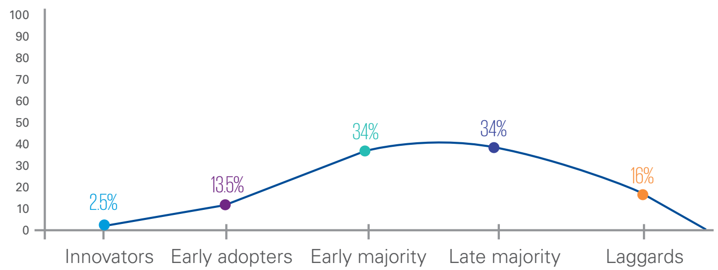
Video killed the radio star, sang the one-hit wonder band, The Buggles.

The song predicted and lamented how technology was changing everything and is often used to suggest a big shift underway in an industry[1]. We are all familiar with the diffusion of innovation model – but why are there only 2.5% innovators and 50% remain behind the curve? Typically there are four factors that amplify innovative disruption in a sector:

- a new entrant refocuses on customer needs to address an existing issue with a product or service;
- the new entrant usually uses a technology enabler to gain the advantage over the incumbent;
- the nature of the disruption was not foreseen and so regulations are absent or insufficient; and
- the availability of well-funded investors with an appetite for risk[2].

These are the four factors that must be considered, implemented and embraced if insurance players want to make a notable difference in a market, where innovation has not always been at the forefront, and the market is becoming more saturated. The landscape is changing and this must inspire to innovate and to conduct business unusual.

Diffusion of Innovation Model



Essential marketing models http://bit.ly/smartmodels

[1] http://www.702.co.za/features/110/business-unusual [2] http://www.702.co.za/features/110/business-unusual

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ALL FAILURE IS FAILURE
TO ADAPT, ALL SUCCESS
IS SUCCESSFUL ADAPTATION.

Max Mckeown

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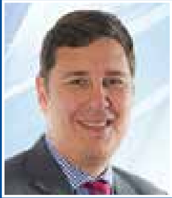

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Introduction
Insurance Survey 2016

It is with great pleasure and pride that the 2016 KPMG Insurance Survey is unveiled. In this edition, we were determined to match the spirit of innovation, which has been embraced by the local insurance industry during the year.

We have included 14 pieces of thought leadership that specifically focus on various aspects touching the industry. 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. Whether you are interested in business, regulatory, tax or accounting topics – we have it covered in this edition.

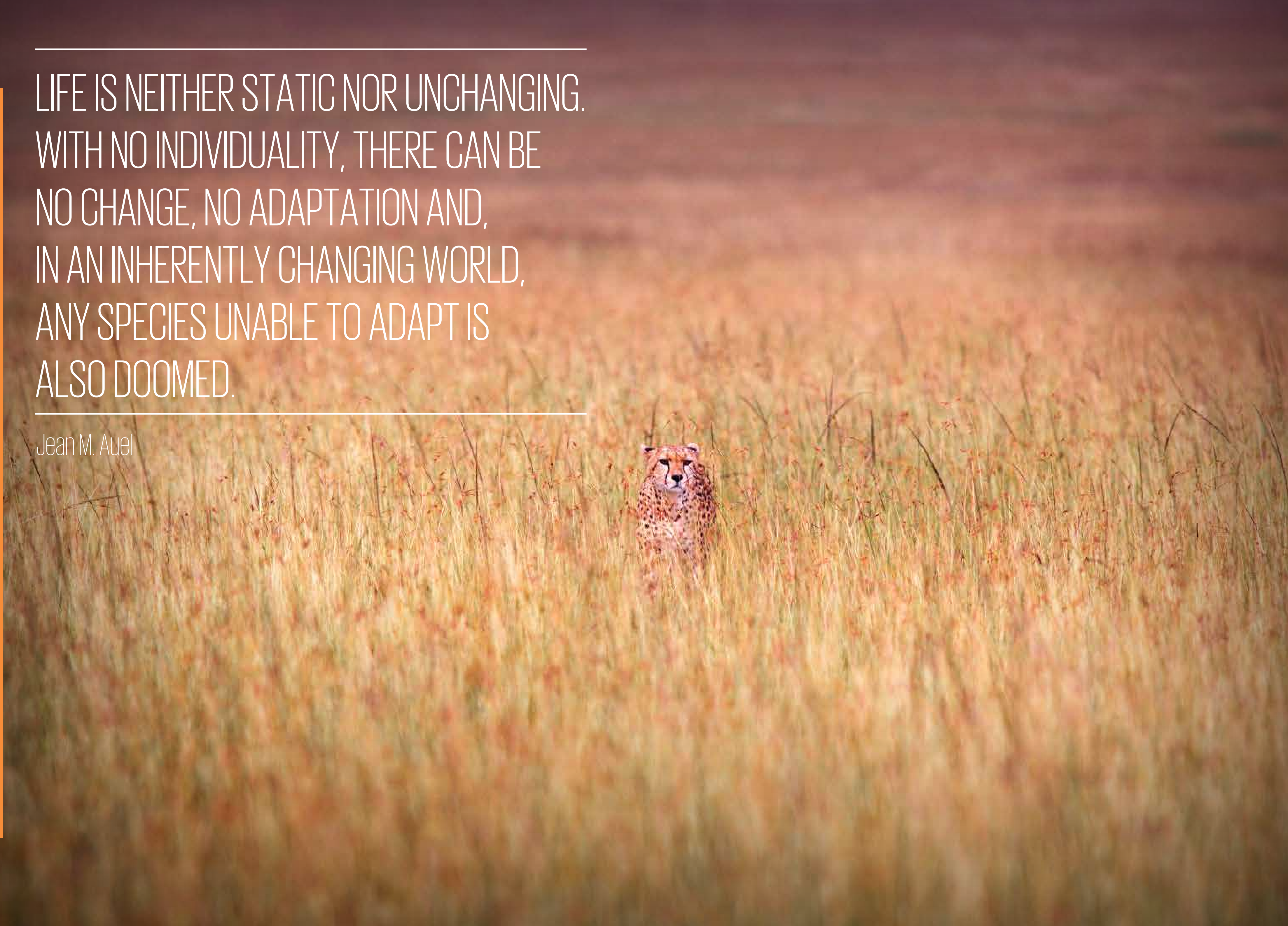
Our regulatory topics this year focus on aspects around SAM, RDR and the ORSA. We explore the benefits of SAM for the industry, we evaluate some global insights around the ORSA and we discuss the changing face of financial advice.

On the accounting side, we explore the impact of IFRS 4 Phase 2 by ways of a detailed example using the Premium Allocation Approach – try to read this article first thing in the morning with a strong cup of coffee. It is also time to face your IFRS 9 fears – our IFRS 9 article does an impact analysis for the insurance industry.

If blockchain is keeping you up at night, and you don't know where to spend your Bitcoins, we might have some answers for you. Have you ever considered while pacing up and down what actually happens to the information on your Fitbit and who has access to it? Then take a breather and enjoy the article on this topic.

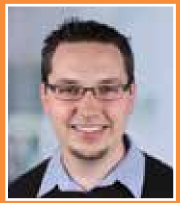
As always, we have included and analysed the financial results for the year gone by for the short-term insurance, long-term insurance and reinsurance industries.

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.



LIFE IS NEITHER STATIC NOR UNCHANGING. WITH NO INDIVIDUALITY, THERE CAN BE NO CHANGE, NO ADAPTATION AND, IN AN INHERENTLY CHANGING WORLD, ANY SPECIES UNABLE TO ADAPT IS ALSO DOOMED.

Jean M. Auel



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Sold on SAM: A message for the uninitiated

One of the pleasures of being an auditor and consultant is the exposure to a cross section of the insurance industry – from large personal lines and commercial specialists to small and niche players, we get to meet them all. One thing that has stood out from these interactions is the multitude of opinions regarding the necessity for Solvency Assessment Management (SAM).

Many industry players still see compliance with SAM as a tick-box exercise, and some as a waste of resources.

I will be honest - I am a big fan! Having grown up in the changing world of regulatory reporting, having experienced the transition from the arbitrary 10 percent capital requirement and seven percent short-term incurred but not reported (IBNR) provision, to risk-based capital and best estimates, I think we are operating in a better regulatory environment than ever before. Although some people have described SAM as "poppycock."[1] I would like to share my reasons for believing that, although SAM might not be Super, Amazing and Magnificent, it should be inspiring confidence in the insurance sector and empowering progressive change. In my view, SAM is beneficial to the policyholder, the shareholder, management, the board and the employee – it is obviously advantageous to us as the consultants, considering the costs associated with SAM implementation.[2]

For the investor: risky investments - made less risky

On 31 December 2015 the market capitalisation of the JSE listed insurance sector securities was R517.3 billion. The value of these investments is a function of the future cash flows - normally in the form of dividends - and the certainty of those future cash flows. By managing risk, SAM is immediately increasing the certainty of those future cash flows, translating to more value. Quite simply, SAM is making the South African insurance industry more valuable to the investor.

You might fear that all this emphasis on risk will result in a reduction of returns. In the classic adage, "higher risk is associated with a greater probability of a higher return."[3]

This is the function of the Own Risk and Solvency Assessment (ORSA), which should be examining the risk and return payoff in light of a predefined risk appetite. An insurer intentionally underwrites the right risk and manages, mitigates or avoids

[1] "Creating a blind bureaucracy to lead insurers over the edge" – www.timeslive.co.za
[2] By the way, according to the Economic Impact Study (EIS) the industry estimated SAM implementation would cost around R2.5 billion.
[3] www.economictimes.com

unwanted risk - such as catastrophe risk or poor credit risk.

Appropriate risk disclosure allows the investor to understand the type of risks their funds are exposed to, this allows for a more conscious allocation of resources within the market. Furthermore, appropriate measures of performance against a risk appetite will reveal to the investor whether their funds are being managed within the promised structures.

QIS 3 results indicated that 61 percent of the market risk in the balance sheet of non-life insurers arose from equity on their balance sheet (with market risk contributing about 46 percent of the basic solvency capital requirement). Assuming this was an individual insurer, the investor could now ask some meaningful questions:

- If I am investing in a short-term insurer, is it really to get equity exposure?
- Why is market risk such a significant component of my investments?
- Am I investing to get exposure to underwriting risk and the associated returns?
- Perhaps I am happy to let my non-life insurer be an asset manager, but do they have the correct credentials to perform this function?

This kind of detailed risk analysis is becoming mainstream under SAM. SAM should be fundamentally changing the way we expect insurers to present their results. Did that 41 percent catastrophe risk exposure produce an equal percentage of my return and, if not, why are we not offloading that risk to companies that specialise in managing those risks?

This is useful information, especially as many of these risks are things that can be managed. Such management can be achieved with reinsurance or, for market risk, other risk mitigation techniques such as derivatives.

For the foreign investor: not so foreign after all

With the looming risk of a credit rating downgrade for South Africa, attracting foreign direct investment is proving to be difficult. It would be even tougher if South Africa were lagging the international community in terms of insurance regulation. Similar risk-based capital regimes are being developed in most of our direct competitors in the international community – Brazil, Russia, India and China. The SAM framework aligns to best standards of international prudential regulation. Each working group has compared the topic of their team to the practices of the European Union and, in many cases, to the practices of the Canadian and Australian authorities, to name a few. Solvency II equivalence is on the cards and is essential to maintain foreign investor confidence in the sector.

For the investor: the economic impact

The economic impact study (EIS) performed by the Financial Services Board (FSB) regarding the implementation of SAM had the following to say about the economic impact: "… the study suggests that the implementation of SAM is likely to lead to better risk management at a direct cost that is small when seen in context of the size of the South African insurance industry. This additional cost to the insurance industry will lead to a neutral to slightly positive impact for the economy as a whole, while also contributing to a more sustainable and stable financial sector."[4]

IT IS NOT THE STRONGEST OF THE SPECIES THAT SURVIVE, NOR THE MOST INTELLIGENT, BUT THE ONE MOST RESPONSIVE TO CHANGE.

Charles Darwin

[4] Solvency assessment and management economic impact study from www.fsb.co.za

The estimated ongoing cost of SAM for the insurance industry is around R500 million per annum. This equates to less than 0.1 percent of the insurance sectors' annual revenue.[5]

For the policyholder: keeping promises

Despite the obvious benefits for the shareholder and investor in the South African insurance industry, these are merely an unintended consequence. From the outset, the intention of the Financial Services Board has been "the protection of policyholders and beneficiaries."[6]

The Economic Impact Study reported, "…the vast majority of respondents indicated a view that SAM will improve policyholder protection."[7] Some industry commentators have suggested that the robustness of the South African insurance industry is evidenced through the lack of market failures following the 2008 crisis. In my mind, this is akin to arguing that because my office did not burn down in the last fire – I do not need to use the latest fire protection. This view seems to ignore the numerous market failures experienced this century.[8]

The 2008 credit crisis has undoubtedly shaken the public's confidence in the financial sector as a whole. A significant portion of public opinion in South Africa is informed by the views of the Western media. Movements like Occupy Wall Street have highlighted this lack of faith and targeted the financial services industry as the cause of significant financial setbacks in the world. The existence of the lesser-known offshoot Occupy the SEC, which "works to ensure that financial regulators act in the public interest," shows that the opinion of many educated professionals is that regulators were not prioritising this. The Social Market Foundation paper, titled A confidence crisis: restoring trust in financial service,[9] supports this concern from a United Kingdom perspective. In Spain, there were specific protests about the barbarity of the financial sector. Whether one deems these credible or not, it is clear that amongst markets with vast social differences, there are concerns about the trustworthiness of the financial sector.

For the policyholder the requirements related to independence at the C-level, as well as the control functions, are key aspects that act in the public interest. Whether it be an independent challenge to gung-ho management, critical actuarial analysis of proposed schemes or assurance over processes – all these things act in the interest of policyholders.

Many of these practices were not widespread in the insurance industry before the release of *Board Notice 158: Governance and Risk Management Framework for Insurers*.

Insurance is a promise of compensation for specific potential future losses in exchange for payment. Much like for investors, a reduction in the risk associated with this promise increases the value of the promise. Effectively we all have real and contingent assets on our balance sheets related to the promises of life and non-life insurers. The changes in prudential regulation should go some way to restoring confidence in the promises of insurers.

For the director, manager and employee: inspiring confidence

Nobody likes a nasty surprise. However, a nasty but considered surprise is not so bad. That sinking feeling stops when you realise you have a plan in place to deal with it – catastrophe cover, professional indemnity cover, data backup tapes, letters of credit, guarantees, security. These all help directors, managers and employees sleep better at night.

A key aspect of SAM is the risk management system, which should comprise "…the totality of strategies, policies and procedures for identifying, assessing, monitoring, managing, and reporting of all reasonably foreseeable current and emerging material risks to which the insurer may be exposed."[10] Furthermore, this should be documented in clearly articulated policies. The operational effectiveness of these should be assured regularly by the mandatory internal audit function. The completeness of these should be assessed by the independent governance structures. Awareness of SAM throughout the organisation is required. Consequently, employees, management and directors should be reassured under SAM. By including emerging risks, this clearly forces the risk committee (and others) to consider what is not already encompassed, to try to anticipate the unexpected. With the level of comfort this provides, it is hard to believe that large public interest entities like insurers have not been doing this all along. According to the Economic Impact Study, "Survey responses clearly indicate that implementation of Pillar II requirements is seen as having the greatest benefit."[11]

Results analysis: best estimates and the 99.5 percent confidence level

Another positive development that SAM is bringing to financial reporting is the use of best estimates and capital to manage risk rather than prudent reserving.

It has become a standard practice in the South African insurance industry to include significant levels of prudence in the IFRS (published) accounts. In the long-term space, this includes the zeroisation of negative reserves as well as compulsory margins. In the short-term space, this has included claims reserves held at 75 percent sufficiency or even higher, as well as the inherent prudence in holding unearned premium reserves at one hundred percent sufficiency, instead of at a level which represents the best estimate of the future cash flows associated with that business. SAM is largely doing away with this excessive prudence as seen in the QIS 3 results. The available capital for the life industry under QIS 3 was 64 percent higher than on the existing regime. Furthermore, the available capital for the non-life industry was 54 percent higher.[12]

For anyone interested in the performance of an insurance company, the removal of this prudence allows for a cleaner understanding of the actual position and performance for the period as well as expected future cashflow.

[5] Solvency assessment and management economic impact study from www.fsb.co.za
[6] SAM road map
[7] Solvency assessment and management economic impact study from www.fsb.co.za
[8] Facing Facts: Things Can and Do Go Wrong – KPMG Insurance Industry Survey 2013
[9] www.smf.co.uk

[10] Part 4: BN158 of 2014: Governance and risk management framework for insurers from www.fsb.co.za
[11] Solvency assessment and management economic impact study from www.fsb.co.za
[12] SAM SA QIS 3 Report from www.fsb.co.za

The entire balance sheet is now presented on an economic basis, which attempts to present the true position of the company.

SAM still maintains risk margins but these are embedded in the economic balance sheet view and represent "… a part of technical provisions in order to ensure that the value of technical provisions is equivalent to the amount that insurers and reinsurers would be expected to require in order to take over and meet the insurance and reinsurance obligations."[13] These amounts are an economic margin not a prudence margin.

This is partially a result of the current IFRS 4: Insurance Contract standard, which is largely a disclosure standard and provides very limited guidance on the measurement of insurance technical items. The standard even allows "excessive prudence" to be included in the IFRS accounts.[14] This excessive prudence is included in many cases as an uncertainty margin. Where the current industry interpretation of IFRS has taken the view that it is better to include this uncertainty in the technical provisions, the SAM view includes an allowance for this prudence in capital. What is interesting is that once this uncertainty is allowed for, the free surplus is 25 percent and 41 percent lower for life and non-life on the SAM basis than the current basis. Admittedly, SAM's prudence is based on a one in two-hundred year event and is therefore at a much higher confidence level. Either way, the result is a SAM balance sheet, which is potentially a more realistic view of the company's position and performance for the period, in comparison to the current (prudent) IFRS result.

The risk of compliance

Despite my general optimism, I am not convinced that the various stakeholders discussed above are sufficiently educated with regards to SAM to exploit these benefits. Furthermore, treating SAM as a compliance exercise increases the risk that it will add no value. Hasty reporting to the board will not be useful and is likely to discourage further interest. Tick-box reporting to the shareholder will not promote meaningful shareholder engagement. Treating SAM as a low priority project for employees will encourage them to minimalise the effort they take to embed it properly in the organisation. Worst of all, treating risk management as a checklist is a sure way to waste money and expose the organisation to threat.

Conclusion

As I said at the outset – I am a big fan of SAM. I think the benefits for the industry far outweigh the cost. Personally, I am happy to take a less than 0.1 percent increase in my premium to claim associated benefits such as increased confidence in the industry, enhanced reporting as well as vastly improved governance and risk management. For all insurers that continue to treat SAM as a compliance exercise this will remain the case.

[13] TP 28.2 QIS 3 Technical Specifications
[14] IFRS 4: Insurance Contracts, paragraph 26.

TO GIVE REAL SERVICE, YOU MUST ADD SOMETHING WHICH CANNOT BE BOUGHT OR MEASURED WITH MONEY, AND THAT IS SINCERITY AND INTEGRITY.

Douglas Adams

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ORSA requirements and global insights

The Own Risk and Solvency Assessment (ORSA) is defined as "the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the short and long term risks an insurance undertaking faces or may face and to determine the own funds necessary to ensure that an insurer's (and group's) overall solvency needs are met at all times and are sufficient to achieve its business strategy." It is therefore an internal process undertaken by an insurer (group) to assess the adequacy of its own risk management practices as well as current and prospective solvency positions. This needs to be done under both normal and severe stress scenarios.

ORSA is a key component of Solvency Assessment and Management (SAM): a risk-based regulatory regime for the prudential regulation of long-term and short-term insurers and reinsurers in South Africa. By 31 August 2015, South African (re)insurance companies were required to submit a 2015 mock ORSA report to the Financial Services Board (FSB). Insurance companies (groups) will again be required to submit an ORSA report by latest 30 September 2016 (or 30 November 2016, if approval is granted).

> "The structure of the report is, important, not least as a means of ensuring that the analytical framework is clear. Good reports include a clear summary; highlight the main messages and issues; are not too long; and clearly sign-post supporting documentation."
> Letter from the Prudential Regulatory Authority (the UK Regulator) to the industry dated June 2015

Governance of the ORSA

Position Paper (PP) 34 v5 states that:

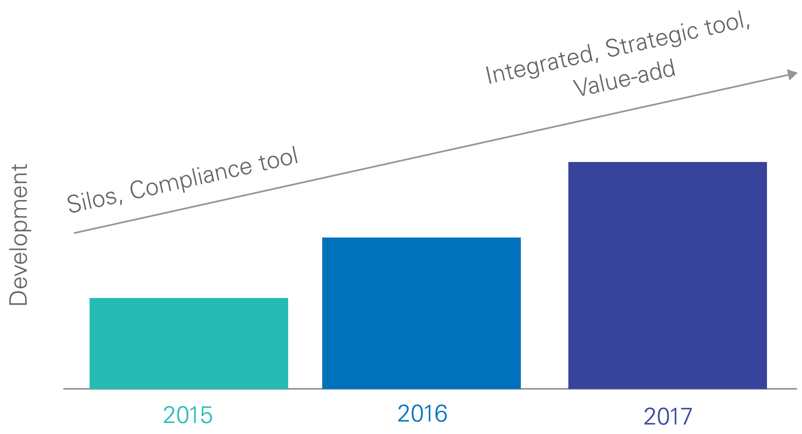
- "The ultimate accountability of the ORSA resides with the Board who should approve the ORSA." When evaluating the ORSA, The Board and Senior Management should:
    - assess the adequacy of the current and future solvency position;
    - ensure that the ORSA is embedded in the business and decision-making processes; and
    - ensure that the ORSA assumptions, inputs and calculations are accurate and complete, through direct review, challenge and reliance on the governance process.
- The ORSA should be appropriately evidenced and documented.
- The ORSA document should be subject to an independent assessment either internally (e.g. Internal Audit) or externally and carried out by persons different to those performing the ORSA.

ORSA requirements 2015, 2016 and 2017

The full set of ORSA requirements and guidelines are set out in Position Paper (PP) 107 v6. Compliance with the full set of ORSA principles and guidelines will be required when the SAM framework is implemented. This is currently scheduled for 1 January 2017.

Insurers were encouraged to make progress with a subset of these requirements in 2015, and are urged to continue to progress towards full compliance with the additional requirements in 2016. Further requirements for the 'Updated Mock ORSA' were released on 31 March 2016. While not unexpected, the requirements are significant in terms of the time and effort involved. The bar expected by the FSB is a lot higher than last year and will again be set higher next year as highlighted in the diagram to the right.

Progress of ORSA Requirements



Submission date for first mock ORSA: 31 August 2015	Submission date for updated mock ORSA: 30 September 2016	Full ORSA compliance implementation date: 1 January 2017
The aims of this ORSA are: Compliance to most of the 22 Guidelines (PP 107 v6); • Design and implement underlying processes and produce documentation to comply with the applicable requirements; and • To complete the first full ORSA cycle and use the lessons learnt to improve future cycles.	The following are additional requirements for the Mock ORSA 2016*: • Document conclusions and rationale; • MI (Management Information), Use and Embedding; • Deviations in risk profile versus the SCR calculation; and • Requirement for a Group ORSA.	Compliance with all relevant Guidelines (PP 107 v6) will be required. Additional requirements for 2017 cover these areas*: • Board challenging and signing off on assumptions and methodology; • Out of cycle ORSAs; and • Independent reviews. If insurers do not yet comply, the amount of work still to be completed is significant and complex.

*Refer to the next page for the detailed updates.

2016 Updated mock ORSA requirements

Most of the additional requirements for the 2016 ORSA cycle are onerous and will necessitate a significant amount of consideration and planning to deliver:

- **Paragraph 1.34g** states that the ORSA report should document "details on the conclusions and the rationale for them from the assessment of the continuous compliance with the requirements of regulatory capital and technical provisions."
  - KPMG view: Insurers should understand what this entails and how close their 2015 ORSA was to enable this, what conclusions were made and what additional work is required for 2016.
- **Paragraphs 1.35 to 1.38** cover Management Information (MI), embedding the ORSA into business decisions and demonstration of the Use Test.
  - KPMG view: Insurers should have already designed ORSA MI, or have done so by the end of Q2 2016 at the latest, to allow delivery and implementation into MI cycles from Q3 2016.
- **Paragraph 1.38** further states "…. If the insurer (group) considers that the internal reports have appropriate levels of details also for supervisory purposes then the same reports may be submitted to the supervisor."
  - KPMG view: In an end state this will be a best practice approach where effective risk management and business decision-making is the primary objective and compliance with regulatory requirements an outcome.
- **Paragraphs 1.73 to 1.83** require that insurers assess deviations from its risk profiles and the assumptions underlying the SCR calculation on a qualitative basis and quantify the significance of deviations. Many companies have adopted the Standard Formula as their ORSA capital basis.
  - KPMG view: Regardless of the basis chosen (SCR or own Economic Capital basis), the exercise to meet compliance with these requirements or to demonstrate the appropriateness of the chosen basis is a technical exercise and will require a large amount of work from technical experts. This needs to be thoroughly understood and planned for.
- **Guideline 16:** Where only solo entities produced an ORSA for 2015, for 2016 a Group ORSA is also required for groups. If the approach chosen was to only submit a group-wide ORSA, for 2016 groups can still assume that they have a dispensation to only produce a group-wide ORSA for regulatory compliance purposes.
  - KPMG view: If insurers chose to produce a group-wide ORSA only, they will need to ensure that the report also covers all requirements for solo reporting and have a back-up plan in the event that they do not get dispensation for 2017. In addition, local entity management should ensure that their ORSA reporting is adequate to meet effective risk management and business decision making regardless of the approach chosen.
- **Paragraph 1.106** is a requirement for the 2016 mock ORSA and is relevant to internal model users and so is not applicable to most SA insurers.

2017 ORSA requirements

Additional requirements for 2017 cover areas such as Board challenging and signing off on assumptions and methodology, out of cycle ORSAs and independent reviews. The full list of additional requirements is set out below:

- **Paragraph 1.27 and 1.28:** Board and senior management are expected to:
  - challenge the assumptions behind the calculation of the SCR to ensure they are appropriate with regards to the insurer's risks; and
  - use the insights gained from the ORSA process to approve long and short term capital planning.
- **Paragraph 1.33:** independent assessment should include an assessment of the ORSA process and whether the ORSA policy has been complied with.
- **Paragraph 1.34 h) and m):** the ORSA report should document the following respectively:
  - Deviations between the insurer's risk profile and the SCR assumptions as well as how the insurer has reacted or will react to significant deviations.
  - The findings of the independent review of the ORSA, together with the Board and Senior Management's responses to these findings.
- **Paragraph 1.54:** an insurer is expected to demonstrate the appropriateness of the standard formula for the risks inherent in its business and its risk profile.
- **Paragraph 1.55:** submitted and approved SCR undertaking-specific parameters have to be the same as those used in the overall solvency needs assessment.
- **Guideline 10:** the assessment of continuous compliance with the regulatory capital requirements should include, at least, an assessment of potential future changes in the risk profile under stressed situations; the quantity and quality of its own funds as well as the composition and changes of own funds across tiers over the business planning period.
- **Guideline 11:** the actuarial function should provide input concerning the continuous compliance with requirements on the calculation of technical provisions and the risks arising from this calculation.
- **Guideline 14:** the insurer should perform the ORSA at least annually and should perform a non-regular ORSA if the risk profile changes significantly. The insurer should justify the adequacy of the frequency of the assessment and demonstrate that the ORSA is embedded in the business and used in strategic decisions.

South Africa benchmarking

For many insurers, the 2015 mock ORSA cycle would have been the first or second cycle. For the largest insurance groups in South Africa, 2015 was the third or fourth iteration of the ORSA. Our view is that most of the largest groups already have well developed ORSAs. However, on average the industry's ORSAs are still being developed.

KPMG in South Africa has analysed over 15 mock ORSA reports in the market, covering both life and non-life insurance entities and groups of various size and complexity. Though this represents only a small portion of the insurance market in South Africa, we believe that it is across a representative sample of the South African market and therefore the conclusions drawn should be reasonably representative of the industry on average.

Category	Considerations
Risk management system	We considered the robustness of the risk management process and how it is linked to the ORSA together with the roles and responsibilities of the Board and Senior Management.
Link to business plan / strategy*	We explored how well the ORSA process was integrated with the business planning and strategy setting processes.
Risk appetite and risk tolerance	We examined the spectrum of risk appetite and risk tolerance statements and how these interlinked.
Material risk assessment (qualitative and quantitative)	We analysed the spectrum of risks, both qualitative and quantitative, which insurers (groups) consider to be material to the business.
Assessment of solvency (solvency needs and capital projections)	We looked at how and over what time horizon insurers (groups) assessed own solvency position and needs together with which metrics were being used.
Stress testing and scenario analysis	We examined the type of stress and scenario tests performed by insurers and the robustness of underlying assumptions and knock-on effects.
Use in decision making*	Where available, we considered how the ORSA output was used in business decisions.
Out-of-cycle ORSA*	Where available, we explored which common triggers would initiate an out of cycle ORSA and how well defined these triggers were.
Documentation	We explored the overall quality of the ORSA reports and identified good practices.
Group-wide coverage	Where applicable, we considered the extent of coverage of both regulated and non-regulated entities within the group, the emergence of risk from these entities and how the solvency needs were aggregated at group level.

*Not a requirement for the 2015 mock ORSA.

2015 Mock ORSA reports - KPMG South Africa assessment results

	Lagging	Developing	Good	Leading
Risk management system		●		
Link to business plan / strategy *	●			
Risk appetite and risk tolerance		●		
Material risk assessment (qualitative and quantitative)		●		
Assessment of solvency (solvency needs and capital projections)		●		
Stress testing and scenario analysis		●		
Use in decision making	●			
Out-of-cycle ORSA*	●			
Documentation		●		
Group-wide coverage	●			

Where we expect the top insurers to be positioned

● Average rating of the South African industry for the first mock ORSA

The following rating scale is used:

Lagging	Developing	Good	Leading
Compliance focus/led	Moving toward value add	Value add	Leading edge sophistication

Benchmarking results

Overall, our view is that on average South African companies are **LAGGING** in the areas of:

- linking the ORSA to the business plan and strategy;
- using ORSA in decision-making;
- out-of-cycle ORSA; and
- group-wide coverage.

In most areas the ORSAs are on average **DEVELOPING** which is expected as the 2015 cycle represents first or early iterations. There is still a significant amount of work to be carried out by all firms. This is consistent with observations in other countries - UK and Canada - in early ORSA cycles. On average, material risk assessment is an area where companies are moving from **DEVELOPING** to **GOOD.**

> EXCELLENT FIRMS DON'T BELIEVE IN EXCELLENCE - ONLY IN CONSTANT IMPROVEMENT AND CONSTANT CHANGE.
>
> Tom Peters

Below, we outline some of the leading and lagging practices observed:

Observed leading practices from KPMG benchmarking	Observed lagging practices from KPMG benchmarking
ORSA is an integral part of business strategy and planning.	ORSA process is clearly disjoint from strategy setting and the business planning process.
Risk appetite and tolerance statements are expressed in terms of at least both Capital and Earnings Volatility and these are cascaded down to relevant sub-risks. Some attempt is made to set tolerance levels for material qualitative risks.	Risk appetite and risk tolerance limits only cover capital targets set only at company level with the solvency target not being justified in terms of the risk profile. Some still measure the target in terms of current statutory capital measures.
Material risk assessments cover both quantitative risks not included in the standard formula - such as liquidity risk - as well as qualitative assessments with a clear description of control measures in place for each material risk identified.	Material risk assessment is limited to quantitative risks covered by the standard formula.
Stress and scenario tests are well articulated and cover the business planning projection period. Better ORSAs also consider knock-on effects in addition to the stress/scenario test.	Stress and scenario testing is limited to a historic point in time - usually the chosen valuation date. No consideration is given to reverse stress testing.
ORSA projections are evidenced in business decisions, for example in the dividend setting strategy. ORSA results are used in an assessment of future capital needs and as an input to capital planning.	There is no evidence of the ORSA being used in decision-making, which is to be expected where the mock ORSA was the result of the first ORSA cycle.
Clear articulation of when an out-of-cycle ORSA would be required.	The need for and possible circumstances for performing an out-of-cycle ORSA is not covered in the ORSA report.
Included an executive summary which covered business planning, strategy setting and key results of the ORSA assessments.	The process for identification, assessment, and prioritisation as well as monitoring and reporting of risks is theoretically described, sometime as a future state.
The risk management system and how the ORSA process fits in the overall ERM framework is summarised. Roles and responsibilities for the various steps in the process are clearly outlined.	Documentation is either not clear, accurate or complete. Conclusions reached are not justified and can therefore not be challenged at Board level.
	Group-wide coverage does not focus appropriately on risks emerging from group exposures. ORSAs generally do not sufficiently consider risks associated with non-regulated entities.

While some of the leading practices across themes are highlighted, it is important to note that no single company was a leader across all the assessment criteria, likewise, no single company was lagging across all the assessment criteria.

Feedback from the Regulators

SAM is principles based, so a firm needs to consider how to meet compliance in a way that best works for the firm to achieve business value. Our view is that for most companies, the focus of the first mock ORSA report was to design and implement underlying processes and produce documentation to comply with the applicable requirements. They should be used as a lessons learnt cycle by individual companies to improve future cycles. Particular attention should be given with respect to ensuring ownership, engagement and challenge from Senior Management and the Board so that they clearly understand and can affect their obligations once SAM is live.

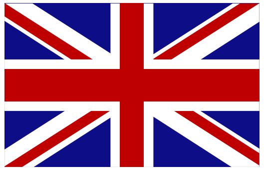
"We expect Non-Executive Directors to pose tough questions to executive management, based on robust MI that explains what is really happening to the business; to the firm's risk profile; to its underwriting and reserving controls; its capital requirement and what, if any, innovation the firm is taking in reinsurance or new product propositions."
Chris Moulder*

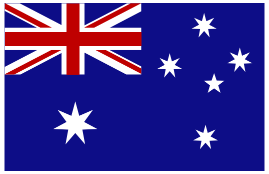
The FSB has provided high level verbal feedback to some firms and is expected to provide high level individual written feedback in due course. No overall industry feedback on quality has been provided to date. We expect that the FSB's views on ORSA will continue to evolve as the industry ORSAs improve. So it can be expected that the bar will rise each year as ORSAs improve. What may have been sufficient one year may not be adequate the next. Constant assessment, feedback and improvement loops are required.

Feedback from Regulators in other countries can provide useful guidance to South African companies, here follows a summary of some recurring themes.

*Quotes taken from "Current regulatory issues and PRA expectations in current market conditions" – speech by Chris Moulder on 04 April 2016.

Feedback from UK, Canada and Australia

<table>
<tr><th>Country</th><th>Feedback from regulators</th></tr>
<tr><td>UK

Feedback provided by the Prudential Regulation Authority (PRA) in June 2015.</td><td>– Have a good ORSA report with a good structure:
include a clear summary;
highlight the main messages and issues;
not too long; and
clearly sign-post supporting documentation.
– Provide sufficient evidence of appropriate stress and scenario testing.
– Include more detailed post Solvency II numbers and analysis in forward looking assessments.
Other important points:
ORSA policy separate from ORSA report.
Evidence Board involvement, sign-off and embedding.
Consider all material risks appropriately.
Group ORSAs must cover each entity in sufficient detail.
Evidence continued adequacy of the Internal Model.
Demonstrate appropriateness of standard formula for the business's risk profile.</td></tr>
</table>

<table>
<tr><th>Country</th><th>Feedback from regulators</th></tr>
<tr><td>Australia

Feedback provided by the Australian Prudential Regulation Authority (APRA) in March 2013.</td><td>– The report should be sufficiently complete on a standalone basis, with minimum reference to other documents.
– Clearly describe the nature of independent review including purpose, components to be reviewed, planned timing and roles and responsibilities.
– Clearer risk coverage and description including how group-wide policies are tailored for application to individual institutions.
– Provide more detail on capital projections and/or development of projections and assumptions, including:
Reasons for the chosen capital mix and triggers for review of capital mix.
Details of capital sources, including availability and fungibility (a measure of how easy it is to transfer capital between different legal entities within the group).
– Stress testing should include wider scenarios, reverse stress testing and more Board involvement.</td></tr>
</table>

Country	Feedback from regulators
Canada  Feedback provided by the Federal Office of the Superintendent of Financial Institutions (OSFI) in August 2015.	– Establish a robust target Leverage Ratio and risk-based capital targets as part of the capital planning process. – Include a timeline or an explanation should the institution's Board-approved capital target be lower than the International Capital Adequacy Assessment Process (ICAAP) capital requirement. – Prudent capital management must take into account different capital measures. – If risk capital allows for tax benefits, the full impact on available capital must be included under stress scenarios. – The quality of ORSA reports are expected to improve over time, specifically in qualitative assessment and risk quantification.

Concluding remarks

There is still a significant amount of work to be executed by all firms on their journeys to fully meet ORSA requirements and enabling derivation of value from the ORSA process and its outcomes.

The FSB requires that all insurers must have their ORSA reports independently reviewed. It is good practice to get it done in the early cycles and care must be taken when deciding who will perform the independent review. Currently, most firms use their Internal Audit function to perform the reviews, but the reviews can be performed by external parties. The benefit of choosing an external reviewer may mean that companies are able to draw on a broader knowledge base and better understand the ORSA best practice in the industry. This is particularly important as focus changes from a compliance exercise to a strategic value add to the business.

"A new, dynamic risk management 'centre piece', designed to capture key risk and solvency considerations - I refer, of course, to the ORSA. And these are just some of the myriad developments the industry has had to embrace" Chris Moulder*

*Quotes taken from "Current regulatory issues and PRA expectations in current market conditions" – speech by Chris Moulder on 04 April 2016.

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South Africa's weak economy and its impact on the insurance industry

"South Africa's economy is characterised by slowing growth, stubborn inflation and macroeconomic imbalances," commented the South African Reserve Bank (SARB) in its Monetary Policy Review (MPR), released during April 2016. The central bank attributed the situation to three relatively persistent problems, namely:

- High levels of household debt;

- Electricity supply constraints; and

- An unfavourable global economic environment.

Added to these issues are several short-lived shocks, e.g. strikes and the current drought.

The moribund economy will grow by less than 1 percent this year, the worst performance since the 2009 recession. South Africa was until recently known as the continent's second-largest economy, but data released by the International Monetary Fund (IMF) in mid-April suggests that it is now placed third behind Egypt when considering the international standard of gross domestic product (GDP) in US Dollar terms. Fortunately, fourth-placed Algeria and fifth-placed Morocco are still far behind.

Economists prefer to look at an economy from the perspective of five factors: household spending, investment, government expenditure, exports and imports - GDP data is calculated by quantifying these factors. When considering low consumer confidence, weak business confidence, a tightening of the fiscal purse and a heated political environment, low international commodity prices, and the adverse effect of a weak Rand on the import bill, it is not surprising that the South African economy is stuck in a rut.

The First National Bank (FNB)/Bureau for Economic Research (BER) Consumer Confidence Index recorded a fifth consecutive quarter of negative consumer sentiment during Q1 2016. It was also the 13th out of the last 16 quarters that

IF YOU'RE NOT WILLING TO RISK THE UNUSUAL, YOU WILL HAVE TO SETTLE FOR THE ORDINARY.

Jim Rohn

the index was below a reading of zero, pointing to more consumers being negative than positive about their financial and economic positions over the past four years. This negative sentiment is also reflected in quarterly business confidence data and actual **household spending data.**

The reasons behind weak consumer sentiment includes high levels of household debt (+/- 78 percent of disposable income), persistently high unemployment rates (approximating 25 percent), rising consumer price inflation and an associated increase in interest rates, as well as a downbeat perspective of the country's economy and politics heading towards 2017. These factors are forcing consumers to curb their expenditure on non-essential goods and to take on a conservative approach to their finances in general. Real household expenditure growth is expected to slow from 1.6 percent in 2015 to just 0.5 percent during 2016.

The United Nations' Conference on Trade and Development (UNCTAD) recorded a near 69 percent drop in South Africa's net foreign direct **investment** (FDI) during 2015 compared to a decline of around 30 percent for the continent as a whole. One of the factors behind this slump is a number of new or proposed legislative changes that, analysts say, are weighing on foreign investors' confidence in the safety of their investments. These include the Promotion and Protection of Investment Bill that necessitated the cancellation of several bilateral investment treaties to be signed into law early in 2016.

Business investment - both local and abroad - has since late 2015 been hit by a myriad of other challenges. These include an unexpected double change in the Finance Minister post, deteriorating sovereign credit ratings, stuttering economic growth, a slump in the Rand to its weakest level on record, as well as political issues diverting government focus from policymaking and implementation (a lack of electricity load shedding was a rare positive point).

With this in mind, gross fixed capital formation is projected to contract by more than 1 percent this year, which will undo most of the 1.4 percent expansion recorded during 2015.

The Medium-Term Budget Policy Statement (MTBPS) and Budget Speech delivered in October 2015 and February 2016 respectively, jolted **government expenditure** into a more austere direction. State finances have already been under pressure since the global financial crisis, with fiscal deficits - and an accompanied accumulation in public debt - used to help stimulate the local economy. Combined with political issues and a weak economy, this has contributed towards the South African sovereign credit rating nearing a downgrade to non-investment grade.

Finance Minister Pravin Gordhan indicated that the 2016/17 budget is "focused on fiscal consolidation." He warned that the government "cannot spend money we do not have," and "cannot borrow beyond our ability to repay. Until we can ignite growth and generate more revenue, we have to be tough on ourselves." As a result, real government consumption expenditure will grow by less than 1.5 percent during the current (2016/17) fiscal year – i.e. below the 2010-15 average of 2.3 percent.

South Africa's **export revenues** are under pressure from weakness in global commodity prices. The Economist's commodity price index reflects a more than 15 percent decline in US dollar metal prices in the year ended April 2016. The Rand depreciated by a similar margin over the same period, resulting in no real boost to exporters' earnings from the weaker currency.

At the same time, export-oriented miners and manufacturers' production costs continue to rise as wage and power tariff increases show no sign of slowing. A key factor in South Africa's export success during 2016 will be the health of the Chinese economy.

The premier buyer of goods shipped from South Africa, and a key influence on commodity prices worldwide, the world's second-largest economy is this year expected to post its slowest rate of economic growth in 25 years. As a result, the real value of South Africa's exports will grow by only around 3 percent during 2016 compared to a 2010-15 average of 4.7 percent per annum.

The country's demand for **imports** has ebbed alongside a slowdown in economic growth and weakness in the Rand inflating purchasing prices from abroad. The latter has undone the potential benefit to local consumers of weaker global commodity prices. The real value of imports is expected to expand by 3 percent this year, thereby eroding all of the potential benefit that real exports could have generated in terms of GDP. Were it not for the large amount of grains that will have to be imported this year as a result of drought conditions, import growth could have been smaller.

Taking into account the outlook for household spending, investment, government expenditure, exports and imports during 2016, it is unlikely that South Africa will see any significant employment growth this year. Real disposable income will grow marginally at best and at a rate significantly below an average of 2.7 percent per annum seen during 2010-15. This is setting off alarm bells for the local insurance industry.

The following paragraphs identify eight areas where a weak economy could negatively affect insurance companies.

Investment income: Insurance companies make a significant portion of their income from investment revenues. During an economic downturn as currently seen in South Africa, the returns on, for example, shares listed on the stock exchange are below the long-term trend. While equities do not directly mirror economy dynamics, many – like the Johannesburg Stock Exchange (JSE) – are very reliant on the health of a few core industries for their performance. In a weak commodity price environment, the fate of under pressure mining companies remains integral to return on investment on the JSE.

Exchange rate shocks: Currency volatility associated with low economic growth could affect some insurers depending on where their risk exposure and capital base is situated. For instance, if risk exposure is domestic and (revenue generating) capital is located largely offshore, shocks to the exchange rate could have a real and significant impact on investment revenues. Also from an offshore perspective, weak confidence in a country's economy could divert foreign financiers' attention away from local companies, including insurers who might be in need of cash or alternate financing.

Weaker demand: Cash-strapped households and businesses have a weaker ability to fund insurance premiums and therefore display a reduced demand for this non-essential product. In turn, insurers will have to work harder - at a lower rate of profit - to retain existing customers and secure new clients. On a positive note, an increase in price competition could make it a bit easier (i.e. cheaper) for households and businesses to afford insurance. The net effect of this supply-and-demand dynamic will however take some time to play out. For insurers, this could imply changes to some of their business models and ownership structures to cope with a weak economy.

Operating costs: An insurance company is an employer and consumer of goods and services just like any other enterprise would be. In South Africa's current context, this implies increases in the cost of labour and electricity above the consumer price inflation rate, while company revenues might not grow at the same pace. The structure of South Africa's labour market and utilities industry does not leave much room to manoeuvre for private companies on the cost of workers and energy, resulting in operating budgets being strained by stagflation – high inflation and low growth.

External service providers: Insurers are dependent on external service providers as part of their package of services. For example, vehicle repair shops, private hospitals, and construction companies are all part of the

insurance cycle once customers claim on their risk cover. These companies are also vulnerable to cost increases associated with labour and utilities, amongst other inputs. In the case of hospitals, the vast majority of specialised medical equipment is imported from abroad – at significantly higher cost compared to a year ago due to the weak Rand.

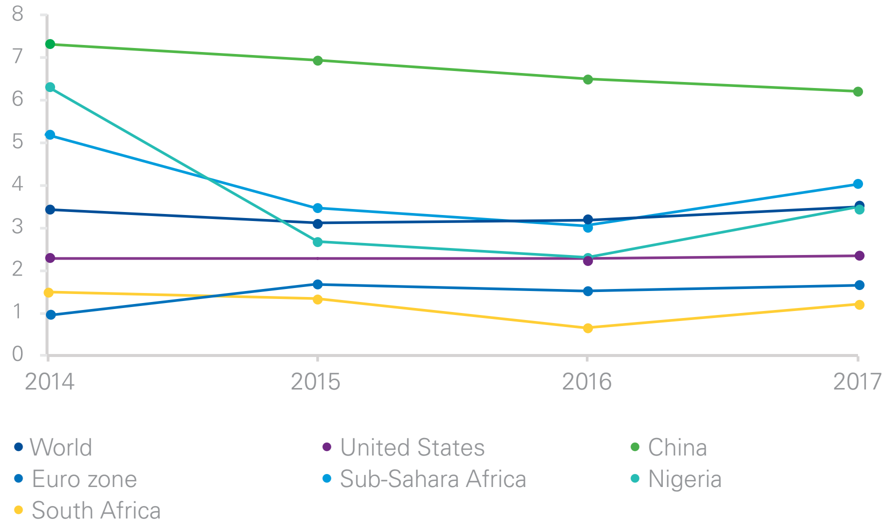
Weather-induced economic weakness: A weak economy could result from a phenomenon that in itself could put pressure on the insurance industry. In the case of South Africa during 2016, the country's worst drought in decades is playing a role in the overall economic malaise. However, it is also a point of great concern for insurers due to the failure of crops and some farms in their entirety. Other adverse natural phenomena – e.g. hurricanes, tornados and earthquakes – would shake an economy as a whole and its insurance sector in particular.

Social unrest: Strain on fiscal finances as a result of the weak economy could translate into increased unrest in low-income areas where residents are highly dependent on the delivery of public services (e.g. schools and hospitals) for their existence. This, in turn, could translate into protest action, which in the case of South Africa is too often accompanied by damage to private and public property. Escalation into open conflict between citizens and security forces would deepen this damage and associated insurance claims to repair after the fact.

Changes in regulation: Economic crises could also result in increased legislative and regulatory burdens for insurers in order for lawmakers to protect the electorate. South Africa's Insurance Bill of 2015 has its origins in the global financial crisis of 2008-09 that laid bare many of the shortcomings in global financial regulation. As part of a pact by the Group of 20 (G20) countries to improve the insurance industry's legal framework, South Africa is responding with the Insurance Bill of 2015 to the need to align its insurance regulations to international standards.

A further challenge posed by South Africa's current situation is the expectation that at least one of the three major rating agencies will downgrade the country to non-investment grade (generally known as 'junk status') over the coming 12 months. Downward pressure on a sovereign rating also places downward pressure on corporate credit ratings. Insurers (and financial companies in general) are vulnerable to weaker corporate and sovereign ratings when they look to international markets for funding. Borrowing costs – ranging from interest rates charged by merchant banks to debt servicing costs on bonds – are influenced by these ratings.

Real economic growth (%)



	2014	2015	2016	2017
World	3,4	3,1	3,2	3,5
Sub-Saharan Africa	5,1	3,4	3,0	4,0
United States	2,4	2,4	2,4	2,5
Euro zone	0,9	1,6	1,5	1,6
Nigeria	6,3	2,7	2,3	3,5
South Africa	1,5	1,3	0,6	1,2
China	7,3	6,9	6,5	6,2

Source: IMF World Economic Outlook (WEO) April 2016
http://www.imf.org/external/pubs/ft/weo/2016/01/pdf/text.pdf

KPMG

Preparing for the future

The much anticipated Insurance Contracts Standard (IFRS 4 phase II) is expected to be issued in 2016, with an expected effective date after 2019. Although the effective date may seem far in the future, insurers should start getting ready to apply the new proposed measurement model.

KPMG can guide insurers on their IFRS 4 phase II journey, to ensure a smooth transition to the new Standard. Service offerings include training on the requirements of IFRS 4 phase II; gap analysis between the current IFRS 4 requirements and the requirements of the forthcoming Insurance Standard; and guidance on the development of a project and implementation plan.

All service offerings can be tailored for each insurer's business and products.

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Is Tax Risk Management important

Businesses have not always given Tax Risk Management the attention it merits. There have been a number of developments, both locally and internationally, that resulted in Tax Risk Management gaining momentum insofar as importance is concerned.

The profile of tax

The profile of tax has become much more visible not only from an investor and board perspective but also from a tax authority and public perspective. This is even more prevalent in South Africa where we have seen a declining economy and increased revenue collection targets. There are a significant number of taxes that companies are exposed to and the tax values are enormous. In some cases the tax bill (including direct taxes, indirect taxes and employees taxes) that an organisation should manage could be as much as 40% to 50% of the organisation's turnover. This makes the reason for the heightened interest in Tax Risk Management more apparent.

Tax transparency

Tax has acquired moral, ethical and social dimensions that are seldom discussed or considered. In particular, there has been a growing demand by external stakeholders for greater tax transparency on all levels including the taxes paid and the way in which taxes are managed within an organisation. Stakeholders want to know "what is an organisation's tax contribution?" and "what is the organisation giving back to the country and community in which it operates?". Tax transparency has been receiving a lot more airtime in South Africa. In the 2016 Budget Speech, Minister of Finance Pravin Gordhan stated that:

> "With effect from 2017, international agreements on information sharing will enable tax authorities to act more effectively against illicit flows and abusive practices by multinational corporations and wealthy individuals."

Globally tax transparency has been receiving a lot of attention. The OECD Base Erosion and Profit Shifting Project states in Action13:

"The Base Erosion and Profit Shifting (BEPS) Action Plan adopted by the Organisation for Economic Cooperation and Development (OECD) and Group of Twenty (G20) countries in 2013 recognised that enhancing transparency for tax administrations by providing them with adequate information to assess high-level transfer pricing and other BEPS-related risks is a crucial aspect for tackling the BEPS problem. Against that background, the September 2014 Report on Action 13 (the "September 2014 Report") provides a template for Multinational Enterprises (MNEs) to report annually and for each tax jurisdiction in which they do business the information set out therein. This report is called the Country-by-Country (CbC) Report."

Apart from the OECD actions to improve tax transparency, governments are looking at introducing legislation to improve transparency and Tax Risk Management. As part of the measures to progress large business tax compliance, Her Majesty's Revenue and Customs (HMRC) issued a document entitled: Improving Large Business Tax Compliance. This document states the following:

"To respond to the challenges described in Chapter 1, the Government proposes to introduce a legislative requirement that large businesses must publish their tax strategy as it relates to or affects UK taxation. The strategy should be formalised, articulated and owned by an Executive Board member within the business."

Change in attitude

The attitudes of governments, regulators and tax authorities towards tax governance and Tax Risk Management are changing (and rightfully so). Regulators and tax authorities are increasing their scrutiny of the approach companies take regarding the management of their taxes. Minister of Finance Pravin Gordhan stated the following around governance:

"The issues around tax, tax compliance, and tax planning need to be on the corporate governance agendas of company boards. SARS hoped to do a lot more to interact with companies and boards to expose them to what was happening elsewhere in the world on the one hand, but also to indicate the urgency for them to bring tax onto the corporate governance agenda."

We are also seeing legislation aimed at "testing and evaluating" certain aspects of an organisation's Tax Risk Management, in particular, the recent amendments to the Tax Administration Act relating to legal privilege, prescription and documentation gathering. In some cases one could go so far as to say that this Act may inadvertently punish inadequate Tax Risk Management.

In the HMRC document entitled Improving Large Business Tax Compliance, it is highlighted that the public, investors and stakeholders now expect higher standards of tax compliance and more transparency from large businesses about their approach to taxation. The Australian Tax Office commented that managing tax risk adequately is core to good corporate governance. Emer Mulligan and Lynne Oates explains in Tax Risk Management: Evidence from the US, that the need to address risk management in a tax context arises due to uncertainty in the interpretation of tax laws. Where there is uncertainty there is always a risk that needs to be identified, quantified and importantly managed, and if possible avoided.

Based on the above, it is clear that tax management and tax governance are high on the agendas of regulators and tax authorities. The consequences of not paying the necessary attention to Tax Risk Management can result in additional taxes, costly fines, missed opportunities, reputational damage and negative impact on market capitalisation.

Challenging environment

Organisations, CFO's and tax departments may feel that they are in a proverbial tag-team wrestling match:

In the one corner:

- The board and investors require assurance that the appropriate Tax Risk Management framework is implemented and shareholder value is enhanced.

In the other corner:

- The tax authorities are looking for more taxes from the taxpayers and the public is increasingly looking towards companies to pay the "morally" correct amount of tax.

It is clear that the above are ingredients for the perfect storm with a demand for increased shareholder value and reduced taxes on the one hand, and the payment of a "fair share" and "morally" correct amount of tax on the other.

In recent years, organisations have been exposed to more legislative changes than ever before. The legislative changes are complex and appear to be more towards protecting the tax base than necessarily promoting growth and business. Organisations are experiencing more and more tax queries which ultimately results in more disputes with the tax authorities.

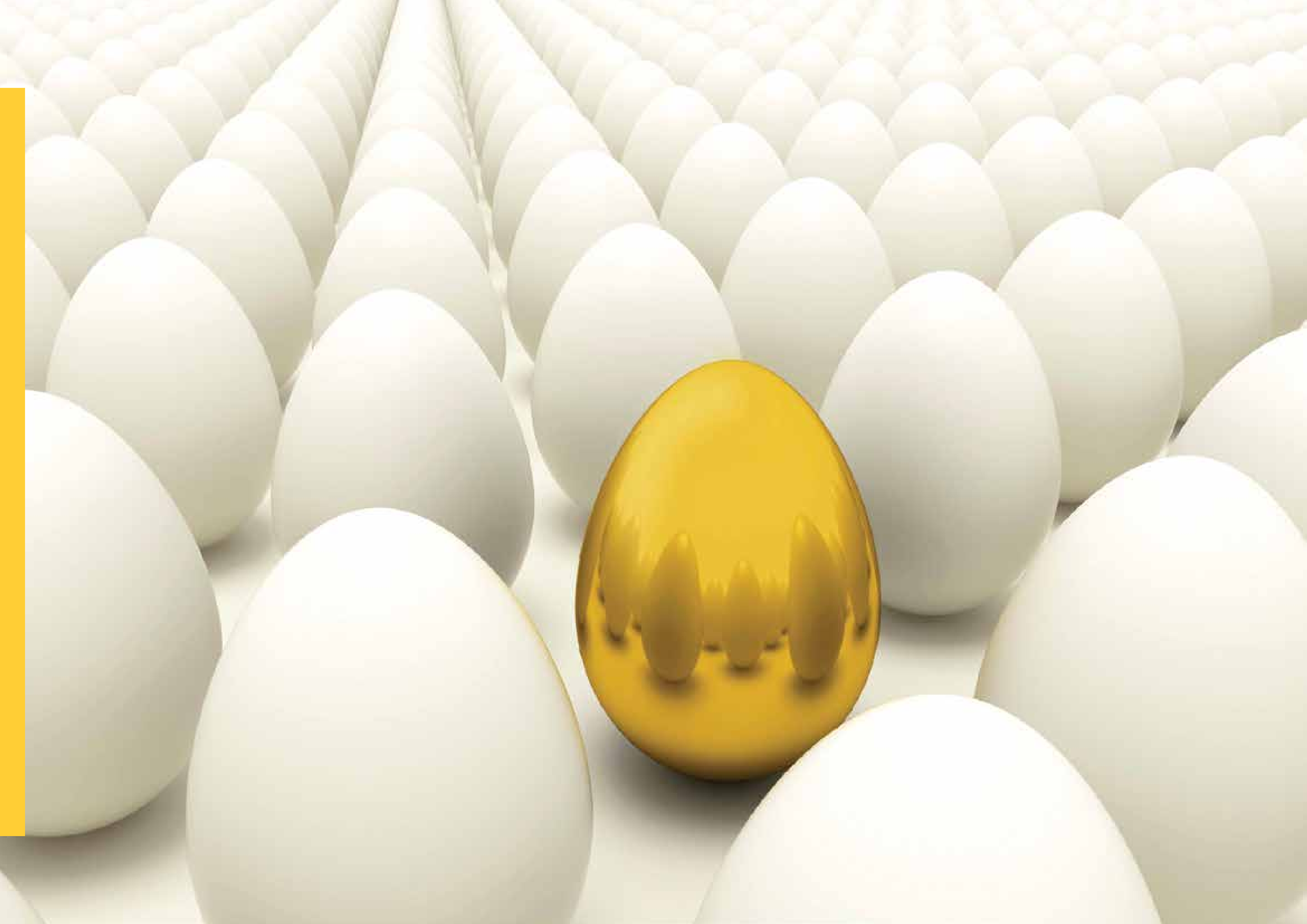
From a South African perspective, the above changes and observations could be explained if one looks at the contracting economy, the low-growth outlooks and the pending ratings downgrade linked to increased revenue targets and a stagnant South African Revenue Services headcount.

So is Tax Risk Management important?

It is not only important, but necessary. The implementation of a Tax Risk Management framework should not only promote governance and address as well as reduce tax risks, but may also create value, for example:

- Providing the organisation the ability to proactively evaluate legislative changes and the potential impact on business.
- Providing a level of comfort to all stakeholders that risk is maintained at an acceptable level.
- Ensuring that tax strategies, policies and processes are standardised and integrated within the wider organisation. The test is however going to be whether your board would be happy to have the organisation's tax strategy described, in full, in the Annual Finance Statements.

Based on the above, to list a few, Tax Risk Management is not just a "nice-to-have" but an essential **must have** in any organisation. Quite simply, Tax Risk Management is **the right thing to do.** The ultimate challenge for the tax executive is, however, to be able to provide comfort that the Tax Risk Management framework is indeed implemented, tested for compliance and adhered to throughout the organisation.



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Psychology and behavioural economics of insurance

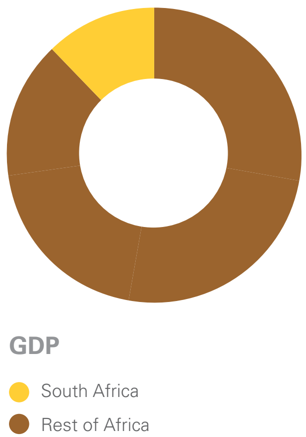
For many years, softer sciences such as psychology and behavioural economics have been the ugly stepchildren of the factors taken into account in decision-making. This has changed dramatically in recent years with Daniel Kahneman (a Nobel Prize winner) and Dan Ariely revolutionising the economics world with their studies into human bias.[1] Notable Harvard law professors have backed their studies, which has resulted in the White House and the World Bank employing behavioural economists to help them make better decisions. This has brought about policies such as Obamacare, proving that ignoring the irrationalities of the consumer would be simply irrational. *How could an understanding of psychology and behavioural economics help us to comprehend the insurance industry?*

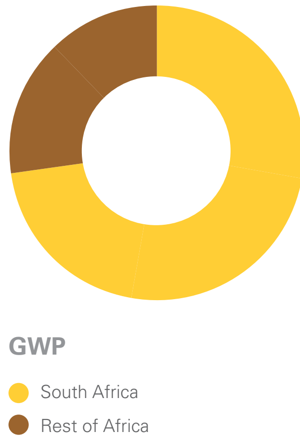
[1] Thinking Fast and slow- Daniel Kahneman
Predictably irrational – Dan Ariely

The reality of human nature and behaviour, often thought to be fully understood, keeps on surprising us as it is unravelled by the world's brightest minds. Is the South African insurance industry taking full advantage of the opportunities that these revelations present?

Psychology - understanding the African market based on Maslow's hierarchy of needs

South Africa accounted for US$49.16 billion of the US$68.97 billion of Africa's gross written insurance premium (GWP) in 2014. This is 71.9 percent of the African insurance industry. South Africa's gross domestic product (GDP) was US$352.8 billion in 2015. The GDP for Africa was US$2 435 billion in 2015. SA's GDP represents 14 percent of Africa's GDP. Does it make sense that a country with 14 percent of Africa's GDP attains 74 percent of GWP?





There are a number of factors that account for this distribution, most of which are touched on below.

Enablers for South Africa are:

- The strength and trust in the local financial services industry
- A strong legal system necessary to enforce contractual agreements
- Insurance is not the only means by which one can distribute or avoid risks.

Barriers other African jurisdictions face include:

- A lack of reliable information to assess creditworthiness
- Religious reasons such as strict adherence to Sharia law (the Islamic ban on certain types of insurance)
- Shallow financial markets make it difficult to raise capital
- Lack of human capital and expertise

Other factors that may influence insurance penetration favourably or unfavourably include:

- Behavioural aspects such as:
  - The specific needs of the individuals
  - Human irrationality and loss aversion
  - The availability bias

South Africa at 14.1 percent insurance penetration[2] is the only country in the top 10 African countries by GDP, which is also in the top 5 by insurance penetration. The table to the right sets out drivers of this statistic with enablers of insurance penetration marked in brown and barriers marked in yellow.

All countries (other than South Africa) in the table have at least one factor that adversely affects insurance penetration.

Top 10 African countries by gross GDP[3]

	Country	Gross GDP (US $billion)	GDP per capita (US$)	Gini-coefficient on income (inequality)	Muslim population (%)**	Global FS industry ranking (trust factor)
1	Nigeria	574	2 500	43	48.8	82+
2	South Africa	350	10 700	65	1.7	32
3	Egypt	301	6 200	30.8	94.9	82+
4	Algeria	213	7 300	35.3	97.9	82+
5	Angola*	126	8 200	58.6	0.2	82+
6	Morocco	110	4 800	43	99.9	42
7	Kenya	60	1 125	47.7	9.7	82+
8	Sudan	63.82	2 417	45.5	6.2	82+
9	Ethiopia	55	859	29.8	34.6	82+
10	Tanzania	48	720	37.6	35.2	82+

***High inflation and recent unstable macro-economic environment – high growth potential (inflation decreases the value of insurance policies significantly)**
****Strict adherence to Sharia law prohibits traditional insurance products**

[2] Insurance penetration is defined as gross written premium / gross domestic product
[3] World bank, NKC African economics

There are many factors that adversely impact the insurance market. How are these factors impacting human behaviours that drive the insurance market?

At what point does the insurance industry penetrate the market? At what income level will a person seek to obtain insurance?

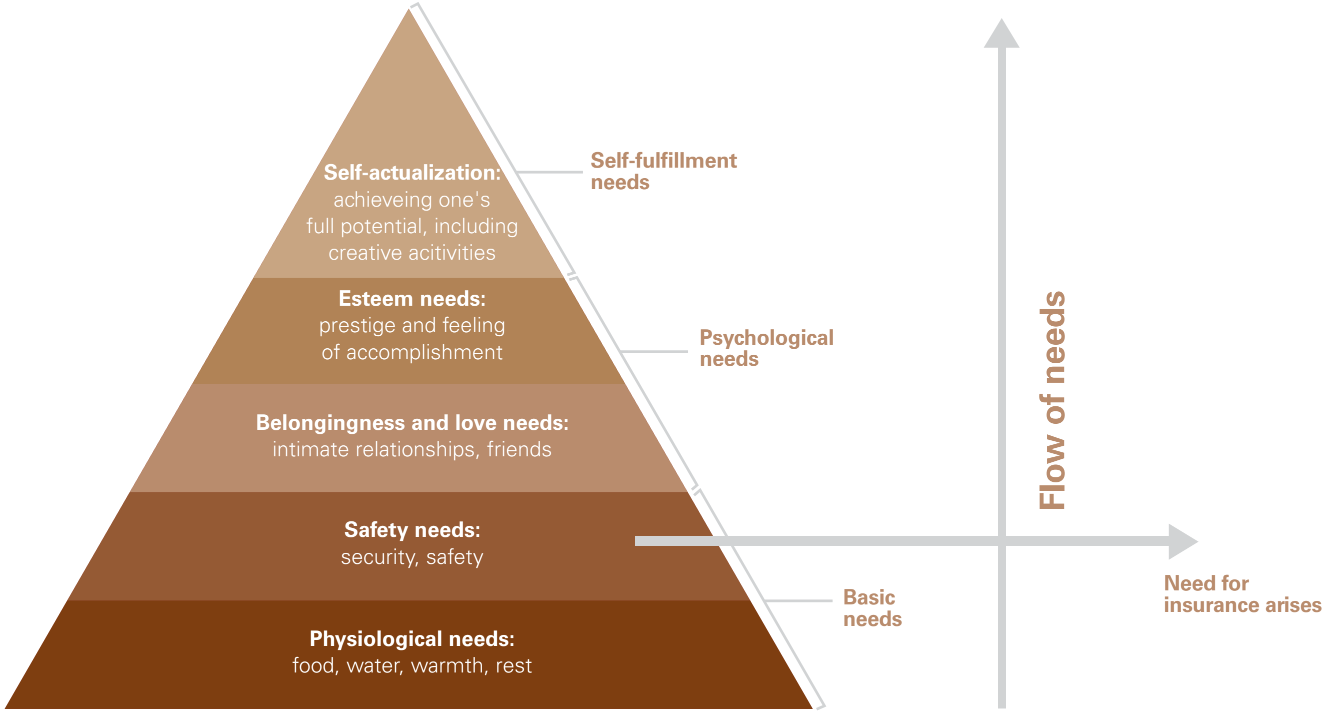
Maslow's hierarchy of needs is a basic representation of the needs of human beings. These needs start from the bottom upward and dictate human behaviour.

The need for safety and security only arises when physiological needs have been met. To estimate at what income point this is we can look at the cost of living per country. When the income per capita crosses the cost of living by a fair margin, physiological needs will have been met and inhabitants will start to strive for safety and security. One way of obtaining safety and security is by getting insurance. The preference of insurance over other means of obtaining safety and security will be determined by the reliance that can be placed on the financial services industry.

The impact of insurance might even impact needs further up the pyramid. For example, life insurance being driven by self-actualization - the legacy left behind. Regardless, insurance will only be sought once physiological needs are met. The attainment of safety and security and the profound impact on human behaviour can be clearly seen in the research done represented to the right.

In a workshop to develop an impact monitoring system, a field worker gave as an indicator "having a lock on the door". She explained that the member had bought a lock for her house as a result of the loan. Before the loan she had felt "less than human" - she was not a person that anyone would think of robbing. Now, although still not having anything worth stealing she felt a part of the community and could assert her identity and sense of worth by locking her house.[4]

It is also a good illustrator of how the needs work. She met her safety and security needs through the lock. Her needs then shifted to the next level where she wanted to belong to the community.



[4] Participatory monitoring for poverty reduction and women's empowerment: small enterprise foundation, South Africa - linda mayoux with Anton Simanowitz

Are South African insurance companies targeting African countries with a sufficient market that have the need for insurance?

GDP per capita and Gini coefficient

A possible method of determining the size of the market per country that has the need for insurance based on Maslow's needs could be done by combining GDP per capita relative to the cost of living and Gini coefficient for income.

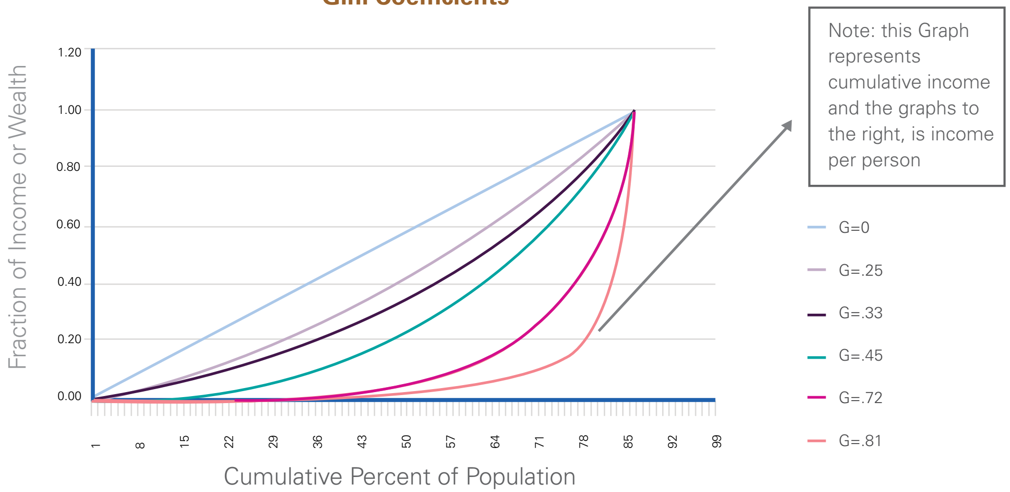
GDP per capita is the total GDP for the country divided by the number of people. Gini coefficient is a measure of inequality. The higher the Gini coefficient the higher the inequality.

Thus, a high GDP per capita - relative to other African countries - combined with a high Gini coefficient means a strong upper income group. This reflects in South Africa's high insurance penetration rate. South Africa's insurance penetration rate is 14 percent. This is the highest of the African countries, with Morocco the second highest of the top 10 GDP countries with 3.09 percent (having developed insurance products acceptable under Sharia law – Takaful products - and a high ranking financial services industry).

A low GDP per Capita combined with a low Gini coefficient means that the income in the country is fairly evenly divided between all residents, resulting in very few residents crossing the threshold for insurance need.

The impact of inequality in wealthy and poor countries is illustrated graphically below.

Gini Coefficients



www.youngamericansvoice.com

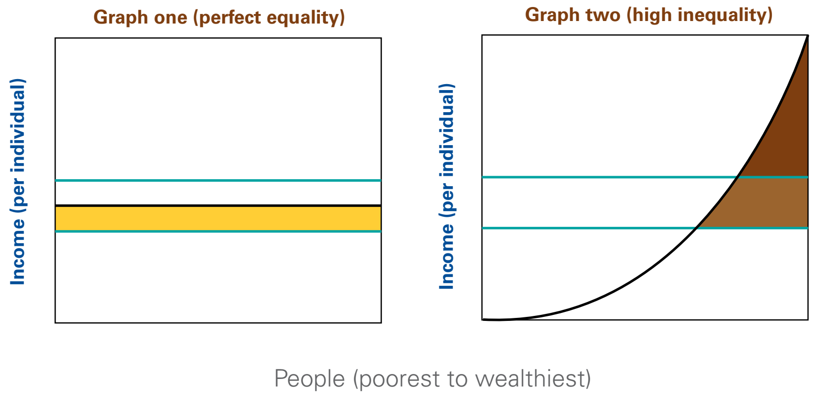
Black lines: Represents income per person
Green lines: Insurance barrier - cost of physiological needs in country + Additional margin. Each graph contains two scenarios. One poor country (**top green line** - high cost of living relative to GDP per capita) and one wealthy country (**bottom green line** - low cost of living relative to GDP per capita).

The area below the **black** line and above the **green line** represents the value of GDP that is available to be insured.

The total area below the black line represents total GDP - The total GDP is the same in both graphs. To illustrate the impact of inequality (the only variable between the two graphs) the area of the GDP available to be insured is filled with a colour. Where the black line is above the green line, people earn more per person than the cost of living.

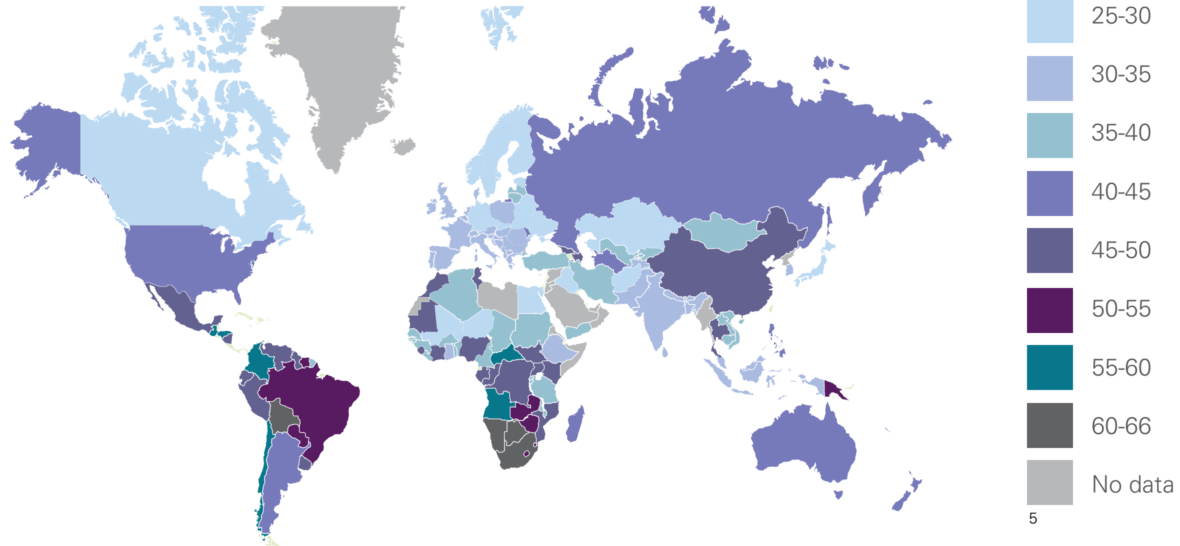
In Graph one (Gini coefficient of zero – complete equality) there are no assets available to be insured for the poor country and the assets available to be insured for the wealthy country is marked in yellow.

In Graph two (High Gini coefficient – high inequality) the dark brown area represents the assets available to be insured in the poor country. The dark brown and light brown areas combined represent the assets available to be insured for the wealthy country.



The graph above illustrates inequality per country worldwide:

Gini Index (Income equality =0)



South Africa and Namibia are two of the three African countries depicted in dark grey. They are the countries with the highest and second highest insurance penetration rates in Africa, respectively. Botswana is the third country in the 60-66 bracket and has an insurance penetration of 2.77 percent. In relatively poor countries inequality is a definite driver of insurance.

Below are the top three countries in Africa by insurance penetration and how they compare when it comes to the insurance drivers stated above. (Lesotho is the only other African country above 4 percent and has been excluded due to the size of its economy.) Enablers are depicted in colour.

African countries with high insurance penetrations[6]

	Country	Insurance penetration (%)	Gross GDP (US$ billion)	GDP per Capital US$	Gini-coefficient on income	Muslim population (%)	Global FS industry ranking (trust factor)
1	South Africa	14	352.817	10,700	65	1.7	32
2	Namibia	7	13,353	10 765	61.3	0.4	82+
3	Mauritius	6	13,240	18 553	39.0*	16.6	68

***Estimate (World Bank figure not available)**

[5] Data Source: Table 2.9 of World Development Indicators: Distribution of income or consumption The World Bank – M Tracy Hunter
[6] Swiss Re, World bank, NKC independent economists

Is the South African Industry targeting the correct countries for expansion in Africa? Refer to the 2015 KPMG insurance survey article titled Insurance in Africa by Abou Malima for targeted countries and draw your own conclusion.

Behavioural economics and the insurance industry

Irrationality and its impact on insurance

In his book, Thinking fast and Slow, New York Times bestseller and Nobel Memorial Prize in Economic Sciences winner, Daniel Kahneman, explains that the intuitive mind is not always statistically accurate. For insurance purposes, it is important to draw the distinction between the reality of the risk and the perception of the risk.

Another good way to illustrate this statistical inaccuracy is with the following example:

An individual has been described by a neighbour as follows: "Steve is very shy and withdrawn, invariably helpful but with very little interest in people or in the world of reality. A meek and tidy soul, he has a need for order and structure, and a passion for detail."

What is his most likely profession?

a) Steve is a farmer

b) Steve is a librarian

Most people reply quickly that Steve is more likely to be a librarian than a farmer. This is surely because Steve resembles a librarian more than a farmer, and associative memory quickly creates a picture of Steve in our minds that is very librarian-like. What we do not think of in answering the question is that there are five times as many farmers as librarians in the United States (and the ratio is even higher in Africa), and that the ratio of male farmers to male librarians is even higher (this certainly did not occur to me when I first read the question, and does not even occur to me now as I reread it, unless I force myself to remember). The base rates simply do not come to mind and thus prevent an accurate computation and answer, namely that Steve is more likely to be a farmer.[7]

[7] Source: (Thinking fast and slow- Daniel Kahneman)

Our intuitive mind is statistically inaccurate. How does this impact our decision-making when it comes to insurance?

What is the hypothetical potential value of the insurance industry?

In his book Kahneman goes on to explain the risk averse nature of people. The participants were asked if they would take a bet on the toss of a coin (50/50) for which they stood to lose R100. They were offered increasing winnings until they accepted the bet. At a level where they would win R110 and lose R100, barely any of the participants accepted the bet. It quickly became clear that people are not as rational as was always presumed.

The rational decision-maker would accept a bet even where the winnings are R1 more than the value at risk on a 50/50 bet. In reality this did not happen. It turns out that the pain of losing R100 is greater than the joy of gaining R110.

They continued this experiment and came to the conclusion that people have a loss aversion ratio of 1:1.5 to 1:2.5. This means that on average a person would risk R100 on a 50/50 bet if the winnings are between R150 and R250.

This ratio can be seen directly in the insurance industry and can be used as a tool to see if the market is saturated or if price decreases would persuade more people to take out insurance. It is important to note that the average insured person does not know the probability of loss.

Actual value of risk: Perceived value of risk

Probability of loss x amount lost: Probability of gain x amount gained

50% x 100: 50% x 150

1: 1.5 to 2.5

Claims (value at risk x probability of loss): Premium (100% probability)*

Claims ratio Per FSB report

61%:100%

1:1.64

*Ignoring cash back provisions

The insurance market could hypothetically continue to grow until premiums decrease enough to let this ratio reach 1:1.5. This will then include the least risk averse people.

This ratio only takes into account the risks that are currently covered by insurance contracts. People also rely on other measures including preventative measures (e.g. alarms) and diversification of risks to mitigate risk. This is where the trust in the insurance industry and a legal system necessary to enforce contractual agreements comes in. This would make those at risk more or less likely to use insurance contracts compared to other methods. A strong financial services industry can also serve as a gateway to more insurance with bancassurance becoming more prevalent throughout Africa.

The minimum value of the total risk mitigation market:

Total assets x probability of loss x 1.5

Another way to grow the market at the 1:1.5 point would be to substitute non-insurance risk mitigation factors with insurance-based methods.

Has the South African reinsurance market reached saturation? Is there room for expansion based on premium reduction or should insurers strive to replace other risk avoidance methodologies with insurance?

The endowment effect

Another factor that impacts the value that can be utilised by insurers is the endowment effect. This goes hand-in-hand with loss aversion.

A good illustration of this effect is a study done by Kahneman. Participants were given a mug and then offered the chance to sell it or trade it for an equally valued alternative (pens). They found that the amount participants required as compensation for the mug once their ownership of the mug had been established ("willingness to accept"), was approximately **twice** as high as the amount they were willing to pay to acquire the mug ("willingness to pay") when they did not own it. This is clearly irrational.

Simply put, people value their own possessions higher than the market does, resulting in insurance being taken out on these belongings. This can be seen in insurance marketing with insurers playing on the sentimental value of the consumer’s possessions by giving cars names or recalling memories cars might provide.

Is there potential for insurance companies to capitalise on this by providing insurance based on more than the market value of what is at risk?

Availability bias - heuristic

In another Kahneman experiment, he describes another interesting bias - the availability heuristic. The availability heuristic is a mental shortcut that relies on immediate examples that come to a given person's mind when evaluating a specific topic, concept, method or decision. The availability heuristic operates on the notion that if something can be recalled, it must be important, or at least more important than alternative solutions which are not as readily recalled. Subsequently, under the availability heuristic people tend to heavily weigh their judgements toward more recent information, making new opinions biased toward that latest news.[8]

In one of many studies done to prove this phenomenon, participants were presented a mathematical quiz as either 1x2x3x4x5x6x7x8 or 8x7x6x5x4x3x2x1. Participants who were presented the equation with the larger numbers first (8x7x6...), estimated a significantly higher result than participants with the lower numbers first (1x2x3...).[9]

For example, after seeing news stories about child abductions, people may judge that the likelihood of this event is greater. Media coverage can help fuel a person's example bias with widespread and extensive coverage of unusual events, such as homicide or airline accidents, and less coverage of more routine, less sensational events, such as common diseases or car accidents.

This bias could be clearly seen in the recent Ebola outbreak in Africa and the reaction the world had to it, despite the low probability of contracting the disease.

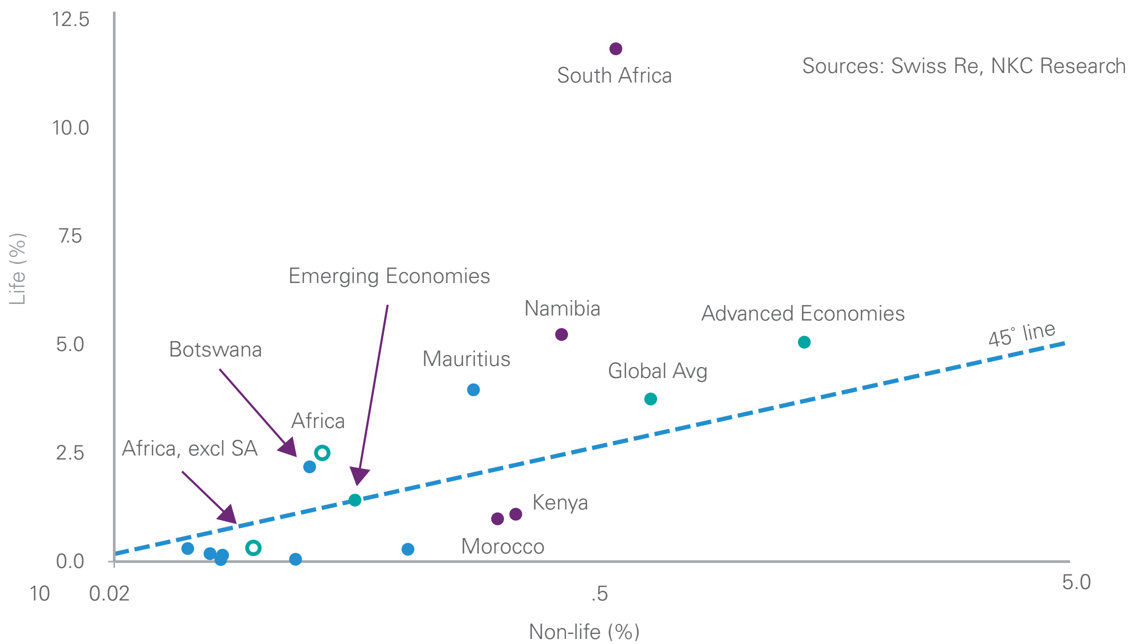
For instance, when asked to rate the probability of a variety of causes of death, people tend to rate news-worthy events as more likely because they can more readily recall an example from memory. Moreover, unusual and vivid events like homicides, shark attacks, or lightning are more often reported in mass media than common and un-sensational causes of death like common diseases.

South African media is littered with stories of homicide and murder. The actual murder rate (as shown to the right) is very high when compared to other countries. This could cause the South African public to overestimate their odds of dying and consequently over-insuring their lives.

Do South Africans overestimate their odds of dying due to the sensational (newsworthy) ways in which people in the country are often killed?

[8] ^ Phung, Albert. "Behavioral Finance: Key Concept- Overreaction and Availability Bias". Investopedia. February 25, 2009. p.10. December 1, 2013.
[9] Tversky, Amos; Kahneman, Daniel (1973). "Availability: A heuristic for judging frequency and probability". Cognitive Psychology

Life & Non-life Insurance Penetration



Country	Violent crime (higher rating = worse)[11]	Life expectancy[12]
South Africa	31	60
Kenya	6.4	61
Namibia	17.2	68
Morroco	2.2	71

Although the life expectancy in South Africa is slightly lower than the other three countries, the ratio of life to non-life insurance has a stronger correlation with the violent crime rating than life expectancy as this is more "newsworthy" than other means of death.

Violent crime is not the only sensational cause of death. Events such as natural disasters, large motor accidents or terrorist attacks could also fall into this category. Although it is one of many factors that impact the prevalence of life insurance, it is certainly one to be considered.

Does this bias provide guidance for the expansion of the life-insurance industry into untapped markets?

In conclusion

Human nature - and the irrationalities that go along with it - is one of the biggest drivers of the insurance industry. The impact of this can also be seen in the marketing campaigns of insurers that play to improbable sensational fears (shark attacks, bungee jumping) to trigger the risk averse nature of consumers. To ignore human irrationality in the insurance industry would be simply irrational.

As the mystery of human nature slowly reveals itself, it creates numerous opportunities in the insurance industry. Are you making full use of these opportunities or will you miss your golden carriage?

[10] Swiss Re, NKC Research
[11] Global Study on Homicide 2013 (PDF full report). Published in April 2014, by United Nations Office on Drugs and Crime (UNODC).
[12] World Health Organization (2013) - Data published in 2015 (Retrieved on 11 February 2016

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Disruptions in the reinsurance market

The global and local reinsurance market is facing a number of disruptive forces including regulatory change, provision of alternative capital, intermediary capabilities and roles, and emerging risks. Elements of the traditional reinsurance value proposition such as risk transfer, balance sheet protection and provision of technical expertise may have a diminished worth in the face of these disruptions.

Regulatory change

In a South African context, the outcome of the Solvency Assessment Management (SAM) reinsurance regulatory review is likely to affect how market participants select their reinsurance partners, structure their contracts and manage the level and mechanism of risk transfer.

A key proposed reform following the review relates to reinsurance market participants. The operation of foreign reinsurers on a branch basis will be allowed and the treatment of cross-border supply of foreign reinsurance will be revised under the new framework. This is expected to enhance reinsurance capacity, competition and the spreading of risk.

Reinsurance market competition and level playing fields was one of the principles that informed the review of the framework. In order to create a level playing field, the impact on cedants' solvency assessment and the prudential requirements applied to the various participants will differ according to the prudential risks inherent in the mode of reinsurance.

Another key proposed reform relates to conduct of reinsurance business. Limits will be placed on the amount of business to be ceded - as measured by premium - with the intention to prevent fronting. In addition, the benefits brought by the use of financial/finite reinsurance will need to be carefully weighed up against the lack of recognition of this cover within the Solvency Capital Requirement (SCR) calculation.

Implications

It should be expected that locally incorporated reinsurers will face pressure in writing to their available capacity under increasingly competitive terms, conditions and pricing following a greater supply of international capacity. However, the proposed treatment of reinsurer credit ratings, in particular, within cedants' solvency assessments may act to mitigate the placement of business with foreign reinsurers - branched or cross-border. Non-proportional cover is expected to be favoured over traditional proportional arrangements in order to comply with limits on cession rates. Reinsurer contribution margins may therefore be squeezed due to lower premium volumes.

Solvency relief and financing transactions contract designs may need to be addressed and this will promote alternative, innovative and tailored solutions.

Emerging risks

Emerging risks are those that are particularly difficult to identify and predict as these risks are new and the development of them is largely unknown. The emergence of these risks is attributed to changes in technology and legal theories in our society, which are likely to become actual claims in the future. In an insurance setting, these risks introduce greater uncertainty within pricing, reserving, capital modelling and solvency assessment. However, they may also present opportunities for innovation and product development.

The more the world is developing and research is being conducted, the more is discovered about potential emerging risks particularly for bodily injury and property damage. For example, research on subatomic particles on the human body have shown that everyday products (such as cleaning products) are harming us with the extent of the harm unknown at this point.

Global emerging risks can be grouped into five core categories:

- Geopolitical
- Societal
- Economic
- Technological
- Environmental

Of these five, one of the most widely discussed is technological risk. Examples include autonomous vehicles, vulnerability in cloud computing and cyber security, nanotechnology, infrastructure breakdown and communications failure.

These advancements require insurers to determine changes to their insurance products and offerings. With the introduction of autonomous vehicles, this will directly impact the insurance market forcing insurers and reinsurers to consider the changes that are likely to occur within the motor insurance space and how to sustain their business in this new environment.

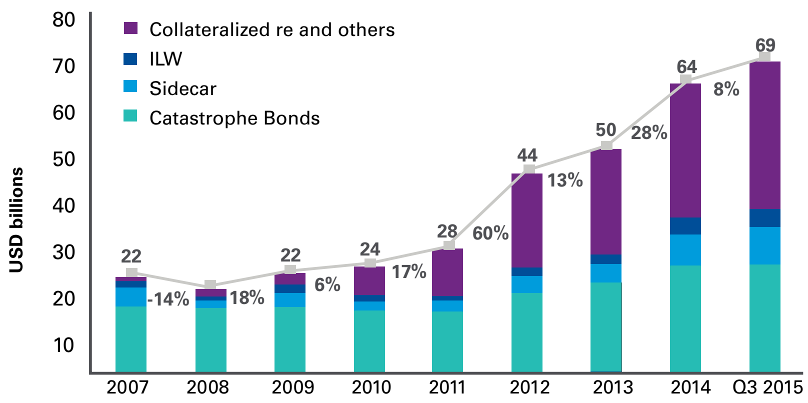
Implications

Emerging risks will force insurers and reinsurers to anticipate changes in the insurance market, particularly in terms of claims, new products and profitability. Even with the caveats in insurance policies now, such as restriction to claims-made policies, a change in law may expose insurers to unexpected risks and potentially large claims, as seen with the asbestos claims. This has a direct impact on reinsurers particularly for those with no aggregated limits.

Reinsurers have little to no additional information to provide technical expertise to insurers on how to deal with emerging risks and the evolution of the insurance market.

Provision of alternative capital

A significant increase in the provision of alternative capital in the insurance market has been experienced over the last decade. The graph to the right shows this growth from 2002 to 2015. It can be seen that the growth in recent years has been exponential.



Source: Aon Benfield

Reduction in traditional reinsurance capacity and increase in price following major natural catastrophe events has created the need for alternative forms of capital. However, the provision of alternative capital needs to be assessed on both a short- and long-term basis.

The influx of alternative capital has seen a negative impact on reinsurers who have experienced pressure to decrease their reinsurance rates particularly in the catastrophe market. However, it is uncertain how long an increase in alternative capital will last and who will be left to provide capital when the dust settles after a major catastrophe event. Additionally, it may result in an increase in mergers between reinsurers, or reinsurers and alternative capital providers.

The less stringent regulations on capital investors allow for them to easily invest in riskier assets where regulated institutions may be prohibited. This may result in some form of regulatory mismatch between (re)insurers and capital investors causing a change in regulation impacting this trend over time.

However, the increase in provision of alternative capital may afford an opportunity going forward for providers of alternative capital in Africa. Where changes in the global climate may speed up the requirement for this investment as an increase in weather related catastrophic events may become more likely.

Intermediaries

Traditionally reinsurance intermediaries were a go-between function, performing largely administrative and relationship management roles. The business model and role of the reinsurance intermediary has evolved, fast, and is continually evolving. Progressively they are playing sturdier roles in risk and capital management, thought leadership, analytics, software development, business strategy and interacting with capital markets in the development of alternative risk transfer solutions.

As such, reinsurance intermediaries have positioned themselves as leaders in the understanding, pricing and transferring of insurance risk. However, reinsurers have historically been regarded as the experts in this regard. With reinsurance intermediaries becoming a driving force behind and facilitating the provision of alternative capital, coupled with a strong service offering, the technical expertise and risk transfer offering of reinsurance providers is being challenged.

Conclusion

The insurance market is changing rapidly and there is a risk of negative impact for reinsurers placing their value propositions in jeopardy. However, the traditional reinsurance value proposition and business model is not expected to become obsolete, but reinsurers will need to adapt to survive in the current and future risk landscape, which is continually shifting.

On the flip side of the coin, enormous potential for innovation has been revealed and reinsurers need to ensure they remain relevant and protect and grow their business in light of these challenges.

> CHANGE IS NOT A THREAT,
> IT'S AN OPPORTUNITY.
> SURVIVAL IS NOT THE GOAL,
> TRANSFORMATIVE SUCCESS IS.
>
> Seth Godin

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Takaful - same same but different

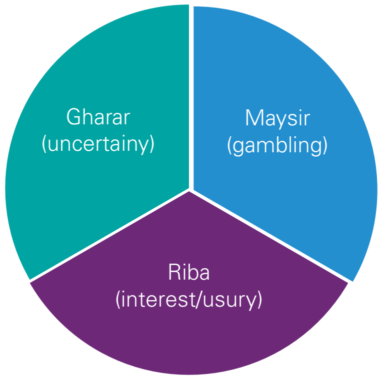
When you compare an orange and a clementine, at first glance they look similar. They're both round, they're both fruit and they're both orange in colour. It's only once you cut them open that you realise the differences between the two. In the same way, Takaful and conventional insurance at first glance may look similar, in that they both share the objective of protection against financial loss, but when taking a closer look, the differences become apparent.

What is Takaful?

Takaful is a system of insurance based on the Islamic principles of mutual assistance *(ta'awun)* and donation *(tabarru)*. Takaful means joint guarantee, whereby a group of participants contribute towards a pool of money and mutually agree to protect each other by compensating those participants who suffer from an insured peril.

Conventional insurance is not considered to be Shari'ah[1] compliant because it includes three key elements prohibited by Islamic law: uncertainty *(gharar)*, gambling *(maysir)* and interest/usury *(riba)*.

Key elements prohibited by Islamic law



Gharar exists since there is uncertainty of what the insurance policyholder is "buying" or paying for if no loss occurs and the policyholder receives nothing.

However, when a loss does occur there is gharar present again due to the uncertainty in the compensation amounts which vary. The element of maysir is present because the payment of the sum insured depends on pure chance. The third element of riba comes in when funds are invested in interest-bearing securities. Takaful is an alternative to conventional insurance which presents itself as a form of mutual help in furthering good by helping others who are in need or in hardship. The concept of tabarru eliminates gharar and maysir - the donation ensures that the uncertainty concerning the contributions and compensation is eliminated.

[1] Shari'ah is the Islamic law which regulates many aspects of a Muslim's life, including the type of investments allowed

There are various models for Takaful in practice. One of the models, the Mudharaba model, divides the contributions made by participants into two parts: an amount for tabarru which is earmarked to cover policyholder losses and a second portion used for investment.

There are two main stakeholders in Takaful, namely the policyholder and the Takaful operator who runs the insurance scheme on behalf of the policyholders. The Takaful operator is typically a commercial entity, backed by shareholders, that manages the Takaful fund with duties including underwriting the risks and investing the pool of funds. In return for performing these duties, the operator is either paid a fee or shares in the investment profit and/or underwriting surplus.

The Takaful operator will also have a Shari'ah Advisory Board who monitors the activities of the operations in order to ensure that it is Shari'ah compliant.

Takaful vs. conventional insurance

Takaful and conventional insurance companies share the same objective of providing protection to you, your loved ones and your valuable possessions. The main difference between conventional insurance and Takaful is that the former is a risk-transfer model whereas the latter is a risk-sharing model.

With conventional insurance, there is a transfer of risk from the policyholder to the insurance company in exchange for a premium. The loss is indemnified by the insurance company according to the terms and conditions of the policy. The risk is therefore, transferred from the policyholders to the insurer. In this manner, the insurance company is the risk-taker.

Under Takaful, the Takaful operator is playing the role of a risk manager and not a risk-taker. However, this does not mean that the operator bears no risk. In the event of a deficit arising in the fund, the shareholders of the Takaful operator typically finance the deficit by means of an interest-free loan. These loans are repaid from the future surpluses that arise from the fund.

Another key difference between Takaful and conventional insurance is that all investments managed by the Takaful operator are to be made in accordance with Shari'ah. Shari'ah prohibits investment in sectors involved in alcohol, tobacco, pork, adult entertainment, weapons, gambling and conventional banking and insurance. In addition, a Shari'ah fund may not invest in interest–based instruments.

Unlike conventional insurance, the participants of Takaful retain an ownership interest in the Takaful fund. Contributions from the participants are invested in Shari'ah compliant funds to derive investment income. In the event that the fund generates a surplus, it is then shared among the participants - and, in some cases with the Takaful operator - or donated to charity. Under conventional insurance, for proprietary insurers, the surplus belongs to the shareholders. In the case of a mutual insurer the situation is similar to Takaful, in that the policyholders share in the experience of the fund. Takaful also bears a resemblance to the way that a stokvel[2] is operated, as they are both risk-sharing mechanisms.

Takaful in practice

The Takaful industry in Africa is growing steadily, with Takaful operators offering a variety of products from basic motor Takaful products to complex pension schemes, such as a Takaful Umbrella Fund. Many Takaful products can be seen as parallels of their conventional insurance counterparts. Even so, with close to half the population of Africa being Muslim, there is room for Takaful operators to be innovative in their marketing strategies and to actively promote education on both insurance and Takaful.

On the other hand, one of the challenges is the misconception that Takaful is only for Muslims. This is assisted by the fact that Takaful is predominantly found in countries that have majority Muslim populations, including Nigeria, Tunisia and Sudan. However, due to its explicit ethical structure, the principles of fairness and the sharing of burdens among members of a given community, Takaful can be marketed to both Muslims and non-Muslims. An illustration of this can be found in multiracial Malaysia, where Takaful products have also attracted non-Muslim communities. Another challenge faced by the Takaful industry is the scarcity of Shari'ah-compliant investments. As a result, Takaful companies have had to seek instruments in different markets to diversify their risk, including sometimes volatile equity and property markets.

Conclusion

After slicing through the layers of Takaful and conventional insurance, it can be seen that although they may share the same objective, the differences in surplus distribution and investment allocations make the two quite distinct. With the growth in Takaful and rising need for protection in Africa, it seems like only a matter of time before Takaful companies will begin attracting new clients from the existing conventional insurance franchises.

[2] A stokvel is a savings or investment society to which members regularly contribute an agreed amount and from which they receive a lump sum payment.

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The impact of blockchain on the insurance industry

The concept of "disruption" is a topical theme witnessed throughout the market. Uber has been dubbed a typical disrupter, completely disrupting the taxi industry across the globe, offering a cheaper and more effective service underpinned by great customer experience, all while employing no drivers and owning no vehicles.

Bitcoin is one of the world's first crypto currencies. Defined by the Oxford dictionary as "a digital currency in which encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds, operating independently of a central bank," Bitcoin allows transactions to occur independently of any banking institution, making it disruptive in its own right. However, the key technology which allows crypto currency to exist is called "blockchain". Email was the application that ran on the internet, similarly bitcoin is the application that runs on blockchain. I believe that bitcoin will be remembered as the innovation that brought blockchain technology into our day-to-day.

A blockchain is a database with the following characteristics:

- It is public, meaning it is not owned by a single person or company
- It is decentralised, which means it is not stored in a central location but across several computers around the world
- Its synchronicity means every decentralised copy of the database is always the same
- It is secured through cryptography encryption

This could be visualised as an excel spreadsheet that belongs to no single person but everyone in a specific community is in possession of a live copy at any given point in time. The spreadsheet is completely encrypted so while you may be able to see what is on the spreadsheet, it resembles a series of symbols which require decoding.

The World Economic Forum (WEF) has reported the following interesting perspectives on blockchain:

- The technology is one of the six mega trends expected to change the world
- It currently accounts for 0.025 percent of global GDP (USD 80 trillion) and is expected to grow to 10 percent of GDP by 2025 (at least USD 8 trillion)

Blockchain is a perfect example of "business unusual", with this technology posed to have a major impact across all sectors. The insurance sector could be disrupted significantly in the near future and this represents an exciting change in the industry with insurance potentially becoming cheaper, more inclusive and more personalised. Within the insurance industry, the application of this technology has been referred to as peer-to-peer insurance and/or decentralised insurance. The potential impact of blockchain on insurance companies and the industry is illustrated below.

Smart contracts

A smart contract is a piece of software that automatically verifies the contract and thereafter executes the agreed terms. The following innovative ways have been proposed for smart contracts to be used on blockchain:

- At the London FinTech Hackathon, the winning team utilised smart contracts to develop an innovative solution in the provision of late flight insurance. Their business case was based on the fact that 550 000 airline passengers in the UK did not claim on their insurance for delayed flights partially due to the difficulties experienced in the claims process. The team presented a smart contract system that provides direct compensation for affected passengers by connecting data feeds with flight information and smart contracts on the blockchain.
- The idea of an innovative unemployment insurance which relies on Linkedin. There are underlying terms and conditions around how long your profile must have existed as well as further requirements, but the premise behind this is that each person has a level of social capital and if your profile meets the level of accepted social capital, as required by the smart contract algorithm, you can qualify for this specific product. Upon updating your status on Linkedin to unemployed and actively putting yourself up for employment on a job platform, you can automatically qualify to be paid out an unemployment income till you update your profile on Linkedin to employed or your profile gets employed on the job platform.
- Agricultural insurance where there are payouts if rainfall exceeds or is less than 10 percent of average rainfall figures in your geographic area as compared to the previous three years. Weather data is fed into the smart contracts from an independent source. Upon the condition being met, a claim payment is instituted in compliance with the terms of the contract without any human intervention.

The Internet of Things

The Internet of Things (IOT) refers to a proposed development of the Internet in which everyday objects have network connectivity, allowing them to send and receive data. The Internet of Things allows us to introduce innovation in the claims process through the blockchain as follows:

- Motor vehicles with built-in sensors will provide data upon a vehicle involved in an accident which will provide the blockchain with the number of sensors impacted as well as the average force. Based on the conditions programmed on the smart contract, this will result in the claim being paid out before a tow truck arrives at your vehicle.
- Motor insurance premiums which are charged on a trip-by-trip basis.
- Foreign health insurance gets billed to you on a daily basis upon your cellphone detecting that you are out of the country.

Two motor vehicle claims have been deliberately included as we predict that the impact of self-driving cars to the personal auto insurance industry could result in shrinkage of this market to less than 40 percent of its current size. This is just another example of the rate of disruption within the industry.

With blockchain being a relatively new and untrusted technology, the following is anticipated:

- An initial move towards diversifying insurance products into areas of insurance that have typically not been covered before.

- Innovation in the personalisation of risk-based premiums for the writing of these new policies.
- Publically available data will be used to trigger claim events.
- Increases in automation will enhance the client experience.
- Privacy and compliance with privacy rules will prove to be challenging.

Premium collection on the blockchain
Premiums could be paid in crypto currencies such as bitcoin. Policyholders on the bitcoin platform would agree to a smart contract which permits the automatic deduction of a certain amount of bitcoins on a monthly basis in order to keep the insurance policy in an active status. If there are insufficient funds, the smart contract automatically disables the policy and the policy lapses.

Regulatory risk
Regulators and governments around the world have struggled to regulate the blockchain due to the decentralisation of the technology. This decentralisation effectively means that if the regulator identified a specific instance of the blockchain that they believe is non-compliant with laws and regulations, it will be impossible to stop this due to the fact that every node in the network will have an identical copy of the blockchain. Regulators are going to have to investigate new and innovative ways to regulate the blockchain.

Globally, we are seeing insurance companies investigating the use of blockchain in achieving their target operating models. The FinTech sector of the insurance market is seeing large amounts of investments and acquisitions as part of this strategy.

The industry is weighing up the first mover benefits versus the risk of the unknown, and in the next couple of years we are going to see a great deal of change within the industry with blockchain becoming more of a recurring enabler.

ONE OF THE ADVANTAGES OF BEING DISORDERLY IS THAT ONE IS CONSTANTLY MAKING EXCITING DISCOVERIES

A.A. Milne

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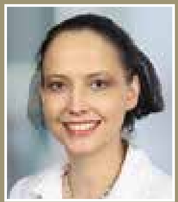

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Would the application of the premium allocation approach result in business as usual?

The new Insurance Contracts Standard (ICS) is expected to be issued at the end of the year. The focus of the ICS is the Building Block Approach (BBA) which has been introduced as the new model to recognise and measure insurance contracts, impacting mostly life insurers. Many short-term insurers may have argued that the new ICS will not impact them as a simplified model, the Premium Allocation Approach (PAA), will result in business as usual. The PAA is intended to be a proxy for the more complex BBA.

For short and long-term insurers wanting to apply the PAA, the most important consideration is whether the contracts written by the insurers will meet the criteria for the PAA to be applied. Use of the PAA is permitted (but not required) if:

- the coverage period of the contract at initial recognition is one year or less; or
- use of the PAA produces measurements that are a reasonable approximation to those of the BBA – i.e. at inception, the entity expects no significant variability in the fulfilment cash flows.

Many South African short-term insurers are expected to be able to meet the criteria for applying the simplified PAA - thereby avoiding some complexities introduced by the BBA. However, not all contracts currently considered to be short-term will automatically meet the criteria to apply the PAA. Contracts with a longer tail, such as engineering and liability business, may not meet the above criteria for the application of the PAA, and therefore the BBA should be applied. Short-term insurers should consequently review the possible impacts which the new ICS may have on their contracts.

We have prepared an example demonstrating the application of the PAA. We have compared the results in terms of the PAA with the current unearned premium approach applied by insurers as well as the application of the BBA. The example illustrates how PAA is a good proxy of the BBA.

Background to the example:

- A new insurer enters into a portfolio of 100 annual insurance policies covering damage to similar commercial buildings.

- The annual period covered by all policies is from 1 April 2020 to 31 March 2021.
- Premium for the year is R1 200 per contract (assuming all contracts within the portfolio have the same risk profile).
- Premiums are payable on a quarterly basis, i.e. R300 per contract at the start of each quarter.
- Commission of 20 percent of the premium is payable to the brokers on receipt of the quarterly premiums (i.e. 20 percent of the R300 received per contract per quarter).
- If the insurance policy lapsed after a quarter, no future commission is payable to the broker.
- The insurer has made an accounting policy election to defer the commission expense.
- The year-end is 31 December 2020.
- The insurer has no historic experience of claims. Expected incurred claims are estimated on the basis that claims will be consistent throughout the contract period.

Assumptions:

Expected incurred claims as determined at inception of the contracts, are consistent month on month. The expected incurred claims and expected future cash flows per month did not change as time progressed throughout the period.

- The expected claims include reported claims as well as incurred but not reported claims.
- The actual incurred claims experience was different to expectations.
- For claims incurred within a month, a portion of the claims was reported and paid in that month, a portion was reported but remained unpaid at month-end (settled in the following month), and a portion will only be reported and paid in the following month.
- Premium and commission cash flows occur on day 1 of the quarter.
- Due to the short duration of cash flows, no discounting was applied for PAA. To be able to compare results, we have also ignored discounting for the purpose of the BBA.
- IBNR for the current basis has been determined using an ultimate loss ratio technique.
- IBNR for the PAA and BBA is the difference between the estimate of expected incurred claims to date and actual incurred claims to date.
- The risk adjustment is determined for the PAA and BBA using a confidence level technique. The risk adjustment is determined for the portfolio as a whole, at a point in time, based on all future cash flows. It has been calculated as follows:

Future expected cash flows at 75th percentile	xxx
Less: Future estimated expected cash flows	(xxx)
Risk adjustment	**xxx**

Notes

- Cumulative accounts in the income statement and statement of financial position (presented to the right) refer to the period starting 1 April 2020 and ending on the date as indicated (for example, 30 April 2020).
- For the PAA and BBA we have kept the same line items currently used by insurers, for example, outstanding claims provision, etc. The new ICS does not specifically require this detail.
- Revenue of the BBA includes claims expected to occur in a particular month, although the cash flows took place over two months.

Abbreviations used:

- UPP – Unearned premium provision
- CSM – Contractual service margin
- OCR – Outstanding claims reserve (provision)
- IBNR – Incurred but not reported reserve (provision)
- DAC – Deferred acquisition costs

The actual claims experience throughout the period for the current basis, PAA and BBA are as follows:

	Actual incurred and reported (movement)	**Actual paid (movement)**	**Outstanding (balance)**	**Outstanding (movement)**
Inception	-	-	-	-
April	2 650	400	2 250	2 250
May	3 800	3 500	2 550	300
June	3 650	4 000	2 200	(350)
July	3 750	1 900	4 050	1 850
August	3 600	3 200	4 450	400
September	3 900	3 700	4 650	200
October	3 750	5 200	3 200	(1 450)
November	3 650	3 500	3 350	150
December	3 750	2 750	4 350	1 000
January	3 950	5 000	3 300	(1 050)
Februaury	3 650	4 300	2 650	(650)
March	3 750	3 650	2 750	100
Run off claims	750	3 500	-	(2 750)
	44 600	44 600		

A LEADER TAKES PEOPLE WHERE THEY WANT TO GO. A GREAT LEADER TAKES PEOPLE WHERE THE DON'T NECESSARILY WANT TO GO, BUT OUGHT TO BE.

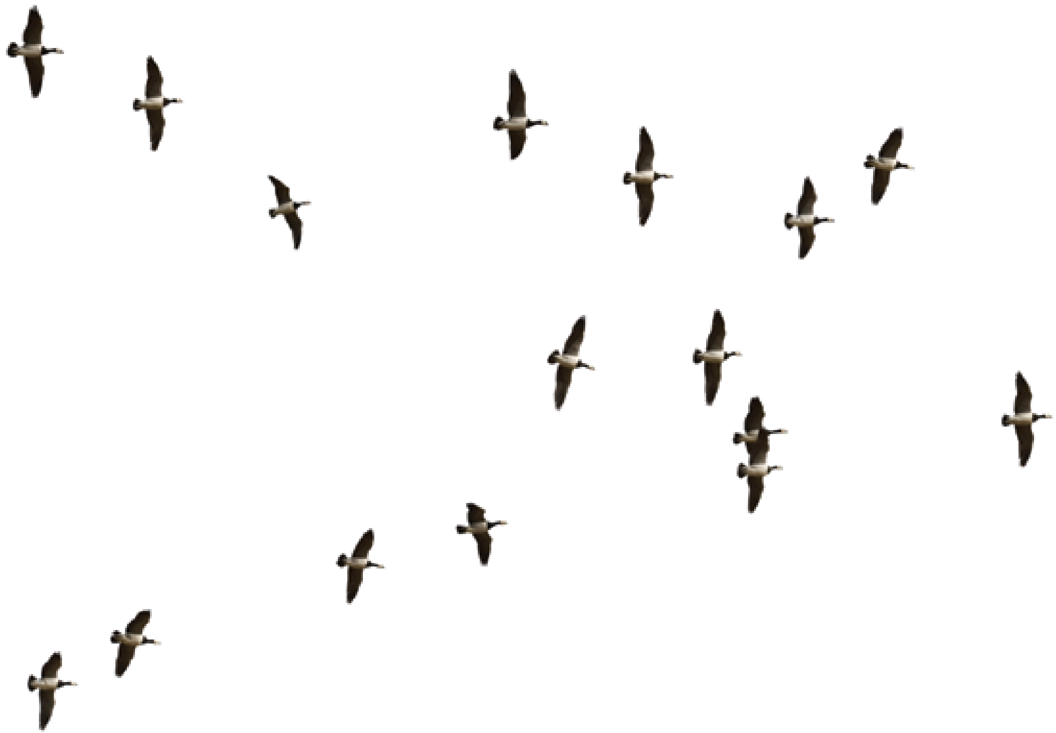
Rosalyn Carter

The IBNR and risk adjustment for each month is as follows:

	IBNR (balance) PAA and BBA	IBNR (movement) PAA and BBA	IBNR (balance) Current basis	IBNR (movement) Current basis	Risk adjustment (balance) BBA	Risk adjustment (movement) BBA	Risk adjustment (balance) PAA	Risk adjustment (movement) PAA
Inception	-	-	-	-	2 400	2 400	-	-
April	1 050	1 050	1 250	1 250	2 365	(35)	165	165
May	950	(100)	1 350	100	2 175	(190)	175	10
June	1 000	50	1 600	250	1 960	(215)	160	(15)
July	950	(50)	1 750	150	1 850	(110)	250	90
August	1 050	100	2 050	300	1 675	(175)	275	25
September	850	(200)	2 050	-	1 475	(200)	275	-
October	800	(50)	2 200	150	1200	(275)	200	(75)
November	850	50	2 450	250	1 010	(190)	210	10
December	800	(50)	2 600	150	858	(153)	258	48
January	550	(250)	2 550	(50)	593	(265)	193	(65)
Febriuary	600	50	2 800	250	363	(230)	163	(30)
March	550	(50)	2 950	150	165	(198)	165	3
Run off claims	-	(550)	-	(2 950)	-	(165)	-	(165)

The cash flows and cash balances throughout the period are as follows:

	Inception	30 April	31 May	30 June	31 July	31 Aug	30 Sept	31 Oct	30 Nov	31 Dec	31 Jan	28 Feb	31 March	30 Apr
Opening cash	-	24 000	23 600	20 100	16 100	38 200	35 000	31 300	50 100	46 600	43 850	62 850	58 550	54 900
Inflows of premium	30 000	-	-	-	30 000	-	-	30 000	-	-	30 000	-	-	-
Outflows of claims	-	(400)	(3 500)	(4 000)	(1 900)	(3 200)	(3 700)	(5 200)	(3 500)	(2 750)	(5 000)	(4 300)	(3650)	(3 500)
Outflows of commission	(6 000)	-	-	-	(6 000)	-	-	(6 000)	-	-	(6 000)		-	-
Closing cash	**24 000**	**23 600**	**20 100**	**16 100**	**38 200**	**35 000**	**31 300**	**50 100**	**46 600**	**43 850**	**62 850**	**58 550**	**54 900**	**51 400**



IF SOMETHING IS IMPORTANT ENOUGH, EVEN IF THE ODDS ARE AGAINST YOU, YOU SHOULD STILL DO IT..

Elon Musk

The impact of the application of the current unearned premium approach, the PAA and the BBA on the income statement at inception and one month into the period is as follows:

Income statement				**Cummulative accounts**		
	1 April - Day 1			30 April - after 1 month		
	Current basis	**PAA**	**BBA**	**Current basis**	**PAA**	**BAA**
Gross written premium	120 000	-	-	120 000	-	-
UPP movement	(120 000)	-	-	(110 000)	-	-
Revenue recognised for coverage	-	-	-	-	10 000	-
Release of risk adjustment	-	-	-	-	-	35
Release of CSM	-	-	-	-		4 100
Expected claims	-	-	-	-		3 700
Acquistion costs	-	-	-	-		2 000
Revenue	-	-	-	*10 000*	*10 000*	*9 835*
Reported claims incurred	-	-	-	(2 650)	(2 650)	(2 650)
Movement in IBNR	-	-	-	(1 250)	(1 050)	(1 050)
Risk adjustment	-	-	-	-	(165)	-
Claims incurred	-	-	-	*(3 900)*	*(3 865)*	*(3 700)*
Acquisition costs incurred	(24 000)	-	-	(24 000)	(2 000)	(2 000)
Movement in DAC	24 000	-	-	22 000	-	(2 000)
Acquisition expense	-	-	-	*(2 000)*	*(2 000)*	*(2 000)*
Profit or loss	-	-	-	**4100**	**4 135**	**4 135**

Based on the results above, the PAA does not have a significant impact on revenue and profit for the period to date.

The line items in the income statement are different as there will be no separate UPP or DAC. For the unearned premium approach, the total incurred acquisition cost and the corresponding DAC movement are presented. Should the insurer have elected to expense the commission upfront, the full R6 000 paid would have been expensed on day one when applying the PAA.

Revenue

The revenue recognised is slightly different for the PAA and BBA as the latter's revenue is the sum of many components. The PAA revenue is simply based on the straight-line unwinding of the R30 000 premium received upfront at the start of the quarter (R30 000 / 3 months = R10 000 per month).

Written premiums will no longer be presented on the face of the income statement. Gross premiums are often a key performance measure, and insurers may need to change their key performance measures or disclose written premiums in the notes.

Claims

For the purposes of this example, the claims incurred for PAA and BBA have been presented as follows:

- the reported claims incurred (based on actual)
- the movement in the IBNR provision (determined using estimated cash flows); and
- the movement in the risk adjustment.

The incurred claims is greater on the current basis, due to the additional prudency included by calculating IBNR using an ultimate loss ratio. The prudency introduced by using an ultimate loss ratio is greater than the risk adjustment, as the risk adjustment is determined using a confidence level.

Statement of financial position				**Cummulative accounts**		
	1 April - Day 1			30 April - after 1 month		
	Current basis	**PAA**	**BBA**	**Current basis**	**PAA**	**BAA**
Assets	***138 000***	***24 000***	***24 000***	***135 600***	***23 600***	***23 600***
Bank	24 000	24 000	24 000	23 600	23 600	23 600
DAC	24 000	-	-	22 000	-	-
Debtor	90 000			90 000	-	-
Equity	**-**	**-**	**-**	***(4 100)***	***(4 135)***	***(4 135)***
Retained earnings	-	-	-	(4 100)	(4 135)	(4 135)
Liabillities	***(138 000)***	***(24 000)***	***(24 000)***	***(131 500)***	***(19 465)***	***(19 465)***
UPP	(120 000)	-	-	(110 000)	-	-
Liability for remaining coverage	-	(24 000)	(24 000)	-	(16 000)	(18 755)
Liability for incurred claims	-	-	-	(3 500)	(3 465)	(710)
OCR	-	-	-	(2 250)	(2 250)	(710)
IBNR	-	-	-	(1 250)	(1 050)	-
Risk adjustment	-	-	-	-	(165)	-
Payable	(18 000)	-	-	(18 000)	-	-

Current method

In terms of the PAA, there will no longer be grossing up of the assets and liabilities which is used when the unearned premium approach is applied. The following amounts were presented in terms of the current method:

	Amounts at inception	Amounts at 30 April
UPP	120 000	110 000
DAC	24 000	22 000
Debtor	90 000 which represents the 30 000 premium to be received at the start of the remaining quarters.	90 000
Payable	18 000 which represents the 6 000 commission to be paid at the start of the remaining quarters.	18 000

PAA

Under the PAA, only the received premium and paid commission for the first quarter are included in determining the liability for remaining coverage. The liability for remaining coverage on day one (at inception, but after the day one cash inflow of premium and outflow of commission), is calculated as follows:

Quarterly premium of 30 000 received: 1 200 per contract * 100 contracts / 4 quarters	30 000
Less: Commission of 6 000 paid: 30 000 premium * 20%	6 000
Liability for remaining coverage	**24 000**

BBA

The liability for remaining coverage on day one (at inception, before the day one cash inflow of premium and outflow of commission), is calculated as follows:

Present value of future cash flows	51 600
Risk adjustment	(2 400)
CSM	(49 200)
Insurance liability	**-**

The CSM of 49 200 will be recognised over the 12 months as follows: 49 200/12 = 4 100

The liability for remaining coverage for the BBA comprises of the following building blocks as at 30 April:

Present value of future cash flows	28 710
Risk adjustment	(2 365)
CSM	(45 100)
Insurance liability	**(18 755)**

The income statements for the quarter ended 30 June (one quarter into the contracts) and for the year ended 31 December are as follows:

Income statement	Cummulative accounts			Cummulative accounts		
	30 June - after 1 quarter			31 Dec - year end (3 quarters)		
	Current basis	**PAA**	**BBA**	**Current basis**	**PAA**	**BAA**
Gross written premium	120 000	-	-	120 000	-	-
UPP movement	(90 000)	-	-	(30 000)	-	-
Revenue recognised for coverage	-	(30 000)	-	-	90 000	-
Release of risk adjustment	-	-	440	-	-	1543
Release of CSM	-	-	12 300	-		36 900
Expected claims	-	-	11 100	-		33 300
Acquistion costs	-	-	6 000	-		18 000
Revenue	*30 000*	*30 000*	*29 840*	*90 000*	*90 000*	*89 743*
Reported claims incurred	(10 100)	(10 100)	(10 100)	(32 500)	(32 500)	(32 500)
Movement in IBNR	(1 600)	(1 000)	(1 000)	(2 600)	(800)	(800)
Risk adjustment	-	(160)	-	-	(258)	-
Claims incurred	*(11 700)*	*(11 260)*	*(11 100)*	*(35 100)*	*(35 558)*	*(33 300)*
Acquisition costs incurred	(24 000)	(6 000)	(6 000)	(24 000)	(18 000)	(18 000)
Movement in DAC	18 000	**-**	**-**	6 000	-	-
Acquisition expense	*(6 000)*	*(6 000)*	*(6 000)*	*(18 000)*	*(18 000)*	*(18 000)*
Profit or loss	**12 300**	**12 740**	**12 740**	**36 900**	**38 443**	**38 443**

The profit or loss continues to remain consistent between PAA and BBA. The additional prudency included in the IBNR under the current basis results in a lower profit for the current basis.

The statements of financial position at 30 June and at 31 December (year-end) are as follows:

Statement of financial position	Cummulative accounts			Cummulative accounts		
	30 June - after 1 quarter			31 Dec - year end (3 quarters)		
	Current basis	PAA	BBA	Current basis	PAA	BAA
Assets	**124 100**	**16 100**	**16 100**	**79 850**	**43 850**	**43 850**
Bank	16 100	16 100	16 100	43 850	43 850	43 850
DAC	18 000	-	-	6000	-	-
Debtor	90 000	-	-	30 000	-	-
Equity	**(12 300)**	**(12 740)**	**(12 740)**	**(36 900)**	**(38 443)**	**(38 443)**
Retained earnings	(12 300)	(12 740)	(12 740)	(36 900)	(38 443)	(38 443)
Liabilities	**(111 800)**	**(3 360)**	**(3 360)**	**(42 950)**	**(5 408)**	**(5 408)**
UPP	(90 000)	-	-	(30 000)	-	-
Liability for remaining coverage	-	-	(2 750)	-	-	(2 848)
Liability for incurred claims	*(3 800)*	*(3 360)*	*(610)*	*(6 950)*	*(5 408)*	*(2 560)*
OCR	(2 200)	(2 200)	(610)	(4 350)	(4 350)	(2 560)
IBNR	(1 600)	(1 000)	-	(2 600)	(800)	-
Risk adjustment	-	(160)	-	-	(258)	-
Payable	**(18 000)**	**-**	**-**	**(6 000)**	-	-

PAA

We note that at the end of quarter 1, under the PAA, there is no liability for remaining coverage. The liability for remaining coverage is calculated as follows:

Premiums received for the quarter	30 000
Less: acquisition costs paid	(6 000)
Less: acquisition costs expenses	6 000
Less: revenue recognised	(30 000)
Liability for remaining coverage	**-**

BBA

The insurance liability for remaining coverage under BBA is as follows:

	30 June	**31 December**
Present value of future cash flows	36 110	10 310
Risk adjustment	(1 960)	(858)
CSM	(36 900)	(12 300)
Liability for remaining coverage	**(2 750)**	**(2 848)**

Below is the income statements for the three months ending 31 March 2021 (the end of the contracts) and for the four months ending 30 April 2021 (once all claims incurred prior to 31 March have been paid):

Income statement	Following year new accounts			Following year new accounts		
	31 Mar - end of contract			30 Apr - claims all paid		
	Current basis	**PAA**	**BBA**	**Current basis**	**PAA**	**BAA**
Gross written premium	-	-	-	-	-	-
UPP movement	(30 000)	-	-	30 000	-	-
Revenue recognised for coverage	-	(30 000)	-	-	30 000	-
Release of risk adjustment	-	-	693	-	-	858
Release of CSM	-	-	12 300	-		12 300
Expected claims	-	-	11 100	-		11 100
Acquistion costs	-	-	6 000	-		6 000
Revenue	*30 000*	*30 000*	*30 093*	*30 000*	*30 000*	*30 258*
Reported claims incurred	(11 350)	(11 350)	(11 350)	(12 100)	(12 100)	(12 100)
Movement in IBNR	(350)	250	250	2600	800	800
Risk adjustment	-	93	-	-	(258)	-
Claims incurred	*(11 700)*	*(11 008)*	*(11 100)*	*(9 500)*	*(11 043)*	*(11 300)*
Acquisition costs incurred	-	(6 000)	(6 000)	-	(6 000)	(6 000)
Movement in DAC	(6 000)	**-**	**-**	6 000	-	-
Acquisition expense	*(6 000)*	*(6 000)*	*(6 000)*	*(6 000)*	*(6 000)*	*(6 000)*
Profit or loss	**12 300**	**12 993**	**12 993**	**14 500**	**12 958**	**12 958**

As the year-end is 31 December 2021, the above income statements do not present the cumulative result for the portfolio from 1 April 2020 – 31 March 2021, but rather the January – March movements.

For the current method, the previously recognised additional prudency within the IBNR provision has now been released at the conclusion of the contracts.

Statement of financial position						
	31 Mar - end of contract			30 April - claims all paid		
	Current basis	PAA	BBA	Current basis	PAA	BAA
Assets	**54 900**	**54 900**	**54 900**	**51 400**	**51 400**	**51 400**
Bank	54 900	54 900	54 900	51 400	51 400	51 400
DAC	-	-	-	-	-	-
Debtor	-	-	-	-	-	-
Equity	**(49 200)**	**(51 435)**	**(51 435)**	**(51 400)**	**(51 400)**	**(51 400)**
Retained earnings	**(49 200)**	**(51 435)**	**(51 435)**	**(51 400)**	**(51 400)**	**(51 400)**
Liabilities	(57 00)	(3 465)	(3 465)	-	-	-
UPP	-	-	-	-	-	-
Liability for remaining coverage	-	-	(2 755)	-	-	-
Liability for incureed claims	(5 700)	(3 465)	(710)	-	-	-
OCR	(2 750)	(2 750)	(710)	-	-	-
IBNR	(2 950)	(550)	-	-	-	-
Risk adjustment	-	(165)	-	-	-	-
Payable	**-**	**-**	**-**	-	-	-

At 31 March 2021, although the contracts have concluded, there are still liabilities remaining on the statement of financial position for all three methods. These liabilities represent the claims reported which have not yet been paid, as well as the claims incurred prior to 31 March which have not yet been reported. By 30 April 2021, these liabilities would be zero as all claims have been reported and settled (as per the assumption of a one month run-off).

How should this example be applied to insurance contracts?

Many assumptions are used in this example to simplify the illustrations, however in real life cases nuances for each contract may create additional complexities. When reviewing the example, insurers should evaluate how their contracts are different, and what impact this would have.

Specifically, insurers should consider the timing of cash flows and the level of prudency within current insurance contract liabilities.

What should insurers do?

As we move closer towards an issued Standard on Insurance Contracts, insurers should understand the differences between their current accounting basis, and the PAA or BBA.

An understanding of how the PAA and BBA differ will facilitate in the decision as to which method to apply. It is time to look forward, and brace the "unusual" as the application of the PAA may not result in business as usual as some insurers are expecting.

THE DAY BEFORE SOMETHING IS A BREAK THROUGH IT'S A CRAZY IDEA.

Peter Diamandis

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Will IFRS 9 impact insurers?

How does IFRS 9 impact insurers?

The effective date of IFRS 9 Financial Instruments (IFRS 9) is around the corner – could South African insurers adopt IFRS 9 when the final insurance contracts standard[1] is effective, or should they start an IFRS 9 conversion project soon?

Many preparers were concerned as the effective date of the final insurance contracts standard will only be after 1 January 2020, far later than the effective date of IFRS 9 which is for year-ends commencing on or after 1 January 2018.

The International Accounting Standards Board (IASB) addressed these concerns and published an exposure draft[2] towards the end of last year, giving insurance companies, subject to certain criteria to be met, the options to defer the implementation of IFRS 9 (deferral approach) or to reduce the impact of IFRS 9 on current numbers (overlay approach).

These final amendments to IFRS 4 Insurance Contracts (IFRS 4)[3] are currently expected to be published in eptember 2016.

Deferral approach

Entities that qualify for the deferral approach will only apply IFRS 9 for year-ends commencing on or after 1 January 2021.

A temporary exemption from applying IFRS 9 would be permitted for an entity, if the entity's activities are predominantly related to insurance and comprise of:

- Issuing contracts in the scope of IFRS 4 that give rise to liabilities whose carrying amount is significant compared with the total carrying amount of the entity's liabilities; and
- Issuing investment contracts that are measured at fair value through profit or loss (FVPL) under IAS 39 Financial Instruments: Recognition and Measurement (IAS 39).

Investment contracts are also included as they are often sold alongside similar products with significant insurance risk and are regulated as insurance contracts (i.e. they are related to insurance).

The predominance ratio for an entity should be calculated as follows:

[Liabilities arising from the activities related to insurance] + [other liabilities that are connected to those activities, such as investment contract liabilities]

Total carrying amount of the entity's liabilities

An entity's activities should be deemed to be predominately related to insurance only if the predominance ratio is:

- Greater than 90 percent; or
- Greater than 80 percent but less than or equal to 90 percent, and the entity can provide evidence that it does not have a significant activity that is unrelated to insurance.

[1] Final standard expected to be issued at the end of 2016.
[2] We have also referred to subsequent meetings up to May of the IASB where tentative decisions were made.
[3] Effective for year-ends commencing on or after 1 January 2005.

An entity is required to calculate the predominance ratio, to determine if it qualifies, using the carrying amounts of the liabilities reported for the annual reporting period that ended between 1 April 2015 and 31 March 2016. For example, for a reporting period that ends on 31 December, the assessment will be done on the statement of financial position as at 31 December 2015. By doing this assessment before the effective date of IFRS 9, entities can determine early if they would qualify for the deferral approach. If they do not qualify, they can start their IFRS 9 conversion project in time.

Would South African insurers be able to apply the deferral approach?

In our view, some insurers may qualify based on the insurance and related liabilities included in the separate financial statements.

A group would not qualify if the consolidated financial statements include subsidiaries with predominant insurance activities as well as subsidiaries with significant activities that are unrelated to insurance, e.g. banking activities. Although the insurance subsidiary may qualify for the deferral in its separate financial statements, it may not be cost effective to apply as the group would not meet the required threshold and would be required to apply IFRS 9 from the effective date.

Overlay approach

Entities will apply IFRS 9 for year-ends commencing on or after 1 January 2018.

The overlay approach, if elected, should be applied to financial assets that meet both the following criteria:

- The entity designates the financial assets as relating to contracts that are in the scope of IFRS 4; and
- The financial assets are classified at FVTPL under IFRS 9 and would not have been classified at FVTPL under IAS 39, i.e. were previously (or would have been) measured at amortised cost or classified as available-for-sale.

Financial assets relating to contracts within the scope of IFRS 4 should include financial assets that an entity holds to fund the settlement of liabilities arising from an expected level of claims and expenses, and additional/surplus assets that an entity holds for regulatory compliance, credit rating or its own (internal) capital requirements.

An entity should recognise, as an adjustment to other comprehensive income (OCI), an amount equal to the difference between the amounts recognised in profit or loss under IFRS 9 and under IAS 39.

For example, an entity has equity instruments classified as an available-for-sale investment in terms of IAS 39. The fair value gain recognised for the year ended 31 December 2018 is R5 000. In terms of IFRS 9 this financial asset will be measured at FVPL and R5 000 will be recognised in profit or loss. If the overlay approach is applied, an adjustment of R5 000 (as a separate line item) will be made to profit or loss and R5 000 will be recognised in OCI.

The effect of this adjustment is that profit or loss is not impacted by the volatility of fair value gains or losses on the financial instruments. The overlay approach can be applied until the new insurance contracts standard is effective.

It can be applied in the separate and consolidated financial statements. In the consolidated financial statements the designated financial assets related to insurance contracts could be held by one legal entity but the insurance contracts could be issued by a different legal entity. For example, in the consolidated financial statements, the reporting entity (i.e. holding company) that issues contracts in the scope of IFRS 4 may have a subsidiary that holds and manages financial instruments that relate to the entity’s IFRS 4 contracts.

Would South African insurers apply the overlay approach?

The adoption of this approach requires IFRS 9 and IAS 39 to be applied to financial assets relating to contracts within the scope of IFRS 4. Generally, we do not believe insurers would be following this approach as it may not be cost effective and many insurers currently account for their financial assets as at fair value through profit or loss.

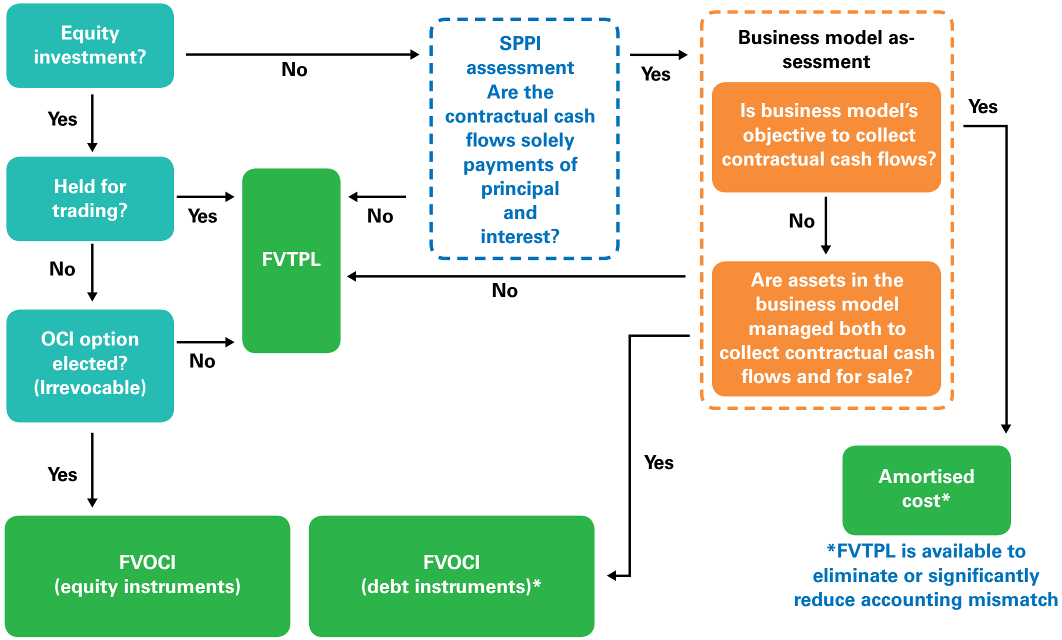
IFRS 9 conversion project

For insurers that do not elect or do not qualify to apply the deferral or overlay approach, IFRS 9 has to be applied for year-ends commencing on or after 1 January 2018.

Insurers should perform a comprehensive review of financial assets to ensure that they are appropriately classified and measured in accordance with IFRS 9.

A business model assessment is required for financial assets that meet the **SPPI** criterion - i.e. where the contractual terms of the financial asset give rise, on specified dates, to cash flows that are Solely Payments of Principal and Interest. Financial assets that do not meet the SPPI criterion are classified as at FVPL, irrespective of the business model in which they are held – except for investments in equity instruments, for which an entity may elect to present gains or losses in OCI (FVOCI).

The classification for equity instruments and debt instruments into the principal measurement categories can be summarised as follows:



Equity instruments

Many insurers would be required to measure investments in equity instruments at FVPL. In our view, it is unlikely that insurers would elect the FVOCI category, as the majority of changes in insurance liabilities will be recognised in profit or loss (in terms of the final insurance contracts standard).

Debt instruments

The business model for debt instruments is determined at a level that reflects the way groups of financial assets are managed to achieve a particular business objective. An entity may have more than one business model for managing financial assets. IFRS 9 states that an entity's business model for managing the financial assets is a matter of fact and is typically observable through particular activities that the entity undertakes to achieve the objectives of the business model.

The following points are examples of relevant and objective evidence:

- How the performance of the business model (and the financial assets held within that business model) is evaluated and reported to the entity's key management personnel.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed.
- How managers of the business are compensated, e.g. whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected.
- The frequency, volume and timing of sales in prior periods, the reasons for such sales, and its expectations about future sales activity.

The above criteria could be applied to an example where an insurer's portfolios of debt instruments are managed by asset managers. The asset managers would report the fair value regularly to the insurer and would manage the debt instruments, based on their mandate, to address the risks that affect performance, for example: liquidity and growth. The asset managers are generally paid a fixed management fee based on the market value of the debt instruments at a point in time. If a certain hurdle is reached, namely, growth in the market value of the debt instruments in excess of CPI, a performance fee is payable. Regular sales will take place as the asset managers oversee the debt instruments and rebalance the portfolios. Based on the information provided, the objective of the business model of the debt instruments is management on a fair value basis. Consequently the debt instruments will be classified as at FVPL.

Debt instruments should be measured at amortised cost if the business model is to hold the assets to collect contractual cash flows. If the business model is to hold the assets to collect contractual cash flows and to sell them, the debt instruments should be measured at FVOCI. If the debt instruments are measured at amortised cost or FVOCI, an insurer still has the option at initial recognition to irrevocably designate them as at FVTPL if doing so eliminates or significantly reduces a measurement or recognition mismatch. It could perhaps be argued that if the changes in insurance liabilities are recognised in profit or loss (based on the new insurance contracts standard), there is a measurement mismatch between the insurance liabilities and debt instruments.

Consequently the debt instruments will be designated as at FVPL.

If the debt instruments at amortised cost or FVOCI could not be designated as at FVOCI, impairment allowances based on expected credit losses should be calculated and recognised. Expected credit losses are measured as the present value of all cash shortfalls over the expected life of the debt instrument. An insurer should decide how to apply the expected credit loss model to its debt instruments and develop impairment methodologies and controls.

Impact on insurers

If insurers cannot delay the adoption of IFRS 9, they should assess the impact of IFRS 9 as soon as possible. Apart from the accounting impact, systems and processes may need to be modified to apply IFRS 9 and to satisfy the new disclosure requirements required in the financial statements. The changes to systems and processes may necessitate changes to key internal controls over financial and regulatory reporting or impact the way in which work is performed by relevant personnel.

When is the perfect time to start with an IFRS 9 conversion project?

In the words of Rasheed Ogunlaruc "Who can say, but probably somewhere between haste and delay - and it's usually most wise to start today."

Finance transformation

With the ever increasing pressure on finance executives not to be historians but strategists, business executives are looking for finance partners who can help drive the business' corporate strategy, growth and profitability whilst improving the financial and operational performance.

With this change in finance focus, KPMG has developed an integrated finance transformation solution to help finance executives navigate through finance performance enhancement whilst making critical, relevant decisions using strategically applied processes, technology and tools.

KPMG Management Consulting can assist finance executives evolve their operating models to encompass leading edge strategies and approaches.

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The changing face of financial advice (RDR)

The changing face of financial advice

The rumblings of the new era started in 2002 with the publication of the FAIS Act, followed quickly by the Statement of Intent in 2005. Fast forward to 2016 and there is no doubt that the Retail Distribution Review (RDR) is going to fundamentally change the face of the industry. Far from a tick box exercise, the RDR will have a profound impact on product development, innovation and systems, which will provide business with an opportunity to reassess their distribution models, product design, IT systems and general business capability. Ultimately building a business that is well positioned to move forward into the new era.

The RDR discussion paper, released in November 2014, outlines a total of 55 proposals which it suggests will be implemented in a three phase approach. The first phase, implementing 14 of the 55 proposals, will address aspects such as product supplier influence, commission anomalies and equivalence of reward, whilst also addressing the key concept of adviser categorisation. This, in turn, will require structural changes to distribution models, placing greater responsibility on product suppliers to ensure delivery of fair customer outcomes. Innovation designed to effectively address conflict of interest, maintain a competitive edge and enabling a self-directed, advice driven sales force will secure a successful paradigm shift and an "out with the old and in with the new" approach to business.

The future face of the financial adviser

It's a whole new world out there for the financial adviser who is willing to evolve his practice. Many advisers will tell how they have spent years perfecting their sales skills. No longer content with a compelling sales technique, the adviser of the future needs to create and, more importantly, constantly validate a value proposition that is beyond fault.

Rumour has it that the far reaching changes proposed by the RDR will see financial adviser numbers drop significantly, that clients will be reluctant to embrace the concept of advice fees, and will thus go direct for their insurance needs, contributing to the increasing advice gap. With every risk, however, is an opportunity and for the financial adviser who is willing to evolve his business, the future has never been brighter. Perhaps in the words of Socrates, "The secret to change is to focus all of your energy, not on fighting the old, but on building the new."

The advisory relationship is complex and demanding. Based heavily on trust and reputation, the decision to engage the adviser's services are reliant on emotive factors as well as historical performance, recommendations from other professionals and qualifications.

Clients will question whether a financial adviser really understands their needs, as well as demanding a differentiated service that cannot simply be obtained online or via a call centre.

Easy to access, and promising to cut the middle man out in what is traditionally a grudge purchase, added to tight economic conditions, clients are in danger of not even realising what their needs are. A non-existing comprehensive financial needs analysis and single needs selling could result in dangerous shortfalls.

Added to this subjective assessment is the fact that advisers are unwittingly competing against the newest player in the market – the robo-adviser. Sounding slick and sophisticated with a compelling futuristic title, the robo-adviser is a sales process driven by an automated web of decision trees. However, the robo-adviser is far more than a financial calculator. The term robo-adviser implies in itself that an element of advice would be retained in the process but without the intervention of a traditional (human) financial adviser. A robo-adviser, in its pure form, provides a certain degree of advice, although on a more limited basis, and such advice would assist a client in making certain financial decisions. Attractive especially when markets are performing well and returns are solid, the model is likely to be favoured by the younger tech dependant investors, enabling an anytime, anywhere opportunity to transact.

Product suppliers need to carefully consider how they distribute their products in the RDR world, and perhaps a robo-advisor will assume the role off a sales enabler rather than evolve into an additional distribution model. However, to truly gain maximum benefit of the robo-adviser model, clients need to understand that this model may simplify the investing process, but is unlikely to be able to replace the holistic advice given by the traditional financial adviser, even if it does only lack the personal touch. By its very nature, the scope of the robo-adviser is limited and unlikely to usurp the financial adviser.

Building a sustainable practice

Brian Foster, founder of Brian Foster Coaching & Consulting says, "The problem for advisers is that this isn't really a regulation problem, it's a business model problem." RDR raises a key two-part question: how do we persuade clients to pay for advice, and how do we make it profitable? The opportunity to critically assess the current operating model, provides the ideal occasion to determine the success factors for a sustainable practice. This is where the value proposition becomes critical: what are we selling, who are we selling it to and at what price?

Cash flow matters

Moving from a commission-based model to a fee-based model comes with its own set of complications and cash flow is only one of them. Having that initial conversation with a client can be awkward and requires a solid belief in skill, professionalism and value proposition. A fee-based model can have the upside of mitigating the risk of commission claw backs and reducing the possibility of clients not taking up the product recommended after the time has been spent researching and completing the financial needs analysis. Advisers who choose to embrace this model sooner rather than later will be more likely to transition successfully. A growing annuity income will mean that their business will be more resilient to cash flow problems as research shows that clients are more likely to favour a fee model which charges on a per task basis. It is estimated that cash flow challenges accounted for as much as 11 percent of the reduction in financial adviser numbers in the UK, post implementation of these changes. More importantly for the adviser of the future, the critical success factor lies in building a sustainable practice with a solid value proposition and an appropriate pricing model.

The advice gap

RDR is well established in the UK, so it serves well that we can draw some valuable lessons from their experiences. First and foremost, we must remember that in South Africa we have seen a more staggered evolution of the financial advice market. Minimum standards of professionalism are now widely accepted as the norm in the industry and have already raised the bar, resulting in more comprehensive financial planning and improved advice to clients. This result aligns well with the Financial Services Board's (FSB) stated intention to enhance professionalism and improve customer outcomes. However, professionalism and quality advice come at a price, one which the South African customer is not used to paying for. This could mean that a large portion of customers are priced out of the market, as a result of a reluctance to pay for advice. All while the same result can supposedly be achieved by an online purchase, or the view that in tough economic times financial advice is a grudge purchase which can be pushed further down the list of priorities. Either way, the potential result is an increasing advice gap which could easily become a vacuum, defeating the very intention of the RDR. The net effect will only be seen when the client lifecycle runs its course: the uninsurable middle-aged client who neglected to take out critical illness, disability or life cover whilst young and healthy, the client who faces retirement with insufficient capital to meet his needs, or the dependants who are left without provision on death of the breadwinner.

This very real threat begs the question: how do we enable the mid-market to understand the nature and value of the financial planning process? How do we ensure that the advice models catering for their needs are both affordable, appealing and profitable? How do product suppliers market their products in an intermediated market that is shrinking?

Many firms have adopted a wait and see approach to what will actually be required by the RDR, however one thing is clear: a clear change in business activities in the UK was evident: a move from pushing a product into the market, to a clearly defined focus on financial planning. Product suppliers offering an effective financial planning platform to the financial adviser recorded a successful transition with product sales being an obvious next step.

After all, the very first desired outcome stated by the RDR is its intent to support the delivery of suitable products and provide fair access to suitable advice for financial customers.

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Privacy and wearable technologies - A POPI dilemma?

As technology becomes less of a utility and begins to retain intelligence about who we are through wearables, organisations will begin to invest in such technologies to gain competitive advantage and consumer insights through what has become "human telematics". As consumers increasingly demand meaningful, personalised, communications and engagement with their insurance providers through seamless platforms such as wearables, insurers will, by necessity, be required to integrate wearable technologies into their product offering to retain their competitive edge. Technological integration positively impacts both insurers and consumers, however, we need to "draw a line in the sand" between utility and the right to privacy so as to avoid over-reaching privacy invasions.

The wearable device market, also known as the quantified self market, has amassed popularity in recent years. In 2015, global retail in this market was expected to reach US$ 4.5 Billion, and was estimated to increase by 2019 to a whopping US$ 53 Billion[1].

Rapid innovations in technology, falling costs in the unit price of devices, and a general social trend toward health by tech-savvy consumers, are largely held to be the drivers of the increased demand for health-related wearables. Ian Chen, a marketing manager at Freescale Semi-Conductors Sensor Division, believes that "by 2025, there will be more data generated from sensors and devices than all of the data being generated today from every source."

With increased demand comes a highly competitive market with new and old entrants battling it out to produce better, more accurate and more useful wearables. The pace of innovation and demand in this space is increasingly leading to concerns over privacy and inadequate security safeguards as development outstrips legislative and regulatory requirements. However, there is a further commercial benefit that insurers have been quick to leverage at the risk of potentially invading the privacy of their policyholders and users.

Security and privacy

Wearables present multiple attack vectors, in that they often require data to be transmitted to a processing application typically housed on a smart devices such as phones, tablets or computers. Furthermore, applications may store the data online. Gary Davis, the Chief Consumer Evangelist at Intel Security believes that the data collected through wearable devices "is worth 10 times more than that of a credit card on the black market."

Reviews by various security firms[2,3] have found multiple vulnerabilities in wearable devices and related applications, these range from exposed login credentials, network sniffing (wherein data transmitted from the device is visible to potential attackers), to being able to monitor a user's location through the device's tracking mechanisms and public networking capability. It is worth considering the security risks of wearables when linked to smart devices.

1 http://www.juniperresearch.com/press/press-releases/smart-wearables-market-to-generate-$53bn-hardware
2 http://www.forbes.com/sites/symantec/2014/08/19/how-safe-is-the-data-on-your-wearable-tech/
3 http://www.wickhill.com/blog/main-category/wearable-tech-just-how-secure-is-it/#.VWr61EaPMtl

Careless users may leave their wearable or smart phone unattended, where any person may pick it up and peruse the data stored thereon. Wearables themselves are not typically password protected or secured, and smartphones and other devices are only as secure as their lock screen password, if enabled.

Future concerns include the susceptibility of the Internet of Things to cyber-attacks. While not currently viewed as a serious problem, it is poised to become one as smart devices, wearables and other smart appliances become more widely adopted, providing would-be thieves with a plethora of information about individuals[4].

Privacy of the user is closely linked to the security considerations and concerns that are inherent to wearables. Wearables that process health-related information - which may be anything from vital statistics to sleeping patterns - and track user locations, require additional safeguards to be in place to ensure the protection and lawful processing of such information in accordance with various legislation and regulations in place worldwide. However, despite the number of countries with laws regulating the use of personal information, few laws holistically address the collection, storage, use, sharing and disclosure of personal information obtained through wearables.

Wearables are often used with a number of applications which may be free, paid for or come preinstalled on wearable devices. What is not evident is who has access to the data once you have loaded it from the wearable onto the application. Even more disconcerting is that once you have done so, you may not own the data anymore. A review of 100 health and fitness apps available on the iOS and Android app stores found that more than half of the reviewed programmes did not have a Privacy Policy[5] in place, which may be an indication of their lack of commitment to ensuring the privacy of users.

Globalisation provides another facet of complexity. Wearables and applications developed in one part of the world are quickly made available worldwide. Many countries have established privacy laws which regulate the processing of personal information, including health information, and in some countries more stringent safeguards to ensure the privacy of individuals' health-related information (such as HITECH in the United States) would need to be considered.

Furthermore, some countries require mechanisms to be in place to protect personal information that is transferred across borders. Through increased accessibility of wearables and related applications globally and the differing legal requirements for privacy between countries, challenges are presented to both users and service providers to determine the applicable legislation and regulatory framework that is to be applied.

Breaches of personal information held by organisations, especially health-related information, are also a concern. In 2014, the top five health-related breaches in the USA alone affected 7.4 million individuals.[6] Breaches of personal information are not only costly to the organisations responsible for the data – as highlighted in a recent IBM study which estimated the average cost of a breach to companies was US$3.5 Million[7]- but also to the individual whose sensitive health information becomes public or falls into the wrong hands.

INFORMATION TECHNOLOGY AND BUSINESS ARE BECOMING INEXTRICABLY INTERWOVEN. I DON'T THINK ANYBODY CAN TALK MEANINGFULLY ABOUT ONE WITHOUT THE TALKING ABOUT THE OTHER.

Bill Gates

Theft of individual health data, such as electronic medical records (EMR), for sale on the black market is extremely lucrative

[4] http://securelist.com/blog/research/66439/wearable-security-present-and-future/
[5] http://www.forbes.com/sites/symantec/2014/08/19/how-safe-is-the-data-on-your-cwearable-tech/
[6] http://www.databreachtoday.com/biggest-health-data-breaches-in-2014-a-7705
[7] http://www.935.ibm.com/services/multimedia/SEL03027USEN_Poneman_2014_Cost_of_Data_Breach_Study.pdf

Another emerging phenomenon regarding the theft of health information is medical identity theft, which is the use of stolen medical details to obtain medical care, buy drugs or submit fraudulent billing to medical aid schemes.[8] Medical records are worth up to US$50 per record on the black market[9], which when compared to US$1 per stolen credit card record, indicates why medical identity theft is so lucrative.[10] While data coming from your fitness band or glucose meter may not be as valuable as your electronic health record on the black market, users of wearables and their related applications need to be aware of the pervasive nature of the health information being collected and stored about them, and what a breach of that information might mean.

With health-related information fetching such a high price on the black market, and cybercrime already a problem, it probably will not be long before medical identity theft and other health data-related crime becomes prevalent in South Africa. While South Africa has enacted legislation to protect the privacy of individuals and electronic transactions through legislation, such as the Electronic Communications and Transactions Act (ECT) and Protection of Personal Information Act (POPI), cybercrime is often difficult to detect, and identifying and apprehending the culprit even more so.

What does this mean in the South African context?

South Africans have also been swept up in the wearable fever. Fitness bands, for example, are common features in public and in the workplace. Large insurers and medical aid schemes offer incentives to members who buy and use wearables and share the related health information with the organisation. In turn, this information is utilised in profiling, and incentivising policy holders and scheme members. The benefits of the technological integration are multi-faceted and present opportunities for both consumers, insurers and medical aid schemes.

Imagine an insurer or medical aid scheme being able to calculate, in real-time, the risk profile of its policy holders and members and provide competitive premiums based on the health profile of each of its policy holders or members uniquely. This not only incentivises members to lead healthy lifestyles but enables the insurer and medical aid scheme to accurately quantify and underwrite its risk exposure. From a consumer perspective the benefits are numerous and range from customised premiums, as well as health-related savings and promotions, to early warning of possible health risks enabling more relevant, just-in-time treatment.

Privacy awareness in South Africa is still in its infancy. However, there are currently several pieces of legislation that provide a framework to understand the rights and obligations of the user, service provider and other parties, where personal information is concerned. Policy holders and scheme members will need to become more astute as to the purposes for which their personal information, health-related data, and other data collected through wearables provided or utilised by insurers and medical aid schemes is processed to ensure that their privacy is not unreasonably infringed.

Discerning policy holders and members may protect their data and themselves by carefully reading terms and conditions, and available privacy policies on the wearables and applications they wish to use, as well as knowing their rights under their local privacy legislation. Furthermore, they can defend their data by taking cognisance of the threat of cybercrime and following good security practices such as taking precautions to secure their devices through strong passwords, encryption and dual authentication, as well as being aware of who they are allowing to access their data and devices. However, the responsibility for processing information in a responsible manner and ensuring the protection of information does not end with the policy holder or member; insurers and medical aid schemes play a pivotal role and should be held accountable for ensuring that information obtained through wearables is processed in a fair manner that does not infringe on the rights of its policyholders or members. In most instances, insurers and medical aid schemes will need to balance the right of its consumers to privacy against their own business interests. Insurers and medical aid schemes should ensure that they are transparent in the type of data collected through wearables, the purpose for which this is processed, how it is used and secured, and who it is shared with to ensure transparency.

All organisations integrating new technologies into their day-to-day interactions with consumers, like insurers and medical aid schemes, will need to start considering the privacy impact of adopting these technologies and the consequent business, consumer, and compliance risks. Organisations should consider the privacy impact in light of the following:

- nature of information processed (i.e. health information);
- how the information is collected, used and why the organisation requires it;
- where the information is located and volume of information retained;
- who has access to the information and whether it is shared with third parties; and
- the legal obligations in respect of the information.

Based on this assessment, the organisation will be able to accurately determine what the privacy impact of technology adoption, such as wearables, is and most importantly where to "draw a line in the sand."

[8] http://oig.hhs.gov/fraud/medical-id-theft/
[9] http://www.medscape.com/viewarticle/824192
[10] http://www.secureworks.com/assets/pdf-store/other/infographic.healthcare.pdf

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King IV - the new frontier in governance for South Africa

The Institute of Directors in Southern Africa and the King Committee released the draft King IV Report on Corporate Governance for South Africa 2016 (King IV) for public commentary on 15 March 2016. The comment period closed on 15 May 2016 and represents phase one of the public consultation process on King IV. Phase two of the public consultation process relates to sector supplements to the King IV Report. The official launch of King IV is planned for 1 November 2016.

The King IV reflects developments both locally and internationally and refines the philosophical underpinnings of King III. At first glance, draft King IV has a different look and feel to King III, most notably it is much shorter and contains 16 + 1 principles compared to King III's 75 principles.

The application of King IV, as with King III, is to all organisations and goes a step further with the issuance of sector supplements. The concept of proportionality is introduced and allows for adaptation based on the size, resources and complexity of the organisation.

King IV is outcomes orientated. It places accountability on the governing body to attain organisational outcomes of an ethical culture, sustainable performance that creates value, adequate and effective control and sound stakeholder relationships. This becomes possible through the discharge of its responsibilities relating to strategic direction, approval of policy, effective oversight and disclosure. It aims to reduce the "tick box" or compliance approach to governance.

The application regime has changed in King IV to "apply and explain" as opposed to "apply or explain" contained in King III. Therefore, in terms of King IV, organisations will have to provide disclosure of the practices that have been implemented towards giving effect to each principle, whereas with regard to King III, an explanation was only required where a principle was not applied. Draft King IV provides an example of an Application Register which organisations should use as a guidance for King IV disclosure. The King IV Application Register should be posted on the organisation's website.

The five chapters of draft King IV contain principles, practices and governance outcomes that interact as follows: the application of the practices give effect to the principle, and once the underlying principles are fully achieved then the governance outcome benefits are realised. The practices are organised to address the strategy, policy, oversight and disclosure responsibilities of the governing body.

King IV has been revised to bring it up to date with international corporate governance codes, to align it to the shifts in the approach to capitalism (towards inclusive, sustainable capitalism with integrated reporting) and to take account of specific corporate governance developments in relation to, inter alia, effective boards, increased compliance requirements, new governance structures , emerging risks and opportunities from new technologies e.g. cyber-crime and social media, and new reporting and disclosure requirements.

Key developments in King IV

Remuneration governance has come under the spotlight in the recent past and King IV addresses this through requiring that both the remuneration policy and an implementation plan be tabled for a separate non-binding advisory vote of shareholders. Where the policy or implementation plan is not approved by at least 75 percent of the shareholders, the remuneration committee must consult with shareholders and disclose the nature and outcome of such consultation. The social and ethics committee has been tasked to oversee fair and responsible executive remuneration practices in the context of overall employee remuneration. There is an emphasis on the sustainable value created across the economic, social and environmental context rather than focussing on financial targets only.

Separation of technology and information – The Fourth Industrial Revolution is a paradigm shift in King IV. King III introduced IT governance and placed the oversight thereof at the door of the board. King IV separates the two, information is recognised separately from technology and the two are treated as such from a policy, decision-making, management and culture perspective. The oversight thereof is also separated to sharpen the focus on each as a distinct area. Cyber security being globally recognised as the biggest potential risk, also makes an appearance in King IV with oversight assigned to the governing body.

New perspective on risk – King IV links risk and opportunities in a way that supports the organisation in defining its core purpose. This is an important shift where in the past the focus was predominantly on the negative effects of risk and the avoidance thereof. A new lens has been provided for organisations to look at the opportunities that could arise and that need to be capitalised on to set and achieve the strategic objectives.

Auditor independence and the audit committee – The spotlight on auditor independence globally together with developments in auditing standards in terms of the long form audit report has pre-empted King IV into introducing two new provisions for audit committees. Firstly, the audit committee should disclose audit firm tenure as well as audit partner rotation and significant management changes during the course of the audit and secondly, the audit committee should disclose significant matters that the audit committee considered and how these were addressed.

Group governance – A welcomed introduction in King IV is the inclusion of recommended practices around group governance which represents an important element for organisations operating under this structure.

Combined assurance – King III introduced the combined assurance model. King IV expands the traditional “three lines of defence” to “five lines of assurance” to incorporate all assurance role players:

- As first line of assurance: line functions that own and manage risk and opportunity;
- As second line of assurance: specialist functions that facilitate and oversee risk and opportunity arrangements, such as enterprise-wide risk and opportunity management and compliance;
- As third line of assurance: internal assurance providers that offer objective assurance such as internal audit, internal forensic examiners, fraud examiners and auditors, safety and process assessors, and statutory actuaries;
- As fourth line of assurance: external assurance providers such as external audit, sustainability and environmental auditors or regulatory inspectors, external actuaries and external forensic examiners, as well as fraud examiners and auditors; and
- As fifth line of assurance: the governing body, and audit or other committees.

The model emphasises that assurance is not primarily about defence, rather, it is about having an adequate and effective control environment and strengthening the integrity of reports for better decision-making.

The above makes it evident that companies and their Boards have much to consider with the eminent release of King IV. The release of King IV will ensure the continued evolution of governance in our business sector, while, at the same time, presenting a vast array of organisational benefits.

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Regulatory and reporting requirements - Insurance and Banking Sector

Regulatory and reporting requirements are likely to be very high on management's agenda for the foreseeable future, taking considerable time, budget and resources across the organisation. The objectives underpinning all the current and upcoming change cannot be argued with, these are:

- better risk, governance, protection of policyholders and the ability of management to make risk-based, real time business decisions on the **regulatory** side; and
- consistency, transparency and better alignment to an economic risk-based view for **reporting** for stakeholders to understand results.

It will be easy to get lost in the complexity of the numerous requirements from all these changes and deliver something that misses the mark and does not deliver adequate business value, particularly if delivery programmes are developed independently rather than holistically,

For Banks, G-SIBs (global systemically important banks) had to comply with BCBS239 by 1 January 2016, D-SIBs (domestic systemically important banks) by 1 January 2017, and IFRS 9 has an implementation date of 1 January 2018.
For Insurance companies, BN158 had an implementation date of 1 April 2015; BN158 of 2015 was to be applied by 1 September 2015; Conduct of Business Returns (CBRs) need to be submitted in the second half of 2016; SAM has an implementation date of 1 January 2017; and IFRS 4 Phase 2 will be effective after 1 January 2018 (following IFRS 9).

A further added complexity can be insurance standards applying to traditional non-insurance entities (where for example the FSB could consider a predominantly banking group to fall under insurance supervision) or where a banking group owns insurance businesses.

For requirements already effective (BN158) and soon to be effective (CBRs and SAM), it is likely that there will be significant ongoing remediation and improvement over a few years before companies fully comply and see true business value.

An Effective Insurance Enterprise Risk Management Framework (ERMF) – Does the current regulation get us there?

SAM is a risk-based regulatory regime for the prudential regulation of both long-term and short-term insurers and is due to become effective on 1 January 2017.

The overriding objective of SAM is encapsulated in the **Own Risk and Solvency Assessment** (ORSA) which is defined as:

"the entirety of the processes and procedures employed to identify, assess, monitor, manage, and report the short and long term risks an insurance undertaking (and group) faces or may face and to determine the own funds necessary to ensure overall solvency needs are met at all times; sufficient to achieve its business strategy (including being within the risk appetite and risk tolerance) and aligned to business planning horizon."

Position Paper 34 describes the accountability of the **Board** with respect to ORSA as set out below:

"The ultimate accountability of the ORSA resides with the Board who should approve the ORSA. When evaluating the ORSA, the Board and Senior Management should assess the adequacy of the current and future solvency position. In addition the Board and Senior Management are responsible to ensure that the ORSA is embedded in the business and decision making processes.

The Board and Senior Management should also, through direct review and challenge and through reliance on the governance process, conclude on the accuracy and completeness of the ORSA calculations, assumptions and data used as input to the ORSA.

The ORSA should be appropriately evidenced and documented."

The implications of complying with the above are broad and far-reaching, covering the entire organisation. These requirements are onerous and while some of the pieces to enable this are covered within the SAM regulations, they are disjointed and don't completely fit together to meet the objective of ORSA.

How many Boards currently are comfortable with this accountability either in the current state or can see the clear path to readiness once SAM is live? Currently, how many Senior Management teams can clearly articulate this journey for themselves and for their Boards?

BN158 (of 2014) was effective 1 April 2015 and is the precursor to SAM Pillar 2. It sets out effective governance and a risk management framework for both short- and long-term insurers.

It requires insurers to establish and maintain an effective risk management system, comprising the totality of strategies, policies and procedures for identifying, assessing, monitoring, managing and reporting all reasonably foreseeable current and emerging material risks to which the insurer may be exposed. BN158 (of 2014) sets out policies and control functions that an insurance company must have.

By now, most insurance companies should have reasonably well-developed ERMFs and control functions, including risk management. The maturity of the effectiveness of the EMRF will depend on the organisation, with some still implementing their frameworks, some self-assessing the effectiveness, and more mature entities already in a business as usual cycle that includes Combined Assurance Reviews and continuous improvement feedback loops.

ORSA then brings in the requirement to fully integrate risk management and capital management so that risk management processes feed into capital management processes and vice versa. This requires an insurance entity to be sufficiently capitalised at all times, including over the future business planning horizon.

We are in the second cycle of the mock ORSA report and for 2016, Management Information (MI), embedding the ORSA into business decisions and demonstration of the use test are requirements.

ORSA reporting covers **all internal risk and capital management reporting** that enables and delivers an effective ERMF with full integration between risk, capital and solvency. The latter should be the top priority for the CRO and a key concern for Board members.

So while individual pieces of the regulatory puzzle are being delivered by an organisation, do they really come together? Regulatory reporting requirements may be owned by the actuarial, finance or the capital function, with the ERMF being owned by the CRO. Is the organisation treating the ORSA as a compliance exercise with the output being an annual report, or is the ORSA an enabler for effective risk and capital management? Are the underlying processes in place to enable risk reporting required by the ERMF? Does the risk reporting enable management and the Board to discuss and manage the risks, and what is the quality of risk discussions at Executive and Board level? Where business as usual risk reporting is in place, what is the quality of the supporting data and does management understand any limitations where data quality may be less than ideal? Are processes in place to improve underlying data quality? Is risk reporting looked at holistically across the organisation or is it siloed by risk type leading to overlap and confusing reporting, or even gaps in coverage?

The above are just some problems that may still need to be resolved, for risk and capital management to be effective, even after a company ticks the regulatory SAM boxes.

New regulatory guidance is often applied to solve a particular problem (from the regulator's point of view). An example is the requirement for **Conduct of Business Returns** (CBRs) which is a new set of market conduct returns - applicable for all life and non-life insurers in South Africa, excluding reinsurers and captives.

How many companies are integrating CBRs into their current SAM/risk reporting versus setting up separate conduct risk processes, data solutions, etc., and potentially creating more organisational confusion?

Introducing BCBS (Basel Committee for Banking Supervision) 239

BCBS239 sets out principles for effective risk data aggregation and risk reporting.

Risk data aggregation is the action of defining, gathering and processing risk data according to the bank's risk reporting requirements to enable the bank to measure its performance against its risk tolerance/appetite. The objective of BCSB239 is to enhance risk management and decision-making processes in banks. A SARB Directive was published in February 2015 and requires Domestic Systemically Important Banks (D-SIBs) to comply by 1 January 2017.

There are 14 principles under the headings of: Governance and Infrastructure, Risk Data Aggregation, Risk Reporting Practices and Supervisory Review.

Risk data aggregation capabilities and risk reporting practices should be subject to strong governance arrangements.

Data **architecture** and IT **infrastructure** should fully support risk data aggregation capabilities and risk reporting practices during normal times and times of stress/crisis.

Risk Data Aggregation must be accurate and reliable, complete, timely and adaptable.

Risk Reporting Practices must be accurate, comprehensive, clear and useful, meet the needs of recipients (as set by the Board and Senior Management), and be distributed to relevant parties ensuring confidentiality is maintained

In the Banking Sector, BCBS239 has driven significant transformational data and IT remediation activity.

Applying BCBS239 to insurance?

Some South African insurers will need to comply with BCBS239 to some extent if they are part of the D-SIB group, as categorised by SARB. This may be viewed as additional regulatory requirements to comply with that may add to organisational complexity and confusion. Alternatively, it could be seen as providing clarity within insurance regulation regarding bringing the puzzle pieces of effective risk and capital management together.

The principles are all quite sensible and could provide a list of what the CRO needs to achieve to enable senior management and the Board to meet their obligations under ORSA - not only the letter but also the spirit.

The practical application of the principles to insurance versus banking are as different as the sectors themselves, but the outcome will be similar i.e. enhanced risk (and capital) management and decision-making processes.

Applying BCBS239 to insurance could be:

- A regulatory requirement for an insurance company due to an organisation's ownership structure;
- An opportunity to implement best practice for insurance risk and capital management; or
- Possibly, a future South African insurance regulatory requirement as Prudential Regulation falls under the Prudential Authority within SARB under Twin Peaks.

Lessons learned from BCBS239 for insurance

Applying BCBS239 to an insurance entity provides a unique way of looking at risk and capital management effectiveness which is not achieved by applying current SAM regulatory requirements, despite both comprising overlapping objectives.

Practically the starting points are to:

- *Define how the principles will be applied to the business.* This provides an opportunity to not only define compliance but also additional future states. These could fit into management's view of what good looks like or could go further to a target end state for risk, finance or customer centricity and support a transformation programme.
- *Define what the risk data, risk aggregation processes and risk reporting in scope are.* For insurance this takes us top-down from: the ERMF, the reporting that goes to Risk Committees/Forums responsible for managing risks, the Key Risk Indicators in the reports; to the underlying processes, datasets and systems. This provides an end-to-end view of risk and finance reporting from source data to Board level reporting.

A gap analysis against the current state to the future requirements and planning of a roadmap to deliver future target states, answers the key questions: What is the state of risk management/reporting and what are the short, medium and long term priorities?

Key findings and themes from an exercise probably won't come as a surprise to an organisation but will uncover gaps where a siloed approach to implementing SAM has been applied, or where SAM guidance may not fully cover requirements i.e. the missing puzzle pieces.

Key themes – Gaps in BCBS239 compliance

It is likely that under the ERMF there will be a Data Policy. But where does this sit? Typically it will be under IT and the remit of the CIO. Does the Data Policy adequately cover SAM requirements? Has it been implemented in a way that works for the business and ensures that risk and capital data is appropriate, complete and accurate?

In a non-life company, risk data can come from many sources, with some being external presenting the concern of data quality.

These are just a couple of likely themes that may emerge.

WHEREVER YOU SEE
A SUCCESSFUL BUSINESS,
SOMEONE ONCE MADE
A COURAGEOUS DECISION.

Peter Drucker

SAM Standard Formula Actuarial Tool - How can KPMG help?

Simplify, enable, calculate, analyse and automate your SCR calculations and actuarial CPR submissions

The FSB has recently released an updated technical specification ("tech spec") with which insurance companies have to comply when calculating their 2016 Solvency Capital Requirement ("SCR"). The first applicable reporting date is 30 June 2016.

This represents a challenge for most insurance companies, as within a short period they are required to:

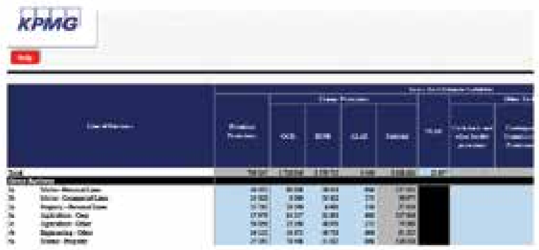
The SAM Standard Formula Actuarial Tool alleviates these challenges by simplifying the inputs, enabling companies to comply with the revised regulations, calculate the SCR based on the revised tech spec, analyse the results through the generated graphs and tables, and automatically populate the actuarial sheets of the CPR submission.

1

Customize the spreadsheet for the structure of your company, thereby simplifying the inputs by omitting redundant data fields

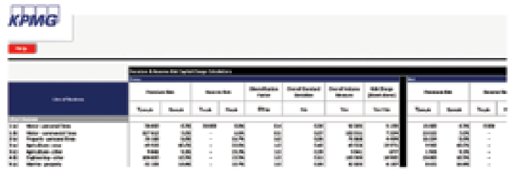
2

Single source input sheets, negating duplicate data inputs and thereby reducing the risk of inconsistent data



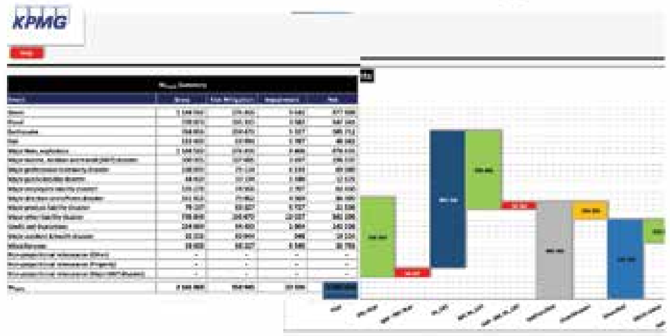
3

Transparent calculation sheets, enabling easy-to-follow calculations, understanding of figures and the ability to customize the calculations according to the needs of your company



4

The majority of the SCR calculation is in a single spreadsheet, thereby enabling understanding and improved control of the process



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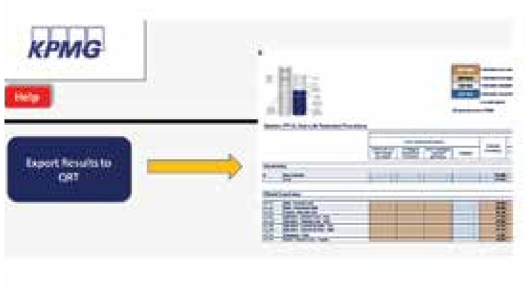
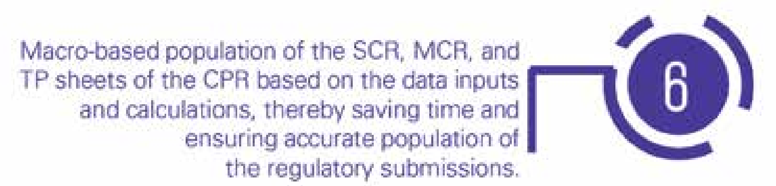
User-friendly output in a variety of graphs and tables, allowing easy pasting to reports





Please contact us if you would like any more information regarding the SAM Standard Formula Actuarial Tool, would like a demonstration or would like to find out how it can save your organisation time and money.

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SHORT-TERM INSURANCE INDUSTRY

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A review of the business activity in the insurance industry over the last twelve to fifteen months gives us a clear indication that insurers are trying to overcome tough times by embracing the principles of business unusual . . . or disruptive innovation. Traditional insurers want to enjoy the growth rates that "more innovative" and niche players have attained and who have significantly contributed to the increase in gross written premium for the year of 11%.[1] No longer are traditional expansion plans adequate. Thinking outside the box is key to make fundamental strides in an industry where market share is hard to come by.

The participants (referred to as "the industry") reported gross written premiums of R89.1 billion in 2015 an increase of 11.4% when compared to the R80.0 billion written in 2014. Growth in the industry is being hindered by unfavourable macro-economic factors, weather related disruptions and shrinking disposable household income due to increasing unemployment rates.

Salient features of featured participants	2015	2014
Increase in gross written premiums	11.4%	8.0%
Increase in net earned premiums	8.8%	5.4%
Increase in investment income	12.4%	5.7%
Claims incurred	57.2%	63.5%
Combined ratio	94.4%	98.6%
Operating ratio	83.2%	88.4%

Pressure points

The South African **Gross Domestic Product** growth approximated 0.4%[2] for the year ended 31 December 2015. Post 31 December 2015 GDP has worsened and the outlook for 2016 seems to be poor.

The Rand depreciated against the Dollar by 34% for the year, closing at R15.515:USD1. A most notable factor was Nenegate – the biggest financial crisis South Africa has experienced since the advent of democracy resulting in half a trillion Rand being wiped off the value of South African stocks and bonds.

Adding fuel to the fire, South Africa is facing the worst **drought** in the last 111 years. Water shortages are of significant concern and the drought is far-reaching, affecting most of the South African regions. This is increasing harvesting losses and also creating conditions for increased fire losses.

. . . and with the average South African consumer becoming poorer due to the economic environment and rising **unemployment,** insurance products still remain a luxury product. Approximately 60% of motors on South African roads are uninsured due to the unaffordability of insurance. The unemployment rate in South Africa increased to 26.7% in the three months to March of 2016 from 24.5% in the previous quarter and above market expectations of 25.3%. It was the highest reading since September 2005.

Brokers who have over the years increased fees without too much questioning from their clients are starting to feel the pressure. Cash-strapped consumers are continuing to compare their bottom-line spend. In the UK, more consumers make use of DIY insurance platforms like online insurance quote comparison sites, especially post RDR. This behaviour, is forcing brokers to re-evaluate the sustainability of their business models and in-house administration, which in turn impacts the ultimate cost to the consumer. Another reason why brokers are revisiting their business models is the talk about the FSB wanting to do away with fees (other than commission) payable to insurers and brokers in its RDR review paper. Many underwriting managers (UMAs) have not delivered the required returns for their carriers, which has resulted in the consolidation and the resultant exiting of many UMAs whose business models have proven to be unsustainable. The South African market has seen the proliferation of many UMAs who cannot add value in their selected market segments.

[1]The net premiums written of the companies featured in this publication approximate 90% (2014 : 85%) 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. [2]www.tradingeconomics.com

Many of these are typically in the motor and personal business lines. True specialist UMAs who retain and apply subject matter expertise (i.e. marine, aviation, specialist liability, engineering, complex property risks, etc.) do add value as their product pricing is typically not influenced much by system and procurement efficiency advantages because their insurance products are not high volume-based transactional insurance deals.[3]

Growth

Despite the challenges documented above, business unusual concepts have resulted in the 11% growth recorded in the gross written premium. Some of the highlights that we have read about in the year under review include:

New partnerships

Leppard Underwriting and Abelard partnership[4]

Two of South Africa's oldest UMAs, Leppard Underwriting and Abelard Underwriting Agency, announced that they were joining forces. Leppard Underwriting was a specialist underwriter in professional indemnity, general and broadform liability. Abelard had also focussed on general and broadform liability products (with particular expertise in the liability insurance for security companies) as well as professional indemnity, directors and officers insurance and event liability.

"Current market conditions, specifically the increased cost of regulatory oversight, the need to invest in technology and the rise of the direct supply chain, make it vital for UMAs to scale up in order to remain viable," said Doug Laburn, head of Lombard Partnerships who is the business support and licence partner of Leppard Underwriting."

MotoVantage[5]

Is a partnership between NewInvest, a FirstRand group company, and The Hollard Insurance Company for the formation of a new value-added products company, branded MotoVantage.

This new company (which includes 100% equity stake in Motorite and Smart) is a clear indication of FirstRand and Hollard's intent to play a significant role in the value-added insurance industry.

The use of technology

MiWay is creating positive customer experiences through the effective use of their Miway App. From 12 October 2015, customers using the App to log a motor vehicle accident claim, received a R1000 reduction in their applicable excess. The MiWay App also allows users to request roadside assistance to their exact location, instantly notify up to three contacts that they need assistance, request a call back from MiWay Client Services and locate the nearest inspection centres.

New products and players

Phishield

With South Africa posting the highest average rate for phishing activity globally in 2014, with an overall average phishing rate in organisations of 1 in 568 users for the year, it only made sense to tailor an insurance product to cover these losses. Phishield is a brand new GENRIC Insurance UMA that brings a unique cyber fraud insurance to the South African market. This insurance includes, but is not limited to phishing fraud.

MyWater Insured

Unexpected water loss (for instance due to an unknown pipe leak) has a negative impact on both the consumer and the council that supplies it and these losses can now be insured.
MyWater Insured, is underwritten by Hollard through LSG Insurance Services.

Innovation in home warranty

Hollard Home Warranty™ offers protection against a list of defects that may surface in a property in the first two years after a buyer takes ownership. This product is aimed at giving buyers and sellers peace of mind. The product covers faulty or defective design, structure or workmanship for a number of the key areas of the home, including the roof, walls, foundations, tiling and paving. Faulty electrical, drainage, plumbing and irrigation systems, as well as water waste management issues, will also be covered.

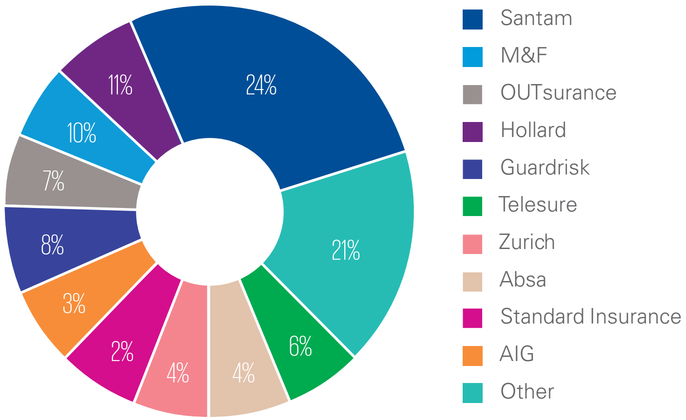
Market share

The top 10

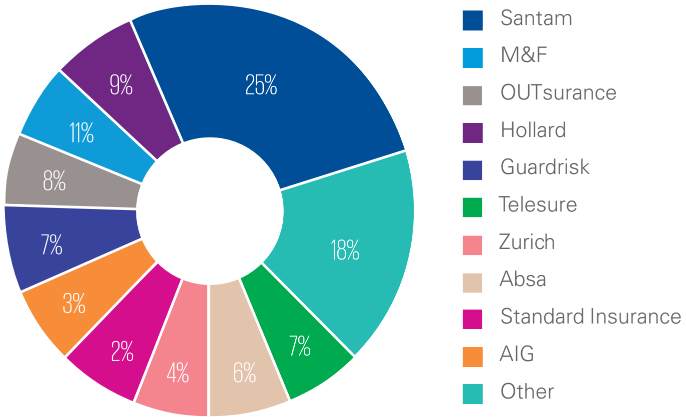
The charts below reflect the gross written premiums (GWP)[6] of the ten largest short-term insurance companies.

[3]www.cover.co.za [4]www.cover.co.za [5]www.cover.co.za [6]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 other Telesure Group short-term underwriters being Dial Direct, Budget and First for Women and Auto and General.

2015



2014



Hollard and Guardrisk are the only two companies in the top 10 who have managed to increase market share. Respectively, their GWP increased by R2.0 billion (26.9%) and R1.8 billion (33.2%). The growth in the GWP of Hollard mainly stems from a full year of Etana business being included in the 2015 results after their merger in January 2014. This has resulted in Hollard replacing M&F as the second largest short-term insurer in the South African market.

Guardrisk published financial results for a fifteen month period after the MMI takeover which has resulted in higher reported premium.

Santam, Guardrisk and ECIC contributed to 52% of the additional R9.1 billion GWP for the year. Their premiums increased as follows:

Santam through rate increases increased GWP by R1.2 billion or 6,1%. Guardrisk increased GWP by R1.8 million or 33.2% due to a fifteen month reporting period and ECIC increased GWP by R1.7 billion to R1.8 billion due to a policy underwritten for the Cenpower project in Ghana generating R1.4 billion in GWP. ECIC is an export credit insurer and its revenue is very dependent on the number of projects that are being financed for which they are providing insurance.

The market is predominantly providing cover for motor vehicle risks. Motor net written premiums made up 43.9% of the total net written premiums and together with the property risks reached a level of 76.0%.

The market is still being dominated by the four largest insurers that underwrite 52.7% (2014: 52.1%) of the market's GWP. Guardrisk has replaced OUTsurance (exluding Youi) as the fourth largest insurer in 2015. 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 GWP. Youi experienced growth of 28% in GWP for the calendar year ended 31 December 2015. Locally OUTsurance only achieved growth of 9%. This is consistent with the trend we have been observing for the other mature direct players in addition to the fact that policy count is not increasing.

The bancassurers

Standard Insurance and Nedgroup Insurance showed top line growth at about 8% when compared to prior year mainly due to rate increases. The homeowners/ property book continues to be the largest contributor to GWP at around 70- 80% for bancassurers, however, growth in the property book remains a challenge. Both Standard Insurance and Nedgroup Insurance achieved growth in their commercial books which is a strategic objective for both insurers. Absa Insurance reported a decrease in GWP. The sale of the Absa crop book of business, although concluded late in 2015, was effected from

1 July 2014, the start of the crop season. The book was sold to Landbank's insurance subsidiary and for the 2015 financial year effected through a 100% quota share arrangement with Landbank Insurance.

Although crop GWP approximated R450 million, the margins were low and the overall impact on the net underwriting margin in 2015 was positive.

The commercial books performed well for Standard Insurance and Nedgroup Insurance. This was not the case for Absa Insurance. Commercial business is sold through a network of independent brokers. As a result of a restructuring in the bank's commission arrangements due to the impending RDR legislation, Absa lost some of their commercial brokers and the portfolios they administered – mainly to Santam

Profitability

Improved claims ratios have resulted in the combined ratio improving from 98,0% recorded in 2014 to 94,4% in 2015. This combined ratio differs from the results announced by the Financial Services Board (reported a combined ratio of 87%) in their quarterly report for 2015 due to the following factors:

- The report published by the FSB is for the calendar year ended 31 December 2015 whereas the KPMG survey focusses on the published results for the companies based on the their specific financial year-end date during the 2015 calendar year.
- The KPMG survey does not include the results of some of the niche insurers. It is predominantly these insurers that improve the claims results due to their speciality lines of business.
- Different treatment of the results posted by the cell-captives.

Natural disasters such as significant hail events or flooding were benign in 2015. It is also expected that the full impact of the drought will only become apparent in the 2016 claims statistics.

Despite the improved claims statistics for the industry as a whole, there are some outliers that must be considered.

- A significant improvement in the Escap claims ratio (improved from 222,0% to 80,3% or R1,4 billion). The 2014 claims were blemished by the loss incurred at the Duvha power station.
- Increased service delivery protests have increased the Sasria loss ratio by 6,8%. Approximately 81,0% of these claims emanate from strike and labour disturbances and 19,0% from non-political riots, which include service delivery protests, xenophobia and taxi violence. We don't expect an improvement in Sasria's underwriting performance for 2016 due to the Pickitup strikes and #feesmustfall.
- The bancassurers, Nedgroup Insurance and Standard Bank Insurance again managed to limit their claims ratio to below 50% at 46,3% and 41,1% respectively. Absa with a slightly more diversified portfolio recorded a 66,0% loss ratio and 75,1% for Absa idirect.
- Previously we reported that Zurich embarked on an exercise to offload non-profitable business. This year they have reaped the benefits from this and improved their loss ratio by 9,0%.

As expected motor business was the class of business with the worst claims ratio at 64%, only 1% lower than 2014.

The expense ratio for the industry increased by 1,2%. Intermediary supported insurers continue to struggle to avoid duplication of their administration activities and those performed at the intermediary. The implementation of SAM is adding 0.7% on average to the cost ratio (0.5% of GWP).

The JSE All Share Index closed the year only 2% higher than in 2014. 25% of the short-term insurance industry's investments are invested in shares and as a result there is an expectation that the investment performance would be flat and that upside would really be generated from the increase in the interest rates that were effected during the year. The investment return increased by only 1% during the year for the industry.

. . . and in other news

We are reminded of recent headlines that have made the last 12 months exciting and unique in the industry:

- Chubb launches multinational political violence & terrorism cover in South Africa.
- King Price Insurance extends its product offering to include business insurance.

- Value Master Protector (VMP), a subsidiary of the Phik'a Group (Phik'a) and firstEquity, launched the Depreciation and Shortfall Protector (DSP) the world's first value-added product (VAP) not to rely on comprehensive insurance (or other ancillary insurance) to admit liability and settle legitimate claims.
- PPS group officially launched a short-term insurance company in partnership with Santam in March 2016.
- In February 2016 it is announced that Zurich Global, the parent of Zurich Insurance Company South Africa Limited, will embark on a 'footprint review' exercise that might result in the brand disinvesting from its insurance units in South Africa and Morocco.

Regulatory front

With the expectation of the SAM go-live date of 1 January 2017, the industry entered into the implementation phase of SAM during 2014, with the first parallel run concluding with the annual CPR return submitted at the end of August 2015 for companies with a December year-end. However it was announced in the first week of July 2015, that the SAM go-live date had been delayed resulting in the parallel run phase being extended.

The industry has been assaulted by increasing regulation during the year under review and BN 158 became effective 1 April 2015. The Board Notice introduced 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 –

- outlined 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; and
- puts forward a number of proposed reforms aimed at mitigating these challenges.

[7]FSB Reinsurance review discussion paper

The objective of the review was 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.[7]

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.

- A new Prudential Authority within the Reserve Bank. This Authority will be responsible for the oversight of the safety and soundness of banks, insurers and financial conglomerates.
- A new Market Conduct Authority to protect customers of financial services firms, and to improve the way financial service providers conduct their business. This Authority will also be responsible for ensuring the integrity and efficiency of financial markets, and promoting effective financial consumer education.

Where to from here?

Early indications in trading updates provided by insurers for the first half of 2016 are that their underwriting performance will not be stellar. Although no individually significant loss events have taken place in the 2016 year to date insurers have struggled to achieve their desired premium rates in a very competitive environment. Also, the investment markets have been volatile experiencing the economic rollercoaster ride following the country's possible credit rating downgrade and Brexit. Also, the industry will monitor with interest the conclusion of Zurich's disinvestment in its local operations and other potential entries into the local market by including life insurers wishing to add short-term insurance to their product offering. In summary, the trading conditions for the year ahead will not become easier than 2015 but as can be seen from our write-up above, the entrepreneurial approach to the industry allows it to adapt and offer adequate returns to its shareholders. No reason to believe that will not be the case for 2016.

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

Accounting year end	Dec-15	Dec-14	Dec-15	Dec-14	Dec-15	Dec-14	Dec-15	Dec-14	Nov-15	Nov-14
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	1 600	1 600
Retained earnings/(deficit)	50 376	29 595	1 089 994	1 408 122	19 954	15 047	36 838	17 284	435 900	320 900
Reserves, including contingency reserve	-	-	1 195	804	-	-	3 904	4 280	165 249	152 442
Total shareholders' funds	**168 886**	**148 105**	**1 122 189**	**1 439 926**	**39 954**	**35 047**	**155 742**	**136 564**	**602 749**	**474 942**
Total shareholders' funds and non-controlling interests	**168 886**	**148 105**	**1 122 189**	**1 439 926**	**39 954**	**35 047**	**155 742**	**136 564**	**602 749**	**474 942**
Gross outstanding claims	50 718	42 910	475 488	417 200	131 381	-	453 723	403 011	2 535 791	2 329 056
Gross unearned premium reserve	20 821	16 162	709 694	883 678	8 284	176	215 597	203 235	932 703	817 415
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	100 644	47 158	-	-	-	-
Deferred reinsurance commission revenue	-	-	7 079	33 201	-	-	50 376	44 769	260 512	170 094
Deferred tax liability	-	-	-	-	-	3	1 168	1 708	-	-
Other liabilities	42 821	26 656	140 666	236 838	-	408 010	107 175	92 729	2 335 784	1 567 471
Total liabilities	**114 360**	**85 728**	**1 332 927**	**1 570 917**	**240 309**	**455 347**	**828 039**	**745 452**	**6 064 790**	**4 884 036**
Total investments including investments in subsidiaries	**184 654**	**172 328**	**1 553 615**	**1 678 808**	**80 990**	**22 625**	**148 679**	**122 740**	**716 448**	**1 410 439**
Deferred tax asset, intangible assets and PPE	6 962	5 239	124 764	200 018	11	-	5 006	4 883	105 053	80 167
Reinsurers' share of outstanding claims	24 252	8 059	283 653	223 706	131 381	-	360 282	351 477	2 324 308	2 119 249
Reinsurers' share of unearned premium reserve	3 789	886	59 078	167 225	8 284	176	170 378	153 588	813 214	668 550
Gross expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Deferred acquisition costs	-	-	123 603	140 106	-	-	29 614	30 414	139 716	124 524
Cash and cash equivalents	54 877	27 158	179 582	248 965	54 866	6 322	161 300	132 325	1 935 952	456 265
Other assets	8 712	20 163	130 821	352 015	4 731	461 271	108 522	86 589	632 848	499 784
Total assets	**283 246**	**233 833**	**2 455 116**	**3 010 843**	**280 263**	**490 394**	**983 781**	**882 016**	**6 667 539**	**5 358 978**
International solvency margin	44%	46%	55%	56%	N/A	N/A	140%	145%	144%	96%
Total assets/Total liabilities	248%	273%	184%	192%	117%	108%	119%	118%	110%	110%
Change in shareholders' funds	14%		(22%)		14%		14%		27%	

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

Accounting year end	Mar-15	Mar-14	Dec-15	Dec-14 restated	Jun-15	Jun-14	Jun-15	Jun-14	Jun-15	Jun-14
Group/Company	**Alexander Forbes Insurance Company Limited**		**Allianz Global Corporate and Specialty South Africa Limited**		**Auto and General Insurance Company Limited**		**Bidvest Insurance Limited**		**Budget Insurance Company Limited**	
FSB classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Traditional*	
Share capital and share premium	67 915	67 915	90 500	90 500	53 506	53 506	10 000	10 000	80 001	80 001
Retained earnings/(deficit)	86 994	61 009	19 602	15 441	494 151	846 208	248 931	266 329	179 164	163 395
Reserves, including contingency reserve	-	-	-	-	-	-	229 361	205 484	-	-
Total shareholders' funds	**154 909**	**128 924**	**110 102**	**105 941**	**547 657**	**899 714**	**488 292**	**481 813**	**259 165**	**243 396**
Total shareholders' funds and non-controlling interests	**154 909**	**128 924**	**110 102**	**105 941**	**547 657**	**899 714**	**488 292**	**481 813**	**259 165**	**243 396**
Gross outstanding claims	236 941	267 157	1 408 918	1 450 030	350 426	340 911	166 977	141 862	210 119	192 403
Gross unearned premium reserve	24 543	23 612	321 715	226 876	137 161	132 007	337 532	324 379	5 452	3 581
Reinsurers' share of expected salvages and recoveries	-	-	-	-	51 141	28 779	-	-	20 729	16 257
Owing to cell owners	-	-	-	-	-	-	3 162	1 219	-	-
Deferred reinsurance commission revenue	4 819	4 603	92 867	80 817	-	-	-	-	-	-
Deferred tax liability	-	-	-	-	-	222	52 524	44 633	-	-
Other liabilities	95 650	84 781	292 033	189 616	177 060	143 469	13 857	15 048	65 528	82 154
Total liabilities	**361 953**	**380 153**	**2 115 533**	**1 947 339**	**715 788**	**645 388**	**574 052**	**527 141**	**301 828**	**294 395**
Total investments including investments in subsidiaries	**249 017**	**207 522**	**-**	**-**	**644 507**	**710 009**	**644 823**	**587 654**	**81 869**	**69 691**
Deferred tax asset, intangible assets and PPE	12 358	11 155	5 527	7 552	2 693	-	-	-	214	410
Reinsurers' share of outstanding claims	178 199	214 395	1 366 974	1 448 894	52 174	58 255	-	-	17 897	21 179
Reinsurers' share of unearned premium reserve	18 491	17 785	324 061	224 813	-	-	-	-	-	-
Gross expected salvages and recoveries	-	-	-	-	104 994	79 031	-	-	60 312	47 682
Deferred acquisition costs	2 210	2 597	70 240	71 744	13 913	13 317	41 928	30 617	-	-
Cash and cash equivalents	24 862	24 731	200 743	80 371	184 806	536 704	259 847	267 967	297 594	322 636
Other assets	31 725	30 892	258 090	219 906	260 358	147 786	115 746	122 716	103 107	76 193
Total assets	**516 862**	**509 077**	**2 225 635**	**2 053 280**	**1 263 445**	**1 545 102**	**1 062 344**	**1 008 954**	**560 993**	**537 791**
International solvency margin	44%	40%	(5201%)	173674%	42%	72%	158%	159%	42%	42%
Total assets/Total liabilities	143%	134%	105%	105%	177%	239%	185%	191%	186%	183%
Change in shareholders' funds	20%		4%		(39%)		1%		6%	

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

Accounting year end	Dec-15	Dec-14	Jun-15	Jun-14	Dec-15	Dec-14	Mar-15	Mar-14	Mar-15	Mar-14
Group/Company	**Centriq Insurance Company Limited**		**Dial Direct Insurance Limited**		**Enpet Africa Insurance Limited**		**Escap SOC Limited**		**Export Credit Insurance Corporation of South Africa Limited**	
FSB classification	*Cell captive*		*Traditional*		*Captive*		*Captive*		*Niche*	
Share capital and share premium	55 000	55 000	20 001	20 001	3 000	3 000	379 500	379 500	316 051	316 051
Retained earnings/(deficit)	137 394	148 017	174 077	245 014	69 322	60 543	1 053 027	543 262	1 318 293	2 162 538
Reserves, including contingency reserve	-	-	-	-	18 906	22 242	(1 014)	(2 808)	2 689 895	1 258 378
Total shareholders' funds	**192 394**	**203 017**	**194 078**	**265 015**	**91 228**	**85 785**	**1 431 513**	**919 954**	**4 324 239**	**3 736 967**
Total shareholders' funds and non-controlling interests	**192 394**	**203 017**	**194 078**	**265 015**	**91 228**	**85 785**	**1 431 513**	**919 954**	**4 324 239**	**3 736 967**
Gross outstanding claims	588 108	554 707	132 602	148 926	111 959	103 889	7 454 152	5 862 063	611 022	517 054
Gross unearned premium reserve	1 630 918	1 410 556	97 610	102 934	632	-	899 541	1 061 417	2 955 903	1 213 730
Reinsurers' share of expected salvages and recoveries	-	-	17 109	11 336	-	-	-	-	-	-
Owing to cell owners	880 276	831 773	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	16 995	4 585	-	-	-	-	32 502	38 869	-	-
Deferred tax liability	-	-	-	20	-	-	-	-	38 350	42 012
Other liabilities	590 069	436 459	54 057	54 067	1 489	1 640	8 664	75 167	35 049	39 904
Total liabilities	**3 706 366**	**3 238 080**	**301 378**	**317 283**	**114 080**	**105 529**	**8 394 859**	**7 037 516**	**3 640 324**	**1 812 700**
Total investments including investments in subsidiaries	**2 920 696**	**2 500 541**	**169 402**	**163 613**	**90 616**	**89 317**	**6 043 054**	**4 810 114**	**2 582 549**	**4 993 017**
Deferred tax asset, intangible assets and PPE	22 321	18 134	249	-	854	597	123 095	311 422	9 305	4 978
Reinsurers' share of outstanding claims	192 852	156 913	16 360	18 203	17 755	25 270	2 983 351	1 959 211	-	-
Reinsurers' share of unearned premium reserve	63 202	39 375	-	-	311	-	325 018	388 693	-	-
Gross expected salvages and recoveries	-	-	35 673	31 759	-	-	-	-	-	-
Deferred acquisition costs	23 079	22 843	-	-	-	-	16 251	19 435	-	-
Cash and cash equivalents	226 464	304 137	227 078	260 496	92 911	66 301	17 489	11 522	3 817 639	122 950
Other assets	450 146	399 154	46 694	108 227	2 861	9 829	318 114	457 073	1 555 070	428 722
Total assets	**3 898 760**	**3 441 097**	**495 456**	**582 298**	**205 308**	**191 314**	**9 826 372**	**7 957 470**	**7 964 563**	**5 549 667**
International solvency margin	22%	23%	47%	61%	281%	271%	103%	76%	242%	2860%
Total assets/Total liabilities	105%	106%	164%	184%	180%	181%	117%	113%	219%	306%
Change in shareholders' funds	(5%)		(27%)		6%		56%		16%	

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

Accounting year end	Jun-15	Jun-14	15 month period ended Jun-15	Jun-14	Dec-15	Dec-14	Jun-15	Jun-14	Sep-15	Sep-14
Group/Company	**First for Women Insurance Company (RF) Limited**		**Guardrisk Insurance Company Limited**		**HDI-Gerling Insurance Company of South Africa Limited**		**The Hollard Insurance Company Limited**		**Indequity Group Limited**	
FSB classification	*Traditional*		*Cell captive*		*Traditional*		*Traditional*		*Traditional*	
Share capital and share premium	82 000	82 000	114 414	114 414	17 955	17 955	606 850	606 850	11 334	11 434
Retained earnings/(deficit)	29 609	17 614	172 897	75 680	30 295	31 633	3 765 194	3 469 268	16 244	11 436
Reserves, including contingency reserve	-	-	-	-	(50)	(2)	4 012	4 012	-	-
Total shareholders' funds	**111 609**	**99 614**	**287 311**	**190 094**	**48 200**	**49 586**	**4 376 056**	**4 080 130**	**27 578**	**22 870**
Total shareholders' funds and non-controlling interests	**111 609**	**99 614**	**287 311**	**190 094**	**48 200**	**49 586**	**4 376 056**	**4 080 130**	**27 578**	**22 870**
Gross outstanding claims	109 291	107 824	1 210 696	1 118 933	280 812	193 397	2 755 612	2 207 963	3 181	4 398
Gross unearned premium reserve	24 680	22 588	3 029 288	2 836 652	94 471	213 817	1 720 948	1 645 743	245	231
Reinsurers' share of expected salvages and recoveries	24 929	16 744	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	4 109 310	3 100 596	-	-	-	-	-	-
Deferred reinsurance commission revenue	-	-	98 063	101 751	20 063	19 079	-	-	-	-
Deferred tax liability	-	-	20 804	24 737	-	-	409 493	311 747	137	-
Other liabilities	43 719	57 802	481 815	489 832	59 337	189 777	1 693 088	1 479 462	2 704	3 097
Total liabilities	**202 619**	**204 958**	**8 949 976**	**7 672 501**	**454 683**	**616 070**	**6 579 141**	**5 644 915**	**6 267**	**7 726**
Total investments including investments in subsidiaries	**81 962**	**49 405**	**6 702 962**	**5 976 319**	**58 997**	**70 871**	**4 595 046**	**4 099 484**	**-**	**-**
Deferred tax asset, intangible assets and PPE	144	126	33 000	10 575	246	280	186 278	111 749	1 481	1 236
Reinsurers' share of outstanding claims	23 455	20 614	850 513	552 759	278 104	191 692	1 283 487	839 975	41	45
Reinsurers' share of unearned premium reserve	-	-	416 227	416 210	91 732	212 650	471 094	447 678	-	-
Gross expected salvages and recoveries	26 197	24 809	-	-	-	-	291 538	272 451	1 525	1 707
Deferred acquisition costs	-	-	61 078	100 201	15 365	13 506	155 022	169 530	-	-
Cash and cash equivalents	103 380	126 493	399 206	182 509	6 927	6 022	2 359 354	1 673 466	30 693	27 554
Other assets	79 090	83 125	774 301	624 022	51 512	170 635	1 613 378	2 110 712	105	54
Total assets	**314 228**	**304 572**	**9 237 287**	**7 862 595**	**502 883**	**665 656**	**10 955 197**	**9 725 045**	**33 845**	**30 596**
International solvency margin	465%	504%	8%	6%	1051%	2685%	58%	69%	64%	58%
Total assets/Total liabilities	155%	149%	103%	102%	111%	108%	167%	172%	540%	396%
Change in shareholders' funds	12%		51%		(3%)		7%		21%	

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Accounting year end	Jun-15	Jun-14	Jun-15	Jun-14	Jun-15	Jun-14	Jun-15	Jun-14	Dec-15	Dec-14
Group/Company	**Legal Expenses Insurance Southern Africa Limited**		**Momentum Alternative Insurance Limited**		**Momentum Short Term Insurance Company Limited**		**Momentum Structured Insurance Limited**		**Mutual & Federal Insurance Company Limited**	
FSB classification	*Niche*		*Traditional*		*Traditional*		*Traditional*		*Traditional*	
Share capital and share premium	16 634	16 634	25 000	25 000	419 246	148 005	9 000	7 000	1 797 000	1 797 000
Retained earnings/(deficit)	370 664	371 695	2 801	4 198	(159 913)	1 495	(1 796)	(1 152)	2 801 000	2 186 000
Reserves, including contingency reserve	9 084	7 178	-	-	-	-	-	-	51 000	53 000
Total shareholders' funds	**396 382**	**395 507**	**27 801**	**29 198**	**259 333**	**149 500**	**7 204**	**5 848**	**4 649 000**	**4 036 000**
Total shareholders' funds and non-controlling interests	**396 382**	**395 507**	**27 801**	**29 198**	**259 333**	**149 500**	**7 204**	**5 848**	**4 649 000**	**4 036 000**
Gross outstanding claims	197 318	174 779	-	-	92 676	69 072	-	-	2 925 000	2 815 000
Gross unearned premium reserve	-	-	-	-	1 420	5 964	-	-	787 000	799 000
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	-	-	-	-	-	-	-	-	62 000	65 000
Deferred tax liability	9 850	8 083	30	55	-	-	11	15	-	-
Other liabilities	68 780	64 631	-	-	43 428	29 546	6 005	5 665	1 414 000	1 919 000
Total liabilities	**275 948**	**247 493**	**30**	**55**	**137 524**	**104 582**	**6 016**	**5 680**	**5 188 000**	**5 598 000**
Total investments including investments in subsidiaries	**493 578**	**471 384**	**18 348**	**17 269**	**225 733**	**213 129**	**2 676**	**2 518**	**5 192 000**	**5 548 000**
Deferred tax asset, intangible assets and PPE	55 334	39 915	-	-	33 851	8 621	-	-	485 000	516 000
Reinsurers' share of outstanding claims	-	-	-	-	173	2 005	-	-	658 000	600 000
Reinsurers' share of unearned premium reserve	-	-	-	-	-	-	-	-	287 000	281 000
Gross expected salvages and recoveries	-	-	-	-	-	-	-	-	204 000	216 000
Deferred acquisition costs	-	-	-	-	142	69	-	-	132 000	140 000
Cash and cash equivalents	111 497	118 936	9 414	11 940	131 441	18 265	10 544	9 010	445 000	367 000
Other assets	11 921	12 765	69	44	5 517	11 993	-	-	2 434 000	1 966 000
Total assets	**672 330**	**643 000**	**27 831**	**29 253**	**396 857**	**254 082**	**13 220**	**11 528**	**9 837 000**	**9 634 000**
International solvency margin	58%	62%	N/A	N/A	50%	44%	N/A	N/A	58%	51%
Total assets/Total liabilities	244%	260%	92770%	53187%	289%	243%	220%	203%	190%	172%
Change in shareholders' funds	0%		(5%)		73%		23%		15%	

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Accounting year end	Dec-15	Dec-14	Dec-15	Dec-14	Dec-15	Dec-14	Dec-15	Dec-14	Jun-15	Jun-14
Group/Company	**Mutual & Federal Risk Financing Limited**		**Nedgroup Insurance Company Limited**		**New National Assurance Company Limited**		**Nova Risk Partners Limited**		**OUTsurance Insurance Company Limited**	
FSB classification	*Cell captive*		*Traditional*		*Traditional*		*Cell captive*		*Traditional*	
Share capital and share premium	4 550	4 550	5 000	5 000	14 000	14 000	3 000	3 000	25 000	25 000
Retained earnings/(deficit)	160 903	140 399	769 766	619 593	163 744	155 137	181	4 221	2 829 091	2 456 024
Reserves, including contingency reserve	-	-	-	-	28 137	25 713	-	-	83 824	70 373
Total shareholders' funds	**165 453**	**144 949**	**774 766**	**624 593**	**205 881**	**194 850**	**3 181**	**7 221**	**2 937 915**	**2 551 397**
Total shareholders' funds and non-controlling interests	**165 453**	**144 949**	**774 766**	**624 593**	**205 881**	**194 850**	**3 181**	**7 221**	**2 937 915**	**2 551 397**
Gross outstanding claims	412 152	275 485	104 546	107 997	367 952	440 691	18 827	12 842	1 070 770	1 156 880
Gross unearned premium reserve	339 014	285 591	214 258	165 141	102 749	83 863	-	-	431 052	449 356
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	763 873	681 887	-	-	-	-	3 049	2 808	-	-
Deferred reinsurance commission revenue	77 239	67 539	4 834	7 027	-	-	-	-	-	-
Deferred tax liability	1 190	958	34 019	22 338	4 977	4 840	-	-	-	-
Other liabilities	247 164	90 270	76 821	62 891	68 879	92 372	2 561	4 698	497 284	456 010
Total liabilities	**1 840 632**	**1 401 730**	**434 478**	**365 394**	**544 557**	**621 766**	**24 437**	**20 348**	**1 999 106**	**2 062 246**
Total investments including investments in subsidiaries	**707 257**	**723 155**	**1 032 814**	**793 344**	**83 262**	**77 081**	**13 325**	**18 259**	**4 233 696**	**3 829 824**
Deferred tax asset, intangible assets and PPE	-	-	1 157	897	19 578	16 908	132	123	159 623	126 816
Reinsurers' share of outstanding claims	175 780	123 381	26 710	26 834	246 342	288 558	12 211	6 682	25 328	52 504
Reinsurers' share of unearned premium reserve	319 317	265 187	4 000	3 323	77 523	63 581	-	-	-	-
Gross expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Deferred acquisition costs	77 239	67 539	78 163	65 984	-	-	-	-	-	-
Cash and cash equivalents	456 922	246 776	31 219	76 680	207 620	262 603	1 459	574	182 586	200 518
Other assets	269 570	120 641	35 181	22 925	116 113	107 885	491	1 931	335 788	403 981
Total assets	**2 006 085**	**1 546 679**	**1 209 244**	**989 987**	**750 438**	**816 616**	**27 618**	**27 569**	**4 937 021**	**4 613 643**
International solvency margin	410%	1064%	84%	72%	61%	53%	(776%)	2877%	45%	43%
Total assets/Total liabilities	109%	110%	278%	271%	138%	131%	113%	135%	247%	224%
Change in shareholders' funds	14%		24%		6%		(56%)		15%	

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

Accounting year end	Jun-15	Jun-14	Jun-15	Jun-14	Mar-15	Mar-14	Dec-15	Dec-14	Mar-15	Mar-14
Group/Company	**Regent Insurance Company Limited**		**Renasa Insurance Company Limited**		**Safire Insurance Company Limited**		**Santam Limited**		**Sasria SOC Limited**	
FSB classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Niche*	
Share capital and share premium	455 504	455 504	50 500	50 500	10 053	10 053	103 000	107 000	-	-
Retained earnings/(deficit)	45 040	119	(6 554)	(8 401)	90 461	83 446	7 330 000	6 715 000	4 674 237	4 296 106
Reserves, including contingency reserve	174 313	173 432	-	-	18 049	16 980	134 000	-	377 385	350 610
Total shareholders' funds	**674 857**	**629 055**	**43 946**	**42 099**	**118 563**	**110 479**	**7 567 000**	**6 822 000**	**5 051 622**	**4 646 716**
Total shareholders' funds and non-controlling interests	**989 915**	**915 430**	**43 946**	**42 099**	**118 563**	**110 479**	**7 567 000**	**6 822 000**	**5 051 622**	**4 646 716**
Gross outstanding claims	360 688	404 772	161 483	157 913	66 650	59 376	7 026 000	7 007 000	530 131	394 061
Gross unearned premium reserve	366 770	384 865	28 723	24 116	52 844	49 977	3 021 000	2 763 000	309 455	282 943
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	102 047	83 628	-	-	-	-
Deferred reinsurance commission revenue	-	-	-	-	-	-	250 000	215 000	5 146	4 159
Deferred tax liability	48 258	42 037	-	-	6 302	6 604	60 000	239 000	47 223	48 705
Other liabilities	238 340	209 818	125 594	104 437	52 032	53 451	4 883 000	4 166 000	115 321	102 147
Total liabilities	**1 014 056**	**1 041 492**	**315 800**	**286 466**	**279 875**	**253 036**	**15 240 000**	**14 390 000**	**1 007 276**	**832 015**
Total investments including investments in subsidiaries	**1 569 438**	**903 341**	**61**	**61**	**146 931**	**149 599**	**12 829 000**	**12 649 000**	**4 383 666**	**3 958 863**
Deferred tax asset, intangible assets and PPE	205 306	119 523	6 357	5 536	18 161	16 963	327 000	275 000	54 198	51 019
Reinsurers' share of outstanding claims	56 371	62 580	141 194	138 097	16 912	25 949	2 219 000	2 322 000	2 465	13 228
Reinsurers' share of unearned premium reserve	1 082	581	25 297	21 257	9 286	7 822	1 044 000	931 000	17 153	13 864
Gross expected salvages and recoveries	12 059	8 064	-	-	-	-	-	-	-	-
Deferred acquisition costs	-	-	5 066	4 183	10 152	9 669	484 000	408 000	-	-
Cash and cash equivalents	85 497	803 241	105 160	71 141	56 713	33 746	2 519 000	1 457 000	1 344 566	1 240 288
Other assets	74 218	59 592	76 611	88 290	140 283	119 767	3 385 000	3 170 000	256 850	201 469
Total assets	**2 003 971**	**1 956 922**	**359 746**	**328 565**	**398 438**	**363 515**	**22 807 000**	**21 212 000**	**6 058 898**	**5 478 731**
International solvency margin	70%	65%	34%	41%	75%	86%	45%	43%	366%	368%
Total assets/Total liabilities	198%	188%	114%	115%	142%	144%	150%	147%	602%	658%
Change in shareholders' funds	8%		4%		7%		11%		9%	

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

Accounting year end	Dec-15	Dec-14	Jun-15	Jun-14	Dec-15	Dec-14
Group/Company	**Standard Insurance Limited**		**Unitrans Insurance Limited**		**Zurich Insurance Company South Africa Limited**	
FSB classification	*Traditional*		*Traditional*		*Traditional*	
Share capital and share premium	30 000	30 000	15 150	15 150	4 650	4 650
Retained earnings/(deficit)	1 337 730	1 176 346	289 331	264 413	1 340 519	1 362 834
Reserves, including contingency reserve	140	140	-	-	297 010	302 796
Total shareholders' funds	**1 367 870**	**1 206 486**	**304 481**	**279 563**	**1 642 179**	**1 670 280**
Total shareholders' funds and non-controlling interests	**1 367 870**	**1 206 486**	**304 481**	**279 563**	**1 642 179**	**1 670 280**
Gross outstanding claims	327 710	299 327	33 458	8 466	1 183 154	1 242 672
Gross unearned premium reserve	82 728	71 882	135 281	133 553	719 731	587 984
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	-	-
Deferred reinsurance commission revenue	5 705	5 445	9 089	17 219	34 629	25 754
Deferred tax liability	14 080	12 103	5 359	4 499	-	-
Other liabilities	91 433	44 855	100 616	97 489	951 304	919 844
Total liabilities	**521 656**	**433 612**	**283 803**	**261 226**	**2 888 818**	**2 776 254**
Total investments including investments in subsidiaries	**1 551 393**	**1 280 566**	**86 424**	**79 805**	**2 246 354**	**2 241 146**
Deferred tax asset, intangible assets and PPE	2 273	1 068	-	-	345 739	278 223
Reinsurers' share of outstanding claims	42 998	6 832	12 364	5 307	428 562	394 819
Reinsurers' share of unearned premium reserve	34 452	31 299	58 554	60 939	298 463	186 944
Gross expected salvages and recoveries	-	-	-	-	-	-
Deferred acquisition costs	9 011	8 758	37 828	39 950	88 207	62 067
Cash and cash equivalents	100 538	213 397	189 207	200 471	315 705	432 891
Other assets	148 861	98 178	203 907	154 317	807 967	850 444
Total assets	**1 889 526**	**1 640 098**	**588 284**	**540 789**	**4 530 997**	**4 446 534**
International solvency margin	71%	67%	390%	511%	58%	59%
Total assets/Total liabilities	362%	378%	207%	207%	157%	160%
Change in shareholders' funds	13%		9%		(2%)	

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

Accounting year end	Dec-15	Dec-14	Dec-15	Dec-14	Dec-15	Dec-14	Dec-15	Dec-14	Nov-15	Nov-14
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	407 031	339 661	2 354 529	3 115 574	560 637	1 060 309	522 195	562 701	2 431 753	2 174 561
Net premiums written	380 038	323 226	2 041 430	2 553 528	-	-	111 504	94 440	418 969	497 065
Earned premiums	**383 245**	**323 321**	**2 091 616**	**2 575 077**	**-**	**-**	**115 933**	**84 864**	**448 346**	**472 487**
Total net investment income	**14 128**	**11 596**	**120 669**	**119 176**	**23 413**	**17 236**	**5 393**	**10 335**	**33 006**	**50 176**
Reinsurance commission revenue	580	421	82 711	92 709	-	-	109 112	119 756	554 373	365 875
Other income	4 491	3 928	58 004	40 662	16	-	2 608	2 877	30 306	7 396
Total income	**402 444**	**339 266**	**2 353 000**	**2 827 624**	**23 429**	**17 236**	**233 046**	**217 832**	**1 066 031**	**895 934**
Net claims incurred	287 979	241 145	1 380 555	1 790 034	-	-	82 590	65 728	366 187	348 127
Acquisition costs	62 136	51 897	407 865	504 786	-	-	92 458	103 259	349 076	284 710
Interest allocated to cell owners	-	-	-	-	16 258	12 369	-	-	-	-
Employee benefit expense	-	-	-	-	-	-	-	-	-	-
Management and other expenses	23 467	25 281	384 553	341 722	376	689	28 926	48 644	332 648	336 098
Total expenses	**373 582**	**318 323**	**2 172 973**	**2 636 542**	**16 634**	**13 058**	**203 974**	**217 631**	**1 047 911**	**968 935**
Net profit/(loss) before taxation	**28 862**	**20 943**	**180 027**	**191 082**	**6 795**	**4 178**	**29 072**	**201**	**18 120**	**(73 001)**
Taxation	8 081	5 863	46 456	51 483	1 888	1 170	9 518	126	(5 313)	(18 048)
Net profit/(loss) after taxation	**20 781**	**15 080**	**133 571**	**139 599**	**4 907**	**3 008**	**19 554**	**75**	**12 807**	**(54 953)**
Other comprehensive income/(expense)	-	-	(804)	734	-	-	-	-	-	-
Total comprehensive income/(loss) for the year	**20 781**	**15 080**	**132 767**	**140 333**	**4 907**	**3 008**	**19 554**	**75**	**12 807**	**(54 953)**
Transfer to/(from) retained earnings	-	-	-	-	-	-	-	-	-	-
Other comprehensive (income)/expense	-	-	804	(734)	-	-	-	-	-	-
Dividends	-	1 000	451 700	237 000	-	-	-	-	-	-
Change in retained earnings	**20 781**	**14 080**	**(318 129)**	**(97 401)**	**4 907**	**3 008**	**19 554**	**75**	**12 807**	**(54 953)**
Net premium to gross premium	93%	95%	87%	82%	0%	0%	21%	17%	17%	23%
Claims incurred to earned premium	75%	75%	66%	70%	N/A	N/A	71%	77%	82%	74%
Management and other expenses to net earned premium	6%	8%	18%	13%	N/A	N/A	25%	57%	74%	71%
Combined ratio	97%	98%	100%	99%	N/A	N/A	82%	115%	110%	128%
Operating ratio	94%	95%	94%	94%	N/A	N/A	77%	103%	103%	117%
Return on equity	12%	10%	12%	10%	12%	9%	13%	0%	2%	(12%)

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

Accounting year end	Mar-15	Mar-14	Dec-15	Dec-14 restated	Jun-15	Jun-14	Dec-15	Dec-14	Jun-15	Jun-14
Group/Company	**Alexander Forbes Insurance Company Limited**		**Allianz Global and Corporate Specialty South Africa Limited**		**Auto and General Insurance Company Limited**		**Bidvest Insurance Limited**		**Budget Insurance Company Limited**	
Gross premiums written	1 340 407	1 222 933	723 135	559 808	2 896 275	2 569 104	312 652	303 229	1 246 389	1 179 857
Net premiums written	348 382	320 285	(2 117)	61	1 298 150	1 246 910	308 882	302 951	614 871	579 335
Earned premiums	**348 157**	**317 912**	**2 583**	**(2 165)**	**1 292 996**	**1 207 162**	**295 728**	**244 886**	**613 000**	**579 753**
Total net investment income	**17 163**	**10 564**	**5 840**	**7 050**	**37 839**	**71 146**	**57 075**	**141 735**	**16 205**	**18 257**
Reinsurance commission revenue	246 144	225 266	198 564	131 281	619 585	571 619	1 728	120	284 022	267 770
Other income	52 522	47 559	3 745	5 842	49 297	55 297	-	-	41 890	42 601
Total income	**663 986**	**601 301**	**210 732**	**142 008**	**1 999 717**	**1 905 224**	**354 531**	**386 741**	**955 117**	**908 381**
Net claims incurred	233 335	238 659	40 380	(1 592)	837 532	792 619	125 887	113 470	423 884	397 586
Acquisition costs	60 133	50 309	87 052	32 914	413 066	365 080	61 017	39 584	25 527	27 584
Interest allocated to cell owners	-	-	-	-	-	-	-	-	-	-
Employee benefit expense	-	-	-	-	-	-	-	-	-	-
Management and other expenses	334 296	309 727	77 370	104 435	587 077	548 636	56 172	54 084	420 360	375 019
Total expenses	**627 764**	**598 695**	**204 802**	**135 757**	**1 837 675**	**1 706 335**	**243 076**	**207 138**	**869 771**	**800 189**
Net profit/(loss) before taxation	**36 222**	**2 606**	**5 930**	**6 251**	**162 042**	**198 889**	**111 455**	**179 603**	**85 346**	**108 192**
Taxation	10 237	1 169	1 769	2 542	39 099	55 715	25 788	36 665	24 578	30 355
Net profit/(loss) after taxation	**25 985**	**1 437**	**4 161**	**3 709**	**122 943**	**143 174**	**85 667**	**142 938**	**60 768**	**77 837**
Other comprehensive income/(expense)	-	-	-	-	-	-	-	-	-	-
Total comprehensive income/(loss) for the year	**25 985**	**1 437**	**4 161**	**3 709**	**122 943**	**143 174**	**85 667**	**142 938**	**60 768**	**77 837**
Transfer to/(from) retained earnings	-	-	-	-	-	-	(23 877)	(67 636)	-	-
Other comprehensive (income)/expense	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	475 000	120 000	79 188	55 300	45 000	110 000
Change in retained earnings	**25 985**	**1 437**	**4 161**	**3 709**	**(352 057)**	**23 174**	**(17 398)**	**20 002**	**15 768**	**(32 163)**
Net premium to gross premium	26%	26%	0%	0%	45%	49%	99%	100%	49%	49%
Claims incurred to earned premium	67%	75%	1563%	74%	65%	66%	43%	46%	69%	69%
Management and other expenses to net earned premium	96%	97%	2995%	(4824%)	45%	45%	19%	22%	69%	65%
Combined ratio	110%	117%	242%	(207%)	94%	94%	82%	85%	96%	92%
Operating ratio	105%	114%	15%	119%	91%	88%	62%	27%	93%	89%
Return on equity	17%	1%	4%	4%	22%	16%	18%	30%	23%	32%

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

Accounting year end	Dec-15	Dec-14	Jun-15	Jun-14	Dec-15	Dec-14	Mar-15	Mar-14	Mar-15	Mar-14
Group/Company	**Centriq Insurance Company Limited**		**Dial Direct Insurance Limited**		**Enpet Africa Insurance Limited**		**Escap SOC Limited**		**Export Credit Insurance Corporation of South Africa Limited**	
Gross premiums written	2 031 544	1 756 380	900 192	945 161	48 616	46 278	1 618 189	1 540 567	1 788 350	130 642
Net premiums written	879 032	873 103	409 873	436 742	32 445	31 650	1 383 400	1 214 844	1 788 350	130 642
Earned premiums	**669 836**	**695 844**	**415 196**	**436 758**	**32 188**	**31 666**	**1 481 601**	**1 155 724**	**379 999**	**264 143**
Total net investment income	**198 773**	**177 466**	**23 671**	**26 799**	**18 831**	**9 319**	**446 425**	**365 619**	**277 102**	**243 750**
Reinsurance commission revenue	180 410	125 255	217 479	225 630	3 033	2 775	25 609	19 428	-	-
Other income	110 312	86 268	22 278	20 873	-	5	1 499	589	14 352	875
Total income	**1 159 331**	**1 084 833**	**678 624**	**710 060**	**54 052**	**43 765**	**1 955 134**	**1 541 360**	**671 453**	**508 768**
Net claims incurred	593 214	582 461	312 279	353 738	25 600	17 790	1 189 513	2 566 000	(60 766)	(167 835)
Acquisition costs	199 368	194 186	4 117	1 266	314	279	2 947	1 080	356	89
Interest allocated to cell owners	71 659	61 931	-	-	-	-	-	-	-	-
Employee benefit expense	-	-	-	-	-	-	-	-	-	-
Management and other expenses	234 358	189 399	250 280	252 842	6 092	5 256	65 279	68 679	454 350	447 542
Total expenses	**1 098 599**	**1 027 977**	**566 676**	**607 846**	**32 006**	**23 325**	**1 257 739**	**2 635 759**	**393 940**	**279 796**
Net profit/(loss) before taxation	**60 732**	**56 856**	**111 948**	**102 214**	**22 046**	**20 440**	**697 395**	**(1 094 399)**	**277 513**	**228 972**
Taxation	21 355	13 902	32 885	28 692	5 351	5 641	187 630	(313 433)	209 723	185 053
Net profit/(loss) after taxation	**39 377**	**42 954**	**79 063**	**73 522**	**16 695**	**14 799**	**509 765**	**(780 966)**	**67 790**	**43 919**
Other comprehensive income/(expense)	-	-	-	-	(3 752)	4 167	1 794	(1 988)	519 483	468 177
Total comprehensive income/(loss) for the year	**39 377**	**42 954**	**79 063**	**73 522**	**12 943**	**18 966**	**511 559**	**(782 954)**	**587 273**	**512 096**
Transfer to/(from) retained earnings	-	-	-	-	(416)	(1 430)	-	-	(912 035)	318 186
Other comprehensive (income)/expense	-	-	-	-	3 752	(4 167)	(1 794)	1 988	(519 483)	(468 177)
Dividends	50 000	19 435	150 000	55 000	7 500	-	-	-	-	-
Change in retained earnings	**(10 623)**	**23 519**	**(70 937)**	**18 522**	**8 779**	**13 369**	**509 765**	**(780 966)**	**(844 245)**	**362 105**
Net premium to gross premium	43%	50%	46%	46%	67%	68%	85%	79%	100%	100%
Claims incurred to earned premium	89%	84%	75%	81%	80%	56%	80%	222%	(16%)	(64%)
Management and other expenses to net earned premium	35%	27%	60%	58%	19%	17%	4%	6%	120%	169%
Combined ratio	126%	121%	84%	88%	90%	65%	83%	226%	104%	106%
Operating ratio	97%	95%	78%	81%	32%	35%	53%	195%	31%	14%
Return on equity	20%	21%	41%	28%	18%	17%	36%	(85%)	2%	1%

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

Accounting year end	Jun-15	Jun-14	15 month period ended Jun-15	Jun-14	Dec-15	Dec-14	Jun-15	Jun-14	Sep-15	Sep-14
Group/Company	**First for Women Insurance Company (RF) Limited**		**Guardrisk Insurance Company Limited**		**HDI-Gerling Insurance Company of South Africa Limited**		**The Hollard Insurance Company Limited**		**Indequity Group Limited**	
Gross premiums written	730 735	694 281	7 333 542	5 507 561	388 526	500 198	9 492 385	7 475 719	44 937	41 220
Net premiums written	24 021	19 773	3 683 738	3 049 377	4 586	1 847	7 593 118	5 907 724	43 158	39 702
Earned premiums	**21 929**	**18 673**	**3 487 385**	**2 810 786**	**3 013**	**2 070**	**7 541 329**	**5 953 919**	**43 144**	**39 676**
Total net investment income	**9 737**	**8 291**	**566 384**	**365 746**	**4 473**	**3 234**	**958 792**	**835 305**	**1 703**	**1 200**
Reinsurance commission revenue	199 400	189 589	401 159	298 144	41 654	35 799	-	-	-	-
Other income	16 687	19 410	145 248	69 401	2 049	1 690	135 661	65 671	72	76
Total income	**247 753**	**235 963**	**4 600 176**	**3 544 077**	**51 189**	**42 793**	**8 635 782**	**6 854 895**	**44 919**	**40 952**
Net claims incurred	34 087	37 258	599 848	466 568	1 366	927	4 387 587	3 503 719	18 991	18 696
Acquisition costs	6 391	4 810	912 394	706 932	28 453	25 042	904 863	642 702	3 312	2 985
Interest allocated to cell owners	-	-	-	-	-	-	-	-	-	-
Employee benefit expense	-	-	-	-	-	-	-	-	-	-
Management and other expenses	153 283	141 219	2 940 842	2 265 646	14 682	12 455	2 336 063	1 911 393	12 571	11 259
Total expenses	**193 761**	**183 287**	**4 453 084**	**3 439 146**	**44 501**	**38 424**	**7 628 513**	**6 057 814**	**34 874**	**32 940**
Net profit/(loss) before taxation	**53 992**	**52 676**	**147 092**	**104 931**	**6 688**	**4 369**	**1 007 269**	**797 081**	**10 045**	**8 012**
Taxation	21 997	14 807	49 875	28 168	2 027	1 201	156 385	127 644	2 802	2 273
Net profit/(loss) after taxation	**31 995**	**37 869**	**97 217**	**76 763**	**4 661**	**3 168**	**850 884**	**669 437**	**7 243**	**5 739**
Other comprehensive income/(expense)	-	-	-	-	(49)	(19)	-	-	-	-
Total comprehensive income/(loss) for the year	**31 995**	**37 869**	**97 217**	**76 763**	**4 612**	**3 149**	**850 884**	**669 437**	**7 243**	**5 739**
Transfer to/(from) retained earnings	-	-	-	-	-	-	-	(473 951)	-	-
Other comprehensive (income)/expense	-	-	-	-	49	19	-	-	-	-
Dividends	20 000	65 000	-	158 870	6 000	-	554 958	521 643	2 435	2 463
Change in retained earnings	**11 995**	**(27 131)**	**97 217**	**(82 107)**	**(1 339)**	**3 168**	**295 926**	**621 745**	**4 808**	**3 276**
Net premium to gross premium	3%	3%	50%	55%	1%	0%	80%	79%	96%	96%
Claims incurred to earned premium	155%	200%	17%	17%	45%	45%	58%	59%	44%	47%
Management and other expenses to net earned premium	699%	756%	84%	81%	487%	602%	31%	32%	29%	28%
Combined ratio	(26%)	(34%)	116%	112%	94%	127%	101%	102%	81%	83%
Operating ratio	(70%)	(78%)	100%	99%	(54%)	(29%)	88%	88%	77%	80%
Return on equity	29%	38%	34%	40%	10%	6%	19%	16%	26%	25%

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

Accounting year end	Jun-15	Jun-14	Jun-15	Jun-14	Jun-15	Jun-14	Jun-15	Jun-14	Dec-15	Dec-14
Group /Company	**Legal Expenses Insurance Southern Africa Limited**		**Momentum Alternative Insurance Limited**		**Momentum Short Term Insurance Company Limited**		**Momentum Structured Insurance Limited**		**Mutual & Federal Insurance Company Limited**	
Gross premiums written	683 057	633 938	-	-	519 962	343 232	-	-	9 038 000	8 886 000
Net premiums written	683 057	633 938	-	-	516 288	337 978	-	-	8 082 000	7 874 000
Earned premiums	**683 057**	**633 938**	**-**	**-**	**520 832**	**338 215**	**-**	**-**	**8 100 000**	**7 893 000**
Total net investment income	**36 688**	**72 040**	**1 662**	**1 602**	**16 028**	**15 087**	**668**	**577**	**880 000**	**547 000**
Reinsurance commission revenue	-	-	-	-	-	-	-	-	152 000	243 000
Other income	3 247	4 361	-	-	-	-	-	-	9 000	3 000
Total income	**722 992**	**710 339**	**1 662**	**1 602**	**536 860**	**353 302**	**668**	**577**	**9 141 000**	**8 686 000**
Net claims incurred	94 781	78 669	-	-	440 673	203 915	-	-	5 325 000	5 469 000
Acquisition costs	93 389	96 629	-	-	97 966	60 838	-	-	1 487 000	1 436 000
Interest allocated to cell owners	-	-	-	-	-	-	-	-	-	-
Employee benefit expense	-	-	-	-	-	-	-	-	-	-
Management and other expenses	469 425	420 294	902	1 836	184 898	118 753	1 312	2 692	1 399 000	1 267 000
Total expenses	**657 595**	**595 592**	**902**	**1 836**	**723 537**	**383 506**	**1 312**	**2 692**	**8 211 000**	**8 172 000**
Net profit/(loss) before taxation	**65 397**	**114 747**	**760**	**(234)**	**(186 677)**	**(30 204)**	**(644)**	**(2 115)**	**930 000**	**514 000**
Taxation	12 951	19 012	157	(1)	(25 269)	(8 453)	-	5	117 000	81 000
Net profit/(loss) after taxation	**52 446**	**95 735**	**603**	**(233)**	**(161 408)**	**(21 751)**	**(644)**	**(2 120)**	**813 000**	**433 000**
Other comprehensive income/(expense)	1 906	(215)	-	-	-	-	-	-	2 000	3 000
Total comprehensive income/(loss) for the year	**54 352**	**95 520**	**603**	**(233)**	**(161 408)**	**(21 751)**	**(644)**	**(2 120)**	**815 000**	**436 000**
Transfer to/(from) retained earnings	-	-	-	-	-	-	-	-	2 000	(361 000)
Other comprehensive (income)/expense	(1 906)	215	-	-	-	-	-	-	(2 000)	(3 000)
Dividends	53 477	49 957	2 000	-	-	-	-	-	200 000	600 000
Change in retained earnings	**(1 031)**	**45 778**	**(1 397)**	**(233)**	**(161 408)**	**(21 751)**	**(644)**	**(2 120)**	**615 000**	**(528 000)**
Net premium to gross premium	100%	100%	N/A	N/A	99%	98%	N/A	N/A	89%	89%
Claims incurred to earned premium	14%	12%	N/A	N/A	85%	60%	N/A	N/A	66%	69%
Management and other expenses to net earned premium	69%	66%	N/A	N/A	36%	35%	N/A	N/A	17%	16%
Combined ratio	96%	94%	N/A	N/A	139%	113%	N/A	N/A	99%	100%
Operating ratio	91%	83%	N/A	N/A	136%	109%	N/A	N/A	89%	94%
Return on equity	13%	24%	2%	(1%)	(62%)	(15%)	(9%)	(36%)	17%	11%

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

Accounting year end	Dec-15	Dec-14	Dec-15	Dec-14	Dec-15	Dec-14	Dec-15	Dec-14	Jun-15	Jun-14
Group/Company	**Mutual & Federal Risk Financing Limited**		**Nedgroup Insurance Company Limited**		**New National Assurance Company Limited**		**Nova Risk Partners Limited**		**OUTsurance Insurance Company Limited**	
Gross premiums written	1 728 258	997 944	1 055 695	978 786	1 015 397	1 110 677	-	-	6 580 001	6 048 468
Net premiums written	40 345	13 618	925 628	863 216	338 935	369 108	(410)	251	6 489 861	5 947 347
Earned premiums	**41 052**	**24 598**	**877 188**	**852 075**	**333 991**	**369 765**	**(410)**	**251**	**6 489 698**	**5 929 979**
Total net investment income	**10 068**	**18 741**	**81 061**	**53 926**	**14 995**	**14 116**	**1 033**	**1 263**	**250 985**	**251 433**
Reinsurance commission revenue	253 868	118 244	19 668	10 558	124 768	117 460	-	-	-	-
Other income	-	-	37 295	33 195	12 913	8 118	571	4 169	-	-
Total income	**304 988**	**161 583**	**1 015 212**	**949 754**	**486 667**	**509 459**	**1 194**	**5 683**	**6 740 683**	**6 181 412**
Net claims incurred	5 923	5 962	406 113	395 799	260 391	285 656	217	(1 589)	3 279 979	3 130 979
Acquisition costs	256 150	120 826	183 999	178 651	171 123	174 372	240	4 832	34 634	28 744
Interest allocated to cell owners	-	-	-	-	-	-	466	436	-	-
Employee benefit expense	-	-	-	-	-	-	-	-	-	-
Management and other expenses	15 014	12 492	150 229	152 371	42 725	35 788	327	391	1 451 545	1 296 148
Total expenses	**277 087**	**139 280**	**740 341**	**726 821**	**474 239**	**495 816**	**1 250**	**4 070**	**4 766 158**	**4 455 871**
Net profit/(loss) before taxation	**27 901**	**22 303**	**274 871**	**222 933**	**12 428**	**13 643**	**(56)**	**1 613**	**1 974 525**	**1 725 541**
Taxation	7 397	6 292	74 698	59 664	3 143	3 818	16	597	572 458	511 497
Net profit/(loss) after taxation	**20 504**	**16 011**	**200 173**	**163 269**	**9 285**	**9 825**	**(40)**	**1 016**	**1 402 067**	**1 214 044**
Other comprehensive income/(expense)	-	-	-	-	2 423	5 047	-	-	13 451	24 486
Total comprehensive income/(loss) for the year	**20 504**	**16 011**	**200 173**	**163 269**	**11 708**	**14 872**	**(40)**	**1 016**	**1 415 518**	**1 238 530**
Transfer to/(from) retained earnings	-	-	-	-	-	-	-	-	(13 451)	(24 012)
Other comprehensive (income)/expense	-	-	-	-	(2 423)	(5 047)	-	-	-	-
Dividends	-	-	50 000	50 000	679	679	4 000	4 000	1 029 000	1 063 250
Change in retained earnings	**20 504**	**16 011**	**150 173**	**113 269**	**8 606**	**9 146**	**(4 040)**	**(2 984)**	**399 969**	**199 292**
Net premium to gross premium	2%	1%	88%	88%	33%	33%	N/A	N/A	99%	98%
Claims incurred to earned premium	14%	24%	46%	46%	78%	77%	(53%)	(633%)	51%	53%
Management and other expenses to net earned premium	37%	51%	17%	18%	13%	10%	(80%)	156%	22%	22%
Combined ratio	57%	86%	82%	84%	105%	102%	(191%)	1448%	73%	75%
Operating ratio	32%	9%	73%	78%	100%	99%	61%	945%	70%	71%
Return on equity	12%	11%	26%	26%	5%	5%	(1%)	14%	48%	48%

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

Accounting year end	Jun-15	Jun-14	Jun-15	Jun-14	Mar-15	Mar-14	Dec-15	Dec-14	Mar-15	Mar-14
Group/Company	**Regent Insurance Company Limited**		**Renasa Insurance Company Limited**		**Safire Insurance Company Limited**		**Santam Limited**		**Sasria SOC Limited**	
Gross premiums written	1 452 028	1 448 377	1 047 582	803 114	259 189	232 813	21 085 000	19 866 000	1 522 866	1 390 338
Net premiums written	1 413 670	1 408 541	130 785	102 839	157 275	128 870	17 003 000	15 879 000	1 381 872	1 263 765
Earned premiums	**1 432 266**	**1 407 576**	**130 217**	**102 105**	**155 231**	**127 782**	**16 861 000**	**15 654 000**	**1 358 649**	**1 194 730**
Total net investment income	**163 380**	**287 691**	**4 686**	**2 742**	**11 231**	**15 104**	**1 807 000**	**1 352 000**	**389 755**	**447 969**
Reinsurance commission revenue	10 589	12 488	178 049	144 166	15 983	16 720	1 066 000	1 013 000	24 049	22 632
Other income	30 868	32 665	20 962	17 122	23 342	14 213	-	-	129	37
Total income	**1 637 103**	**1 740 420**	**333 914**	**266 135**	**205 787**	**173 819**	**19 734 000**	**18 019 000**	**1 772 582**	**1 665 368**
Net claims incurred	699 326	752 019	94 906	72 900	105 907	76 677	10 442 000	9 847 000	440 559	306 382
Acquisition costs	272 158	321 363	159 547	123 299	43 507	38 165	3 582 000	3 327 000	176 730	120 987
Interest allocated to cell owners	-	-	-	-	-	-	-	-	-	-
Employee benefit expense	-	-	-	-	-	-	-	-	-	-
Management and other expenses	406 439	343 379	76 755	67 142	41 766	38 003	2 702 000	2 518 000	321 153	293 959
Total expenses	**1 377 923**	**1 416 761**	**331 208**	**263 341**	**191 180**	**152 845**	**16 726 000**	**15 692 000**	**938 442**	**721 328**
Net profit/(loss) before taxation	**259 180**	**323 659**	**2 706**	**2 794**	**14 607**	**20 974**	**3 008 000**	**2 327 000**	**834 140**	**944 040**
Taxation	58 018	68 165	859	839	3 980	5 435	714 000	515 000	223 456	258 113
Net profit/(loss) after taxation	**201 162**	**255 494**	**1 847**	**1 955**	**10 627**	**15 539**	**2 294 000**	**1 812 000**	**610 684**	**685 927**
Other comprehensive income/(expense)	-	-	-	-	1 069	4 599	97 000	-	-	-
Total comprehensive income/(loss) for the year	**201 162**	**255 494**	**1 847**	**1 955**	**11 696**	**20 138**	**2 391 000**	**1 812 000**	**610 684**	**685 927**
Transfer to/(from) retained earnings	(132 929)	(117 435)	-	-	-	-	(775 000)	32 000	26 775	105 468
Other comprehensive (income)/expense	-	-	-	-	(1 069)	(4 599)	(97 000)	-	-	-
Dividends	23 302	198 129	-	-	3 612	2 821	904 000	829 000	205 778	107 287
Change in retained earnings	**44 931**	**(60 070)**	**1 847**	**1 955**	**7 015**	**12 718**	**2 165 000**	**951 000**	**378 131**	**473 172**
Net premium to gross premium	97%	97%	12%	13%	61%	55%	81%	80%	91%	91%
Claims incurred to earned premium	49%	53%	73%	71%	68%	60%	62%	63%	32%	26%
Management and other expenses to net earned premium	28%	24%	59%	66%	27%	30%	16%	16%	24%	25%
Combined ratio	95%	100%	118%	117%	113%	107%	93%	94%	67%	58%
Operating ratio	84%	79%	114%	114%	106%	95%	82%	85%	39%	21%
Return on equity	20%	28%	4%	5%	9%	14%	30%	27%	12%	15%

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

Accounting year end	Dec-15	Dec-14	Jun-15	Jun-14	Dec-15	Dec-14
Group/Company	**Standard Insurance Limited**		**Unitrans Insurance Limited**		**Zurich Insurance Company South Africa Limited**	
Gross premiums written	2 070 591	1 918 416	167 544	154 483	3 735 903	3 484 869
Net premiums written	1 919 085	1 796 717	77 979	54 734	2 821 730	2 832 790
Earned premiums	**1 888 365**	**1 777 305**	**73 867**	**48 904**	**2 801 503**	**2 875 812**
Total net investment income	**125 685**	**103 170**	**19 702**	**19 911**	**182 225**	**379 531**
Reinsurance commission revenue	20 601	17 272	8 319	15 500	87 876	89 768
Other income	-	1	14 818	25 771	5 220	22 391
Total income	**2 034 651**	**1 897 748**	**116 706**	**110 086**	**3 076 824**	**3 367 502**
Net claims incurred	776 325	869 442	34 272	7 794	1 830 716	2 126 463
Acquisition costs	297 878	274 481	41 678	38 699	602 820	612 055
Interest allocated to cell owners	-	-	-	-	-	-
Employee benefit expense	99 639	74 608	-	-	-	-
Management and other expenses	180 492	178 204	6 856	8 646	677 686	616 217
Total expenses	**1 354 334**	**1 396 735**	**82 806**	**55 139**	**3 111 222**	**3 354 735**
Net profit/(loss) before taxation	**680 317**	**501 013**	**33 900**	**54 947**	**(34 398)**	**12 767**
Taxation	187 360	139 172	8 982	14 498	(12 083)	(23 072)
Net profit/(loss) after taxation	**492 957**	**361 841**	**24 918**	**40 449**	**(22 315)**	**35 839**
Other comprehensive income/(expense)	-	-	-	-	(5 153)	(94 997)
Total comprehensive income/(loss) for the year	**492 957**	**361 841**	**24 918**	**40 449**	**(27 468)**	**(59 158)**
Transfer to/(from) retained earnings	-	-	-	-	-	-
Other comprehensive (income)/expense	-	-	-	-	5 153	94 997
Dividends	331 573	276 140	-	20 078	-	24 359
Change in retained earnings	**161 384**	**85 701**	**24 918**	**20 371**	**(22 315)**	**11 480**
Net premium to gross premium	93%	94%	47%	35%	76%	81%
Claims incurred to earned premium	41%	49%	46%	16%	65%	74%
Management and other expenses to net earned premium	10%	10%	9%	18%	24%	21%
Combined ratio	65%	73%	101%	81%	108%	114%
Operating ratio	59%	68%	74%	40%	101%	100%
Return on equity	36%	30%	8%	14%	(1%)	2%

LONG-TERM INSURANCE INDUSTRY

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Overview of the industry financial results

Life insurers thrive on stability. Over the years, our survey has plainly shown that when investment markets steadily increase and bond yields remain largely unchanged, the industry is prosperous. And 2015 offered that, or at least for the first eleven months. Up until the end of November 2015 the Johannesburg Stock Exchange (JSE) All Share Index was up 4% from the previous year and the 10-year bond yield had only changed by 0.6% from the beginning of the year.

But then came the financial turmoil in December sparked by an unexpected appointment of a new Finance Minister. The JSE gave back some of its earlier gains and generated volatility to come in the months following, but potentially more importantly for the 2015 financial results of insurers with reporting dates at the end of December, was that the long-term bond yield increased by 1.3% to 9.9% during the month.

Below is a table showing the 10-year bond yield as at every quarter end during 2015.

Date	2014/12/31	2015/03/31	2015/06/30	2015/09/30	2015/12/31
10 year bond yield	8.0%	7.9%	8.4%	8.5%	9.9%

Insurers reporting under IFRS use a prospective basis to value non-linked policyholder liabilities estimating future cash flows and discounting those to present value. The assumed inflation and discount rates used by insurers are impacted significantly by bond yields, and a relatively small change in a discount rate on future cash flows stretching over 30-odd years, has a pronounced effect on current year profit and loss. The impact of such a change is dependent on the mix of business and the level of negative reserves, which is very different by insurer.

Liberty reported that their policyholder liabilities increased by R237 million as a result of economic assumption changes but the effect was not easy to spot for many other insurers. This again highlights the disparity in accounting practices amongst insurers. Some insurers were able to shield the adverse impact of the discount rate by utilising discretionary margins created in previous periods or use different valuation methods to fund the valuation strain. The IASB's proposals for insurance contract accounting that will become mandatory during reporting periods in 2020 or 2021 (effective date still to be decided) will bring about much needed transparency and objectivity in accounting for

assumption changes. Despite the investment volatility experienced late in the year, on an aggregate basis, participants in the survey were able to report a 5% increase in total assets year-on-year. The table below shows the total assets of the four largest individual insurers that make up more than 80% of the total assets of the participating insurers.

	Total assets in Rand Billion
Old Mutual Life Assurance Company (South Africa) Limited	619.8
Sanlam Life Insurance Limited	482.7
Liberty Group Limited	358.4
MMI Group Limited	373.3

The increase in industry assets suggests positive net client cash flows which is then corroborated by statistics released by The Association for Savings and Investment SA (ASISA). These ASISA life insurance statistics covering the 2015 year report net positive client cash flows of R23.4 billion (2014: R12.1 billion). On closer scrutiny, the inflows from individual single and recurring premiums increased by 13%, however, lump sums from group/institutional decreased by 5%, from R105.0 billion in 2014 to R99.6 billion in 2015. The lower lump sums from group business, follows on from reduced bulk annuity sales reported by a few of the listed insurers partially offset by Old Mutual reporting more buoyant sales. Also interesting to note that for the first time in many years, the growth in the assets backing non-linked policies (9%) was stronger than the assets backing linked policies (3%).

A key theme from many insurers' recent results presentations is the need to better understand and focus on expenses. In its 2015 directors' report Liberty notes that certain categories of expenses previously defined as general overheads, were redefined as maintenance and asset management expenses. Simultaneously, discretionary margins held largely to fund these overheads were also adjusted with the net profit impact for Liberty being immaterial. Also, MMI Holdings during the release of its results for the six months ended 31 December 2015 highlighted that as part of the implementation of its client-centric model areas have been identified where further efficiencies could be extracted. MMI is targeting a further reduction in annual expenses of R750 million by financial year 2019.

The total profit before tax of all insurers covered by this survey decreased from R45.8 billion in 2014 to R31.3 billion in 2015. It is, however, not fair to conclude that the industry performance was 30% weaker than the previous year. The main contributor to the lower profitability is fair value movements on strategic shareholder investments within the larger life offices. For example, Old Mutual's strategic holding by its life company in Nedbank Group is valued R5.2 billion lower year on year following investors' aversion to bank holdings in 2015. Another example is the carrying value of Sanlam's investment in Santam that decreased by nearly R2.0 billion based on the JSE share price movement.

Following on from the lower profit the taxation expense reported by the participants decreased from R9.7 billion last year to R7.3 billion in the current year. The taxation for life insurers is fluid and due to undergo substantial change over the next few years with the introduction of the risk fund (5th fund) and the tax base of policyholder liabilities transitioning from regulatory to IFRS. We have seen some insurers adopt elements of this change in their valuation models of policyholder liabilities at the 2015 year end but it is difficult to do so on a grand scale without running the risk that the changes need to be reversed in the future once the final tax basis has settled.

It is interesting to note when reading the FSB's quarterly report at 31 December 2015, that the aggregate capital requirement (CAR) for the industry reduced over the year from R42.5 billion to R39.5 billion. The main contributor to the lower capital was Old Mutual (R2.9 billion) who aligned the regulatory basis for its investment contracts with its IFRS valuation basis and in turn reduced the lapse risk capital requirement.

The aggregate return on equity (net profit after tax as a percentage of shareholder funds) of insurers covered in the survey decreased from 22% in 2014 to 14% in 2015. The return is impacted negatively by the valuation losses on strategic shareholder assets discussed above. Dividends paid to shareholders also reduced to R13.1 billion, compared to R14.6 billion declared during 2014 with Sanlam Life not declaring a dividend (2014: R3.9 billion) in 2015.

In summary, when external factors are excluded, such as the higher policyholder discount rate and downward valuation movements on strategic shareholder investments, the industry results for 2015 was relatively strong. The financial result was underscored by positive client cash flows, persistency that was under strain but largely held tight and favourable changes in the policyholder valuation bases (mostly mortality) reported by some insurers. The prospects for 2016 are not rosy though. During the first half of 2016 investment markets were lower and volatile with concerns about pedestrian economic growth, a downgrade for South Africa in its international sovereign rating to below investment grade and a general global fallout from the UK's Euro referendum. Insurers that derive substantial fees from the management of assets will bear the brunt of this uncertainty. Also, towards the last quarter of 2015 insurers started seeing more strain on its persistency of its risk business.

These economic conditions offer substantial obstacles to grow new business volumes which is much needed to replace the industry's high margin legacy business that continues to mature. Having said all this, 2016 will not be the industry's first rodeo and they have prepared themselves for tough trading conditions through the diversification of their business models and investing in new distribution areas. The year 2016 will therefore be a true test of the industry's resilience and how successful insurers have been in morphing into financial services groups that have assorted and non-correlated income streams.

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

Accounting year end	Jun-15	Jun-14	Dec-15	Dec-14	Nov-15	Nov-14	Jun-15	Jun-14	Jun-15	Jun-14
Group/Company	**1Life Direct Insurance Limited**		**Absa Life Limited**		**AIG Life Limited**		**AVBOB Mutual Assurance Society**		**Bidvest Life Limited**	
FSB classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Traditional*	
Share capital and premium	398 000	360 000	24 000	24 000	10 000	10 000	-	-	10 000	10 000
Retained earnings/(deficit)	644 249	543 416	1 200 816	1 163 058	243 838	271 566	5 271 404	4 778 507	185 004	198 604
Other reserves	-	-	12 660	-	-	-	-	-	112 017	100 729
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
Total shareholders' funds	**1 042 249**	**903 416**	**1 237 476**	**1 187 058**	**253 838**	**281 566**	**5 271 404**	**4 778 507**	**307 021**	**309 333**
Policyholder liabilities under insurance contracts and contracts with DPF's	-	-	1 854 804	1 972 202	198 227	236 615	6 179 232	5 401 892	26 733	27 829
Policyholder labilities under investment contracts	-	-	21 665 284	20 276 315	-	-	-	-	-	-
Reinsurance contract liability	-	-	85 692	95 436	-	-	-	-	319	446
Cell owners interest	-	-	-	-	-	-	-	-	-	-
Deferred tax liability/(asset)	284 316	245 130	15 314	25 500	-	-	214 012	189 711	20 720	18 417
Other liabilities	217 502	180 903	595 306	400 988	4 886	41 401	553 794	481 358	8 574	11 612
Total liabilities	**501 818**	**426 033**	**24 216 400**	**22 770 441**	**203 113**	**278 016**	**6 947 038**	**6 072 961**	**56 346**	**58 304**
Total investments	-	-	**24 783 983**	**23 401 120**	**217 357**	**296 333**	**9 569 573**	**8 473 244**	**305 827**	**278 985**
Assets arising from insurance contracts	1 211 784	1 052 014	-	-	-	-	-	-	-	-
PPE; goodwill and intangible assets	-	-	330 432	265 464	-	-	119 657	142 206	-	-
Reinsurers' share of policyholder liabilities	5 840	(7 795)	24 374	18 459	-	-	11 000	12 092	748	1 687
Deferred acquisition costs	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	254 597	235 946	154 667	115 607	172 000	177 262	2 203 817	1 928 853	1 853	3 515
Other assets	71 846	49 284	160 420	156 849	67 594	85 987	314 395	295 073	16 170	32 495
Income tax asset	-	-	-	-	-	-	-	-	2 072	-
Deposits held with cell option	-	-	-	-	-	-	-	-	36 696	50 955
Total assets	**1 544 067**	**1 329 449**	**25 453 876**	**23 957 499**	**456 951**	**559 582**	**12 218 442**	**10 851 468**	**363 367**	**367 637**
Regulatory surplus assets to CAR	1,91	2,25	Information not available		4,90	5,10	4,60	4,80	27,60	30,50
Total assets/total liabilities	308%	312%	105%	105%	225%	201%	176%	181%	645%	631%
Increase in shareholders' funds	15%		4%		(10%)		10%		(1%)	

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

Accounting year end	Dec-15	Dec-14	Jun-15	Jun-14	15 month period ended Jun-15	Mar-14	Jun-15	Jun-14	Dec-15	Dec-14
Group/Company	**Centriq Life Insurance Company Limited**		**Clientele Life Limited**		**Guardrisk Life Limited**		**Hollard Life Assurance Company Limited**		**Liberty Group Limited**	
FSB classification	*Cell captive*		*Traditional*		*Cell captive*		*Traditional*		*Traditional*	
Share capital and premium	15 000	23 428	4 853	4 853	50 000	10 000	20 000	20 000	29 000	29 000
Retained earnings/(deficit)	5 640	5 370	563 600	490 765	62 608	28 086	2 354 187	2 123 744	19 182 000	17 649 000
Other reserves	-	-	25 717	21 783	-	-	-	-	(10 000)	(568 000)
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
Total shareholders' funds	**20 640**	**28 798**	**594 170**	**517 401**	**112 608**	**38 086**	**2 374 187**	**2 143 744**	**19 201 000**	**17 110 000**
Policyholder liabilities under insurance contracts and contracts with DPF's	36 740	38 219	689 676	695 554	943 604	467 335	4 601 546	6 242 485	206 672 000	203 009 000
Policyholder labilities under investment contracts	1 867	1 900	942 336	998 338	1 584 508	1 541 752	5 576 191	6 855 446	87 553 000	80 833 000
Reinsurance contract liability	254 429	-	-	-	-	-	-	-	-	-
Cell owners interest	121 331	109 507	-	-	2 025 596	1 948 040	-	-	-	-
Deferred tax liability/(asset)	(461)	(454)	(16 712)	(9 742)	(59 778)	(107 279)	549 106	524 269	4 300 000	4 049 000
Other liabilities	22 379	14 018	258 800	251 024	169 990	89 933	1 119 541	874 129	40 650 000	23 301 000
Total liabilities	**436 285**	**163 190**	**1 874 100**	**1 935 174**	**4 663 920**	**3 939 781**	**11 846 384**	**14 496 329**	**339 175 000**	**311 192 000**
Total investments	**114 449**	**139 671**	**1 876 745**	**1 973 891**	**4 372 101**	**3 887 225**	**11 224 844**	**14 049 790**	**321 274 000**	**309 498 000**
Assets arising from insurance contracts	-	-	-	-	-	-	-	-	-	-
PPE; goodwill and intangible assets	-	-	50 191	48 052	1 609	97	11 379	4 300	2 371 000	2 178 000
Reinsurers' share of policyholder liabilities	10 028	11 204	3 015	3 242	251 544	15 668	127 095	131 585	1 334 000	1 245 000
Deferred acquisition costs	-	-	-	-	-	-	-	-	651 000	572 000
Cash and cash equivalents	3 649	1 641	156 995	71 334	69 837	38 683	1 950 900	1 956 905	9 496 000	5 235 000
Other assets	74 026	38 689	381 324	356 056	81 437	36 194	906 353	497 493	23 250 000	9 574 000
Income tax asset	344	783	-	-	-	-	-	-	-	-
Deposits held with cell option	254 429	-	-	-	-	-	-	-	-	-
Total assets	**456 925**	**191 988**	**2 468 270**	**2 452 575**	**4 776 528**	**3 977 867**	**14 220 571**	**16 640 073**	**358 376 000**	**328 302 000**
Regulatory surplus assets to CAR	6,10	5,80	2,32	2,03	2,60	3,70	3,70	3,10	5,15	3,07
Total assets/total liabilities	105%	117%	132%	127%	102%	101%	120%	115%	106%	105%
Increase in shareholders' funds	(28%)		15%		196%		11%		12%	

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

Accounting year end	Jun-15	Jun-14	Jun-15	Jun-14	Jun-15	Jun-14	Jun-15	Jun-14	Dec-15	Dec-14
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)	18 038	43 218	23 891	23 514	59 079	57 704	8 832 000	9 188 000	1 307 409	998 266
Other reserves	-	-	-	-	-	-	7 096 000	6 316 000	-	-
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
Total shareholders' funds	**58 038**	**83 218**	**58 891**	**58 514**	**69 079**	**67 704**	**16 969 000**	**16 545 000**	**1 362 409**	**1 053 266**
Policyholder liabilities under insurance contracts and contracts with DPF's	-	-	222 744	227 184	237 129	237 679	121 439 000	122 087 000	3 906 139	4 345 334
Policyholder labilities under investment contracts	132 067	125 310	-	-	1 443 846	1 527 037	208 429 000	191 134 000	2 824 299	568 241
Reinsurance contract liability	-	-	-	-	-	-	-	-	-	-
Cell owners interest	-	-	-	-	593 118	518 354	-	-	-	-
Deferred tax liability/(asset)	-	-	(607)	(10 769)	1 982	12 170	1 765 000	1 628 000	890	(1 644)
Other liabilities	16 315	210	40	46 379	89 385	40 776	24 674 000	18 047 000	147 187	286 933
Total liabilities	**148 382**	**125 520**	**222 177**	**262 794**	**2 365 460**	**2 336 016**	**356 307 000**	**332 896 000**	**6 878 515**	**5 198 864**
Total investments	**183 613**	**196 025**	**177 892**	**278 570**	**1 171 426**	**1 278 605**	**344 172 000**	**319 705 000**	**7 503 949**	**5 434 655**
Assets arising from insurance contracts	-	-	-	-	141 554	183 465	-	-	-	-
PPE; goodwill and intangible assets	-	-	-	-	-	-	4 461 000	4 310 000	5 920	8 902
Reinsurers' share of policyholder liabilities	-	-	-	-	172 111	199 224	1 597 000	1 661 000	-	-
Deferred acquisition costs	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	22 732	12 219	44 458	42 559	774 041	600 755	13 037 000	15 447 000	243 850	248 481
Other assets	75	494	54 184	179	175 407	141 671	10 009 000	8 318 000	487 205	560 092
Income tax asset	-	-	4 534	-	-	-	-	-	-	-
Deposits held with cell option	-	-	-	-	-	-	-	-	-	-
Total assets	**206 420**	**208 738**	**281 068**	**321 308**	**2 434 539**	**2 403 720**	**373 276 000**	**349 441 000**	**8 240 924**	**6 252 130**
Regulatory surplus assets to CAR	5,60	8,00	5,90	5,90	4,90	3,90	2,50	2,40	14,40	10,10
Total assets/total liabilities	139%	166%	127%	122%	103%	103%	105%	105%	120%	120%
Increase in shareholders' funds	(30%)		1%		2%		3%		29%	

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

Accounting year end	Dec-15	Dec-14	Dec-15	Dec-14	Dec-15	Dec-14	Jun-15	Jun-14	Mar-15	Mar-14
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**		**Prescient Life Limited**	
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	385 002	325 002	10 000	10 000
Retained earnings/(deficit)	36 814	28 351	14 549	11 662	40 853 000	42 113 000	31 877	(5 654)	45 786	37 101
Other reserves	-	-	142	-	276 000	689 000	-	-	-	-
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
Total shareholders' funds	**63 165**	**54 702**	**27 116**	**24 087**	**47 552 000**	**49 225 000**	**416 879**	**319 348**	**55 786**	**47 101**
Policyholder liabilities under insurance contracts and contracts with DPF's	-	-	867 345	882 311	154 809 000	157 742 000	110 325	48 010	-	-
Policyholder labilities under investment contracts	8 163 624	11 178 329	2 240 601	-	366 263 000	336 996 000	-	-	9 817 582	6 685 086
Reinsurance contract liability	-	-	-	-	-	-	-	-	-	-
Cell owners interest	-	-	179 673	178 777	-	-	-	-	-	-
Deferred tax liability/(asset)	-	-	-	-	3 691 000	3 555 000	4 859	(4 353)	4 012	2 448
Other liabilities	1 168	1 077	72 183	51 921	47 476 000	37 643 000	68 348	52 557	8 861	7 852
Total liabilities	**8 164 792**	**11 179 406**	**3 359 802**	**1 113 009**	**572 239 000**	**535 936 000**	**183 532**	**96 214**	**9 830 455**	**6 695 386**
Total investments	**8 163 624**	**11 178 329**	**2 854 925**	**703 822**	**589 287 000**	**557 294 000**	**501 724**	**325 689**	**9 880 249**	**6 737 991**
Assets arising from insurance contracts	-	-	-	-	-	-	-	-	-	-
PPE; goodwill and intangible assets	-	-	-	-	3 147 000	2 860 000	149	298	-	-
Reinsurers' share of policyholder liabilities	-	-	235 203	270 270	608 000	477 000	71 231	41 815	-	-
Deferred acquisition costs	-	-	-	-	947 000	985 000	-	-	-	-
Cash and cash equivalents	56 946	44 986	210 914	83 770	17 940 000	17 265 000	5 318	25 320	4 037	376
Other assets	7 387	10 793	85 876	79 234	7 862 000	6 280 000	21 989	22 440	1 955	4 120
Income tax asset	-	-	-	-	-	-	-	-	-	-
Deposits held with cell option	-	-	-	-	-	-	-	-	-	-
Total assets	**8 227 957**	**11 234 108**	**3 386 918**	**1 137 096**	**619 791 000**	**585 161 000**	**600 411**	**415 562**	**9 886 241**	**6 742 487**
Regulatory surplus assets to CAR	1,80%	1,62	5,20	4,50	3,20	3,10	1,60	2,50	1,61	1,10
Total assets/total liabilities	101%	100%	101%	122%	108%	109%	327%	432%	101%	101%
Increase in shareholders' funds	15%		13%		(3%)		31%		18%	

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

Accounting year end	Dec-15	Dec-14	Jun-15	Jun-14	Dec-15	Dec-14
Group/Company	**Professional Provident Society Insurance Company Limited**		**Regent Life Assurance Company Limited**		**Sanlam Life Insurance Limited**	
FSB classification	*Traditional*		*Traditional*		*Traditional*	
Share capital and premium	10 000	10 000	144 688	144 688	5 000 000	5 000 000
Retained earnings/(deficit)	319 844	274 674	423 390	308 648	67 541 000	57 727 000
Other reserves	-	-	(6 512)	(7 565)	5 429 000	5 429 000
Non-controlling interests	-	-	45 876	42 035	-	-
Total shareholders' funds	**329 844**	**284 674**	**607 442**	**487 806**	**77 970 000**	**68 156 000**
Policyholder liabilities under insurance contracts and contracts with DPF's	25 577 153	23 711 492	122 627	191 170	140 418 000	148 804 000
Policyholder labilities under investment contracts	1 139 647	825 699	246 425	254 684	217 796 000	191 255 000
Reinsurance contract liability	6 184	107 233	-	-	-	-
Cell owners interest	-	-	-	-	-	-
Deferred tax liability/(asset)	331 214	355 444	122 334	112 560	1 635 000	1 693 000
Other liabilities	333 711	240 212	255 415	241 410	44 911 000	46 666 000
Total liabilities	**27 381 725**	**25 240 080**	**746 801**	**799 824**	**404 760 000**	**388 418 000**
Total investments	**25 251 529**	**24 133 928**	**938 173**	**644 835**	**466 870 000**	**442 849 000**
Assets arising from insurance contracts	-	-	-	-	-	-
PPE; goodwill and intangible assets	779 965	544 885	10 084	18 498	1 703 000	1 690 000
Reinsurers' share of policyholder liabilities	-	-	110 192	142 089	650 000	642 000
Deferred acquisition costs	-	-	-	-	2 672 000	2 561 000
Cash and cash equivalents	1 401 234	692 352	219 954	418 601	3 190 000	647 000
Other assets	265 908	153 589	75 840	63 607	7 645 000	8 185 000
Income tax asset	12 933	-	-	-	-	-
Deposits held with cell option	-	-	-	-	-	-
Total assets	**27 711 569**	**25 524 754**	**1 354 243**	**1 287 630**	**482 730 000**	**456 574 000**
Regulatory surplus assets to CAR	2,6	2,6	8,00	4,20	5,80	4,50
Total assets/total liabilities	101%	101%	181%	161%	119%	118%
Increase in shareholders' funds	16%		25%		14%	

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

Accounting Year end	Jun-15	Jun-14	Dec-15	Dec-14	Nov-15	Nov-14	Jun-15	Jun-14	Jun-15	Jun-14
Group/Company	**1Life Direct Insurance Limited**		**Absa Life Limited**		**AIG Life Limited**		**AVBOB Mutual Assurance Society**		**Bidvest Life Limited**	
FSB classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Traditional*	
Recurring premiums	no split provided (total is R860 597)	no split provided (total is R604 967)	2 944 764	2 696 693	no split provided (total is R615 355)	no split provided (total is R657 283)	2 298 817	1 968 042	49 382	48 319
Single premiums			-	-			2 654	2 274	-	71
Other premiums			-	-			-	-	-	-
Reinsurance premiums	125 990	122 327	503 078	460 308	30 009	29 559	(1 919)	(2 175)	(4 675)	(6 682)
Net premium income	**734 606**	**482 639**	**2 441 686**	**2 236 385**	**585 346**	**627 724**	**2 299 552**	**1 968 141**	**44 707**	**41 708**
Service fees from investment contracts	-	-	**77 432**	**62 919**	-	-	-	-	-	-
Total net investment income	**12 975**	**9 940**	**786 728**	**1 379 796**	**23 397**	**28 809**	**1 035 466**	**1 807 812**	**23 598**	**64 978**
Commission received	1 996	8 777	-	-	-	-	-	-	1 498	1 833
Other unallocated income	14 477	16 845	-	-	-	-	422	1 074	-	-
Total income	**764 054**	**518 201**	**3 305 846**	**3 679 100**	**608 743**	**656 533**	**3 335 440**	**3 777 027**	**69 803**	**108 519**
Death/disability	no split provided (total is R317 835)	no split provided (total is R191 262)	713 031	605 452	234 361	210 672	520 027	416 155	6 704	8 229
Maturities			36 613	26 985	-	-	629	786	-	-
Annuities			-	-	1 635	3 103	-	-	-	-
Surrenders			169 077	184 563	-	-	174 220	161 215	-	-
Withdrawals and other benefits			54 599	23 694	-	-	110 814	89 144	-	-
Reinsurance recoveries	(92 632)	(62 399)	(172 645)	(138 028)	(6 627)	(8 967)	(798)	(488)	(556)	(492)
Net policyholder benefits under insurance contracts	**225 203**	**128 863**	**800 675**	**702 666**	**229 370**	**204 808**	**804 892**	**666 812**	**6 149**	**7 737**
Change in preference share liability	-	-	-	-	-	-	-	-	-	-
Change in assets arising from insurance contracts	(137 068)	(171 896)	-	-	-	-	-	-	-	-

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

Accounting Year end	Jun-15	Jun-14	Dec-15	Dec-14	Nov-15	Nov-14	Jun-15	Jun-14	Jun-15	Jun-14
Group/Company	**1Life Direct Insurance Limited**		**Absa Life Limited**		**AIG Life Limited**		**AVBOB Mutual Assurance Society**		**Bidvest Life Limited**	
FSB classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Traditional*	
Change in policyholder liabilities under insurance contracts	-	-	(125 389)	138 960	(38 388)	(2 873)	776 742	1 448 868	(1 095)	(2 346)
Fair value adjustments on policyholder liabilities under investment contracts	-	-	637 700	987 944	-	-	-	-	-	-
Acquisition costs	119 743	78 002	459 354	441 958	191 591	289 789	450 592	376 907	10 880	10 847
Administration, management and other expenses	416 130	305 795	491 574	478 152	104 577	154 251	669 070	572 506	22 649	18 656
Total expenses	**624 008**	**340 764**	**2 263 914**	**2 749 680**	**487 150**	**645 975**	**2 701 296**	**3 065 093**	**38 582**	**34 895**
Profit/(loss) before tax	**140 046**	**177 437**	**1 041 932**	**929 420**	**121 593**	**10 558**	**634 144**	**711 934**	**31 221**	**73 624**
Tax	39 213	49 682	300 174	268 261	34 321	2 036	139 123	164 042	6 254	14 147
Profit/(loss) after tax	**100 833**	**127 755**	**741 758**	**661 159**	**87 272**	**8 522**	**495 021**	**547 892**	**24 967**	**59 477**
Other comprehensive income	-	-	-	-	-	-	**(2 124)**	**(5 545)**	-	-
Total comprehensive income/(loss) for the year	**100 833**	**127 755**	**741 758**	**661 159**	**87 272**	**8 522**	**492 897**	**542 347**	**24 967**	**59 477**
Other transfers to/(from) retained income	-	-	-	-	-	-	-	-	11 288	30 852
Other comprehensive income not charged against retained earnings	-	-	-	-	-	-	-	-	-	-
Ordinary dividends	-	-	704 000	892 000	115 000	46 100	-	-	27 279	23 400
Allocated to preference shareholders	-	-	-	-	-	-	-	-	-	-
Change in retained earnings	**100 833**	**127 755**	**37 758**	**(230 841)**	**(27 728)**	**(37 578)**	**492 897**	**542 347**	**(13 600)**	**5 225**
Management expenses to net premium and service fees on investment contracts	57%	80%	20%	21%	18%	25%	29%	29%	51%	45%
Tax as a % of NIBT	28%	28%	29%	29%	28%	19%	22%	23%	20%	19%
Comments	Company	Company	Company	Company	Company	Company	Society	Society	Company	Company

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

Accounting Year end	Dec-15	Dec-14	Jun-15	Jun-14	15 month period ended Jun-15	Mar-14	Jun-15	Jun-14	Dec-15	Dec-14
Group/Company	**Centriq Life Insurance Company Limited**		**Clientele Life Limited**		**Guardrisk Life Limited**		**Hollard Life Assurance Company Limited**		**Liberty Group Limited**	
FSB classification	*Cell captive*		*Traditional*		*Cell captive*		*Traditional*		*Traditional*	
Recurring premiums	no split provided (total is R222 593)	no split provided (total is R196 372)	1 395 093	1 208 079	1 712 665	1 159 548	5 059 648	4 857 289	split provided, but includes investment contracts (total is R36 419 000)	split provided, but includes investment contracts (total is R39 708 000)
Single premiums					653 770	77 706	21 635	1 181 912		
Other premiums					-	-	94 512	94 943		
Reinsurance premiums	214 207	188 934	113 155	99 125	1 378 756	733 688	764 652	726 611	1 056 000	905 000
Net premium income	**8 386**	**7 438**	**1 281 938**	**1 108 954**	**987 679**	**503 566**	**4 411 143**	**5 407 533**	**35 363 000**	**38 803 000**
Service fees from investment contracts	**5 711**	**4 514**	-	-	-	-	-	-	**1 123 000**	**914 000**
Total net investment income	**10 305**	**8 942**	**173 472**	**202 242**	**423 495**	**267 931**	**770 629**	**821 090**	**22 444 000**	**28 891 000**
Commission received	5 896	4 601	-	-	**27 603**	**19 529**	-	-	-	-
Other unallocated income	106	112	159 373	171 653	-	**-**	31 919	49 302	688 000	670 000
Total income	**30 404**	**25 607**	**1 614 783**	**1 482 849**	**1 438 777**	**791 026**	**5 213 691**	**6 277 925**	**59 618 000**	**69 278 000**
Death/disability	no split provided (total is R99 744)	no split provided (total is R86 298)	188 043	145 094	no split provided (total is R380 239)	no split provided (total is R226 811)	1 648 793	1 670 951	split provided but included payments to investment contracts (nett total is R32 720 000)	split provided but included payments to investment contracts (nett total is R31 534 000)
Maturities			-	-			1 748 127	680 976		
Annuities			-	-			144 445	166 783		
Surrenders			186 265	207 381			204 535	202 782		
Withdrawals and other benefits			18 620	31 376			58 210	81 578		
Reinsurance recoveries	(93 831)	(81 495)	(117 250)	(96 639)	(347 527)	(183 141)	(553 020)	(685 577)	(923 000)	(853 000)
Net policyholder benefits under insurance contracts	**5 913**	**4 803**	**275 678**	**287 212**	**32 712**	**43 670**	**3 251 090**	**2 117 493**	**31 797 000**	**30 681 000**
Change in preference share liability	-	-	-	-	384 066	242 803	-	-	-	-
Change in assets arising from insurance contracts	-	-	227	95	-	-	-	-	-	-

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

Accounting Year end	Jun-15	Jun-14	Dec-15	Dec-14	Nov-15	Nov-14	Jun-15	Jun-14	Jun-15	Jun-14
Group/Company	**Centriq Life Insurance Company Limited**		**Clientele Life Limited**		**Guardrisk Life Limited**		**Hollard Life Assurance Company Limited**		**Liberty Group Limited**	
FSB classification	*Cell captive*		*Traditional*		*Cell captive*		*Traditional*		*Traditional*	
Change in policyholder liabilities under insurance contracts	7 149	5 745	(5878)	(41 396)	49 502	(66 975)	(1 638 360)	432 854	3 707 000	15 187 000
Fair value adjustments on policyholder liabilities under investment contracts	(138)	886	72 275	49 184	-	-	-	-	6 052 000	7 382 000
Acquisition costs	6 582	4 776	689 445	658 926	-	-	430 028	516 539	3 994 000	3 992 000
Administration, management and other expenses	3 365	4 033	152 372	144 173	916 282	537 404	1 702 218	1 630 360	8 256 000	7 237 000
Total expenses	**22 871**	**20 243**	**1 184 119**	**1 098 194**	**1 382 562**	**756 902**	**3 744 976**	**4 697 246**	**53 806 000**	**64 479 000**
Profit/(loss) before tax	**7 533**	**5 364**	**430 664**	**384 655**	**56 215**	**34 124**	**1 468 715**	**1 580 679**	**5 812 000**	**4 799 000**
Tax	2 263	426	119 438	95 476	15 693	9 869	392 630	424 449	1 834 000	1 780 000
Profit/(loss) after tax	**5 270**	**4 938**	**311 226**	**289 179**	**40 522**	**24 255**	**1 076 085**	**1 156 230**	**3 978 000**	**3 019 000**
Other comprehensive income	-	-	-	-	-	-	-	-	**(123 000)**	**(72 000)**
Total comprehensive income/(loss) for the year	**5 270**	**4 938**	**311 226**	**289 179**	**40 522**	**24 255**	**1 076 085**	**1 156 230**	**3 855 000**	**2 947 000**
Other transfers to/(from) retained income	-	-	(18 729)	(13 724)	-	-	9 612	9 303	(16 000)	17 000
Other comprehensive income not charged against retained earnings	-	-	-	-	-	-	-	-	(56 000)	80 000
Ordinary dividends	5 000	1 288	219 662	213 069	6 000	40 292	855 254	885 347	2 250 000	1 290 000
Allocated to preference shareholders	-	-	-	-	-	-	-	-	-	-
Change in retained earnings	**270**	**3 650**	**72 835**	**62 386**	**34 522**	**(16 037)**	**230 443**	**280 186**	**1 533 000**	**1 754 000**
Management expenses to net premium and service fees on investment contracts	24%	34%	12%	13%	93%	92%	39%	30%	23%	18%
Tax as a % of NIBT	30%	8%	28%	25%	28%	29%	27%	27%	32%	37%
Comments	Company	Company	Company	Company	Company	Company	Company	Company	Company	Company

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

Accounting Year end	Jun-15	Jun-14	Jun-15	Jun-14	Jun-15	Jun-14	Jun-15	Jun-14	Dec-15	Dec-14
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	-	-	-	-	1 954 322	1 796 141	no split provided (total is R22 458 000)	no split provided (total is R21 184 000)	no split provided (total is R1 966 690)	no split provided (total is R3 506 042)
Single premiums					1 497	2 099				
Other premiums					-	-				
Reinsurance premiums	-	-	-	-	1 752 902	1 590 566	3 476 000	3 111 000	246 472	281 246
Net premium income	-	-	-	-	**202 917**	**207 674**	**18 982 000**	**18 073 000**	**1 720 218**	**3 224 796**
Service fees from investment contracts	**427**	**2 555**	-	-	**5 358**	**5 018**	**2 097 000**	**1 711 000**	-	-
Total net investment income	**20 558**	**18 524**	**15 308**	**23 957**	**111 408**	**138 878**	**26 142 000**	**51 379 000**	**239 394**	**421 352**
Commission received	-	-	-	-	-	-	-	-	53 809	70 726
Other unallocated income	-	26	-	-	-	-	1 051 000	1 104 000	36 846	8 922
Total income	**20 985**	**21 105**	**15 308**	**23 957**	**319 683**	**351 570**	**48 272 000**	**72 267 000**	**2 050 267**	**3 725 796**
Death/disability	-	-	no split provided (nett total is R5 820)	no split provided (nett total is R41 619)	531 259	412 197	7 508 000	6 730 000	570 570	633 254
Maturities	-	-			-	-	5 140 000	5 739 000	226 108	181 099
Annuities	-	-			3 710	3 482	3 266 000	2 506 000	165 226	141 155
Surrenders	-	-			-	-	2 837 000	2 796 000	121 243	240 794
Withdrawals and other benefits	-	-			-	-	3 011 000	3 059 000	-	-
Reinsurance recoveries	-	-	-	-	(516 341)	(400 087)	(1 944 000)	(1 534 000)	(194 737)	(188 012)
Net policyholder benefits under insurance contracts	-	-	**5 820**	**41 619**	**18 628**	**15 592**	**19 818 000**	**19 296 000**	**888 410**	**1 008 290**
Change in preference share liability	-	-	-	-	-	-	-	-	-	-
Change in assets arising from insurance contracts	-	-	-	-	70 073	(200 291)	-	-	-	-

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

Accounting Year end	Jun-15	Jun-14	Jun-15	Jun-14	Jun-15	Jun-14	Jun-15	Jun-14	Dec-15	Dec-14
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*	
Change in policyholder liabilities under insurance contracts	-	-	(2 657)	(37 778)	(25 240)	254 444	(586 000)	7 276 000	(553 229)	849 913
Fair value adjustments on policyholder liabilities under investment contracts	13 167	14 419	-	(250)	42 586	107 113	15 579 000	32 221 000	66 063	63 184
Acquisition costs	-	-	-	-	-	-	3 101 000	2 970 000	355 889	433 354
Administration, management and other expenses	996	2 155	1 106	964	156 384	122 380	5 827 000	5 441 000	281 326	292 695
Total expenses	**14 163**	**16 574**	**4 269**	**4 555**	**262 431**	**299 238**	**43 739 000**	**67 204 000**	**1 038 459**	**2 647 436**
Profit/(loss) before tax	**6 822**	**4 531**	**11 039**	**19 402**	**57 252**	**52 332**	**4 533 000**	**5 063 000**	**1 011 808**	**1 078 360**
Tax	2 002	2 042	10 662	9 420	15 877	14 628	1 323 000	1 820 000	282 665	301 821
Profit/(loss) after tax	**4 820**	**2 489**	**377**	**9 982**	**41 375**	**37 704**	**3 210 000**	**3 243 000**	**729 143**	**776 539**
Other comprehensive income	-	-	-	-	-	-	**794 000**	**201 000**	-	-
Total comprehensive income/(loss) for the year	**4 820**	**2 489**	**377**	**9 982**	**41 375**	**37 704**	**4 004 000**	**3 444 000**	**729 143**	**776 539**
Other transfers to/(from) retained income	-	-	-	-	-	-	14 000	301 000	-	-
Other comprehensive income not charged against retained earnings	-	-	-	-	-	-	(794 000)	(200 000)	-	-
Ordinary dividends	30 000	20 000	-	-	40 000	54 284	3 549 000	3 200 000	420 000	420 000
Allocated to preference shareholders	-	-	-	-	-	-	31 000	28 000	-	-
Change in retained earnings	**(25 180)**	**(17 511)**	**377**	**9 982**	**1 375**	**(16 580)**	**(356 000)**	**317 000**	**309 143**	**356 539**
Management expenses to net premium and service fees on investment contracts	233%	84%	N/A	N/A	75%	58%	28%	28%	16%	9%
Tax as a % of NIBT	29%	45%	97%	49%	28%	28%	29%	36%	28%	28%
Comments	Company	Company	Company	Company	Company	Company	Company	Company	Company	Company

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

Accounting Year end	Dec-15	Dec-14	Dec-15	Dec-14	Dec-15	Dec-14	Jun-15	Jun-14	Mar-15	Mar-14
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**		**Prescient Life Limited**	
FSB classification	*Traditional*		*Cell captive*		*Traditional*		*Traditional*		*Traditional*	
Recurring premiums	-	-	no split provided (total is R849 017)	no split provided (total is R790 742)	no split provided (total is R43 523 000)	no split provided (total is R35 001 000)	no split provided (total is R316 491)	no split rovided total is R237 419)	-	-
Single premiums										
Other premiums										
Reinsurance premiums	-	-	841 440	785 067	1 076 000	998 000	(20 910)	(19 660)	-	-
Net premium income	-	-	**7 577**	**5 675**	**42 447 000**	**34 003 000**	**295 581**	**217 759**	-	-
Service fees from investment contracts	**9 625**	**10 209**	**456**	-	**3 107 000**	**2 769 000**	-	-	**18 524**	**15 948**
Total net investment income	**3 318**	**2 454**	**98 791**	**51 462**	**39 507 000**	**65 004 000**	**28 251**	**16 935**	**252 210**	**242 680**
Commission received	-	-	-	-	1 877 000	1 361 000	-	-	-	-
Other unallocated income	2 088	1 979	21 267	15 996	257 000	323 000	-	-	-	-
Total income	**15 031**	**14 642**	**128 091**	**73 133**	**87 195 000**	**103 460 000**	**323 832**	**234 694**	**270 734**	**258 628**
Death/disability	-	-	no split provided (total is R231 800)	no split provided (total is R289 948)	no split provided (total is R51 751 000)	no split provided (total is R54 622 000)	58 520	35 280	-	-
Maturities							-	-		
Annuities							-	-		
Surrenders							-	-		
Withdrawals and other benefits							-	-		
Reinsurance recoveries			(775 954)	(782 810)	1 426 000	471 000	(17 609)	(8 321)	-	-
Net policyholder benefits under insurance contracts	-	-	**(544 154)**	**(492 862)**	**50 325 000**	**54 151 000**	**40 911**	**26 959**	-	-
Change in preference share liability	-	-	406 260	368 407	-	-	-	-	-	-
Change in assets arising from insurance contracts	-	-	-	-	-	-	-	-	-	-

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

Accounting Year end	Dec-15	Dec-14	Dec-15	Dec-14	Dec-15	Dec-14	Jun-15	Jun-14	Mar-15	Mar-14
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**		**Prescient Life Limited**	
FSB classification	*Traditional*		*Cell captive*		*Traditional*		*Traditional*		*Traditional*	
Change in policyholder 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	41 351	19 840	-	-
Fair value adjustments on policyholder liabilities under investment contracts	-	-	45 102	-	18 566 000	19 957 000	-	-	242 977	237 309
Acquisition costs	-	-	15 771	24 915	4 309 000	3 480 000	-	-	-	-
Administration, management and other expenses	3 277	3 538	43 584	25 737	10 476 000	9 602 000	189 476	185 394	16 892	11 043
Total expenses	**3 277**	**3 538**	**(33 437)**	**(73 803)**	**83 676 000**	**87 190 000**	**271 738**	**232 193**	**259 869**	**248 352**
Profit/(loss) before tax	**11 754**	**11 104**	**161 528**	**146 936**	**3 519 000**	**16 270 000**	**52 094**	**2 501**	**10 865**	**10 276**
Tax	3 291	3 109	158 641	144 288	469 000	2 994 000	14 563	850	2 180	2 412
Profit/(loss) after tax	**8 463**	**7 995**	**2 887**	**2 648**	**3 050 000**	**13 276 000**	**37 531**	**1 651**	**8 685**	**7 864**
Other comprehensive income	-	-	**142**	-	**115 000**	**96 000**	-	-	-	-
Total comprehensive income/(loss) for the year	**8 463**	**7 995**	**3 029**	**2 648**	**3 165 000**	**13 372 000**	**37 531**	**1 651**	**8 685**	**7 864**
Other transfers to/(from) retained income	-	-	-	-	376 000	(72 000)	-	-	-	-
Other comprehensive income not charged against retained earnings	-	-	(142)	-	-	-	-	17	-	-
Ordinary dividends	-	-	-	-	4 801 000	3 510 000	-	-	-	-
Allocated to preference shareholders	-	-	-	-	-	-	-	-	-	-
Change in retained earnings	**8 463**	**7 995**	**2 887**	**2 648**	**(1 260 000)**	**9 790 000**	**37 531**	**1 668**	**8 685**	**7 864**
Management expenses to net premium and service fees on investment contracts	34%	35%	543%	687%	23%	26%	64%	85%	91%	69%
Tax as a % of NIBT	28%	28%	98%	98%	13%	18%	28%	34%	20%	23%
Comments	Company	Company	Company	Company	Company	Company	Company	Company	Company	Company

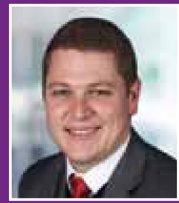
LONG TERM INSURERS | Statement of Comprehensive Income | R'000

Accounting Year end	Dec-15	Dec-14	Jun-15	Jun-14	Dec-15	Dec-14
Group/Company	Professional Provident Society Insurance Company Limited		Regent Life Assurance Company Limited		Sanlam Life Insurance Limited	
FSB classification	*Traditional*		*Traditional*		*Traditional*	
Recurring premiums	no split provided (total is R3 063 836)	no split provided (total is R2 732 925)	751 920	706 810	no split provided (total is R13 195 000)	no split provided (total is R12 214 000)
Single premiums			-	-		
Other premiums			-	-		
Reinsurance premiums	(179 042)	(158 903)	84 415	83 884	880 000	789 000
Net premium income	2 884 794	2 574 022	667 505	**622 926**	**12 315 000**	**11 425 000**
Service fees from investment contracts	**50 253**	**38 136**	-	-	**602 000**	**590 000**
Total net investment income	**1 329 064**	**2 762 128**	**132 164**	**165 242**	**31 821 000**	**46 080 000**
Commission received	-	-	-	-	-	2 000
Other unallocated income	979 415	(320 842)	54 876	47 248	-	-
Total income	**5 243 526**	**5 053 444**	**854 545**	**835 416**	**44 738 000**	**58 097 000**
Death/disability	no split provided (total is R2 101 127)	no split provided (total is R1 718 708)	213 010	220 854	no split provided (total is R4 248 000)	no split provided (total is R4 139 000)
Maturities			19 568	3 394		
Annuities			(113)	10 157		
Surrenders			84 659	62 672		
Withdrawals and other benefits			-	-		
Reinsurance recoveries	(116 673)	(67 998)	(66 327)	(48 690)	768 000	661 000
Net policyholder benefits under insurance contracts	**1 984 454**	**1 650 710**	**250 797**	**248 387**	**3 480 000**	**3 478 000**
Change in preference share liability	-	-	-	-	-	-
Change in assets arising from insurance contracts	69 023	53 318	-	-	-	-

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

Accounting Year end	Dec-15	Dec-14	Jun-15	Jun-14	Dec-15	Dec-14
Group/Company	**Professional Provident Society Insurance Company Limited**		**Regent Life Assurance Company Limited**		**Sanlam Life Insurance Limited**	
FSB classification	*Traditional*		*Traditional*		*Traditional*	
Change in policyholder liabilities under insurance contracts	1 728 244	2 255 497	(36 646)	26 402	5 000 000	16 464 000
Fair value adjustments on policyholder liabilities under investment contracts	2 105 976	2 519 441	10 292	26 488	18 244 000	18 353 000
Acquisition costs	-	-	169 894	181 217	1 599 000	1 413 000
Administration, management and other expenses	1 084 073	829 975	180 796	162 338	4 870 000	4 460 000
Total expenses	**4 865 794**	**4 789 500**	**575 133**	**644 832**	**33 193 000**	**44 168 000**
Profit/(loss) before tax	**377 732**	**263 944**	**279 412**	**190 584**	**11 545 000**	**13 929 000**
Tax	332 562	242 864	63 298	45 859	1 731 000	1 327 000
Profit/(loss) after tax	**45 170**	**21 080**	**216 114**	**144 725**	**9 814 000**	**12 602 000**
Other comprehensive income	**1 374**	**1 548**	-	-	-	**144 000**
Total comprehensive income/(loss) for the year	**46 544**	**22 628**	**216 114**	**144 725**	**9 814 000**	**12 746 000**
Other transfers to/(from) retained income	-	-	(29 546)	(20 051)	-	-
Other comprehensive income not charged against retained earnings	-	-	-	-	-	-
Ordinary dividends	-	-	71 826	98 198	-	3 950 000
Allocated to preference shareholders	-	-	-	-	-	-
Change in retained earnings	**45 170**	**22 628**	**114 742**	**26 476**	**9 814 000**	**8 796 000**
Management expenses to net premium and service fees on investment contracts	38%	32%	27%	26%	38%	48%
Tax as a % of NIBT	88%	92%	23%	24%	15%	10%
Comments	Company	Company	Company	Company	Company	Company

REINSURANCE INDUSTRY



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The South African reinsurance market faced many difficult decisions in 2015. Decisions, amongst others, in respect of growth and structural developments, were driven primarily by far-reaching economic and regulatory change.

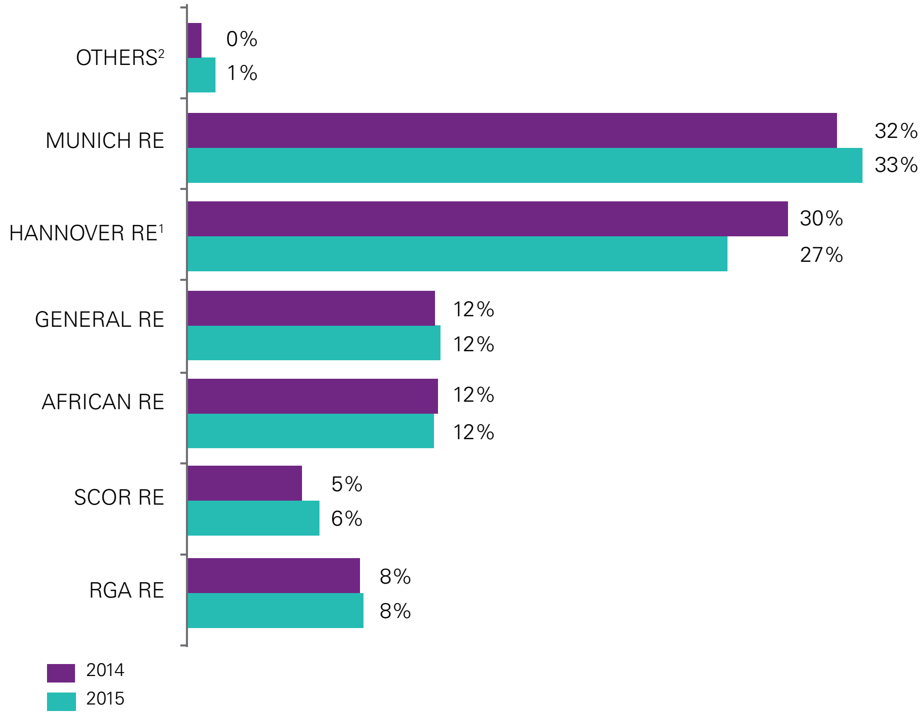
Tough economic conditions persist. The weakening of the Rand, poor GDP growth and the potential downgrade of South Africa's sovereign rating, provided for a challenging environment for the insurance and reinsurance markets in 2015. South Africa's economic growth is sluggish, with real GDP growth in 2015 floundering at 0.4% and projected to worsen in 2016, due to a combination of domestic constraints and external headwinds arising from the fall in commodity prices and a slowdown of the Chinese economy. The impact of Brexit will also put pressure on commodity prices, export volumes and capital flows to South Africa in the mid-term. To achieve the growth expected by foreign parents, South African reinsurers will have to focus on alternative high growth markets, mobilising renewed focus on the rest of Africa. These markets are attractive due to lower insurance penetration and reduced competition. There are however major regulatory constraints, particularly in Nigeria, one of the biggest target markets. South African insurers will also look to capture African market share, with capital and innovative ideas key to access them. Reinsurers will have to consider how they will be able to assist their cedants in this regard. Concerns remain regarding a sovereign credit rating downgrade that could adversely affect the competitiveness of local reinsurers going forward.

On a regulatory front, the regulations pertaining to reinsurance are less stringent when compared to those applicable to the primary insurance market. The differences stem from the primary purpose of insurance regulation, which is to protect insurance consumers who may lack insight or sophistication in understanding the business of insurance. Reinsurance, on the other hand, is often referred to as the "wholesale arm" of the insurance industry.

2015 marks a milestone in the SAM process and this risk-based regulatory regime is close to being fully implemented. The industry has gone to great lengths to ready itself for SAM implementation. An industry-wide preference would be for a prompt transition, as the burden of parallel regulation is high in terms of costs and the strain on staff. Reinsurance regulatory review proposals are very topical and the industry is scrutinising their options through the proposal process.

Industry performance

Illustrated below is the composition of the reinsurance market by Gross Written Premium (GWP), as reported in the audited annual financial statements of the reinsurers participating in this survey, including a combined view of life and non-life results.



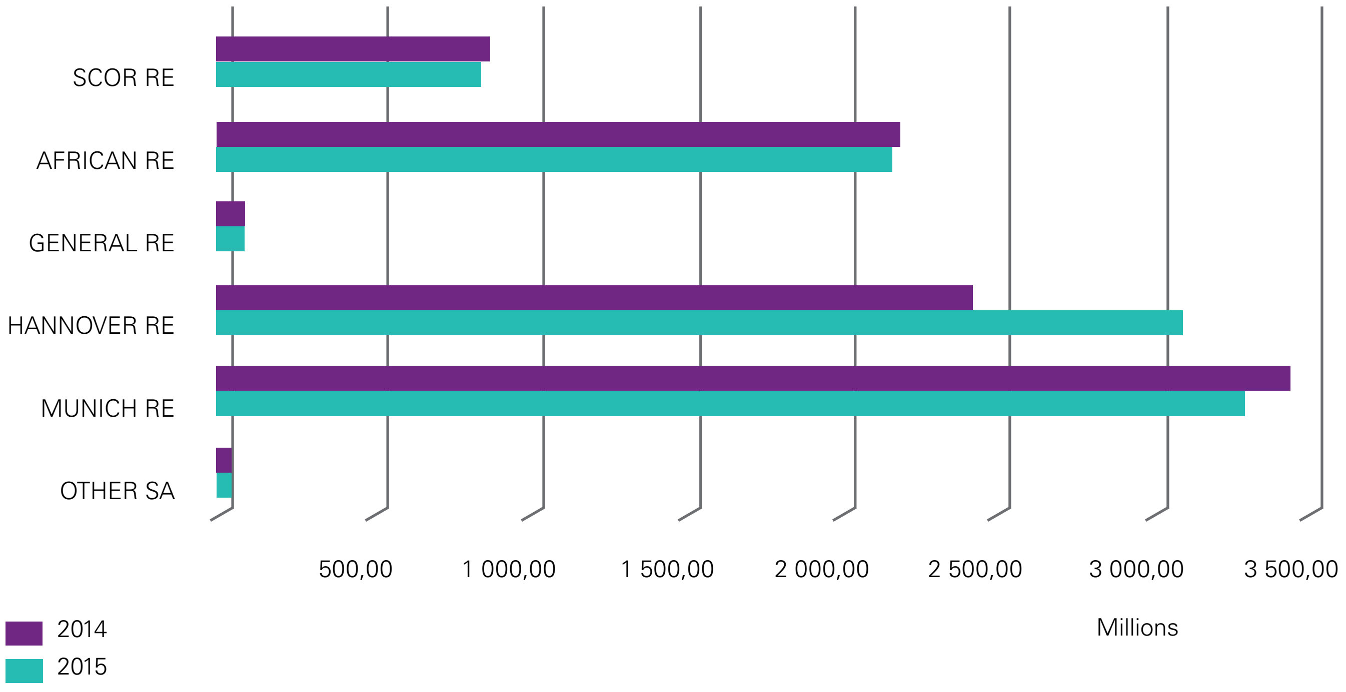
[1] For the purposes of overall market performance, Hannover Reinsurance Africa Limited and Hannover Life Reassurance Africa have been combined to make the results comparable to the composite licenses.
[2] Reinsurers included in the "Other" caption includes Emeritus Reinsurance Company (SA) Limited and GIC Re South Africa Limited

Munich Re and Hannover Re[1] remain the dominant players in the local reinsurance industry. For 2014 and 2015 they had a combined market share of more than 60% as measured by GWP volumes. The market share distribution across reinsurers remained consistent between 2014 and 2015, with the exception of Hannover Re losing market share and Scor and Munich Re gaining market share.

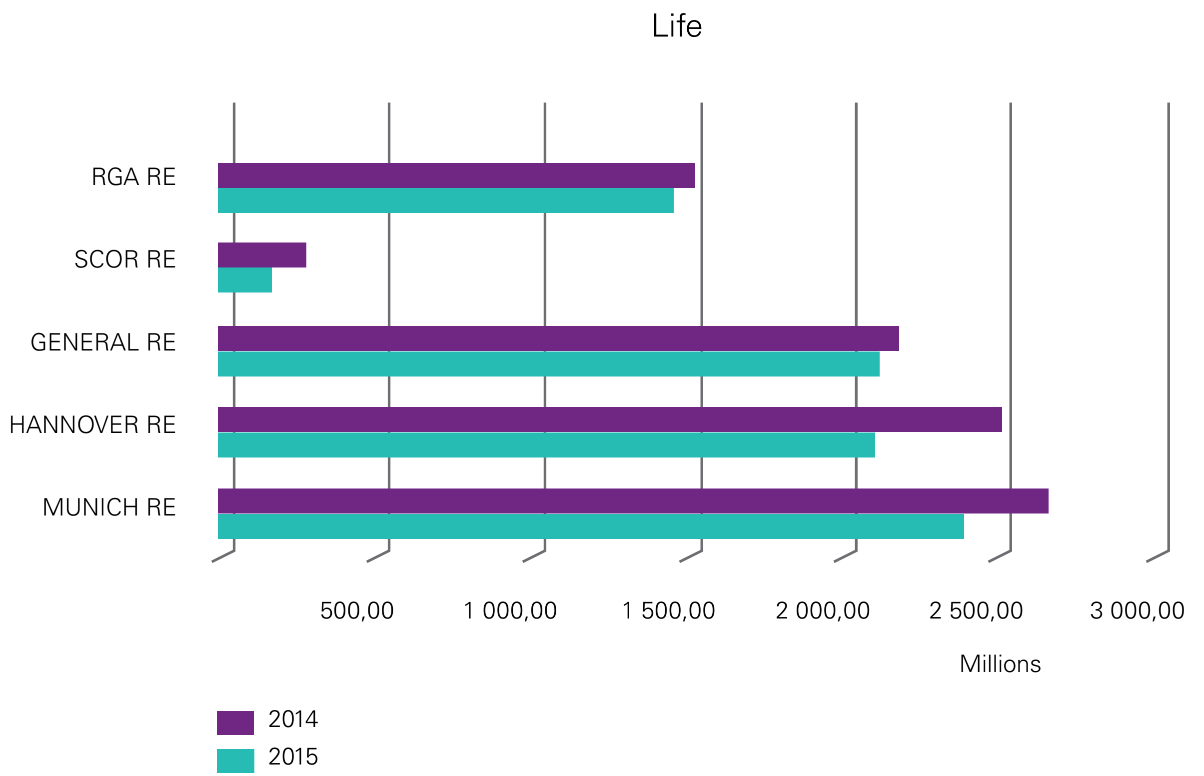
Some of these movements are a direct result of reinsurers reviewing their portfolio of treaties and cedants and offloading non-performing business.

Below we illustrate market share in terms of GWP for life and non-life reinsurers separately.

Non-life



[1] 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.



The South African reinsurance industry (based on South African reinsurers participating in our survey) recorded GWP of ZAR 17.8 billion for the 2015 year (2014: ZAR 17.5 billion). The growth of only 2% is far lower than the growth rate of the primary insurance industry, indicating that larger parts of local primary insurance are placed directly with foreign reinsurers or are retained for the net account. The life reinsurance market experienced a 10% increase in terms of GWP and the non-life reinsurance market, experienced a 5% decrease.

The business lost to foreign markets is mainly in the facultative reinsurance space. Globally the reinsurance market is in a soft cycle, spurred on by the introduction of pension fund capital. More business is being written out of the London market. There is sufficient capacity on offer, as well as diversification benefits for these players. Direct writers are optimising their reinsurance and ceding less business. For example, non-proportional cover is outselling proportional cover.

The regulatory reported GWP for reinsurers, as per the FSB's quarterly report for the period ended 31 December 2015, amounted to ZAR 19.7 billion (2014: ZAR 18.5 billion). This amounts to 7% (2014: 12%) year-on-year growth. The differences in the FSB-reported results and surveyed results, reflect the differences in IFRS and Regulatory reporting. For example, the treatment of products with minimal risk transfer.

Based on the survey results, net earned premiums increased by 3% for 2015. The net underwriting profit, before taking management expenses into account, increased by 62%. This is mainly as a result of the decrease in net commission expenses. One of the reasons noted for the decrease is the reduced profit commission incurred on life business.

It was a very stable year in terms of incurred losses. The financial year loss ratios have remained similar to 2014. The expense ratio increased by 3%. Some of contributing factors include inflation, weakening of the Rand, and the investment in human resources required to support increased regulatory obligations, growth aspirations and client service.

Individual underwriting performance

Munich Re increased its written top-line by 6% (2014: 14%). The Munich Re life division did not perform as well when compared to the previous year when measured by premium volume. However, GWP is not necessarily the best measure to utilise when it comes to life entities. The non-life division ended with a solid overall increase of 18% in premium volume. We expect the Munich Re results to change significantly going forward due to the decision to close its Mauritian subsidiary at the end of 2015 after 18 years in operation. Munich Re aims to streamline and strengthen the organisation's business model by establishing Johannesburg as the hub for its Sub-Saharan African business.

Hanover Re's GWP decreased by 8%. This puts Hannover Re back to a similar top-line performance when compared to 2013. Excluding the Hannover Re premiums, the remaining industry players participating in the KPMG insurance survey, grew by 7% in terms of GWP.

Scor outperformed the market and increased its GWP by 18% (2014: 8%). The strong growth in the life business continued in 2015. The top-line performance has however not filtered through to the bottom line. This is mainly due to adverse claims experience.

The new kid on the block, GIC Re, made its impact by increasing its GWP by ZAR 140 million between 2014 and 2015, capturing 1% of the reinsurance market. Most of the increase is due to a book of business transferred by their holding company, a state-owned insurer in India. The licence (old Saxum Re licence) was only active for three months. Most of their business is written in other African countries.

RGA increased its GWP and earned premiums by 4% and 14% respectively between 2014 and 2015. These increases carried through to the bottom line.

General Re increased their GWP and earned premiums by 5% and 6% respectively between 2014 and 2015. This growth stems from the life business and is mainly attributable to individual life business, group lump sum and group permanent health insurance business.

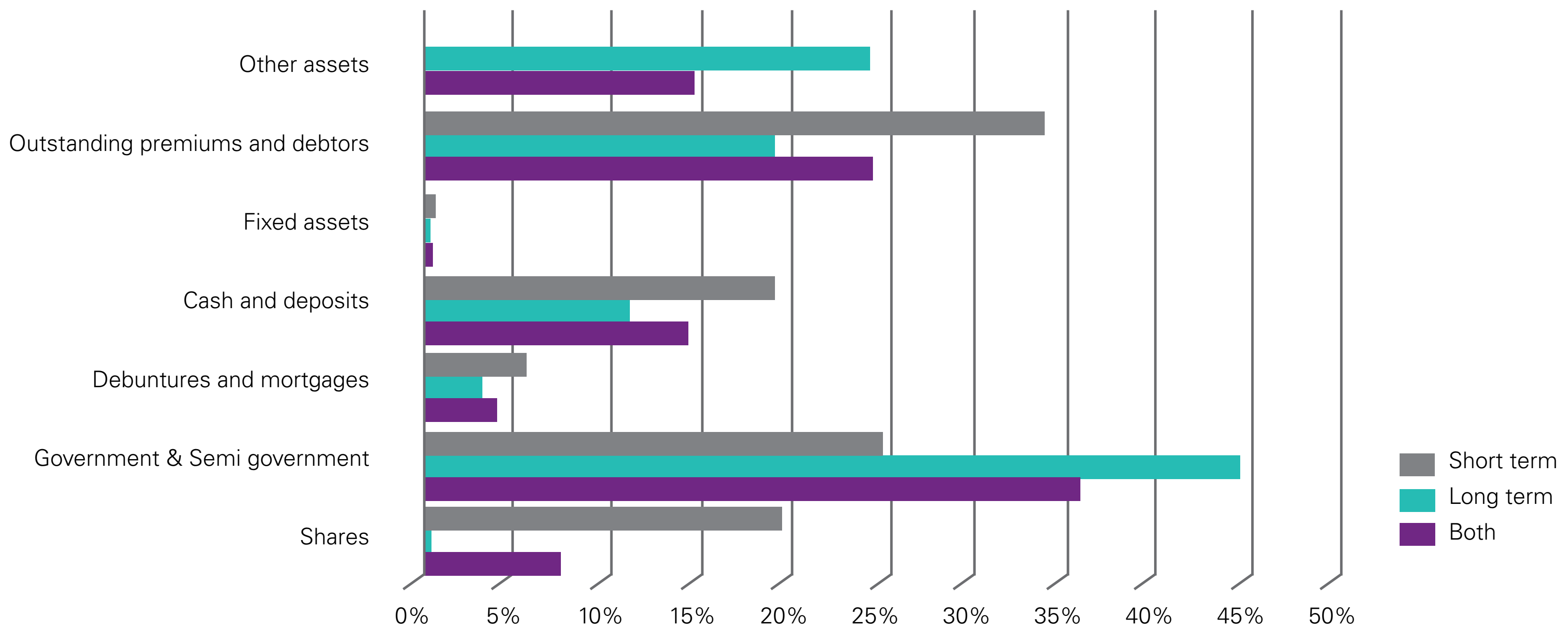
African Re achieved 1% growth in terms of GWP. Their underwriting profit increased by 3%, which is mainly due to improved claims experience. African Re experienced a 20% increase in its management expenses.

Investment performance

Reinsurers achieved an average return on investments (including cash and cash equivalents) of 5.62% (2014: 5.5%). This was 6.1% (2014: 6.3%) when the effects of cash are excluded. These returns are quite low when compared to an average prime rate of 9.38% and the average 10-year government bond yield of 9.77%. They are closest to the average three-month NCD rate of 6.22%. This does talk to the average asset allocation at 31 December 2015, as reported by the FSB for reinsurers and shown below.

RGA Re and General Re were the top performers with 8% and 7% investment income on investments, including cash. Not surprisingly, they are the two reinsurance companies with the highest CAR ratios with 4.6 and 5.9 respectively, affording them the opportunity to diversify the investment portfolio beyond the regulatory constraints. An alternate strategy would be to pay out excess capital in dividends and invest free from regulation elsewhere; however, this would result in more prudent application to the remaining capital base. All other companies surveyed have investment income percentages between 4%-6%. Investment income in total, for reinsurers surveyed, increased by 2% year on year. However, there is significant volatility in these results from Africa Re (2014's top performer) showing a decrease in investment income of 43%, to Scor showing a 93% increase in investment income. Africa Re invests approximately 20% of capital in equity instruments, a strategy that will show volatility in the short-term, but should show positive results over the long-term.

Asset allocation for Reinsurers



What is playing on the minds of the reinsurers?

Should we become a branch? By now, there is a high level of awareness around the FSB's proposals on reinsurance regulation, for inclusion under SAM. These proposals aim to address the following aspects:

- Who may conduct reinsurance business in South Africa?
- What limitations will apply to reinsurance business?
- How will reinsurance be treated for solvency of (re)insurers?
- What are the governance and solvency requirements for reinsurers?
- Determining the most appropriate approach in regulating Lloyds.

One of these proposals is to allow foreign reinsurers to operate in South Africa through a branch, where previously only incorporated entities were permitted. Considering the presence of foreign reinsurers in the South African reinsurance market, this proposal will shape and influence the regulatory reinsurance landscape significantly.

Currently, foreign reinsurers participate in the local market by either establishing a subsidiary in South Africa or by way of providing cross-border reinsurance directly.

The allowance for reinsurance branches is expected to increase the supply of reinsurance capacity in the South African market. Many of these multinational reinsurers will prefer the branch structure, as it:

- allows easier movement of capital;
- centralises multiple processes and functions;
- reduces regulatory burden to some extent; and
- reduces audit requirements

However, the aforementioned benefits come with certain limitations related to which investments should be held to meet technical provisions, and how these assets can be utilised and/or transferred.

In addition, the direct and indirect taxation consequences of the decision by an existing reinsurer to restructure its business and operate using a branch structure are complex and require detailed consideration. In this regard, a restructure of this nature highlights the differences in the interpretation of the corporate rule (section 41 to 47 of the Income Tax Act) provisions within the context of the insurance industry.

Overall, an exciting, but challenging time to be operating a reinsurance business in South Africa.

WHATEVER YOU DO,
BE DIFFERENT...
IF YOU ARE DIFFERENT,
YOU WILL STAND OUT.

Anita Roddick

REINSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-15	Dec-14	Dec-15	Dec-14	Dec-15	Dec-14	15 month period ended Mar-15	Dec-13
Group/Company	**African Reinsurance Corporation (South Africa) Limited**		**Emeritus Reinsurance Company (South Africa) Limited**		**General Reinsurance Africa Limited**		**GIC Re South Africa Limited**	
Share capital and share premium	80 300	80 300	73 888	73 888	4 000	4 000	111 500	11 500
Retained earnings/(deficit)	524 408	489 801	(59 077)	(56 254)	1 301 167	1 039 591	(26 252)	22 969
Reserves including contingency reserve	51 702	51 702	-	-	(142 816)	15 384	1 393	(9 104)
Total shareholders' funds	**656 410**	**621 803**	**14 811**	**17 634**	**1 162 351**	**1 058 975**	**86 640**	**25 365**
Gross outstanding claims	1 020 031	992 067	2 247	2 742	1 366 362	1 350 796	42 817	16 822
Gross unearned premium reserve	151 467	156 612	6 112	4 785	173 603	180 863	87 613	-
Provision for profit commission	-	-	-	-	-	-	-	-
Policyholder liabilities under insurance contracts	-	-	-	-	1 864 642	1 766 526	20 357	25 338
Liabilities in respect of investment contracts	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	28 361	28 679	770	389	-	-	16 839	-
Deferred tax liabilities/(assets)	21 153	33 786	-	-	(6 607)	(867)	-	-
Funds withheld	1 247 697	1 241 975	-	-	732	459	80 392	-
Other liabilities	222 458	148 984	6 502	3 399	198 286	206 057	18 675	16 032
Total liabilities	**2 691 167**	**2 602 103**	**15 631**	**11 315**	**3 597 018**	**3 503 834**	**266 693**	**58 192**
Total investments	**2 223 467**	**2 174 975**	**6 005**	**5 000**	**3 824 358**	**3 084 546**	**73 725**	**51 803**
Funds withheld	378	141	-	-	-	-	-	-
PPE and intangible assets	4 006	5 083	212	495	4 811	4 926	1 585	739
Retrocessionaires' share of outstanding claims	714 960	695 651	627	967	93 233	89 243	26 207	2 192
Retrocessionaires' share of unearned premium reserve	106 027	109 629	2 054	1 297	14 868	16 976	78 852	-
Retrocessionaires' share of profit commissions	-	-	-	-	-	-	-	-
Retrocessionaires' share of liabilities under life insurance contracts	-	-	-	-	-	1 128	5 265	6 259
Deferred acquisition cost	35 217	35 500	1 904	1 436	-	-	14 329	-
Cash and cash equivalents	4 447	3 061	10 268	12 431	242 644	1 000 975	33 284	15 089
Other assets	259 075	199 866	9 372	7 323	579 455	365 015	120 086	7 475
Total assets	**3 347 577**	**3 223 906**	**30 442**	**28 949**	**4 759 369**	**4 562 809**	**353 333**	**83 557**
CAR ratio	N/A	N/A	N/A	N/A	5,9	5,5	2,13	1,8
Return on equity	5%	12%	(19%)	(13%)	23%	22%	4%	(30%)
Total assets/total liabilities	124%	124%	195%	256%	132%	130%	132%	144%
Change in shareholders' funds	6%		(16%)		10%		242%	

REINSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-15	Dec-14	Dec-15	Dec-14	Dec-15	Dec-14	Dec-15	Dec-14
Group/Company	**Hannover Life Reassurance Africa Limited**		**Hannover Reinsurance Africa Limited**		**Munich Reinsurance Company of Africa Limited (Group)**		**RGA Reinsurance Company of South Africa Limited**	
Share capital and share premium	112 500	112 500	72 778	72 778	34 915	34 915	51 982	51 982
Retained earnings/(deficit)	541 219	507 147	542 552	539 862	2 546 866	2 292 556	196 872	101 346
Reserves including contingency reserve	(64 973)	(8 366)	126 139	139 420	572 947	429 456	(45 152)	3 592
Total shareholders' funds	**588 746**	**611 281**	**741 469**	**752 060**	**3 154 728**	**2 756 927**	**203 702**	**156 920**
Gross outstanding claims	290 398	267 093	1 771 508	1 623 220	3 736 262	3 621 254	710 049	715 532
Gross unearned premium reserve	20 776	27 219	933 544	1 230 404	847 783	701 058	-	-
Provision for profit commission	276 216	295 976	363 999	360 829	-	-	-	-
Policyholder liabilities under insurance contracts	2 229 021	1 957 129	-	-	1 016 570	954 235	1 055 475	1 219 298
Liabilities in respect of investment contracts	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	39 241	44 881	94 792	83 900	229 067	201 771	-	-
Deferred tax liabilities/(assets)	(10 223)	(8 046)	(25 333)	(10 832)	101 184	123 511	(897)	(684)
Funds withheld	872 010	589 158	924 353	793 030	22 618	19 738	626 417	724 436
Other liabilities	307 258	191 551	433 293	312 880	1 157 832	1 041 008	53 283	32 724
Total liabilities	**4 024 697**	**3 364 961**	**4 496 156**	**4 393 431**	**7 111 316**	**6 662 575**	**2 444 327**	**2 691 306**
Total investments	**2 644 570**	**2 506 184**	**1 622 231**	**1 634 465**	**3 785 576**	**3 849 326**	**1 403 183**	**1 497 921**
Funds withheld	344 291	85 580	562 179	507 504	99 558	113 613	-	-
PPE and intangible assets	-	-	9 848	8 287	1 310 021	1 044 662	13 461	7 280
Retrocessionaires' share of outstanding claims	102 067	117 824	963 343	695 043	1 957 440	1 899 183	-	-
Retrocessionaires' share of unearned premium reserve	-	-	311 211	300 067	674 346	556 974	-	-
Retrocessionaires' share of profit commissions	12 683	164	256 757	280 853	-	-	-	-
Retrocessionaires' share of liabilities under life insurance contracts	562 221	471 197	-	-	26	9 919	626 417	724 436
Deferred acquisition cost	205 662	261 986	220 038	290 029	255 082	226 363	-	-
Cash and cash equivalents	190 111	157 444	203 099	193 123	562 857	572 472	65 974	54 656
Other assets	551 838	375 863	1 088 919	1 236 120	1 621 138	1 146 990	538 993	563 933
Total assets	**4 613 443**	**3 976 242**	**5 237 625**	**5 145 491**	**10 266 044**	**9 419 502**	**2 648 028**	**2 848 226**
CAR ratio	2,3	2,7	N/A	N/A	2,7	2,9	4,6	4,0
Return on equity	23%	13%	15%	1%	8%	11%	47%	13%
Total assets/total liabilities	115%	118%	116%	117%	144%	141%	108%	106%
Change in shareholders' funds	(4%)		(1%)		14%		30%	

REINSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-15	Dec-14
Group/Company	**Scor Africa Limited**	
Share capital and share premium	150 000	150 000
Retained earnings/(deficit)	65 642	81 981
Reserves including contingency reserve	(14 459)	6 966
Total shareholders' funds	**201 183**	**238 947**
Gross outstanding claims	1 118 208	626 722
Gross unearned premium reserve	250 654	233 771
Provision for profit commission	-	-
Policyholder liabilities under insurance contracts	64 896	38 601
Liabilities in respect of investment contracts	-	-
Deferred reinsurance commission revenue	63 360	53 371
Deferred tax liabilities/(assets)	(12 187)	(825)
Funds withheld	769 631	535 579
Other liabilities	256 563	205 054
Total liabilities	**2 511 125**	**1 692 273**
Total investments	**845 036**	**818 064**
Funds withheld	-	-
PPE and intangible assets	299	318
Retrocessionaires' share of outstanding claims	693 733	423 931
Retrocessionaires' share of unearned premium reserve	157 513	148 117
Retrocessionaires' share of profit commissions	-	-
Retrocessionaires' share of liabilities under life insurance contracts	34 230	16 546
Deferred acquisition cost	99 668	82 900
Cash and cash equivalents	206 210	193 822
Other assets	675 619	247 522
Total assets	**2 712 308**	**1 931 220**
CAR ratio	3,3	2,3
Return on equity	(8%)	8%
Total assets/total liabilities	108%	114%
Change in shareholders' funds	(16%)	

REINSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-15	Dec-14	Dec-15	Dec-14	Dec-15	Dec-14	15 month period ended Mar-15	Dec-13
Group/Company	**African Reinsurance Corporation (South Africa) Limited**		**Emeritus Reinsurance Company (South Africa) Limited**		**General Reinsurance Africa Limited**		**GIC Re South Africa Limited**	
Gross premiums written	2 163 137	2 146 143	17 130	13 185	2 230 452	2 116 230	155 878	16 282
Net premiums written	624 491	622 780	10 680	9 730	2 153 821	2 041 458	25 901	10 502
Earned premiums	**628 034**	**630 232**	**10 110**	**7 463**	**2 158 973**	**2 036 317**	**17 140**	**10 502**
Total net investment income	88 698	152 747	979	1 004	293 676	265 447	4 740	(6 555)
Reinsurance commission revenue	462 178	449 488	2 095	1 071	19 671	22 696	11 849	669
Other income	-	-	-	-	28 295	-	-	-
Total income	**1 178 910**	**1 232 467**	**13 184**	**9 538**	**2 500 615**	**2 324 460**	**33 729**	**4 616**
Policyholder benefits and entitlements	457 446	489 189	2 225	2 230	1 943 498	1 821 673	8 729	(242)
Acquisition expense	584 439	565 197	5 072	3 236	58 353	89 575	10 788	320
Management and other expenses	95 670	79 809	8 710	6 423	107 406	94 769	10 915	12 229
Total expenses	**1 137 555**	**1 134 195**	**16 007**	**11 889**	**2 109 257**	**2 006 017**	**30 432**	**12 307**
Net profit/(loss) before tax	**41 355**	**98 272**	**(2 823)**	**(2 351)**	**391 358**	**318 443**	**3 297**	**(7 691)**
Tax	6 748	21 668	-	-	129 784	80 401	-	-
Net profit/(loss) after tax	**34 607**	**76 604**	**(2 823)**	**(2 351)**	**261 574**	**238 042**	**3 297**	**(7 691)**
Other comprehensive income/(loss)	-	-	-	-	(158 200)	(4 182)	-	-
Total comprehensive income/(loss) for the year	**34 607**	**76 604**	**(2 823)**	**(2 351)**	**103 374**	**233 860**	**3 297**	**(7 691)**
Transfer to/(from) retained earnings	-	-	-	-	-	-	(10 496)	8 053
Dividends	-	-	-	-	-	-	42 022	-
Change in retained earnings	**34 607**	**76 604**	**(2 823)**	**(2 351)**	**261 574**	**238 042**	**(49 221)**	**362**
Net premiums to gross premiums	29%	29%	62%	74%	97%	96%	17%	65%
Policyholder benefits and entitlements to earned premium	73%	78%	22%	30%	90%	89%	51%	(2%)
Management and other expenses to earned premium	15%	13%	86%	86%	5%	5%	64%	116%
Comments	Company		Company		Composite company		Composite company	

REINSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-15	Dec-14	Dec-15	Dec-14	Dec-15	Dec-14	Dec-15	Dec-14
Group/Company	**Hannover Life Reassurance Africa Limited**		**Hannover Reinsurance Africa Limited**		**Munich Reinsurance Company of Africa Limited (Group)**		**RGA Reinsurance Company of South Africa Limited**	
Gross premiums written	2 411 274	2 137 612	2 395 855	3 078 265	5 981 755	5 633 727	1 509 810	1 455 554
Net premiums written	1 818 376	1 604 223	601 578	1 673 331	3 056 530	2 884 082	484 739	463 639
Earned premiums	**1 824 746**	**1 593 681**	**902 452**	**1 207 144**	**3 032 652**	**2 888 783**	**534 167**	**466 913**
Total net investment income	132 117	119 277	93 244	79 702	243 768	254 363	112 160	94 987
Reinsurance commission revenue	46 962	55 591	625 744	519 465	961 890	775 281	70 702	148 362
Other income	24 943	2 584	15 130	1 348	-	-	23 571	75 992
Total income	**2 028 768**	**1 771 133**	**1 636 570**	**1 807 659**	**4 238 310**	**3 918 427**	**740 600**	**786 254**
Policyholder benefits and entitlements	1 421 846	1 297 236	556 707	843 948	2 271 348	2 093 886	401 879	417 815
Acquisition expense	291 234	260 304	861 304	886 961	1 069 451	1 138 439	101 046	183 621
Management and other expenses	118 217	102 655	75 638	65 959	600 381	305 954	126 377	157 561
Total expenses	**1 831 297**	**1 660 195**	**1 493 649**	**1 796 868**	**3 941 180**	**3 538 279**	**629 302**	**758 997**
Net profit/(loss) before tax	**197 471**	**110 938**	**142 921**	**10 791**	**297 130**	**380 148**	**111 298**	**27 257**
Tax	63 399	32 318	33 816	(302)	48 759	79 330	15 772	6 478
Net profit/(loss) after tax	**134 072**	**78 620**	**109 105**	**11 093**	**248 371**	**300 818**	**95 526**	**20 779**
Other comprehensive income/(loss)	(56 607)	2 043	(13 281)	4 986	149 430	114 487	(50 519)	12 483
Total comprehensive income/(loss) for the year	**77 465**	**80 663**	**95 824**	**16 079**	**397 801**	**415 305**	**45 007**	**33 262**
Transfer to/(from) retained earnings	-	-	-	-	5 939	(3 942)	50 519	(12 483)
Dividends	100 000	-	106 415	-	-	-	-	-
Change in retained earnings	**34 072**	**78 620**	**2 690**	**11 093**	**254 310**	**296 876**	**95 526**	**20 779**
Net premiums to gross premiums	75%	75%	25%	54%	51%	51%	32%	32%
Policyholder benefits and entitlements to earned premium	78%	81%	62%	70%	75%	72%	75%	89%
Management and other expenses to earned premium	6%	6%	8%	5%	20%	11%	24%	34%
Comments	Company		Company		Composite company		Company	

REINSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-15	Dec-14
Group/Company	**Scor Africa Limited**	
Gross premiums written	1 114 111	944 370
Net premiums written	407 092	378 345
Earned premiums	**406 340**	**363 845**
Total net investment income	39 441	19 621
Reinsurance commission revenue	157 134	154 084
Other income	19 320	7 343
Total income	**622 235**	**544 893**
Policyholder benefits and entitlements	345 144	224 136
Acquisition expense	250 989	252 856
Management and other expenses	48 957	42 914
Total expenses	**645 090**	**519 906**
Net profit/(loss) before tax	**(22 855)**	**24 987**
Tax	(6 516)	5 754
Net profit/(loss) after tax	**(16 339)**	**19 233**
Other comprehensive income/(loss)	(21 207)	(2 205)
Total comprehensive income/(loss) for the year	**(37 546)**	**17 028**
Transfer to/(from) retained earnings	-	-
Dividends	-	-
Change in retained earnings	**(16 339)**	**19 233**
Net premiums to gross premiums	37%	40%
Policyholder benefits and entitlements to earned premium	85%	62%
Management and other expenses to earned premium	12%	12%
Comments	Composite company	

AND THE ONLY WAY TO BE TRULY STATISFIED IS TO DO WHAT YOU BELIEVE IS GREAT WORK. AND THE ONLY WAY TO DO GREAT WORK IS TO LOVE WHAT YOU DO.

Steve Jobs

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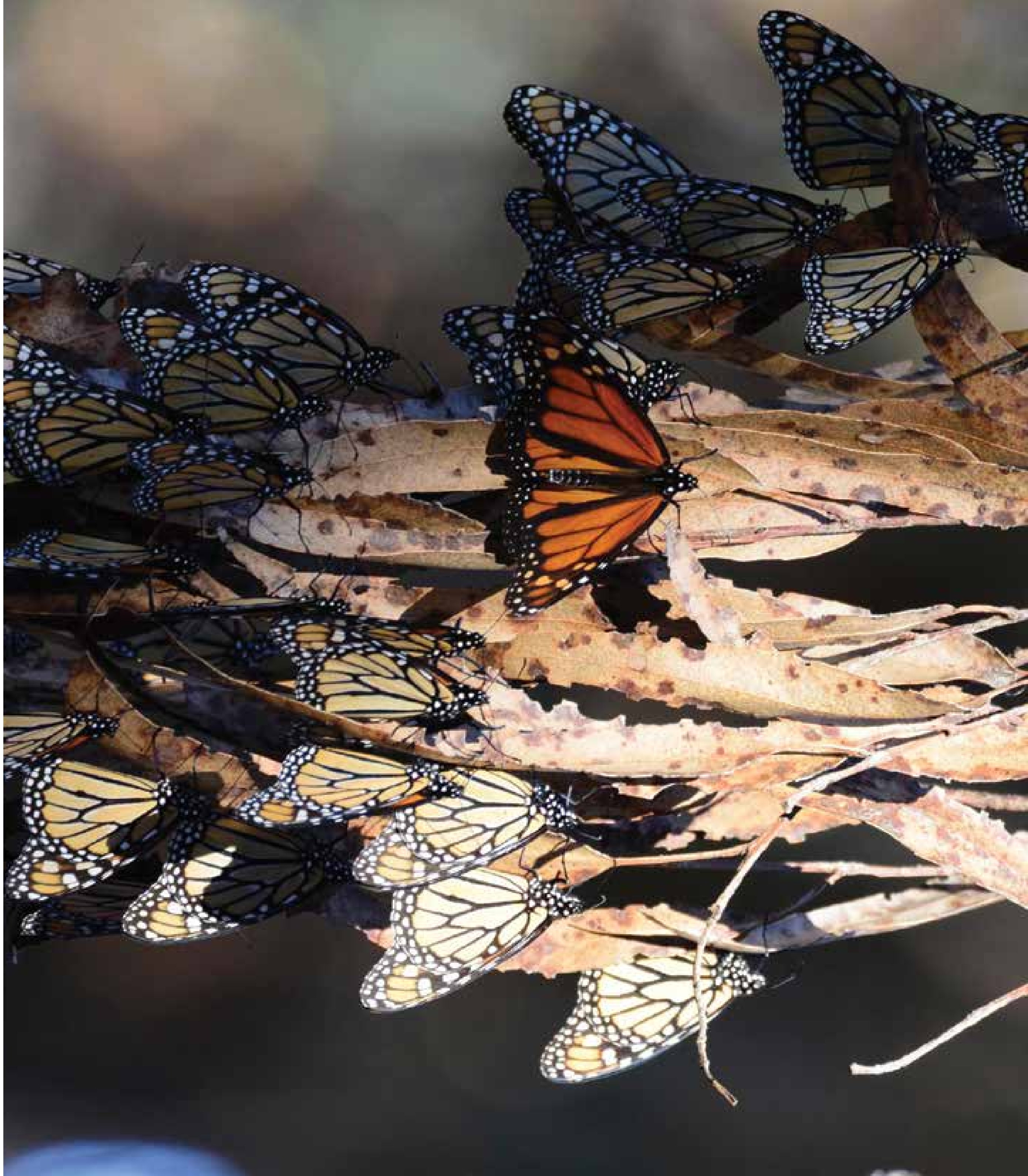

Epilogue

A Zulu, a Tsonga, a white woman and an arts convert walk into a bar. Well not exactly, but one rainy weekend in March 2016 we came close. There are few places in South Africa where these people can openly argue politics, religion and values until 04:30 in the morning. Is your business one of them? However, there was so much more to this than simply four people shouting the odds.

It started out with a group of eleven individuals. Eleven people from disparate and diverse backgrounds. Eleven people from various parts of South Africa and from across our borders. We had a Ghanaian, a Tanzanian and a white Zimbabwean. We had a Christian, a Muslim and a Hindu. Some people drank too much – others did not drink at all. We operated by the motto, "anything goes as long as it respects the individual."

As the night wore on the athletes and parents went to bed. The debate got heated. The merriment flowed. This was not a generic media debate. This was not the simplistic polarised noise that is sometimes called journalism. There was openness and honesty. We learned about how one white girl walked to work in her small town after coming home from university every day. We learnt about how gogo's only source of income is the monthly R500 government grant she receives. We debated whether the role of the government extends beyond upholding the law and protecting the people. I learnt what Ubuntu really means!

National and cultural change are slow processes. We rely so much on our experience to inform our worldviews. Without experiences such as this our worldviews remain limited and uninformed.

The diversity at work empowers this change. This diversity allows us to debate and experience different worldviews.

However, such experiences are limited in our segregated and unequal society. I found myself questioning how it is that we trusted one another to communicate so openly and honestly. I believe a large part comes down to leadership. Our leaders on the weekend shared their own experiences. They encouraged lively debate. They were not scared to have an opinion. By living with integrity, they created a safe environment.

It starts earlier than this. It starts at induction when the leadership talk the values. However, it is entrenched in the corridors. It is entrenched through experience. It is entrenched when a trainee sees a white male junior chatting comfortably with a black female boss. It is entrenched when a new trainee says "I disagree" and is allowed a voice. It requires a business unusual mind-set.

We sought the facts and provided insight. My theoretical education from university was not sufficient to deal with the reality of my colleagues' experience. The simplicity of capitalism is eroded by the complexity of poverty and history. I was empowered. I changed. I am struck by a quote from Nelson Mandela, "if you want to make peace with your enemy, you have to work with your enemy. Then he becomes your partner."

Most importantly, I am confident. I believe that with this kind of business unusual experience my country can heal. I believe that with these small pockets of tolerance, diversity and acceptance the injustices of the past can be addressed.

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