KPMG

EVOLVE

Intelligent Insurance

Financial Services

The South African Insurance Industry Survey 2017

August 2017

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EVOLVE

Intelligent Insurance

Today's leading financial services companies are operating in a new and more complex environment; one where the fundamental definition of how customers experience and interact with an insurer is being challenged and redefined. This is further complicated by *millennials'* dramatically different buying patterns, alternate channels and changing expectations for consumer and digital experiences. This new consumer driven/ customer centric business model is one that many insurers recognise and are striving to adopt in order to win and retain customers.

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> We cannot wait until there are massive dislocations in our society to prepare for the fourth industrial revolution.
>
> Robert J.Shiller

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INTRODUCTION

Insurance Survey 2017

If there is something to be learned from the year 2017, it is that change is inevitable. Globally, the world was shocked by two unthinkable events being Brexit and a Trump presidency. From these examples it is evident that one must always be ready to adapt, to be agile, to be flexible as well as to be able to EVOLVE.

It is with great pleasure and pride that the 2017 KPMG Insurance Survey is unveiled. We have looked toward the future in this edition by asking pertinent questions such as: how should an insurance company EVOLVE to be a force to be reckoned with, to remain relevant?

To know where we are going we should first reflect on where we have come from. As such, we have included a idiosyncratic historic piece on the humble beginnings of the insurance industry. This is the first from our thirteen pieces of thought leadership included in this edition. The insurance company of the future is going to be shaped and designed around various new and interesting concepts, and we look at some of these including the impact of behavioural economics, Millennials and the digital age.

On the regulatory front, we have a feature on micro-insurance, we look at ORSA and how the process has evolved and we look at the progress the market has made towards achieving fair market conduct.

In another shock event, the long awaited IFRS 17 on insurance accounting was released. Our accounting article probes whether this accounting standard will lead to better embedded reporting for companies and financial statements that are more understandable.

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

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

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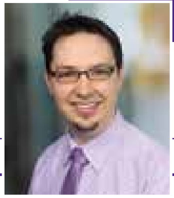

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KING HAMMURABI had the coolest beard

King Hammurabi had the coolest beard. Beards may be coming back in fashion but his was next level. He had a braided beard in some pictures. In other pictures, his beard was adorned baubles and bright shiny things. Surprisingly, this is not what made him famous. His legacy relates rather to being the "author" of one of the first codified system of laws. The laws might not have been humane by modern standards, but they did make provision for insurance. Most significantly, a debtor did not have to repay his debts if he fell afoul of unfortunate circumstances.[1] National insurance goes way back.

In this article, I am hoping to take you on a journey through time and the evolution of insurance: from its humble beginnings as a bauble in Hammurabi's beard; to the multinational safety blanket it is today.

As Confucius said, "study the past if you would define the future." So, let us do a bit of studying.

"Definitions have never done anything but constrain."
Jonathan Safran Foer - Author

Some say that insurance started long before the reign of Hammurabi. Commonly cited examples are: early Arabian traders spreading their cargo between camel teams to minimise losses from banditry; and Chinese merchants spreading their cargo between riverboats to minimise the loss if one of these was sunk. Under modern definitions, we would call this good risk management.

[1] http://www.investopedia.com/articles/08/history-of-insurance.asp

An insurance policy compensates the policyholder when those bad things happen. It does not stop those bad things from happening.

The modern definition would also scope out the colloquial use of insurance in the following sentence: the USA's nuclear weapons programme acted as insurance against the USSR through a contract of mutually assured destruction. History is full of examples of using the threat of violence as a risk mitigation tool. However, even if we keep our focus on contracts (verbal or written) between parties intended to compensate for specified uncertain events which adversely affect the policyholder, some of the earliest examples still arise in classical antiquity.

"The ocean is the world's wildest place because of how easy it is out there to slip from the boundaries of law and civilisation that seem so firm ashore."
Rose George - Journalist

Hammurabi's gang were notably interested in credit risk. If a merchant received financing for a shipment, he would pay a premium for the right to cancel the loan if the shipment was stolen or lost at sea.

Shipping was as a big a thing in those days as it is today. Around that time (give or take a few hundred years), the inhabitants of Rhodes invented the concept of the general average.[2] The general average is a maritime practice that continues until today. The general average is now part of international maritime law. The general average effectively shares the loss arising from exceptional circumstances with all interested parties. This usually happens when specific cargo is lost in the interests of preserving the general cargo, crew or ship.[3]

"Success is not built on success. It is built on failure. It is built on frustration. Sometimes it is built on catastrophe."
Sumner Redstone - Businessman and media magnet

The guild system in medieval Europe provided for group cover. The members of guilds would contribute to a central coffer and these were used to pay-out if the guild member's trade establishment was destroyed by fire. The guild would also step in and cover the members' other obligations.[4]

One of my favourite historical developments in insurance are the fire insurance businesses that developed from the ashes of the Great Fire of London. This fire, in 1666, "consumed 13,200 houses, 87 parish churches, St. Paul's Cathedral, and most of the buildings of the City authorities. It is estimated that it destroyed the homes of 70,000 of the City's 80,000 inhabitants.[5] " This led to the establishment of the Insurance Office for Houses, which insured brick and frame homes. Initially this office insured 5,000 homes.

Not only did this office act as an insurer, it also helped manage the fire risk. Initially each insurance company operated its own fire department to minimise the loss on their insured's property. This system was not particularly effective in that the fire brigades competed for space and only protected their insured's property.[6] Houses were marked with various insignia to evidence their insurance. The insignia were called firemarks (or firebrands[7]).

Eventually this system gave way to the modern fire brigade operated by the municipality for the common good. At the time, the insurance companies funded this. However, the firefighters still tended to favour those houses with firemarks over those without, as "it was customary for insurance companies to pay for ale at the local pub for any firefighters who attempted to save their insured property and to provide bonuses for those who were successful at it". [8]

Across the Atlantic the fledgling democracy of the United States picked up this practice and continued the relationship with risk management in that they advised against certain fire hazards and even declined to insure certain builds of high risk (such as all-wooden houses).[9] One of the companies from this time, the Sun Fire Office Limited (dating from 1710) is claimed to be the oldest existing property insurance company.[10] Today after numerous mergers and acquisitions they operate as RSA (Royal and Sun Alliance), one of the largest insurers in the United Kingdom.[11]

Interestingly the Sun had offices in South Africa. In 1895, their headquarters moved from Cape Town to King Williams' town. The head office building itself, which is quite beautiful, still exists on the corner of Alexander Road and Cathcart Road and is a provincial heritage site.[12] Sun Fire in South Africa subsequently became Protea Assurance Company.

"Death is the solution to all problems. No man – no problems."
Joseph Stalin - Dictator

Life and health has been around as long as property insurance. Burial societies are not unique to modern South Africa. In fact, the ancient Greeks and Romans had burial societies called benevolent societies. It seems these performed a broader social function than covering the cost of the funeral, but this was one of their functions. Guilds in the medieval ages took on a similar function. In Victorian England, these were called friendly societies.[13] A similar Jewish communal organisation called chevra kadisha is evidenced in the early middle ages.[14] In many instances, these societies performed the function of burial itself rather than providing a pay-out to the deceased family or estate. Notably these are also not-for-profit entities.

[2] https://en.wikipedia.org/wiki/History_of_insurance
[3] http://www.marineinsight.com/maritime-law/the-role-of-general-average-in-the-maritime industry/
[4] http://www.investopedia.com/articles/08/history-of-insurance.asp
[5] http://www.randmark40.com/
[6] https://en.wikipedia.org/wiki/History_of_insurance
[7] http://www.insurancejournal.com/magazinesfeatures/2011/01/10/185786.htm
[8] https://www.irmi.com/articles/expert-commentary/the-worlds-first-insurance-company
[9] http://www.randmark40.com/
[10] https://en.wikipedia.org/wiki/History_of_insurance
[11] https://www.irmi.com/articles/expert-commentary/the-worlds-first-
[12] http://www.artefacts.co.za/main/Buildings/bldgframes.php?bldgid=3538
[13] https://en.wikipedia.org/wiki/History_of_insuranceinsurance-company
[14] http://www.jewishpress.com/sections/features/features-on-jewish-world/the-history-of-the-chevra-kadisha/2014/02/07/

The growth of life insurance followed the development of mortality tables. The clergy first developed these tables. The church itself had been opposed to the concept of insurance. However, many of the clergy members wanted to understand the nature, purpose and timing of death and invested significant time in exploring these things.[15]

Toward the end of the 17th century, Sir Edmund Halley published the first mortality tables.[16] This combined with Blaise Pascal and Pierre de Fermat's explorations into statistics and Jacob Bernoulli's law of large numbers helped lead life insurance into modernity.

However, it is claimed that life insurance was really spurred on by "James Dodson, a 45-year-old English mathematician, who was refused insurance because of his advanced age. This annoyed him so much that he searched for a mathematical solution in order to form a more equitable base upon which to calculate premiums as a percentage of life expectancy".[17]

The role of the actuary was also established as early as 1775 when William Morgan was appointed as the actuary of the Society for Equitable Assurances on Lives and Survivorship. Life actuarial valuations were performed in 1776 and revisionary and interim bonuses declared in 1781 and 1809 respectively.

"Mind the Gap"

The development of the railway systems in the United Kingdom in 1848 led to accident insurance. Apparently, injuries were regular and even more so in the "roofless carriages" of second and third class. Consequently, the Railway Passengers Assurance Company was formed. In particular, this company covered morbidity risks associated with early railway travel. I am glad I do not have to catch those trains to work!

"Power has only one duty – to secure the social welfare of the people."
Benjamin Disraeli - Politician

By 1884, the German Reichstag (parliament) under the direction of the famous Otto von Bismark (he of the awesome moustache) passed a bill to allow for accidental death and dismemberment insurance. The law of worker's compensation was established. The German social welfare state was established at this time and old age pension and medical cover introduced at a similar time. These ideas slowly caught on elsewhere in the world.

By 1911, similar laws were passed in the United Kingdom and Wisconsin became the first US state to adopt similar structures. It was only in 1935 that the US mandated such insurance for all states.

Modern motor vehicles are safer and more reliable than they have ever been - yet more than 1 million people are killed in car accidents around the world each year, and more than 50 million are injured. Why? Largely because one perilous element in the mechanics of driving remains unperfected by progress: the human being.
Tom Chatfield - Technology theorist

The introduction of the personal automotive at the beginning of the 20th Century saw the advent of what is now the most commonly sold insurance product in the world. In 1901, Lloyd's led the way by insuring the first vehicle under a marine policy. No specific policy wording existed for such risks and so it was argued that a motor vehicle "was a ship navigating on dry land.[19]"

RE-ASSURANCE, as understood by the law of England, may be said to be a contract, which the first insurer enters into, in order to relieve himself from those risks which he has incautiously undertaken, by throwing them upon other underwriters, who are called re-assurers.
James Allen Park - Author [20]

Until the establishment of dedicated professional reinsurance offices, many direct insurers used co-insurance to manage their risk. This was not ideal from a business or a capital perspective. From the ashes of the Hamburg Fire of 1842, the first dedicated reinsurer, Cologne Re arose.[21] Multiple other reinsurers were established in the next few years however, "of 13 reinsurers founded in Germany in 1870-1871, most were out of business by 1880".[22] Another fire, the 1861 fire of Glarus in Switzerland is said to have been the impetus behind the establishment of Swiss Re in 1863.

Interestingly Swiss Re insured both the Titanic (1912) and the Spanish Flu pandemic of 1918. Reinsurance was however banned in the United Kingdom from as early as 1746 with the ban lifted in 1864. However, the type of business that was banned is probably not, what we would call reinsurance in any modern sense of the word. It appears to have been closer to an executor of an insolvent insurer's estate. It is also said that Munich Re was the first reinsurer to introduce the concept of profit sharing between cedant and reinsurer.[23]

[15] A History of Insurance, Niels Viggo Haueter, published by Swiss Re, 2013.
[16] http://www.insurancejournal.com/magazines features/2011/01/10/185786.htm
[17] A History of Insurance, Niels Viggo Haueter, published by Swiss Re, 2013.
[18] https://en.wikipedia.org/wiki/History_of_insurance
[19] http://www.randmark40.com/index.php?option=com_content&view=article&id=33
[20] A brief history of reinsurance, David M. Holland published www.soa.org
[21] A History of Insurance, Niels Viggo Haueter, published by Swiss Re, 2013.
[22] A brief history of reinsurance, David M. Holland published www.soa.org
[23] A History of Insurance, Niels Viggo Haueter, published by Swiss Re, 2013.

My insurance provider probably won't allow me to go in a mosh pit anymore. My brain is insured by Lloyd's of London, you know what I'm saying.

CeeLo Green - Rapper

I think you have probably heard the story of how Lloyds started in a coffee shop in London… so I am sparing you that one.

Conclusion

It is more fun to arrive at a conclusion than to justify it.

Malcolm Forbes - Entrepreneur

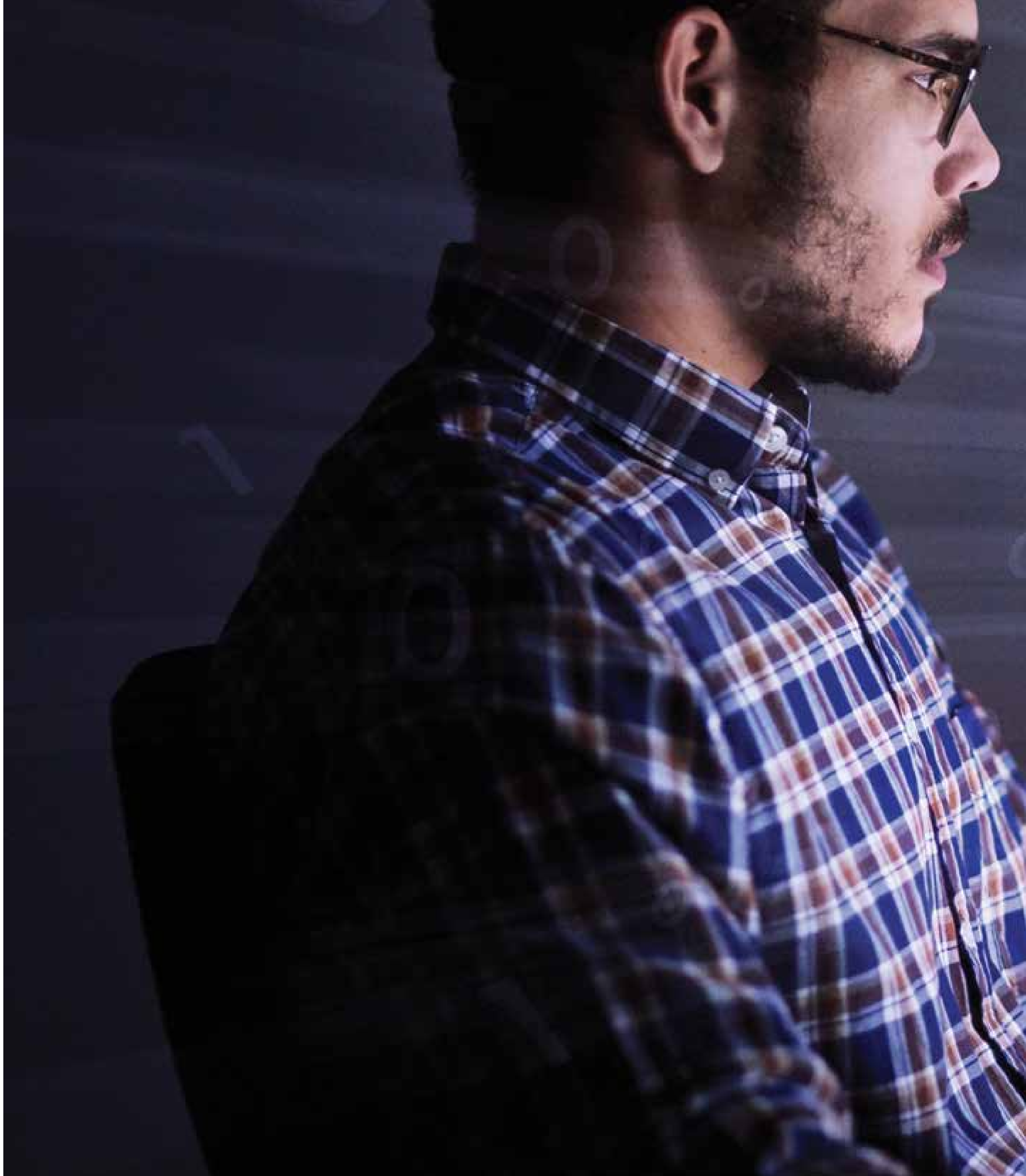
The need to manage the liquidity risk that arises from the perils of being alive is as old as civilisation. The insurance contract, which provides this security, is a profoundly well established concept that has stood the test of time. It is clear that technological progress, the development of shipping, the growth of cities, the introduction of the railway and the introduction of the personal automobile have all created new perils, which require insurance. It appears that as long as humanity continues to evolve, insurance will continue to evolve.

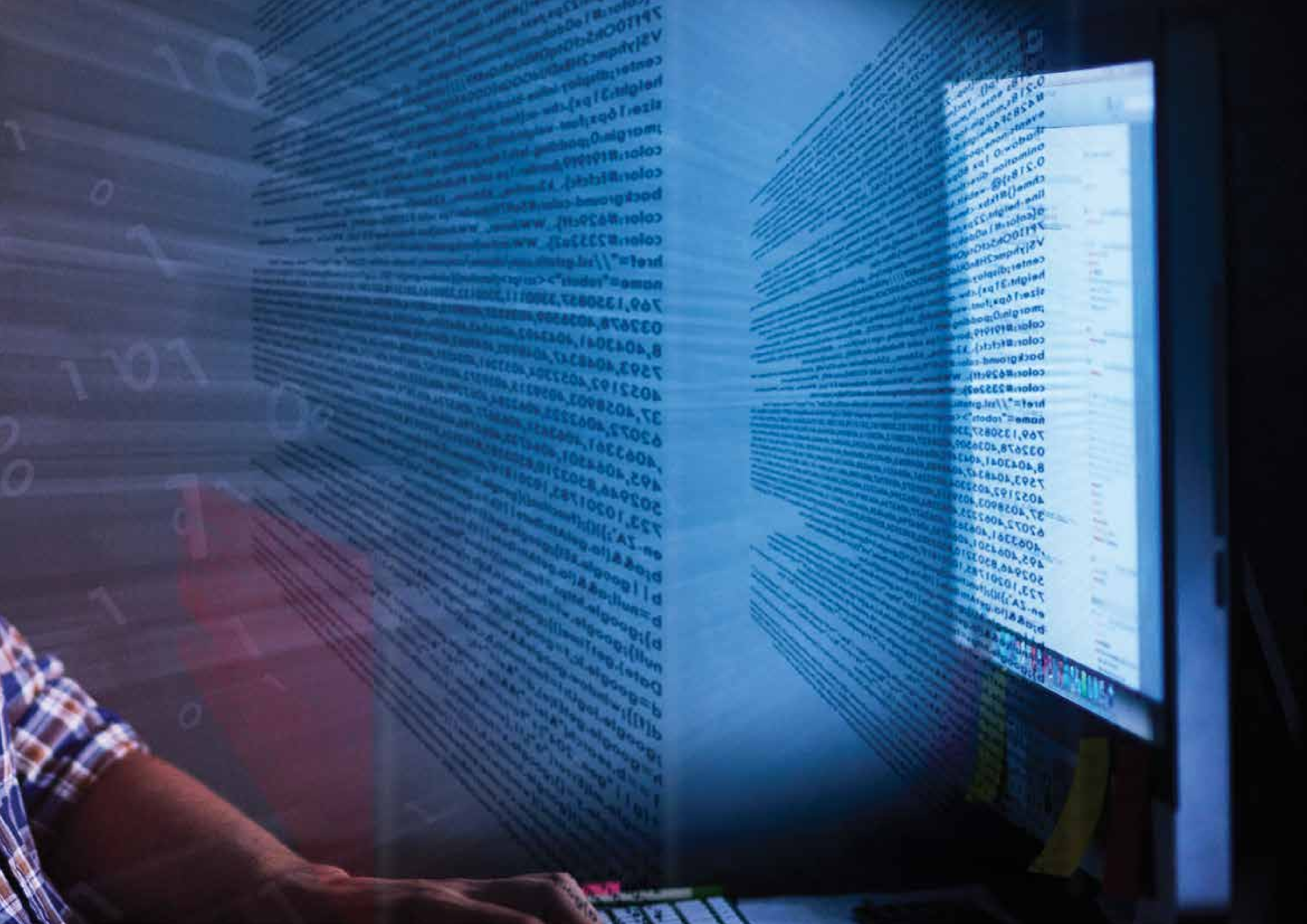
As an afterthought

A South African soap maker insured Princess Diana for two months back in the early 1990s, but she probably never knew anything about it. The soap maker invested R400,000 into an eight-week ad campaign that used a Diana look-alike. If anything would have happened to the real Diana, the company worried it would have to pull its ads and would lose its investment, and as such the risk was insured![24]

PS – thanks to www.brainyquote.com for the endless entertainment.

[24] http://www.randmark40.com/index.php?option=com_content&view=article&id=33





Digital is the main reason just over half of the companies on the Fortune 500 have disappeared since the year 2000.

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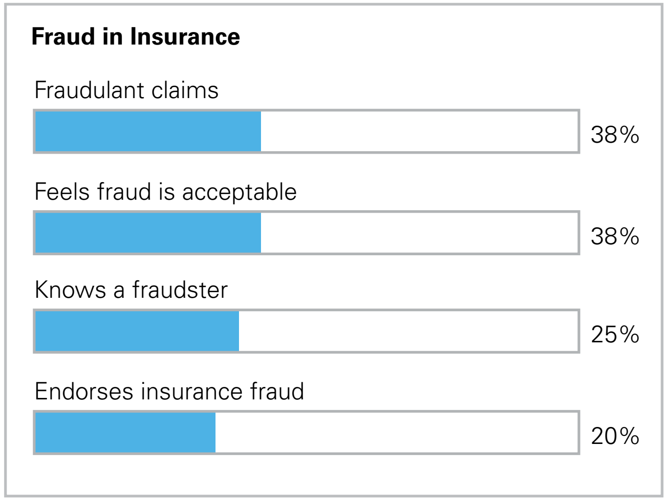
BEHAVIOURAL ECONOMICS

Perception is King to reality's court Jester

Dan Ariely, a world renowned behavioural economist, has described the current insurance model as pretty close to the model you would build if you wanted to get people to behave badly. In part, this is due to the incorrectly designed incentives that are inherently present in the insurer-customer relationship. Incentives have long been used in a variety of ways as a means for people or organisations to encourage the way in which they want people to behave.



The poor design and structuring of incentives is evidenced in the fact that insurance fraud contributes to an estimated 38 percent of claims. In a study done in Australia, 38 percent of consumers stated that there are no losers if people defrauded insurance companies.

One quarter of participants knew someone who had committed insurance fraud and 20 percent even endorsed insurance fraud. It has clearly become socially acceptable. But why is this?

A simple experiment:

10 participants are asked to make a R10 maximum donation in private to a pot. The administrator will then double the total and the resulting total will be divided between participants. For the first few rounds all members pay the full R10. The pot totals R100 and is doubled to R200 by the administrator. Everyone gets R20 back and makes a profit of R10.

This works for a couple of rounds until 1 participant starts to "game the system". He puts in no money. All nine other participants put in R10. The total of R90 is doubled to R180 and everyone gets R18 out with nine people making a R8 profit and the "gamer" making R18 profit.

Slowly, more participants figure this out and stop putting money in until only one person puts in R10, the pot is doubled to R20 with everyone getting R2 in return with nine people making a R2 profit and the only contributor making an R8 loss. A lack of transparency in the structure of the game has ruined what was supposed to be a very profitable scheme for all members.

The same can be said for insurance. The structure of the model and a lack of transparency has done significant damage to the consumer perception. A study performed by emerging Insuretech Company Lemonade, found that a large proportion of Americans see insurance as a grudge purchase and do not believe their insurance company will pay them in the event of a claim. Tweaking the above game to make everyone's contributions transparent, allowing them to choose who they would like to share a pot with or by correlating returns more to contributions would have a profound impact on the result and the same can be said for insurance.

A lot of the effort at healing the insurance industry has been focussed on the **reality** of insurance through Treating Customers Fairly ("TCF") and regulation. This has focused the efforts on the symptoms rather than the disease. For example, the ombudsman and FSB have put mechanisms in place to prevent unfair claims treatment. This, however, does not help the consumer **perception** of feeling cheated.

Behavioural economics is a new economic field that challenges the traditional economics assumption that people behave rationally.

I know what you are thinking at this point. It doesn't apply to me and that is where you are wrong. Have a look at the example below.

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?

Steve is a farmer

Steve is a librarian

Most participants pick that Steve is a librarian due to his nature. What most people intuitively ignore is the statistics. Think about how many farmers there are vs librarians. Then think about how many of those librarians and farmers are male vs female and the fact that Steve is a male. You will soon realise that statistically he is a lot more likely to be a farmer.

Theories like these have convinced many prevalent decision makers, including the US government and World Bank, that human decision making is not rational and that the irrationalities should be taken into account in decision and policy making. It is also important to note that behavioural economics is a science that has been proven. So, you can be just as sure that if you implement these strategies correctly you will get the projected results as you are sure that if you drop an apple it will fall to the ground. Can it serve to address the consumer perception of insurance and hence fraud?

> One of the big lessons from behavioural economics is that we make decisions as a function of the environment that we're in.

Dan Ariely

Professor of Psychology and Behavioural Economics

What can be done from a behavioural point of view?

1 Reintroduce affinity – Dunbar's number and the sharing economy

Insurance was found on a mutual principle with participants writing their names under the names of others who they are willing to share risk with. This affinity has since disappeared to make room for scale. This scale has made insurance seem impersonal and only profiting the corporates. This has resulted in consumers feeling that there are no losers when fraud is committed, when in actual fact, fraud would increase all policyholders' premium. Robin Dunbar is an anthropologist and evolutionary psychologist. Dunbar's fame largely focuses around a single number 150. The theory of Dunbar's Number posits that 150 is the number of individuals with whom any one person can maintain stable relationships.

Start-ups like Lemonade, who have obtained funding in excess of $60m focus on making smaller groups within insurance companies rather than one large pot in attempt to revive the affinity, with the target being groups of 150. The people are organised in smaller groups that contribute to their own charities.

Put differently, 150 is the number of people you would not feel embarrassed about joining uninvited for a drink if you happened to bump into them at a bar. The theory behind it is that if you shared your insurance risk with these 150 people you would not commit fraud and that you would manage your risk better.

2 Transparency and reputation

Online reputations have recently driven mass behavioural change. From AirBnB to Uber and LinkedIn, building online reputations have driven consumer and service provider behaviour in a way that would have been laughed off had it been suggested before launch. Recruitment agencies are also increasingly looking at ratings applicants have received such as Stack Overflow ratings for IT staff. With these reputations even replacing CV's.

Introducing transparency from an insurance point of view can be achieved by showing consumers how funds are spent, why they pay what they pay and being open about profitability.

Introducing transparency from a consumer perspective could mean showing a public or semi-public score of an individual's past insurance behaviour. Discovery is the global leader when it comes to using a reputation to drive healthy living and getting consumers to share this behaviour with their peers. Users get rewarded with certain status levels for healthy living.

3 The unseen power of incentives – social contracts

Incentives can be broadly grouped into three distinct categories being financial, moral and social. Studies have shown that certain of these incentives are more powerful than others and that incentives are best employed in conjunction with each other. An often quoted example of this follows:

A day care centre has a clearly stated policy that children should be picked up by their parents by 4 p.m latest. The day care centre is experiencing a persistent problem of parents arriving late to fetch their children, every day there were a certain number of parents who arrived late resulting in the kids having to be looked after by one of the teachers until the parents arrived.

A pair of economists decided that a solution would be to impose a fine of $3.00 on parents that were late to pick up their children (this is an example of a financial incentive). The fine would be added to the monthly bill of $380 that the parents were paying for day care. To see the effects of the fine, the economists would conduct a study over 20 weeks and note how the number of parents coming late was affected under different conditions.

In the first four weeks of the study the fine was not imposed and the economists found that on average there were 8 late pickups per week per day care centre.

In the fifth week of the study the fine was introduced and it was announced that any parent arriving more than ten minutes late would pay the fine of $3 per child each time they were late. Surprisingly (or unsurprisingly for the economists conducting the study) after the fine was enacted the number of late pickups promptly doubled. Parents who previously felt bad that a teacher would have to stay late and look after their child, now felt a lot less guilty as they believed they were paying off their guilt.

In week seventeen, the economists altered the study again and the late fine was removed. One would perhaps expect the late arrivals to return to normal or decrease somewhat and yet the number of late pickups… remained the SAME!

So we might now be asking ourselves, why did the enactment of the fine in the example cause the number of late arrivals to have the opposite effect to what is desired? Well, for a start – the fine was probably set too low. However, the key to the late arrivals increasing was due to the previous moral incentive and social incentives being swapped for a purely financial incentive.

Before the fine was enacted, parents' morals would have told them that it was wrong to arrive late because they were inconveniencing the teacher that had to remain behind with the children. There was therefore a moral incentive in place for them to arrive on time. Additionally, as all parents were aware of the day cares' policies, those who arrived late would be breaking a social contract and would not want to feel judged by parents who arrived on time – creating a social incentive.

The enactment of a financial incentive, in the form of a monetary fine, inadvertently removed these two incentives and resulted in the increase in late arrivals. By initially imposing a fine, the moral incentive was removed as parents could pay off their guilt and therefore less parents felt morally obliged to arrive on time.

4 Behavioural priming – honesty pledge

Behavioural studies have found that we do not intuitively understand what drives dishonest behaviour. A test was done where participants mark their own tests and are paid based on the result they communicate.

The test was structured in various ways to ascertain what situations drive honest behaviour. The studies proved that the risk of being caught (by having the test being put through a fake shredder in front of participants) or being watched has a marginal to no impact on being dishonest, while introducing a representative for money as a reward such as points or tokens, make us a lot more likely to commit fraud. Which would explain why Discovery members are very comfortable swiping in at the gym without doing any exercise just for the points.

What does have a significant impact is reminding someone of their moral compass. When asked to recite the 10 commandments prior to doing a cheat test, cheating decreased to almost 0. This experiment even worked with atheists, as morality is the driver, rather than religion. Lemonade is using this reminder of morality by getting consumers to make an honesty pledge prior to submitting a claim. There are numerous ways of reminding someone of their moral compass in order to prime them for honest behaviour.

5 Framing paying premiums without having claims as a contribution to society at large and attempting to make the intangible nature of a mere contract more tangible.

The **framing effect** is an example of cognitive bias, in which people react to a particular choice in different ways depending on how it is presented; e.g. as a loss or as a gain.

Framing	Treatment A	Treatment B
Positive	"Saves 200 lives"	"A 33% chance of saving all 600 people, 66% possibility of saving no one."
Negative	"400 people will die"	"A 33% chance that no people will die, 66% probability that all 600 will die."

Treatment A was chosen by 72 percent of participants when it was presented with positive framing ("saves 200 lives") dropping to only 22 percent when the same choice was presented with negative framing ("400 people will die").[1]

Insurance is currently seen as a grudge purchase when it could be seen as a social good. The factors above hinder this view. Premiums are seen to profit corporations, pay claims to fraudsters and the loss of affinity results in us not caring about the social good that our premiums could contribute to.

Reminding consumers of how much their premium has helped those in need could overhaul this perception.

Lemonade is attempting to address this by donating left over premium to a charity of the consumer's choice.

6 Improve consumer perception through structuring of rewards

Prospect theory is a behavioural economic theory that describes the way people choose between probabilistic alternatives that involve risk, where the probabilities of outcomes are known.

Kahneman and *Tversky* conducted a series of studies in which subjects answered questions that involved making judgments between two monetary decisions that involved prospective losses and gains. For example, the following questions were used in their study:

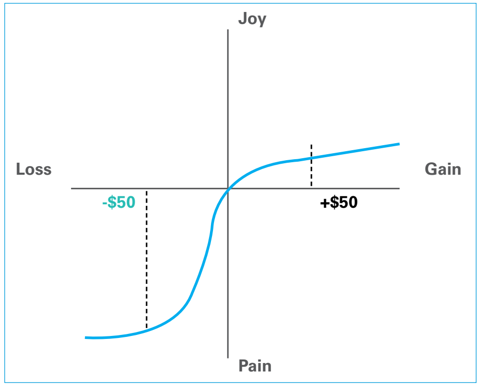
1. *You have $1,000 and you must pick one of the following choices:*
   Choice A: You have a 50% chance of gaining $1,000, and a 50% chance of gaining $0.
   Choice B: You have a 100% chance of gaining $500.
2. *You have $2,000 and you must pick one of the following choices:*
   Choice A: You have a 50% chance of losing $1,000, and 50% of losing $0.
   Choice B: You have a 100% chance of losing $500.

If the subjects had answered logically, they would pick either "A" or "B" in both situations. (People choosing "B" would be more risk adverse than those choosing "A").

However, the results of this study showed that an overwhelming majority of people chose "B" for question 1 and "A" for question 2. The implication is that people are willing to settle for a reasonable level of gains (even if they have a reasonable chance of earning more), but are willing to engage in risk-seeking behaviours where they can limit their losses. In other words, losses are weighted more heavily than an equivalent amount of gains.

[1] Wikipedia

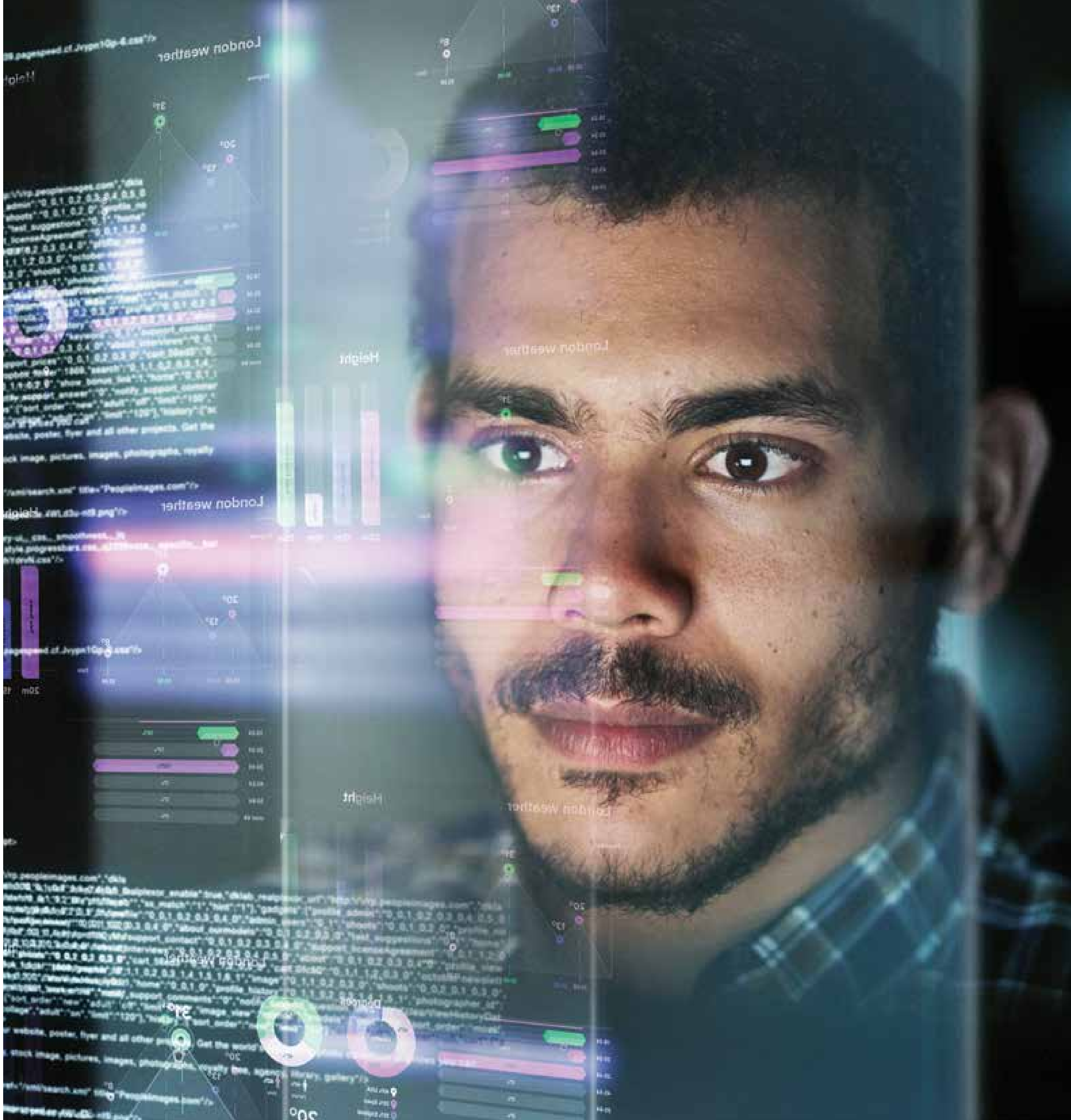
It is this line of thinking that created the asymmetric value function:[2]



Prospect theory has proved that people prefer certainty when a gain is at stake and prefer uncertainty when a loss is at stake as it allows them to not have to deal with the emotional pain of the loss immediately. Most insurance rewards programmes build uncertainty into a gain. For example, with OUTsurance, you get cash out if you don't claim. You might, however, know that there is a 90 percent chance that you won't have a claim. This has, to a large degree, been circumvented by how they phrased/framed the offering. You always [100 percent probability] get something out. Instead of getting an outbonus IF [90 percent probability] you don't claim.

It might be better to structure rewards as a lowered premium (reduced loss), rather than a gain if you don't have a claim. This strategy has proven successful for King Price with 10 000 policies in year 1. Momentum also offers a cash- back bonus, even if you do claim [100 percent probability on a gain].

[2] http://www.investopedia.com/university/behavioral_finance/behavioral11.asp#ixzz4gZKQz73R



This would result in an uncertain loss (premium) rather than uncertain gain (cashback). This allows consumers not to have to deal with the loss immediately as there is some uncertainty.

7 Realign the incentives of consumers and insurers

The irony of insurance is that the incentives of insurers and consumers are at odds as the insurer profits from denied claims.

Globally, peer to peer models such as Guevara, Lemonade and Friendsurance are striving to realign incentives by taking a fixed fee and hence have nothing to gain from denied claims. This resolved conflict should have a profound impact on consumer perception and behaviour. True peer to peer models have yet to solve the problem of scalability as the majority of peer to peer platforms rely on getting a sufficiently large number of customers with similar risk profiles into a static pool and to remain connected to each other. This is necessary for the business model to work.

8 Availability bias and on the go insurance

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 judgments toward more recent information, making new opinions biased toward that latest news.[3]

If a random word is taken from an English text, is it more likely that the word starts with a K, or that K is the third letter?" They argue that English-speaking people would immediately think of many words that begin with the letter "K" (kangaroo, kitchen, kale), but that it would take a more concentrated effort to think of any words in which "K" is the third letter (acknowledge, ask). Results indicated that participants overestimated the number of words that began with the letter "K" and underestimated the number of words that had "K" as the third letter. Tversky and Kahneman concluded that people answer questions like these by comparing the availability of the two categories and assessing how easily they can recall these instances. In other words, it is easier to think of words that begin with "K", more than words with "K" as the third letter. Thus, people judge words beginning with a "K" to be a more common occurrence. In reality, however, a typical text contains twice as many words that have "K" as the third letter than "K" as the first letter. There are three times more words with "K" in the third position than words that begin with "K".[4]

It would also explain the fear of flying. Although commercial air travel is significantly safer than driving on the road people fear flying a lot more than driving. Due to the newsworthy nature of incidents the incidents can be more readily recalled and seem more probable.

On demand insurance applications such as SanlamGO, MiFITLife and Trov allow users to buy insurance when the threat of loss is readily recalled and thus will appear to them to be a more probable event.

Will we see more applications that play on irrational fears such as air travel, heights and shark attacks to sell short-term insurance?

What can be done from a pure Technology point of view?

1 Prevention through perception

- **Chat bots and more human like tech interfaces**
  Companies are using technology such as chat bots to interact with clients. This gives the impression that the user is interacting with a human being, rather than a computer, and could result in drawing out more moral behaviour. Massive advances in natural language processing through the use of artificial intelligence has made this a lot more viable. The underlying technology also does not have to be built from the ground-up by insurers but can rather be sourced from the existing service providers like Facebook and IBM Watson.

- **Blockchain**
  The introduction of Blockchain has been a very hot topic in the Insuretech space. An example of the use of Blockchain for insurance would be as follows. 2 Users form a contract in the form of code that is stored on the blockchain. Both pay a crypto currency into the contract as collateral. This contract pays out to either participant based on the result of a predefined condition. The result of the condition is obtained from what is called an 'oracle' or independent information provider. An example of the application of such an agreement could be farming insurance. Electronic contracts can be established that act on the variable of the day's temperature. If the temperature is below 1°C pay contractor A, if not pay consumer B. Hence there is no need for a third party or insurer. This mechanism works well for contracts where outcomes are determined by parametric conditions.

The other function of the Blockchain could be to act as a **trust machine.** As the information on the Blockchain is tamperproof and creates an immutable record, it would show consumers exactly how funds are spent. There are, however, other methods of creating this trust, one of which is transparency. This is how stock exchanges and investment houses create trust without the need for Blockchain technology.

It is important to note that the technology is still in its infancy, and that there are limitations to the speed of processing on tailored Blockchain solutions like Ethereum. Another issue with this technology, is the lack of control over the contract once the contract has been created. An example of how this could be problematic – have a look at "The DAO hack" as an example. It does however hold enormous potential for creating fully decentralised autonomous organisations that are governed by all who participate.

[3] Wikipedia – Availability Heuristic
[4] Wikipedia – Availability Heuristic

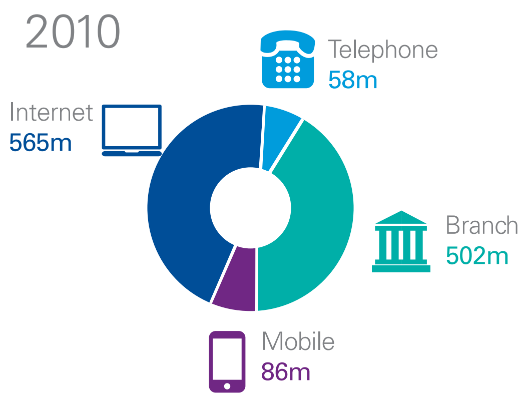
> We have always thought about design as being so much more than just the way something looks. It's the whole thing: the way something works on so many different levels. Ultimately, of course, design defines so much of our experience.
>
> Jonathan Ive
> Chief Design Officer at Apple Inc

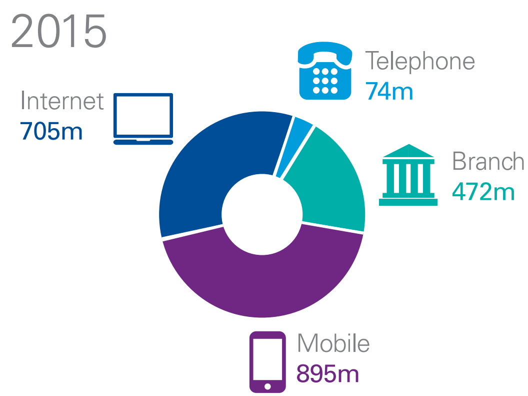
- **Intuitive and simple interfaces**
  In order for Insurance companies to be successful in the future, not only must they adopt technology in offering their products, but they must pay meticulous attention to the user's experience in using these solutions. Insurance, as it currently stands, is characterised by bloated on-boarding and administrative processes prior to a policy being purchased by the consumer. In the future, these processes will be intuitive and sleek, fashioned in a manner which will maximise consumer adoption.

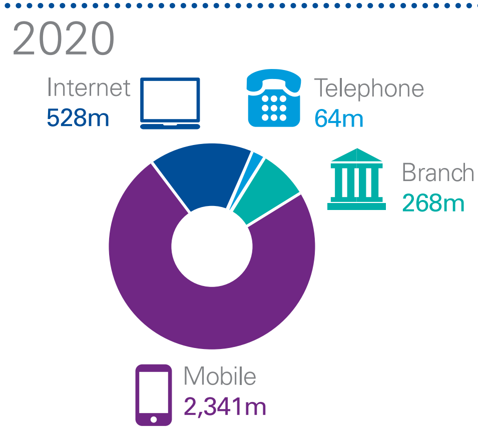
For an intro to behavioural economics, risk aversion, the endowment effect, and availability bias refer to the 2016 KPMG survey article "Psychology and behavioural economics of insurance"

- **Showing consumers information on mobile interfaces**
  As mentioned above, another possible method of creating trust is through transparency. 20 years ago this transparency could only be achieved by sending annual statements to consumers with the performance and spending of the insurer. Since the advent of the smart phone it has become possible to give consumers access to live information at their fingertips. Showing consumers that they are performing a social good and are being treated fairly constantly could drastically reduce fraud.

  As more and more consumers move towards online and mobile banking evidenced in the below graphic, it is clear that insurers are lagging behind in this trend, with the ability to lodge a claim on a mobile app a fairly new innovation – and still not a very efficient process.







— Building technologies that add value for insurer and consumer

Trov set out to build an "on demand" content insurance application that allows users to toggle cover on and off on a per item basis as this cover is needed. This inadvertently added a lot of value to consumers by giving them a fun and intuitive asset register, and method to manage their risk and keep track of their belongings.

What this means for the insurer is that there is a lot more clarity and information at claims stage as consumers have provided a detailed account of all their assets beforehand.

2 Detection of fraud

— Wearables and telematics

Discovery is one of the global frontrunners in the use of wearables and telematics to drive consumer behaviour and prevent fraud. A future development in this field could be the use of wearable technology while a consumer is reporting a claim, in order to detect an increase in heart-rate: thus providing a means of gauging the consumer's honesty and decreasing insurance fraud.

— Use of voice and facial detection – API

Facial and voice detection technology has improved dramatically. The technology allows the detection of emotions and will authenticate the claimant. Combining this complex data with an artificial intelligence algorithm could better detect fraud going forward. This technology does not have to be developed by insurers and is made available by technology service providers such as Amazon, Google and Microsoft. The most important factor will be how insurers use the technologies that are available. If you are interested to know more have a look at Google Vision or Microsoft cognitive services.

— Artificial intelligence – flagging of claims to investigate

Artificial intelligence is the technology that allows computers to perform functions that are not merely computational, but perceives its environment and takes actions that maximise its chance of success at some goal. This technology could be trained to help detect suspicious claims, by taking into account the very complex voice, facial and circumstantial evidence, allowing claims assessors to focus on more suspicious claims and expediting the process for safe claims. It could also play a role in the cost of claims for instance for motor business predicting what parts to order based on conditions such as driver behaviour, the weather and google maps congestions. If you are interested, have a look at how Germany's Otto uses artificial intelligence on the Economist website.

Conclusion

There is a lot of room for insurers to improve their consumer perception and fraud experience through the use of behavioural economics and technology. The examples mentioned above is merely the tip of the iceberg. The advantage to be gained in consumer perception from getting a behavioural structure right is estimated to be x1.5 to x2.5 Getting numerous of these structural changes right will result in exponential perception change.

The South African market has generated a lot of interest in the Insurtech space. There have, however, been few companies that have pulled the trigger as of yet. Hannover Re hosted a disruption competition called Journey re across Boston, Dublin, Berlin and Johannesburg. A start up called Amyti was launched from this competition. Head of innovation at Amyti, Matthew Elan Smith, describes their model as "Amyti is a peer-to-peer insurer whose goal is to reinvigorate the way people perceive and traverse insurance with behavioural studies and technology at the core of what we do..." While the head of development, Ndabenhle Junior Ngulube has stated that "our core focus will be on user experience through our user centred design."

At the same time, RMB incubator Alpha Code has integrated numerous insurance start-ups into their incubator. These include Decorum, DOI, Riovic and mHealthCO. South African venture capital firm 4Di Capital recently announced the successful first closing of R256 million in initial commitments for a new technology venture capital fund. The major investor in the fund has been revealed to be Exponential Ventures, the externally focused innovation unit of JSE listed insurance group MMI Holdings.

Insurtechs have yet to disrupt the traditional insurers globally, and only time will tell if they will. Until then, we are in for a very interesting ride. One thing is for sure, ignoring the behavioural impact of these technologies will be at your peril.

> If you don't innovate fast, disrupt your industry, disrupt yourself, you'll be left behind.
>
> John Chambers
>
> Chairman and Chief Executive Officer, Cisco, USA

Matchi

KPMG has acquired Matchi – a leading global fintech matchmaking platform that connects financial institutions, including banks and insurance companies, with leading-edge financial services technology solutions and companies worldwide.

KPMG acknowledges the accelerated pace of change which is driving organisations to innovate quickly to deliver on its client's expectations. KPMG's acquisition of Matchi is one pillar of the KPMG fintech journey that we have embarked upon with our clients.

kpmg.co.za

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The role of financial services IN SOCIETY

Scandals in recent years exposed a number of weaknesses in our financial system. From poorly designed incentive systems to illegal or unethical activities from some market participants, these slights have come with an enormous cost to society. Naturally, this has resulted in significant loss of public trust in financial services as a whole. Taking inspiration from a 2013 thought-piece, published by the World Economic Forum (W.E.F) in collaboration with Oliver Wyman, we consider what the role of financial services should be and the evolution that is required to gain back this confidence from society at large.

The sub-Saharan imperative for a well-structured financial system is more urgent still. The Chairman and CEO of Visa Inc., Joseph W. Saunders in "Special to Roll Call" of 23 September 2009, highlighted the asymmetry in the global economy with less than half the world's population not having access to basic financial services. The Banking Association of South Africa, put Financial Inclusion in context, explaining that in South Africa, 12 million people are considered as financially excluded with 9% informally served. They estimated that the R12 billion that is currently kept "under mattresses" does nothing for the promotion of pro-poor growth or poverty alleviation.

Focusing on the insurance sector there are several ways in which insurance services contribute to economic development (USAID, 2006), by;

(i) Promoting financial stability for both households and firms;
(ii) Mobilizing and channeling savings;
(iii) Supporting trade, commerce, entrepreneurial activity and social programmes; and
(iv) Encouraging the accumulation of new capital and fostering a more efficient allocation.

A World Bank study, conducted by Vittas (1998), concluded that insurance companies and pension funds can provide a strong stimulus to the development of securities markets. This relationship occurs because life insurers and pension funds can accumulate large amounts of savings in countries, which, in turn, are invested in businesses through equities and bonds. The result is that as life insurers grow, they channel large amounts of medium to long-term funds through capital markets, deepening the country's financial sector. Non-life insurance supports the achievement of sustainable development though the pricing of various types of environmental risk to help pay for environmental damage. The important contributions to individual and social welfare from effective risk management cannot be understated.

Gaining back confidence in financial services

The Institute of Chartered Accountants in England and Wales (ICAEW) put forward the four strands of thought leadership in financial services that will help to inspire confidence in the industry.

Responsible Providers	Responsible Consumers	Better Regulation	Better Information
Integrity	Financial literacy	More up to date and innovative regulation	Information flexed to user requirements
Independence	Personal responsibility for financial security	Responsive to global business	Balancing transparency and commerical sensitivity
Simplify products	More investment in long term saving	Management of regulatory cost through impact assessment	
Skill and qualities of workforce	Reduction of personal debt		

This self-correction will be a difficult journey but deliberate effort in each of the spheres will result in the sustainable wins in the longer term for all stakeholders.

The bold and innovative action that is required in this industry can come from all corners, and one such example of financial inclusion and developmental finance has been the establishment of the **Young Women in Business Network** who have plans to revolutionise the financial services landscape in South Africa.

Background

The Young Women in Business Network (Pty) Ltd (YWBN) is a broad based women's empowerment company, owned, controlled and managed by women from various professions, businesses and industries who are dedicated to the economic empowerment of young women and women in general.

It began as a long-term investment club based on the traditional stokvel model, but one that spoke to the Broad-Based Black Economic Empowerment Act, which is focused on black ownership. Now operating as a fully-fledged women-owned co-operative bank, its membership is in excess of 500 members, collective savings of R10 million and have loan options available to its members of up to R300,000 a time.

KPMG spoke to their founder, **Nthabeleng Likotsi** about their journey to date and the opportunities that lie ahead in financial services.

Nthabeleng Likotsi - Bio

Born in the township of Botshabelo in the Free State, Nthabeleng was inspired by her entrepreneurial family. Both her parents, leaders in their own right, had been in business before she had been born – before BBBEE or the dawn of democracy.

She completed her formal education in Gauteng – obtaining a National Diploma in Accounting from the Technikon of Pretoria, a Bridging Certificate in the Theory of Accounting from the University of Johannesburg and a Certificate in Entrepreneurship from the Wits Business School. Before pursuing her entrepreneurial ambitions she worked with KIA motors and Imperial. Nthabeleng holds the title of Chief Executive Officer of the Young Women in Business Network, and is dedicated to the economic empowerment of young women. She also serves as non-executive director on the Boards of various unlisted companies.

What was the driving force behind your motivation?

The motivation and influence comes from home. Growing up in an entrepreneurial family I have always known that while most people need a job, mine was to start a business but the only question has always been what kind of business. I've always been passionate about working with people – whether it was (at the age of 15) talking to communities about teenage pregnancy, alcohol and drugs I've always known that developing people was my calling.

How have you experienced BBBEE?

In 2009, after having left formal employment and doing some research, it was clear that the government had been strongly punting BBBEE. You need to be young, you need to be black, you need to be a woman for all these opportunities and I thought that given my qualifications and experience that this was all I needed. Then I discovered that the market viewed BBBEE as a stereotype of tenders, that it excludes big corporates, that it involves only black men who, after collecting the money, do not complete the job.

I've since researched further into the seven elements of BBBEE and have taken inspiration from WIPHOLD about how this can be done well to break stereotypes. My former CEO Mr. Ray Levin, who is now one of my mentors, broke it down for me – Companies that need to transform do not need me just because I am black – I must be able to demonstrate what I have to offer and this set me on my journey.

Inspiration for me is found in so many places – one of them being another mentor of mine, Mr. Veli Mokoena the non-executive Chairman of Ukhamba Trust – the BBBEE employment scheme for Imperial. They started with investments of R20 million and five years later they had created transformative wealth and were managing a portfolio of some R4 billion.

And YWBN? What inspired this?

When I discovered that stokvels – in the late 2000s – were a market of some R40 billion – I was surprised to hear that they were referred to as the "informal sector". This practice has been happening for years, for generations in our community but it is not formalised and the banks are now trying to tap into that market. In our communities, I noted that the high bank fees were a deterrent to use formal structures.

IFRS 9

The completion of IFRS 9 marks a breakthrough in financial instruments accounting.

IFRS 9 (2014) Financial Instruments brings fundamental changes to financial instruments accounting.

The impact of the new standard is likely to be most significant for financial institutions. For banks in particular, the effects of adoption – and the effort required to adopt – will be especially great. However, businesses in all sectors will need to identify the impact of IFRS 9.

Let KPMG help you understand how the new requirements and the possible impacts for your business..

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I was then introduced to an investment opportunity in 2011 which is Namlog – Namlog was looking for a group of women to partner and buy 26% of the business. We started the movement and aimed to raise R1 million using the stokvel model – but rather than sharing the money in December of the year we would encourage the participants to invest for a period of 5 years. And this was the start of a great adventure for us.

After a 2014 visit to Switzerland to represent women in South Africa, I was further inspired to encourage the culture of saving and hone into our target market. Since then, we launched the co-operative bank outstripping our initial targets of funding. Now registered with over 500 people in our network, we offer bridge financing akin to development finance to these members.

It was certainly a highlight and a surprise for the Co-operative Banks Development Agency, that in such a short amount of time – just eight months - we were able to submit our registration and raise more than our initial required funding target.

We have aspirations to enter the main stream banking market – and nothing will be off limits for us. After this, we can move into the insurance space with an entry into commercial insurance, given our focus on enterprise funding and then at a later stage we would venture into personal insurance.

Entrepreneurship – Do you think this is something that you are born with or is it something that can be taught?
As it happens, having a masters in entrepreneurship, we discussed this topic often in my classes. In the context of academia we have identified a number of entrepreneurs:
— Opportunistic entrepreneurs, who spot advantages – like if you can tender based on BEE credentials;
— Circumstantial entrepreneurs, who as a result of losing a job are forced to be resourceful;
— Lifestyle entrepreneurs – who get into this to support the quality of life that you want;
— Born entrepreneurs – These are the ones that resonate with me. Normally they will want to create generational wealth that will go beyond their lifetime – to their children and grandchildren - and this is powerful.

With that said, no one type of entrepreneurship takes away from the value of others. Your character is a measure of your entrepreneurial ability – and this cannot be measured. True entrepreneurs know that you have to be resilient: while circumstances may try to break you, you must show that you cannot be broken.

I have met a lot of people that fall into these categories. While not everyone is a born entrepreneur, we can all strive to be entrepreneurial in our thinking – and this can be taught. For a lot of people, they don’t understand that the spaza shops in every location is an example of this. But for so many, we are not taught that this is business and that is the message I am trying to instill in people.

Did you know that the hawkers in Johannesburg, Tshwane and Springs make over R4 billion per annum selling vegetables in small plates? That is power and they do not even realise it. What they see is the R1000 that they make, but not the collective R4 billion sold in a year. When you realise this you can understand that you are able to actually compete with some of the biggest retailers.

But it is our responsibility in this generation to go one step lower and bring this awareness to smaller business and teach them about business models and how to make it work. We can go to the *mama* in the corner of the road and inform her of collective bargaining so that she and her friends can use this to transform the profitability of their business. At YWBN we understand that it is often the hardest thing to change somebody's mind set but it is the most important. We need to teach these skills from a primary school level. There is no way with such a high unemployment rate in this country that we choose to not to act now. Our own graduates can volunteer and bridge this gap. The issue, really, is that we have too many analysts and too few implementers – We need to take all this analysis and recommendations and actually do something about it.

How do you view big business and are you nervous about how they perceive you as competition?
I simply block them out of my mind. We have a completely different narrative – one more akin to development finance. Big banks have a legacy of hundreds of years and as new kids on the block we, need to focus on what our purpose is and getting on with what we do. Some people tell us that we cannot do a lot of things - but we prefer to take on these challenges head on and if we get burnt we just learn from the experience.

What have been the biggest challenges to date?
The biggest issue for us was building up our profile. Sometimes just getting a foot in the door for a meeting is the challenge. From day one of doing research we were referred to the bigger firms to run the process for us – but this comes with enormous costs and is not conducive to smaller startups. This is indicative that the door to business is locked and someone has already thrown away the key. The responsibility rests with you to find that key to open the door.

What has been uplifting is that the YWBN brand has grown and when asked what it means to people that know us, we hear that the brand is one that gives people hope – and in particular the hope for how it may liberate our people out of poverty.

This is a questions that I am often asked and I block the challenges out of my mind. For me it is about finding any means to get to the goal that has been put in front of you. What is important is continuously contributing using our own skills and networks to grow.

IFRS 17

IFRS 17 has the potential of creating greater transparency and comparability in financial reporting, lowering the cost of capital, and enhancing efficiency in the finance and actuarial functions. However, many insurers are still skeptical about the potential benefits, while forward-thinking insurers are planning to capitalise on these developments.

If implementation of IFRS 17 is to reach the best possible outcome for your organisation, we believe that it needs to be seen as more than just a compliance exercise. The initial Assess phase is essential and executives should start by examining successes in previous large-scale projects to avoid past mistakes.

Let KPMG help you understand the new requirements and the possible impacts for your business.

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How or what would you do to manage talent retention in a firm that is supportive of transformation objectives?
Each person needs to demonstrate their value in an organisation, while also keeping transformation in the forefront of people's minds. What cannot be overemphasised is that there should be a preference for the quality of how good the person is – and not only focus on their race or gender.

The other angle will be to make sure there is the right mix of people with legacy in the organisation that can take you through the journey of the entity from scratch. But this needs to be mixed with a new generation who have an energy for change. This mix is important.

People also need to understand that they have agency. Focus needs to be applied to making entrepreneurship real within a business – that each person can be an "entrepreneur". The open door environment must be fostered so that people have the sense that they are getting the best of both worlds – the stability of a salary each month with the benefit of driving growth and transformative change in a business. I was lucky to have seniors and my managers that were open to me going straight to the top with my ideas. Not all the ideas were good, or feasible – but it was empowering to know that I had the freedom to have the conversations and contribute towards the benefit of a company.

You have been lauded in a number of forums. What are the biggest achievements that you have experienced?
When you are alone and all you have is your vision, it is daunting to stand in front of a lot of people that do not differentiate you from anyone else. All you have is the email you have sent them and perhaps the sound of your voice. When these strangers are able to show their belief in you by actually becoming a member and making a meaningful contribution in spite of not knowing you deeply - the feeling is incredible. I live for this.

I've been fortunate to travel a lot and have had exposure to many platforms. The achievement that I treasure the most is the respect that I have seen from others. The respect from the people that buy into my vision is incredible. Entrepreneurship is crazy - If your dreams are not crazy then you are not dreaming big enough.

The other major achievement is the team that I work with. If you struggle to find proper human resources your business will not thrive. I've been blessed with a solid support structure, with a team that believes in the YWBN brand – this belief makes them go outside themselves to make great contributions to the organisation every day. When you have such commitment from people nothing can beat that.

Most long-range forecasts of what is technically feasible in future time periods dramatically underestimate the power of future developments because they are based on what I call the "intuitive linear" view of history rather than the "historical exponential" view.

Ray Kurzweil

Author, Computer Scientist, Inventor, Futurist


FINANCIAL YEAR-END ANALYSIS
SINGLE STOCK VALUE FLUCTUATION
- 25%
FOREIGN EXCHANGE FLUCTUATION
+ 68%
$
€
R
ACHIEVED VS PROJECTED TURNOVER
-56%

The secret of change is to focus all of your energy, not on fighting the old, but on building the new.

Socrates

Greek philosopher

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IFRS 17 – LEFT OUT IN THE COLD
before it even gets a foot in the door?

A much anticipated IFRS 17 was released on 18 May 2017 – well, at least it is termed a "much anticipated" standard in many of the newly released IFRS 17 publications and articles. For many following the development of the new Insurance standard, it has been a long and often tedious journey; one that left many suffering from "IFRS 17 fatigue" and wondering whether the standard would ever officially be published. Now that the standard has made it into the realm of issued and not simply proposed, it remains to be seen how accepted it will become over the next few years.

Given the often less than helpful guidance in the current IFRS 4 standard, the insurance industry as a whole has become accustomed to a rather large amount of leeway. While most of the common insurance accounting elements have become ingrained in accepted industry practice, the outlying, strange and uncommon parts of insurance accounting often lie in a very grey area. IFRS 17 seeks to bolster the comparability of insurance financial statements, but with that, comes a decidedly reduced grey area. Of course, it still remains an IFRS standard, based on principles rather than rules, and the grey will never be completely removed.

Insurers are now preparing to embark on a transitional journey over the next three years. Whether the insurer is one of the more eager market participants, ready to adopt the standard long before the official effective date, or lagging at the latter end of the curve not wanting to adopt before absolutely necessary and ultimately scrambling to get everything in order before signing off their first set of accounts under IFRS 17 – everyone will inevitably find themselves with new looking IFRS accounts in a few years. The question becomes what kind of journey the next three years will be.

If SAM has taught us anything, it is that we are perhaps not as equipped for change as an industry as we thought we were, and that while something may appear simple at a high level, the devil is often in the detail. We have also learnt the hard way that accountants need to learn to speak actuary, and that actuaries need to learn to speak accountant to make sure we ultimately end up with the correct result – and this is only going to become more critical with IFRS 17. The days of silo'ed business units within an insurer are fast coming to an end with more and more integrated information required for reporting purposes. SAM has started this trend, and it will only be increased by IFRS 17.

While we have no choice but to adopt IFRS 17 at some point in preparing IFRS compliant financial statements, we do have a choice as to how integrated IFRS 17 will become to other forms of reporting within the business.

IFRS 17 will change what is considered revenue, the components of the insurance liabilities, and to a large extent the way in which we value these liabilities. But will IFRS 17 change what is reported in management accounts each month or quarter end? Will it become the basis on which KPIs are set, bonuses are calculated and how the success of the business is measured? Or will it simply become a list of adjustments at year end that are passed to ensure the management numbers become numbers that can be included in the IFRS compliant financial statements? And if the latter is the case, then where has IFRS 17 failed in becoming a more relevant and reliable basis of reporting insurance results? Has it become so complicated that those applying it are uncertain about the exact requirements? In the quest to make revenue in the insurance sector more aligned to revenue of other sectors, has it missed what is most important to users of insurance financial statements? In not being prescriptive, has it left a lot open ended questions about how the standard is to be applied? Or is it simply that IFRS 17 will not be given the opportunity to become the reporting basis of choice.

Insurers are already faced with a number of reporting bases – current IFRS, current regulatory, SAM and for some insurers, US GAAP – which they are required to report on. Will IFRS 17 simply become another column on an excel spreadsheet, requiring yet another reconciliation to enable management to understand why the results differ from the other bases. Or worse – another basis with differences that cannot be explained through reconciliations.

Along with valuation changes, IFRS 17 also includes additional disclosure requirements. Will these disclosures align with the day to day practices of the business – will they talk to actual business practices and what is included in other forms of reporting such as the ORSA? Or will they simply be included in the financial statements as a tick box exercise to ensure approval of the financials – but ultimately add almost no value to those reading the financial statements?

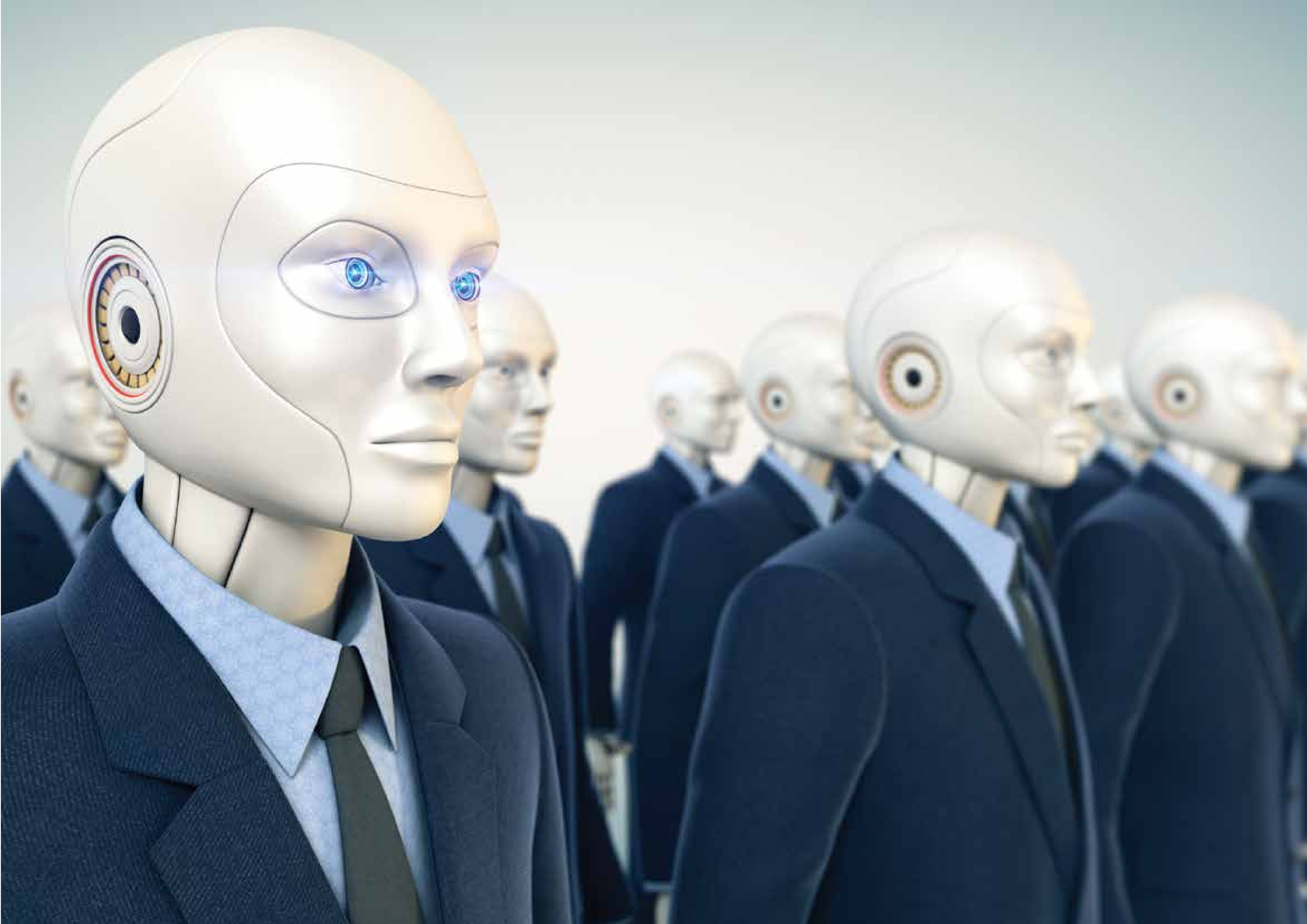
The success of a new standard depends largely on the acceptance of those using it – those that use it to prepare results, as well as those who read and interpret the results on the other side. The acceptance of the new standard in turn depends largely on the understanding of that standard – understanding what the standard is trying to achieve and being able to truly understand the results that are being produced under that standard. Unfortunately, it is the understanding of a standard that often takes much longer than the time taken to practically implement the standard.

Are we ready to give IFRS 17 the opportunity to become a more relevant and reliable reporting basis? Are we ready to give up the grey areas and leeway that we currently have, in order to produce financial statements that are more comparable?

Are we ready to face the challenges that complying with IFRS 17 will bring, specifically regarding the sheer amount of information that is required – and are we ready to face the increased challenge of getting that information out of African sectors of the business? Are we ready to properly integrate the business units within an insurer? Globally, are we ready to give up the geographically specific industry practices that we have become so accustomed to, in order to achieve comparability worldwide? Are we ready to embrace yet another change, in what seems to be an ever changing industry? Or, will we simply brush IFRS 17 off as an overly complicated and unnecessary standard – yet another tick box exercise in a world of increasing regulation and rules.

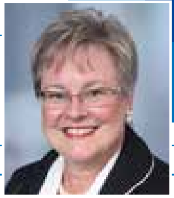
Ready or not, IFRS 17 is coming and will be here sooner than we think. In a world of deadlines and limited resources, three years may not be long enough to run gap analyses, complete product analyses, improve systems, train staff and non-executives, and produce comparative information – all while trying to truly understand the standard in a way that will actually make the standard useful to you and to your business. IFRS 17 may or may not be the best basis on which to measure the results of an insurance company, but we will only be able to make that decision if we give the new basis a fair shot.

> Artificial intelligence will reach human levels by around 2029. Follow that out further to, say, 2045, we will have multiplied the intelligence, the human biological machine intelligence of our civilisation a billion-fold.
>
> **Ray Kurzweil**
>
> Author, Computer Scientist, Inventor, Futurist




Number of people
London weather
Height

Enhancing the strategic value of INTERNAL AUDIT



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Major organisations across the globe are attuned to the urgent need to transform their business and operating models in light of evolving customer behaviours, uncertain and challenging economic conditions, disruptive technologies, regulatory policies and globalisation. It is clear that organisations are seeking an approach to internal audit that goes beyond reviewing past activities. Instead, they want internal audits that are insightful, forward-looking and go beyond preserving value to creating value on an organisation-wide level.

Emerging markets, new product entrants, challenging cost structures and evolving regulations are categories of risks in which we are seeing significant strategic responses by management to monitor these risks. The resulting initiatives require internal audit teams to be more broad-based and adopt a holistic approach to their planning and execution methodology in order to be effective business partners.

It is an imperative for Internal Audit to transform continuously. The Internal Audit function must evolve over time using the latest innovations, thereby showcasing its ability to stay ahead of the times. This transformation will become relevant when the Internal Audit is assessed on an annual basis and indicate to the governance bodies that they are able to meet the ever changing needs of the organisation. Internal Audit must integrate its approach to deliver real results. The greatest business needs for Internal Audit to respond to in the insurance environment currently are: Cyber security, Data & Analytics and Regulatory Change.

Internal Audit of the Future

KPMG surveyed 450 Chief Financial Officers and Audit Committee Chairpersons, who as executive stakeholders, envisage a more strategic role for Internal Auditors than what the auditors see for themselves. It is up to Internal Auditors to take the initiative and broaden their responsibilities. If they aim to enhance their strategic value to the organisation, they will find that they are pushing on an open door. Indeed, if they do not do so, they risk becoming irrelevant.

For Internal Auditors to meet (or exceed) these expectations, three important things need to happen. Firstly, they must become more deeply involved in business matters and not just in dealing with questions about processes, controls and compliance. They need to understand not only the risks of a course of action, but also the opportunities the business is seeking to capitalise on. Only then will they meet the expectations of the business executives who want Internal Audit to play a more strategic role.

Secondly, Internal Auditors need to do more to leverage technology, not just to help increase efficiency, but also to improve the quality and depth of the insights being delivered to the business. Digital transformation of the enterprise is more than a series of buzzwords and organisations grappling with the strategic implications of digitisation and the use of data analytics. One important driver is that advanced technologies, such as machine learning and cognitive analytics, will enable companies to manage the upside as well as the downside of risk. Most compliance decisions will, in the near future, provide an opportunity not only to improve processes, but also to add value. Internal Audit must position itself at the point where risk and opportunity intersect.

Thirdly, Internal Auditors need to view their activities through the lens of business value. How is Internal Audit positioned to deliver value? How are the insights gleaned from a deep analysis of processes and controls going to lead to opportunities or the organisation to grow and become more competitive? How does Internal Audit's perspective on emerging risks inform the continual evolution of the regulatory and internal control environment? These questions can only be answered through constant interaction between Internal Audit and the business at every level. Both sides will learn from each other, so that business leaders have a keener understanding of risk and audit executives can deeply appreciate the upside of risk.

This transformation is an opportunity for both Internal Audit and the organisation it serves to achieve a higher level of performance and to bridge the gap between Internal Auditors and Executive Stakeholders.

Embracing Technology

It is no longer useful to utter phrases like "technology is the future". If companies are not fully integrating technological advancements in every area of business, no degree of strategic prowess is going to make a measurable impact. How Internal Audit is conducted is no exception. In fact, a fully integrated, automated Internal Audit platform would transform and progress the way that audits are conducted. A solid technology platform with the propensity for advancement, enterprise-wide data and analytics and a progressive feedback mechanism would make for a distinctly efficient and effective Internal Audit function.

The potential for adding real value through technology is enormous, especially if Internal Audit were able to integrate a higher percentage of data analytic procedures into their approach. An integrated approach to using data and analytics throughout the audit process (for example, analytics-driven continuous auditing, dynamic audit planning, audit scoping and planning, audit execution and reporting) would provide greater insights and value.

Enhancing Internal Audit

In transforming the Internal Audit function in the Insurance industry, it's crucial to have access to the correct skills to review the risk areas identified. The requirements of BN158 Governance and Risk Management Framework, places the responsibility on the Internal Audit function to review the effectiveness of the Risk Management, Compliance and Actuarial control functions. Each of these can best be reviewed by a specialist in each specific area. By doing this, Internal Audit ensures that the most value is derived from the review. In addition, the review of the implementation of the policies prescribed by BN158 and further Prudential Governance Standards, also requires the specialist skills of actuaries, treasury and various IT specialists e.g. cyber, disaster recovery and big data is high on the potential risk list.

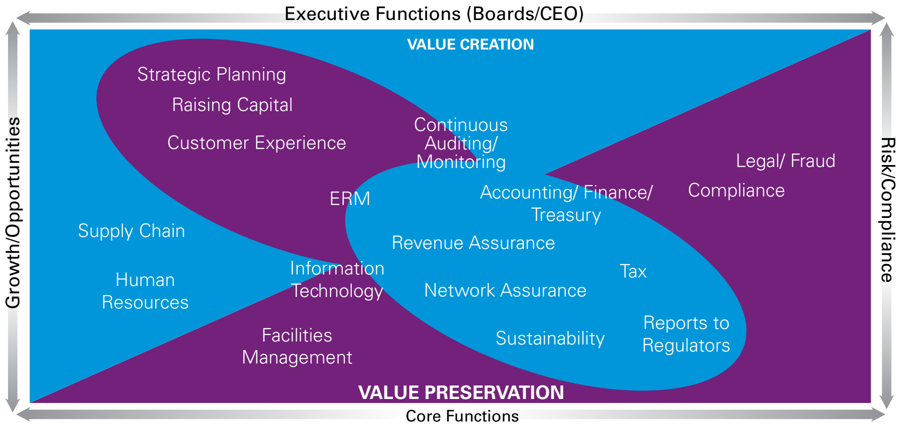
Top 5 skills required for Internal Audit professionals

- Critical thinking / judgement
- Technology skills
- Understand / Command of data analytics
- Actuarial and technical skills
- Understand global and local markets

The changing role of Internal Audit

Internal Audit functions within leading organisations are moving beyond the traditional role of focusing on compliance to becoming increasingly involved in protecting the organisation against risk and improving control systems.

Internal Audit is now expanding to also focus on activities that help the organisation create business value (see below).



The Internal Audit function can be geared to achieve the above by co-sourcing or outsourcing non-core functions.

In the current business environment where cost, efficiency and flexibility are paramount, the marketplace has a way of quickly identifying those businesses that have strayed too far from their core competencies. Internal Audit and other critical non-core functions have become highly sophisticated and by co-sourcing or outsourcing this function the organisation can have access to more specialists and transform to a world-class Internal Audit function.

Resourcing an Internal Audit function can follow one of the three models – each presenting its own degree of "ownership" and fixed and variable costs:

Outsourced: The entire function (or significant components of it) is contracted to an outsourcing provider. Costs are variable.

Co-sourced: An outsourcing provider is contracted to assist the in-house team with specific IA projects. Costs are partially fixed and partially variable.

In-house: The IA function is developed and maintained by the organisation. All costs are fixed.

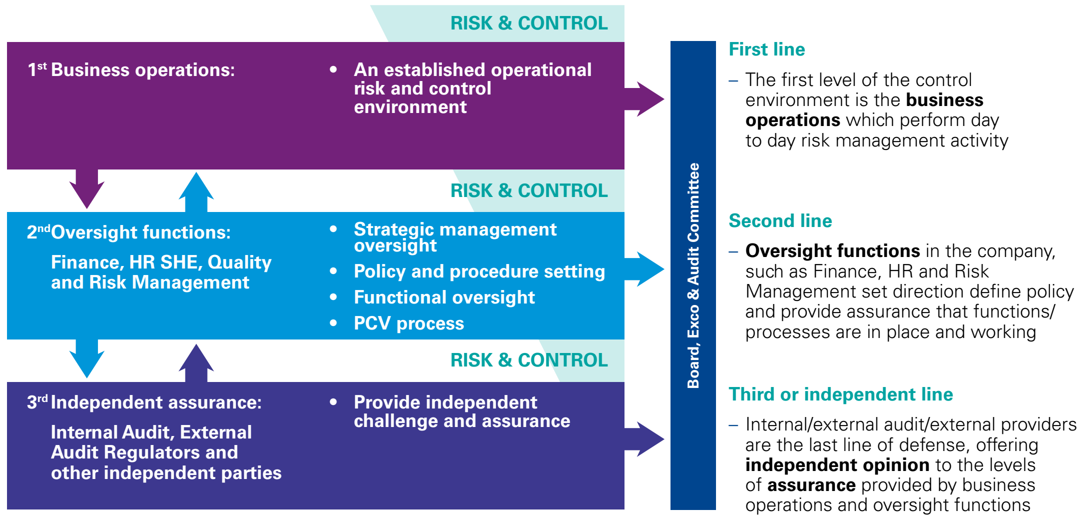
There are numerous benefits to sourcing Internal Audit, some of which are listed below:

- A service provider can offer Internal Audit functions the ability to be scalable and flexible to adapt to business needs.
- Sourcing Internal Audit functions enables the organisation to free up capital and resources for core activities and critical strategic business priorities.
- Gain access to leading Internal Audit methodologies.
- Enhance independence.

Combined Assurance

Combined Assurance, which is better referred to as Integrated Assurance, has been given a lot of airtime in the King III and IV Reports and in many Boardrooms in the last couple of years. This is the one process, which is followed by the organisation which can help internal audit to transform itself into a more relevant assurance provider. The combined assurance framework calls for all assurance providers to plan their assurance together and in conjunction with management, after setting the level of assurance desired expected by the Board as an outcome of the framework.

Traditionally, an Integrated Assurance Plan consists of "three levels or layers of defence" wherein the assurance on the risk management and related controls for the company is reported. The three layers of defence are management, corporate functions and Independent assurance providers. The relationship between the levels is depicted below:



The Integrated Assurance framework is to be used for the purposes of planning and recording the outcome of assurance provided by management, corporate functions or internal and external assurance providers across business processes associated with identified business risks and exposures. The framework should be read in conjunction with the company Strategy, Enterprise Risk Management Framework, Internal Audit Methodology and Risk Appetite and Tolerance Framework. The framework aims to provide a consistent and integrated approach to:

- Identifying strategic value drivers
- Establishing a Risk Universe
- Risk profiling
- Assurance scope
- Integrated Assurance planning and conclusion.

By combining the efforts of all the lines of defence, it is possible to change the focus of internal audit and reducing any possibility of duplication by the various assurance providers. This leaves internal audit with time to focus on other areas indicated by the Integrated Assurance plan where there had not previously been internal audit focus.

Journey to Success

There are currently several new initiatives that the Internal Audit function can harness to transform the way in which it audits the organisation. The most important of these is the implementation of an Integrated Assurance process.

The integrated assurance process is essential to the Internal Audit to ensure that they have a coordinated approach to giving assurance. Putting the process in place is part of the journey to success for the Internal Audit. This journey will need to consider a number of areas where changes will need to be implemented. The change will be achieved by reviewing the internal audit function over a period of time.

The areas of review are set out below to indicate how the revitalisation will be achieved.

- Internal audit strategy; including long and short term objectives and target operating model.
- Governance; establish the protocols and KPIs as well as the compliance to new regulations e.g. Prudential Governance standards.
- Three year plan; focus on new areas in the Integrated Assurance plan.
- Resourcing; consider the co-sourcing of highly-skilled audits.
- Consider the emerging risks in the industry and how they will be addressed in the Integrated Assurance plan.
- Tools; consideration to the updating of tools used e.g. data analytics and electronic working papers.
- Control frameworks; development of libraries.
- Integrated assurance; implementation of plans.
- Control self-assessment and continuous auditing plans.

By re-energising the processes above and revitalising the performance, there will be a new relationship with management and the Internal Audit function will become a value adding activity, built on trust. This transformation process cannot be taken lightly and will need to be facilitated through specialists in some cases.

Conclusion

Competing in a rapidly changing world, companies must grapple with emerging challenges seemingly every day: cyber threats, changing regulatory environments, emerging and potentially disruptive technologies, business performance risk and more. In this increasingly complex environment, Internal Audit has a crucial role to play to help the organisation in managing risks associated with these diverse business trends. An impactful Internal Audit function will stay current with business issues as they emerge so that it can also help monitor related risks and their potential effects on the organisation. To provide the greatest value, Internal Audit must find opportunities to challenge the status quo to reduce risk, improve controls and identify potential efficiencies and cost benefits across the organisation.

Cyber

KPMG South Africa's Cyber Security team assists organisations in transforming their security, privacy and continuity controls into business-enabling platforms while maintaining the confidentiality, integrity and availability of critical business functions.

The KPMG Cyber approach is designed to be simple, effective and most importantly, aligned with the business needs of our clients.

Our services are segmented and supported by specialised teams, providing our clients with the right resources for any particular cyber-related need.

Our approach to Cyber:

— Prepare
— Protect
— Detect and respond
— Interrogate

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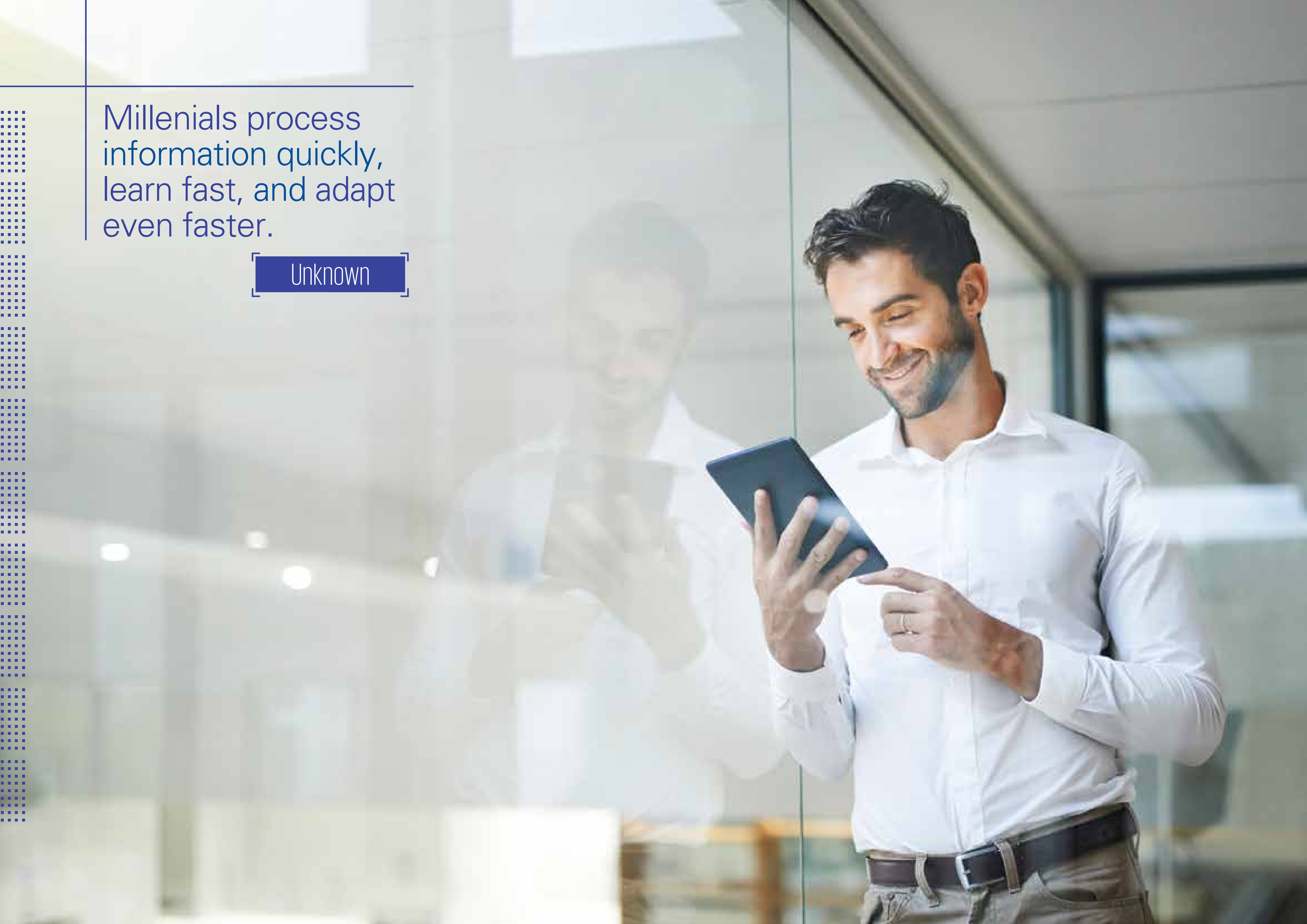
Millenials process information quickly, learn fast, and adapt even faster.

Unknown



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WILL THE SURGE OF MILLENNIALS challenge traditional insurance?

A customer insights piece

Introduction

Millennials grew up in a digital media saturated world thus they are often characterised as being technologically savvy, resourceful with information and captivated by instant gratification. Most Millennials are between 22 and 36 years of age and they constitute 33 percent of the population within South Africa. In 2013, the spending power for this generation was approximately R2 billion. It can be assumed that this will increase as these individuals mature. Their early experiences with technology, having copious amounts of real-time information available to them and being shaped by convenience has influenced their behaviours, opinions and choices on which products and services to use.

This, in itself, should coerce businesses of today to prioritise customer experience on the business agenda, enhance their product solutions, improve service levels and enable various channels of interaction with their consumers. The fourth industrial revolution is here, being driven by the rapid introduction of diverse and disruptive technologies, creating enormous opportunities for both new and existing businesses. The South African insurance industry landscape is well developed and competitive, which places more pressure on insurers to find innovative methods to differentiate themselves in order to maintain or grow market share. Insurance organisations are therefore faced with the conundrum of how to better adapt their service offerings to support an optimal go-to-market strategy for this particular customer segment in order to reduce churn and gain a competitive advantage.

Millennials and Customer Behavioural Patterns

The big four disruptive technologies known as SMAC (social media, mobile analytics, data and cloud) are maturing and being joined by newer ones like the Internet of Things (IoT) and advancements in artificial intelligence (which has enabled breakthroughs in cognitive automation (CA) and robotic process automation (RPA) – which is a necessity in the insurance industry due to the amount of back-office work when customers submit a claim).What this means is that business is now able to listen to and understand their customers in ways that were not previously possible. They can now engage with those customers on a breadth, scale, and level of detail that will allow them to become more responsive to their customer needs and to deliver more compelling customer experiences.

Millennials increasingly **expect** all of this as a standard offering. They expect that insurers will respond quickly to understand their demands, values, preferred channels, and circumstances. They assume that information shared with one part of an organisation will be broadly available to employees in other parts. With this mind-set, consumers are more susceptible to conclude that, if an organisation does not make an effort to understand their unique individual needs, the organisation simply does not care about them as an individual. Needless to say, the reputational damage that can be made by an unsatisfied customer in this day and age has a critical effect on an organisation's brand image. We believe that opportunities exist for insurance organisations to be forward thinking and proactive in the development and provision of a differentiated and customised customer experience for the Millennial segment.

Customer Experience in Insurance

As insurance products and services do not require customers to constantly engage with the insurance organisation, insurers have to deliver service excellence at key moments of truth throughout the insurance value chain – from customer acquisition, customer retention and claim registration to policy lapse or cancelation.

Insurance organisations are therefore required to create an engaging customer experience in order to clearly differentiate themselves and create an image of "the only choice" within their market. The sector has become more homogeneous in the eyes of the Millennial which ultimately means that adaptability is key in order to provide value to this customer segment. As innovative customer experience advancements today are the standards and best practice for tomorrow. Organisations that get this right have progressed positively at these crucial, memorable and emotive journey touch points and are reaping the rewards before their competitors do.

A key challenge is in the understanding of how to build emotional connections with customers to enable a powerful 'anticipated memory' of future positive experiences. The KPMG Customer Experience Excellence Centre's research demonstrates that there is a universal set of emotional qualities that define an outstanding customer experience, this encompasses the "Six Pillars" that are essential to master, in order to create a leading positive customer experience.

Organisations that deliver across these six pillars in the **insurance value chain** demonstrate enhanced commercial outcomes that are achievable, as they link loyalty and advocacy, which ultimately affects an organisation's net promoter score.

Figure 1: Illustration of the insurance value chain

Figure 2: "Six Pillars" of Customer Experience with Millennial focus

Products and Services

According to BMI Industry view, the South African insurance market is broadly positive supported by stronger economic growth. The market is home to large and well-capitalised domestic providers and major multinationals which ensure that the product offering, particularly in the larger life sector, is diverse and comprehensive, while the non-life sector remains dominated by basic motor and property lines.

The benefits of product innovation and personalisation are widespread and allow a firm to be more flexible and respond to changing customer needs. A critical step in the journey of being better able to serve your customer is to gain insights on them. Product development involves a needs analysis and the ability to do this effectively will define the future of insurance companies. Understanding what needs the potential product should be able to satisfy, is crucial and what better way to do this than to explore the traits of the customer in question.

Millennials grew up with the internet from a relatively young age and tend to embrace the disposable consumerism that is inextricably linked to this age. This generation seeks immediate gratification and insurance is not synonymous with this, due to the lengthy back office processes and lack of a "single view" of their customers. Insurance companies need to equip themselves to better cater for Millennials and their need to obtain immediate benefit through product innovation and personalisation. An excellent way other industries are catering to this segment is by providing rewards programmes.

Rewards programmes that work best are those that allow organisations to gather and use customer purchasing data to attract, retain and grow their customers. Millennials are profiled to being open to try new experiences that prove convenient and that meet their demands. As a result insurance companies have leeway to tap into these uncharted waters. Short-term insurance makes up less than 20 percent of premiums written. Although motor and property insurance will continue to dominate over the long term, health and personal accident insurance is growing rapidly. This is bolstered by increases in private healthcare costs and the number of first-time buyers of personal accident insurance. Insurance companies can therefore gain insights on their Millennial customers' characteristics and buying preferences, and tailor their product offering to their needs.

The Discovery Vitality Programme is an excellent example of this. This programme capitalised on the fact that there is an inclination to health and wellness in today's society. There is a rise in the quantified self-centred Millennials and Discovery is leveraging off this by using wearable devices that monitor activity. This has been highly successful in engaging those with a low level of physical activity.

The data from these devices can be used to gain even more insights and propel them forward.

Another example is Swiftcover. They are a short term insurer based in the UK and have realised their customers often have a lack of supporting evidence when making motor accident related claims. The company believes that the use of dash cams could solve this problem and relieve the stress customers encounter when in an accident. This specifically appeals to the empathy pillar and making a stressful situation as convenient and seamless as possible. However, there are concerns around privacy.

Privacy is an issue for Millennials as they are not always abiding by the rules of the road and don't want their insurers to have views of this. Swiftcover has created an incentive for customers to buy dash cams by offering a 10 percent reduction in insurance premiums.
This especially speaks to the need for Millennials to be at the forefront of new technology and to their need to have immediate benefit.

Long vs. Short Term Insurance: A Millennial View

Where Millennials currently fall in their life span, as well as their life styles, are telling factors when considering what this segment typically opts for when it comes to short and long term insurance. KPMG conducted a short survey to gauge the traction of Millennials in the insurance industry. This survey was conducted on a sample basis. Respondents were asked 10 questions about their current insurance usage, preferred insurance channels and experience with insurers.

When it came to long-term insurance our survey results show that 89.47 percent of Millennials have life cover and about 50 percent of Millennials have disability cover and funeral cover. Lower on the scale in terms of long-term insurance was dread disease cover, followed by credit card cover which had the lowest penetration of 10.53 percent.

When it comes to short-term insurance over 80 percent of Millennials surveyed had car insurance, while a third had household content and phone insurance. Travel, home and legal insurance were less popular among respondents at 16 percent.

This data is concurrent when looking at the current age group of Millennials. Most of these individuals are finishing off university or well into their first jobs. Insurance is therefore not an easy sell to Millennials as it is often lacks in the element of instant gratification and in reality adds to their financial responsibilities. Phone insurance is also shown to be quite popular among Millennials as the second highest percentage of short term insurance offerings. This demonstrates the value Millennials place on their mobile devices. This reliance on technology is not only important when considering the types of short-term insurance to offer this customer segment, but also when considering channels of communication and interaction with them.

Life cover is provided by most companies to their employees. This becomes a realisation for individuals who wish to buy a home and also becomes a more evident option for individuals who have children. The Life cover penetration rate amongst Millennials is quite high. A smaller proportion of Millennials have home insurance or home content insurance. This proportion is expected to grow as these Millennials mature to become new home owners.

Channels

Insurance channels refer to the different interaction platforms insurers use to target their customers and the different mediums they use to interact with their insurers. Insurers typically use a mix of channels such as websites, applications, sales agents, brokers and other aggregator platforms. Given that Millennials are always "on-the-go" and highly engaged on technological platforms, insurers need to relook at how they position their current channels towards this customer segment. They can achieve this by making use of more direct channels, utilising technology and digitalisation more effectively and optimising the customer experience over these channels.

Currently insurance companies have diversified their channel usage, the traditional B2B2C model still takes precedence in the sector. The majority of Millennials surveyed still use the agent and broker model as their primary channel when obtaining insurance.

Research around this customer segment highlights their willingness to adopt to new technologies and how easily influenced (or sensitive) they are to other consumer views, when it comes to choosing an insurer. Given the advancement in technology and increased insight into customers, insurers can now use available data to offer competitive rates to customers that are tailored to who that customer is and what they require. Furthermore technology could help foster more self-help interface channels for the technology savvy Millennial, who knows what they are looking for and who prefers "cutting to the chase".

This increased use of technology will enable insurers to engage more directly with the customer, allowing them the opportunity to better control their own narrative around their brand and the customer's brand experience and as a result the net promoter score of the insurer. As an example social media can be leveraged in order to gain reviews on customer experiences to gather feedback from customers in order to respond to customer complaints and queries. We have expanded on how technology can be useful in a client engagement space, but how about claims? Some insurers in South Africa make use of mobile apps as a channel to collect data on their customers; for example, where drivers are monitored on-the-go which has a direct link to their premiums, or where customers can take pictures of an incident directly on their insurance mobile application. This is an example of how a channel is strengthened and made better not only for the insurer to gather more data at the point of contention, but for the customer's peace of mind that the insurer has first-hand data of the encounter, building in more trust and personalisation.

When it comes to interacting with customers insurers should be making multiple, relevant channels available, particularly new innovative channels that can be leveraged effectively. Furthermore, insurers should strive towards ensuring customers have a consistent experience across all channels. This is easily achieved by taking a connected customer approach where all points of interaction with the customer are seamless and customer data can be integrated across multiple channels.

Conclusion

So will the presence of the Millennial in the customer base influence the traditional insurance industry? The short answer is yes. Millennials are the new age customer across all industries that surely challenge organisations to rethink their 'business as usual.' Although this segment may be satisfied with the overall customer experience, they are not necessarily loyal. For this reason, it is imperative that insurance organisations ensure that they understand their customers so well that they can anticipate their needs and exceed their expectations.

Millennials require personalised products and services, instant gratification, value for money as well as convenience in terms of the channels available that can better cater to their technology savvy traits. If insurers want to increase their market share in this segment they must understand Millennials current experience, their feelings and emotions hence they need to continually analyse the data they hold on this customer for valuable insights. Forward thinking businesses realise how imperative it is to be customer centric. If the insurance sector wants to thrive it must recognise segments whose buying power is on the rise and the surge of the Millennial cannot be ignored.

In addition, tracking and predicting the buying habits and lifestyle preferences of customers is becoming crucial. Predictive models are used from previous customer interactions to predict future events whilst segmentation techniques are used to place customers with similar behaviours and attributes into distinct groups.

This together with tracking individual customers brings a greater level of personalisation to the customer's experience. Both techniques should be used to foster fact-based decision making by leadership in order to quickly translate those decisions into actions to create value.

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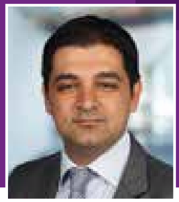
In the new world, it is not the big fish which eats the small fish, it's the fast fish which eats the slow fish.

Klaus Schwab

Founder and Executive Chairman World Economic Forum



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Y ROBOT?

Insurance on Demand, Virtual Agent's and Telematics…

We have clearly entered "The Digital revolution" and the way we work needs to change dramatically.

Today's leading financial services companies are operating in a new and more complex environment; one where the fundamental definition of how customers experience and interact with an insurer is being challenged and redefined. This is further complicated by millennials' dramatically different buying patterns, alternate channels and changing expectations for consumer and digital experiences. This new consumer driven / customer centric business model is one that many insurers recognise and are striving to adopt in order to win and retain customers.

With disruptors entering the market, "time" now plays a key role in the insurance business. Not only when writing business, but across the value chain. More lean business models, the ability to integrate alternate channels and "smart" technologies such as telematics and Internet of Things (IoT) devices are placing immense pressure on many established insurers.

On a day-to-day basis companies are worried about performance, cost, security and data breaches. Many insurance companies are simultaneously dealing with legacy IT issues and data challenges whilst exploring competitive levers with newer technologies and digital services to meet changing consumer needs and securing their future. In a recent global technology risk publication, the Tech Risk Radar,[1] "Inability to deploy and exploit emerging technology" was cited as the highest risk factor for insurance companies globally.

We see leading innovations such as driverless cars, 3D printing and Blockchain driving a change in business models and this will only accelerate in pace as we grow to virtual reality, Artificial Intelligence ('AI") and a more digital customer. A key challenge for the market is the misalignment between front office and back office transformation, and in many regards, back office processes and systems are not designed to support the innovation pace today, proving more challenging as organisations strive to shift their front office into increased digital experience.

Bring in the robots

Robotic Process Automation (RPA), also referred to as digital labour, is an emerging technology, aimed at improving operational efficiency for repetitive processes. RPA involves deployment of software tools to replicate human actions for repetitive and manual tasks and improve business processes. It is lightweight, quick to deploy and does not involve significant alteration to existing IT

[1] www.kpmg.com/uk/en/home/insights/2016/12/tech-risk-radar-2016-edition.html

infrastructure. Whilst automation is not a new concept to insurance, the challenge has been in applying automation consistently across functions in end to end processes. The lightweight nature of RPA and lead time to deployment make it an attractive investment, and many companies have already made significant investments in exploring this. RPA currently operates on a continuum of basic automation through to cognitive machine learning solutions, as organisations work towards AI.

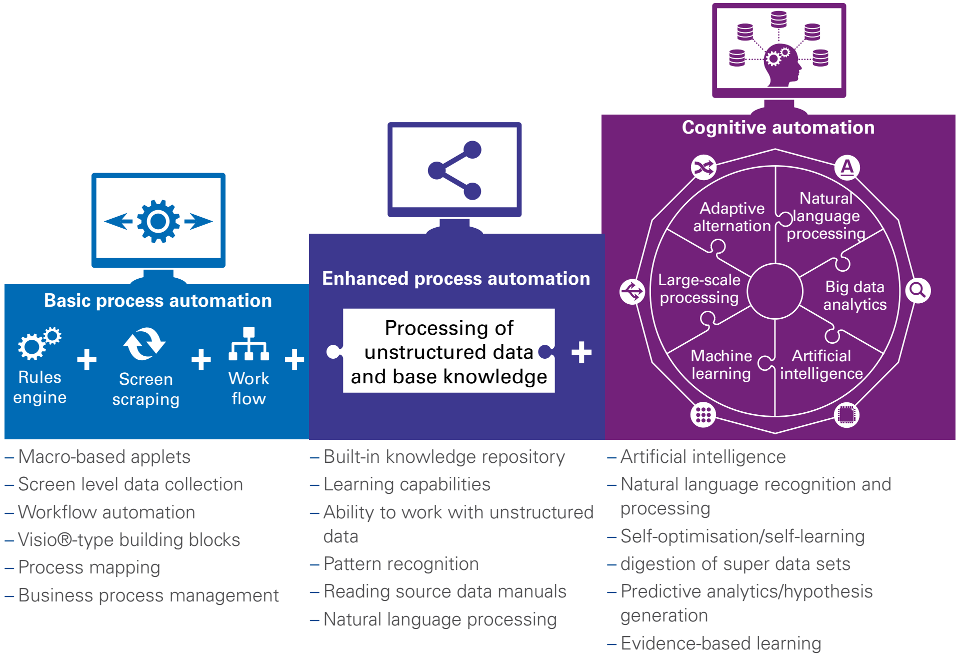


Figure 1: The Digital Labour Continuum

One of the key focus areas in digital labour for insurance businesses is claims processing. It is at this stage that the insurance company meets its commitment to its customers, sets standards of service, drives credibility, and fulfils its obligations.

Some of the other environments include finance, supply chain, shared services, customer contact centres, and risk and compliance. These environments are deeply reliant on process speed and accuracy to meet growing customer demands, and it involves layers of administrative, managerial, and customer service functions, marked by information intensive manual tasks and problematic document formats, including:

Manual inputs	Traditional claims processing depends heavily on manual labour. This makes the process increasingly inconsistent and prone to errors. The situation becomes worse when the workforce is outsourced. Companies often have to depend on unreliable and indifferently skilled workers, which increase the costs and the time it takes to complete the process.
Disparate input media	Paper, electronic documents, images, emails, and sometimes even the applications handling different stages of the process are different and not integrated. As a result, there is a distinct lack of transparency and accountability.
Legacy applications	Insurance companies are often trapped within the framework of the legacy applications that drive their core processes. These applications are sometimes outdated and do not interface well with newer, up-to-date solutions.
Regulation and compliance	Changes in regulations can greatly impact processing and the insurance industry is seeing an increased focus and change in their regulatory environment, notwithstanding the current compliance challenges. This becomes more of a conundrum with data exchange when considering operations across different countries, each with its own sets of laws and regulations.

Many insurers have already implemented some level of automation, be it basic automation like digital document solutions or more advanced automation of entire workflows. However, these solutions are often disparate or come with their own set of challenges that can further add to the complexity and difficulty of processing. The quality of output from these automations depends largely on the quality of programming. Every time there is a change in the process, programming may need to be updated / overhauled. Another shortcoming is that they still rely on manual input from human workers to process and navigate data between different systems, which burdens the process, leaving it exposed to risk of errors, and adding cost.

This is where Robotic Process Automation (RPA), as a more integrated automation solution assists in solving the abovementioned challenges. RPA works at the presentation layer, with a key characteristic being integration between applications and systems, including legacy systems, without creating significant disruption.

RPA is scalable according to necessities and its key features clearly enable reduced process handling time, turnaround and increased efficiency, amongst others:

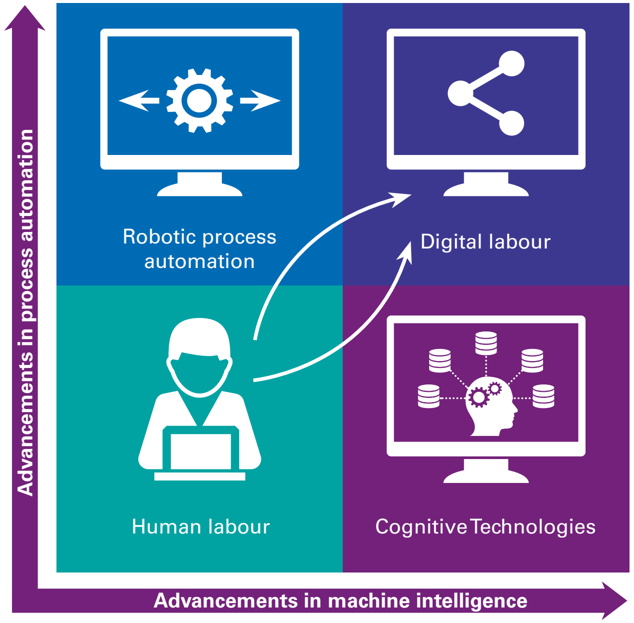
- **Seamless integration**
  Robots can seamlessly integrate different systems and software, including CRM, ERP, Helpdesk, claim application software, and more.
- **Operational accuracy and speed**
  Eliminate the margin of human error of manual data entry and speed up processing by streamlining work distribution and reducing dependencies that exist with manual process handovers. Automation can sometimes halve the average time it takes to process a claim, which greatly increases customer satisfaction as well as reduces costs.
- **Increased efficiency**
  With robotic automation, all the burdensome and repetitive tasks are taken care of automatically, so employees can be used more efficiently in processes and tasks that require higher level thinking and judgement.
- **Easy to upscale and downscale**
  While planning for automation, system architecture should make provision to have upscale and downscale. This approach will ensure that an organisation can be ready for adoption of regulatory changes or process improvement changes.
  In more mature states such as machine learning, cognitive and artificial intelligence, digital labour bots will "self-learn", "train" and update processes based on their analyses and judgement. A KPMG global CEO survey, sites global CEO's as highlighting cognitive as an area for key focus in the next year.

Are the robots coming?

This year through responses in the KPMG / Global Harvey Nash Survey (A global CIO survey) published on 22 May 2017[2], it's apparent that IT leaders are starting to make significant investment in this area. The convergence of robotics, machine learning and advanced analytics is certainly a good way of dealing with the challenge of 'big data' that many insurance organisations are still grappling with.

A quarter of respondents to the survey have indicated seeing very effective results. Technologies such as cognitive automation, together with both basic and advanced robotic process automation, seem to be areas where increasing numbers of organisations are investing. The robots, it seems, are certainly on their way.

RPA can help integrate various systems and automate transaction processing through software robots that work seamlessly with existing applications. RPA generally addresses an element of the Digital Labour Continuum. It is the foundational step whereby an organisation can unlock the benefit of increased automation and digitization of data. This also assists with enhanced and cognitive automation.



Key factors that impact adoption: degree of change/impact, data (structured vs. unstructured), costs, development and implementation timelines, and benefit realization horizon.

Are we there yet?

Robotic and cognitive automation are rapidly emerging, and are poised to drive exponential growth in the digitization of human tasks. Their maturation has been driven by significant advancements in machine intelligence, digital engagement, analytics, big data, social, mobile and cloud. Research suggests the market for AI and cognitive automation will be over $100 billion by 2020, and that it is quickly becoming a C-suite issue.

The power of machine learning is in parallel being explored with various providers, and will have massive value in automating some of the underwriting and claims processes, amongst others. Take for eg. Max – A KPMG developed ChatBot for Motor Insurance, this is the number one way people are connecting and consuming services today and conversations are becoming the new apps.

With this, it is often quite easy to get excited at the prospects of digital labour and cognitive. However some critical dependencies remain with regard to the extent to which data has been digitised. It is important to progress along the digitization journey with a view of sustainably digitising data assets and enabling cognitive applications whilst exploring cognitive and more advanced automation.

What can go wrong?

Based on the current explosion in innovation emergence, governance and risk are key considerations for any emerging technology, with much of the current focus within insurers being on business processing, such as claims processing and back office transformation.

However some are starting to turn to cognitive technologies and advanced analytics to eliminate manual processes. This is just the start of a greater trend to use robotics higher up the value chain as a more integral part of the business. And this trend will demand an even greater concentration on security and controls.

[2] www.kpmg.com/za/en/home/home/press-releases/harvey-nash-kpmg-cio-survey-2017.html

Key risk management areas such as 3rd Party Management, Program, Project and Change Management, Access Management, Secure Operations and Product Development, Data Security, Privacy, Compliance and Business Continuity are critical to ensuring a successful scaled RPA rollout and enterprise risk management with this emerging technology. In some environments, robotics are also being explored as an opportunity to innovate Risk Management processes and practices.

One of the key risks facing the rollout of RPA within an organisation is effective transformation of processes and the integration of humans and machines. Humans and machines are now closer than ever. The challenge is that the experience and transformation in the front office is being met with a lot less resistance than the back office. The Harvey Nash survey highlights "increases in Employee morale through the elimination of mundane tasks" as one of the key benefit areas that requires some work.

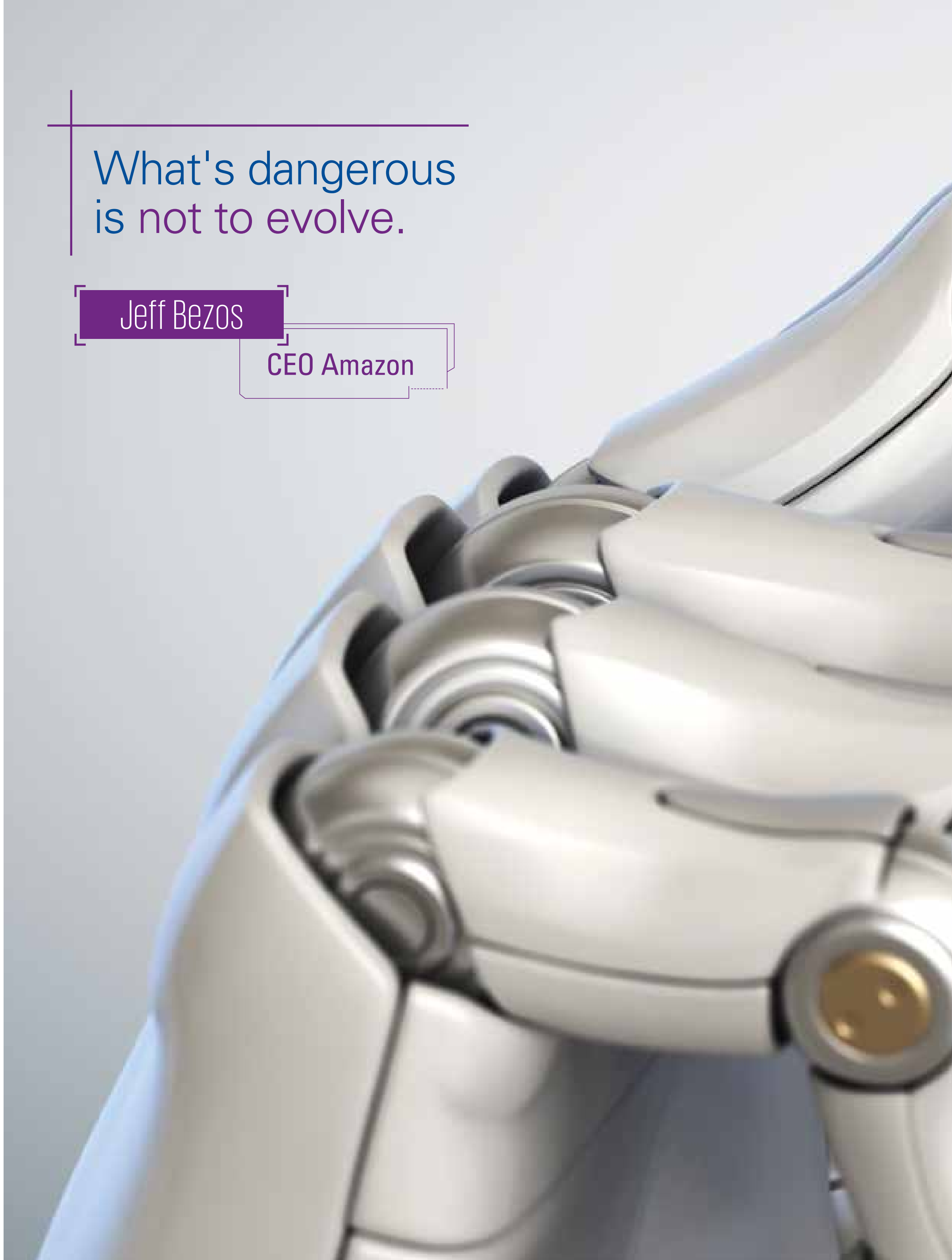
As organisations continue to invest and progress in this space, transformation and change management is going to be a key feature, and KPMG already see's RPA Centre of Excellences and dedicated senior accountability as pivotal to sustainable rollouts.

In conclusion – Welcome the Ro-Man era

Digital labour will demand changes in operating models, infrastructure and management. Human and digital labour will increasingly co-exist in organizations and this raises a challenge for leaders and HR professionals, because new and evolving organization models, along with demographic and labour market change, create significant uncertainty for predicting workforce requirements. This may also result in customer facing environments requiring customer engagement model changes.

Combined RPA and software approaches have already seen activity with benefits in cost reduction and efficiency. More advanced AI applications depend on the general advancements of AI. Human level interaction agents are not there as yet. There is great potential for the applications of these in the insurance sector and beyond.

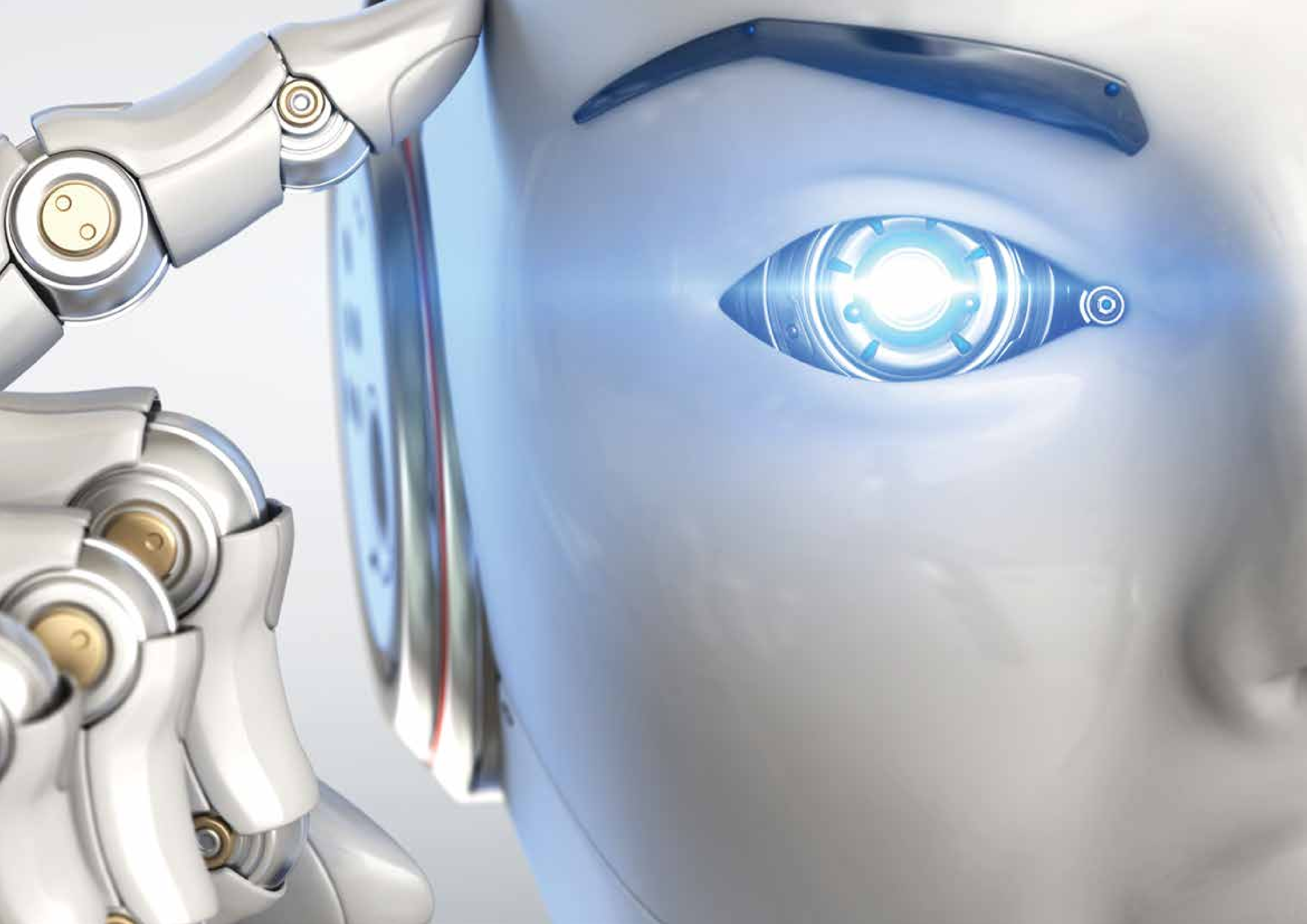
There are immense opportunities for insurance brands to better engage with new audiences by becoming "conversational" in digital channels. Advanced chat bots, Natural Language Processing (NLP), voice and image recognition, and machine learning enabled, and machine learning enabled capabilities are all feasible through digitisation maturity. As we start along this journey to a digital future, there are many unknowns, but one thing is certain, it is a Digital Future.



What's dangerous is not to evolve.

Jeff Bezos

CEO Amazon



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Insurance evolved in the DIGITAL AGE

Technology is disrupting many businesses across the globe and the insurance industry has not remained untouched. In fact, the insurance industry is faced with even greater challenges as they not only have to worry about how technology is affecting their operations, but also that of the clients they are insuring.

Influencing behaviour – The Internet of Things and the strategic leveraging of technology

Insurance companies that are actively leveraging technology as a strategic enabler, are moving away from the traditional insurance product design and risk-based approach to a more individual customer centric approach.

Discovery is a good example of this. By exploiting the opportunities technology continues to provide, they have dramatically penetrated the medical insurance, life insurance as well as short-term insurance market. Much like the successful FNB and OUTsurance, their success lies in their ability to leverage technology to influence behaviour. These organisations are all part of the Rand Merchant Empire that were led by a trio of pioneers namely Paul Harris, GT Ferreira and Laurie Dippenaar. These organisations all share the same strategic thinking when it comes to business. They are of the opinion that "opportunities lie in using technology in creating different business models".

For them, it is not about using technology to support the business but to use technology to exploit market opportunities. One only has to look at successful innovations such as Discovery's vitality programme and FNB's Ebucks rewards programme to understand the benefits of influencing behaviour.

Discovery's medical aid and life insurance actively encourages healthy living to reduce the need for medical calls and claims. In addition, their rewards are targeting the younger more healthy part of the population to ensure an equal distribution of age categories where other medical aids are struggling to retain and attract younger members. Discovery Insure also tracks driver behaviour to encourage its clients to behave and drive responsibly through cash back rewards.

These innovations are made possible by wearable activity trackers and other inexpensive monitoring devices that monitor health, driving habits and geo locations on an individual level to gather personal data over time. These devices are collectively referred to as the Internet of Things (IoT). The data is analysed to create generic profiles and to understand the levers that need to be pulled to influence client-behaviour to fit the needs of the business. The key is to create a mutual beneficial relationship that is, or appear, as a "win-win" situation.

With the available personal data and profiles, insurance organisations are now, more than ever, able to tailor insurance products to the individual's personal risk profile and needs. But it shouldn't stop there. One of the keys to sustainable success lies not only in understanding your clients' risk profile, but influencing your clients' behaviour positively (using a carrot and not a stick) to suit your needs. You want to entice them to live and do business the way you want them to and make decisions that will be to your benefit; whether this is enticing consumers to live healthier to reduce loss of life risk or to influence bad driving habits to decrease the risk of vehicle accidents.

The Internet and Television Association (NCTA) estimates 28,4 billion IoT devices have been deployed in the market as at 2017. This is expected to increase exponentially to 50,1 billion by 2020. People and businesses are becoming more interconnected than ever and with the emergence of smart facilities and homes, insurance companies might be able to plug into and monitor premises and common occupant habits. This could even include the monitoring of communities as infrastructure is rolled out to create an even more complete risk profile. Technology is making it possible to digitally record, analyse and influence people's behaviour which drive the risks underpinning any insurance business model.

Emerging Technology Disruption

In addition to understanding the IoT and how technology can be utilised to influence behaviour and reduce risk, insurance companies should always be on the lookout for new disruptive technologies in almost every market. They face losing market share to competitors if these disruptions are not pre-empted and responded to. Some of the more recent and high-impact disruptions include self-driving cars, peer-to-peer insurance and robotics. With the world becoming more and more interconnected, it is becoming easier for customers to perform price comparisons and switch to other insurance companies. Additionally, the completely digital self-help insurance company might not be far off with the emergence of robotics, distributed ledger and big data technologies.

Tesla has been selling insurance included in its vehicles' final price as they reckon the "Autopilot" technology utilised by these cars make them much safer and less prone to accidents. They are not wrong as, in the US, the National Highway Traffic Administration found that crash rates for Tesla vehicles have reduced by as much as 40 percent since the introduction of "Autopilot". Tesla is starting to put pressure on insurance companies to reduce premiums for their cars. A report, issued by KPMG in 2015, also suggests that the auto insurance market will shrink by 40 percent by 2040. How will traditional insurance companies respond to this emerging technology and exploit the opportunities it brings?

New technology and cyber risk

Unfortunately, new technology also introduces new risks. Cybercrime is at an all-time high and insurance organisations make perfect targets as they move more toward digital channels and the collection of personal data for big data analytics. This provides cyber criminals with plentiful attack vectors and attractive targets for corporate espionage and other cyber related attacks such as Ransomware. Back in the 1980s and 1990s, hacking was more of a hobby and was seldom disruptive or harmful. Many organisations were also not as connected and confidential data was less prevalent. However, hacking can now be considered organised crime as cyber criminals have significant resources at their disposal and may probe and plan for more than a year before striking. The impact of a successful attack can range anything from a short disruption in service to a loss of customer personal data and the organisation's reputation. As recent as May 2017, many of the world's computers were held for ransom by a Ransomware iteration called WannaCry2.0 which exploits a Microsoft operating system vulnerability. Microsoft released a critical update for all its operating systems as early as March 2017 providing the world with almost two months to prepare for such an attack. However, the Ransomware ran rampant for many weeks and the affected organisations' only hope to recover its ransomed computer and server data was to pay the ransom or recover from backups. This indicates that many organisations are still struggling with their pro-active response to monitoring threats and implementing measures to protect and react to cyber related incidents.

It is also true that with every risk comes opportunity. Many insurance companies in the US, and around the globe, have started offering cyber insurance products which insures against cyber related incidents such as Ransomware. This affords organisations with the opportunity to off-set the costs between maintaining a robust cyber programme and transferring some of the risk to their insurance providers.

Get ready to face the storm

It is imperative for insurance companies to continuously re-invent themselves in the digital age and should consider the following:

— New digital sales and communication channels should be implemented
— Big data should be embraced and analysed
— Behaviours should be influenced to increase revenues and process efficiencies through positive reinforcement
— Emerging technology should be monitored and opportunities exploited
— Cyber risk should be appropriately mitigated and opportunities exploited

The insurance industry faces an interesting future and should look to embrace technology as a strategic imperative and exploit the opportunities it presents or risk losing significant market share and ultimately relevance in the market.

Insurance Training

Our tailor-made training courses are designed to meet the specific needs of your organisation – whether it's information on insurance regulations, market conduct, financial reporting or the latest industry developments. All our training courses are accredited by the Insurance Institute of South Africa, and can be conducted either at our premises or yours.

We also offer annual training packages covering our entire suite of training courses.

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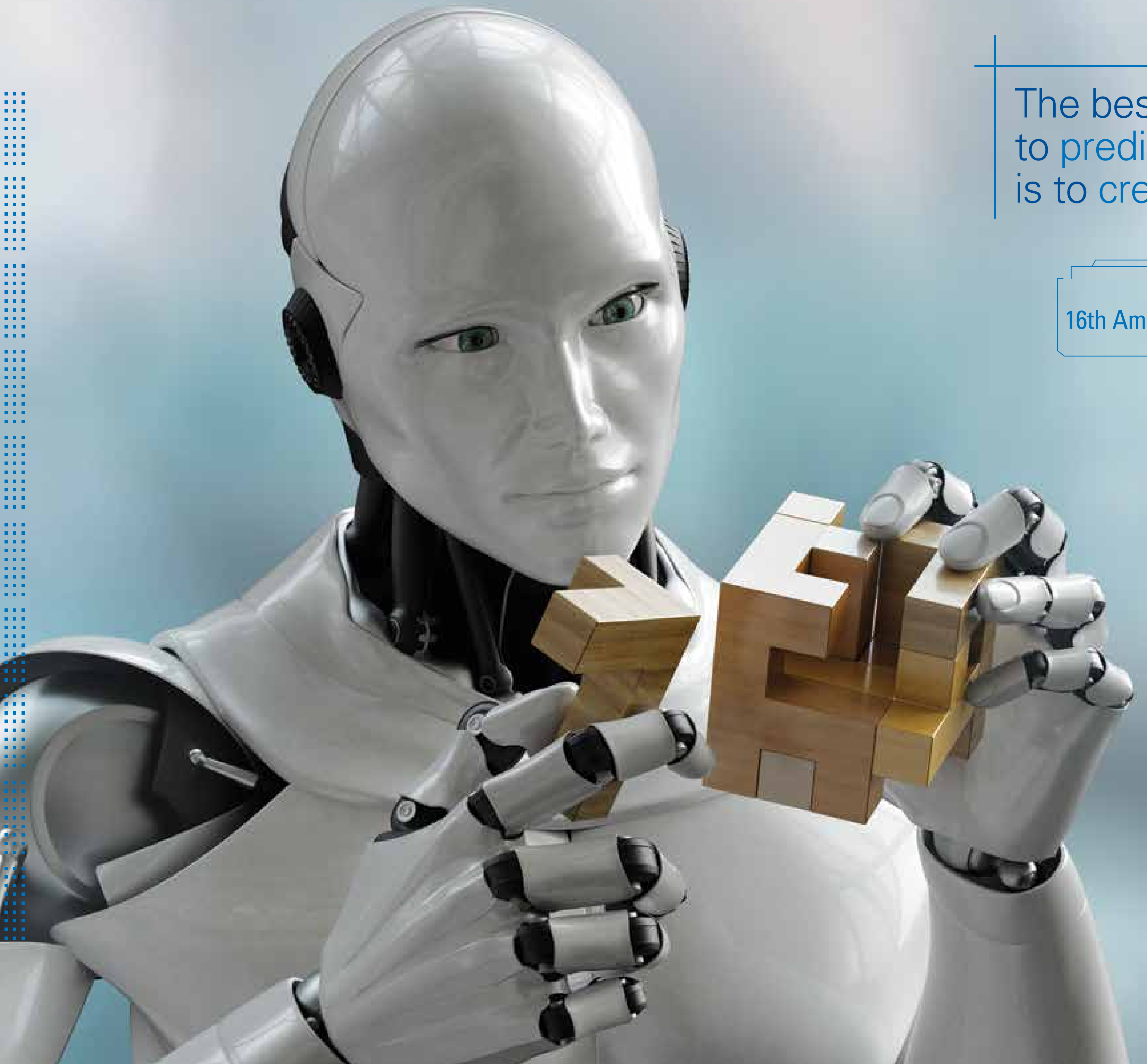
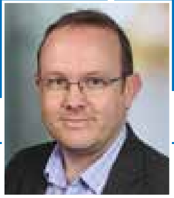


The best way
to predict the future
is to create it.

Abraham Lincoln

16th American President



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Changes to VAT COMPLIANCE RULES

The mechanics of the South African Value-Added Tax (VAT) system result in the VAT output payable by a supplier to be claimable as input by the recipient while the ultimate amount of VAT is borne by the final consumer. This is on the basis that indirect tax, which the VAT Act levies on transactions, should be borne by the consumer and not by the supplier in the value chain. Vendors are, therefore, in a neutral position from a VAT perspective, taking this output tax and input tax into account.

The South African Revenue Service (SARS) is under tremendous pressure to maintain its tax collections in the slowing economy and increasingly disregards this broader principle of the tax system and enforces the letter (as opposed to the spirit) of the law. SARS thereby collects tax from suppliers even in instances where there was no apparent loss to the fiscus. Furthermore, when SARS assesses the supplier for such tax, it imposes 10% late payment penalties and interest typically for five years and imposes understatement penalties (USP) ranging between 0% and 150% (generally 25%) for all defaults in respect of VAT tax periods since 1 October 2012.

Given the criticism which SARS received last year for its failure to reach its collection targets, SARS can be expected to be even more vigorous in the short to medium term. This is especially troubling for short-term insurers.

Our VAT Act is largely based on the New Zeeland Goods and Services Tax Act, which is one of the few VAT systems globally where short-term insurance and related services were included in the VAT net. As was the case in New Zealand, the short-term insurance industry sought clarity from SARS at the time in the form of a ruling, aimed to overcome industry specific difficulties due to the rigid provisions of the VAT Act. SARS provided the industry with a VAT specific ruling in 1991, effective 1 September 1991. As things progressed, more difficulties and uncertainties arose resulting in many members applying for private rulings.

During the first decade or so of the VAT system, SARS' process of issuing rulings was uncoordinated and substantially different from these processes today. At the time, SARS officials at different offices issued rulings to any taxpayer who applied, leading to "ruling shopping" at different SARS branches to obtain better results.

"Ruling shopping" was not limited to insurers and resulted in many conflicting rulings. Some rulings were simply incorrect. This caused inconsistency and confusion in the market.

SARS withdrew all rulings in 2007 and invited affected parties to reapply for rulings. The South African Insurance

Association (SAIA), with KPMG's assistance, negotiated with SARS for a short-term insurance industry specific ruling which would address the difficulties and intricacies of the industry. Quite unexpectedly, however, SARS issued Binding General Ruling 14 (BGR14), effective 1 July 2014, followed by SARS's publication of VAT421 Guide for Short-Term Insurance.

BGR14 disregarded quite a number of the industry's input and effectively ignored critical issues. Perhaps as a consequence of the industry's subsequent consultation with National Treasury on the matter, SARS undertook to revise the ruling, which culminated in the second issue of BGR14, effective 1 September 2016. Two separate rulings shortly followed pertaining to reinsurance (BGR32) and travel insurance (BGR37) respectively. SARS updated the VAT guide.

Having finalised these three insurance industry specific VAT rulings and the VAT guide, and given SARS' ever increasing vigilance in enforcement efforts, SARS can be expected to sharpen their pencils to maximise the collection of VAT (for as much as five years), penalties, and interest.

These rulings require:
— Amendments to existing documents such as policies of insurance, bordereaux, commission statements and agreements of loss or claim settlement agreements;
— Addenda to intermediary agreements; and
— Certain VAT specific agreements to be entered into.

KPMG performed reviews at several short-term insurers and reinsurers to determine their compliance with these rulings and to provide insight into the financial implications of what is often taken to be administrative or documentary non-compliance.

Many insurers and intermediaries were surprised to learn that such administrative non-compliance could have dire financial consequences which required tax-related accounting provisions to be raised which were significant compared to the financial results of these entities.

The typical issues are summarised as follows:
— When an insurer makes a recovery from a third party in terms of subrogation, in the form of cash, such receipt is generally not subject to VAT and the insurer needs not account for VAT in respect thereof. However, where the recovery is in the form of a disposal of goods (example: a written-off vehicle) such a disposal constitutes a taxable supply and the insurer should invoice and account for VAT accordingly. These supplies are often not invoiced for, however, and as a result, the VAT is not accounted for correctly or timeously. This non-compliance is mostly as a consequence of ignorance or weak internal controls.

  The same rules apply where an auctioneer facilitates salvage sales on behalf of the insurer. While different rules may apply for invoicing purposes, VAT on these sales should still be accounted for in the correct tax period.

— Zero rating provisions of the VAT Act are limited in extent and application. Firstly, a limited number of transactions can be zero rated depending on the nature of the transaction. Secondly, zero rating is subject to the supplier complying with documentary requirements. In this regard, SARS published Interpretation Note 31 (IN31) which lists the documents which should be obtained, the timelines within which the documents should be obtained, and confirms the implications of non-compliance. Any non-compliance will require the supplier to account for VAT at 14% as if the VAT was included in the income concerned, due for the tax period within which the deadline expired. Should the supplier thereafter, generally within a period of four or so years, obtain the necessary documents, the supplier may claim an input tax adjustment of the VAT so accounted for. It follows that, depending on the nature of the income concerned, this could firstly have dire cash flow constraints and secondly, the penalties and interest will be a permanent cost of non-compliance.

  A common error noted in this regard is that certain income streams are simply incorrectly treated as zero rated. Where correctly classified as zero rated, however, the necessary supporting documentation is almost never obtained.

— Several issues relate to input tax.
  An input tax deduction should be supported by a tax invoice, and it should be on file at the time that the deduction is made. The same rules apply to the VAT incurred in respect of brokerage or commission expenses (including cedants' commission) and other intermediation and claims handling costs, etc. However, many members of the industry issue bordereaux in lieu of tax invoices. BGRs 14 and 32 provide that bordereaux may serve as tax invoices, provided that these meet all the requirements of a tax invoice except the words "tax invoice", "invoice" or "VAT invoice". Insurers and reinsurers often claim input tax on brokerage, commission and cedants' commission pre-maturely, mainly as a result of insufficient documentation being held at the time of claiming the input tax.

  Where the tax invoice or bordereaux in question is issued by the payee (i.e. recipient of a supply, such as the insurer or reinsurer in the case of brokerage, commission or cedants' commission), the BGRs further confirm that the rules relating to self-invoicing should be observed. In terms of these rules, which apply to all industries, a recipient may issue a self-generated tax invoice on prior approval from SARS. SARS provided general approval in terms of BGR15 which sets out the conditions on which such approval is granted. SARS also issued Interpretation Note 56 (IN56) which elaborates on these conditions.

In terms of BGR15, IN56 and the BGRs for insurance, if read together, SARS provides that the insurer or reinsurer may claim the input tax only where the parties, inter alia, concluded a written agreement for self-invoicing to apply. Where such an agreement does not exist, or the agreement fails to contain the necessary provisions as contemplated, the insurer or reinsurer is not entitled to deduct the VAT incurred unless and until the supplier, be it the intermediary or cedant, issues a conventional tax invoice. Many insurers and reinsurers deduct input tax without complying with the requirements of the said BGR15 and IN56, leaving them exposed.

The correct VAT treatment of the VAT incurred on car rental costs incurred by the insurer, where the car is used by the insured while his/her vehicle is being repaired, depends on the contractual relationship between the insurer, the insured and the car rental service provider. In many, if not most cases, the VAT incurred cannot be claimed as input tax by the insurer, given the contractual arrangements between the parties.

Input tax is erroneously claimed on ex gratia payments in cash. SARS ruled in 1991 and again in BGR14 that no input tax may be claimed on ex gratia payments, since these payments do not constitute indemnity payments under contracts of insurance. It is thus clear that the industry has been aware of this treatment for many years. However, what we noted is that insurers exercise insufficient internal control to ensure that ex gratia payments are not factored in when calculating input tax.

— Cash back bonuses present difficulties which insurers often underestimate. The VAT treatment depends on the contractual arrangement for the insured's eligibility for the benefit. The VAT guide provides that where the bonus constitutes a reduction of the premium previously charged, the reduction should be documented by way of a credit note without which the insurer will not be entitled to deduct input tax relating to the VAT incurred on the bonus. The above-mentioned guide effectively provides that a policy document could constitute such a credit note where the policy contains certain prescribed minimum information. It should be noted, however, that where the bonus constitutes an incentive payable to the insured in respect of, in response to, or for the inducement of better risk management by the insured, the payment constitutes "consideration" as defined, for a supply of "services" by the insured. Such a payment therefore does not constitute a reduction in premium and the insurer can only deduct the VAT incurred where the insured is a VAT registered person who issued the insurer with a tax invoice for such payment.

  The tax invoice, or in the case of a reduction of premium, a credit note where the policy document does not comply, should be issued and be on file at the time that the insurer submits the VAT return in which the insurer deducts the VAT incurred in respect of the cash back payment.

As can be seen from the above, these issues are mostly caused by administrative non-compliance. Considering the VAT system's input tax and output tax principles, the errors do not necessarily result in a loss to the fisc. However, in each of the instances in which input tax is prematurely deducted, or the relevant documentation in support of input tax claims or the application of zero rated is not obtained timeously, the liability for tax, interest and penalties could have significant financial implications for the entity concerned.

KPMG recommends that members of the industry familiarise themselves with the unexpected pitfalls and have regular reviews conducted, to ensure that the VAT risk is properly managed and entrenched in the relevant processes and procedures. In addition, training on these aspects is encouraged, to reduce the VAT risks.

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Expense allocation – changes to LIFE INSURANCE TAX

The allocation of expenses between the Individual Policyholder Fund ("IPF"), Company Policyholder Fund ("CPF"), Untaxed Policyholder Fund ("UPF"), the Corporate Fund ("CF") and the newly introduced Risk Policy Fund ("RPF"), has always been a contentious issue for long-term insurance companies.

The South African Revenue Service ("SARS") issued Binding General Ruling 30 ("BGR 30") on 7 January 2016 with the purpose to determine the allocation of direct and indirect operating expenses within and between the funds that are required to be established by insurers under section 29A and the subsequent deductibility of such operating expenses, and the deductibility of expenses against transfers under section 29A(7).

It follows that the allocation of expenses are crucially important as it impacts the following:

- Direct result on the tax charge or tax loss owing to each fund. The Income Tax Act requires a long-term insurance company to treat each fund as a separate taxpayer. A long-term insurance company may also not offset the tax loss within one fund against the taxable income of another fund.
- Direct result on the transfers from one fund to another fund as required per the Income Tax Act which may result in an impact on the tax charge or tax loss owing to a specific fund.
- The tax deductibility of an expense within a fund. It follows that a specific expense may be tax deductible in one fund, but deemed non- deductible within another fund.
- Section 29A(11) requires a company to allocate a deductibility ratio per fund to indirect expenses. Therefore, the misallocation of indirect expenses from one fund to another fund or from direct expenses to indirect expenses can have an impact on the tax charge or tax loss.

Past treatment

Discrepancies identified in the expense allocation method applied – not only ranged from one entity to another – but also within the same entity's application from one year to another year and in some instance, within the same year. SARS also created doubt owing to revised assessments issued to companies attacking the tax deductibility of expenses allocated to the CF. Below is a list of, among others, the most common discrepancies identified.

Inconsistent methodology applied

Companies have allocated expenditure to the various funds by applying the following methodologies:

- Detailed allocation of direct expenditure
- No allocation of expenses as direct expenditure
- Allocation of indirect expenses based on the opening actuarial value of fund liabilities

- Allocation of indirect expenses based on the closing actuarial value of fund liabilities
- Allocation of indirect expenses based on the average actuarial value of fund liabilities
- Allocation of indirect expenses based on the current year premium income of each fund
- Allocation of indirect expenses based on the financial controller's understanding of the business

As mentioned, the above methodologies were not applied consistently. In certain instances, one company, within the same year of assessment, would for instance allocate employee salaries to only the policyholder funds (IFP, CPF and UPF), however, the provision for leave pay was allocated equally between all funds, including the CF.

SARS limitation of tax deductible expenditure

As indicated above, additional assessments received from SARS, denying the tax deductibility of certain expenses within the CF also created doubt and resulted in most long-term insurance companies adopting a conservative approach to allocating expenditure to the CF. As most policyholder funds are in a tax loss position and generally, the CF is tax paying, this resulted in an increase in the tax charge of a company.

The rationale for SARS denying the tax deduction of the expenditure within the CF was owing to the strict application of Section 11(a) and Section 23(g). Among others, Section 11(a) requires an expense to be incurred in the production of income and Section 23(g) indicates an expense is not allowed as a tax deduction from taxable income to the extent that the expense was not laid out for the purpose of trade. Considering that, in terms of the Income Tax Act, all premium income should be allocated to the policyholder funds and each fund is treated as a separate taxpayer, in most cases only investment and rental income are allocated to the CF. It follows that the nature of investment and rental income are more passive in nature. It is SARS' argument that the expenses were neither incurred in the "production" of income, nor was it laid out for the purpose of "trade" as the income accrued to the CF is passive in nature and would have accrued to the CF without the incurral of most allocated expenses.

Binding General Ruling 30

In order to address the above mentioned discrepancies and inconsistencies, SARS issued BGR 30.
The proposed allocation of expenses per BGR 30 is as follows:

- Direct allocation of as much expenses as possible to the different funds, such as commissions paid per policy sold
- Expenses incurred directly for shareholding activities should be allocated to the CF
- The remaining expenses which is not deemed direct, is referred to as indirect expenses
- The indirect expenses is first split into two categories, one category for policyholders and one for the CF. The split is accomplished by using the average actuarial value of liabilities per the policyholder funds (opening vs closing balance) and the average market value of assets per the CF (opening vs closing).
- The indirect expenses allocated to the policyholder funds are then further allocated to the IPF, CPF, UPF and RPF by using the premium income for the year per fund.
- BGR 30 explicitly states the following:
  - Expenses that are directly attributable to assets which give rise to exempt income will not be deductible
  - No expenses relating to the CF activities are allowed to be deducted in the CF from the transfers contemplated in Section 29A(7) since no expense is viewed to be incurred in the CF to produce such transfer
  - The deduction of expenses allocated to the corporate fund and the risk policy fund is subject to the requirements of Section 11 read with Section 23
  - The apportioned indirect operating expenses allocated to the CF and the RPF should further be apportioned with reference to the ratio of income in the fund concerned plus the taxable capital gain applicable to the fund concerned over total amounts received or accrued

Example

	Total	Policyholder Funds	IPF	CFP	UPF	RPF	CF
Direct Expenses	115	100	20	20	30	30	15
Indirect Expenses	85						
Opening balance of liabilities		950	250	150	300	250	
Closing balance of liabilities		1150	300	200	350	300	
Opening market value of assets							400
Closing market value of assets							500
Premium income		4 800	1000	1250	1350	1200	
Allocation of Indirect Expenses		**59.5**	**12.4**	**15.5**	**16.7**	**14.9**	**25.5**

Therefore, based on the above example, 25.5 of the 85 should be allocated to the CF. This is a potential problem as management of the company would generally have allocated significantly less expenditure to the CF. Should SARS attack the 25.5 based on the principles of "production" and "trade" as discussed above, then the non- deductible portion would not only be lost for the CF, but also for the IPF, CPF, UPF and the RPF. This is a valid concern as BGR 30 states the expense should still be deductible in terms of Section 11 and Section 23.

By allocating more indirect expenses from the policyholder funds to the CF, the market values per Form 1 of the 7 Form tax calculation is also increased, owing to a reduced deduction of expenditure against income, which compared to the actuarial valuation of liabilities, could result in an increased taxable transfer from the policyholder funds to the CF.

Conclusion

While the introduction of BGR 30 is welcomed in order to establish consistency in the methodologies applied by companies to allocate expenditure between its different funds, it is clear that companies should do the following in order to get the most benefit from the ruling:

— Perform a detailed analysis in order to allocate as much expenses as possible to direct expenses. This would provide the following benefits:
  - The company would not have to use the indirect expense allocation methodologies as prescribed in BGR 30
  - The company would not have to apply the ratio as indicated per Section 29A(11) of the Income Tax Act to further reduce the deductibility of the expenditure and would therefore be able to claim 100% of the direct expenses
  - The company would not have to be concerned about the "production" and "trade" argument of SARS

— Document the reason why management is confident the indirect expenditure allocated as prescribed in terms of BGR 30, does meet the "production" and "trade" argument from SARS.

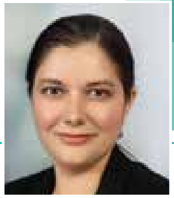
Based on the following wording used in BGR 30,
"the treatment of expenses set out below is accepted for purposes of section 29A(11) and 29A(12)", we are comfortable for companies to still apply their own methodology of allocating expenditure, if the following requirements are met:

— The methodology is consistently applied

— The methodology of allocating expenditure is a scientific exercise based on detailed current and historic knowledge of the business

— Management is comfortable that they would be able to withstand an attack by SARS on the methodology applied in the allocation of expenses between the different funds, as well as the "production" and "trade" arguments.

BGR 30 and the introduction of the RPF has certainly kept Life Insurance Tax very interesting and I am sure we will see further developments for long-term insurers from a tax perspective.



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ORSA
A continuous improvement cycle

South African insurance and reinsurance companies were expected to submit their first ever Own Risk and Solvency Assessment ("ORSA") by the end of August 2015. This was the first compulsory call for submission by the Financial Services Board ("FSB") and, for many insurers in South Africa, this was also the first mock ORSA cycle. For many, this first cycle took the format of compliance and few approached it from a value-add perspective. The next compulsory submission was due September 2016 with the third mock ORSA submission due in 2017, in line with the insurer's ORSA cycle but before the calendar year is over. This may be the last mock ORSA cycle for many, if the Solvency Assessment and Management ("SAM") legislation is enacted in the second half of 2018, as per the latest indication from the FSB.

The ORSA requirements

The FSB has taken the approach to increase the subset of ORSA requirements from one ORSA cycle to the next and to encourage insurance entities to progress towards the full set of requirements, which are outlined in the SAM Position Paper 107 ("PP107").

Submission date for First Mock ORSA: 31 August 2015	Submission date for Updated Mock ORSA: 30 September 2016	Submission date for Updated Mock ORSA: 2017 (in business cycle)	Full ORSA compliance upon SAM implementation date: H2 2018?
The objectives 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; • 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 • Requirement for a Group ORSA	Complete the second full ORSA cycle and use the lessons learnt (and FSB feedback) to improve future cycles.	Expected compliance with all relevant Guidelines (PP 107 v6) will be required. Additional requirements for 2018 cover these areas: • Embedding of ORSA into business; • Board challenge and signing off on assumptions and methodology; • Independent reviews; • Perform out of cycle ORSA's; • Continuous compliance with TPs and SCR If insurers do not yet comply, the amount of work still to be completed is significant and complex.

This year, the FSB has not explicitly increased the scope of the mock ORSA, but has left it up to each insurer to decide whether to progress to the full set of ORSA requirements or to refine the elements contained in the last ORSA cycle.

In April 2017, in preparation for SAM implementation, the FSB published the second round of Prudential Standards covering Pillar II requirements, called Governance and Operational Standards for Insurers ("GOI"). These standards include GOI3.1 Own Risk and Solvency Assessment.

GOI 3.1 Own Risk and Solvency Assessment: At a glance

This standard is pitched at a high level. It sets out the key requirements related to the ORSA policy, performance of the ORSA, maintenance of the ORSA record, review of the ORSA process and reporting requirements. The emphasis is on the ability of the ORSA to make a clear link between the risk profile, risk management and capital management of the insurer. It also emphasises the need for wider communication of the ORSA results and the use of the ORSA in decision making.

The minimum requirements for the ORSA policy are set out. Notably, the ORSA policy must ensure a clear communication plan of the ORSA results to all relevant staff. The policy is also expected to set out the roles and responsibilities in the ORSA process to ensure that the board of directors, senior management and the risk management and actuarial control functions are actively engaged in the ORSA process.

The standard provides for the performance of at least an annual ORSA. It clearly states the need to justify the ORSA basis used (regardless of whether an economic or regulatory basis is chosen). Any deviations between the risk profile of the insurer and the assumptions underlying the solvency capital requirements must be assessed. The ORSA must make a clear link between risk and capital (level and quality of capital resources).

Embedding the ORSA in decision making is a clear focus of the standard. The link between risk management and capital management should be clear and the ORSA should show the sustainability (or lack thereof) of the business strategy across a range of risk scenarios. The Prudential Authority, once established, will look for evidence that the ORSA is embedded into the business and that management actions and capital planning are linked to the ORSA outputs.

In a SAM legislated world, the ORSA process is expected to be independently reviewed and validated by an appropriately qualified person, who is operationally independent from the ORSA process. The independent review is also expected to cover compliance with the ORSA policy.

A record of each ORSA must be kept such that it can be reviewed without unreasonable effort. The record must be complete, accurate and contain clear audit trails.

"Unless exempted by the Prudential Authority (on application), each insurer must submit an annual solo ORSA report, including the methods used in that ORSA." The submission must be within two weeks of the approval of the ORSA by the board of directors and must be accompanied by declarations signed respectively by the Chairman of the Board and the CEO.

Feedback

FSB feedback

The FSB has followed the approach of providing individual feedback to insurers on their first mock ORSA submission. Many, though not all insurers, received this feedback with sufficient time to incorporate it in the 2016 mock ORSA cycle. At the November 2016 workshops held by the FSB, the message was clear: The ORSA will be one of the key supervisory tools used by the Regulator in a SAM legislated environment.

Insurer elected feedback

Many insurers, either through their internal audit functions or through external service providers, elected to obtain independent feedback in order to fast track their ORSA progress. Full independent reviews will only become a requirement once SAM is implemented. Therefore, insurers that have elected to perform compliance style reviews have not only been pro-active but in our experience, have seen significant improvements from one ORSA cycle to the next.

Current trends and expected improvements in the next ORSA cycle

Board involvement and communication

The Board is ultimately responsible for the ORSA process and its outcomes to ensure compliance with the ORSA requirements. To date, for many insurers, the Board has not been involved throughout but rather primarily at the end of the process, in reviewing the ORSA report prior to submission. We anticipate that Boards will become more involved throughout the ORSA process. Better evidencing will be required of the challenge of assigned risk appetite statements and limits, selected stress and scenario tests and reverse stress tests, out-of-cycle ORSA trigger events and ultimate assessment and discussion of the results of the ORSA. With the ORSA focused on linking material risks and capital requirements, as well as linking into sustainability of the strategy set by the insurer, we expect the ORSA to become a standing agenda item for the Board of directors in future ORSA cycles.

ORSA basis

The ORSA allows insurers to choose the basis on which to assess risks and assign capital. Most insurers opt to use the SAM Standard Formula ("SAM SF") as their ORSA basis, with a high level comment around its appropriateness to the insurer's risk profile. More comprehensive ORSAs include a qualitative assessment of the major ORSA components and envisage more quantitative assessments in future ORSA cycles. Early indication from GOI 3.1 is that insurers should justify why the SAM SF is appropriate to the insurer's risk profile, board-approved risk appetite (and related risk limits) and business strategy.

Risk appetite and tolerance statements

Risk appetite statements and associated risk tolerance limits are still set at portfolio level for most insurers. The main focus is on capital needs and some have formulated statements and limits in respect of earnings. Such statements and limits are not yet often set in terms of non-quantifiable risks, which companies will likely develop as the ORSA process matures. The requirement is that the risk tolerance limits be cascaded down to risk types and this will be an area of future development in the next few ORSA iterations for most insurance companies.

Risk assessment

The insurance industry is in the business of taking risk and quantitative risk assessment is an area of strength for most insurers. However, insurers are still developing their processes for identifying and assessing emerging risks and for including qualitative risks within the universe of material risk assessments. For example, very few insurers' ORSAs have evidenced assessing Treating Customers Fairly (TCF) risks and the associated impact on reputation or the potential risks and mitigating actions related to cyber risk.

Stress and scenario testing and reverse stress testing

Many insurers perform stress and scenario tests and project the impact over the business planning horizon, which is usually over three to five years. The stress and scenario tests developed are generally a good reflection of the major quantitative risks faced by the insurer. However, strategic risks are not always considered. For example premium growth assumptions associated with strategy may be significant but not stressed.

Reverse stress testing is an area that requires some development. Firstly, there is no definition of what constitutes a reverse stress test. Many insurers therefore opt for testing a breach of 1 x SCR, being cautious to show the FSB that the insurer could become insolvent.

Additional options to consider could include a breach of MCR or an event which will lead to a negative SCR coverage (i.e. where the insurer does not have sufficient own funds to cover its liabilities) or both. Management actions or recovery plans, should a material risk event occur, are also expected to be an area of development in future cycles. We would expect focus on more detailed response plans so that management is clear on what actions to take, and in what order to respond, should a stressed event occur and consider how pragmatic the proposed action plans are likely to be in each instance.

Embedding and Use Test

GOI 3.1 states that: "An insurer must, at all times, be able to demonstrate to the Prudential Authority that each ORSA is aligned with the risk profile of the insurer, is widely used, is embedded in the decision making processes of the insurer, plays an important role in its system of governance, and informs strategic decisions, especially with respect to capital planning and management."

Therefore embedding of the ORSA is a requirement and enables insurers to meet the Use Test. Embedding the ORSA is not a trivial exercise and insurers will be expected to take a few iterations to fully embed the ORSA in the business. Regular communication of the ORSA results, beyond the Board and Board sub-committee levels, is key. One immediate use of the ORSA is in the dividend decision making process but other areas are expected to benefit from the ORSA as the results get more embedded into the business:

— Reinsurance
— Pricing
— Acquisitions
— New products
— Exiting existing products
— Strategy
— Investment allocations

Group vs Solo submissions

In a SAM-live environment, insurers would need to obtain approval from the Prudential Authority ("PA") to be able to submit a group ORSA, where the insurer is part of a wider group. This was not the case for the mock ORSA submissions, where approval was deemed to have been granted. Insurers that are part of a group should be pro-active and engage with the FSB to understand if there are areas which need improvement to be able to qualify for a group ORSA submission.

Conclusion

This cycle will likely be the last mock ORSA cycle prior to SAM implementation. Insurers will have to decide whether to simply refine key elements of the last ORSA cycle or to move towards full compliance with ORSA requirements. Significant progress has been made by most insurers in the last two ORSA cycles with significant leaps still being expected in future cycles. Those insurers that approach the ORSA from a business use perspective are the ones that are expected to derive maximum value from the ORSA process, much earlier than the insurers that still simply view the ORSA as another compliance exercise.

Market Conduct

Conduct risk is changing the global regulatory landscape. Organisations are prioritising their conduct risk frameworks, and implementing measures to ensure they are able to effectively respond to the conduct risk challenges.

The nature of the subject frequently leaves organisations feeling unsure of where to begin and how to tackle conduct risk.

KPMG's market conduct team is made up of a group of individuals with a diverse skills set, bringing to the client a multi-lens approach.

Our experience as a team has been enriched through global delivery engagements.

The KPMG market conduct offerings and experiences span the full lifecycle of conduct risk, including proactive formal conduct risk identification, conduct risk framework development, training, readiness assessments and Konduct – our Management Information and reporting tool.

Effective management information is an essential part of any firm's conduct risk management programme.

KPMG's solution, Konduct, helps organisations measure and manage conduct risk, and ultimately deliver good outcomes to their customers.

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Africa needs to see itself as the leader of the Fourth Industrial Revolution.

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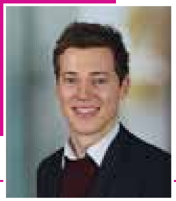

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Microinsurance IN AFRICA

Microinsurance refers to insurance products that offer coverage to low-income households. A microinsurance plan provides protection to individuals who have little savings and is tailored specifically for lower valued assets and compensation for illness, injury or death. This is insurance which is accessed by low-income earners, provided by a variety of different entities, but managed in accordance with generally accepted insurance practices.

It is prevalent in developing countries where the insurance market is non-existent or inefficient. This focus on the low-income market gives rise to distinct means of distributions and unique products.

The most common features of microinsurance include:

- As with conventional insurance, it applies the principles of risk pooling.
- Targets the low income, informal sector.
- Is independent of the class of risk.

There are three approaches to understanding the term micro in microinsurance: the first focuses on the target group, the second on the product and the third on the processes.

The target group approach: micro is defined by the target market, specifically the low income population. Poorer communities are typically excluded from the formal financial services market because they cannot afford the premiums or do not have access to these benefits through their employment. Therefore, microinsurance provides access to the formal insurance market by creating unique products and distribution systems to address their needs.

The product approach: micro is defined by the characteristics of the products offered, being smaller coverage and proportionally smaller benefits. Conventional insurance is unsuitable to the lower income groups because the premiums are unaffordable and the coverage is possibly excessive (generally own fewer assets).

The processes approach: micro relates to the process of designing, introducing, and administering the schemes, and the schemes are governed directly to some degree by the insured members .

"Microinsurance began as a form of charity in the 1990s, when the International Labour Organization began experimenting with super-cheap insurance policies. In 1995, McCord said he developed an entirely commercial microinsurance product backed by insurer AIG, with a view to selling it through a microfinance institute in Uganda.

Today, a $1,000 life insurance policy sells for just $1 a year in Uganda, McCord said, making it affordable to the poor. He estimates that about 135 million low-income people worldwide are now covered by cheap insurance, up from 78 million two years ago."

Formal insurance covers only the wealthiest top 10% of the population in East Africa, with the remainder having to face the risk of the death of an income earner, illness and property damage by themselves.

Microinsurance in Africa is experiencing drastic growth. However, the market is still in its infancy, with a market penetration of only 2.6% of the population living under $2 per day. Nevertheless, the number of people in Africa covered by a microinsurance policy increased more than 80% between 2005 and 2010, with annual growth rates at over 10% in some countries. Accessibility is key, with cell phone technology being an integral part of the delivery system of microinsurance to rural areas.

"In 2000, there were less than 25 million mobile phones in Africa. A few years later, in 2012, mobile phone use had grown tremendously and there were over 650 Million mobile phone users. Today it is estimated that over 67% of the population has a mobile phone and 27% have a device that can access the internet."

Examples of Microinsurance in Africa

EcoLife

Econet Wireless, based in Zimbabwe, offered a cell phone based insurance service, EcoLife. Anyone with access to a mobile phone could get free life cover in exchange for $3 of airtime per month, with the insurance cover being directly related to the amount of airtime used. EcoLife experienced incredible growth, with 20% of the adult population subscribing to its insurance services within 7 months. However after a dispute with its software provider, EcoLife was terminated. This had considerable financial implications for its 1.2 million policyholders, none which received any compensation. EcoLife's argument was that its policyholders were receiving free life cover, which was somewhat flawed because in order to qualify the insured had to purchase a fixed amount of airtime they may not have bought otherwise.

MicroEnsure

MicroEnsure was founded in 2005 in the UK as a wholly owned subsidiary of Opportunity International, a global nonprofit microfinance network created in 1974. It was known as the Micro Insurance Agency until 2008. As an insurance intermediary, it provides a range of products including health, life, property and weather index-based insurance to approximately 3.5 million poor clients in Ghana, India, Bangladesh, Mozambique, Malawi, the Philippines, Tanzania and Kenya as of 2011. Microinsurance is often packaged with other financial services to employ the same distribution channels and thereby reduce operational costs. However, the advent of mobile technology now enables microinsurance to be sold as a stand-alone service.

MicroEnsure Kenya employs the services of M-Pesa, a mobile money digital wallet that was developed in Kenya, and FrontlineSMS:Credit, a free, open source software program that specializes in mobile financial services, to make microinsurance accessible and affordable to the poorer African communities. This business model entails M-Pesa collecting premium payments (policyholders pay premiums via the app) and FrontlineSMS:Credit monitoring individual policies in real time. Policyholders can increase or decrease their coverage as needed.

Microinsurance in South Africa

Currently there are three critical concerns in the South African insurance market that need to be addressed:

1. South Africans must buy the insurance they actually need to address the risk they face
2. Currently South Africans cannot afford to purchase the insurance they need; and
3. Consumer protection must be strengthened

In South Africa, the importance of insurance is understood, but is not translated into behaviour. According to National Treasury, 74% of residents recognise the need for insurance but 34% haven't made plans to address the risks. Furthermore, a mismatch exists between what is perceived the biggest risk (loss of income or job loss) and the dominant insurance product (funeral cover).

Microinsurance doesn't yet have a significant presence in South Africa (it is often bundled together with other insurance products, not normally sold as a stand-alone product), but perhaps convenience (in the form of cell phone applications) and affordability will encourage more South Africans to purchase microinsurance and help alleviate the mismatch mentioned above.

Examples of Microinsurance in South Africa

Go Cover by Sanlam

"Go Cover is great for mountain bikers, trail runners, climbers, rugby players – and even bungee jumpers. In fact, any activity or sport. Use it when setting off on that road trip, taking a taxi ride, or for workplace protection. Whatever your adventure, pursuit, or everyday activity – instantly buy and activate, and we'll have you covered."

Go Cover is a cell phone app developed by Sanlam that facilitates the purchase and management of microinsurance products - the first of its kind in South Africa. It provides world-wide cover for South African residents and for foreign visitors while in South Africa.

It was launched in February 2017 and has been well received thus far, with between 5 000 to 10 000 installs and a rating of 4.5 (51 reviews) on the Google Play app store.

Key features

- Cover ranges from 24 hours to 30 days
- For 24 hour cover there are 3 options: a premium of R10 provides up to R100 000 cover, R20 for up to R500 000 and R30 for up to R1 000 000
- Cover can be bought for up to 30 days at a time, with the premium decreasing as the period increases
- Policies can be activated immediately or within 30 days of purchasing
- After purchasing cover, it can only be cancelled within 5 minutes
- Other:
  - No long-term contractual obligation
  - No recurring payments
  - No waiting periods
  - No onerous underwriting
  - No age limit

As with conventional insurance, microinsurance protects individuals from specific risks in exchange for premiums linked to the type and likelihood of the risk insured. However, microinsurance contract lengths are generally shorter and more flexible, payments are more irregular, premiums are lower and coverage is smaller.

Delivery of Microinsurance to clients is one of the biggest challenges that micro insurers face. Typically, there are 4 business models to deliver microinsurance:

Partner-agent model, in this case, the partner is the insurer and the agent is an intermediary. The partner takes responsibility for the design, pricing, and underwriting of products (as well as the schemes long term solvency), whilst distribution, marketing and collection of premiums is delegated to the agent. In rural settings, the agent will typically be an NGO or microfinancer based in the community, and as such they will have a good understanding of the community's needs.

Provider-driven model, the policyholders will pay their premiums directly to the service provider (e.g. a hospital) who in exchange will provide its services for free or with a co-payment.

Charitable insurance model, a charitable organisation will take over virtually all of the responsibilities of the insurer as well as subsidise the scheme.

Mutual/cooperative insurance model, the responsibilities of the scheme are taken over by the community, thereby making the insured and the insurer the same persons. The major benefit of this business model is that the package can better match the needs of the insured.

Profitability of Microinsurers

The key to profitability in microinsurance lies in the business model. In order to be profitable, a "low-margin/high-volume" philosophy must be adopted. Microinsurers need to price their products accurately with low margins, and then sell large volumes thereof. However, the problem is that voluntary insurance products sold on an individual basis are much more expensive to distribute and service than the mandatory group policies linked to loans. Nevertheless, if they manage to maintain a growth in revenue that is greater than the growth in incremental costs, they will achieve profitability through scalability.

"Looking at different products, credit life microinsurance programs are generally able to generate a profit anywhere in the world. Having said this, breaking even for a new product may take a few years, as is to be expected. For example, the endowment microinsurance policies sold by Tata-AIG were expected to break even in three to four years, assuming that the initial high growth rates and high levels of persistency continued."

Challenges in assessing profitability:

- Microinsurers generally don't allocate costs specifically to products purchased by low-income groups
- A proper allocation of the associated costs and investment returns is not usually available
- Insurers generally aren't willing to provide the detailed information required to properly assess profitability

Regulation of Microinsurance

National Treasury released their "Microinsurance Policy Framework" document in 2011 which summarises the proposed regulatory framework for microinsurance in South Africa.

Existing insurers will be able to register a separate microinsurance licence or convert to a microinsurance licence, either by setting up a separate legal entity or by converting an existing legal entity to a microinsurer - the regulatory framework will be set up to allow seamless integration.

Microinsurance licence applications will be similar to that of current long and short term insurers, but with the capital and reserving regime and operational requirements differing. Applicants must submit the following in order to obtain a microinsurance licence:

- WA standard application form
- A memorandum and articles of association (company) or constitution (co-operative)
- A business plan and 5 year financial projections
- A personal questionnaire to be completed by board members and management to ensure that they are fit and proper
- An application for approval of the auditor(s)

Ongoing Operational Requirements

- **Levies** – each microinsurer will pay an annual levy comprising a fixed and variable component, expressed as a percentage of gross premiums
- **Statutory returns** – a standard, simplified template will be developed for audited annual and unaudited quarterly statutory returns, taking into account the current returns for long-term and short-term insurers.
- **Statutory auditing** – microinsurers must have one or more qualified external auditors to sign off on financial statements
- **Actuarial skills** – microinsurers must have access to actuarial skills

Microinsurance licence applications will be similar to that of current long and short term insurers, but with the capital and reserving regime and operational requirements differing. Applicants must submit the following in order to obtain a microinsurance licence:

- A standard application form
- A memorandum and articles of association (company) or constitution (co-operative)
- A business plan and 5 year financial projections
- A personal questionnaire to be completed by board members and management to ensure that they are fit and proper
- An application for approval of the auditor(s)

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Solvency Assessment Management (SAM)

KPMG is the leading provider of risk management solutions and strategic insight. Our team includes specialists across all aspects of prudential regulation including the complex quantitative aspects and processes, governance and reporting. We have significant experience in the life and non-life sectors of the insurance industry.

Our service offerings include:

— SAM Tool: Completing the SAM SCR calculation is a technical and time consuming process that can divert specialist skills from other essential processes. Our SAM Tool removes the complexity and will free up your time. Our team of experts have designed an integrated tool which will aid your business with the building and implementation of the CPR requirements.

— ORSA benchmarking: The ORSA is the backbone of best practice risk management. An insurer without an enabled ORSA is like a bank with a paper ledger. Where are you on the journey from entry level ORSA to best practice? Our ORSA benchmarking offering will help you assess where you are relative to the competition both locally and abroad.

— Head of Actuarial Control (HAC): The HAC function requires an independent expert with a deep understanding of the insurer's underwriting, reserving and capital setting functions. The KPMG actuarial team is well placed with broad market experience covering all aspects of the HAC requirements to provide HAC services.

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The most important question isn't how to make super intelligence, or when will it come about. The most important question is, when it does come about, how do we make it do the right thing?

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INCREMENTAL IMPLEMENTATION... towards a Market Conduct Framework

Six years after the decision was taken to move to a Twin Peaks model of regulation, the Financial Sector Regulation Bill was passed by the National Assembly on 22 June 2017, and sent to President Zuma for assent. The Bill, once signed into law, will put a Twin Peaks model of financial sector regulation in place in South Africa.

The shift to a Twin Peaks model of regulation requires the establishment of two primary regulators, being a Prudential Authority (located within the SARB) and a new Market Conduct regulator – the Financial Sector Conduct Authority (FSCA) will replace the current FSB. The Prudential Authority's primary objective will be to maintain and enhance the safety and soundness of financial institutions that provide financial products, whereas the FSCA will be responsible for the regulation and supervision of the conduct of business for all financial institutions, and the integrity of the financial markets.

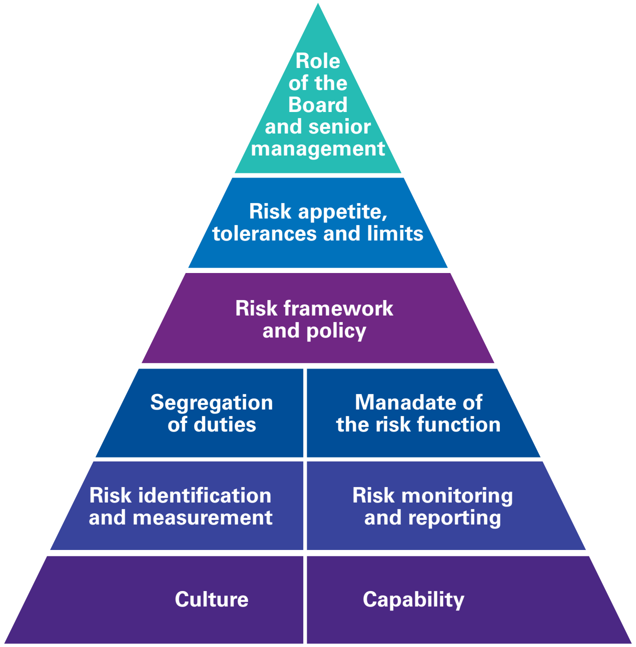
The establishment of a dedicated market conduct regulator is a first for South African financial services institutions. It is clear that the Regulator's approach and supervision will be very different to that which institutions have previously experienced. Principles based and forward looking are two key values that underpin the supervisory approach that will be adopted by the FSCA. The FSCA will place significant emphasis on the concept of "show us, don't tell us". The FSCA will seek to develop a clear understanding of those institutions' structures, operations, and product and service lines, within its supervisory ambit.

Effective management of conduct risk will be central to the FSCA supervisory mandate. To this end, institutions should manage their conduct risk within an established risk control framework that is imbedded in the operations. A market conduct framework ("framework") should be developed to provide the institution with an efficient and effective risk management process to identify, manage and respond to its conduct risks. The framework sets the approach to managing conduct risk and should be robust and proportionate to the conduct risks faced by that entity.

The FSCA expects that institutions implement market conduct in a manner that is most appropriate for that institution, having regard to its strategy and business model.

There is no single correct approach to the implementation of market conduct. Establishing a framework serves as a guide to the institution on conduct risk.

Whilst we consider some of the components of a framework in more detail, the conduct risk framework should include at least the following components:
— business definition of conduct risk;
— conduct risk governance structure;
— roles and responsibilities/accountability;
— risk identification and assessment;
— risk appetite and risk tolerances/thresholds;
— conduct risk metrics and key risk identifiers; and
— risk reporting and escalation



Role of the board and senior management

Within the framework, conduct risk should be formally defined. Senior management should have a clearly articulated and understood definition of what Conduct Risk means to the institution and an understanding of the appetite which the institution has for Conduct Risk.
As is the case with market conduct in the United Kingdom (UK), we expect that no authoritative definition of conduct risk will be provided. The Financial Conduct Authority (FCA) in the UK resisted providing a clear definition of conduct risk as they believed it would be interpreted as setting boundaries and limits to the scope of market conduct, counterproductive to industry proactively identifying conduct risks for themselves. We believe that the same approach will be applied by the FSCA in South Africa. Institutions will be given the opportunity to define conduct risk for themselves, taking into account their strategies, business models and product and service offerings. However, broadly speaking, conduct risk is the risk of a firm treating its customers unfairly and delivering inappropriate outcomes.

Conduct risk governance structure

An effective and clearly articulated conduct risk governance structure must be developed for the institution that enables the identification, assessment, management and monitoring of conduct risk. Senior management should focus on the outcomes they are delivering for their customers rather than focus purely on their own commercial interests

Roles and responsibilities

Clear roles and responsibilities for conduct risk must be established. The roles and responsibilities are typically divided into first, second and third lines of defence. The first line of defence resides with business itself. The second line of defence must reside with the risk and compliance function and the third line of defence will typically be the internal audit function. This is the preferred approach in our experience and is certainly what we understand what the FSCA's expectation will be.

In terms thereof, business is responsible for identification and management of conduct risk. This responsibility resides within each business unit and function.

Accountability should be assigned to those executives and managers involved in making commercial decisions that directly or indirectly impact on customers and with every employee, as they perform their role - all employees have a personal responsibility to ensure conduct risk is effectively managed in their role. Each business must establish and maintain detailed operational procedures and processes in respect of its management of conduct risk and individual key performance indicators must be assigned to executives, managers and other employees whose roles have been mapped to the market conduct framework. It is crucial for the key performance indicators to be aligned to achieving the conduct outcomes and there should be meaningful consequence for executives, managers and other employees who fail to deliver on these key performance indicators.

As the second line of defence, risk and compliance will develop and administer the conduct risk framework (while business will remain responsible for implementation thereof) and be responsible for oversight, monitoring and providing assurance that conduct risk is being properly implemented and managed.

Risk identification and assessment

To be able to manage, monitor and control conduct risks, the conduct risks must first be identified and assessed. This will involve a top down assessment of the business model and strategy aimed to identify and understand the inherent gross state conduct risks in the business model and strategy and the materiality of those identified risks. This is referred to as the business model and strategy analysis (BMSA).

A risk register must be developed, intended to provide a breakdown and taxonomy of the risk universe identified through the BMSA.

The purpose and objective of the BMSA must be clearly specified and there should be a clear designation of responsibility and accountability for the BMSA.

At its core, the BMSA is designed as a way of:
— Considering historic decisions and putting them in the context of current and future planned activities, to understand the impact these may have on business sustainability and consistently fair customer treatment;
— Identifying specific elements of a product and/or business operation that may pose a level of conduct risk requiring intervention or further assessment;
— Assessing how the business model and strategy could impact on customer outcomes or the sustainability of the business model;
— Assessing the impact that external factors have on the sustainability of the current and future business model and customer proposition.

The objective of the BMSA is to identify the root causes or drivers of conduct risk in the business model and strategy to facilitate preventative action and as a result provide greater likelihood of identifying potential customer detriment before it crystallises and to identify risk that may already be causing customer detriment and require immediate remediation. Measures must be put in place to manage and monitor these conduct risks, with the intention of enabling early intervention by the business and avoid negative or inappropriate outcomes for customers or the markets in which they operate.

Risk appetite and risk thresholds
The BMSA should align to the business' conduct risk appetite. When determining the actions to be taken in respect of conduct risks identified and assessed pursuant to the BMSA, it is important to consider the materiality of each identified conduct risk against the business unit conduct risk appetite.

The risk appetite is the level of risk that the business is willing to accept in order to achieve its strategy and business objectives. The framework should clearly specify what the risk appetite is, which will largely be informed by the strategy, business model and by the conduct risk outcomes. The risk appetite should be articulated in a risk appetite statement and should be a factor of what can be material to customers and not the business.
In order to support the reporting and escalation of conduct risk issues, conduct risk thresholds or tolerances should be developed.

Any risks or issues that take or are anticipated to take risk exposure outside of an acceptable risk threshold will be escalated for monitoring. The format for escalating conduct risks must be agreed. Appropriate processes and reporting lines must be established for timely and accurate escalation of conduct risk issues. These risk thresholds will be in the form of agreed metrics – key risk indicators/ key performance indicators – supported by detailed management information. This will need to be enhanced by qualitative judgement to enhance the rationale. Each business unit is required to manage conduct risk within these agreed risk thresholds.

Management Information (MI)
The Regulator expects that institutions are able to articulate and demonstrate how they are managing conduct risk with the same ability and competency as they are able to articulate how they manage any other risk, e.g. market risk. MI is a key source of identifying and rectifying market conduct issues and demonstrating to the Regulator that both backward looking and forward looking processes are in place to identify market conduct risks. There are many sources of MI that the Regulator expects institutions to analyse.

MI must be collected from the institutions systems. In order for the information to be useful, management must identify the information required to be extracted to monitor each particular conduct risk. In some cases, the information may not exist and processes must be designed to collect the information. In addition to the institutions management of conduct risk through MI analysis, are the Conduct of Business Returns (CBRs).

The CBRs are a new set of market conduct returns for all life and non-life insurers in South Africa, excluding reinsurers and captive insurers. CBRs require extensive and detailed business information.

The CBRs significantly enhance the reporting burden and complexity, raising the importance of quality data and MI. The FSCA will analyse and interpret the data they receive from institutions and apply it in their conduct supervision. It is imperative that the data is understood by institutions before they submit it, and that they are applying the MI to manage, monitor and control conduct risks within their institutions.

The market conduct framework is not static and is expected to evolve as business implements and develops its approach to conduct risk. The current FSB talks of incremental implementation. They do not expect that institutions have this perfected, but rather expect that institutions have moved beyond talking of the six TCF outcomes, and are actively identifying, tracking and responding to conduct risk within their organisations.

CEO Outlook

KPMG's 2017 CEO Outlook report provides insights of South African CEOs' expectations for business growth, the challenges they face and their strategies to chart organisational success over the next three years.

The research offers a unique lens through which to view the strategic issues these CEOs are focusing on as they lead their businesses through a period of profound change and significant opportunity.

Key findings include:

— 42 percent of South African CEOs are not as confident about the prospects for the global economy

— Almost seven in 10 CEOs (68 percent) see disruption as an opportunity, not a threat, for their business. An overwhelming 86 percent say that their organisations are actively disrupting the sector in which they operate.

— Within their own businesses, six in 10 CEOs describe themselves as confident in their company's growth prospects for the next three years.

— Nine in 10 say they are evolving their skills and personal qualities to better lead their business.

kpmg.co.za

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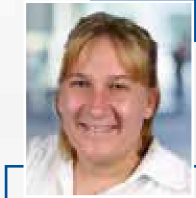

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SHORT-TERM
Insurance Industry

According to Statistics South Africa overall GDP grew by 0.3% in 2016. This is lower than the growth of 1.3% reported in 2015. Even though the main contributors to the low GDP growth was the mining and quarrying industry and the manufacturing industry, the tough trading conditions are clearly reflected in the 2016 financial results reported by the short-term insurance industry ("the industry")[1].

The industry reported gross written premiums of R92.1 billion in 2016 an increase of 4.2% when compared to the R88.4 billion written in 2015.

Salient features of featured participants	2016	2015
Increase in gross written premium	4.2%	11.4%
Increase in net earned premiums	6.2%	8.8%
(Decrease)/Increase in investment income	(15.2%)	12.4%
Claims incurred	57.9%	57.1%
Combined ratio	93.6%	94.1%
Operating ratio[2]	84.6%	82.8%

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 and increased inflation.

Pressure points

- South Africa has not escaped the uncertainty that has clouded the global economic and political arena caused by the unexpected outcomes of the Brexit referendum and the US elections. This uncertainty together with the continued unrest in the Middle East has resulted in global GDP growth of below 2%, driven by the economies of the developed world (including the United States). China recorded disappointing **GDP** growth of 4%.
- Extreme volatility in the **Rand** during the year, increased **inflation** (creeping to 6.8%) and the risk of a possible ratings downgrade to **junk status** made trading conditions tough. The Rand appreciated by approximately 11.6% closing at R13.70:USD1. 2015 saw the extreme deterioration of the currency due to 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.
- South Africa is facing one of the worst **droughts** to hit the region in 30 years. Mid 2016 a state of disaster had been declared in eight provinces as the drought continued across the country. Many small farmers are expected to go out of business as food production and prices increase, especially in the Free State province.
- The unemployment rate in South Africa increased to 27.7% in the first quarter of 2017 from 26.5% in the previous period. It is the highest unemployment rate since the first quarter of 2004. With the average South African consumer becoming poorer due to the economic environment and rising **unemployment,** insurance products still remain a luxury product.

Growth[3]

The strained South African economy has made growth in the insurance industry a sought after commodity. Premium rate increases to the customer are met with much resistance due to affordability constraints and with many digital platforms available, the customer can easily and quickly shop around for more competitive quotes and change its insurance provider in a few easy steps.

As a result the insurance company is forced to be innovative through partnerships, new products and the use of technology to stimulate real growth. We have noted a marked slowdown in partnerships within other African territories when compared to 2014 and 2015. This is mostly as a result of a slowdown in expansion projects throughout Africa off the back of the slowing global economy and disappointing GDP rates reported by China.
Set out below is a short synopsis of some of the growth initiatives taken during the year.

[1] At the date of this report the Financial Services Board had not yet published their annual report for 2016 indicating the annual net premiums reported by the industry. In 2015 the net premiums written of the companies featured in this publication approximated 90% (2014 : 85%) of the industry's net written premiums and based on that, this survey results are a fair representation of the results of the overall industry. We assess that this would be consistent in 2016.
[2] (claims incurred + net commission incurred +management expenses – investment income)/net earned premium
[3] Information in this section obtained from www.cover.co.za

Departures and arrivals

PPS Short-Term Insurance

In early 2016 PPS announced the launch of their short-term insurance entity focussing on short-term insurance offerings to the South African graduate professional market.

Mr Hoosen, Chief Executive Officer, explained that following the successful growth of the business, paired with a better understanding of the specific risks of the graduate professional market, the business has entered the next phase of its strategic roadmap. A joint venture with Santam was entered where Santam will assist PPS Short-Term Insurance to develop the systems required for operation as a short-term insurer and provide claims administration services. Santam will also be taking up a shareholding in PPS Short-Term Insurance.

SaXum Insurance

Following significant changes to the shareholders and executive management of SaXum Insurance in 2014, the company struggled to maintain profitable growth to support the expense base. SaXum was prohibited from writing any new short-term insurance business from September 8, 2016. On Thursday, 20 October 2016, the High Court granted an application to place SaXum into liquidation due to its insolvency. The liquidation process is still underway.

The use of technology

Infiniti Insurance launches online platform

Infiniti Insurance launched Infiniti Online – a secure online insurance platform, offering clients the autonomy to manage their personal and business insurance requirements entirely online. The entire on-boarding process is completed online – from choosing the appropriate cover, to monthly debits and claims. Together with itemised costing, this makes the registration and securing of cover, simple and completely transparent.

Dial Direct launches online vehicle self-inspections

During the year Dial Direct launched an online self-inspections offering for vehicles. Warwick Scott-Rodger, Head of Dial Direct commented: "Now our customers can do their own inspection, anytime, anywhere. All that's needed are nine photographs which can be snapped with a cellphone and for the customer to complete a simple questionnaire about their vehicle's overall condition. Customer's will be prompted throughout the process which shouldn't take longer than five minutes." Scott-Rodger believes that self-service is the future of customer service and companies who don't offer a do-it-yourself solution will fall short.

MiWay releases new App feature

A new feature was launched on the MiWay App to help all road users. The Accident Scene feature enables accurate recording of road accident details required to lodge a claim. Max Huggins, Chief Operating Officer at MiWay says, "The Accident Scene feature is designed to make life easier for all South African road users. Often people are too traumatised immediately after an accident to correctly gather or even recall all the information that they will need later. Crucial information and evidence is often lacking when it comes to filing a police report, insurance claim or Road Accident Fund claim. This feature on the MiWay App is the solution that every road user needs in the event of an accident." The Accident Scene feature is freely available to both MiWay clients and non-clients alike.

New products and partnerships

Centriq in partnership with Tradesure

On 1 April 2016 Centriq Insurance entered into an underwriting management agency partnership with Tradesure Commercial Specialists. Tradesure provides small to medium sized businesses with a comprehensive range of specialised commercial and trucking insurance products.

Kingprice

In 2016 King Price increased their service offering to include business insurance.

Chubb launches multinational political violence and terrorism cover and Cyber Enterprise Risk Management

Chubb introduced a multinational political violence and terrorism insurance solution for businesses in South Africa. The new solution has been designed to respond to changing client needs and increasing demand for cover in today's evolving geopolitical environment. It provides comprehensive, market-leading multinational cover through the company's extensive global network. It also offers integrated cover across the full spectrum of terrorism and political violence perils, such as bomb hoax threat, transit cover and looting and pillaging.

In addition, the entity launched Cyber Enterprise Risk Management, as the company continues to invest in its cyber risk capabilities.

Cyber Enterprise Risk Management is an end-to-end risk management solution which includes a wide range of cyber risk assessment, post-event crisis management and risk transfer solutions to address the growing enterprise-wide cyber and data privacy risks facing companies of all sizes. The policy provides comprehensive cyber risk cover, including for first party business income loss, data restoration, cyber extortion, third party liability arising from privacy and security incidents, and for crisis response costs.

Crawford & Company, a global leader in claims and crisis management, will provide clients with a single point of contact and a 24/7 incident response platform to report cyber incidents. Crawford's qualified incident managers will help insureds navigate through the complexities of a cyber incident from start to finish and offer access to a global network of crisis management service providers.

Mutual & Federal Renewable Energy Project Insurance

The construction of renewable energy plants is complex and involves a diversity of risk. Many of the components comprising the solar or wind farms may be sourced overseas, and this would involve the importing and shipping of the components. Once the plant has been constructed, the permanent assets will need appropriate cover, from testing and start-up through to full operation. Mutual & Federal (M&F) has developed a product, using a 'cradle to grave' design approach, which provides marine-, construction-, and operational cover, all in one comprehensive policy.

Ctrack

MiWay Business Insurance in collaboration with Ctrack supply fleet management solutions to their Heavy Commercial Vehicle (HCV) clients. With effect from August 2016, MiWay Business Insurance is adding value to its commercial vehicle insurance products by installing Ctrack devices to all insured HCV.

The Ctrack service not only supports stolen vehicle tracking and recovery; it also delivers rich contextual vehicle usage confirmation. Ctrack also partnered with Vulindlela Underwriting Managers (VUM), the preferred insurance provider for innovative technology platform Uber South Africa.

This is the first Pay-per-Kay (PPK) model that actively encourages Uber driver-partners to improve their driving behaviour, since they will be rewarded with lower insurance premiums for good driving. Their driving style is measured by a Ctrack telematics device installed in their vehicle.

Virgin Money launches insurance venture with AIG

Virgin Money South Africa in 2016 announced the launch of Virgin Money Insurance (VMI), a short-term insurance venture in partnership with global insurer American International Group, Inc. (AIG). The launch follows an intense journey to understand the consumer's motivation for purchasing insurance and aims to revolutionise the customer's experience of insurance in South Africa. "We have set out to redefine insurance in the South African market with our ultimate goal being to place the customer at the heart of our insurance offering," says VMSA CEO, Ingrid Veysie. "In so doing we will evolve from a brand that merely 'sells' their insurance cover for cars, homes and funeral to one that offers insurance solutions for people, who are at the heart of everything that we do".

Santam partners with MRoA[4]

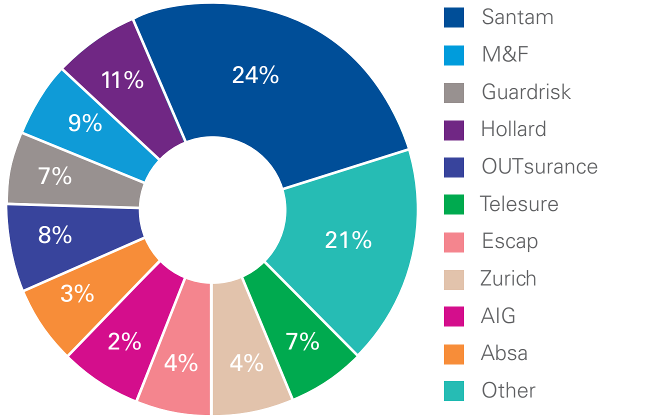
Santam, entered into an agreement with leading reinsurer Munich Reinsurance Company of Africa Limited (MRoA) in terms of which selected Santam business units will be able to use the reinsurer's Standard & Poor's ("S&P") AA- credit rating to write inwards international reinsurance business on MRoA license. The transaction further supports Santam's strategy to profitably grow its insurance and reinsurance business from outside the borders of South Africa focusing on the rest of Africa, India and Asia. The business continues to grow through its international diversification strategy. The agreement with MRoA will enable Santam to further the group's strategic objectives in territories outside South Africa in situations where these are dependent on Santam's S&P international credit rating.

Market share

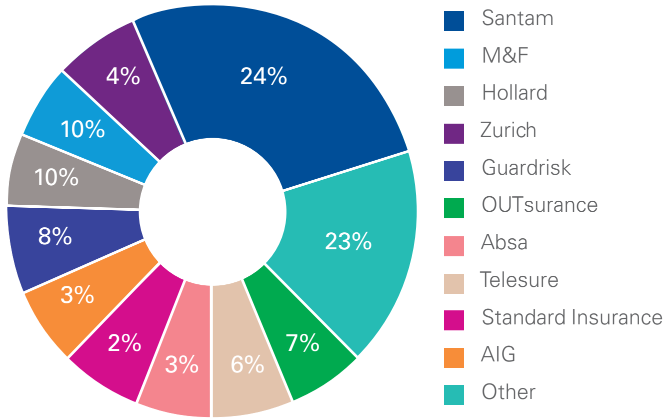
The top ten entities still dominate the South African insurance market, underwriting 79% of the gross written premiums (GWP) for 2016 (2015: 80%). Through effective diversification strategies, and clear expansion plans the two insurance giants, Santam and Hollard have secured 36% of the market share.

The charts below indicates GWP[5] of the ten largest short-term insurance companies.

2016 Marketshare



2015 Marketshare



[4] www.santam.co.za

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

For a second consecutive year Hollard has managed to increase their overall market share. GWP exceeded the R10 billion mark. With the conclusion of the Regent acquisition on 28 June 2017, their position as second largest insurer is now well cemented. "Acquiring Regent is an important milestone for Hollard, given our objectives of increasing our African footprint and building scale in our South African business. The deal expands our life distribution capability and significantly enhances our presence and capability in the commercial vehicle space" said Nic Kohler, CEO of Hollard Insurance Group.

Kohler notes that the integration of the two businesses will strengthen Hollard's position as South Africa's largest independent insurance group, and result in a consolidated operation that employs more than 3 600 people and generates more than R20 billion per year in premium income.[6]

Santam increased its market share marginally and its press release stated that the property class achieved strong growth of 11% on the back of increased corporate property business written in the rest of Africa and Asia and good growth achieved by the Santam Re property portfolio. The crop insurance business showed significant growth of 17% following the low premium growth in 2015 due to prevailing drought conditions. It was further noted that Santam's focus on international diversification continued to reflect positive growth results with gross written premium from the rest of Africa, India, South-East Asia and China written on the Santam Ltd licence of R1 431 million for the period (2015: R1 354 million).

Eskom's wholly owned insurance captive company, Escap, manages and insures the business risk of Eskom and its subsidiaries, excluding nuclear and aviation liabilities. Escap's increased premium added R1.8 billion to the South African gross written premium and R1.5 billion on a net basis for 2016. With this increased premium Standard Insurance had to make way for Escap to enter the top 10.

M&F continued to lose market share and has in June 2017 re-branded to Old Mutual insurance. Research conducted indicated that a single unified brand would have significant advantages for the company and its customers, who will gain the benefit of a full range of short-term insurance solutions under one brand, improved service and lower costs. The decrease in premium for the year under review was mostly due to an inwards reinsurance policy which was transferred to M&F Risk Financing. The results of M&F Risk Financing are not included in this survey.

Zurich, now showing some stability in market share but deteriorated results, was rebranded to Bryte Insurance in February 2017 following the acquisition by Canadian-based Fairfax Financial Holdings Limited (Fairfax) in 2016.

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. With the inclusion of this premium OUTsurance increased gross written premium by 18%. The consolidated premium of R14,7 billion would have placed OUTsurance as second largest insurer.The following was documented in the OUTsurance annual report:

"Operating conditions in the South African economy weakened over the course of the 2016 financial year. A significant decrease in new vehicle sales, a weaker and more volatile currency and general recessionary conditions deteriorated the outlook for the local insurance sector. Premium growth at OUTsurance benefitted from inflation brought about by a weaker currency and higher local inflation. Against this backdrop the South African operation delivered continued revenue and earnings growth. Our life insurance operation continues to mature and has delivered strong earnings and embedded value growth in 2016."

For the first time in a number of years the combined results of Bancassurers have showed subdued growth mostly resulting from a decrease in the GWP recorded by Absa Insurance . Standard Insurance recorded remarkable growth of 9% due to growth in Personal Accident, Stansure and Homeowners business.

Profitability

Claims activity in 2016 was benign until 9 November 2016. Flash flooding hit the eastern suburbs of the country's largest city on Wednesday 09 November, following widespread spring rains. Almost 90 mm of rain fell in 3 hours during the storm, according to South African Weather Service (SAWS).[7]

Short-term insurers worked around the clock on Thursday and M&F expected claims in excess of R100 million. The final loss exposure landed at R150 million for the company. In the last four years, weather-related damage has cost the insurance industry a staggering R2.5billion in losses. While severe weather is not an uncommon occurrence in South Africa, what makes the events in Gauteng particularly noteworthy is the net retained exposure that the province represents. Gauteng's built-up area constitutes only 0.5% of SA's land surface area, but due to the fact that the area is so densely populated, Gauteng constitutes 35% of the exposure to catastrophic events such as hail storms and flash floods.[8]

The severe impact of the floods is notable in the claims statistics of Standard Insurance, Absa Idirect, Zurich, Nedgroup and Compass. One must also take into consideration that the claims reported in November 2016 will only impact the 2017 results of those companies with March or June year-ends.

The continued drought conditions also had a negative impact on the loss ratios for 2016. On average the loss ratio only deteriorated by 1% to 58% for the year.

There was a deterioration in the losses incurred by Sasria resulting from the #FeesMustFall student protests, which took place on campuses around the country last year.

[6] www.hollard.co.za
[7] www.floodlist.com
[8] www.cover.co.za
[9] www.businessday.co.za

On the investment front it was a mostly torrid year for the markets, with some blue-chip stalwarts reaching unexpected lows. A chart depicting the all share index might at first glance not look too tragic, with the line holding comfortably above the 50,000 points level. Vibrant consumer-driven sectors and traditional rand hedges turned sour, and rotating into better-performing sectors was not easy. Many of the reliable "default" stock picks such as Naspers, PSG, Remgro, BATS and Aspen performed disappointingly.[9]

The popular UK-aligned stocks were shattered by the surprise Brexit decision — most notably Brait, Capital & Counties and Intu (all down more than 40%). The JSE ended flat for the 2016 year.

Regulatory front

2016 saw Solvency Assessment and Management (“SAM”) moving into its implementation phase. The annual Quantitative Reporting Templates were subject to external audit in 2016. At the date of publishing this report it is still uncertain when we will enter a live SAM environment.

The FSB published the **Financial Soundness Standards** (“FS”) documentation on 7 November 2016. This covers the **Pillar 1** requirements for all entities that will be licensed under the Insurance Bill.
These are:

- Financial Soundness Standards for **Insurers** (“FSI”) and Guidance Notes
- Financial Soundness Standards for **Insurance Groups** (“FSG”)
- Financial Soundness Standards for **Branches of Foreign Reinsurers** (“FSB”)
- Financial Soundness Standards for **Lloyd’s** (“FSL”)
- Financial Soundness Standards for **Microinsurers** (“FSM”)

These standards replace all the previously published SAM technical specifications (‘tech spec’) as per SA QIS3 and subsequent updates. The FS documentation is written in such a manner as to be acceptable as subordinate legislation, as opposed to the tech spec which was written with more of an explanatory tone. There are therefore numerous subtle differences in phraseology and structure, as well as a streamlined feel to the FS documentation, which may lead to interpretational differences between the two.

. . . and looking ahead

It is most certain that tough trading conditions will continue. The economic environment remains weak and combined with regulatory uncertainty creates the perfect storm for 2017.
The recent Cape Storms and Knysna fires will ensure that profitability remains under pressure.
In this environment, it is essential that short-term insurers continue to evolve or face extinction.

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

Accounting year end	Dec-16	Dec-15	Dec-16	Dec-15	Nov-16	Nov-15	Mar-16	Mar-15	Dec-16	Dec-15
Group/Company	**Absa idirect Limited**		**Absa Insurance Company Limited**		**AIG South Africa Limited**		**Alexander Forbes Insurance Company Limited**		**Allianz Global Corporate and Specialty South Africa Limited**	
Share capital and share premium	118 510	118 510	31 000	31 000	437 500	437 500	67 915	67 915	90 500	90 500
Retained earnings/(deficit)	64 748	50 376	1 123 644	1 089 994	141 650	165 249	119 558	86 994	24 553	19 602
Reserves	-	-	2 740	1 195	-	-	-	-	-	-
Total shareholders' funds	**183 258**	**168 886**	**1 157 384**	**1 122 189**	**579 150**	**602 749**	**187 473**	**154 909**	**115 053**	**110 102**
Gross outstanding claims	70 211	50 718	445 931	475 488	1 648 063	2 535 791	312 867	236 941	946 724	1 408 918
Gross unearned premium reserve	25 012	20 821	688 959	709 694	825 147	932 703	26 213	24 543	290 424	321 715
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	-	-	5 747	7 079	237 566	260 512	5 136	4 819	98 064	92 867
Deferred tax liability	-	-	-	-	-	-	-	-	-	-
Other liabilities	39 897	42 821	222 072	140 666	951 400	2 335 784	123 430	95 650	213 396	292 033
Total liabilities	**135 120**	**114 360**	**1 362 709**	**1 332 927**	**3 662 176**	**6 064 790**	**467 646**	**361 953**	**1 548 608**	**2 115 533**
Total investments including investments in subsidiaries	**224 361**	**184 654**	**1 656 945**	**1 553 615**	**739 319**	**716 448**	**327 220**	**249 017**	**-**	**-**
Deferred tax asset, intangible assets and PPE	7 641	6 962	80 310	124 764	201 515	105 053	10 875	12 358	4 337	5 527
Reinsurers' share of outstanding claims	27 233	24 252	274 788	283 653	1 484 551	2 324 308	241 726	178 199	928 932	1 366 974
Reinsurers' share of unearned premium reserve	4 149	3 789	55 074	59 078	722 956	813 214	19 704	18 491	290 388	324 061
Gross expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Deferred acquisition costs	-	-	121 381	123 603	123 235	139 716	2 340	2 210	72 714	70 240
Cash and cash equivalents	47 945	54 877	183 863	179 582	381 600	1 935 952	19 679	24 862	176 978	200 743
Other assets	7 049	8 712	147 732	130 821	588 150	632 848	33 575	31 725	190 312	258 090
Total assets	**318 378**	**283 246**	**2 520 093**	**2 455 116**	**4 241 326**	**6 667 539**	**655 119**	**516 862**	**1 663 661**	**2 225 635**
International solvency margin	41%	44%	52%	55%	245%	144%	49%	44%	2149%	(5201%)
Total assets/Total liabilities	236%	248%	185%	184%	116%	110%	140%	143%	107%	105%
Change in shareholders' funds	9%		3%		(4%)		21%		4%	

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

Accounting year end	Dec-16	Dec-15	Jun-16	Jun-15	Jun-16	Jun-15	Jun-16	Jun-15	Dec-16	Dec-15
Group/Company	**Attorneys Insurance Indemnity Fund**		**Auto and General Insurance Company Limited**		**Bidvest Insurance Limited**		**Budget Insurance Company Limited**		**Centriq Insurance Company Limited**	
Share capital and share premium	20 258	20 258	53 506	53 506	10 000	10 000	80 001	80 001	55 000	55 000
Retained earnings/(deficit)	214 951	216 821	518 076	494 151	304 036	248 931	207 060	179 164	190 960	137 394
Reserves	59 232	76 151	-	-	117 234	229 361	-	-	-	-
Total shareholders' funds	**294 441**	**313 230**	**571 582**	**547 657**	**431 270**	**488 292**	**287 061**	**259 165**	**245 960**	**192 394**
Gross outstanding claims	343 407	300 777	351 282	350 426	106 074	166 977	198 827	210 119	676 830	588 108
Gross unearned premium reserve	73 130	47 982	138 153	137 161	340 543	337 532	16 360	5 452	1 704 866	1 630 918
Reinsurers' share of expected salvages and recoveries	-	-	41 572	51 141	-	-	18 887	20 729	-	-
Owing to cell owners	-	-	-	-	-	-	-	-	1 029 037	880 276
Deferred reinsurance commission revenue	-	-	-	-	-	-	-	-	22 292	16 995
Deferred tax liability	-	-	-	-	32 652	52 524	-	-	-	-
Other liabilities	10 369	15 197	169 908	177 060	42 722	17 019	63 321	65 528	754 831	590 069
Total liabilities	**426 906**	**363 956**	**700 915**	**715 788**	**521 991**	**574 052**	**297 395**	**301 828**	**4 187 856**	**3 706 366**
Total investments including investments in subsidiaries	**533 807**	**518 195**	**570 695**	**644 507**	**495 556**	**644 823**	**30 654**	**81 869**	**3 309 776**	**2 920 696**
Deferred tax asset, intangible assets and PPE	543	660	4 044	2 693	-	-	872	214	15 138	22 321
Reinsurers' share of outstanding claims	61 132	111 152	52 374	52 174	-	-	14 750	17 897	279 543	192 852
Reinsurers' share of unearned premium reserve	6 431	6 789	-	-	-	-	-	-	78 492	63 202
Gross expected salvages and recoveries	-	-	86 700	104 994	-	-	54 871	60 312	-	-
Deferred acquisition costs	-	-	14 967	13 913	56 138	41 928	-	-	25 321	23 079
Cash and cash equivalents	117 668	38 977	301 424	184 806	258 498	259 847	409 123	297 594	274 827	226 464
Other assets	1 766	1 413	242 293	260 358	143 069	115 746	74 186	103 107	450 719	450 146
Total assets	**721 347**	**677 186**	**1 272 497**	**1 263 445**	**953 261**	**1 062 344**	**584 456**	**560 993**	**4 433 816**	**3 898 760**
International solvency margin	221%	385%	43%	42%	124%	158%	42%	42%	42%	22%
Total assets/Total liabilities	169%	186%	182%	177%	183%	185%	197%	186%	106%	105%
Change in shareholders' funds	(6%)		4%		(12%)		11%		28%	

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

Accounting year end	Dec-16	Dec-15	Jun-16	Jun-15	Dec-16	Dec-15	Mar-16	Mar-15	Jun-16	Jun-15
Group/Company	**Chubb Insurance South Africa Limited**		**Clientele General Insurance Limited**		**Compass Insurance Company Limited**		**Corporate Guarantee (South Africa) Limited**		**Dial Direct Insurance Limited**	
Share capital and share premium	115 000	115 000	42 500	42 500	114 284	114 284	42 900	42 900	20 001	20 001
Retained earnings/(deficit)	63 642	36 838	110 507	79 458	81 600	47 190	23 185	19 436	170 785	174 077
Reserves	2 581	3 904	2 419	1 520	-	-	-	-	-	-
Total shareholders' funds	**181 223**	**155 742**	**155 426**	**123 478**	**195 884**	**161 474**	**66 085**	**62 336**	**190 786**	**194 078**
Gross outstanding claims	467 878	453 723	10 740	9 205	435 359	397 900	6 655	5 169	115 807	132 602
Gross unearned premium reserve	221 975	215 597	-	-	93 781	71 006	406 040	393 559	97 460	97 610
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	13 510	17 109
Owing to cell owners	-	-	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	48 867	50 376	-	-	29 492	22 591	-	-	-	-
Deferred tax liability	829	1 168	5 040	4 316	-	-	140	-	-	-
Other liabilities	101 918	107 175	45 073	36 807	220 428	158 954	5 347	5 982	37 646	54 057
Total liabilities	**841 467**	**828 039**	**60 853**	**50 328**	**779 060**	**650 451**	**418 182**	**404 710**	**264 423**	**301 378**
Total investments including investments in subsidiaries	**186 441**	**148 679**	**177 087**	**136 332**	**407 094**	**321 858**	**298 276**	**337 731**	**85 832**	**169 402**
Deferred tax asset, intangible assets and PPE	4 556	5 006	14 735	10 052	5 917	12 724	82	277	1 120	249
Reinsurers' share of outstanding claims	370 612	360 282	-	-	393 042	355 306	-	-	13 463	16 360
Reinsurers' share of unearned premium reserve	165 575	170 378	-	-	93 622	66 701	-	-	-	-
Gross expected salvages and recoveries	-	-	-	-	-	-	-	-	28 100	35 673
Deferred acquisition costs	32 470	29 614	-	-	26 635	19 962	-	-	-	-
Cash and cash equivalents	104 913	161 300	22 663	25 011	20 323	12 863	116 578	55 614	278 971	227 078
Other assets	158 123	108 522	1 794	2 411	28 311	22 511	69 331	73 424	47 723	46 694
Total assets	**1 022 690**	**983 781**	**216 279**	**173 806**	**974 944**	**811 925**	**484 267**	**467 046**	**455 209**	**495 456**
International solvency margin	154%	140%	51%	51%	280%	202%	240%	82%	47%	47%
Total assets/Total liabilities	122%	119%	355%	345%	125%	125%	116%	115%	172%	164%
Change in shareholders' funds	16%		26%		21%		6%		(2%)	

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

Accounting year end	Dec-16	Dec-15	Mar-16	Mar-15	Mar-16	Mar-15	Dec-16	Dec-15	Jun-16	Jun-15
Group/Company	**Enpet Africa Insurance Limited**		**Escap SOC Limited**		**Export Credit Insurance Corporation of South Africa Limited**		**Exxaro Insurance Company Limited**		**First for Women Insurance Company (RF) Limited**	
Share capital and share premium	3 000	3 000	379 500	379 500	316 051	316 051	5 000	5 000	82 000	82 000
Retained earnings/(deficit)	91 172	69 322	2 584 705	1 053 027	1 933 635	1 318 293	214 977	183 337	27 735	29 609
Reserves	23 286	18 906	(3 953)	(1 014)	2 998 170	2 689 895	-	-	-	-
Total shareholders' funds	**117 458**	**91 228**	**2 960 252**	**1 431 513**	**5 247 856**	**4 324 239**	**219 977**	**188 337**	**109 735**	**111 609**
Gross outstanding claims	125 958	111 959	8 795 818	7 454 152	760 054	611 022	10 919	14 443	101 146	109 291
Gross unearned premium reserve	-	632	1 148 664	899 541	3 350 658	2 955 903	65 959	65 810	29 227	24 680
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	20 241	24 929
Owing to cell owners	-	-	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	-	-	48 448	32 502	-	-	10 987	11 215	-	-
Deferred tax liability	593	-	58 929	-	43 357	38 350	-	-	-	-
Other liabilities	1 340	1 489	132 645	8 664	30 387	35 049	1 147	892	43 495	43 719
Total liabilities	**127 891**	**114 080**	**10 184 504**	**8 394 859**	**4 184 456**	**3 640 324**	**89 012**	**92 360**	**194 109**	**202 619**
Total investments including investments in subsidiaries	**98 711**	**90 616**	**8 469 632**	**6 043 054**	**7 072 663**	**2 582 549**	**-**	**-**	**43 096**	**81 962**
Deferred tax asset, intangible assets and PPE	-	854	-	123 095	14 471	9 305	3 076	3 140	55	144
Reinsurers' share of outstanding claims	32 821	17 755	3 824 648	2 983 351	-	-	9 633	13 303	18 902	23 455
Reinsurers' share of unearned premium reserve	-	311	484 479	325 018	-	-	54 883	56 675	-	-
Gross expected salvages and recoveries	-	-	-	-	-	-	-	-	21 274	26 197
Deferred acquisition costs	-	-	24 224	16 251	-	-	-	-	-	-
Cash and cash equivalents	106 644	92 911	90 996	17 489	439 960	3 817 639	240 266	205 151	161 360	103 380
Other assets	7 173	2 861	250 777	318 114	1 905 218	1 555 070	1 131	2 428	59 157	79 090
Total assets	**245 349**	**205 308**	**13 144 756**	**9 826 372**	**9 432 312**	**7 964 563**	**308 989**	**280 697**	**303 844**	**314 228**
International solvency margin	276%	281%	105%	103%	1274%	242%	977%	1018%	446%	465%
Total assets/Total liabilities	192%	180%	129%	117%	225%	219%	347%	304%	157%	155%
Change in shareholders' funds	29%		107%		21%		17%		(2%)	

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

Accounting year end	Jun-16	15 month period ended Jun-15	Dec-16	Dec-15	Sep-16	Sep-15	Jun-16	Jun-15	Jun-16	Jun-15
Group/Company	**Guardrisk Insurance Company Limited**		**HDI-Gerling Insurance Company of South Africa Limited**		**Indequity Specialised Insurance Limited**		**Legal Expenses Insurance Southern Africa Limited**		**Momentum Alternative Insurance Limited**	
Share capital and share premium	224 414	114 414	17 955	17 955	11 470	11 470	16 634	16 634	25 000	25 000
Retained earnings/(deficit)	169 151	172 897	31 642	30 295	10 987	15 766	390 697	370 664	3 848	2 801
Reserves	-	-	4	(50)	(206)	-	8 869	9 084	-	-
Total shareholders' funds	**393 565**	**287 311**	**49 601**	**48 200**	**22 251**	**27 236**	**416 200**	**396 382**	**28 848**	**27 801**
Gross outstanding claims	1 456 962	1 210 696	532 858	280 812	3 886	3 181	240 027	197 318	-	-
Gross unearned premium reserve	3 155 242	3 029 288	95 399	94 471	272	245	-	-	-	-
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	5 152 780	4 109 310	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	109 142	98 063	18 298	20 063	-	-	-	-	-	-
Deferred tax liability	10 767	20 804	-	-	289	137	11 106	9 850	-	31
Other liabilities	792 615	481 815	52 678	59 337	2 884	2 418	72 298	68 780	4	-
Total liabilities	**10 677 508**	**8 949 976**	**699 233**	**454 683**	**7 331**	**5 981**	**323 431**	**275 948**	**4**	**31**
Total investments including investments in subsidiaries	**6 826 524**	**6 702 962**	**33 007**	**58 997**	**3 940**	**-**	**525 203**	**493 578**	**19 606**	**18 332**
Deferred tax asset, intangible assets and PPE	35 587	33 000	224	246	1 602	1 481	63 232	55 334	1	-
Reinsurers' share of outstanding claims	2 297 643	850 513	530 094	278 104	53	41	-	-	-	-
Reinsurers' share of unearned premium reserve	521 396	416 227	93 494	91 732	-	-	-	-	-	-
Gross expected salvages and recoveries	-	-	-	-	2 263	1 525	-	-	-	-
Deferred acquisition costs	77 462	61 078	13 482	15 365	-	-	-	-	-	-
Cash and cash equivalents	442 424	399 206	18 328	6 927	21 378	29 565	139 755	111 497	9 173	9 414
Other assets	870 037	774 301	60 205	51 512	346	605	11 441	11 921	71	85
Total assets	**11 071 073**	**9 237 287**	**748 834**	**502 883**	**29 582**	**33 217**	**739 631**	**672 330**	**28 851**	**27 831**
International solvency margin	13%	8%	1498%	1051%	48%	63%	55%	58%	N/A	N/A
Total assets/Total liabilities	104%	103%	107%	111%	404%	555%	229%	244%	721275%	89777%
Change in shareholders' funds	37%		3%		(18%)		5%		4%	

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

Accounting year end	Jun-16	Jun-15	Jun-16	Jun-15	Dec-16	Dec-15	Dec-16	Dec-15	Dec-16	Dec-15
Group/Company	**Momentum Short Term Insurance Company Limited**		**Momentum Structured Insurance Limited**		**Mutual & Federal Insurance Company Limited**		**Nedgroup Insurance Company Limited**		**New National Assurance Company Limited**	
Share capital and share premium	529 302	419 246	9 000	9 000	1 797 000	1 797 000	5 000	5 000	14 000	14 000
Retained earnings/(deficit)	(265 121)	(159 913)	(1 762)	(1 796)	2 924 000	2 801 000	601 366	769 766	177 361	163 744
Reserves	-	-	-	-	89 000	51 000	-	-	26 243	28 137
Total shareholders' funds	**264 181**	**259 333**	**7 238**	**7 204**	**4 810 000**	**4 649 000**	**606 366**	**774 766**	**217 604**	**205 881**
Gross outstanding claims	80 263	92 676	-	-	2 994 000	2 925 000	167 714	104 546	425 549	367 952
Gross unearned premium reserve	1 446	1 420	-	-	815 000	787 000	262 405	214 258	111 933	102 749
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	-	-	-	-	58 000	62 000	1 340	4 834	-	-
Deferred tax liability	-	-	7	11	-	-	32 186	34 019	6 120	4 977
Other liabilities	37 642	43 428	6 297	6 005	1 290 000	1 414 000	134 760	76 821	98 102	68 879
Total liabilities	**119 351**	**137 524**	**6 304**	**6 016**	**5 157 000**	**5 188 000**	**598 405**	**434 478**	**641 704**	**544 557**
Total investments including investments in subsidiaries	**295 687**	**225 733**	**2 862**	**2 676**	**5 611 000**	**5 192 000**	**947 593**	**1 032 814**	**78 168**	**83 262**
Deferred tax asset, intangible assets and PPE	51 079	33 851	-	-	448 000	485 000	1 224	1 157	23 848	19 578
Reinsurers' share of outstanding claims	824	173	-	-	964 000	658 000	80 405	26 710	323 982	246 342
Reinsurers' share of unearned premium reserve	186	-	-	-	318 000	287 000	5 438	4 000	90 312	77 523
Gross expected salvages and recoveries	-	-	-	-	292 000	204 000	-	-	-	-
Deferred acquisition costs	145	142	-	-	129 000	132 000	90 397	78 163	-	-
Cash and cash equivalents	32 582	131 441	10 680	10 544	119 000	445 000	48 427	31 219	195 639	207 620
Other assets	3 029	5 517	-	-	2 086 000	2 434 000	31 287	35 181	147 359	116 113
Total assets	**383 532**	**396 857**	**13 542**	**13 220**	**9 967 000**	**9 837 000**	**1 204 771**	**1 209 244**	**859 308**	**750 438**
International solvency margin	45%	50%	N/A	N/A	63%	58%	63%	84%	72%	61%
Total assets/Total liabilities	321%	289%	215%	220%	193%	190%	201%	278%	134%	138%
Change in shareholders' funds	2%		0%		3%		(22%)		6%	

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Accounting year end	Jun-16	Jun-15	Dec-16	Dec-15	Jun-16	Jun-15	Jun-16	Jun-15	Mar-16	Mar-15
Group/Company	**OUTsurance Insurance Company Limited**		**PPS Short-term Insurance Company Limited**		**Regent Insurance Company Limited**		**Renasa Insurance Company Limited**		**Safire Insurance Company Limited**	
Share capital and share premium	25 000	25 000	223 613	127 113	455 504	455 504	56 550	50 500	10 053	10 053
Retained earnings/(deficit)	3 193 954	2 829 091	(134 267)	(105 027)	66 065	45 050	(1 482)	(6 554)	101 404	90 461
Reserves	80 887	83 824	-	-	536 650	489 361	-	-	30 714	18 049
Total shareholders' funds	**3 299 841**	**2 937 915**	**89 346**	**22 086**	**1 058 219**	**989 915**	**55 068**	**43 946**	**142 171**	**118 563**
Gross outstanding claims	1 126 364	1 070 770	16 337	-	338 625	360 688	144 487	161 483	79 121	66 650
Gross unearned premium reserve	440 692	431 052	126	-	358 114	366 770	21 775	28 723	54 557	52 844
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	-	-	-	-	105 281	102 047
Deferred reinsurance commission revenue	-	-	-	-	-	-	-	-	-	-
Deferred tax liability	-	-	-	-	36 188	48 258	-	-	6 095	6 302
Other liabilities	614 561	497 284	16 486	21 753	201 596	238 340	134 227	125 594	53 701	52 032
Total liabilities	**2 181 617**	**1 999 106**	**32 949**	**21 753**	**934 523**	**1 014 056**	**300 489**	**315 800**	**298 755**	**279 875**
Total investments including investments in subsidiaries	**4 727 844**	**4 233 696**	**-**	**-**	**1 522 681**	**1 569 438**	**6 111**	**61**	**190 089**	**146 931**
Deferred tax asset, intangible assets and PPE	170 632	159 623	48 493	32 653	254 685	205 306	6 749	6 357	17 539	18 161
Reinsurers' share of outstanding claims	14 237	25 328	2 235	-	51 079	56 371	124 949	141 194	32 431	16 912
Reinsurers' share of unearned premium reserve	-	-	-	-	694	1 082	19 390	25 297	9 446	9 286
Gross expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Deferred acquisition costs	-	-	14	-	-	-	3 890	5 066	10 514	10 152
Cash and cash equivalents	189 827	182 586	63 708	8 247	92 592	85 497	114 080	105 160	45 275	56 713
Other assets	378 918	335 788	7 845	2 939	71 011	86 277	80 388	76 611	135 632	140 283
Total assets	**5 481 458**	**4 937 021**	**122 295**	**43 839**	**1 992 742**	**2 003 971**	**355 557**	**359 746**	**440 926**	**398 438**
International solvency margin	48%	45%	103%	N/A	78%	70%	42%	34%	75%	75%
Total assets/Total liabilities	251%	247%	371%	202%	213%	198%	118%	114%	148%	142%
Change in shareholders' funds	12%		305%		7%		25%		20%	

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Accounting year end	Dec-16	Dec-15	Mar-16	Mar-15	Dec-16	Dec-15	Jun-16	Jun-15	15 months ended 30 Sept-16	Jun-15
Group/Company	**Santam Limited**		**Sasria SOC Limited**		**Standard Insurance Limited**		**The Hollard Insurance Company Limited**		**Unitrans Insurance Limited**	
Share capital and share premium	103 000	103 000	-	-	30 000	30 000	1 642 601	606 850	15 150	15 150
Retained earnings/(deficit)	6 552 000	7 330 000	4 937 786	4 674 237	1 302 193	1 337 730	2 094 497	3 765 194	328 312	289 331
Reserves	(6 000)	134 000	434 750	377 385	140	140	4 012	4 012	-	-
Total shareholders' funds	**6 649 000**	**7 567 000**	**5 372 536**	**5 051 622**	**1 332 333**	**1 367 870**	**3 741 110**	**4 376 056**	**343 462**	**304 481**
Gross outstanding claims	7 821 000	7 026 000	694 038	530 131	388 739	327 710	3 301 658	2 755 612	72 569	33 458
Gross unearned premium reserve	2 919 000	3 021 000	350 357	309 455	49 495	82 728	1 813 689	1 720 948	135 722	135 281
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	247 000	250 000	5 968	5 146	2 819	5 705	-	-	4 829	9 089
Deferred tax liability	42 000	60 000	15 361	47 223	6 813	14 080	129 368	409 493	7 589	5 359
Other liabilities	6 182 000	4 883 000	159 665	115 321	118 847	91 433	1 995 030	1 693 088	83 846	100 616
Total liabilities	**17 211 000**	**15 240 000**	**1 225 389**	**1 007 276**	**566 713**	**521 656**	**7 239 745**	**6 579 141**	**304 555**	**283 803**
Total investments including investments in subsidiaries	**14 046 000**	**12 829 000**	**4 591 336**	**4 478 517**	**1 495 282**	**1 551 393**	**3 671 371**	**4 595 046**	**94 482**	**86 424**
Deferred tax asset, intangible assets and PPE	388 000	327 000	14 624	16 530	1 665	2 273	255 340	186 278	-	-
Reinsurers' share of outstanding claims	2 866 000	2 219 000	823	2 465	71 749	42 998	1 658 556	1 283 487	45 514	12 364
Reinsurers' share of unearned premium reserve	1 043 000	1 044 000	19 894	17 153	8 531	34 452	559 899	471 094	52 038	58 554
Gross expected salvages and recoveries	-	-	-	-	-	-	388 443	291 538	-	-
Deferred acquisition costs	437 000	484 000	45 428	37 668	5 343	9 011	144 297	155 022	35 327	37 828
Cash and cash equivalents	1 610 000	2 519 000	1 767 111	1 344 566	178 618	100 538	2 173 264	2 359 354	330 738	189 207
Other assets	3 470 000	3 385 000	158 709	161 999	137 858	148 861	2 129 685	1 613 378	89 918	203 907
Total assets	**23 860 000**	**22 807 000**	**6 597 925**	**6 058 898**	**1 899 046**	**1 889 526**	**10 980 855**	**10 955 197**	**648 017**	**588 284**
International solvency margin	37%	45%	348%	366%	63%	71%	46%	58%	259%	390%
Total assets/Total liabilities	139%	150%	538%	602%	335%	362%	152%	167%	213%	207%
Change in shareholders' funds	(12%)		6%		(3%)		(15%)		13%	

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

Accounting year end	Dec-16	Dec-15	Dec-16	Dec-15
Group/Company	**Zurich Insurance Company South Africa Limited**		**Zurich Risk Financing SA Limited**	
Share capital and share premium	4 650	4 650	14 995	14 995
Retained earnings/(deficit)	1 352 587	1 340 519	2 544	1 798
Reserves	125 946	297 010	-	-
Total shareholders' funds	**1 483 183**	**1 642 179**	**17 539**	**16 793**
Gross outstanding claims	1 607 642	1 183 154	802	10 501
Gross unearned premium reserve	618 151	719 731	95	358
Reinsurers' share of expected salvages and recoveries	-	-	-	-
Owing to cell owners	-	-	19 910	27 765
Deferred reinsurance commission revenue	17 378	34 629	-	-
Deferred tax liability	-	-	-	-
Other liabilities	705 095	951 304	1 505	6 381
Total liabilities	**2 948 266**	**2 888 818**	**22 312**	**45 005**
Total investments including investments in subsidiaries	**2 462 900**	**2 261 355**	**-**	**-**
Deferred tax asset, intangible assets and PPE	290 716	345 739	-	-
Reinsurers' share of outstanding claims	336 178	428 562	802	1 569
Reinsurers' share of unearned premium reserve	139 588	298 463	95	358
Gross expected salvages and recoveries	-	-	-	-
Deferred acquisition costs	78 496	88 207	-	-
Cash and cash equivalents	316 293	315 705	38 955	59 872
Other assets	807 278	792 967	-	-
Total assets	**4 431 449**	**4 530 998**	**39 852**	**61 799**
International solvency margin	50%	58%	(198%)	188%
Total assets/Total liabilities	150%	157%	179%	137%
Change in shareholders' funds	(10%)		4%	

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

Accounting year end	Dec-16	Dec-15	Dec-16	Dec-15	Nov-16	Nov-15	Mar-16	Mar-15	Dec-16	Dec-15
Group/Company	**Absa idirect Limited**		**Absa Insurance Company Limited**		**AIG South Africa Limited**		**Alexander Forbes Insurance Company Limited**		**Allianz Global Corporate and Specialty South Africa Limited**	
Gross premiums written	467 279	407 031	2 340 964	2 354 529	2 285 294	2 431 753	1 501 552	1 340 407	764 034	723 135
Net premiums written	441 651	380 038	2 216 199	2 041 430	235 954	418 969	384 102	348 382	5 354	(2 117)
Earned premiums	**442 050**	**383 245**	**2 211 753**	**2 091 616**	**253 252**	**448 346**	**383 645**	**348 157**	**1 324**	**2 583**
Total net investment income	**19 666**	**14 128**	**153 626**	**120 669**	**85 695**	**33 006**	**23 631**	**17 163**	**7 007**	**5 840**
Reinsurance commission revenue	178	580	22 006	82 711	696 365	554 373	291 293	246 144	195 494	198 564
Other income	4 173	4 491	102 787	58 004	-	30 306	59 960	52 522	4 552	3 745
Total income	**466 067**	**402 444**	**2 490 172**	**2 353 000**	**1 035 312**	**1 066 031**	**758 529**	**663 986**	**208 377**	**210 732**
Net claims incurred	358 884	287 979	1 494 562	1 380 555	290 011	366 187	272 266	233 335	(24 070)	40 365
Acquisition costs	63 969	62 136	386 393	407 865	357 789	349 076	71 079	60 133	102 042	87 052
Cell owners transactions	-	-	-	-	-	-	-	-	-	-
Management and other expenses	23 253	23 467	353 638	384 553	418 864	332 648	370 481	334 296	123 497	77 385
Total expenses	**446 106**	**373 582**	**2 234 593**	**2 172 973**	**1 066 664**	**1 047 911**	**713 826**	**627 764**	**201 469**	**204 802**
Net profit/(loss) before taxation	**19 961**	**28 862**	**255 579**	**180 027**	**(31 352)**	**18 120**	**44 703**	**36 222**	**6 908**	**5 930**
Taxation	5 589	8 081	69 928	46 456	(7 753)	5 313	12 139	10 237	1 957	1 769
Net profit/(loss) after taxation	**14 372**	**20 781**	**185 651**	**133 571**	**(23 599)**	**12 807**	**32 564**	**25 985**	**4 951**	**4 161**
Other comprehensive income/(expense)	-	-	-	(804)	-	-	-	-	-	-
Total comprehensive income/(loss) for the year	**14 372**	**20 781**	**185 651**	**132 767**	**(23 599)**	**12 807**	**32 564**	**25 985**	**4 951**	**4 161**
Transfer to/(from) retained earnings	-	-	-	-	-	-	-	-	-	-
Other comprehensive (income)/expense	-	-	-	804	-	-	-	-	-	-
Dividends	-	-	152 000	451 700	-	-	-	-	-	-
Change in retained earnings	**14 372**	**20 781**	**33 651**	**(318 129)**	**(23 599)**	**12 807**	**32 564**	**25 985**	**4 951**	**4 161**
Net premium to gross premium	95%	93%	95%	87%	10%	17%	26%	26%	1%	0%
Claims incurred to earned premium	81%	75%	68%	66%	115%	82%	71%	67%	(1818%)	1563%
Management and other expenses to net earned premium	5%	6%	16%	18%	165%	74%	97%	96%	9328%	2996%
Combined ratio	101%	97%	100%	100%	146%	110%	110%	110%	451%	242%
Operating ratio	96%	94%	93%	94%	112%	103%	104%	105%	(78%)	15%
Return on equity	8%	12%	16%	12%	(4%)	2%	17%	17%	4%	4%

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

Accounting year end	Dec-16	Dec-15	Jun-16	Jun-15	Jun-16	Jun-15	Jun-16	Jun-15	Dec-16	Dec-15
Group/Company	**Attorneys Insurance Indemnity Fund**		**Auto and General Insurance Company Limited**		**Bidvest Insurance Limited**		**Budget Insurance Company Limited**		**Centriq Insurance Company Limited**	
Gross premiums written	147 473	96 491	3 033 732	2 896 275	391 791	312 652	1 368 580	1 246 389	2 144 058	2 031 544
Net premiums written	133 003	81 339	1 344 249	1 298 150	346 960	308 882	675 723	614 871	590 087	879 032
Earned premiums	**107 498**	**74 268**	**1 343 257**	**1 292 996**	**343 950**	**295 728**	**664 814**	**613 000**	**570 448**	**669 836**
Total net investment income	**41 834**	**52 082**	**59 204**	**37 839**	**42 346**	**57 075**	**20 119**	**16 205**	**296 358**	**198 773**
Reinsurance commission revenue	-	-	647 742	619 585	7 768	1 728	310 194	284 022	257 979	180 410
Other income	-	-	58 821	49 297	-	-	46 176	41 890	76 573	110 312
Total income	**149 332**	**126 350**	**2 109 024**	**1 999 717**	**394 064**	**354 531**	**1 041 303**	**955 117**	**1 201 358**	**1 159 331**
Net claims incurred	118 604	84 515	857 290	837 532	128 614	125 887	456 818	423 884	515 458	593 214
Acquisition costs	-	-	428 760	413 066	82 881	61 017	26 068	25 527	261 637	199 368
Cell owners transactions	-	-	-	-	-	-	-	-	99 979	71 659
Management and other expenses	32 597	32 065	646 479	587 077	103 708	56 172	426 003	420 360	248 029	234 358
Total expenses	**151 201**	**116 580**	**1 932 529**	**1 837 675**	**315 203**	**243 076**	**908 889**	**869 771**	**1 125 103**	**1 098 599**
Net profit/(loss) before taxation	**(1 869)**	**9 770**	**176 495**	**162 042**	**78 861**	**111 455**	**132 414**	**85 346**	**76 255**	**60 732**
Taxation	-	-	50 070	39 099	17 384	25 788	37 018	24 578	21 347	21 355
Net profit/(loss) after taxation	**(1 869)**	**9 770**	**126 425**	**122 943**	**61 477**	**85 667**	**95 396**	**60 768**	**54 908**	**39 377**
Other comprehensive income/(expense)	(16 919)	(7 988)	-	-	-	-	-	-	-	-
Total comprehensive income/(loss) for the year	**(18 788)**	**1 782**	**126 425**	**122 943**	**61 477**	**85 667**	**95 396**	**60 768**	**54 908**	**39 377**
Transfer to/(from) retained earnings	-	-	-	-	112 127	(23 877)	-	-	1 342	-
Other comprehensive (income)/expense	16 919	7 988	-	-	-	-	-	-	-	-
Dividends	-	-	102 500	475 000	118 500	79 188	67 500	45 000	-	50 000
Change in retained earnings	**(1 869)**	**9 770**	**23 925**	**(352 057)**	**55 104**	**(17 398)**	**27 896**	**15 768**	**53 566**	**(10 623)**
Net premium to gross premium	90%	84%	44%	45%	89%	99%	49%	49%	28%	43%
Claims incurred to earned premium	110%	114%	64%	65%	37%	43%	69%	69%	90%	89%
Management and other expenses to net earned premium	30%	43%	48%	45%	30%	19%	64%	69%	43%	35%
Combined ratio	141%	157%	96%	94%	89%	82%	90%	96%	134%	126%
Operating ratio	102%	87%	91%	91%	77%	62%	87%	93%	83%	97%
Return on equity	(1%)	3%	22%	22%	14%	18%	33%	23%	22%	20%

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

Accounting year end	Dec-16	Dec-15	Jun-16	Jun-15	Dec-16	Dec-15	Mar-16	Mar-15	Jun-16	Jun-15
Group/Company	**Chubb Insurance South Africa Limited**		**Clientele General Insurance Limited**		**Compass Insurance Company Limited**		**Corporate Guarantee (South Africa) Limited**		**Dial Direct Insurance Limited**	
Gross premiums written	555 486	522 195	302 189	243 796	1 099 754	973 569	27 493	76 372	884 529	900 192
Net premiums written	117 329	111 504	302 189	243 796	69 931	79 741	27 493	76 210	406 391	409 873
Earned premiums	**106 148**	**115 933**	**302 189**	**243 796**	**74 076**	**81 824**	**15 012**	**18 955**	**406 541**	**415 196**
Total net investment income	**16 357**	**5 393**	**8 355**	**9 964**	**30 085**	**26 750**	**34 824**	**32 361**	**26 059**	**23 671**
Reinsurance commission revenue	119 384	109 112	-	-	378 975	341 365	-	-	212 998	217 479
Other income	3 393	2 608	1 652	1 381	2 015	1 204	2 035	49	21 283	22 278
Total income	**245 282**	**233 046**	**312 196**	**255 141**	**485 151**	**451 143**	**51 871**	**51 365**	**666 881**	**678 624**
Net claims incurred	64 136	82 590	34 586	25 657	44 725	44 198	25 559	26 736	290 036	312 279
Acquisition costs	97 681	92 458	140 047	106 533	357 550	331 289	1 301	1 498	7 583	4 117
Cell owners transactions	-	-	-	-	-	-	-	-	-	-
Management and other expenses	47 808	28 926	60 668	58 609	39 146	38 414	20 988	18 427	276 331	250 280
Total expenses	**209 625**	**203 974**	**235 301**	**190 799**	**441 421**	**413 901**	**47 848**	**46 661**	**573 950**	**566 676**
Net profit/(loss) before taxation	**35 657**	**29 072**	**76 895**	**64 342**	**43 730**	**37 242**	**4 023**	**4 704**	**92 931**	**111 948**
Taxation	8 853	9 518	21 252	17 367	10 038	6 963	274	47	26 223	32 885
Net profit/(loss) after taxation	**26 804**	**19 554**	**55 643**	**46 975**	**33 692**	**30 279**	**3 749**	**4 657**	**66 708**	**79 063**
Other comprehensive income/(expense)	-	-	-	-	718	(1 026)	-	-	-	-
Total comprehensive income/(loss) for the year	**26 804**	**19 554**	**55 643**	**46 975**	**34 410**	**29 253**	**3 749**	**4 657**	**66 708**	**79 063**
Transfer to/(from) retained earnings	-	-	95	1 363	-	-	-	-	-	-
Other comprehensive (income)/expense	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	24 500	37 369	-	-	-	-	70 000	150 000
Change in retained earnings	**26 804**	**19 554**	**31 048**	**8 243**	**34 410**	**29 253**	**3 749**	**4 657**	**(3 292)**	**(70 937)**
Net premium to gross premium	21%	21%	100%	100%	6%	8%	100%	100%	46%	46%
Claims incurred to earned premium	60%	71%	11%	11%	60%	54%	170%	141%	71%	75%
Management and other expenses to net earned premium	45%	25%	20%	24%	53%	47%	140%	97%	68%	60%
Combined ratio	85%	82%	78%	78%	84%	89%	319%	246%	89%	84%
Operating ratio	70%	77%	75%	74%	44%	56%	87%	75%	82%	78%
Return on equity	15%	13%	36%	38%	17%	19%	6%	7%	35%	41%

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

Accounting year end	Dec-16	Dec-15	Mar-16	Mar-15	Mar-16	Mar-15	Dec-16	Dec-15	Jun-16	Jun-15
Group/Company	**Enpet Africa Insurance Limited**		**Escap SOC Limited**		**Export Credit Insurance Corporation of South Africa Limited**		**Exxaro Insurance Company Limited**		**First for Women Insurance Company (RF) Limited**	
Gross premiums written	58 888	48 516	3 411 047	1 618 189	411 894	1 788 350	134 729	136 715	761 475	730 735
Net premiums written	42 561	32 445	2 820 903	1 383 400	411 894	1 788 350	22 525	18 492	24 604	24 021
Earned premiums	**42 818**	**32 188**	**2 731 242**	**1 481 601**	**621 103**	**379 999**	**20 584**	**13 011**	**20 056**	**21 929**
Total net investment income	**16 195**	**18 831**	**506 533**	**446 425**	**254 300**	**277 102**	**13 287**	**10 078**	**11 694**	**9 737**
Reinsurance commission revenue	3 160	3 033	24 601	25 609	-	-	22 501	26 611	208 166	199 400
Other income	93	-	992	1 499	14 051	14 352	734	600	19 849	16 687
Total income	**62 266**	**54 052**	**3 263 368**	**1 955 134**	**889 454**	**671 453**	**57 106**	**50 300**	**259 765**	**247 753**
Net claims incurred	13 051	25 600	1 079 355	1 189 513	(76 167)	(60 766)	9 245	6 607	33 140	34 087
Acquisition costs	280	314	(1 610)	2 947	228	356	(154)	1 096	8 626	6 391
Cell owners transactions	-	-	-	-	-	-	-	-	-	-
Management and other expenses	6 128	6 092	68 314	65 279	619 836	454 350	4 071	5 334	151 059	153 283
Total expenses	**19 459**	**32 006**	**1 146 059**	**1 257 739**	**543 897**	**393 940**	**13 162**	**13 037**	**192 825**	**193 761**
Net profit/(loss) before taxation	**42 807**	**22 046**	**2 117 309**	**697 395**	**345 557**	**277 513**	**43 944**	**37 263**	**66 940**	**53 992**
Taxation	11 975	5 351	585 631	187 630	357 059	209 723	12 304	10 434	18 815	21 997
Net profit/(loss) after taxation	**30 832**	**16 695**	**1 531 678**	**509 765**	**(11 502)**	**67 790**	**31 640**	**26 829**	**48 125**	**31 995**
Other comprehensive income/(expense)	318	(3 752)	(2 939)	1 794	935 119	519 483	-	-	-	-
Total comprehensive income/(loss) for the year	**31 150**	**12 943**	**1 528 739**	**511 559**	**923 617**	**587 273**	**31 640**	**26 829**	**48 125**	**31 995**
Transfer to/(from) retained earnings	4 062	416	-	-	626 844	(912 035)	-	-	-	-
Other comprehensive (income)/expense	(318)	3 752	2 939	(1 794)	(935 119)	(519 483)	-	-	-	-
Dividends	4 920	7 500	-	-	-	-	-	-	50 000	20 000
Change in retained earnings	**21 850**	**8 779**	**1 531 678**	**509 765**	**615 342**	**(844 245)**	**31 640**	**26 829**	**(1 875)**	**11 995**
Net premium to gross premium	72%	67%	83%	85%	100%	100%	17%	14%	3%	3%
Claims incurred to earned premium	30%	80%	40%	80%	(12%)	(16%)	45%	51%	165%	155%
Management and other expenses to net earned premium	14%	19%	3%	4%	100%	120%	20%	41%	753%	699%
Combined ratio	38%	90%	41%	83%	88%	104%	(45%)	(104%)	(76%)	(26%)
Operating ratio	0%	32%	23%	53%	47%	31%	(110%)	(182%)	(135%)	(70%)
Return on equity	26%	18%	52%	36%	0%	2%	14%	14%	44%	29%

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

Accounting year end	Jun-16	15 month period ended Jun-15	Dec-16	Dec-15	Sep-16	Sep-15	Jun-16	Jun-15	Jun-16	Jun-15
Group /Company	**Guardrisk Insurance Company Limited**		**HDI-Gerling Insurance Company of South Africa Limited**		**Indequity Specialised Insurance Limited**		**Legal Expenses Insurance Southern Africa Limited**		**Momentum Alternative Insurance Limited**	
Gross premiums written	6 295 073	7 333 542	607 120	388 526	49 069	44 937	755 573	683 057	-	-
Net premiums written	3 014 965	3 683 738	3 311	4 586	46 833	43 158	755 573	683 057	-	-
Earned premiums	**3 081 325**	**3 487 385**	**4 145**	**3 013**	**46 806**	**43 144**	**755 573**	**683 057**	**-**	**-**
Total net investment income	**525 840**	**566 384**	**4 365**	**4 473**	**1 572**	**4 716**	**56 186**	**36 688**	**1 835**	**1 662**
Reinsurance commission revenue	335 475	401 159	45 733	41 654	-	-	-	-	-	-
Other income	106 040	145 248	2 173	2 049	103	72	2 681	3 247	-	-
Total income	**4 048 680**	**4 600 176**	**56 416**	**51 189**	**48 481**	**47 932**	**814 440**	**722 992**	**1 835**	**1 662**
Net claims incurred	653 078	599 848	1 397	1 366	19 884	18 991	147 485	94 781	-	-
Acquisition costs	763 192	912 394	30 573	28 453	3 577	3 312	96 949	93 389	-	-
Cell owners transactions	305 885	310 866	-	-	-	-	-	-	-	-
Management and other expenses	2 228 259	2 629 976	16 941	14 682	12 939	12 582	500 695	469 425	359	902
Total expenses	**3 950 414**	**4 453 084**	**48 911**	**44 501**	**36 400**	**34 885**	**745 129**	**657 595**	**359**	**902**
Net profit/(loss) before taxation	**98 266**	**147 092**	**7 505**	**6 688**	**12 081**	**13 047**	**69 311**	**65 397**	**1 476**	**760**
Taxation	32 012	49 875	2 160	2 027	3 373	2 803	9 285	12 951	429	157
Net profit/(loss) after taxation	**66 254**	**97 217**	**5 345**	**4 661**	**8 708**	**10 244**	**60 026**	**52 446**	**1 047**	**603**
Other comprehensive income/(expense)	-	-	55	(49)	206	(3 122)	(215)	1 906	-	-
Total comprehensive income/(loss) for the year	**66 254**	**97 217**	**5 400**	**4 612**	**8 914**	**7 122**	**59 811**	**54 352**	**1 047**	**603**
Transfer to/(from) retained earnings	-	-	-	-	-	-	-	-	-	-
Other comprehensive (income)/expense	-	-	(54)	49	(206)	3 122	215	(1 906)	-	-
Dividends	70 000	-	4 000	6 000	13 487	8 674	39 993	53 477	-	2 000
Change in retained earnings	**(3 746)**	**97 217**	**1 346**	**(1 339)**	**(4 779)**	**1 570**	**20 033**	**(1 031)**	**1 047**	**(1 397)**
Net premium to gross premium	48%	50%	1%	1%	95%	96%	100%	100%	N/A	N/A
Claims incurred to earned premium	21%	17%	34%	45%	42%	44%	20%	14%	N/A	N/A
Management and other expenses to net earned premium	72%	75%	409%	487%	28%	29%	66%	69%	N/A	N/A
Combined ratio	107%	107%	77%	94%	78%	81%	99%	96%	N/A	N/A
Operating ratio	90%	91%	(29%)	(54%)	74%	70%	91%	91%	N/A	N/A
Return on equity	17%	34%	11%	10%	39%	38%	14%	13%	4%	2%

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

Accounting year end	Jun-16	Jun-15	Jun-16	Jun-15	Dec-16	Dec-15	Dec-16	Dec-15	Dec-16	Dec-15
Group/Company	**Momentum Short Term Insurance Company Limited**		**Momentum Structured Insurance Limited**		**Mutual & Federal Insurance Company Limited**		**Nedgroup Insurance Company Limited**		**New National Assurance Company Limited**	
Gross premiums written	591 842	519 962	-	-	8 718 000	9 038 000	1 115 543	1 055 695	1 105 450	1 015 397
Net premiums written	586 545	516 288	-	-	7 676 000	8 082 000	967 013	925 628	303 010	338 935
Earned premiums	**586 705**	**520 832**	**-**	**-**	**7 680 000**	**8 100 000**	**920 304**	**877 188**	**306 614**	**333 991**
Total net investment income	**24 886**	**16 028**	**430**	**332**	**124 000**	**880 000**	**73 156**	**81 061**	**20 847**	**14 995**
Reinsurance commission revenue	-	-	-	-	157 000	152 000	20 164	19 668	146 084	124 768
Other income	-	-	-	-	-	9 000	37 757	37 295	12 901	12 913
Total income	**611 591**	**536 860**	**430**	**332**	**7 961 000**	**9 141 000**	**1 051 381**	**1 015 212**	**486 446**	**486 667**
Net claims incurred	467 364	440 673	-	-	5 183 000	5 325 000	501 722	406 113	228 939	260 391
Acquisition costs	80 232	97 966	-	-	1 321 000	1 487 000	178 288	183 999	194 169	171 123
Cell owners transactions	-	-	-	-	-	-	-	-	-	-
Management and other expenses	186 330	184 898	382	976	1 208 000	1 399 000	252 426	150 229	45 207	42 725
Total expenses	**733 926**	**723 537**	**382**	**976**	**7 712 000**	**8 211 000**	**932 436**	**740 341**	**468 315**	**474 239**
Net profit/(loss) before taxation	**(122 335)**	**(186 677)**	**48**	**(644)**	**249 000**	**930 000**	**118 945**	**274 871**	**18 131**	**12 428**
Taxation	(17 127)	(25 269)	13	-	87 000	117 000	37 345	74 698	4 515	3 143
Net profit/(loss) after taxation	**(105 208)**	**(161 408)**	**35**	**(644)**	**162 000**	**813 000**	**81 600**	**200 173**	**13 616**	**9 285**
Other comprehensive income/(expense)	-	-	-	-	(39 000)	2 000	-	-	2 857	2 423
Total comprehensive income/(loss) for the year	**(105 208)**	**(161 408)**	**35**	**(644)**	**123 000**	**815 000**	**81 600**	**200 173**	**16 473**	**11 708**
Transfer to/(from) retained earnings	-	-	-	-	-	-	-	-	-	-
Other comprehensive (income)/expense	-	-	-	-	-	-	-	-	(2 857)	(2 423)
Dividends	-	-	-	-	-	200 000	250 000	50 000	-	679
Change in retained earnings	**(105 208)**	**(161 408)**	**35**	**(644)**	**123 000**	**615 000**	**(168 400)**	**150 173**	**13 616**	**8 606**
Net premium to gross premium	99%	99%	N/A	N/A	88%	89%	87%	88%	27%	33%
Claims incurred to earned premium	80%	85%	N/A	N/A	67%	66%	55%	46%	75%	78%
Management and other expenses to net earned premium	32%	36%	N/A	N/A	16%	17%	27%	17%	15%	13%
Combined ratio	125%	139%	N/A	N/A	98%	99%	99%	82%	105%	105%
Operating ratio	121%	136%	N/A	N/A	97%	89%	91%	73%	98%	100%
Return on equity	(40%)	(62%)	0%	(9%)	3%	17%	13%	26%	6%	5%

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

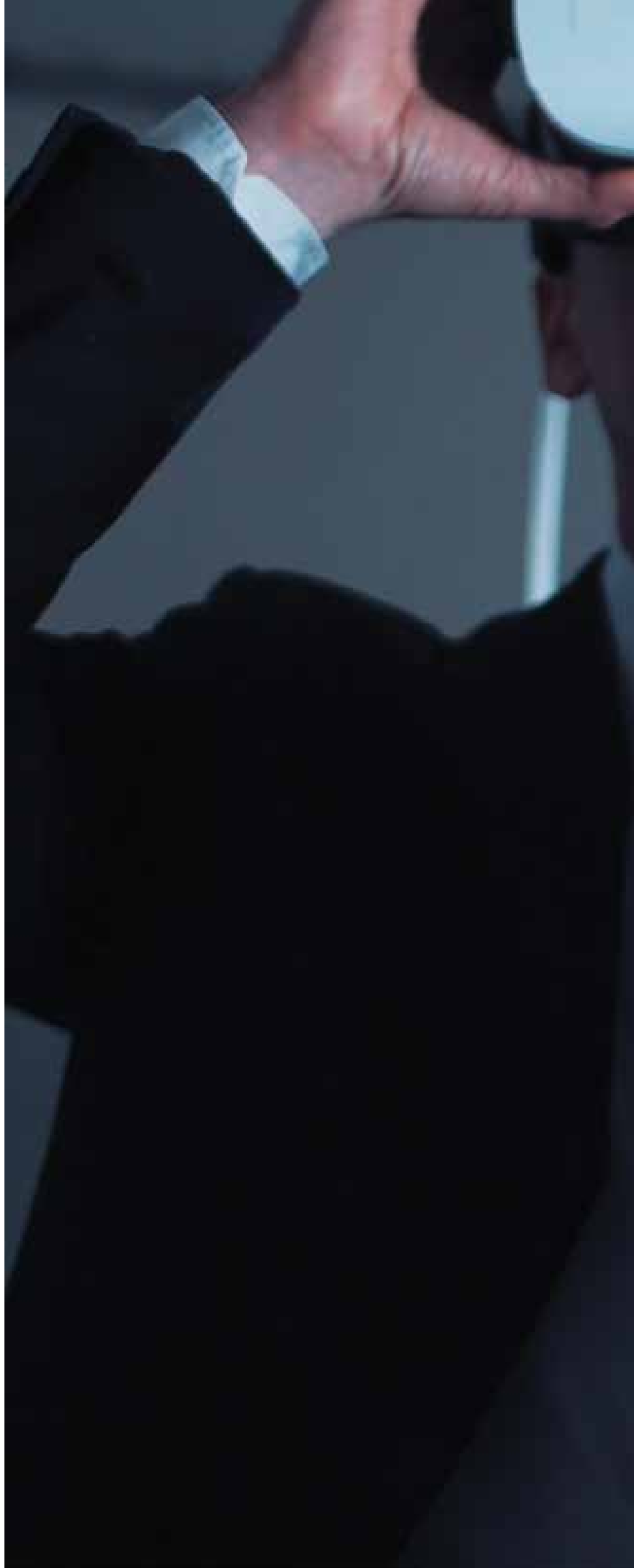
Accounting year end	Jun-16	Jun-15	Dec-16	Dec-15	Jun-16	Jun-15	Jun-16	Jun-15	Mar-16	Mar-15
Group/Company	**OUTsurance Insurance Company Limited**		**PPS Short-term Insurance Company Limited**		**Regent Insurance Company Limited**		**Renasa Insurance Company Limited**		**Safire Insurance Company Limited**	
Gross premiums written	7 019 816	6 580 001	93 011	-	1 385 079	1 452 028	1 189 676	1 047 582	294 545	259 189
Net premiums written	6 916 359	6 489 861	87 017	-	1 350 517	1 413 670	132 410	130 785	189 809	157 355
Earned premiums	**6 906 719**	**6 489 698**	**86 891**	**-**	**1 358 785**	**1 432 266**	**133 451**	**130 217**	**189 819**	**155 231**
Total net investment income	**369 948**	**250 985**	**3 594**	**1 012**	**146 382**	**163 380**	**6 441**	**4 686**	**12 053**	**11 231**
Reinsurance commission revenue	-	-	5 636	19 612	5 678	10 589	217 220	178 049	23 784	15 983
Other income	-	-	5 633	5 860	24 721	30 868	19 713	20 962	18 009	24 785
Total income	**7 276 667**	**6 740 683**	**101 754**	**26 484**	**1 535 566**	**1 637 103**	**376 825**	**333 914**	**243 665**	**207 230**
Net claims incurred	3 555 140	3 279 979	62 986	-	627 182	699 326	101 796	94 906	118 662	105 907
Acquisition costs	29 204	34 634	11 587	-	288 750	272 158	183 362	159 547	54 245	43 507
Cell owners transactions	-	-	-	-	-	-	-	-	2 068	1 443
Management and other expenses	1 488 892	1 451 545	60 465	40 135	402 643	406 439	84 468	76 755	48 212	41 766
Total expenses	**5 073 236**	**4 766 158**	**135 038**	**40 135**	**1 318 575**	**1 377 923**	**369 626**	**331 208**	**223 187**	**192 623**
Net profit/(loss) before taxation	**2 203 431**	**1 974 525**	**(33 284)**	**(13 651)**	**216 991**	**259 180**	**7 199**	**2 706**	**20 478**	**14 607**
Taxation	636 568	572 458	(12 244)	837	52 985	58 018	2 127	859	5 923	3 980
Net profit/(loss) after taxation	**1 566 863**	**1 402 067**	**(21 040)**	**(14 488)**	**164 006**	**201 162**	**5 072**	**1 847**	**14 555**	**10 627**
Other comprehensive income/(expense)	(2 937)	13 451	-	-	-	-	-	-	10 501	1 069
Total comprehensive income/(loss) for the year	**1 563 926**	**1 415 518**	**(21 040)**	**(14 488)**	**164 006**	**201 162**	**5 072**	**1 847**	**25 056**	**11 696**
Transfer to/(from) retained earnings	(2 937)	13 451	-	-	33 826	28 855	-	-	-	-
Other comprehensive (income)/expense	-	-	-	-	-	-	-	-	(10 501)	(1 069)
Dividends	1 202 000	1 029 000	8 200	-	109 165	127 376	-	-	3 612	3 612
Change in retained earnings	**364 863**	**373 067**	**(29 240)**	**(14 488)**	**21 015**	**44 931**	**5 072**	**1 847**	**10 943**	**7 015**
Net premium to gross premium	99%	99%	94%	N/A	98%	97%	11%	12%	64%	61%
Claims incurred to earned premium	51%	51%	72%	N/A	46%	49%	76%	73%	63%	68%
Management and other expenses to net earned premium	22%	22%	70%	N/A	30%	28%	63%	59%	25%	27%
Combined ratio	73%	73%	149%	N/A	97%	95%	114%	118%	104%	113%
Operating ratio	68%	70%	145%	N/A	86%	84%	109%	114%	98%	106%
Return on equity	47%	48%	(24%)	(66%)	15%	20%	9%	4%	10%	9%

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

Accounting year end	Dec-16	Dec-15	Mar-16	Mar-15	Dec-16	Dec-15	Jun-16	Jun-15	15 month period ended 30 Sept-16	Jun-15
Group/Company	**Santam Limited**		**Sasria SOC Limited**		**Standard Insurance Limited**		**The Hollard Insurance Company Limited**		**Unitrans Insurance Limited**	
Gross premiums written	22 469 000	21 085 000	1 683 895	1 522 866	2 249 006	2 070 591	10 386 327	9 492 385	249 426	167 554
Net premiums written	18 101 000	17 003 000	1 544 811	1 381 872	2 100 067	1 919 085	8 138 915	7 593 118	132 689	77 979
Earned premiums	**18 165 000**	**16 861 000**	**1 506 649**	**1 358 649**	**2 092 148**	**1 888 365**	**8 147 850**	**7 541 329**	**125 731**	**73 867**
Total net investment income	**827 000**	**1 807 000**	**318 067**	**389 755**	**154 732**	**125 685**	**1 049 668**	**958 792**	**34 019**	**19 702**
Reinsurance commission revenue	1 103 000	1 066 000	26 123	24 049	22 750	20 342	-	-	4 587	8 319
Other income	-	-	124	129	-	-	190 258	135 661	1 417	14 818
Total income	**20 095 000**	**19 734 000**	**1 850 963**	**1 772 582**	**2 269 630**	**2 034 392**	**9 387 776**	**8 635 782**	**165 754**	**116 706**
Net claims incurred	11 833 000	10 442 000	587 056	440 559	1 011 764	776 325	4 798 541	4 387 587	56 168	34 272
Acquisition costs	3 916 000	3 582 000	205 515	176 730	323 761	297 619	903 800	904 863	43 467	41 678
Cell owners transactions	-	-	-	-	-	-	-	-	-	-
Management and other expenses	2 821 000	2 702 000	349 023	321 153	342 207	280 131	2 515 170	2 336 063	11 059	6 856
Total expenses	**18 570 000**	**16 726 000**	**1 141 594**	**938 442**	**1 677 732**	**1 354 075**	**8 217 511**	**7 628 513**	**110 694**	**82 806**
Net profit/(loss) before taxation	**1 525 000**	**3 008 000**	**709 369**	**834 140**	**591 898**	**680 317**	**1 170 265**	**1 007 269**	**55 060**	**33 900**
Taxation	427 000	714 000	205 250	223 456	161 435	187 360	(184 027)	156 385	16 079	8 982
Net profit/(loss) after taxation	**1 098 000**	**2 294 000**	**504 119**	**610 684**	**430 463**	**492 957**	**1 354 292**	**850 884**	**38 981**	**24 918**
Other comprehensive income/(expense)	(140 000)	97 000	-	-	-	-	-	-	-	-
Total comprehensive income/(loss) for the year	**958 000**	**2 391 000**	**504 119**	**610 684**	**430 463**	**492 957**	**1 354 292**	**850 884**	**38 981**	**24 918**
Transfer to/(from) retained earnings	(11 000)	775 000	(57 365)	(26 775)	-	-	1 035 750	-	-	-
Other comprehensive (income)/expense	140 000	(97 000)	-	-	-	-	-	-	-	-
Dividends	1 887 000	904 000	183 205	205 778	466 000	331 573	1 989 240	554 958	-	-
Change in retained earnings	**(778 000)**	**615 000**	**263 549**	**378 131**	**-35 537**	**161 384**	**(1 670 698)**	**295 926**	**38 981**	**24 918**
Net premium to gross premium	81%	81%	92%	91%	93%	93%	78%	80%	53%	47%
Claims incurred to earned premium	65%	62%	39%	32%	48%	41%	59%	58%	45%	46%
Management and other expenses to net earned premium	16%	16%	23%	24%	16%	15%	31%	31%	9%	9%
Combined ratio	96%	93%	74%	67%	79%	71%	101%	101%	84%	101%
Operating ratio	92%	82%	53%	39%	72%	64%	88%	88%	57%	74%
Return on equity	17%	30%	9%	12%	32%	36%	36%	19%	11%	8%

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

Accounting year end	Dec-16	Dec-15	Dec-16	Dec-15
Group/Company	**Zurich Insurance Company South Africa Limited**		**Zurich Risk Financing SA Limited**	
Gross premiums written	3 736 734	3 735 903	6 448	23 432
Net premiums written	2 975 221	2 821 730	(8 856)	8 931
Earned premiums	**2 917 985**	**2 801 503**	**(8 856)**	**8 931**
Total net investment income	**455 697**	**182 225**	**3 911**	**4 722**
Reinsurance commission revenue	141 524	87 876	-	-
Other income	4 380	5 220	67	173
Total income	**3 519 586**	**3 076 824**	**(4 878)**	**13 826**
Net claims incurred	2 092 908	1 830 716	(8 856)	8 931
Acquisition costs	653 515	602 820	-	-
Cell owners transactions	-	-	1 508	1 665
Management and other expenses	791 918	677 686	1 434	4 632
Total expenses	**3 538 341**	**3 111 222**	**(5 914)**	**15 228**
Net profit/(loss) before taxation	**(18 755)**	**(34 398)**	**1 036**	**(1 402)**
Taxation	(30 823)	(12 083)	290	(393)
Net profit/(loss) after taxation	**12 068**	**(22 315)**	**746**	**(1 009)**
Other comprehensive income/(expense)	(160 605)	(5 153)	-	-
Total comprehensive income/(loss) for the year	**(148 537)**	**(27 468)**	**746**	**(1 009)**
Transfer to/(from) retained earnings	-	-	-	-
Other comprehensive (income)/expense	160 605	5 153	-	-
Dividends	-	-	-	20 000
Change in retained earnings	**12 068**	**(22 315)**	**746**	**(21 009)**
Net premium to gross premium	80%	76%	(137%)	38%
Claims incurred to earned premium	72%	65%	100%	100%
Management and other expenses to net earned premium	27%	24%	(16%)	52%
Combined ratio	116%	108%	84%	152%
Operating ratio	101%	101%	128%	99%
Return on equity	1%	(1%)	4%	(6%)



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LONG-TERM
Insurance Industry

The good, the bad and the ugly of the 2016 financial results reported by the life insurance industry

We changed the survey format somewhat in the current year to improve the comparability of the information presented. In previous surveys we included separate columns for each individual insurer, even if they formed part of the same group. However, in the current year we used the consolidated financial information for the listed insurers that often have more than one life licence. This change allows for an easier reference to the results published by the groups, and a more useful analysis of the industry results. The reader should note that where consolidated financial statements were used, they also include the results of the groups' other subsidiaries which may comprise short-term insurance, asset management and foreign subsidiaries.

Industry overviews in recent months produced by the financial press covering the life industry are riddled with words such as 'woes, turmoil and losing traction". The sentiment around the industry is not positive and naysayers point towards unexpected changes in CEOs, increasing lapse rates and poor investment results that clearly all is not well. The financial results for the life insurance industry summarised in this survey does show this strain, but perhaps not to the same extent. The table below presents some of the salient aggregated IFRS metrics of the participants in the survey:

	2016 R billion	2015 R billion
Profit before tax	38	43
Tax	12	14
Effective tax rate (%)	31%	32%
Total assets	2 314	2 300
Administration, management and other expenses	75	73
Policyholder liabilities for insurance and discretionary contracts	721	730
Policyholder liabilities for investment contracts	1 126	1 078

The aggregated profit before tax decreased from R43.3 billion to R38.2 billion (11.6% decrease). An analysis of the individual insurer's financial results point to a variety of different factors that contributed to the lower profit. These include:

- Above normal levels of claims reported in group income protection product lines. Risk portfolios reporting claims ratios in excess of 120% was not uncommon during 2016. The deterioration in claims experience was mainly due to poor economic conditions which history has shown is correlated with an increased frequency in disability claims. For example, Sanlam reported that its group risk profits declined by 38%, compared to 2015. As a remedial action during the latter part of 2016 continuing into 2017, we have seen increases in industry pricing, and in some instances benefit designs have been altered to make the claims ratio more palatable.
- Persistency challenges (surrenders and lapses). Insurers active in the lower income segment market, including direct insurers, had to fight a constant battle to retain policies on their books whilst their policyholders have shrinking disposable income. What was less easy to predict is how severely persistency in the affluent market segment would be affected by the economic conditions. The 2016 financial results of some insurers active in this segment makes clear reference to experience losses for products with an investment component, and the need to strengthen their actuarial assumptions. A clear focus for these insurers is to stop the bleeding.
- Lower returns earned on shareholder assets. Also, insurers that administer investment type contracts reported reduced asset management fees. Weak local equity markets coupled with the rand strengthening significantly against world currencies muted returns. A case in point, Liberty Holdings reported that its return on its shareholder portfolio reduced from R1.4 billion last year to R0.8 billion in 2016.
- The rand strength also had a negative impact on foreign subsidiary offshore earnings. In the current environment, expense management remained a priority. Limiting operating expenses to a 2.2% increase (to R74.8 billion) did not come easy especially when one considers that the industry often had to incur costs on large projects driven through a regulatory agenda (RDR, SAM and market conduct).

In line with the lower levels of profitability, tax incurred reduced from R13.7 billion to R12.0 billion. The so called 'fifth fund' or risk fund came into existence from 1 January, 2016 for risk policies issued on or after that date. Whilst the introduction of the new fund is generally expected to increase the tax payable by the industry, as acquisition expenses on risk products are no longer set off against investment income on investment products, it will only become more evident as the risk fund grows and the other tax funds reduce in value over time.

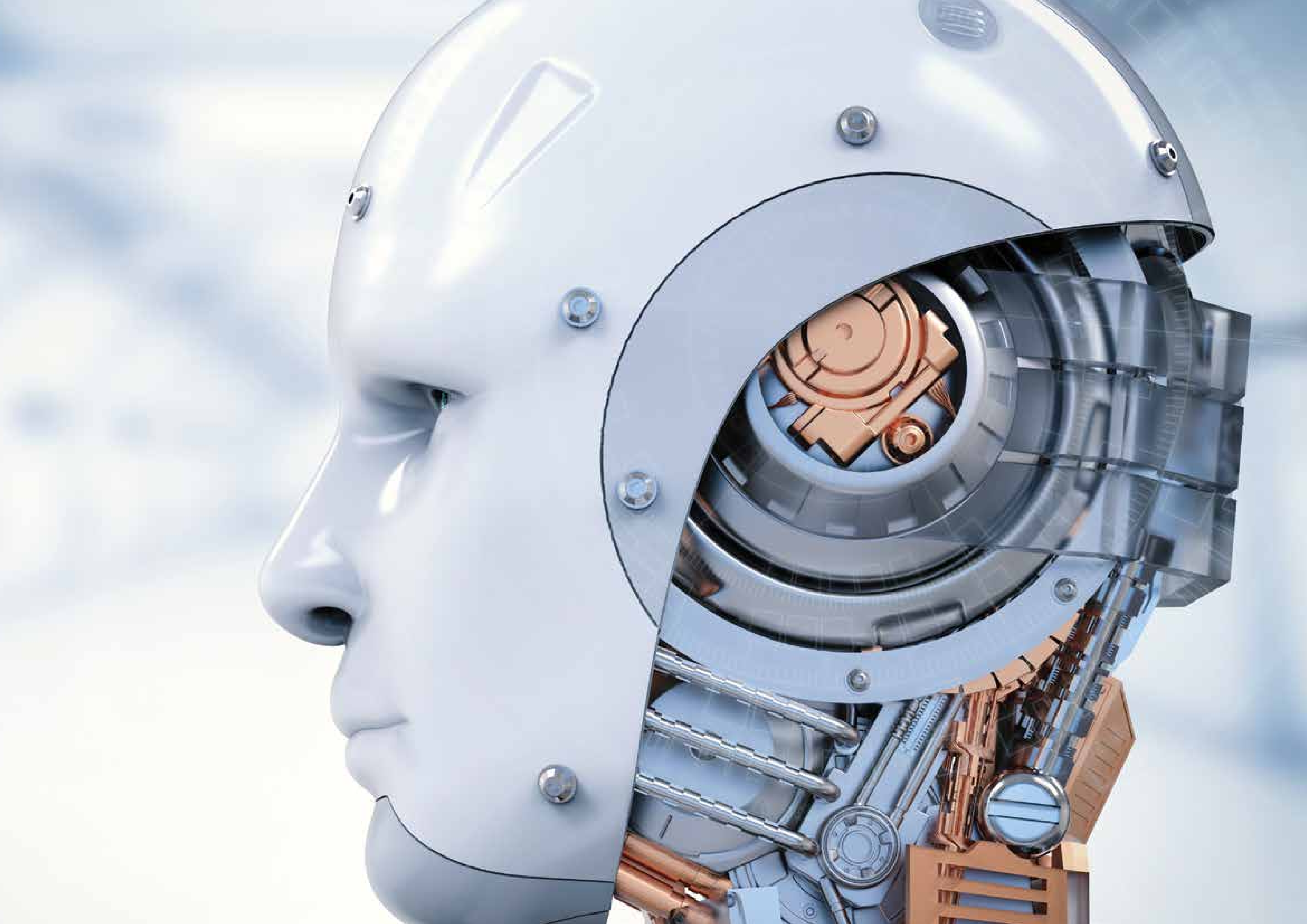
The tax change also allowed insurers to elect to move some or all of its risk policies underwritten in prior years to the risk fund. Often, this election changed the insurer's view of future tax allowed for when determining the policyholder liabilities. We noticed a disparity in how insurers accounted for the change in their best estimate liability which again underlines the need for more comparability in the industry's financial reporting presentation and measurement bases. It is generally believed that IFRS 17 Insurance contracts, which was released in May 2017, will address some of these concerns when the standard becomes effective from 2021 year ends onwards.

The total assets for the participants remained relatively unchanged at R2 314 billion (2015: R2 300 billion). This is not unexpected against the backdrop of the disappointing investment returns discussed above, but also speaks to some structural challenges in the industry. The investment returns achieved by asset managers of some wealth/insurance groups have been trailing the industry benchmarks for some time which is not fertile ground for skittish policyholders in an uncertain environment. Not surprisingly, inflows from discretionary single premium savings products were under pressure in the industry.

The R9 billion reduction in insurance contract liabilities compared to the R48 billion increase in the liabilities for investment contracts illustrates a point we have made before. The run-off of legacy business, which was predominantly classified as insurance contracts (as defined in IFRS 4) is being replaced with investment contracts that offer lower margins. Only those legacy insurers that are able to add new business with margins that approximate the older business will stand the test of time.

Expansion into other African territories has been on the board agendas of South African insurance groups for a number of years. These territories offer substantial growth opportunities, and better profit margins to boot. A case in point is that – Sanlam, during 2016 concluded its transaction to acquire a 30% stake in Saham Finances and has since its year end announced the acquisition of a further 16.6% stake. In the past two years, we have noticed a shift in focus though. Against the backdrop of muted in-country growth local insurance groups are now integrating their existing investments across the continent, rather than looking for the next big acquisition. The focus is on building scale, improving the control and governance structures and better pricing and capital management within the African entities. The mantra is for subsidiaries in rest of Africa to add to group profitability in the short to medium term, rather than being a detractor.

As a general rule, the executive management teams of life insurers and wealth groups reported to their boards and shareholders that they were satisfied with their respective entities' 2016 financial performance achieved in a tough environment. Judging by the share prices of the listed insurers remaining relatively steadfast since the results were released, the message was well received. The 2017 operating environment will in all likelihood deteriorate further with South Africa's sovereign credit rating downgrade and political turmoil not aiding the economic recovery. Add to the mix some well-known banking brands making their intentions known to enter the insurance market and it is clear that for insurers to return to levels of profitability seen in 2015 and before, insurers will have their work cut out for them.



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

Accounting year end	Dec-16	Dec-15	Dec-16	Dec-15	Jun-16	Jun-15	Dec-16	Dec-15	Jun-16	Jun-15
Group/Company	**Liberty Group Limited**		**Old Mutual Emerging Markets Limited**		**MMI Holdings Limited**		**Sanlam Limited**		**1Life Direct Insurance Limited**	
Share capital and premium	29 000	29 000	41 623 000	41 182 000	13 856 000	13 804 000	22 000	22 000	398 000	398 000
Retained earnings/(deficit)	18 163 000	19 241 000			8 298 000	8 877 000	47 255 000	44 777 000	751 815	644 249
Other reserves	313 000	(10 000)			1 955 000	1 866 000	6 113 000	8 822 000	-	-
Non-controlling interests	-	-	3 638 000	4 475 000	290 000	501 000	5 696 000	6 571 000	-	-
Total shareholders' funds	**18 505 000**	**19 260 000**	**45 261 000**	**45 657 000**	**24 399 000**	**25 048 000**	**59 086 000**	**60 192 000**	**1 149 815**	**1 042 249**
Policyholder liabilities under insurance contracts and contracts with DPF's	202 791 000	204 096 000	166 016 000	173 518 000	114 093 000	111 329 000	192 232 000	197 495 000	-	-
Policyholder labilities under investment contracts	101 088 000	97 091 000	400 381 000	386 609 000	257 985 000	246 490 000	306 073 000	296 938 000	-	-
Reinsurance contract liability	555 000	617 000	-	-	973 000	659 000	-	-	-	-
Cell owners interest	-	-	-	-	-	-	1 153 000	980 000	-	-
Current tax payable	552 000	332 000	1 708 000	1 654 000	32 000	166 000	1 728 000	2 001 000	25 503	-
Deferred tax liability/(asset)	2 500 000	4 321 000	2 486 000	3 103 000	4 091 000	4 064 000	189 000	1 812 000	314 931	284 316
Other liabilities	38 987 000	45 536 000	79 308 000	84 346 000	57 855 000	59 623 000	111 946 000	116 723 000	308 414	217 502
Total liabilities	**346 473 000**	**351 993 000**	**649 899 000**	**649 230 000**	**434 024 000**	**421 506 000**	**611 593 000**	**613 948 000**	**648 848**	**501 818**
Total investments	**315 061 000**	**311 308 000**	**600 111 000**	**598 163 000**	**401 390 000**	**395 470 000**	**592 945 000**	**590 894 000**	**-**	**-**
Assets arising from insurance contracts	7 314 000	7 579 000	-	-	-	-	-	-	1 293 490	1 211 784
PPE; goodwill and intangible assets	23 825 000	33 181 000	13 655 000	15 756 000	15 977 000	16 536 000	7 829 000	8 546 000	-	-
Reinsurers' share of policyholder liabilities	1 285 000	1 285 000	4 184 000	3 414 000	5 092 000	3 046 000	5 980 000	5 196 000	28 257	5 840
Deferred acquisition costs	698 000	651 000	2 822 000	1 988 000	-	-	3 597 000	3 463 000	-	-
Cash and cash equivalents	8 877 000	10 715 000	30 855 000	24 827 000	29 148 000	26 174 000	18 761 000	20 141 000	393 234	254 597
Other assets	7 918 000	6 534 000	43 533 000	50 739 000	6 816 000	5 328 000	41 567 000	45 900 000	83 682	71 846
Income tax asset	-	-	-	-	-	-	-	-	-	-
Deposits held with cell option	-	-	-	-	-	-	-	-	-	-
Total assets	**364 978 000**	**371 253 000**	**695 160 000**	**694 887 000**	**458 423 000**	**446 554 000**	**670 679 000**	**674 140 000**	**1 798 663**	**1 544 067**
Regulatory surplus assets to CAR	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	1,83	1,91
Total assets/total liabilities	105%	105%	107%	107%	106%	106%	110%	110%	277%	308%
Increase in shareholders' funds	(4%)	12%	(1%)	12%	(3%)	3%	(2%)	14%	10%	15%

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

Accounting year end	Dec-16	Dec-15	Nov-16	Nov-15	Jun-16	Jun-15	Jun-16	Jun-15	Jun-16	Jun-15
Group/Company	**Absa Life Limited**		**AIG Life Limited**		**AVBOB Mutual Assurance Society**		**Bidvest Life Limited**		**Clientele Life Limited**	
Share capital and premium	24 000	24 000	10 000	10 000	-	-	10 000	10 000	4 853	4 853
Retained earnings/(deficit)	1 226 779	1 200 816	319 346	243 838	5 778 852	5 271 404	71 770	185 004	622 325	563 600
Other reserves	11 781	12 660	-	-	-	-	23 131	112 017	25 644	25 717
Non-controlling interests		-	-	-	-	-				
Total shareholders' funds	**1 262 560**	**1 237 476**	**329 346**	**253 838**	**5 778 852**	**5 271 404**	**104 901**	**307 021**	**652 822**	**594 170**
Policyholder liabilities under insurance contracts and contracts with DPF's	2 039 087	1 854 804	145 484	198 227	6 970 017	6 179 232	24 761	26 733	679 362	689 676
Policyholder labilities under investment contracts	26 710 022	21 665 284	-	-	-	-	-	-	909 819	942 336
Reinsurance contract liability	95 478	85 692	-	-	-	-	280	319	-	-
Cell owners interest	-	-	-	-	-	-	-	-	-	-
Current tax payable	9 710	-	-	-	-	-	14 654	-	7 283	-
Deferred tax liability/(asset)	9 640	15 314	-	-	274 678	214 012	4 081	20 720	(20 828)	(16 712)
Other liabilities	488 756	595 306	22 713	4 886	651 104	553 794	5 510	8 574	263 788	258 800
Total liabilities	**29 352 693**	**24 216 400**	**168 197**	**203 113**	**7 895 799**	**6 947 038**	**49 286**	**56 346**	**1 839 424**	**1 874 100**
Total investments	**29 528 732**	**24 783 983**	**288 816**	**217 357**	**11 072 610**	**9 569 573**	**93 078**	**305 827**	**1 888 993**	**1 876 745**
Assets arising from insurance contracts	-	-	-	-	-	-	-	-	-	-
PPE; goodwill and intangible assets	94 117	330 432	-	-	119 812	119 657	-	-	59 277	50 191
Reinsurers' share of policyholder liabilities	37 096	24 374	-	-	11 787	11 000	1 333	748	2 789	3 015
Deferred acquisition costs	369 561	-			-	-	-	-	-	-
Cash and cash equivalents	204 023	154 667	125 727	172 000	2 082 969	2 203 817	603	1 853	165 020	156 995
Other assets	183 224	160 420	83 000	67 594	372 778	314 395	15 611	16 170	376 167	381 324
Income tax asset	198 500	-	-	-	14 695	-	-	2 072	-	-
Deposits held with cell option	-	-	-	-	-	-	43 562	36 696	-	-
Total assets	**30 615 253**	**25 453 876**	**497 543**	**456 951**	**13 674 651**	**12 218 442**	**154 187**	**363 367**	**2 492 246**	**2 468 270**
Regulatory surplus assets to CAR	3,10	3,50	6,40	4,90	4,60	4,60	8,64	26,88	2,35	2,32
Total assets/total liabilities	104%	105%	296%	225%	173%	176%	313%	645%	135%	132%
Increase in shareholders' funds	2%	4%	30%	(10%)	10%	10%	(66%)	(1%)	10%	1460%

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

Accounting year end	Jun-16	Jun-15	Dec-16	Dec-15	Dec-16	Dec-15	Jun-16	Jun-15	Mar-16	Mar-15
Group/Company	**Hollard Life Assurance Company Limited**		**Nedgroup Life Assurance Company Limited**		**Nedgroup Structured Life Limited**		**OUTsurance Life Insurance Company Limited**		**Prescient Life Limited**	
Share capital and premium	20 000	20 000	55 000	55 000	26 351	26 351	435 002	385 002	10 000	10 000
Retained earnings/(deficit)	1 893 269	2 354 187	1 059 987	1 307 409	42 751	36 814	91 828	31 877	48 127	45 786
Other reserves	-	-	-	-	-	-	(112)	-	-	-
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
Total shareholders' funds	**1 913 269**	**2 374 187**	**1 114 987**	**1 362 409**	**69 102**	**63 165**	**526 718**	**416 879**	**58 127**	**55 786**
Policyholder liabilities under insurance contracts and contracts with DPF's	4 952 383	4 601 546	3 471 807	3 906 139	-	-	195 721	110 325	-	-
Policyholder labilities under investment contracts	4 411 196	5 576 191	6 507 261	2 824 299	8 799 565	8 163 624	-	-	10 974 329	9 817 582
Reinsurance contract liability	-	-	-	-	-	-	-	-	-	-
Cell owners interest	-	-	-	-	-	-	-	-	-	-
Current tax payable	-	-	20 169	9 746	382	-	255	-	458	-
Deferred tax liability/(asset)	552 214	549 106	(242)	890	-	-	18 540	4 859	1 467	4 012
Other liabilities	1 233 777	1 119 541	119 395	132 745	1 349	1 168	48 854	68 348	7 958	8 861
Total liabilities	**11 149 570**	**11 846 384**	**10 118 390**	**6 873 819**	**8 801 296**	**8 164 792**	**263 370**	**183 532**	**10 984 212**	**9 830 455**
Total investments	**10 550 711**	**11 224 844**	**10 370 006**	**7 634 977**	**8 799 565**	**8 163 624**	**667 883**	**501 724**	**11 037 659**	**9 880 249**
Assets arising from insurance contracts	-	-			-	-	-	-	-	-
PPE; goodwill and intangible assets	18 604	11 379	192 532	5 920	-	-	-	149	-	-
Reinsurers' share of policyholder liabilities	135 610	127 095	127 270	132 019	-	-	89 163	71 231	-	-
Deferred acquisition costs	-	-			-	-	-	-	-	-
Cash and cash equivalents	1 700 414	1 950 900	208 136	243 850	54 614	56 946	14 478	5 318	2 734	4 037
Other assets	621 300	906 353	335 433	219 462	16 219	7 387	18 564	21 989	1 946	1 955
Income tax asset	36 200	-			-	-	-	-	-	-
Deposits held with cell option	-	-			-	-	-	-	-	-
Total assets	**13 062 839**	**14 220 571**	**11 233 377**	**8 236 228**	**8 870 398**	**8 227 957**	**790 088**	**600 411**	**11 042 339**	**9 886 241**
Regulatory surplus assets to CAR	2,60	3,70	10,9	14,4	1,48	1,80	3,90	1,60	1,23	1,61
Total assets/total liabilities	117%	120%	111%	120%	101%	101%	300%	327%	101%	101%
Increase in shareholders' funds	(19%)	(88%)	15%	15%	9%	15%	26%	31%	4%	18%

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

Accounting year end	Dec-16	Dec-15	Jun-16	Jun-15	Dec-16	Dec-15
Group/Company	**Provisional Provident Sociently Insurance Company Limited**		**Regent Life Assurance Company Limited**		**Zurich Life SA Limited**	
Share capital and premium	10 000	10 000	144 688	144 688	17 500	17 500
Retained earnings/(deficit)	358 117	319 844	551 029	423 390	(48)	(2 648)
Other reserves	-	-	(1 633)	(6 512)	-	-
Non-controlling interests	-	-	47 449	45 876	-	-
Total shareholders' funds	**368 117**	**329 844**	**741 533**	**607 442**	**17 452**	**14 852**
Policyholder liabilities under insurance contracts and contracts with DPF's	27 098 131	25 577 153	108 596	122 627	-	-
Policyholder labilities under investment contracts	1 464 987	1 139 647	253 379	246 425	-	-
Reinsurance contract liability	-	6 184	-	-	-	-
Cell owners interest	-	-	-	-	-	-
Current tax payable	-	-	2 590	-	1 092	404
Deferred tax liability/(asset)	231 684	331 214	138 145	122 334	-	-
Other liabilities	347 438	333 711	225 384	255 415	2 482	2 752
Total liabilities	**29 142 240**	**27 381 725**	**728 094**	**746 801**	**3 574**	**3 156**
Total investments	**27 169 393**	**25 251 529**	**1 044 603**	**938 173**	**-**	**-**
Assets arising from insurance contracts			-	-	-	-
PPE; goodwill and intangible assets	853 624	779 965	17 663	10 084	-	-
Reinsurers' share of policyholder liabilities	68 021	-	128 864	110 192	-	-
Deferred acquisition costs	-	-	-	-	-	-
Cash and cash equivalents	1 087 385	1 401 234	211 967	219 954	20 775	16 884
Other assets	288 222	265 908	62 661	75 840	251	1 124
Income tax asset	43 712	12 933	3 869	-	-	-
Deposits held with cell option	-	-	-	-	-	-
Total assets	**29 510 357**	**27 711 569**	**1 469 627**	**1 354 243**	**21 026**	**18 008**
Regulatory surplus assets to CAR	2,60	2,60	5,20	5,30	1,74	1,46
Total assets/total liabilities	101%	101%	202%	181%	588%	571%
Increase in shareholders' funds	12%	16%	22%	25%	18%	

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

Accounting Year end	Dec-16	Dec-15	Dec-16	Dec-15	Jun-16	Jun-15	Dec-16	Dec-15	Jun-16	Jun-15
Group/Company	**Liberty Group Limited**		**Old Mutual Emerging Markets Limited**		**MMI Holdings Limited**		**Sanlam Limited**		**1Life Direct Insurance Limited**	
Recurring premiums	split provided, but includes investment contracts (Total is R38 013 000)	split provided, but includes investment contracts (Total is R36 427 000)	split provided, but includes investment contracts (Total is R74 263 000)	split provided, but includes investment contracts (Total is R67 045 000)	no split provided (total is R38 589 000)	no split provided (total is R35 297 000)	no split provided (total is R52 659 000)	no split provided (total is R48 308 000)	no split provided (total is R1 080 139)	no split provided (total is R860 597)
Single premiums										
Other premiums										
Reinsurance premiums	1 147 000	1 053 000	6 255 000	4 943 000	9 618 000	7 901 000	7 626 000	6 831 000	133 695	125 990
Net premium income	**36 866 000**	**35 374 000**	**68 008 000**	**62 102 000**	**28 971 000**	**27 396 000**	**45 033 000**	**41 477 000**	**946 444**	**734 606**
Service fees from investment contracts	**1 330 000**	**1 401 000**	**11 723 000**	**10 922 000**	**7 679 000**	**7 355 000**	**5 530 000**	**5 446 000**	**-**	**-**
Total net investment income	**19 138 000**	**24 120 000**	**40 008 000**	**51 324 000**	**29 346 000**	**31 807 000**	**34 736 000**	**37 095 000**	**16 496**	**12 975**
Commission received	-	-	-	-	-	-	1 396 000	1 275 000	13 310	1 996
Other unallocated income	577 000	524 000	1 286 000	1 366 000	-	-			13 032	14 477
Total income	**57 911 000**	**61 419 000**	**121 025 000**	**125 714 000**	**65 996 000**	**66 558 000**	**86 695 000**	**85 293 000**	**989 282**	**764 054**
Death/disability	split provided but included payments to investment contracts (nett total is R37 485 000)	split provided but included payments to investment contracts (nett total is R32 718 000)	split provided but included payments to investment contracts and change in insurance contracts (nett total is R69 895 000)	split provided but included payments to investment contracts and change in insurance contracts (nett total is R64 294 000)	9 710 000	8 172 000	split provided but included payments to investment contracts and change in insurance contracts (nett total is R41 566 000)	split provided but included payments to investment contracts and change in insurance contracts (nett total is R29 453 000)	no split provided (total is R442 127)	no split provided (total is R317 835)
Maturities					5 960 000	5 503 000				
Annuities					3 580 000	3 393 000				
Surrenders					3 220 000	3 266				
Withdrawals and other benefits					10 062 000	11 564 734				
Reinsurance recoveries	(1 074 000)	(923 000)	(4 425 000)	(3 584 000)	(5 923 000)	(4 026 000)	(5 441 000)	(3 514 000)	(113 181)	(92 632)
Net policyholder benefits under insurance contracts	**36 411 000**	**31 795 000**	**65 470 000**	**60 710 000**	**26 609 000**	**24 610 000**	**36 125 000**	**25 939 000**	**328 946**	**225 203**
Change in preference share liability	-	-	-	-	-	-	-	-	-	-
Change in assets arising from insurance contracts	-	-	-	-	-	-	-	-	(73 729)	(137 068)

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

Accounting Year end	Dec-16	Dec-15	Nov-16	Nov-15	Jun-16	Jun-15	Jun-16	Jun-15	Jun-16	Jun-15
Group/Company	**Absa Life Limited**		**AIG Life Limited**		**AVBOB Mutual Assurance Society**		**Bidvest Life Limited**		**Clientele Life Limited**	
Recurring premiums	3 178 727	2 944 764	no split provided (total is R553 335)	no split provided (total is R615 355)	2 700 073	2 298 817	45 515	49 382	1 547 600	1 395 093
Single premiums	-	-			-	2 654	-	-		
Other premiums	-	-			-	-	-	-		
Reinsurance premiums	520 099	503 078	28 924	30 009	(1 957)	(1 919)	(2 272)	(4 675)	124 736	113 155
Net premium income	**2 658 628**	**2 441 686**	**524 411**	**585 346**	**2 698 116**	**2 299 552**	**43 243**	**44 707**	**1 422 864**	**1 281 938**
Service fees from investment contracts	**98 562**	**77 432**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total net investment income	**493 768**	**786 728**	**26 839**	**23 397**	**922 145**	**1 035 466**	**2 735**	**23 598**	**149 387**	**173 472**
Commission received	-	-	-	-	-	-	1 807	1 498	-	-
Other unallocated income	-	-	-	-	536	422	-	-	150 586	159 373
Total income	**3 250 958**	**3 305 846**	**551 250**	**608 743**	**3 620 797**	**3 335 440**	**47 785**	**69 803**	**1 722 837**	**1 614 783**
Death/disability	736 099	713 031	197 433	234 361	605 957	520 027	23 985	6 704	181 183	188 043
Maturities	52 367	36 613	-	-	881	629	-	-	-	-
Annuities	-	-	2 035	1 635	-	-	-	-	-	-
Surrenders	160 960	169 077	-	-	192 371	174 220	-	-	189 045	186 265
Withdrawals and other benefits	84 714	54 599	-	-	128 462	110 814	-	-	22 049	18 620
Reinsurance recoveries	(163 162)	(172 645)	(6 519)	(6 627)	(1 038)	(798)	(10 261)	(556)	(99 536)	(117 250)
Net policyholder benefits under insurance contracts	**870 978**	**800 675**	**192 949**	**229 370**	**926 633**	**804 892**	**13 724**	**6 149**	**292 741**	**275 678**
Change in preference share liability	-	-	-	-	-	-	-	-	-	-
Change in assets arising from insurance contracts	-	-	-	-	-	-	-	-	226	227

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

Accounting Year end	Jun-16	Jun-15	Dec-16	Dec-15	Dec-16	Dec-15	Jun-16	Jun-15	Mar-16	Mar-15
Group/Company	**Hollard Life Assurance Company Limited**		**Nedgroup Life Assurance Company Limited**		**Nedgroup Structured Life Limited**		**OUTsurance Life Insurance Company Limited**		**Prescient Life Limited**	
Recurring premiums	5 452 912	5 059 648	1 871 657	1 966 690	-	-	391 521	no split provided (total is R316 491)	-	-
Single premiums	850	21 635								
Other premiums	105 330	94 512								
Reinsurance premiums	639 687	764 652	234 733	246 472	-	-	(33 365)	(20 910)	-	-
Net premium income	**4 919 405**	**4 411 143**	**1 636 924**	**1 720 218**	**-**	**-**	**358 156**	**295 581**	**-**	**-**
Service fees from investment contracts	**-**	**-**	**-**	**-**	**4 334**	**9 625**	**-**	**-**	**20 478**	**18 524**
Total net investment income	**644 652**	**770 629**	**460 007**	**239 394**	**5 072**	**3 318**	**60 601**	**28 251**	**369 812**	**252 210**
Commission received	-	-	47 436	53 809	-	-	-	-	-	-
Other unallocated income	104 751	31 919	43 379	36 846	1 444	2 088	-	-	-	-
Total income	**5 668 808**	**5 213 691**	**2 187 746**	**2 050 267**	**10 850**	**15 031**	418 757	323 832	**390 290**	**270 734**
Death/disability	2 076 012	1 648 793	501 158	570 570	-	-	68 930	58 520	-	-
Maturities	1 243 597	1 748 127	501 711	226 108			-	-	-	-
Annuities	103 129	144 445	211 082	165 226			-	-	-	-
Surrenders	89 030	204 535	150 594	121 243			-	-	-	-
Withdrawals and other benefits	60 059	58 210					-	-	-	-
Reinsurance recoveries	(888 764)	(553 020)	(184 834)	(194 737)	-	-	(24 557)	(17 609)	-	-
Net policyholder benefits under insurance contracts	**2 683 063**	**3 251 090**	**1 179 711**	**888 410**	**-**	**-**	**44 373**	**40 911**	**-**	**-**
Change in preference share liability	-	-	-	-	-	-	-	-	-	-
Change in assets arising from insurance contracts	-	-	-	-	-	-	-	-	-	-

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

Accounting Year end	Dec-16	Dec-15	Jun-16	Jun-15	Dec-16	Dec-15
Group/Company	**Provisional Provident Socienty Insurance Company Limited**		**Regent Life Assurance Company Limited**		**Zurich Life SA Limited**	
Recurring premiums	no split provided (total is R3 425 141)	no split provided (total is R3 063 836)	802 781	751 920	3 925	5 227
Single premiums						
Other premiums						
Reinsurance premiums	(210 978)	(179 042)	84 086	84 415	120	74
Net premium income	**3 214 163**	**2 884 794**	**718 695**	**667 505**	**3 805**	**5 153**
Service fees from investment contracts	44 041	50 253	-	-	-	-
Total net investment income	1 536 805	1 329 064	**77 385**	**132 164**	**1 219**	**850**
Commission received			-	-	-	-
Other unallocated income	219 132	979 415	57 200	54 876	-	-
Total income	**5 014 141**	**5 243 526**	**853 280**	**854 545**	**5 024**	**6 003**
Death/disability	no split provided (total is R2 295 786)	no split provided (total is R2 101 127	206 272	213 010	40	109
Maturities			23 703	19 568	-	-
Annuities			(27)	(113)	-	-
Surrenders			82 109	84 659	-	-
Withdrawals and other benefits			2 301	-	-	-
Reinsurance recoveries	(17 609)	(149 585)	(53 762)	(66 327)	(962)	923
Net policyholder benefits under insurance contracts	**40 911**	**2 146 201**	**260 596**	**250 797**	**(923)**	**1 032**
Change in preference share liability	-	-	-	-	-	-
Change in assets arising from insurance contracts	-	15 295	-	-	-	-

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

Accounting Year end	Dec-16	Dec-15	Dec-16	Dec-15	Jun-16	Jun-15	Dec-16	Dec-15	Jun-16	Jun-15
Group/Company	**Liberty Group Limited**		**Old Mutual Emerging Markets Limited**		**MMI Holdings Limited**		**Sanlam Limited**		**1Life Direct Insurance Limited**	
Change in policyholder liabilities under insurance contracts	(556 000)	3 722 000	-	-	(674 000)	(869 000)	-	-	-	-
Fair value adjustments on policyholder liabilities under investment contracts	3 867 000	6 052 000	10 868 000	22 281 000	16 205 000	16 039 000	13 204 000	21 736 000	-	-
Acquisition costs	4 203 000	4 058 000	6 972 000	6 316 000	5 304 000	5 071 000	8 140 000	7 269 000	125 646	119 743
Administration, management and other expenses	10 009 000	9 648 000	26 859 000	25 066 000	14 210 000	16 299 000	17 717 000	16 890 000	444 735	416 130
Total expenses	**53 934 000**	**55 275 000**	**110 169 000**	**114 373 000**	**61 654 000**	**61 150 000**	**75 186 000**	**71 834 000**	**825 598**	**624 008**
Equity-accounted earnings	**-**	**-**	**-**	**-**	**-**	**-**	**2 095 000**	**1 310 000**	**-**	**-**
Profit/(loss) before tax	**3 977 000**	**6 144 000**	**10 856 000**	**11 341 000**	**4 342 000**	**5 408 000**	**13 604 000**	**14 769 000**	**163 684**	**140 046**
Tax	1 247 000	1 999 000	4 132 000	3 715 000	2 164 000	2 431 000	3 026 000	3 859 000	56 118	39 213
Profit/(loss) after tax	**2 730 000**	**4 145 000**	**6 724 000**	**7 626 000**	**2 178 000**	**2 977 000**	**10 578 000**	**10 910 000**	**107 566**	**100 833**
Other comprehensive income	**113 000**	**(123 000)**	**Information not available**	**Information not available**	**83 000**	**68 000**	**Information not available**	**Information not available**	**-**	**-**
Total comprehensive income/(loss) for the year	**2 843 000**	**4 022 000**			**2 261 000**	**3 045 000**			**107 566**	**100 833**
Other transfers to/(from) retained income	-	(16 000)			(32 000)	9 000			-	-
Other comprehensive income not charged against retained earnings	(139 000)	(56 000)			(265 000)	(21 000)			-	-
Ordinary dividends	3 500 000	2 250 000			2 475 000	3 094 000			-	-
Allocated to preference shareholders	-	-			-	-			-	-
Allocated to non-controlling interests	282 000	-			68 000	69 000			-	-
Change in retained earnings	**(1 078 000)**	**1 700 000**			**(579 000)**	**(130 000)**			**107 566**	**100 833**
Management expenses to net premium and service fees on investment contracts	26,20%	26,24%	33,69%	34,33%	38,77%	46,90%	35,04%	36,00%	46,99%	56,65%
Tax as a % of NIBT	31,36%	32,54%	38,06%	32,76%	49,84%	44,95%	22,24%	26,13%	34,28%	28,00%
Comments	Group		Group		Group		Group		Company	

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

Accounting Year end	Dec-16	Dec-15	Nov-16	Nov-15	Jun-16	Jun-15	Jun-16	Jun-15	Jun-16	Jun-15
Group/Company	**Absa Life Limited**		**AIG Life Limited**		**AVBOB Mutual Assurance Society**		**Bidvest Life Limited**		**Clientele Life Limited**	
Change in policyholder liabilities under insurance contracts	(3 695)	(125 389)	(52 743)	(38 388)	780 747	776 742	(1 972)	(1 095)	(10 314)	(5 878)
Fair value adjustments on policyholder liabilities under investment contracts	359 720	637 700	-	-	-	-	-	-	90 401	72 275
Acquisition costs	545 024	459 354	133 600	191 591	522 412	450 592	9 862	10 880	710 252	689 445
Administration, management and other expenses	491 836	491 574	173 237	104 577	723 729	669 070	20 370	22 649	160 447	152 372
Total expenses	**2 263 863**	**2 263 914**	**447 043**	**487 150**	**2 953 521**	**2 701 296**	**41 984**	**38 582**	**1 243 753**	**1 184 119**
Equity-accounted earnings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit/(loss) before tax	**987 095**	**1 041 932**	**104 207**	**121 593**	**667 276**	**634 144**	**5 803**	**31 221**	**479 084**	**430 664**
Tax	132 132	300 174	28 699	34 321	160 303	139 123	(3 922)	(6 254)	137 055	119 438
Profit/(loss) after tax	**854 963**	**741 758**	**75 508**	**87 272**	**506 973**	**495 021**	**1 880**	**24 967**	**342 029**	**311 226**
Other comprehensive income	**-**	**-**	**-**	**-**	**475**	**(2 124)**	**-**	**-**	**-**	**-**
Total comprehensive income/(loss) for the year	**854 963**	**741 758**	**75 508**	**87 272**	**507 448**	**492 897**	**1 880**	**24 967**	**342 029**	**311 226**
Other transfers to/(from) retained income	-	-	-	-	-	-	(88 886)	11 288	(10 237)	(18 729)
Other comprehensive income not charged against retained earnings	-	-	-	-	-	-	-	-	-	-
Ordinary dividends	829 000	704 000	-	115 000	-	-	204 000	27 279	273 067	219 662
Allocated to preference shareholders	-	-	-	-	-	-	-	-	-	-
Allocated to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Change in retained earnings	**25 963**	**37 758**	**75 508**	**(27 728)**	**507 448**	**492 897**	**(113 234)**	**(13 600)**	**58 725**	**72 835**
Management expenses to net premium and service fees on investment contracts	17,84%	19,51%	33,03%	17,87%	26,82%	29,10%	47,11%	50,66%	11,28%	11,89%
Tax as a % of NIBT	13,39%	28,81%	27,54%	28,23%	24,02%	21,94%	67,60%	20,03%	28,61%	27,73%
Comments	Company		Company		Society		Company		Company	

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

Accounting Year end	Jun-16	Jun-15	Dec-16	Dec-15	Dec-16	Dec-15	Jun-16	Jun-15	Mar-16	Mar-15
Group/Company	**Hollard Life Assurance Company Limited**		**Nedgroup Life Assurance Company Limited**		**Nedgroup Structured Life Limited**		**OUTsurance Life Insurance Company Limited**		**Prescient Life Limited**	
Change in policyholder liabilities under insurance contracts	(1 151 204)	(1 638 360)	(485 151)	(553 229)	-	-	51 533	41 351	-	-
Fair value adjustments on policyholder liabilities under investment contracts	-	-	(115 919)	66 063	-	-	-	-	367 330	242 977
Acquisition costs	488 690	430 028	335 963	355 889	-	-	-	-	-	-
Administration, management and other expenses	2 065 847	1 702 218	366 270	281 326	2 604	3 277	239 629	189 476	19 589	16 892
Total expenses	**4 086 396**	**3 744 976**	**1 280 874**	**1 038 459**	**2 604**	**3 277**	**335 535**	**271 738**	**386 919**	**259 869**
Equity-accounted earnings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit/(loss) before tax	**1 582 412**	**1 468 715**	**906 872**	**1 011 808**	8 246	11 754	**83 222**	**52 094**	**3 371**	**10 865**
Tax	350 930	392 630	254 294	282 665	2 309	3 291	23 271	14 563	1 030	2 180
Profit/(loss) after tax	**1 231 482**	**1 076 085**	**652 578**	**729 143**	**5 937**	**8 463**	**59 951**	**37 531**	**2 341**	**8 685**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**(112)**	**-**	**-**	**-**
Total comprehensive income/(loss) for the year	**1 231 482**	**1 076 085**	**652 578**	**729 143**	**5 937**	**8 463**	**59 839**	**37 531**	**2 341**	**8 685**
Other transfers to/(from) retained income	-	9 612	-	-	-	-	-	-	-	-
Other comprehensive income not charged against retained earnings	-	-	-	-	-	-	112	-	-	-
Ordinary dividends	1 692 400	855 254	900 000	900 000	-	-	-	-	-	-
Allocated to preference shareholders	-	-			-	-	-	-	-	-
Allocated to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Change in retained earnings	**(460 918)**	**230 443**	**(247 422)**	**(170 857)**	5 937	8 463	**59 951**	**37 531**	**2 341**	**8 685**
Management expenses to net premium and service fees on investment contracts	41,99%	38,59%	22,38%	16,35%	60,08%	34,05%	66,91%	64,10%	95,66%	91,19%
Tax as a % of NIBT	22,18%	26,73%	28,04%	27,94%	28,00%	28,00%	27,96%	27,96%	30,55%	20,06%
Comments	Company		Company		Company		Company		Company	

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

Accounting Year end	Dec-16	Dec-15	Jun-16	Jun-15	Dec-16	Dec-15
Group/Company	**Provisional Provident Socienty Insurance Company Limited**		**Regent Life Assurance Company Limited**		**Zurich Life SA Limited**	
Change in policyholder liabilities under insurance contracts	1 472 126	1 728 244	(32 703)	(36 646)	-	-
Fair value adjustments on policyholder liabilities under investment contracts	1 718 228	2 105 976	10 957	10 292	-	-
Acquisition costs			196 539	169 894	908	1 188
Administration, management and other expenses	1 134 417	1 084 073	194 912	180 796	1 803	1 410
Total expenses	**4 768 039**	**4 865 794**	**630 301**	**575 133**	**2 711**	**3 631**
Equity-accounted earnings	**-**					
Profit/(loss) before tax	**246 102**	**377 732**	222 979	279 412	**3 236**	**2 372**
Tax	207 829	332 562	67 867	63 298	636	130
Profit/(loss) after tax	**38 273**	**45 170**	**155 112**	**216 114**	**2 600**	**2 242**
Other comprehensive income	**(582)**	**1 374**	**-**	**-**	**-**	**-**
Total comprehensive income/(loss) for the year	**37 691**	**46 544**	**155 112**	**216 114**	**2 600**	**2 242**
Other transfers to/(from) retained income	-	-	(330)	(29 546)	-	-
Other comprehensive income not charged against retained earnings	582	-	-	-	-	-
Ordinary dividends	-	-	25 570	71 826	-	-
Allocated to preference shareholders	-	-	-	-	-	-
Allocated to non-controlling interests	-	-	-	-	-	-
Change in retained earnings	**38 273**	**46 544**	**129 212**	**114 742**	**2 600**	**2 242**
Management expenses to net premium and service fees on investment contracts	35,29%	37,58%	27,12%	27,09%	47,39%	27,36%
Tax as a % of NIBT	84,45%	88,04%	30,44%	22,65%	19,65%	5,48%
Comments	Company		Company		Company	

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REINSURANCE

Insurance Industry

We have pleasure in presenting and commenting on the financial results of the South African reinsurance industry for the 2016 financial year. We will highlight some key aspects, ratios and events that impacted the industry as well as cast our eye toward the future and report on what we expect the next couple of years may hold in for the industry.

To fully grasp and appreciate the results that the industry reported it is key to understand the economic and political backdrop. Globally unexpected events such as Brexit and the Trump presidency created high levels of uncertainty and directly impacted local economic markets. In the table to the right we consider some of the positive and negative political, social and economic aspects which have an impact on the broader society and ultimately the subject at hand. It goes without saying that the political, social and economic environment influences the insurance customer and consequently the reinsurer.

The country held the most competitive and fair local government election since 1994.
South Africa remains an economy with one of the highest inequality rates in the world, perpetuating both inequality and exclusion. Poverty levels remained high, unemployment and income inequalities that reflect no significant progress being made to build and achieve financial inclusion and inclusive economic development.
Political and legal challenges imposed on the respected Minister of Finance and the consequential reduction in investor confidence.
Important judgments, reports and electoral outcomes were delivered by the Constitutional Court, the Public Protector and especially the South African electorate in the municipal elections.
Continued weakness and poor performance of state enterprises in vital sectors of the economy.
The money and capital markets also stabilised subsequent to the politically-induced turmoil recorded in December 2015.
The risk of a South Africa credit ratings downgrade that persisted throughout the year.
Global crude oil prices increased during the year but minimally fed through into domestic inflation on the back of the relatively stronger Rand.
High unemployment remains a key challenge: South Africa's unemployment rate hit a 12-year high in 2016, at 27.7% in the third quarter. The unemployment rate is even higher among youths being close to 50%.
Rising Government debt as well as high deficits on the current account.
Real GDP growth has been slowing down and came in at only 0.3% in 2016. The 0.3% growth recorded by the South African economy marked a continuation of the downward trend since the recovery from the 2009 global economic crisis and compares dismally with the 1.3% growth of 2015 and the 1.8% growth recorded in 2014.
The poor GDP performance continued to be impacted by generally low commodity prices and a strengthening Rand
Inflation also ticked up above the target range of 3% - 6% to settle at 6.8% at the end of the year.
Continued volatility of the currency. This is mentioned despite that, overall, it strengthened against the US Dollar by some 12% through the year. It should be remembered that the strengthening was off the back of a severe currency weakness after Nenegate.
Low consumer and producer confidence.
Substantial divestment and reduced activity in the mining and quarrying sector.
Power supply stabilised throughout the year albeit with reduced demand as a result of lower levels of industrial activity.
Fewer disruptive labour strikes.
Widespread drought leading to eight of the country's nine provinces being declared as disaster zones during most of 2016.

Industry performance

It is important to note our performance analysis is based on locally registered professional reinsurers participating in this survey only. The reinsurance industry remains competitive, however this is not something new in the context of South Africa. The level of competition is expected to increase due to the allowance of foreign reinsurers to conduct business in South Africa through a branch. There is excess market capacity as well as increasingly higher innovation trends. This is in line with global reinsurance markets which reflected new peaks in supply, and whereby capacity continues to outpace the growth of reinsurance demand despite insurers' continued efforts to optimise their view of reinsurance as capital-efficient vehicles for balance sheet protection and expand into growing lines of business and new innovation.

Despite low local and global economic growth, reinsurers locally still managed to achieve respectable growth levels. Reinsurers grew in gross written premium (GWP) and investment income in the 2016 financial year, when compared to the 2015 financial year, by 13% and 23% respectively. This growth is higher than what we have seen in the primary insurance markets.

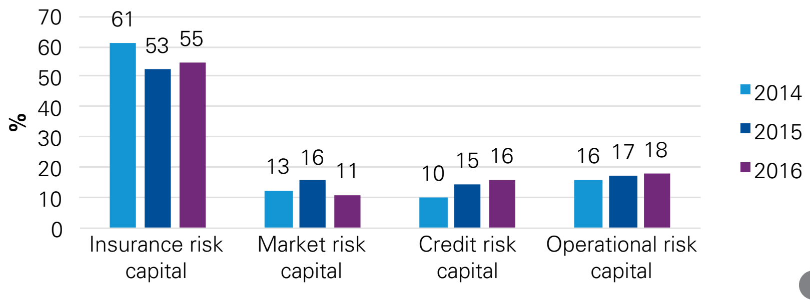
Overall the reinsurance market is deemed to be in a soft cycle, meaning lower insurance premiums, broader coverage, reduced underwriting criteria (easier underwriting), increased capacity (insurance carriers write more policies and higher limits) and increased competition among insurance carriers. In addition to this, the industry also experienced claims deterioration. This stems from both number and severity of losses in both the short-term and long-term sectors of the market.

These factors contributed to reinsurers not experiencing a good year in terms of underwriting result. The reinsurance market reported on industry loss of R832 million (2015: R49 million profit). The combined ratio for the industry has deteriorated to 108% (2015: 99%). The return on equity (ROE) for the industry was 6% (2015: 13%). The decrease in underwriting profits, deterioration of the combined ratio and decrease of ROE are mainly driven by a sharp decrease in the long-term reinsurance market results. The decline in underwriting performance across the reinsurance industry has, however been soft landed by improved investment returns.

The industry results have been affected by the strengthening of the Rand. The majority of the market is exposed to currency fluctuations through business placed in other territories directly impacting claims settlement and ultimately net assets and liabilities in foreign jurisdictions further resulting in the recording of foreign exchange profits or losses.

According to the Financial Services Board (FSB) quarterly report on the results of the short-term insurance industry for the period ended 30 September 2016, the credit risk component had increased to 16% of the composition of the capital adequacy ratio (CAR) of the short-term industry. The results are measured on the existing regulatory basis, i.e. not a Solvency Assessment and Management (SAM) basis.

Build of risk capital



Components of CAR

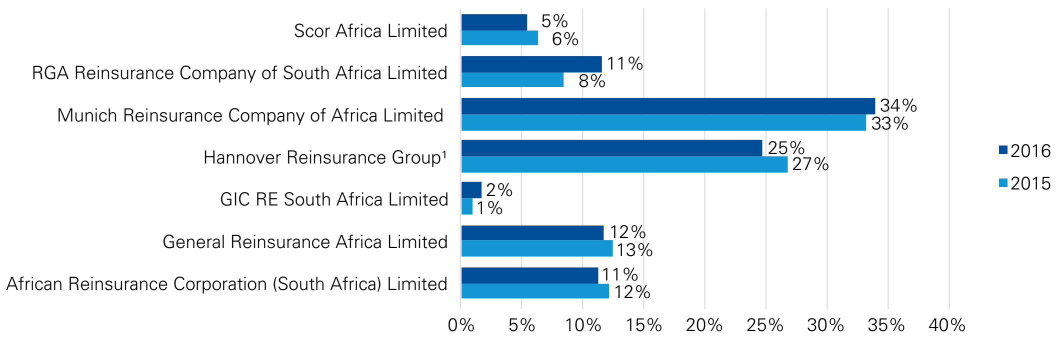
Although these results are pre the sovereign default downgrade that took place in early 2017, we can expect the credit risk component to increase even more, as the credit risk associated with the market in general will be affected by the downgrade. Consequently, the capital requirements will be impacted too.

Herewith the recent S&P credit ratings for industry participants.

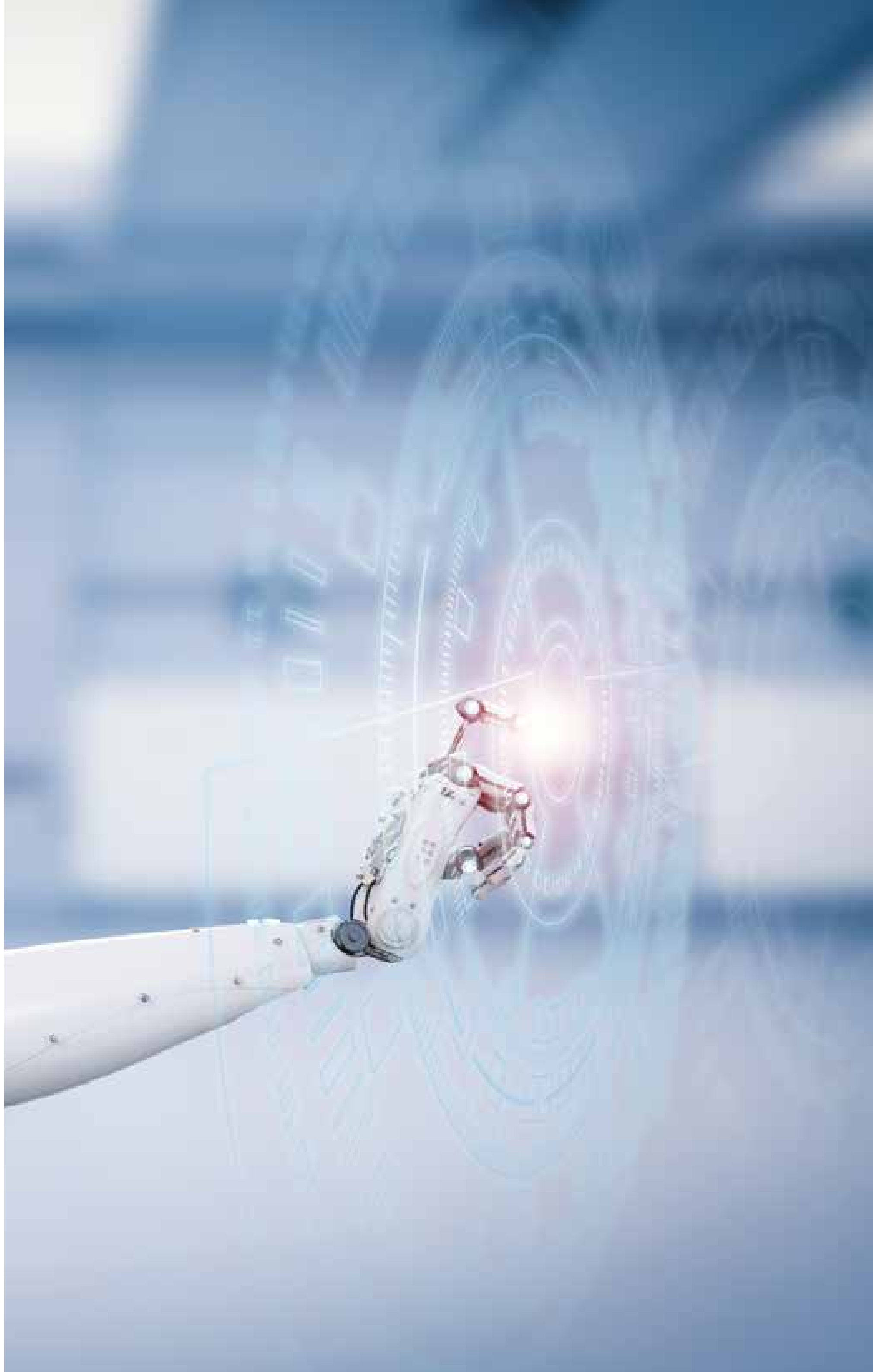
Industry participant	International scale credit rating
Munich Re	AA-
Hannover Re	AA-
Scor	AA-
African Re	A-
RGA	AA-
Gen Re	AA+
GIC Re India*	A-
Others	
Partner Re	A+
Everest Re	A+
XL Catlin	A+
Swiss Re	AA-

* The GIC Re India rating is as per AM Best

Illustrated below is the share of the reinsurance market by GWP, as reported in the audited annual financial statements of the reinsurers participating in this survey, including a combined view of long-term and short-term results.



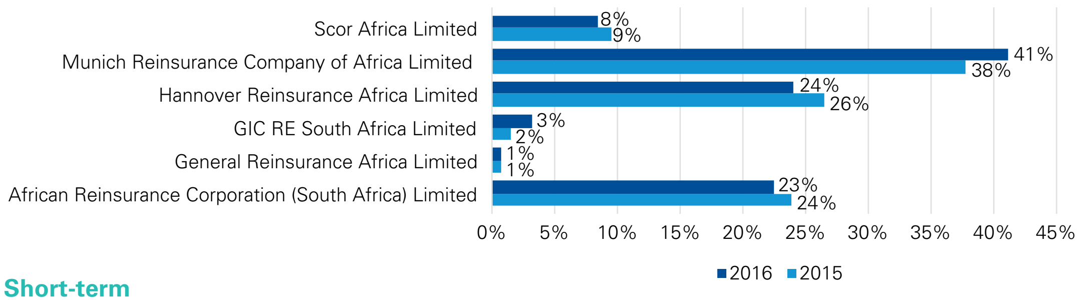
[1] For the purposes of our analysis we have combined Hannover Life Reassurance Africa Limited and Hannover Reinsurance Africa Limited as the Hannover Reinsurance Group.



Munich Reinsurance Company of Africa Limited (MRoA) and Hannover Reinsurance Group (Hannover Re) remain the dominant players in the local reinsurance industry. Their combined market share accounts for 59% (2015: 60%) measured by GWP volumes. The market share distribution across reinsurers remained relatively consistent between 2015 and 2016, with the exception of RGA Reinsurance Company of South Africa Limited (RGA) gaining market share.

Some of the movements in the market share distribution are a direct result of reinsurers reviewing their portfolio of treaties and cedants as well as offloading non-performing business. Below we illustrate market share in terms of GWP for short-term reinsurers separately.

Short-term

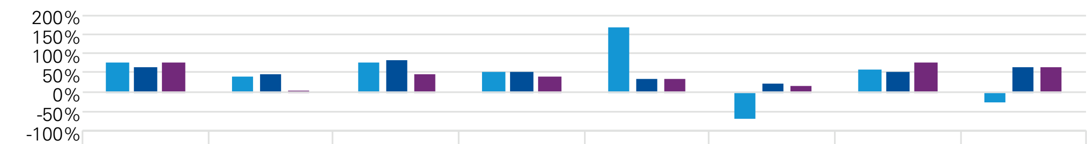


Short-term

Per the FSB ST quarterly report for September 2016, four of the seven operational reinsurers have reported underwriting losses and two have reported operating losses for the period ended September 2016 (at the time of commenting on the results the December 2016 FSB results were not available). It should be noted that all results included in the FSB quarterly reports are on a regulatory basis (i.e. measured under the existing Short-term Insurance Act). The results are therefore different to the IFRS results as the measurement bases differs (i.e. legal vs substance over form).

Illustrated below is claims incurred (includes movement in outstanding claims and Incurred but not reported provisions) expressed as a percentage of earned premium. The information displayed is extracted from the FSB ST quarterly report for September 2016.

Claims ratio



	Property	Transportation	Motor	Accident and health	Guarantee	Liability	Engineering	Miscellaneous
2014	75%	39%	78%	55%	167%	-71%	58%	-28%
2015	66%	46%	80%	53%	37%	25%	50%	65%
2016	77%	6%	46%	38%	33%	15%	75%	65%

2014 2015 2016

Overall the loss ratio[1] improved in 2016 and as at 30 September 2016 it amounted to 61% (2015: 67%). The combined ratio[2] also improved in 2016 and as at 30 September 2016 it amounted to 83% (2015: 86%). The South African insurance industry experienced an unusually high number of large and catastrophe losses during 2016, for example the Impala Platinum fire loss.

Other important key performance indicators as recorded in the FSB ST quarterly report for September 2016 are:

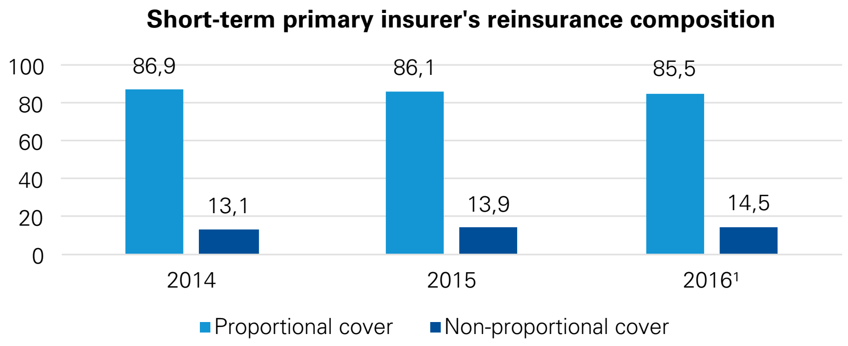
Performance indicator[3]	2015	2016 (September)
Management expenses	19%	21%
Commission	17%	19%
Underwriting result	0%	4%
CAR cover (median)	3.2	4.3

There are various reasons for expense increases which include:
- Increased cost of regulatory compliance
- Prevailing inflation levels
- Investment in human and material resources to support growth
- Improved client service

The overall improvement in CAR cover is most likely due to the more stringent capital requirement under the SAM regime which is expected to become effective in 2018. Reinsurers have readjusted their regulatory capital in order to comply with the SAM requirements. In addition, one of key drivers of the increase is capital preservation and limited dividend distributions.

Illustrated below is the composition of reinsurance cover purchased by South African cedants. The composition, between proportional and non-proportional cover, is expressed as a percentage of reinsurance premium. The underlying data is as per FSB quarterly report on the results of the short-term insurance industry for the period ended 30 September 2016.

[1] Expressed as a percentage of net earned premium during the period.
[2] Claims + commission + expenses less total investment income as a percentage of net earned premium.
[3] Management expenses, commission and underwriting result are expressed s percentage of net written premium.



The proportion of non-proportional cover overall has increased during the 2016 financial year to 14.5% (2015: 13.9%). This can be interpreted as a consequence of the following:

- Regulatory changes pertaining to SAM, i.e.:
  - Regulatory changes proposed in the reinsurance regulatory review (RRR). The RRR propose cession limits to address risks relating to fronting arrangements.
  - New capital requirements and solvency relief mechanisms.
- Primary insurers optimising their reinsurance and ceding less business and retaining more risk for the net account.

Individual underwriting performance – short-term

MRoA

Munich Re closed its Mauritius subsidiary (Munich Mauritius Reinsurance Company Limited (MMRC)) at the end of 2015 after being in operation for 18 years. The business has been portfolio transferred to Munich Re (South Africa) (MRoA). Sub-Saharan business was therefore underwritten by MRoA in the current year. The separate short-term and long-term results have significantly benefited from this transfer of business. The increase in GWP is calculated on the Munich consolidated results (i.e. includes the subsidiary MMRC GWP). The results are therefore comparable. The increase in GWP related to the fire, motor, marine and engineering classes of business.
These increases resulted from:

- Increased share participations; and
- Key strategic alliances

[1] Expressed as a percentage of net earned premium during the period.

Other key performance indicators

- Loss ratio (includes retrocession) of 60% (2015: 64%)
- Combined ratio (includes retrocession) 84% (2015: 96%)
- Net commission ratio 1.3% (2015:11%)
- Expense ratio 23% (2015: 43%)
- Underwriting profit before investment income R136 million (2015: R21.4 million)

The increase in the incurred losses is mainly due to:

- Participation in the Impala Platinum fire loss
- Ranona Nigeria Limited (Lagos factory) fire loss
- Abengoa solar guarantee loss.

MRoA recorded an underwriting profit largely driven by the increase in their share participation on profitable business as well as core cedants performing particularly well. Although the gross loss ratio was high (76%) retrocession mitigated the impact on the result.

Hanover Re

Nonlife GWP increased by 2%. Net earned premiums decreased by 38%.
Other key performance indicators

- Loss ratio (includes retrocession) of 61% (2015: 62%)
- Combined ratio (includes retrocession) 106% (2015: 96%)
- Net Commission ratio 30% (2015:26%)
- Expense ratio 15% (2015: 8%)

Scor Re

Scor's market share decreased in the current year by 3% in contrast to the market share increase in the previous year of 18%. The decrease is mainly due to a reduction in premium written in the Long-term division where the GWP decreased by 17%. Scor remains to report underwriting losses.
A reduction in the underwriting loss has however been noted.

African Re

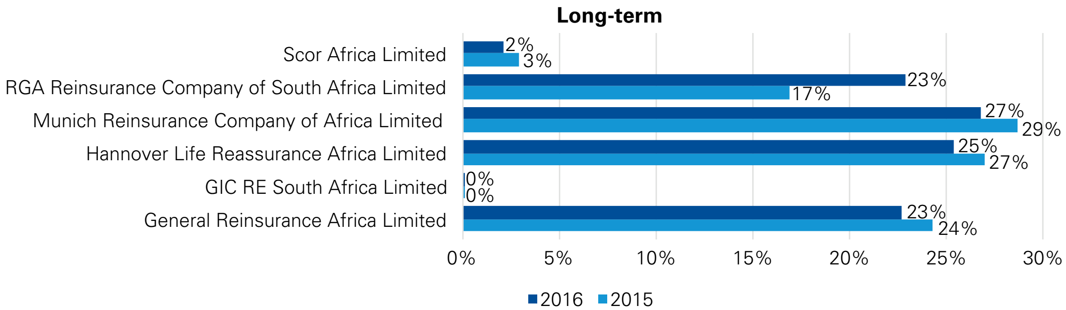
African Re achieved 5% growth in terms of GWP.
Their underwriting loss has decreased in the year under review.
The company's claims experience was moderated by the positive impact of the poor-performing treaty programmes that were cancelled over the past two years. This resulted in a marginal increase in the net incurred claims from R457 million recorded in 2015 to R460 million in 2016.

Management expenses increased by 5% (2015:20%) from the R96 million incurred in 2015 to R101 million in 2016, which was mainly due to inflation and the company's sustained investment in human and material resources to support growth, improve client service and meet the increasing regulatory compliance obligations.

Overall, despite the deteriorated claims environment on account of the large and catastrophe losses, the positive impact of the poor-performing treaties that were cancelled together with other remedial measures taken by the Company have resulted in a slight improvement of the underwriting results. The net investment income increased substantially by 72% in 2016 compared to 2015.

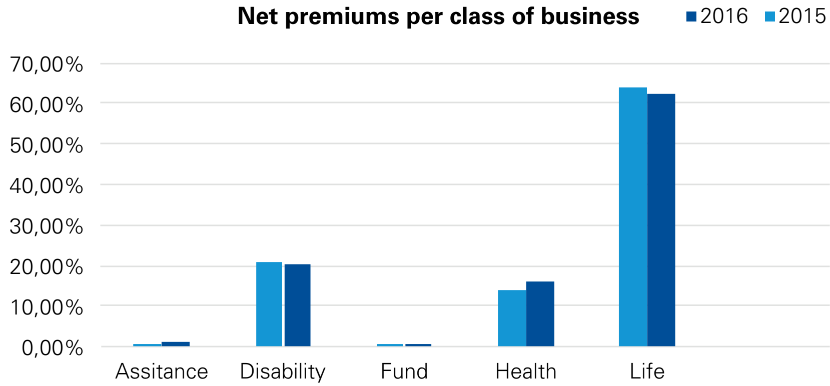
Long-term

Below we illustrate market share in terms of GWP for long-term reinsurers separately.



The South African long-term reinsurance industry (based on South African reinsurers participating in our survey) recorded GWP of ZAR 10.12 billion for the 2016 year (2015: ZAR 8.94 billion). The industry therefore grew by 13.24%. This growth did not filter through to profits. It needs to be noted that GWP is not necessarily the best measure to utilise when it comes to long-term entities.

This diagram indicates the net premiums according to the classes of policies of reinsurers for the nine month period ended September 2016 as well as comparative figures for the period ended September 2015 – the figures are as per the FSB quarterly report:



Other important key performance indicators as recorded in the FSB LT quarterly report for September 2016 are:

Performance indicator	2014	2015	Sep-16
Claims (as % of net premiums)	72	73	77
Commission (as % of net premiums)	11	8	6
Management expenses (as % of net premiums)	7	8	7
Return on investment*	5	3	6
CAR cover ratio (median)	2.9	2.1	3.8

** Return on investment is calculated according to the formula R=2i/A+B-i where i is all investment income plus realised and unrealised surplus on sale of investments, A is initial value of investments and B is end value of investments.*

The long-term reinsurance profit margins have reduced in 2016. Volume of business is also being impacted by cessions of large primary insurers reducing. Significant losses have been recorded in especially the disability market and consequently resulted in reserve adjustments. Total assets recorded in the FSB LT quarterly report for September 2016 was R19.1 billion (2015: R16.77 billion). This represents a 14% increase from the 2015 financial year. The majority of the increase in assets are recorded in the government & semi-government asset class.

Individual underwriting performance - long-term

MRoA

The MRoA long-term division did not perform as well when compared to the previous years (measured by premium volume). The 2016 financial year was the first time in a number of years that MRoA had an overall loss in the long-term division. The net underwriting result (after considering technical investment income) is a loss of R47 million. The deterioration in the result is mainly due to significant increases in reserves on key treaties.

RGA

Effective 30 September 2015, Reinsurance Group of America Inc contributed its entire shareholding in RGA South African Holdings (Ply) Ltd (the holding company of RGA Reinsurance Company of South Africa ltd) to RGA Americas Reinsurance Company Limited (RGA Americas). RGA Americas is a Bermuda domiciled insurance company with a Class E license. RGA Americas is engaged in providing traditional reinsurance, which includes individual and group life and health, disability, and critical illness reinsurance. RGA Americas also provides non-traditional reinsurance, which includes longevity reinsurance, asset-intensive products (primarily annuities) and financial reinsurance.

RGA increased its GWP and earned premiums by 53% and 29% respectively. The 2015 profit of R95.5 million reduced to a loss of R7.3 million in the current year.

Other key performance indicators

- Loss ratio includes reinsurance and not including net allowances (net commissions) of 79% (2015: 75%)
- Net Commission ratio 9% (2015:6%)
- Expense ratio 40% (2015: 24%)
- Underwriting loss before investment income and other income R 198.7 million (2015: R 24.4 million)

A significant increase in finance cost has been recorded during the current financial year. The finance cost for the 2016 financial year was R76.8 million (2015: R30.8 million), therefore amounting to an increase of 148%. The finance costs pertained to interest paid on retrocessionaire deposits. The overall loss was a result of a combination of factors, such as decrease in underwriting profits, increase in net commission incurred, increase in management expenses, increase in finance costs etc.

General Re

General Re is a composite reinsurer, however, the short-term operation is significantly smaller than its long-term operation. Of the total GWP (R2.36 billion) only 3% pertains to short-term operations. General Re increased their GWP and earned premiums by 6% and 5%. This growth stems from the long-term business and is mainly attributable to individual life business increasing by 7%, and Group business increasing by 3%. The health business, underwritten by General Re, remains insignificant when compared to the individual and group life business.

The growth in premium has been boosted by entering new Financial Reinsurance contracts. The Company purchased an in force book of business, through various tranches, from a cedant that it already reinsured. The additions to the portfolio securitisation assets amounted to R54 million.

Hannover Life

GWP increased by 7% to R2. 57 billion.

Other key performance indicators

- Loss ratio includes reinsurance and not including net allowances (net commissions) of 87% (2015: 78%)
- Net Commission ratio of 12% (2015:13%)
- Expense ratio of 7% (2015: 6%).

The increase in the claims experience is as a result of increases in the number of disability claims.

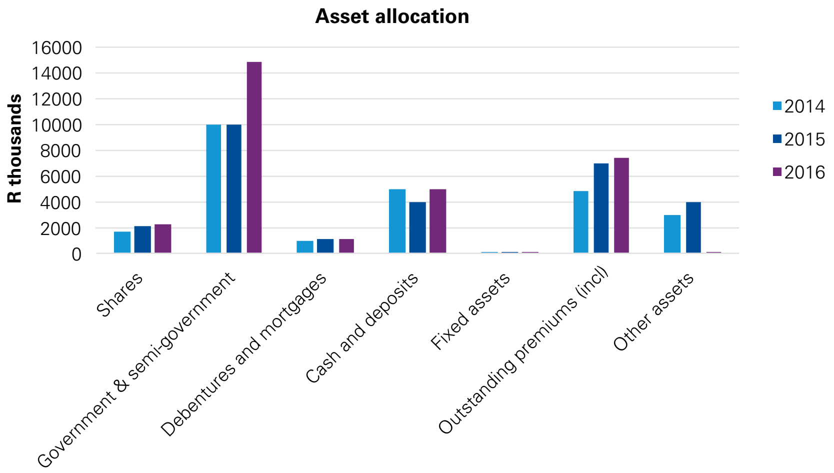
Investment performance

Reinsurers achieved an average return on investments (including cash and cash equivalents) of 6.9%. These returns are quite low when compared to an average prime rate of 10.46% and the average 10-year government bond yield of 8.9%.

MRoA was the top performer in terms of investment returns with 9.4% investment income on investments, including cash. Not surprisingly, they are the reinsurer with the highest CAR ratio at 9.3, affording them the opportunity to diversify their investment portfolio beyond the regulatory constraints. Following is RGA and Gen Re with 7.6% and 7.4% investment return on investments, including cash respectively. The CAR ratio for these reinsures were at 3.8 and 6.6.

All other companies surveyed have an average investment return of 5%. Investment income in total, for reinsurers surveyed, has increased by 23% year on year.

As can be seen from the graph below, reinsurers' assets are mostly allocated to government bonds.



Interest income and value gains on bond instruments rose substantially on the back of substantial improvement in the financial markets after the sudden dip suffered in December 2015. There was also an all-round improvement in the income earned on fixed and call deposits as a result of the full impact of the increases in the base interest rates decided upon by the South Africa Reserve Bank since November 2015. Money market instrument yields also benefited from the interest rate increases. In turn equity instruments recorded substantial unrealised value losses as a result of the poor performance of the equity segment as reflected in the flat JSE All-Share Index between December 2015 and December 2016. The turmoil in the Chinese stock market witnessed early in 2016, which affected other major stock markets around the world including the JSE, also played a part in the poor returns on equity investments.

What is playing on the minds of the reinsurers?

Africa

Other African territories remain to be the focus for the South African industry. These markets are deemed high growth markets, with low volumes, but highly profitable. These markets are attractive due to lower insurance penetration and less regulation (with the exception of a few). Competition in these markets is however increasing.

The reinsurers currently operating in these markets will appreciate the hurdles pertaining to some of these markets, such as:

- Timeliness of recovering monies from certain African countries. This characteristic mostly resides with oil producing countries which are affected by crude oil prices and which ultimately has an impact on the availability of the USD currency.
- Regulatory constraints
- Innovative ideas are required to access these markets.

Accounting

In May 2017 the International Accounting Standards Board (IASB) issued the first true international IFRS Standard for insurance contracts, IFRS 17 Insurance Contracts. IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 has an effective date of 1 January 2021 but companies can apply it earlier.

This standard is expected to affect the manner in which insurance (including reinsurance) contracts are accounted for. It is expected that long-term(re)insurers will be affected the most. Accounting for these contracts will require IT systems to be overhauled as far as it relates to the measurement of insurance contracts.

Many South African reinsurers will however benefit from being part of global groups with global operational systems and accounting applications. In addition, reinsurers generally administer fewer contracts when compared to direct writers.

Regulatory

The FSB's proposals on reinsurance regulation, for inclusion under SAM remains an area which is and will affect the reinsurance market as we know it.
The regulation addresses the following:

- 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.

A lot of locally registered reinsurers with foreign parents are in an advanced stage in deciding whether or not to convert to a branch. There are however some difficulties in this conversion process such as 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. There are also limitations related to which investments should be held to meet technical provisions, and how these assets can be utilised and/or transferred.

Indirect taxation

The industry has seen binding general ruling (BGR) 32, VAT treatment of specific supplies in the short-term reinsurance industry, becoming effective during 2016. This BGR is effective in respect of policy documents entered into on or after 1 June 2016. There are some parts of the BGR which will only become effective from 1 September 2016. The BGR deals in particular with the following:

- Taxable supply of reinsurance by a local reinsurer to a non-resident cedant
- Treatment of cedant commission, i.e. supply of cedant services to a non-resident reinsurer
- Treatment of indemnity payment and recoveries
- Time of supply aspects as far as it relates to facultative and non-proportional treaty reinsurance and proportional treaty reinsurance as well as supply of intermediary or cedant services
- Documentation requirements as far as it relates tax invoices, credit and debit notes and recipient-created tax invoices, credit and debit notes
- Documentary proof requirements and conditions for zero rating, input tax and other deductions.

In our experience, the insurance industry, in its entirety (i.e. including primary insurers), has not fully got to grips with this BGR. We foresee many applications for specific rulings, where reinsurers believe some aspects of the BGR cannot be complied with, and Voluntary Disclosure Programmes (VDP), as allowed for under the Tax Administration Act, been followed by reinsurers not being in compliance with BGR. In addition, we anticipate the Receiver of Revenue being more stringent with complying with the BGR, especially as far as it relates to input deductions.

What the immediate future holds for reinsurance operations:

- The 2017 financial year has already seen some major losses, for example, Knysna fires, Braampark fire, Cape Storms, etc. The amount of natural catastrophe events have become more frequent in recent years. This would evidently flow through to insurance pricing, we therefore expect price increase across the industry. It will become all the more important to price products accurately.
- Renewals to be under pressure, possible reduction in capacity and continued difficulty in growing as well as pressures on costs.
- Difficult growth conditions remaining.
- Innovation in products and structures, renewed focus on capital relief transactions, SAM efficiency products, and partnering arrangements.
- Cyber risk – all the more insurers are developing cyber insurance products. As cyber risk advances and the regulatory landscape continues to adjust, businesses need to ensure they are not vulnerable to significant damages should they fall victim to cybercrime.

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REINSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-16	Dec-15	Dec-16	Dec-15	Mar-16	15 month period ended Mar-15	Dec-16	Dec-15
Group/Company	**African Reinsurance Corporation (South Africa) Limited**		**General Reinsurance Africa Limited**		**GIC RE South Africa Limited**		**Hannover Life Reassurance Africa Limited**	
Share capital and share premium	80 300	80 300	4 000	4 000	111 500	111 500	112 500	112 500
Retained earnings/(deficit)	607 358	524 408	1 498 014	1 301 167	(33 181)	(26 252)	472 990	541 219
Reserves including contingency reserve	51 702	51 702	(59 930)	(142 816)	1 665	1 393	(29 692)	(64 973)
Total shareholders' funds	**739 360**	**656 410**	**1 442 084**	**1 162 351**	**79 984**	**86 641**	**555 798**	**588 746**
Gross outstanding claims	1 053 455	1 020 031	1 296 493	1 366 362	237 564	42 817	243 265	290 398
Gross unearned premium reserve	185 009	151 467	185 525	173 603	183 409	87 613	17 611	20 776
Provision for profit commission	-	-	-	-	-	-	441 780	276 216
Policyholder liabilities under insurance contracts	-	-	2 175 058	1 864 642	23 731	20 357	2 374 873	2 229 021
Liabilities in respect of investment contracts	901	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	34 276	28 361	-	-	46 737	16 839	36 986	39 241
Deferred tax liabilities/(assets)	26 098	21 153	(3 119)	(6 607)	(5 971)	(5 971)	(3 918)	(10 223)
Funds withheld	1 319 212	1 247 697	1 649	732	375 711	80 392	943 674	872 010
Other liabilities	247 963	222 458	234 559	198 286	8 995	18 674	238 129	307 258
Total liabilities	**2 866 914**	**2 691 167**	**3 890 165**	**3 597 018**	**870 176**	**260 721**	**4 292 400**	**4 024 697**
Total investments	**2 404 879**	**2 223 467**	**4 280 712**	**3 824 358**	**292 404**	**73 725**	**3 004 605**	**2 644 570**
Funds withheld	3 149	378	-	-	-	-	234 582	344 291
PPE and intangible assets	3 141	4 006	5 084	4 811	1 524	1 585	-	-
Retrocessionaires' share of outstanding claims	755 345	714 960	110 303	93 233	202 901	26 207	114 789	102 067
Retrocessionaires' share of unearned premium reserve	129 506	106 027	18 051	14 868	165 324	78 852	-	-
Retrocessionaires' share of profit commissions	-	-	-	-	-	-	21 320	12 683
Retrocessionaires' share of liabilities under life insurance contracts	-	-	-	-	5 833	5 265	702 565	562 221
Deferred acquisition cost	42 492	35 217	-	-	43 861	14 329	219 298	205 662
Cash and cash equivalents	1 090	4 447	401 643	242 644	37 542	33 284	189 487	190 111
Other assets	266 672	259 075	516 456	579 455	200 771	114 115	361 552	551 838
Total assets	**3 606 274**	**3 347 577**	**5 332 249**	**4 759 369**	**950 160**	**347 362**	**4 848 198**	**4 613 443**
CAR ratio	N/A	N/A	6,6	5,9	1,82	2,13	2,4	2,3
Return on equity	11%	5%	14%	23%	(8%)	4%	6%	23%
Total assets/total liabilities	126%	124%	137%	132%	109%	133%	113%	115%
Change in shareholders' funds	13%		24%		(8%)		(6%)	

REINSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-16	Dec-15	Dec-16	Dec-15	Dec-16	Dec-15	Dec-16	Dec-15
Group/Company	**Hannover Reinsurance Africa Limited**		**Munich Reinsurance Company of Africa Limited (Group)**		**RGA Reinsurance Company of South Africa Limited**		**Scor Africa Limited**	
Share capital and share premium	72 778	72 778	34 915	34 915	51 982	51 982	160 500	150 000
Retained earnings/(deficit)	499 195	542 552	2 430 378	2 546 866	189 492	196 872	34 258	65 642
Reserves including contingency reserve	156 027	126 139	445 789	572 947	333	(45 153)	(4 052)	(14 459)
Total shareholders' funds	**728 000**	**741 469**	**2 911 082**	**3 154 728**	**241 807**	**203 701**	**190 706**	**201 183**
Gross outstanding claims	1 546 881	1 771 508	4 726 450	3 736 262	746 985	710 049	1 146 030	1 118 208
Gross unearned premium reserve	813 211	933 544	691 764	847 783	-	-	192 795	250 654
Provision for profit commission	481 892	363 999	122 859	23 705	-	-	-	-
Policyholder liabilities under insurance contracts	-	-	1 657 379	1 016 570	1 352 051	1 055 475	60 268	64 896
Liabilities in respect of investment contracts	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	114 274	94 792	159 675	205 362	-	-	56 284	63 360
Deferred tax liabilities/(assets)	(17 801)	(25 333)	23 944	101 184	(507)	(897)	(20 204)	(12 187)
Funds withheld	748 355	924 353	33 160	22 618	883 464	626 417	941 514	769 631
Other liabilities	401 776	433 293	1 635 531	1 157 832	48 563	53 283	252 184	256 563
Total liabilities	**4 088 588**	**4 496 156**	**9 050 762**	**7 111 316**	**3 030 556**	**2 444 327**	**2 628 871**	**2 511 125**
Total investments	**1 449 298**	**1 622 231**	**3 925 328**	**3 785 576**	**1 555 706**	**1 403 183**	**1 093 245**	**845 036**
Funds withheld	493 766	562 179	97 864	99 558	-	-	-	-
PPE and intangible assets	23 692	9 848	1 283 010	1 310 021	16 428	13 461	525	299
Retrocessionaires' share of outstanding claims	864 037	963 343	2 829 926	1 957 440	-	-	786 562	693 733
Retrocessionaires' share of unearned premium reserve	334 699	311 211	553 371	674 346	-	-	131 041	157 513
Retrocessionaires' share of profit commissions	333 428	256 757	100 124	30 781	-	-	-	-
Retrocessionaires' share of liabilities under life insurance contracts	-	-	13 348	26	883 464	626 417	40 516	34 230
Deferred acquisition cost	209 661	220 038	175 941	224 301	-	-	81 221	99 668
Cash and cash equivalents	174 081	203 099	590 300	562 857	136 176	65 974	225 452	206 210
Other assets	933 927	1 088 919	2 392 632	1 621 138	680 589	538 993	461 015	675 619
Total assets	**4 816 589**	**5 237 625**	**11 961 844**	**10 266 044**	**3 272 363**	**2 648 028**	**2 819 577**	**2 712 308**
CAR ratio	N/A	N/A	9,3	2,7	3,8	4,6	1,8	3,3
Return on equity	8%	15%	3%	8%	(3%)	47%	(16%)	(8%)
Total assets/total liabilities	118%	116%	132%	144%	108%	108%	107%	108%
Change in shareholders' funds	(2%)		(8%)		19%		(5%)	

REINSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-16	Dec-15	Dec-16	Dec-15	Mar-16	15 month period ended Mar-15	Dec-16	Dec-15
Group/Company	**African Reinsurance Corporation (South Africa) Limited**		**General Reinsurance Africa Limited**		**GIC RE South Africa Limited**		**Hannover Life Reassurance Africa Limited**	
Gross premiums written	2 277 434	2 163 137	2 363 979	2 230 452	331 818	155 878	2 568 054	2 411 274
Net premiums written	661 428	626 491	2 276 800	2 153 821	40 037	25 901	1 900 565	1 818 376
Earned premiums	**651 365**	**628 034**	**2 268 062**	**2 158 973**	**30 713**	**17 140**	**1 900 943**	**1 824 746**
Total net investment income	152 809	88 698	318 548	293 676	8 087	4 740	158 040	132 117
Reinsurance commission revenue	489 511	462 178	13 716	19 671	61 933	11 849	74 217	46 962
Other income	900	-	22 953	21 878	-	-	-	24 943
Total income	**1 294 585**	**1 178 910**	**2 623 279**	**2 494 198**	**100 733**	**33 729**	**2 133 200**	**2 028 768**
Policyholder benefits and entitlements	459 859	457 446	2 240 464	1 943 498	35 411	8 729	1 645 215	1 421 846
Acquisition expense	620 820	584 439	41 970	58 353	57 983	10 788	300 920	291 234
Management and other expenses	101 717	95 670	99 788	100 986	13 997	10 915	138 767	118 217
Total expenses	**1 182 396**	**1 137 555**	**2 382 222**	**2 102 837**	**107 391**	**30 432**	**2 084 902**	**1 831 297**
Net profit/(loss) before tax	**112 189**	**41 355**	**241 057**	**391 361**	**(6 658)**	**3 297**	**48 298**	**197 471**
Tax	29 239	6 748	44 210	129 784	-	-	16 526	63 399
Net profit/(loss) after tax	**82 950**	**34 607**	**196 847**	**261 577**	**(6 658)**	**3 297**	**31 772**	**134 072**
Other comprehensive income/(loss)	-	-	82 885	(158 200)	-	-	35 281	(56 607)
Total comprehensive income/(loss) for the year	**82 950**	**34 607**	**279 732**	**103 377**	**(6 658)**	**3 297**	**67 053**	**77 465**
Minority shareholders' interest	-	-	-	-	-	-	-	-
Transfer to/(from) retained earnings	-	-	-	-	(272)	(10 496)	-	-
Dividends	-	-	-	-	-	42 022	100 000	100 000
Change in retained earnings	**82 950**	**34 607**	**196 847**	**261 577**	**(6 930)**	**(49 221)**	**(68 228)**	**34 072**
Net premiums to gross premiums	29%	29%	96%	97%	12%	17%	74%	75%
Policyholder benefits and entitlements to earned premium	71%	73%	99%	90%	115%	51%	87%	78%
Management and other expenses to earned premium	16%	15%	4%	5%	46%	64%	7%	6%
Comments	Company		Composite company		Composite company		Company	

REINSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-16	Dec-15	Dec-16	Dec-15	Mar-16	15 month period ended Mar-15	Dec-16	Dec-15
Group/Company	**Hannover Reinsurance Africa Limited**		**Munich Reinsurance Company of Africa Limited (Group)**		**RGA Reinsurance Company of South Africa Limited**		**Scor Africa Limited**	
Gross premiums written	2 445 112	2 395 855	6 888 635	5 981 755	2 314 978	1 509 810	1 075 363	1 114 111
Net premiums written	418 336	601 578	3 459 709	3 056 530	693 574	484 739	345 863	407 092
Earned premiums	**558 287**	**902 452**	**3 500 281**	**3 032 652**	**687 346**	**534 167**	**376 377**	**406 340**
Total net investment income	85 445	93 244	369 746	243 768	117 644	112 160	33 449	39 441
Reinsurance commission revenue	814 755	625 744	1 212 223	961 890	108 543	70 702	179 496	157 134
Other income	9 187	15 130	-	-	90 307	23 571	(613)	19 320
Total income	**1 467 674**	**1 636 570**	**5 082 250**	**4 238 310**	**1 003 840**	**740 600**	**588 709**	**622 235**
Policyholder benefits and entitlements	338 328	556 707	2 940 286	2 271 348	546 147	401 879	285 998	345 144
Acquisition expense	981 691	861 304	1 429 808	1 069 451	171 415	101 046	284 247	250 989
Management and other expenses	80 992	75 638	607 028	600 381	276 983	126 377	60 100	48 957
Total expenses	**1 401 011**	**1 493 649**	**4 977 122**	**3 941 180**	**994 545**	**629 302**	**630 345**	**645 090**
Net profit/(loss) before tax	**66 663**	**142 921**	**105 128**	**297 130**	**9 295**	**111 298**	**(41 636)**	**(22 855)**
Tax	7 420	33 816	24 151	48 759	16 675	15 772	(10 252)	(6 516)
Net profit/(loss) after tax	**59 243**	**109 105**	**80 977**	**248 371**	**(7 380)**	**95 526**	**(31 384)**	**(16 339)**
Other comprehensive income/(loss)	29 888	(13 281)	(124 623)	149 430	42 954	(50 519)	9 851	(21 207)
Total comprehensive income/(loss) for the year	**89 131**	**95 824**	**(43 646)**	**397 801**	**35 574**	**45 007**	**(21 533)**	**(37 546)**
Minority shareholders' interest	-	-	-	-	-	-	-	-
Transfer to/(from) retained earnings	-	-	2 535	5 939	-	-	-	-
Dividends	102 600	106 415	200 000	-	-	-	-	-
Change in retained earnings	**(43 357)**	**2 690**	**(116 488)**	**254 310**	**(7 380)**	**95 526**	**(31 384)**	**(16 339)**
Net premiums to gross premiums	17%	25%	50%	51%	30%	32%	32%	37%
Policyholder benefits and entitlements to earned premium	61%	62%	84%	75%	79%	75%	76%	85%
Management and other expenses to earned premium	15%	8%	17%	20%	40%	24%	16%	12%
Comments	Company		Composite company, group results		Company		Composite company	

Our technology, our machines, is part of our humanity. We created them to extend ourselves, and that is what is unique about human beings.

Ray Kurzweil

American author, computer scientist, inventor and futurist.

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