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# Life insurance industry results

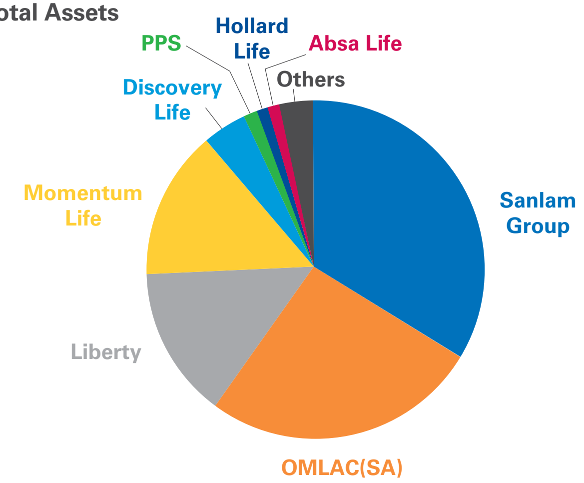
Our life insurance industry analysis includes 21 of the major life insurance licenses in South Africa. As far as possible we have tried to include the licensed entities' results, rather than those of the group.

This makes the results more comparable but was not always possible. Eleven of these entities have a June year-end, and the information included (being June 2020) does not fully reflect the impact of the COVID-19 pandemic on the economy and peoples' lives. Unfortunately, many of these entities are not listed and their results for 2021 are not published at the time of preparing our survey. Nine of the entities have a December year-end and AIG Life stands alone as the only entity with a November year-end.

According to the Prudential Authority statistics published for the period ended 31 March 2021, there are sixty primary life insurers, five life cell insurers and two micro-insurers. This license count is down nine from the year before, as ten primary life entities having been deregistered and one new micro-insurer has been registered.

Whilst, by count, the survey only covers 32% of the licensed entities, by total assets it covers 88% of the market. It is interesting to note that the top five life insurers[1] (by assets) are all listed and account for 82% of the market's total assets. These assets grew by 3.5% for the surveyed entities as a whole, which is fairly consistent with the performance of the JSE All Share Index (ALSI) over the same period. The ALSI has recovered somewhat since December 2020 and we would expect to see that feeding through into the results of the larger life insurance companies. For the larger entities, this has a direct impact on the asset-based fees earned over the period. Whilst the listed entities represent the norm here, the smaller remaining entities outgrew their larger counterparts with a 9.3% growth in their assets.

**Total Assets**




The sheer variety of scale in insurers is itself remarkable; from the Big 5 life insurers each with hundreds of billions of Rands in assets to small and niche players with assets in the hundreds of millions. This is no doubt a sign of the health of the industry; smaller and specialist players can continue to contribute and participate in this market.

Net premiums reflecting risk and FIDP[2] business for these entities grew by a meagre 2.2%, which does not include investment business flows as this is not taken through the income statement. Again, the performance of the smaller life insurers was quite different with an overall average growth closer to 8%, leading to a slight shift in the share of premium. Despite this, the Big 5 still consist of over 87% of the total premium written by the market. As reported by many entities, the hard lockdown had a direct impact on the ability to make sales, especially for those entities that operate largely through a branch network. However, even for others, the impact was felt during the initial phase of transition to remote working. Reporting during 2021 has suggested that this has turned slightly, but the recent civil unrest has put another smaller dent in the ability to engage directly with the customer.

Investment returns on investment assets averaged around 2.7%, with outliers of -2.3% and 23% excluded. Considering the muted growth in total assets and gross premium this is not surprising, but again is expected to improve somewhat post 1 January 2021.

[1] Sanlam, Old Mutual Life Assurance Company (OMLAC(SA)), Liberty, Momentum Life, Discovery Life

[2] Financial instruments with discretionary participation features (FIDP)

Claims experience was understandably poor, but the many moving parts in the reported claims information (provisions, reinsurance recoveries, assumption changes) make it hard to unpack the impact from the financial statements alone. Excess deaths as reported according to the South African Medical Research Council (SAMRC), was close to 245 000 to March 2021[3] – well above the official COVID-19 numbers. The Association for Savings and Investment South Africa (ASISA) has also reported that death benefits were 64% more than the previous year[4] to March 2021.

In the context of poor premium growth, mediocre investment performance and significant claims, the industry has moved from a total industry profit of close to R22.1bn in the 2019 period to a loss of R2.6bn in 2020. The Big 5 bore the burden of this overall loss with a move from R17.8bn profit in 2019 to a loss of R5.7bn in 2020, whilst the smaller entities maintained their overall profits moving from R4.2bn to R3.0bn. A major and direct contributor to these results was the reported R9.9bn in COVID-19 pandemic related provisions raised. The reporting on these provisions was generally quite transparent, with listed and non-listed insurers alike including fairly comprehensive disclosures on the quantum and thinking behind the COVID-19 provisions raised. These provisions averaged around 5% of net written premium and 7% of NAV.

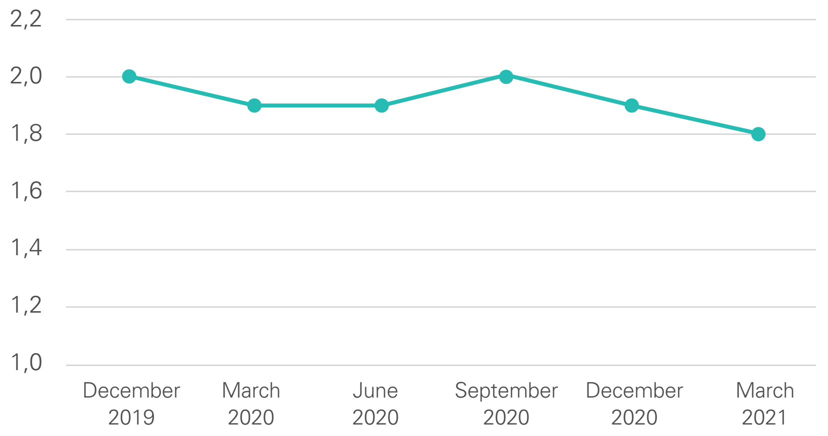
From a review of publicly available information at 30 June 2020, the financial impact of COVID-19 was generally understated. Many insurers increased their COVID-19 provisions at December 2020 and some have even indicated further increases at June 2021. This is not surprising as few people anticipated multiple waves of the pandemic back in June 2020.

The COVID-19 impact is not only reflected in the COVID-19 provisions though. Most reporters included commentary on the impact on expenses, as the business moved to remote working, the impact on premium collections (through premium holidays, non-collection and lapses) and the financial impact of voluntary funding provided to various elements within the insurance value chain.

Despite these losses, dividends for the surveyed entities increased from R16.1bn to R18.5bn, excluding the dividend in specie issued by Old Mutual's life insurance entity upwards within the Old Mutual group. This represents a 9.5% return on IFRS net asset value which is up from 7.2% for the comparable period. Whilst some reporting entities held back on dividends in the earlier part of 2020 this was not sustained. Similar to the profitability, the smaller entities' overall dividend yield on IFRS NAV was higher at 12.1% (2019: 17.1%) compared to 9.2% (2019: 6.2%) for the larger insurers.

Overall, the life insurance industry remains well capitalised. SCR cover remains well over the statutory minimum. Not all entities include solvency information in their financial statements and therefore we have used the industry statistics published by the Prudential Authority to compare the results over the period. It is interesting to note that the Big 5 all maintain a coverage ratio in excess of 1.6 times, suggesting that the losses experienced and the dividends declared are not in any meaningful way placing these entities under undue pressure. We have included only the primary insurers below as the cell captive insurers' SCR will always tend toward 1 due to the fungibility adjustments processed for own funds in the cells.

**Primary Life SCR cover**




Subsequent results commentary from the market has not painted a much brighter picture, with the June year-ends continuing to report strain in their half-year results.

[3] One million SA policyholders died in a year - 300 000 more than usual, insurers report | Fin24 (news24.com)

[4] Beneficiaries receive R47.58 billion from life insurers for more than a million death claims in 12 month period (asisa.org.za)

Looking forward there appears to be mixed sentiment on the outlook for the industry. Whilst lapse experience has potentially been better than expected over the period of the pandemic when referencing a loss of business in-force, this has been offset to some extent by policyholders using other contractual options, such as premium holidays and adjusted cover. There are some concerns that once the vaccination rollout has achieved some scale, policyholders may decide that life cover is now less of a priority than other basic needs.

Whilst for many the COVID-19 pandemic has confirmed the value and need for life insurance, the state of the economy could well override this. The unrest and economic struggles of the country are well documented and consequently the short-term outlook on lapses is generally unfavourable. On the mortality side, whilst many of the more recent reports from life insurers suggest that vaccine rollouts and vaccine efficacy could reduce the impact of fourth and fifth waves of the COVID-19 pandemic materially, there is also a growing consideration of the potential long term impact on base mortality rates if COVID-19 continues and becomes like the annual flu cycles we already experience.

The next few months also hold some challenging moral decisions for life insurers as they debate vaccine mandates for employees, vaccine premium adjustments for policyholders and questions of repricing policies to recoup some of the losses incurred over the recent period.