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Non-life insurance industry results analysis

The record books will show that 2022 will stand out for the non-life insurance industry for years to come. The industry results included the development of losses associated with the July 2021 Kwa-Zulu Natal and Gauteng riots, which was so big, that it made it difficult to comprehend the impact of a second loss event, one of the most significant natural catastrophe losses South Africa has ever experienced – the April 2022 Kwa-Zulu Natal floods. The losses experienced by Sasria SOC Limited (Sasria), as a result of the unrest that took place in July 2021 in KwaZulu-Natal and Gauteng, was unprecedented. It brought thousands of business owners to their knees, while threatening the viability of Sasria.

Economic environment

The macro-economic landscape during 2022 was characterised by increasing inflation which prompted central bank intervention. Periodic interest rate hikes are continuing to place significant strain on individuals and companies.

Real gross domestic product (GDP) increased by 1.7% in the first quarter of 2022, but subsequently decreased by 0.7% in quarter two. Quarters three and four increased by 1.3% and 1.8% respectively. On the other hand, the financial services industry's contribution to real GDP decreased by 2.3%[1].

South Africa's crumbling national infrastructure placed strain on the economy in general. Persistent load shedding continues to impair South Africa's ability to recover wholly from the COVID-19 pandemic. The opportunity cost to the South African economy associated with load shedding during 2022 is estimated to be R300 billion which represents approximately 5% of South Africa's real GDP[2].

As at 31 December 2022, approximately 32.7% of the economically active (i.e., eligible and willing to work) workforce in South Africa was unemployed; 70% of those people are under the age of 35. This compares favourably when compared to 31 December 2021, where the unemployment rate was 35.2%. Even with the year-on-year improvement, this metric is still of such magnitude that South Africa is placed among the top ten global countries in terms of highest unemployment rates, increasingly placing pressure on the disposable income circulated through the economy.

During February 2023 the Financial Action Task Force (FATF) officially grey-listed South Africa as a result of non-compliance with international standards around the prevention of money laundering, terrorist financing and proliferation financing[3]. We have yet to understand and experience the near- and longer-term economic impacts of the grey-listing. This is new territory for South Africa, and the country is being closely observed to see how quickly it can remediate the findings and be removed from the grey-listing. At this point, however, there is little tangible progress in this area. There is an ever-increasing risk that international investors will de-risk themselves from South Africa, which will lead to decreased foreign investment and funding.

1 www.statssa.gov.za

2 https://www.investec.com/en_za/focus/economy/sa-s-load-shedding-how-the-sectors-are-being-

3 https://www.news24.com/fin24/economy/just-in-south-africa-has-been-greylisted-by-the-financial-action-task-force-20230224

Profitability

The table below summarises the key metrics of the non-life insurers that participated in our survey over the last eight calendar years.

	2022 (excl. Sasria)	2022 (incl. Sasria)	2021	2020	2019	2018	2017	2016	2015
Increase in gross written premiums[4]	9.6%	9.7%	7.0%	4.9%	7.6%	8.1%	5.5%	4.2%	11.4%
Increase in net earned premiums	6.7%	5.9%	4.7%	3.2%	4.7%	7.1%	3.1%	6.2%	8.8%
(Decrease)/ Increase in investment income	(26.5%)	(29.3%)	77.3%	(31.9%)	10.6%	(11.5%)	30.0%	(15.2%)	12.4%
Claims incurred	60.8%	88.1%	54.6%	61.0%	59.0%	55.3%	57.3%	57.9%	57.1%
Combined ratio	97.6%	125.0%	91.3%	98.8%	96.2%	92.2%	93.4%	93.6%	94.1%
Operating ratio[5]	90.1%	117.4%	79.9%	92.3%	86.2%	82.2%	81.8%	84.6%	82.8%
Management expense ratio[6]	28.7%	28.8%	29.1%	30.7%	30.5%	26.9%	26.4%	26.5%	27.2%

The industry reported gross written premiums (GWP) of R140.1 billion in 2022. This amounts to an increase of 9.6% when compared to the R127.8 billion recorded in 2021. This is a strong top-line performance considering the overarching inflationary and economic growth environments and market competition. With the annual change in CPI at 7.2% in December 2022 and the average annual change in CPI at 6.9% in 2022, the increase in GWP for 2022 exceeds CPI. Growth for non-life insurers was primarily driven by GWP increases, reflecting insurers' exposure to higher natural hazards and increased reinsurance costs[7].

The five insurers whereby GWP growth for the year outperformed the industry average GWP growth of 9.7%, and which contributed the highest Rand value GWP growth compared to 2021, were Centriq Insurance Company Limited (Centriq), Discovery Insure Limited (Discovery Insure), Lombard Insurance Company Limited (Lombard), Mutual and Federal Risk Financing Limited (M&F Risk Financing) and Bryte Insurance Company Limited (Bryte):

- Centriq grew its GWP by R2.66 billion (growth rate of 70%). It is reported that Santam Limited's (Santam) alternative risk transfer business, of which Centriq forms a part, garnered significant new mining rehabilitation business and established several new cell arrangements.
- Discovery Insure continues its top-line growth trajectory from the previous financial year and grew its GWP by R0.81 billion (growth rate of 18.5%) of which 13% came from its personal lines book. It appears that this growth came from its existing client base as a result of improved lapse rates. The remaining GWP growth stems from other lines of business, such as Discovery Business Insurance.
- Lombard once again managed to outperform the industry growth rate and grew its GWP by 22.4%, while also improving its market share (approximately 2%) position from the previous year. Lombard is well positioned in the guarantee segment and has a growing presence in other specialist lines and partnership businesses[8].
- M&F Risk Financing experienced GWP growth of 15.16% which resulted in it making its way into the top ten insurers in terms of GWP market share. The growth in GWP was attributable to the establishment of several new cells[9].
- Bryte continued its double-digit growth rate and managed to grow its GWP by 10.1%.

4 The gross written premiums of the companies featured in this publication approximate 78% of the industry's gross written premiums, as a result the results of this survey are a fair representation of the results of the overall industry.

5 (Claims incurred + net commission incurred + management expenses – investment income)/net earned premiums

6 Management and other expenses/net earned premiums

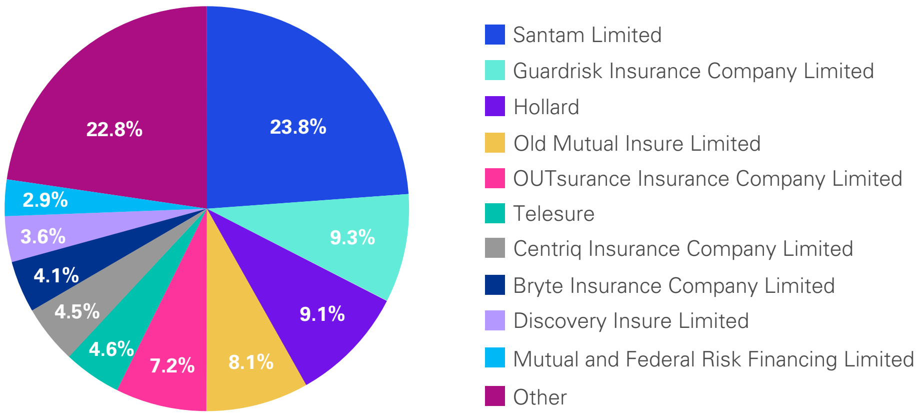
7 https://www.statssa.gov.za/publications/P0141

8 https://www.lombardins.com/wp-content/uploads/2022/11/GCR-affirms-Lombards-South-Africa-financial-strength-and-long-term-issuer-ratings.pdf

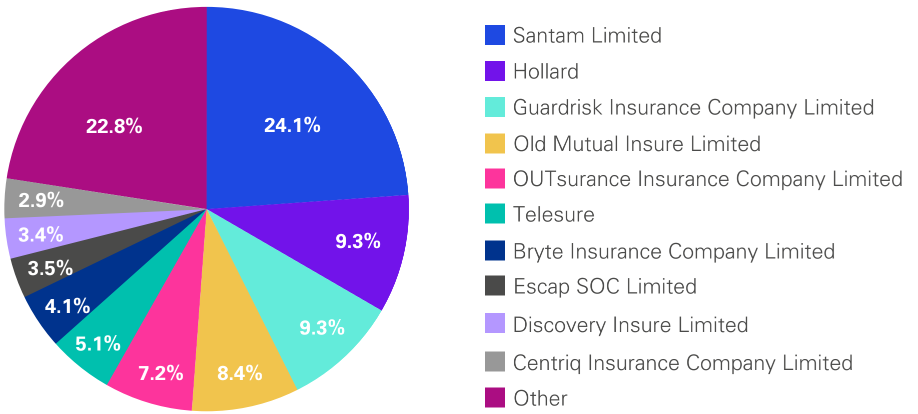
9 https://www.oldmutual.com/v3/assets/blt566c98aeecc1c18b/bltda1c283ad288c9d7/64772ee5546c285cb2aa4f17 Integrated_Report_2022.pdf

Market share by GWP

Percentage of market based on GWP - 2022



Percentage of market based on GWP - 2021



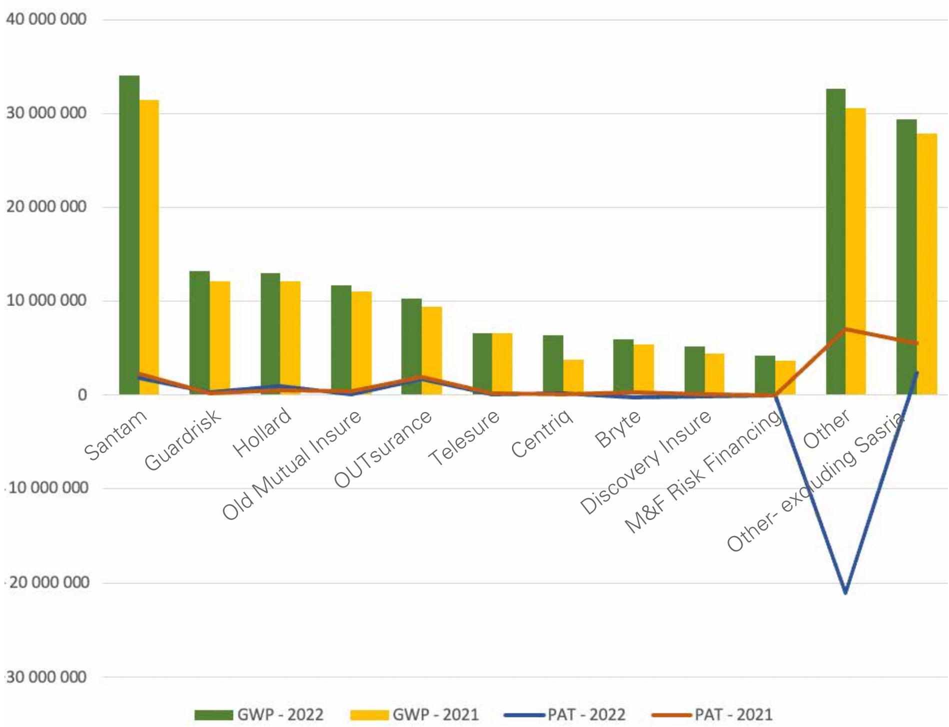
During 2022 the market share of the top ten largest insurance companies, based on GWP, amounted to 77% (2021: 77%) of the total market. Comparing the market share positions of 2022 to that of 2021, the main constituents remained relatively consistent, with the exception of Escap SOC Limited (Escap) losing its position within the top ten and being replaced by M&F Risk Financing. Santam has maintained its top position as the largest non-life insurance company within South Africa with a share of 23.8% (2021: 24.1%) of the overall market.

Guardrisk slightly outperformed Hollard and claimed the second position within the market. Centriq moved up three positions from tenth in 2021 to seventh during 2022.

The chart on the next page indicates profit after tax (PAT) compared to GWP for the ten largest (in terms of GWP market share contribution) non-life insurance companies over 2021 and 2022, and the rest of the market (labelled as "Other"). The industry recorded a loss after tax of R16.4 billion in 2022. This is a complete upset of the applecart when compared to the PAT of R13.1 billion recorded in 2021. It is not difficult to guess what the cause is of this decrease. Sasria (included in the "Other" category) contributed R23.5 billion (2021: PAT of R1.5 billion) to this loss following the widespread looting and civil unrest that transpired in July 2021 in Kwa-Zulu Natal and Gauteng.

Due to the significant impact of the losses experienced by Sasria on the overall industry results, we have also included in the chart on the next page the effect of excluding Sasria from the "Other" category.

GWP versus PAT
R'000



Excluding Sasria, the industry's PAT reduced from R11.6 billion in 2021 to R7 billion in 2022. Most of the decrease in PAT is attributable to the "Other" category (excluding Sasria) of insurers, which contributed R3.2 billion to the total R4.6 billion decrease.

Profit after tax analysis

The most significant contributors to the overall decrease in PAT in the top ten insurers by GWP market share are Bryte and Santam. Bryte recorded a loss after tax of R0.26 billion which is a decrease of R0.54 billion from the prior year.

Santam's PAT reduced by R0.45 billion from R2.28 billion in the prior year to R1.83 billion in 2022. Santam's performance highlights are GWP growth of 8% and a net underwriting margin of 5.1%. The underwriting results were negatively impacted by increased claims activity, including large natural catastrophe event losses, and high claims inflation. Santam reported R4.4 billion in gross claims due to the Kwa-Zulu Natal floods, with a net loss of R0.57 billion after reinsurance and re-instatement premiums. The Kwa-Zulu Natal floods resulted in the largest natural catastrophe loss ever recorded by the company. These losses were off-set to some extent by the release of contingent business interruption (CBI) claims provisions raised in previous years due to COVID-19, which at the time Santam reported a R3 billion expected impact[10].

Of the top ten insurers by GWP market share, Hollard reported the highest growth in PAT. Hollard increased its PAT by 91%; an increase of R0.45 billion from a PAT of R0.49 billion in 2021 to R0.94 billion in 2022. Hollard improved on both its claims ratio (58% in 2022 versus 59% in 2021) and management and other expenses ratio (28% in 2022 versus 31% in 2021). Its investment performance is a large contributor to the favourable profit after tax result. While the investment portfolio composition is relatively conservative, Hollard managed to achieve exceptional growth in its investment returns. Hollard's investment portfolio comprises of a 20% investment in both listed equity and debt instruments, while the remaining portion is evenly distributed between linked policies and unit trusts. This success is predominantly attributed to the investments in linked policies and unit trusts. This strategy proved to be more successful when compared to those that opted for more aggressive strategies through higher exposures to equity and offshore investments.

10 https://www.santam.co.za/media/2687818/integrated-report-2022.pdf

Other (excluding Sasria)

Escap's PAT decreased from R2.9 billion in 2021 to R1 billion in 2022, while GWP decreased by 8.5% and net earned premiums (NEP) decreased by 29.8%. The decrease in NEP and PAT is largely attributable to the increase in reinsurance premiums by 84% as a result of additional reinsurance purchased and higher reinsurance rates due to reduced reinsurance market capacity and appetite for coal-related and public sector-related risks. Escap's net loss ratio deteriorated to 97% from 29% in the previous year, representing a 134% increase in claims and loss adjustment expenses. It is important to note that Escap's financial year end is 31 March, therefore these results exclude the losses related to the Kwa-Zulu Natal floods and Duvha Power Station fire. In June 2022, a fire broke out at unit two of the Duvha Power Station in Mpumalanga. The estimated gross loss is R380 million, of which Escap's exposure is R195 million. Escap's exposure to the Kwa-Zulu Natal floods does not appear to be material[11]. Investment income decreased by 34%, mainly due to a decrease in unrealised gains on listed equity securities as a result of volatile financial markets prevalent over 2021 and early into 2022.

The Federated Employers Mutual Assurance Company (RF) Proprietary Limited (FEM) recorded a decrease in PAT of R0.75 billion (decrease of 92%) as a result of the decrease in investment income of R1.2 billion. The company recorded a net investment loss of R67 million for the year, representing a negative 0.9% return on the average financial assets held during the year (2021: 17.7% positive return). These returns are indicative of the challenges faced locally and globally with most investment markets. FEM, however, recorded an overall underwriting profit.

The remaining companies in this category consist of 21 insurers. Exxaro Insurance Company Limited (Exxaro) topped the list in terms of PAT growth in this category. Exxaro managed to grow its PAT by 118%, where PAT increased from R0.12 billion in 2021 to R0.27 billion in 2022. The increase in profitability is largely due to the increase in GWP and investment income, offset slightly by increased administrative expenses. GWP increases were due to annual repricing, while investment income increased due to better market performance.

Other key metrics explaining the industry results

Cost of reinsurance

The purchase of reinsurance is the non-life insurance industry's main form of underwriting risk mitigation, whereby the industry is materially dependent on the reinsurance market to mitigate the financial impact of gross losses. This factor is therefore fundamental in analysing financial performance. During April 2022, Kwa-Zulu Natal experienced the most catastrophic natural disaster yet based on lives lost, extent of properties damaged and economic consequences[12]. The non-life insurance industry was severely impacted due to this loss event. In spite of this large loss event, more than 80% of survey participants managed to report an overall profit for the year. This financial result demonstrates how resilient the South African non-life insurance industry is and the effectiveness and strength of reinsurance mitigation in place. This resilience is further highlighted through the median solvency capital requirement (SCR) ratio staying constant, relative to 2021, at 1.7.

Fitch Ratings estimated that global natural catastrophe insured losses amounted to USD39 billion for the twelve months ended 30 June 2022[13]. This amount exceeds the twenty-year average by approximately 18%. The more frequent the occurrence of natural catastrophe events, the more it reduces the appetite of reinsurers to take on catastrophe risk. This is reflective of the recent tightening of reinsurance terms and conditions and increases in reinsurance rates.

Analysing reinsurance premiums relative to GWP can be used to gauge the extent to which reinsurers have priced their perceived risk and the extent of increased coverage purchased by non-life insurers:

2022	2021
33.70%	32.54%

11 https://www.engineeringnews.co.za/article/eskom-probes-fire-at-duvha-power-station-2022-06-13

12 (https://www.wits.ac.za/news/latest-news/general-news/2023/2023-04/the-2022-durban-floods-were-the-most catastrophic-yet-recorded-in-kwazulu-natal.html

13 https://www.fitchratings.com/research/insurance/reinsurers-diverge-on-appetite-for-catastrophe-risk-06-09-2022

Reinsurance premiums increased by approximately 14% during 2022, compared to an increase in GWP of 9.67%. The increase in reinsurance premiums is not only due to inflation, but rather reflects a hardened reinsurance market and increased cover purchased by primary insurers to accommodate changes in underwriting risks and risk appetites.

Claims incurred

2022 (excl. Sasria)	2022 (incl. Sasria)	2021	2020	2019	2018	2017	2016	2015
61%	88%	55%	61%	59%	55%	57%	58%	57%

The claims environment in respect of 2021 was characterised by off-setting factors such as normalisation of BI claims experience, significant provision releases related to 2020 BI claims and higher motor and weather-related claims. The 2022 industry results, from a claims perspective, would be remembered for the July 2021 social unrest and April 2022 Kwa-Zulu Natal storms[14].

Let us address the elephant in the room – while we reported on the occurrence of the July 2021 civil unrest in the 2022 KPMG insurance survey, the extent of the financial impact is fully observable within Sasria's 2022 financial results that were issued during the 2022 calendar year. Sasria provides cover against civil commotion, public disorder, strikes, riots and terrorism, and therefore assumed responsibility for the majority of the claims which arose as a result of the unrest. According to the 2022 Sasria integrated report, the ultimate loss for Sasria from this event amounted to R33 billion. As a result, investments of almost R10 billion had to be liquidated to adequately compensate policyholders. The magnitude of this loss event resulted in Sasria's SCR reducing to below the minimum prescribed level as prescribed by the PA. Government intervention of approximately R22 billion was required in order for Sasria to honour its obligations to policyholders.

In April 2022, floods in Kwa-Zulu Natal killed over 400 people and left many missing in Durban and surrounds, while critical infrastructure was destroyed[15]. The World Economic Forum reported ten global weather related loss events that each caused damage in excess of USD3 billion. The Kwa-Zulu Natal floods ranked tenth on this list, with an estimated impact of approximately USD3 billion[16]. This estimation was however based on insured losses and therefore did not consider losses to which insurance entities did not have exposure. Santam and Hollard estimated their gross exposure to this loss to be R4.4 billion and R2.9 billion, respectively, diluted down to R0.57 billion and R0.26 billion, respectively, after reinsurance cover.

The above-normal rainfall in the country was due to the La Niña weather event. La Niña persisted in the 2022 calendar year and has continued for a third year in a row into 2023. La Niña is associated with increased rainfall in some regions, like South Africa, and extreme heat and drought in others – like East Africa and South America. Earlier in 2023 the government announced a national state of disaster in response to widespread flooding across the country in provinces such as Mpumalanga, Eastern Cape, Gauteng, Kwa-Zulu Natal, Limpopo, Northern Cape and North West regions. This announcement came in closely after a national state of disaster announcement in response to the power crisis[17].

Load shedding-related appliance damage due to power surges added a new category of claims. Some insurers saw load shedding claims nearly doubling over the period. In addition, some insurers reported that power cuts also often led to an increase in burglaries.

Grid failure has been deemed a systemic risk and, therefore, has been explicitly excluded as a valid loss event by many insurers, reinsurers and Sasria. Systemic risk refers to the likelihood of the breakdown of an entire system rather than the failure of individual parts. It is a risk that could trigger severe instability or collapse an entire industry. The exclusion of grid failure as an insurable risk has also been adopted widely by the largest South African non-life insurance companies. Insurers like Santam, Hollard, OUTsurance and Budget Insurance announced the exclusion of grid failure[18].

14 https://www.santam.co.za/about-us/media/personal-lines/santam-answers-questions-on-the-impact-of-load-shedding-on-insurance/

15 https://www.news24.com/fin24/companies/sa-short-term-insurers-hit-by-perfect-storm-warns-ceo-20221030

16 https://www.weforum.org/agenda/2023/01/10-costliest-climate-disasters-of-2022/#:~:text=10%20costliest%2 climate%20disasters%20of%202022%201%201.,the%20UK%3A%20More%20than%20%244.3%20billion. %20More%20items

17 https://www.news24.com/news24/southafrica/news/state-of-disaster-declared-over-flooding-as-forecasters-warn-of-more-downpours-strain-on-rescuers-20230214

18 https://mg.co.za/business/2023-03-06-insurers-tell-clients-we-cant-cover-you-for-eskom-grid-collapse/

Some insurers reported that motor vehicle accident claims are back to pre-pandemic levels, while repair costs have increased due to global supply chain challenges and the high inflationary environment.

As the cost of claims for insurers increase, it is inevitable that premium rates will increase and policyholders might have already seen sharp increases in their premiums. Insurers are already absorbing some of these costs, which is evident by the rising cost of reinsurance cover. Insurers are, however, doing what they can to bring these costs down, such as implementing digitisation initiatives, simplifying and automating processes and applying other operating model adjustments across the value chain to drive efficiency and cost reductions.

Other initiatives being carried out by insurers to keep premiums down is by incorporating stricter underwriting processes. That may mean that insurers are considering reducing their risk tolerances, for example, by reassessing the extent of insurance cover provided over homes situated in flood-prone areas or vehicles situated where there are more accidents or incidences of theft. It is expected that risk selection will be even more specific than what it was previously.

Investment income

Non-life insurance companies ordinarily develop a conversative investment mandate due to the nature of their claims experience being generally short tailed. This imposes some level of constraint on available investment opportunities as liquidity is favoured over returns. The remaining available investment universe predominantly consists of short-term instruments that are exposed to interest rate risk, as they are subject to the prevailing economic environment more acutely than investments with a longer maturity.

The following facts and circumstances were observed in the South African financial market during 2022:

- The Johannesburg Stock Exchange (JSE) all share market index experienced an annual negative movement of 0.9%.
- The Monetary Policy Committee (MPC) imposed a 325 basis point increase in the repo rate, distributed across seven interest rate hikes cycles between 1 January 2022 and 31 December 2022, producing a time weighted repo rate of 5.08%.

Taking the above into account, while 2022 investment returns generated by the non-life insurance industry might appear to be unfavourable and muted, this experience was felt by the entire market, particularly when interest rates rose from a twenty year low in 2021.

An increase of 61% in short-term liquid investments was observed during 2022. The increased demand in these investments can be attributed to a preference for liquidity, stability and risk aversion, amidst the current economic uncertainty and inflationary environment experienced both locally and globally.

Overall investment performance, calculated as total net investment income relative to average investments and securities (including cash and cash equivalents), was 5.25% for 2022. This represents an absolute decrease of 2.65% compared to 2021.

Total net investment income generated during 2022 amounted to R6.8 billion, which represents a decrease of 29% compared to 2021. Fair value movements were the largest driver of this decrease. The lack of observed fair value gains is two-fold and can be explained by both larger cash reserves held by insurers due to an uncertain claims environment, as well as unfavourable market conditions.

Corporate activity, new entrants, partnerships, products and innovation

Old Mutual Insure

Old Mutual Insure acquired 51% of One Financial Services Holdings Proprietary Limited (One) with effect from 3 January 2022. One is a financial services group that conducts non-life insurance activities through binder and cell arrangements. The initial acquisition cost relating to this business combination amounted to circa R0.5 billion, of which approximately R0.26 billion is attributable to goodwill.

Telesure Investment Holdings

Telesure Investment Holdings acquired Renasa Holdings (Renasa) during January 2023. Renasa is a non-life insurer that provides insurance products through the services of independent intermediaries and underwriting management agencies.

Momentum

Following the purchase of Alexander Forbes Insurance and the continued journey toward establishing one non-life insurance brand under a single insurance license, on 1 July 2021 Momentum Short-term Insurance (MSTI) was renamed to Momentum Insure and Momentum Insurance (previously Alexander Forbes Insurance) was successfully integrated into this entity[19].

Guardrisk

During 2022 Guardrisk launched a R50 million corporate venture fund, 'Launchpad', to help insurtech companies disrupt the insurance industry. This fund will not only allow eligible insurtech companies to use Guardrisk's license, but also provide them with additional capital funding. Access to this fund will, however, be restricted to entities that have surpassed the start-up phase but require capital to scale their operations. The purpose of this fund is to lower the barrier to entry into the insurance market which is guarded by large regulatory capital requirements and strict laws[20].

Naked

Naked, which offers a fully digital way for consumers to insure their cars, homes and valuables, has built a platform that enables customers to manage their entire insurance experience online from a mobile application. From requesting a quote and buying insurance, to managing the policy terms and limits and submitting claims, Naked customers can do it all without speaking to a contact centre agent. Since April 2018, Naked have managed to raise circa R0.5 billion from investors. Companies such as Naspers, Hollard, the German Development Bank, as well as, most recently, the International Finance Corporation (IFC), have all invested in this artificial intelligence-based company[21]. Their business model deviates from that applied by traditional insurers as excess premiums not being used for the funding of day-to-day activities and claims obligations, are distributed to policyholder-nominated charities. This is considered to be a step in the right direction in attracting socially conscious investors and policyholders. While limited financial information is currently presented to the public, the founders recently stated that their incremental policy acquisition rate is able to compete with the top ten non-life insurance companies in South Africa[22].

Authors' note: the difficulty of entering the insurance industry is evidenced through Naked's prospects of becoming a registered insurer. Although they have managed to raise circa R0.5 billion in funding, in terms of its capitalisation, Naked would still be positioned outside the top 25 largest insurance companies[22].The extent of regulatory compliance is evident when performing a cross-industry analysis. The JSE listed company Spur Corporation (Spur), reported total assets of R1.047 billion as at 30 June 2022. While Spur is considered to be a household name in South Africa, Naked have managed to raise half of Spur's total assets within a period of ten years. While the stringent regulatory requirements ensure that the interests of policyholders are preserved, what this hinders is the entry into the industry by new market participants that may be able to offer cover for risks that are not habitually or traditionally covered by large insurance companies. Hollard-backed Lumkani is evidence of this – Lumkani currently offers insurance to informal settlements.

19 https://www.momentummetropolitan.co.za/remote-assets/s3/clt_mmh_s3/static-assets/documents/about-us integrated-report-2022.pdf

20 https://www.news24.com/fin24/companies/how-guardrisks-new-corporate-venture-capital-fund-plans-to-break barriers-of-entry-into-insurance-20230220#:~:text=Guardrisk%20will%20fund%20revenue%2Dgenerating,while%20bringing%20innovative%20entrepreneurs%20close.

21 https://www.itweb.co.za/content/Olx4zMkaXx5v56km?utm_medium=Social&utm_source=Facebook&fbclid=IwAR2fgaP9XCRVoWaouNrg05tsqzZb821vzeZfm_C_nEbsjD4_lCRFutl42DA#Echobox=1676456048

22 https://www.itweb.co.za/content/Olx4zMkaXx5v56km?utm_medium=Social&utm_source=Facebook&fbclid=IwAR2fgaP9XCRVoWaouNrg05tsqzZb821vzeZfm_C_nEbsjD4_lCRFutl42DA#Echobox=1676456048

Taking this one step further, over the past few years cell insurers have performed well in terms of growth, which suggests an increased interest in these entities or cell captive vehicles. This is in line with the PA's thought process in respect of the new conduct standard relating to third-party cell captives. In setting the standard, the PA acknowledged that the nature of third-party cell captive arrangements creates a unique opportunity for cell captive insurers to play a significant role in promoting an inclusive and transformed insurance sector in South Africa. To this end, there is recognition that certain limitations, specifically in respect of the ownership of cell structures, may be relaxed on application to the Financial Sector Conduct Authority (FSCA), if it can be demonstrated that a proposed cell structure is intended to serve as an incubation hub for the progressive growth of the cell owner into a fully-fledged licensed insurer or microinsurer within a defined period of time. It is also interesting to note that dividends declared over 2022 to cell owners, by the three largest cell insurers in South Africa, amounted to circa R1 billion. This is a healthy reflection of the insurance profits sought after by many non-registered insurance companies due to the fairly limited administrative and regulatory capital burdens with using cell captive vehicles.

OUTsurance

During December 2022, OUTsurance released a statement to the press affirming its listing on the JSE. This statement followed the decision of its holding company, Rand Merchant Investment Holdings, to terminate trading of its shares on the JSE.

Discovery Insure

Discovery Insure launched 'Fire Force' in Johannesburg, in partnership with Advanced Emergency Management Services, to handle fire-related emergencies affecting homes and vehicles[23].

In closing

Some insurers described the 2022 year as one of the most challenging underwriting periods in history, combined with a turbulent investment market environment. Judging by the industry results, we certainly agree with this. The increasing frequency and severity of natural hazards, rising reinsurance costs, high inflation and supply chain challenges, to name a few, will continue to put upwards pressure on premium pricing.

While the industry held up well in managing its exposure to increased natural catastrophe losses, insurers are encouraged to continue making comparisons using real-world events in their catastrophe model validation and to take steps to remediate any material gaps.

In addition, the industry has been dealing with a wave of regulatory compliance over the last couple of years and now the industry is standing on the doorstep of the most significant accounting standard change ever experienced, *IFRS 17 Insurance Contracts*. What comes to mind is that the industry is finding itself somewhere between a rock and a hard place.

It is of no surprise that the road ahead will be tough, however if the past is a good predictor of the future, we can take comfort that the non-life insurance industry will continue to be able to navigate these challenges in its stride.

Please refer to page 148 for the detailed financial results in respect of each insurer that participated in the survey.

[23] https://www.discovery.co.za/assets/discoverycoza/corporate/investor-relations/2022/discovery-integrated-annual-report-2022.pdf