Nishen Bikhani

Partner

Insurance

Tel: +27 60 720 4937

Email: nishen.bikhani@kpmg.co.za

Life insurance industry results analysis

Life insurers showed their resilience in 2022 with remarkable improvements in their results. This was especially pronounced following the two-year disruption triggered by the COVID-19 pandemic and a volatile global market.

The bounce back of this sector is notable given the context of the growth in the South African economy of 2%, which was less than half of the 4.9% that was achieved in 2021. Economic growth was hindered by pronounced levels of load-shedding. The damage to infrastructure and manufacturing facilities, particularly in the wake of the Kwa-Zulu Natal floods, exacerbated the challenge in achieving growth. Consumers struggled to stretch their earnings – Sanlam, in its 2022 annual results presentation, highlighted that inflation averaged 6.9% in 2022, up from 4.5% in 2021, buoyed by increased fuel and food prices. The South African Reserve Bank raised the policy rate by a cumulative 325 basis points during 2022 to combat rising inflation. This, together with a relative slow recovery in unemployment rates post COVID-19 and the lingering impacts of the 2021 civil unrest, negatively impacted real income growth.

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Signals of change

- Customers demand better end-to-end experiences
- More innovative products and services
- Competition will intensify
- Regulators will continue responding to investors' demands
- Technology to advance strategic objectives

In March 2023, KPMG released a report on the Future of insurance: Life and annuities[1]. Therein, we describe the signals of change across the life insurance industry, how life insurers can best serve customers and how business models will adapt in the years ahead. We have set out our analysis of the results of the leading South African life insurers against these signals of change – showcasing the sophistication of our home-grown life insurers on the global stage.

Strategic intent and corporate transactions

Customer centricity was central to all of the strategic initiatives highlighted by life insurers. This echoed the first signal of change that KPMG had seen in global markets where **Customers demand better end-to-end experiences**. All market statements relating to both current results and strategic objectives reflected metrics on customer experience – from retention levels to net promoter scores. The most significant players in the market made deliberate statements about the percentage of profits that would be retained to fund future projects, most of these with the objective of improving client and broker experience.

The Sanlam group indicated that it is midway through its five-year strategy of showcasing meaningful global growth while strengthening its South African fortress position. Sanlam's ambition to be an Africa Champion was evidenced through its deal with Allianz to form the largest Pan-African non-banking financial services entity on the continent. Another breakthrough for the group came from using **Technology to advance strategic objectives** – its strategic alliance with MTN to market and distribute insurance and investment products across Africa through the InsurTech platform aYo commenced in October 2022.

[1] https://kpmg.com/xx/en/home/insights/2023/02/future-of-insurance-life-and-annuities.html?utm_ source=global&utm_medium=email&utm_campaign=Life%26Annuities

Understanding also that **Competition will intensify**, the merger with Shriram credit business created one of the largest non-banking financial institutions in India and bodes well for cross sell and other synergies across the Sanlam group. These were just a few of the many corporate transactions that were spearheaded by the Sanlam group to position it well in dealing with emerging competition.

Old Mutual also reflected on how digitisation is core to its strategy. In achieving the ambition of providing **More innovative products and services**, a number of strategic partnerships were entered into with OneConnect, Covergo and Two Mountains Group to improve digital reach into niche markets.

With **Regulators continuing to respond to investors' demands** the largest life insurance groups made deliberate commentary on their contribution to the South African market and their state of compliance relating to transformed ownership. The Bula Tsela BBBEE deal saw the Old Mutual group increasing its black ownership to above 30% in November 2022.

Discovery made specific commentary on the allocation of ten percent of net operating profit for new projects – these contributing to all of the signals of change that we expected to see.

Robust regulatory capital positions

Total shareholder funds for life insurers surveyed increased by 2% from R169.2 billion in 2021 to R172.8 billion in 2022

The resilience of the life insurance industry is highlighted in the statistics from the Prudential Authority which reflect the strong solvency cover ratios in the period. The life insurance solvency capital requirement (SCR) median was at 1.7.

Life insurers were all carefully monitoring capital targets to ensure that their assets were appropriately sweated to provide the expected return to shareholders. Sanlam established a new SCR target of 169%, with discretionary capital being built up. The robust performance and capital will be recycled from underperforming to high growth opportunities.

Old Mutual established its target at 190%, with share buybacks of between R1 billion and R1.5 billion effected in the period. Momentum Metropolitan's SCR was 1.56 with a R750 million share buyback completed in 2022 and another R500 million planned for 2023.

Discovery's SCR of 177% continued to be strong and the group continued to invest in the health and banking clusters within its wider group structure.

Results showing clear signs of recovery in a tumultuous global market

Profits after tax for life insurers surveyed increased by 54% from R17.0 billion in 2021 to R26.1 billion in 2022

Across the board, insurers reflected on how they have had to navigate one of the most difficult periods in history. The challenges of COVID-19, business interruption, the war in Ukraine and its concomitant impacts (inflation, interest rate risks and stock market corrections) make it difficult to understand the results when performing simple comparisons year on year (i.e., 2021 to 2022). As a result, a number of insurers, when presenting their results, opted to compare pre-pandemic performance to their 2022 results (i.e., 2019 to 2022).

Overall, profits after tax from those life insurers surveyed were up by more than 54% relative to the prior year, with gross written premium (GWP) growth of 4% over that time. The Association for Savings and Investment South Africa (ASISA) in its March 2023 communique confirmed that life insurers held assets of R3.7 trillion at the end of 2022 while liabilities amounting to R3.4 trillion, both the same as at the end of 2021. This left the industry with free assets of R347 billion at the end of December 2022, almost double the capital required.

Value of New Business (VNB), an important key risk indicator (KRI) for the industry, reflected a mixed result indicating that there continues to be pressure, perhaps more so in the higher LSM segments. Life insurers reflected on the need to manage expenses in an effort to drive better outcomes. Lapse assumptions were also under scrutiny, especially where they have been strengthened to address any latent issues from the COVID-19 pandemic.

Swiss Re, in its July 2023 publication on the state of global insurance, indicated that: *"The profit outlook for life insurers is positive, based on four key drivers: improved investment returns, normalisation of COVID-19 related claims, a de-risking of pension and annuity premiums, and a stabilisation of earnings volatilities with implementation of the IFRS 17 accounting framework this year. On the downside, however, amidst the low growth and still-high inflation environment, we flag credit downgrades and lapses as two potential tail risks for sector earnings"* – this is becoming apparent for South African life insurers as observed in the results released in the third quarter of 2023.

While reinsurance rates are hardening globally, the life insurance industry has not been subject to the same pressures as have been seen for the non-life insurance industry over the last two years. While life insurers are relooking at appropriate capital thresholds to manage their return on equity, reviewing risk retention levels or reinsurance structures are less common in this sector as is the case for non-life counterparts.

In the sections that follow we have provided commentary on the results of six of the largest life insurance providers representing more than 90% of the net premium income for this industry group.

Sanlam

With comparisons against 2019, Sanlam reported an 11% improvement in its net result from financial services and business volume improvements of 28%. These buoyant results enabled it to declare a 20% increase in dividends to shareholders. Sanlam's life insurance results reflected strong performance in its retail affluent and corporate segments, partially countered by the impacts of persistency in the mass market portfolio. This was highlighted as a deliberate point of management action in the year to come.

Sanlam reported new business volume growth of 28% ahead of the 19% industry average, including its JSE listed insurance peers on a comparable basis. VNB growth on a constant economic basis was at 20% which countered many of its peers in the industry that reported declines in VNB.

The impact of excess mortality claims of R4.6 billion on earnings and dividends was countered through releases of discretionary margins. Consistent with many of its peers, the mortality basis was strengthened to allow for the likely future impact of pandemics.

Old Mutual

Old Mutual contrasted its robust South African results against the challenges that it faced, and the drag on earnings in a number of regions including Kenya, Malawi and Ghana. The group's results from operations increased to R8.7 billion on the back of strong sales and core operational performance. VNB improved from 2021 by 16%, driven primarily by uplifts in its Mass and Foundation Cluster (48%) and Corporate Segments (14%). Personal Finance and Wealth Management and Africa regions experienced drops in VNB reflecting the sentiment of challenges seen in the broader market in these segments.

GWP for life insurers surveyed increased by 4% from R275.2 billion in 2021 to R287.5 billion in 2022

Old Mutual's life business profits benefited from a refinement in hedging methodology which enabled a material release of excess discretionary margins. We have seen that this approach is fairly consistent with other global insurers that have refined their reserving approach on the path towards *IFRS 17 Insurance Contracts* (IFRS 17) implementation.

All of Old Mutual's remaining COVID-19 provisions were released but the impact was mostly offset by the strengthening of its mortality basis to allow for endemic COVID-19 claims and worsened persistency as the challenging economic conditions continue to impact the retail book.

Discovery

Discovery's unique exposure to the Chinese market through Ping An highlighted that while the impacts of COVID-19 were all but passed in most parts of the world, in China the impact of the resurgence in that region was reflected in Ping An's results. The group also benefited from its exposure to a number of stronger currencies including the US Dollar and British Pound, which remained strong despite the impacts of increased inflation and cost of living on policyholders in those jurisdictions.

Normalised operating profit in the South African life insurance company increased by 30% to R2.5 billion and new business grew by 17%. Management reflected on the favourable persistency and mortality experience but cautioned on the trends observed in morbidity experience and a lower new business margin.

Momentum Metropolitan

Momentum Metropolitan continued the trend of reflecting on the difficult macro environment which impacted its sales more than earnings. By December 2022 (its half year) it reported R2.2 billion in earnings. VNB continued to be below targeted levels (a drop of 19% from the prior year) as a result of lower sales volumes. In addition, management saw a shift of new business towards lower margin products which further contributed to a lower VNB. This will continue to be an area of pointed focus for the group.

Liberty

Liberty posted profits of R1.2 billion reflecting a post-COVID-19 recovery. Notably, the group also experienced marked growth in premiums from R43 billion to R48 billion over the year. These improved sales, in South Africa, were in portfolios with traditionally higher margins. Persistency in the retail complex risk portfolio improved, with the corporate segment also returning to profitability.

Operations in Africa, in particular the health businesses, created a drag on earnings. The group's result was also impacted by reduced returns in Stanlib which reflected the weaker investment market.

Hollard Life

Hollard Life saw its investment income halve from R389 million to R204 million in the year. Fortunately, the reduced claim experience of circa R700 million relative to the prior year helped to drive the prior year loss before tax of R457 million to a profit of R254 million.

Signals of change

The South African life insurance industry has proven to be exceptional in dealing with the challenges of the last few years. It is evident that there is opportunity for the industry to continue to create value for both shareholders and policyholders. Like in the rest of the world, the answer lies in connecting with the policyholder through personalisation enabled by technology and creating trust in a world where people are becoming more disenfranchised. In South Africa, this comes from helping millions of people - especially younger generations - to understand and embrace life insurance. In summary, insurers will need to engage customers with tailored messages using just the right channels at just the right moments and in the right tech-enabled way[1].

The year ahead will be a challenging one with IFRS 17 now live. The look and feel of the results issued by insurers will be very different and we will continue to watch closely the trends that emerge as insurers continue to tell their story of value creation to the market.

Please refer to page 166 for the detailed financial results in respect of each insurer that participated in the survey.

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