Interconnected

The South African Insurance Industry Survey 2024

Proudly published for more than 25 years

October 2024

kpmg.co.za

Contents

KPMG

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From hindsight to foresight

The insurance industry couldn’t be more familiar with hindsight. It’s inseparable from the principles of underwriting. However, if the fortune cookie Confucianism that the “past is the best indicator of the future” were true then insurers could all put down their pens and go to the beach as there would be no need to do anymore to secure future success and longevity. After all, when it comes to human beings who drive cars, and smoke cigarettes and start wars; and you throw in climate change, the best predictor of future behaviour is past behaviour? Not really. There’s a reason this expression is normally found tightly wrapped inside a cookie; it’s a gross over-simplification.

Scientists who study human behaviour agree that past behaviour is a useful marker for future behaviour. But only under specific conditions including that the anticipated situation must be essentially the same as the past situation that activated the behaviour. Personality theorist Walter Mischel clarifies that behavioural consistency is best described through if-then relationships between situations and behaviours[1]. Because situations are changing more regularly in a single life-time than ever before, insurance executives cannot and should not be relying exclusively on the past to secure a prosperous future.

This survey explores many themes that require foresight, strategic planning and the most important yet often-times overlooked catalyst – action! Our survey this year is titled Interconnected, because these themes don’t develop in isolation or exist separately from one another. There is a dynamism between them – more technology and more data drives more cyber risk; more climate change requires more data to identify the flood plain and therefore the best parametric insurance solution to address policyholders’ needs.

Thank you for picking up or clicking on our survey. We are extremely proud of this year’s publication which now includes articles from our colleagues in our East Africa insurance practice and we hope that it will inspire debate, ideation and action and a connection between your hindsight and foresight.

Thank you to all the wonderfully talented people at KPMG in Johannesburg, Cape Town and Nairobi who contributed to the survey this year and to the industry for including us in your worlds.

Mark Danckwerts
KPMG insurance practice lead: Africa

[1] https://urldefense.com/v3/__http:/phsychologytoday.com/US/blog/witness/201301the-best-predictor-future-behavior-is-past-behavior*__;Iw!!N8Xdb1VRTUMlZeI!m_tnNG7KhU3B7fTKxx9_0eeO1Q93fP0Rg7QiC3Jmqanh5SRDlc8oaYgw0v03GXxDrpSc1HIUBtj2cDTdnGExsBha$

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Life insurance industry results analysis

Resilience in the face of uncertainty

The results of the life insurance industry have highlighted the underlying resilience of both the global and local economy. Across all life insurers that partook in this survey, we observed double digit improvements in profitability with the return to shareholders having been more positive than predicted. However, this was not by chance – leadership teams have worked for years to diversify their business models in order to grow from strength to strength. In understanding the interconnectedness of all elements within their ecosystem they have been able to respond to change and provide value to all stakeholders.

Microenvironment context and outlook beyond 2024

In South Africa we have seen inflation peak with no further interest rate hikes expected. During the course of 2024 inflation begun to ease and this created the perfect condition for interest rate cuts, which we have recently seen effected in the first reduction of 25 basis points in September 2024. While South Africa has joined the 'easing club' along with the United States Federal Reserve System and the European Central Bank, the downcycle in interest rates is likely to be far slower than the upcycle.

While global risks are expected to persist, the International Monetary Fund (IMF) is forecasting a soft landing[1]. Inflation is expected to continue to fall providing scope for interest rate cuts. The IMF expects global real gross domestic product (GDP) growth to be 3.1% in 2024, in line with 2023. Real GDP growth in Sub-Saharan Africa is expected to accelerate from 3.3% in 2023 to 3.8% in 2024, as higher levels of growth in East Africa more than offsets lower growth in South Africa and West Africa. The interest rate outlook is mixed when we look across Pan Africa. While some markets may still see interest rate increases (Angola, Kenya, Nigeria and Zambia), most markets are starting to cut interest rates in the second half of 2024. Overall, the outlook is positive.

In South Africa, the decline in inflation is supported by a lack of demand-driven inflation and a lack of wage pressure. The electricity shortfall is expected to ease notably, relative to that experienced in 2023, driven by an increase in Eskom supply and the ongoing expansion of private sector generation capacity[2]. Actions to ease the logistics constraints are also expected to gather pace.

The combination of lower inflation and lower interest rates will bring financial relief to customers and improve confidence levels over time[3].

Swiss Re reported that the prevailing economic conditions have given insurance businesses a new lease of life, with certain key future outlooks predicted in their Sigma 3/2024 publication[4]:

- Resilient growth with recession fears faded;
- Emerging Asia will be the highest contributing region to global growth in 2024/2025 for a third year running;
- Strong labour markets and improving real wages will underpin demand, particularly in life insurance, while higher interest rates will fuel strong sales in fixed-rate savings business;
- Both life and non-life insurers will benefit from improved investment returns on account of higher interest rates; and
- Insurance penetration in emerging markets will continue to steadily increase as it has done over the past two decades.

1 https://www.imf.org/en/Publications/WEO/Issues/2024/01/30/world-economic-outlook-update-january-2024

2 https://www.eskom.co.za/wp-content/uploads/2023/10/Eskom_integrated_report_2023.pdf

3 https://www.sharedata.co.za/v2/scripts/sens.aspx?id=476644

4 https://www.swissre.com/institute/research/sigma-research/sigma-2024-03-world-insurance-global-resilience.html

While it has been a good year of profit reporting for insurers in South Africa, the lower levels of expected economic growth (relative to Asia and East Africa) and the disposable income constraints faced by consumers will continue to keep insurers mindful about ongoing constraints on sales volumes. Most insurers have underlined their continued focus on market share gains to drive sales volumes and identifying ways to optimise the sales mix to improve value of new business (VNB) outcomes[5].

Included below are the common themes we observed from the life insurance companies with December 2023 and June 2024 year ends:

- Continued focus on hyper-customisation in policyholder interactions and on distribution channels has been key to volume measure improvements;
- Merger and acquisition (M&A) activity continued with many opportunities presenting themselves to multinational groups;
- Deeper investment in certain countries in East Africa and Asia to take advantage of higher growth in those regions;
- Attention to capital management and balance sheet optimisation with a number of capital and debt repurchases in the year;
- Strongly capitalised businesses, sufficient liquidity and improvement in cash generation; and
- Cost containment but deliberate focus on capital deployment for project spend (mostly on new and emerging technologies).

5 https://senspdf.jse.co.za/documents/SENS_20240327_S487388.pdf

Salient features from the reporting of the largest insurance groups in South Africa

Old Mutual

Performance indicator	
Notable activity	Continued progress with banking licence submission in early 2024
Solvency range	Within the desired range of 170 to 200 (range of 175 to 210 for life operations)
Results from operations	14% increase from R7.3 billion in 2022 to R8.3 billion in 2023
IFRS profit after tax	35% increase from R5.2 billion in 2022 to R7.0 billion in 2023
Funds under management	8% increase from R1.2 trillion in 2022 to R1.3 trillion in 2023

The Old Mutual group reported robust performance for the year, with strong insurance results supported by enhanced investment returns. The group equity value of R90 114 million increased by 1%. This increase was characterised by a number of contributing factors:

- growth in covered business;
- higher valuations of the asset management and property and casualty businesses;
- lower valuation for the banking and lending line of business;
- lower valuation for the other line of business due to capital actions;
- Old Mutual Limited share buyback of R1.5 billion; and
- ordinary dividends declared of R3.8 billion.

Old Mutual received regulatory approval to establish OM Bank in April 2024, which will allow the group to offer different financial services to its customers and generate new revenue streams. While this was one of the more significant developments for the group in the year, other corporate activity included:

- the acquisition of a 75% ordinary equity interest in the Two Mountains Group, a licensed micro-insurer that distributes and underwrites funeral policies and provides burial services;
- the acquisition of a 100% ordinary equity interest in Genric Insurance Company Limited, a licenced non-life and specialist insurer focused on bringing innovative and niche insurance solutions to the market;
- the acquisition of the remaining 25% ordinary equity interest in Old Mutual Finance (Namibia) Proprietary Limited resulting in the entity becoming a wholly owned subsidiary of the group;
- the acquisition of a 40% ordinary equity interest in Marsh Zimbabwe Holdings (Private) Limited, an insurance brokerage and risk management services provider;
- the acquisition of Woodbridge Financial Services CC book of clients, an independent financial advice business; and
- the acquisition of 30% of the economics and associated rights attached to the iWYZE life and non-life businesses.

During 2023 Old Mutual Life Assurance Company (South Africa) Limited issued R1.5 billion worth of subordinated debt to the market. Management intend to issue subordinated debt annually to optimise the group's weighted average cost of capital and create a smooth maturity profile, in line with the optimal gearing ratio of 15% to 20%. This is a trend that has been commonplace with other players in the market.

<table>
<tr><th colspan="3">Sanlam</th></tr>
<tr><th colspan="2">Performance indicator</th><td rowspan="6">The group recorded a marked upswing in performance in 2023 and achieved a record net result from financial services of R12.4 billion, with the life insurance portfolio growing by 19%, general insurance by 21%, investment management by 14% and credit and structuring by 29%.

The group's positive results are attributed to their strategic focus over the past three years on improving the performance of existing operations, while at the same time investing in the group's long-term growth path. Management's expectation is that contributions from strategic activity will enhance group performance in the future.

New business volumes remained healthy at just under R400 billion, a record high, with robust sales growth across all lines of business. Despite the challenging consumer environment, which resulted in more policy cancellations and clients accessing their savings in South Africa, the group's established asset gathering capability ensured that total net client cash flows remained firmly positive. All lines of business contributed to this result, with the investment management operations doing well in a difficult environment.

The group's main value creation metric of Return on Group Equity Value (RoGEV) was above the hurdle rate on an actual and adjusted basis. Positive contributions observed from the covered and non-covered business was partially offset by the lower take-on value attributed to the former Allianz entities, mostly due to currency movements.

Other noteworthy themes observed from the results announcement included:
• Sanlam Allianz – the business stabilised with improvements noted in underwriting margins. There was deliberate focus to exit subscale non-core entities within the broader joint venture.
• Management continue to take action on strategies in the credit business (primarily in India) with focused attention on insurance growth in that market.
• Capital management, balance sheet optimisation and capital and debt repurchases have been actively worked on in 2023.
• Investment income was up by 85% relative to 2022 (R1.1 billion to R2.1 billion).
• Significant M&A activity within the group, which included Absa Asset Management, Afrocentric, Alexforbes, Absa LISPs, Brightrock, Capital Legacy, Sanlam Personal Loans and the majority stake acquisition of Assupol in the third quarter of 2024. All these acquisitions were embarked on with the view that they will continue the group strategy to strengthen, diversify and close gaps within the wider group.</td></tr>
<tr><td>Notable activity</td><td>Integrated acquisitions within the group</td></tr>
<tr><td>Solvency range</td><td>170 (within group range of 140 to 180)</td></tr>
<tr><td>Results from operations</td><td>Net operational earnings increased by 25% to R13.9 billion from 2022</td></tr>
<tr><td>IFRS profit after tax</td><td>23% increase from R13.8 billion in 2022 to R16.9 billion in 2023</td></tr>
<tr><td>Funds under management</td><td>18% increase to R1.3 trillion in 2023 in the investment business cluster</td></tr>
</table>

MMH

Performance indicator	
Notable activity	Focus on distribution channels
Solvency range	The solvency range is set at 1.6 to 2.0, with SCR at 2.10 at December 2023
Results from operations	69% increase from R1.1 billion in June 2023 to R2.0 billion at half year December 2023
IFRS profit after tax	2.1 billion at June 2023 to R2.2 billion at June 2024
Funds under management	Stable at R862 billion at June 2023

The Momentum group issued a trading statement in early September 2024 indicating that earnings per share will likely rise in the range of 30% to 35% relative to last year. The group's improved performance[6] during 2024 was aided by strong profits from life annuities in Momentum Investments, a significant improvement in persistency experience in Metropolitan Life, growth in fee income and underwriting profits in Guardrisk, and a recovery in Momentum Insure's earnings.

Normalised headline earnings were further supported by higher investment income following a favourable interest rate environment, which is a common theme across all life insurers that we surveyed. This performance was slightly dampened by fair value losses on the group's investment in venture capital funds.

The increase in earnings per share was lower than the increase in normalised headline earnings per share mainly due to a goodwill impairment recognised in Momentum Investments in respect of the Momentum Global Investment Management business.

In line with its peers, the group also had renewed attention to balance sheet management. On 16 October 2023, Momentum Metropolitan Life Limited (MML) listed two subordinated debt instruments to the combined value of R750 million to refinance previous tranches of subordinated instruments that were callable on 19 October 2023. Further, the group bought back a total of 24 million shares (for a cost of R500 million, including transaction costs) during the current period.

6 https://www.sharenet.co.za/v3/sens_display.php?tdate=20240906073000&seq=5

Liberty

Performance indicator	
Notable activity	Integration within Insurance and Asset Management after buy out
Solvency range	Management set a range between 1.3 to 1.7 and ended at 1.81 at year-end
Results from operations	44% increase to R10.4 billion at December 2023
IFRS profit after tax	86% increase to R2.4 billion at December 2023
Funds under management	R196 billion up from R188 billion in 2022 (4% increase)

After a few years of sub-par performance relative to their counterparts, the Liberty Group delivered a robust performance in 2023 and a trend that continued into their reporting at June 2024.

The group's reporting format is not dissimilar from the reporting of other multinational groups, with focused reporting on the South African operations and then the rest of Africa.

Insurance operating earnings grew by 23% to R3 883 million in 2023, with South African insurance operating earnings increasing by 27% to R3 948 million in 2023.

For the life insurance businesses in South Africa, underwriting risk largely stabilised to pre-pandemic levels with retail mortality experience broadly within expectation, although client persistency deteriorated on certain books, particularly on regular premium investment and certain risk propositions. Claims normalised during 2023 post the impact of the pandemic and certain natural disaster events in 2022.

The solvency capital requirement cover for 2023 remained robust at 1.81 times (2022: 1.76 times), and was above the target range of 1.3 to 1.7 times.

Life insurance indexed new business in South Africa increased by 8% to R11 550 million in 2023. This result was supported by strong sales of guaranteed investment plans and annuities. The focus going forward will remain on sales efforts and new business volumes in the prevailing tough consumer environment in South Africa.

As it relates to the Africa regions, mortality experience in the life insurance businesses largely returned to pre-pandemic levels, with life insurance indexed new business increasing by 16% to R578 million in 2023. Group life assurance and group credit life sales in Kenya, as well as personal loan protection sales in Uganda and Lesotho, contributed positively to this result. Gross written premiums in the non-life insurance businesses grew by 12% to R1 646 million in 2023. Healthy client retention rates across all businesses, coupled with an improvement in the productivity of brokers and agents, resulted in increased premiums recorded across most business lines.

<table>
<tr><th colspan="3">Discovery</th></tr>
<tr><th colspan="2">Performance indicator</th><td rowspan="6">Discovery released its full year results in September 2024 and highlighted the following:
• Performance for the 2024 financial year was strong (operating profit increased by 17% to R11.6 billion with new business increasing by 18% to R26.7 billion) excluding products in run-down. Annualised return on embedded value increased by 13.2%.
• Discovery is entering into a new phase in the life-cycle of the group. The current focus is on reduced spend as well as reduced focus on IFRS 17 implementation and areas of the business where a maturity of certain key initiatives has materialised. In future the focus will be on scaling the banking operations and driving growth in material international business.
• Creating two distinct businesses, South Africa and International, with significant ambition and a common business model.</td></tr>
<tr><td>Notable activity</td><td>Scaling bank business and establishing two distinct components of the business</td></tr>
<tr><td>Solvency range</td><td>Life business: 183%</td></tr>
<tr><td>Results from operations</td><td>8% increase to R11.1 billion</td></tr>
<tr><td>IFRS profit after tax</td><td>12% increase from R6.5 billion to R7.3 billion</td></tr>
<tr><td>Funds under management</td><td>11% increase in Investment cluster to R155 billion</td></tr>
</table>

The industry stood up to the challenges of the last few years masterfully and there continues to be a lot to be achieved in the coming years. Life insurers will continue to assess how best to grow profitably and outmanoeuvre their competition. There is no doubt that new and emerging technologies could offer a host of potential benefits to those that are willing to embrace change. Integrating these technologies could enable precise predictions, manage customer interactions and expand the personalised service and product lines with unprecedented accuracy and speed. However, it is really in understanding the interconnectedness of all of these elements that is key. Board activity to drive strategy in these areas will continue to help insurers unlock value in the years to come.

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Non-life insurance industry results analysis

For the non-life insurance industry, the 2023 year-end results will not be remembered for large natural or man-made catastrophe events. Instead, it will be remembered for being a year of recovery following from a year of record-breaking losses, as well as the start of the transition to a new accounting standard, *IFRS 17 Insurance Contracts* (IFRS 17).

Economic environment

The overall operating environment was not conducive to insurance growth, with weak economic growth persisting in South Africa.

Consumer disposable income remained under pressure as headline inflation hovered near the upper limit of the Monetary Policy Committee's (MPC) target range for a large portion of the year.

Power supply disruptions exceeded previous levels, significantly increasing the risk of power surge claims for non-life insurers. The government continued to face challenges with repairs, maintenance and the development of new infrastructure.

Socio-economic tensions persisted, emphasising the need for a deeper understanding of the socio-political and economic factors driving unrest. These factors include unemployment, infrastructure and service delivery failures, xenophobia and political conflicts.

Crime levels remained high which, as expected, impacted the industry's attritional loss levels. According to Stats SA's August 2023 Victims of Crime (VoC) report:

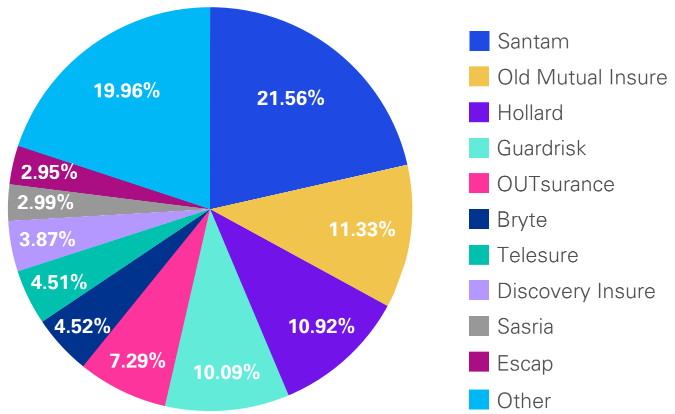
- 5.7% of households were victims of housebreaking and/or burglary.
- Housebreaking incidents rose by 10%, with KwaZulu-Natal and Gauteng being the highest contributors.
- Theft of personal property increased by 11%.
- Motor vehicle theft saw a 28% increase.

Market share

With IFRS 17 coming into effect for year-ends beginning on or after 1 January 2023, the market share analysis assessment and comparison is temporarily distorted. This is due to the different accounting bases applied with March and June 2023 reporters applying *IFRS 4 Insurance Contracts* (IFRS 4), and December 2023 reporters applying IFRS 17. The market share will therefore be evaluated using a combination of gross written premiums (GWP), under the IFRS 4 reporting basis, and insurance revenue, under the IFRS 17 reporting basis, measures.

During 2023 the market share of the top ten largest insurance companies accounted for 80% (2022: 79%) of total survey participants.

Market share based on GWP and insurance revenue - 2023

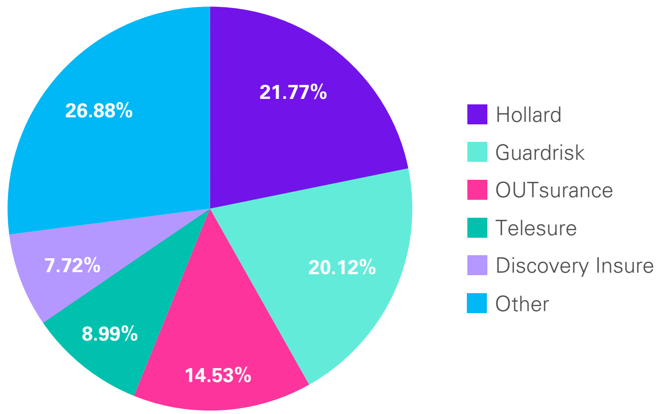


The market share positioning of non-life insurance companies remained consistent year-on-year, with the most notable changes being Hollard[1] overtaking Guardrisk Insurance Company Limited (Guardrisk), and Sasria SOC Limited (Sasria) securing a position within the top ten after being fourteenth during 2022.

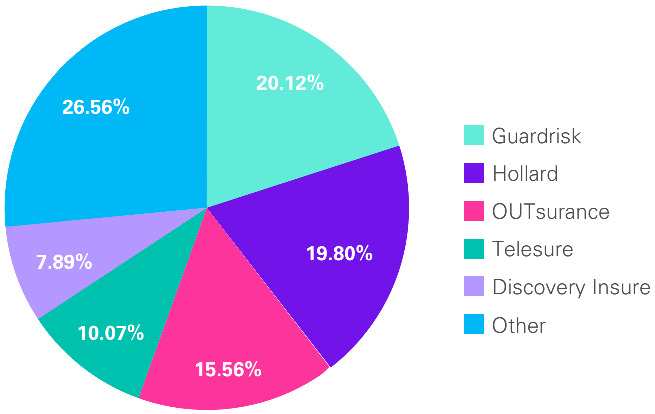
Sasria increased its GWP from R3.15 billion in 2022 to R4.57 billion in 2023, which Sasria attributed to organic uptake of Sasria cover and price increases. Hollard experienced excellent top-line growth in GWP of 28.2%.

To improve market share comparability, we analysed the market share of the top five survey participants reporting under the old reporting basis (market share by GWP, under IFRS 4 i.e. March and June 2023 reporters) and the new reporting basis (market share by insurance revenue under IFRS 17 i.e. December 2023 reporters).

Market share by GWP - 2023

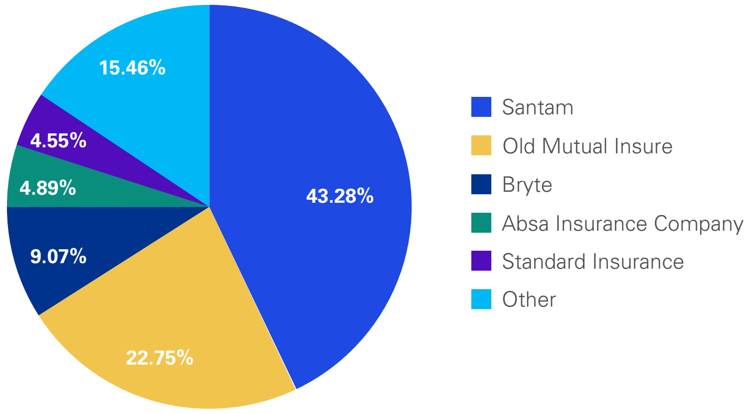


Market share by GWP - 2022



The most notable change is the switch in the top spot from Guardrisk to Hollard.

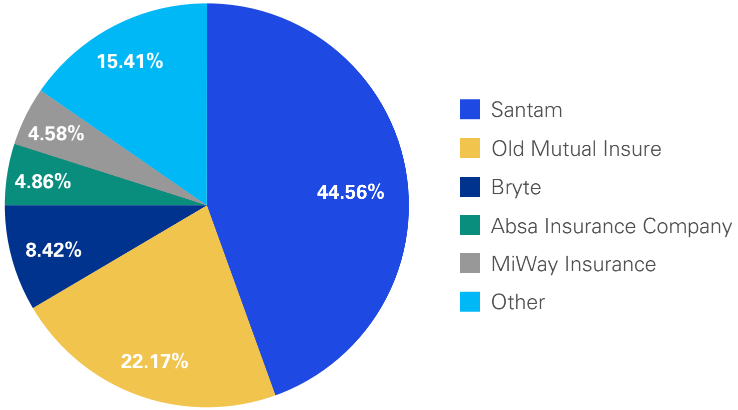
Market share by insurance revenue* - 2023



** The new reporting basis provides for comparison as the comparatives were restated, with the 2022 and 2023 financial information having been prepared under IFRS 17 for both years.*

[1] The Hollard Insurance Company Limited and Hollard Specialist Insurance Limited have been combined into Hollard.

Market share by insurance revenue* - 2022



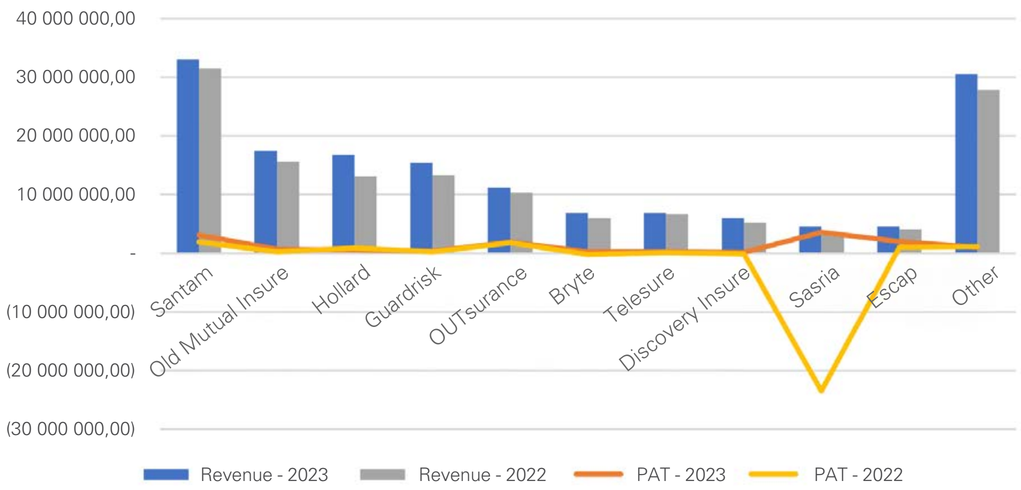
**The new reporting basis provides for comparison as the comparatives were restated, with the 2022 and 2023 financial information having been prepared under IFRS 17 for both years.*

One noteworthy movement in this segment relates to Standard Insurance Limited (SIL) that grew its insurance revenue by 7.3% from 2022 to 2023, which resulted in it replacing MiWay Insurance Company Limited (MiWay) in the top five category.

Profitability

The chart set out below indicates profit after tax (PAT) compared to revenue (GWP or insurance revenue) for the ten largest non-life insurance companies over 2022 and 2023, and the rest of the market (labelled as 'Other').

Premiums versus Profit After Tax



** The revenue metric used in our analysis is impacted by the implementation of IFRS 17. The financial results of survey participants with 31 December 2023 year-ends were prepared under an IFRS 17 basis of accounting. However, the previous metric, gross written premium, is not directly comparable to insurance revenue reported under IFRS 17. The purpose of this chart, however, is to analyse profits in relation to revenue/income. Therefore, the use of both gross written premium and insurance revenue measures are considered suitable for this analysis.*

The industry's PAT increased from an overall loss of R16.7 billion in 2022 to an overall profit of R13.7 billion in 2023. The loss experienced in 2022 was largely attributed to Sasria which experienced a loss of R23.5 billion, following the widespread looting and civil unrest that transpired in July 2021 in KwaZulu-Natal and Gauteng. Excluding Sasria, the industry's PAT increased from R6.7 billion in 2022 to R10.1 billion in 2023 with most of this increase attributable to Santam Limited (Santam), Escap SOC Limited (Escap) and Bryte Insurance Company Limited (Bryte), which contributed R1.3 billion, R1.0 billion and R0.5 billion respectively.

Sasria SOC Limited

Sasria's financial performance improved significantly during the year under review, following the significant losses experienced during 2022. As noted earlier, rate increases contributed to the 45% increase in GWP, which was diluted by an increase in reinsurance premiums of 146%. Following the claims experience emanating from the July 2021 civil unrest, Sasria purchased additional reinsurance cover and incurred additional reinsurance costs for reinstating the reinsurance cover utilised during the 2022 financial year. Sasria's earned premiums net of reinsurance amounted to R1.71 billion (2022: R2.06 billion) which is 17% lower when compared to the previous year. This is mainly due to the increased reinsurance costs. Claims estimates of R6 billion, relating to the 2021 riots, were reversed during 2023 resulting in incurred claims shifting into a net gain position. These factors contributed to a R27.6 billion year-on-year positive movement in incurred claims (net of reinsurance), which is the largest driver of the profit earned for 2023.

Santam

Santam experienced a R1.274 billion increase in PAT, placing them second, only to Sasria, in terms of absolute profitability. Their insurance service result decreased by R612 million, largely attributable to an increase in net reinsurance expense. It should be noted that in the 2022 year, Santam reported R4.4 billion in gross claims due to the KwaZulu-Natal floods, with a net loss of R0.57 billion after reinsurance and re-instatement premiums. The KwaZulu-Natal floods resulted in the largest natural catastrophe loss ever recorded by the company. Therefore, it is somewhat expected that in a 'normal' claims environment the net reinsurance result from reinsurance contracts held returns to an overall expense position.

In 2022, Santam reported an overall net reinsurance income result from reinsurance contracts held. Despite the 'normal' claims environment in 2023, Santam experienced significant claims from the Western Cape floods (June and September 2023) and the hail storm in Gauteng, for which the loss exposure amounted to R403 million and R180 million, respectively. Similar to the 2022 financial year, in 2023 Santam benefitted from reserve releases of contingent business interruption (CBI) claims provisions raised in previous years due to significant COVID-19 related business interruption claims. Santam's profitability was largely driven by an increase in investment income, with unrealised fair value gains increasing by R783 million, outweighing the increased cost associated with reinsurance. The weakening Rand also contributed favourably, with foreign exchange gains earned of R378 million. In aggregate, investment income for the year came in at R2.9 billion, dwarfing both the net insurance result of R 783 million, and administration, management and other expenses of R677 million.

Escap

Escap almost doubled its PAT, reporting R2.032 billion in 2023 compared to R1.031 billion in 2022, with investment income growth of 29% subsidising a 16% decline in net written premium. Escap reported a 52% increase in reinsurance premiums, as a result of a 45% property quota share treaty purchased and high reinsurance rates amidst reduced reinsurance market capacity and appetite for coal-related and public sector-related risks. The most prominent contributor to profit was net claims incurred, which decreased by R1.517 billion. Gross claims incurred during 2023 was R3.87 billion lower compared to 2022. Their reinsurance program for 2023, however, only allowed for recoveries of R1.7 million compared to R2.36 billion in 2022, despite the 52% increase in reinsurance premiums. The low recovery rate is likely attributable to losses being incurred from various loss events which did not breach excess of loss deductibles. Investment income was predominantly generated from money market securities, which generated higher yields than in 2022 due to the current inflationary and interest rate environments.

Bryte

Bryte experienced a substantial increase in profitability, with a loss after tax of R197 million experienced in 2022, compared to a PAT of R256 million in 2023. The insurance service result increased from a loss of R107 million in 2022 to a profit result of R358 million in 2023. The substantial increase to insurance revenue of 16.3% and the decrease in insurance service expense of 11.1% was crucial in the shift to profitability. The net expense from reinsurance contracts held of R 1.07 billion was reported during 2023, which is predominantly attributed to lower reinsurance recoveries compared to 2022 where a net reinsurance income result was reported.

Other noteworthy performances

Telesure[2]

Telesure saw significant growth in PAT, and topped the list based on relative PAT growth. This growth is mainly attributable to growth in investment income, income generated from value-added and primary care health products as well as non-recurring once-off expense items impacting PAT during the preceding financial period.

Old Mutual[3]

The results of Old Mutual Insure Limited (Old Mutual Insure) reflected increased profitability, with PAT increasing from R286 million in 2022 to R549 million in 2023. The 2023 performance is commendable despite the adverse insurance service result, which decreased from a profit of R369 million in 2022 to a loss of R184 million in 2023. Insurance revenue growth of 10% was far outweighed by net expenses from reinsurance contracts during the year. Investment income provided a safety net of R1.378 billion during 2023, which represents an increase of approximately 270% from 2022. Investment income accrued from unrealised fair value gains from investments in subsidiaries, amounted to R716 million. Old Mutual Insure's investment in Credit Guarantee Insurance Corporation of Africa Limited showed the most notable growth compared to 2022.

[2] Auto and General Insurance Company (RF) Limited, Budget Insurance Company (RF) Limited, Dial Direct Insurance (RF) Limited and First for Women Insurance Company (RF) Limited have been combined into Telesure.

[3] Old Mutual Insure Limited and Old Mutual Alternative Risk Transfer Insure Limited have been combined into Old Mutual.

Insurers experiencing downward pressure of PAT

Hollard[4]

Hollard's excellent top-line growth did not filter through to PAT. PAT decreased by 40% during 2023 compared to 2022, with net earned premium growth of 13% being outmatched by an increase in net incurred claims of 20%. The unfavourable insurance results were further amplified by an increase in management expenses of R704 million.

Momentum

Adverse claims experience plagued Momentum as net claims incurred increased by R349 million from 2022. Favourable investment results were, however, able to absorb approximately R40 million of these losses.

MiWay

MiWay Insurance Limited (MiWay) experienced a decrease in profitability, with PAT having decreased by R95 million from 2022 to 2023. The insurance service result decreased by approximately R156 million, but the impact of this decrease was absorbed by favourable investment income performance. The drivers of the insurance service result are attributable to various factors, with premium growth stagnating below inflation at 4.68%, net claims incurred having increased by 17% and attributable insurance expenses having increased by 20%. The increase in net claims incurred is mainly attributable to exposures to the Western Cape floods and the hail in Gauteng. Despite these events, gross claims incurred grew by 2.84%.

Claims incurred

The South African non-life insurance industry has experienced substantial challenges over the past two years, with claims costs soaring due to the ongoing power crisis, extreme weather events and rising motor vehicle accidents. These elements compounded the operational pressures faced by insurers, forcing them to adjust policies and implement new strategies to curb increasing claims costs. Here, we delve into the key contributors to this trend and the industry's response.

Load shedding and power surge claims

A challenge for non-life insurers has been the surge in claims related to power outages and load shedding. South Africa endured 332 days of load shedding in 2023, a sharp increase from 205 days in 2022. Load shedding caused extensive damage to electrical equipment, leading to a spike in claims related to power surges, geysers and damaged equipment. Insurers have had to adjust premiums and manage their portfolios more closely to mitigate the financial risks posed by recurring claims.

Discovery Insure reported an overwhelming rise in such claims. To manage the financial impact, the company implemented several initiatives aimed at restructuring and reducing the concentration risk posed by grid failure. Some of these measures included reviewing policy wording, altering excess structures for power surge claims, and ensuring that procurement panels and assessors were better trained in accurately assessing the growing number of claims.

Extreme weather events and climate change

Over the past few years, South Africa saw an increase in destructive weather events such as floods, storms and heavy rains, particularly in the Western Cape and KwaZulu-Natal regions. Relative to the previous year, 2023 was considered to be a 'normal' year as it related to weather-related catastrophe events. However, the extent of weather-related claims remained high.

Adverse rainfall conditions drove high claims frequency in the first quarter of 2023, followed by two severe flooding events in the Western Cape in June and September 2023. In the first quarter of 2023, Cape Town experienced the wettest March in over a century, with extreme storms linked to cut-off low[5] weather systems. These weather patterns caused significant flooding, landslides and road destruction. Another severe storm in September 2023 resulted in R1.4 billion in damages to agriculture and claimed eight lives. In April 2024, Cape Town experienced another destructive storm, with winds gusting up to 135 km/h, displacing over 1 500 people and razing entire communities.

4 The Hollard Insurance Company Limited and Hollard Specialist Insurance Limited have been combined into Hollard.

5 https://en.wikipedia.org/wiki/Cut-off_low#:~:text=7%20References-,Formation,separates%20into%20a%20closed%20circulation.

The increasing frequency and severity of these natural disasters has forced insurers to re-evaluate their exposure to climate-related risks. This shift has prompted discussions around the need for better climate prediction technologies, improved weather risk management strategies and adjustments to home and business insurance policies. The unpredictability of cut-off low systems, which brings substantial rainfall and extreme weather conditions, underscores the importance of this change. Insurance companies are now focusing on adapting their pricing models to reflect the higher risks posed by natural disasters.

Motor vehicle accidents and high-value theft

Another driver of rising claims is motor vehicle accidents, which continue to dominate the non-life insurance claims landscape. The deteriorating road infrastructure contributed to the increase in claims costs for non-life insurers.

Another factor which exacerbates the extent of motor claims costs is that approximately two-thirds of vehicles on South African roads are uninsured. This means that when involved in an accident with a third-party, there is a high probability that the third-party will be uninsured. The high number of uninsured motorists means that those who do insure their vehicles will have to pay higher premiums to effectively subsidise the uninsured. This situation does not only affect the insured financially but also negatively impacts their claims history. Reduced disposable income will increase the number of uninsured vehicles, thereby decreasing the likelihood of recoveries from third-parties. This reintroduces the discussion of compulsory third-party vehicle insurance legislation.

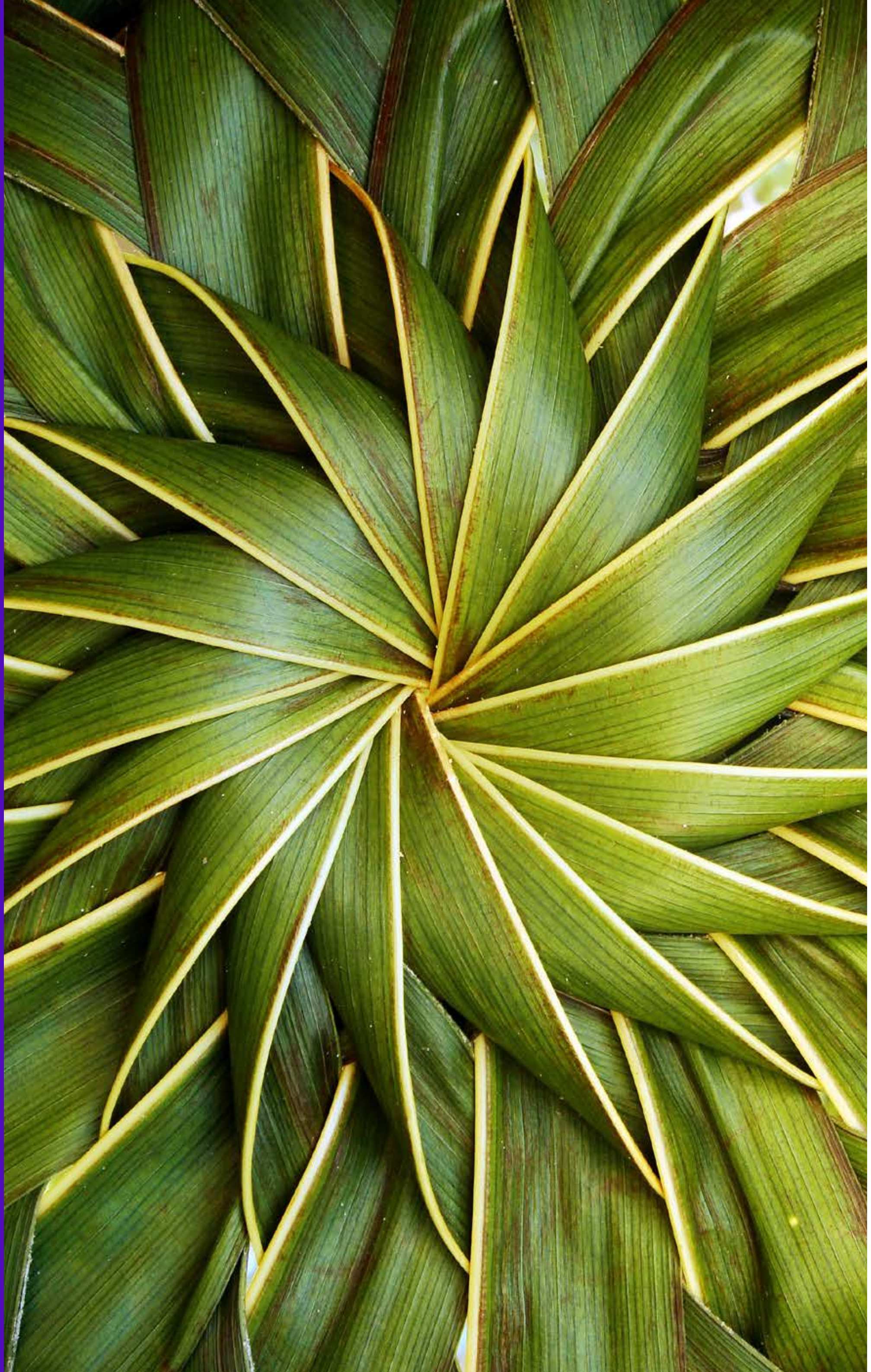
In addition to accident-related claims, there has been a noticeable rise in the theft of high-value vehicles, with keyless technology being specifically targeted, further impacting insurers' financial results. Discovery Insure, for example, experienced a spike in theft claims, primarily related to luxury vehicles. In response, the company introduced stricter underwriting criteria at the point of new business, ensuring that only specific risks were accepted. Additionally, the company repriced existing motor vehicles and rolled out initiatives to install Crowd Search devices in high-value vehicles to improve recovery rates.

While these measures have helped lower the loss ratio for high-value vehicles, motor vehicle-related claims remain a significant portion of non-life insurance portfolios, requiring continuous management and innovation to prevent further increases. Claims inflation also remained elevated, exacerbated by headline inflation and unfavourable exchange rates negatively impacting the cost of motor vehicle parts, and further straining the loss ratio.

To summarise, the non-life insurance industry in South Africa has been significantly impacted by rising claims costs, driven by systemic load shedding, increasing climate-related disasters and motor vehicle accidents. Insurers have had to respond swiftly with adjustments to policies, premiums and risk management strategies to maintain their financial stability. As these challenges persist, the industry will need to continue to innovate and adopt more robust risk assessment tools to manage these unpredictable and often costly events.

Cyber

A recent global IT system crash caused by a CrowdStrike Falcon sensor update ignited significant discussions on cybersecurity practices, vendor accountability and the implications for cyber insurance. Microsoft estimates that 8.5 million Windows devices were impacted by the crash globally. The crash had widespread effects because of the prevalence of CrowdStrike's presence across critical services. The air travel industry saw more than 3 000 flight cancellations and nearly 24 000 passenger delays. In healthcare, certain United States (US) emergency call centres were affected, with elective procedures and medical visits disrupted. The British healthcare system experienced issues with appointment and patient record systems. Financial institutions faced login challenges and trading delays in the US, while South American banks struggled with unstable digital services. While it was reported that companies in South Africa were not significantly impacted, it does highlight the potential loss as a result of such an event. Aon stated that this incident is likely to be the most significant cyber accumulation loss event since NotPetya in 2017. Aon urged companies to assess their third- and fourth-party exposures to this incident. Business interruption, including loss of income and additional expenses incurred because of system failure, is expected to be the most affected area.



Cost of reinsurance

Many non-life insurance companies that previously benefited from reinsurance contracts held are now reporting net payments or increased net payments due to reinsurers. South African insurers transferred significant losses to international reinsurers under their catastrophe programmes in respect of significant losses experienced in the recent past, for example, the 2023 civil unrests and looting in KwaZulu-Natal and Gauteng and the 2022 KwaZulu-Natal floods. This, including global losses experienced, led to significant pricing corrections and increases to attachment point levels with catastrophe cover. With the increase in reinsurance pricing and catastrophe retention levels, it is expected that an increasing extent of risk will now be absorbed by primary insurers.

In 2023, floods in the Western Cape and hail in Gauteng contributed to increasing reinsurance premiums and diminishing appetite from reinsurers. Despite these two major loss events, the fact that most non-life insurers are in a net payment position highlights the ongoing hardening of the reinsurance market in South Africa, driven by the increased frequency of natural catastrophe events. For insurers with a December 2023 year-end, net reinsurance expenses totalled R8.711 billion, a sharp shift from the net income of R1.045 billion reported in 2022. Looking at the net income/expense from reinsurance contracts in conjunction with reinsurance assets and liabilities, non-life insurers' net obligations towards reinsurers increased by approximately 20% from R20 billion in 2022 to R24 billion in 2023. This trend can also be observed for those insurers with a financial reporting year prior to December 2023, as reinsurance premiums written (net of reinsurance commission) increased by 22%.

Many non-life insurers, including Santam and OUTsurance Insurance Company Limited (OUTsurance), continue to rely on excess-of-loss treaties as a core part of their reinsurance structures, reflecting their internal risk appetite for ceding natural catastrophe losses. This remains consistent with previous periods and underscores the cautious approach taken in respect of risk management.

Additionally, new restrictions on reinsurance cover have emerged, affecting property damage and business interruption losses caused by power supply interruptions, including loadshedding, as well as power surge cover and the risk of a national grid failure. These limitations not only reduce the extent of risks that can be ceded but also impose more costs on non-life insurers.

Investment income

The MPC increased the repo rate by a total of 350 basis points through seven rate hikes in 2023, resulting in a time-weighted repo rate of 6.76%, about 1.6% higher than the previous year. Consequently, South Africa's bond yields rose in response to higher repo rates and negative sentiment surrounding the government's finances. The high returns are reflective of elevated risk, which may deter foreign investors as they are reliant on the government's ability to service its existing debt. Moreover, although these increased yields provided attractive returns for new entrants, it also raised repayment and interest obligations for issuers.

The Johannesburg Stock Exchange (JSE) All Share Index delivered a 12-month return of around 14% as of 30 June 2023 (compared to -0.04% for June 2022) and a 6-month annualised return of about 4.32% (compared to -19% in June 2022).

Total net investment income for survey participants for 2023 was R13 billion, a 97% increase from 2022, driven by higher accrued interest and fair value gains, with capital market conditions significantly improving in 2023. Non-life entities saw a 77% rise in average return on investment compared to the previous period.

There was a notable decrease in cash balances as the industry shifted to longer-term investments. For instance, Santam, contributing around 22% of non-life investment income, saw changes in portfolio composition:

Category	2023	2022	Change
Listed equities and similar securities	8.32%	8.67%	-0.35%
Unlisted equities and similar securities	11.60%	10.53%	1.07%
Government interest-bearing investments	10.97%	10.62%	0.35%
Corporate interest-bearing investments	50.91%	46.95%	3.95%
Mortgages and loans	0.58%	0.41%	0.18%
Structured notes	0.55%	0.68%	-0.13%
Investment funds	2.71%	2.01%	0.70%
Deposits and similar securities	6.80%	5.84%	0.96%
Cash at bank and in hand	7.56%	14.28%	-6.72%

With another survey participant we saw the following movements in its investment portfolio:

- 4.9% reduction in fixed interest rate instrument allocations;
- 5.6% increase in listed equities (comprising 3.25% local listed equities);
- listed equities making up around 48% of the total portfolio (up from 43% in 2022); and
- 2.19% rise in foreign investment.

Sasria invested R6.4 billion in financial assets, comprising about 60% of its 2023 cash flows. This marked a significant shift from 2022, as its investments soared by 22.41%, from R29 million in 2022 to R6.5 billion in 2023, reflecting a broader market trend away from cash and cash equivalents.

Corporate activity, new entrants, partnerships, products and innovation

Over the last few months, the non-life insurance industry saw limited acquisitions and strategic partnerships. Instead, major players prioritised capital investments, particularly in advanced technology, as they adapt to the rise of generative AI. This shift emphasises the industry's focus on becoming more customer-centric and expanding insurance access to underserved markets.

Insurtech remains a disruptive force in the industry, with a few players introducing innovations in direct consumer interaction. These tech-driven companies streamline the insurance value chain, allowing customers to easily access, purchase and manage policies online. Pineapple, for example, uses AI to analyse images of items to be insured and calculates premiums accordingly.

Generative AI is driving further improvements in claims processing, fraud detection and policy customisation, which helps insurers offer more precise pricing. The lower operational costs of Insurtech firms have intensified competition for traditional insurers, prompting some to invest in or acquire technological capabilities. Local examples include Hollard’s funding of Naked Insurance and Old Mutual’s support of Pineapple. In November 2023, Pineapple secured R400 million in funding. This was highlighted as the largest Insurtech capital raised in Africa, with contributions from the Mineworkers Investment Company (MIC) and Futuregrowth.

Technological advancements, such as geocoding, are helping insurers like Santam manage risk more effectively, particularly for properties exposed to extreme weather events. However, these innovations also carry risks, including potential inaccuracies in policy recommendations, cyberattacks and data breaches, as highlighted by recent cyberbreaches experienced by South African non-life insurers. Despite these challenges, the industry continues to embrace AI and technology to enhance efficiency and meet evolving customer demands.

Old Mutual

As part of its larger digital transformation efforts, Old Mutual Insure made significant investments in technology to improve the overall experience for its policyholders. By partnering with various Insurtech firms, the company aims to integrate digital solutions that streamline claims processing and enhance risk management.

The Old Mutual group successfully concluded the acquisition of a 100% ordinary equity interest in Genric Insurance Company Limited, a licensed non-life and specialist insurer focused on bringing innovative and niche insurance solutions to the market.

OUTsurance

Recently, OUTsurance Group Limited (OGL) increased its stake in OUTsurance Holdings Limited (OHL) by acquiring 69 996 930 treasury shares from the OUTsurance Holdings Share Trust. This transaction raised OGL’s interest in OHL from 90.5% to 92.3%.

Additionally, OUTsurance significantly ramped up investments in AI-driven technologies, focusing particularly on improving its underwriting capabilities. By leveraging data analytics and AI, the company aims to provide more personalised and accurate premium offerings. These strategic investments are designed to enhance operational efficiency and differentiate OUTsurance’s product offerings in the competitive insurance market.

OUTsurance also sold its investment unit, Outvest, to financial services group Alexforbes as part of its strategic review, while also focusing on the organic scale up of OUTsurance Ireland for its current trading year.

Santam

Santam is investing in digital transformation to enhance claims processing and customer engagement, driven by growing customer expectations and competitive pressures. The company is upgrading its technological infrastructure as part of this effort. Additionally, Santam is eyeing international growth, specifically in Asia and the Middle East, to diversify its premium base amid slow growth in South Africa. Currently, 82% of Santam’s premiums are generated locally, but it sees emerging markets as key opportunities.

Santam plans to expand both organically and through acquisitions. In June 2024, its parent company Sanlam acquired a 60% stake in NMS Insurance Services (SA) Limited, a micro-insurer linked to MultiChoice.

In addition, Santam received Competition Tribunal approval during the year to acquire the MTN device insurance book in South Africa. This transaction is part of the broader strategic alliance between Sanlam and MTN through aYo Holdings Limited, the MTN Group's Insurtech platform. This enabled Santam to commence writing new device insurance business through this arrangement.

Corporation for Deposit Insurance

The Corporation for Deposit Insurance (CODI) was legally established on 24 March 2023, and became fully operational on 1 April 2024, pursuant to the Financial Sector Laws Amendment Act 23 of 2021. As of this date, all banks automatically became members, adhering to the new deposit insurance requirements. CODI has established a deposit insurance fund, financed by contributions from member banks, to safeguard depositors. CODI also launched public awareness campaigns and provided standardised materials to banks to ensure the consistent dissemination of deposit insurance information to depositors. CODI is ready to support bank resolution actions and depositor reimbursement in the unlikely event of a bank failure.

Overall, the non-life insurance industry is undergoing significant transformation, driven by technological advancements and strategic initiatives. Major players are prioritising investments in generative AI and Insurtech partnerships to enhance customer engagement and streamline operations. While acquisitions have been limited, companies like Old Mutual and Santam are focusing on digital solutions and international expansion to diversify their offerings. The emergence of disruptive Insurtech firms has intensified competition, prompting traditional insurers to innovate and adapt. As the landscape evolves, the industry's commitment to leveraging technology will be vital in meeting changing consumer demands and improving accessibility.

Conclusion

Compared to 2022, 2023 provided non-life insurers with a favourable external environment that contributed positively to both top- and bottom-line growth. The high interest rate environment, investment market stability and fewer extreme weather-related losses supported profitable growth.

While we hope that this positive trajectory continues into the future, insurers are encouraged to remain vigilant of the current risk landscape.

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Reinsurance industry results

The 2023 financial results of reinsurers participating in this year's survey reflect a welcome reprieve from the challenges faced over the last few years. From COVID-19 in 2020, the Kwa-Zulu Natal riots in 2021, the Kwa-Zulu Natal floods in 2022 and the ongoing local infrastructural challenges experienced, to name but a few. These were some of the toughest years seen by the South African insurance industry, which tested the resilience and core purpose of the industry beyond limits thought imaginable.

The strict measures reinsurers put in place to restore profitability and balance sheet strength post these events, such as price increases and the implementation of stricter underwriting principles (higher attachment points and underwriting limits), have started to reap the benefits they set out to achieve. While the industry appears to be in a state of calm right now, with fewer natural catastrophe events and load shedding having been suspended for 163 consecutive days at the date of writing this article, the uncertainty around climate change, political actions and the impact of global economic and geopolitical activity require constant vigilance and assessment.

According to the AON 2024 Climate and Catastrophe Insight report[1], the following flooding events occurred in South Africa in 2023:

Date(s)	Deaths	Economic loss (USD)
14 Jun – 19 Jun 2023	2	100 million
23 Sep – 26 Sep 2023	11	Millions
27 December 2023	21	Millions

The 2023 results of reinsurers analysed in this survey have not been materially impacted by these losses, which is most likely attributable to the underwriting limitations put in place, following the spate of loss events that took place over the last few years.

The latest insurance sector data published by the South African Reserve Bank indicates that there are nine professional reinsurers in South Africa as at December 2023[2] (2022: nine professional reinsurers). In this year's survey, we analyse the results of four registered reinsurers, representing approximately 51% of the South African market. These results include three composite reinsurers and one composite branch. The financial results of all reinsurers surveyed in this year's analysis have been prepared under an *IFRS 17 Insurance Contracts* (IFRS 17) basis of accounting.

The financial results of the life and non-life insurance industries are a key contributor to the results of the reinsurance industry. It is, therefore, important that the results of the reinsurance industry are reflected on against what has transpired over the course of 2023 for South African non-life and life insurers.

The life insurance industry continued to generate strong results, with an increase in profits from R27.3 billion in 2022 to R37.4 billion in 2023. Similar to what we reported in 2022, these results are reflective of the recovery and stabilisation experienced by life insurers in respect of normalised mortality levels post the COVID-19 pandemic.

The non-life insurance industry went from a loss of R14.6 billion in 2022 to a profit of R13.7 billion in 2023. While hardened reinsurance rates prevailed over the period, along with a high inflationary and interest rate environment, the turnaround in results is largely due to the benign natural catastrophe weather event exposures over the course of the year and the absence of the 2021 riots in Kwa-Zulu Natal.

1 https://assets.aon.com/-/media/files/aon/reports/2024/climate-and-catastrophe-insights-report.pdf

2 https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-selected-south-african-insurance-sector-data/2023/Selected%20South%20African%20insurance%20sector December_2023.pdf

The gross domestic product (GDP) growth rate for 2023 was 0.6%[3], following an increase of 1.9%[4] in 2022. According to the African Development Bank Group, this deceleration was "due to persistent electricity shortages, transport sector constraints, and lower international prices for gold and platinum group metals."[5] In addition, "Household consumption declined from 2.8% in 2022 to 0.7% in 2023 due to higher interest rates. Inflation declined from 6.9% in 2022 to 6.0% in 2023 reflecting lower international fuel prices. The South African rand weakened by 12.4% against the US dollar in 2023, to 18.40 rand to the dollar, due to declining terms of trade for South Africa's main exports."[6] These factors persisted from 2022 and continue to place pressure on the disposable income of consumers and policyholders with cascading impacts on premium renewals, rate increases and lapse rates.

The African Development Bank Group goes on to further note that "The poverty rate was estimated at 21.6% in 2023, and the Gini coefficient was 0.63. Overall unemployment stood at 32.1% and youth (25–34 years) unemployment at 39%. South Africa is among the top 10 most unequal countries globally."[7] With competition being rife and market saturation at already high levels in the South African insurance industry, these economic indicators shed interesting light on the challenges that the industry may be experiencing in achieving market growth. To increase revenue on existing business, attract new customers, maintain the existing customer base or tap into underserved markets, insurers would need to employ intense levels of innovation, technology investment and collaboration to see top line growth.

Financial indicators

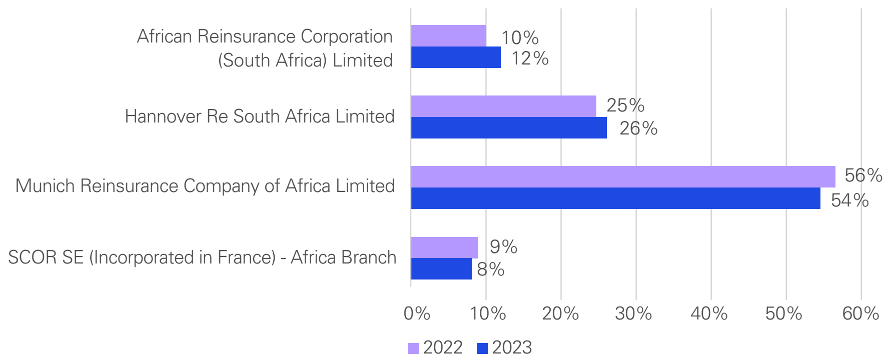
Growth

Insurance revenue declined slightly by 2% over 2023, with varied results being experienced across all reinsurers surveyed. African Reinsurance Corporation (South Africa) Limited (Africa Re) and Hannover Re South Africa Limited (Hannover Re) both experienced growth in insurance revenue, with Munich Reinsurance Company of Africa Limited (Munich Re) and SCOR SE (Incorporated in France) - Africa Branch (SCOR Africa Branch) experiencing decreasing revenue. These results are influenced by various factors such as hardened reinsurance rates, renewals, repricing, organic growth, new business, cancellations and the implementation of stricter underwriting risk principles.

Based on top line growth (with reference to a combination of insurance revenue and gross written premium measures), the 2023 results of reinsurers surveyed are largely reflective of the growth experienced by life insurers of 10.4% by net premium income measures under *IFRS 4 Insurance Contracts* (IFRS 4) and 3.9% by insurance revenue measures under IFRS 17. Non-life insurers saw growth of 16.6% in IFRS 4 gross written premium and 7.9% growth in IFRS 17 insurance revenue.

Illustrated below is the share of the reinsurance market by insurance revenue based on these four reinsurers' share (51%) of the market, as reported in their audited financial statements.

Insurance revenue



The market share distribution across reinsurers continues to remain relatively consistent, with marginal movements noted across industry players.

3 https://www.statssa.gov.za/publications/P0441/P04414thQuarter2023.pdf

4 https://www.statssa.gov.za/publications/P0441/P04414thQuarter2023.pdf

5 https://www.afdb.org/en/countries/southern-africa/south-africa/south-africa-economic-outlook

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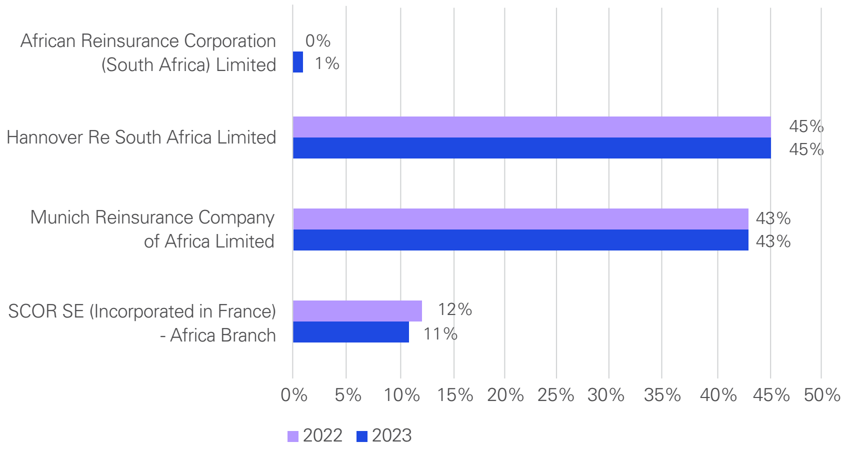
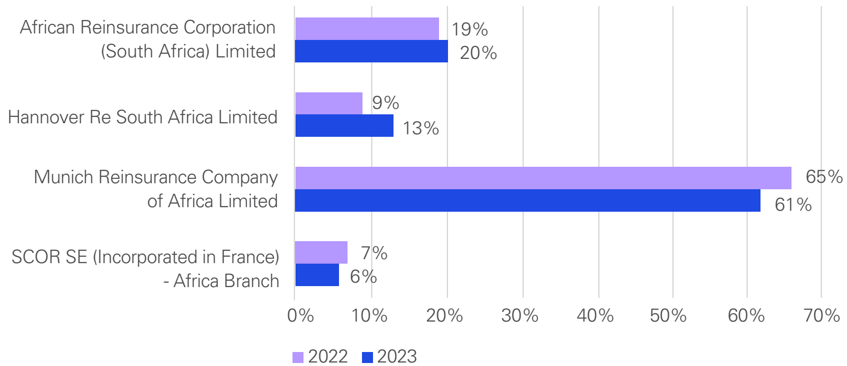
We discuss the detailed movements per reinsurer further on in our analysis.

Life insurance revenue market share



Non-life insurance revenue market share



Other key performance indicators of the four reinsurers surveyed are as follows:

Performance indicator	2023	2022
Reinsurance ratio[8]	81%	618%
Insurance service expenses ratio[9]	84%	101%
Insurance service result ratio[10]	63%	84%
Incurred claims and other expenses ratio[11]	69%	74%
Acquisition costs incurred ratio[12]	4%	5%
Insurance service result	R639 million profit	R877 million profit

The 2023 results largely follow a similar trajectory to that experienced in 2022, reflecting the recovery and stabilisation of the insurance market following muted natural catastrophe incidents, as well as the results of strategic initiatives implemented by reinsurers over the last few years to moderate risk exposures, such as premium rate increases and underwriting limitations.

The decline in the reinsurance ratio from 618% in 2022 to 81% in 2023 is largely due to net **income** earned from reinsurance contracts held by Africa Re and Munich Re in 2022, and this amount being in excess of the insurance contracts result[13].

The improvement in the insurance service expenses ratio is largely characterised by the lower incidence of natural catastrophe events, with all reinsurers surveyed having experienced a reduction in these ratios from 2022 to 2023.

Africa Re is the largest contributor to the acquisition cost ratio with the decrease attributable to better rates secured on renewals during the year.

8 Reinsurance ratio: net expenses/income from reinsurance contracts held/insurance contracts result (insurance revenue less insurance service expenses from insurance contracts issued)

9 Insurance service expenses ratio: insurance service expenses/insurance revenue

10 Insurance service result ratio: insurance service result/profit/(loss) before tax

11 Incurred claims and other expenses ratio: incurred claims and other expenses/insurance revenue

12 Acquisition costs incurred ratio: acquisition costs incurred/insurance revenue

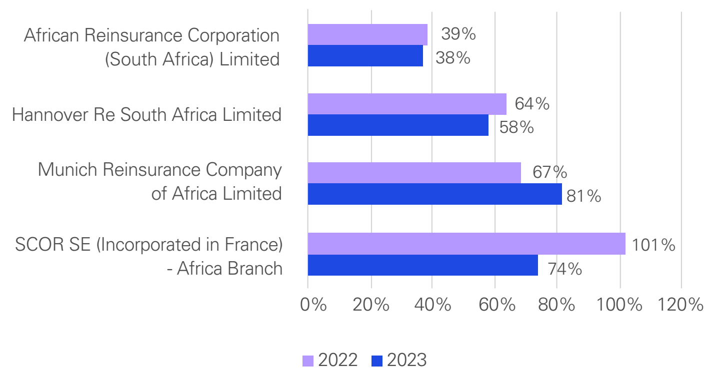
13 Insurance contracts result: insurance revenue less insurance service expenses from insurance contracts issued

The insurance service result ratio reflects the contribution of the insurance service result to profit/(loss) before tax for the year. Hannover Re and Munich Re both experienced positive insurance service results which contributed to overall profit before tax for both 2022 and 2023. While Africa Re experienced an overall profit before tax for the year, it experienced a loss on its insurance service result for both 2022 and 2023. SCOR Africa Branch also experienced a loss in its insurance service result, which flowed down to the loss before tax line.

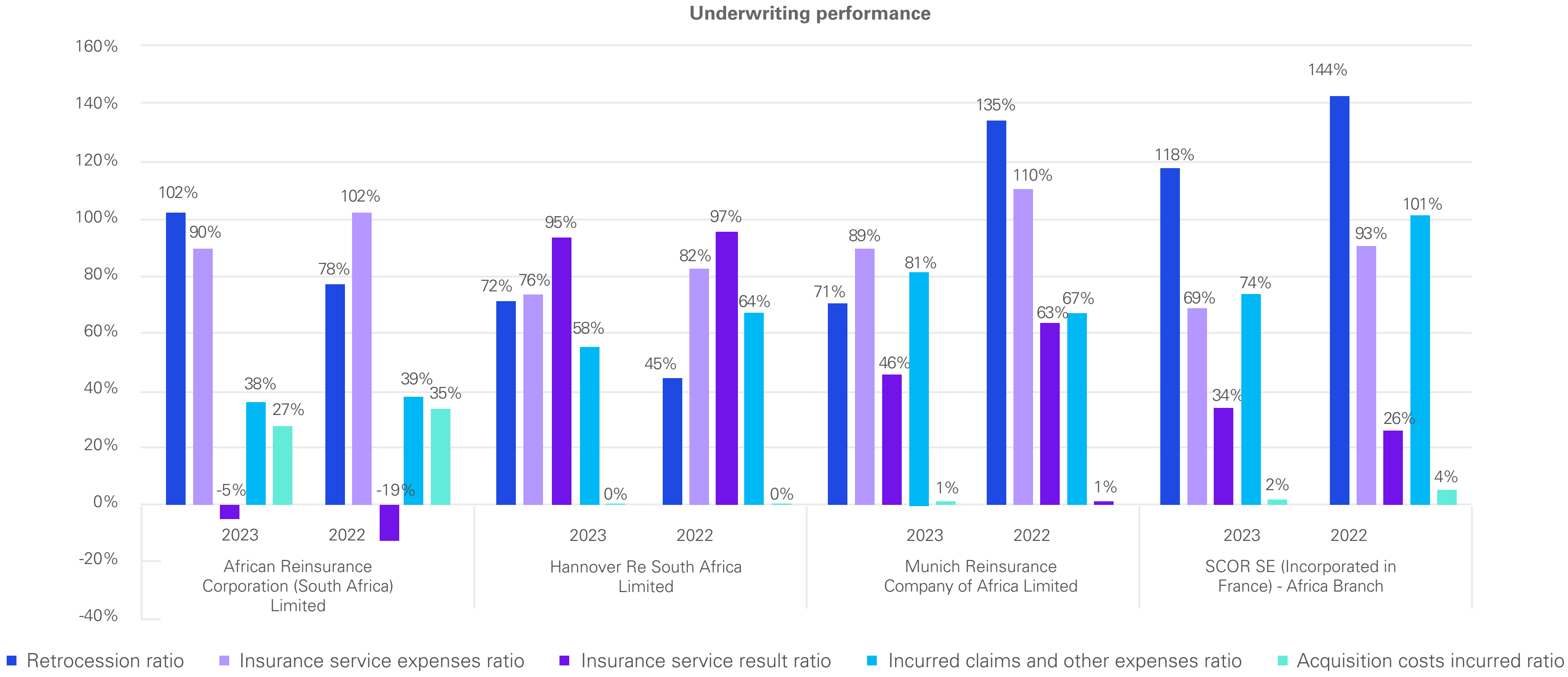
In the previous year we noted that except for Munich Re, no other reinsurer declared dividends during the 2022 financial year, consistent with the financial results of 2021 and 2020. This has largely remained the same apart from Hannover Re that declared a dividend in 2023. It is interesting to note that many reinsurers continued to take a conservative approach, in the context of the strength of their balance sheets. This level of conservatism is understood in the context of the uncertainty around the impact of climate change, the continued recovery of previous losses, as well as local and global market uncertainties.

The graph included below illustrates the incurred claims and other expenses to insurance revenue ratio for each reinsurer. With the exception of Munich Re, reinsurers experienced a healthy improvement in loss ratios over the year, compared to 2022.

Incurred claims and other expenses to insurance revenue



Underwriting performance per reinsurer



Mixed performance results are reflected across all reinsurers surveyed, reflecting the complexity and nuances of market dynamics on each reinsurer's business operations. The next section of our report provides deeper analysis into the results of each reinsurer.

Africa Re

The 2023 financial year was the first full year in which Africa Re operated as a composite reinsurer, after having undergone a relicensing process in 2021 to include the ability to write life reinsurance risks, in addition to its already established non-life insurance business. The financial results for 2023 reflect the results of operations from writing both life and non-life reinsurance business, with only non-life business being written in previous financial years. The non-life insurance operations contributed 96% to insurance revenue for 2023 (2022: 100%) with the remaining insurance revenue of 4% (2022: 0%) attributable to the life insurance business.

Africa Re experienced growth in insurance revenue of 11% from R2 244 million in 2022 to R2 490 million in 2023. This performance result reflects a sustained growth trajectory in line with the objectives the reinsurer set out to achieve in terms of the turnaround strategy which it embarked on in 2018. This strategy aimed to de-risk and enforce better underwriting discipline in the quality of risks assumed. The growth in insurance revenue can also be attributed to premium rate increases secured on renewals during the year.

The insurance service expenses ratio reflects improved performance from 102% in 2022 to 90% in 2023, along with the insurance claims and other expenses ratio from 39% in 2022 to 38% in 2023. This is largely due to the reinsurer not having exposure to catastrophe losses during the year, in line with industry wide observations, and due to the impacts of the strategic underwriting decisions applied. The improved claims experience was offset by an increase in attributable expenses due to inflation and planned investment in human capital and other resources, to support the business growth and regulatory compliance obligations.

The reinsurance ratio increased from 78% in 2022 to 102% in 2023. The reasons for this are complex and need to be unpacked further. During 2022 a loss of R55 million on the insurance contracts result was observed. This loss was offset by net income earned from retrocession contracts of R43 million, as a result of amounts recoverable from the retrocessionaire for incurred claims being in excess of retrocession premiums paid. During 2023, a profit on the insurance contracts result was observed of R239 million, offset by a net expense from retrocession contracts of R245 million.

While the insurance service result and net insurance result reflected losses for 2023, the performance of the investment portfolio was a key driver in delivering an overall profit after tax for the year of R85 million (2022: R48 million).

Hannover Re

Overall insurance revenue growth was muted at 4% from R5 232 million in 2022 to R5 452 million in 2023. However, this result needs to be understood in the context of the contribution of the life and non-life insurance segments to the overall business. Life insurance revenue contributed 70% (2022: 79%) to total insurance revenue with the non-life insurance business contribution coming in at 30% (2022: 21%). While the non-life book of business reflected insurance revenue growth of 47% from 2022, this growth was offset by a 7% decline in life insurance revenue.

The insurance service expense ratio showed improvement from 82% in 2022 to 76% in 2023. Similarly, the incurred claims and other expenses ratio decreased from 64% in 2022 to 58% in 2023. The primary contributing factor is attributable to the lower extent of natural catastrophe and other major losses during the year.

Despite the positive gains experienced from insurance revenue growth and improved performance over the insurance contracts result, the insurance service result ratio declined from 97% in 2022 to 95% in 2023. This can be attributed to the increased net expense from reinsurance contracts ratio from 45% in 2022 to 72% in 2023, largely due to increased retrocession premiums paid as a result of the hardened reinsurance market.

Munich Re

Munich Re experienced a decrease in insurance revenue of 6% from R11 837 million in 2022 to R11 166 million in 2023. The non-life insurance book contributed 67% (2022: 66%) to total insurance revenue with the remaining 33% (2022: 34%) attributable to the life insurance book of business. Insurance revenue from the life insurance business decreased by 8% while insurance revenue from the non-life insurance business decreased by 4%.

The incurred claims and other expenses ratio deteriorated from 67% in 2022 to 81% in 2023. This can be attributed to an increase of 111% in incurred claims and expenses related to the life business (movement in loss ratio from 46% in 2022 to 106% in 2023), offset by a decrease of 16% in the non-life insurance business (movement in loss ratio from 78% in 2022 to 68% in 2023).

In contrast, the insurance service expense ratio improved from 110% in 2022 to 89% in 2023, largely due to the decrease in changes related to past service across both the life and non-life insurance segments.

Similar to Africa Re, the reasons for the decrease in the retrocession ratio from 135% in 2022 to 71% in 2023 is complex and requires further elaboration. During 2022 a loss of R1 221 million on the insurance contracts result was observed. This loss was offset by net income earned from retrocession contracts of R1 646 million, as a result of amounts recoverable from the retrocessionaire for incurred claims being in excess of retrocession premiums paid, largely due to recoveries related to catastrophe events experienced in 2022. During 2023, a profit on the insurance contracts result was observed of R1 218 million, offset by a net expense from retrocession contracts of R861 million.

Consequently, the decline in insurance revenue and increases in incurred claims and other expenses and net expenses from reinsurance contracts resulted in a decrease in the insurance service result ratio from 63% in 2022 to 46% in 2023.

SCOR Africa Branch

Similar to Munich Re, SCOR Africa Branch was the only other reinsurer to experience a decrease in insurance revenue (14% from R1 927 million in 2022 to R1 647 million in 2023). Life insurance revenue decreased by 18% while non-life insurance revenue decreased by 10%. The share of the life and non-life insurance books of business in terms of insurance revenue measures is fairly even with the life business contributing 57% (2022: 59%) to total insurance revenue and the non-life business contributing 43% (2022: 41%).

The decrease in the incurred claims and other expenses ratio from 101% in 2022 to 74% in 2023 can be attributed to there being no exposures to natural catastrophe losses in 2023. The loss ratio for the life insurance book of business improved from 106% in 2022 to 101% in 2023, with the non-life insurance loss ratio improving from 95% in 2022 to 38% in 2023.

Despite the decrease in insurance revenue noted, SCOR Africa Branch was able to achieve an improvement in the insurance service expense, reinsurance and insurance service result ratios. However, an overall loss after tax for the year was experienced, with SCOR Africa Branch being the only reinsurer of those surveyed to have experienced a loss in 2023.

Investment performance

Reinsurers achieved an average return on investments (including cash and cash equivalents) of 7.07% (2022: 6.95%), despite the year-on-year increase in investments and cash and cash equivalents of 14%. This is less than the average prime rate of 11.11%[14] (2022: 8.59%[15]) and the average 10-year government bond yield of 10.30%[16] (2022: 10.10%[17]). The investment performance of reinsurers surveyed relative to market returns is indicative of the conservative investment strategies employed considering the industry's exposure to uncertain market forces.

SCOR Africa Branch was the top performer in terms of investment returns in 2023 at 8.6% (2022: 4.4%), followed closely by Munich Re with 8.0% (2022: 8.7%) and Hannover Re with 7.4% (2022: 8.5%). Africa Re achieved a return of 5.0% (2022: 3.7%).

What the future holds for reinsurance operations

In 2023 Fitch Ratings reported that the reinsurance sector outlook was revised to "improving", citing price and claims costs increases, the continued demand for reinsurance, and underwriting limitations as the key drivers, whilst acknowledging the sector's strengthening financial performance into 2024.[18]

The factors noted by Fitch in 2023 are largely reflected in the 2023 results of reinsurers surveyed.

On 5 September 2024 Fitch Ratings released its most recent outlook for the global reinsurance market for 2025: "Fitch Ratings has revised its global reinsurance sector outlook to 'neutral' from **'improving'** as the pricing cycle has most likely passed its peak", the agency says in a new report. Nevertheless, profitability should remain very strong by historical standards in 2025.

Capital buffers and reserve adequacy have strengthened, helped by record profits in 2023 and 1H24, and reinsurers are well positioned for a decline in prices even as claims costs continue to rise and catastrophe losses become more significant due to climate change.

Given the sector's abundance of capital, we expect a moderately softer and more competitive market in 2025, barring significantly above-average loss activity in 2H24. However, underlying margins are likely to remain close to their 2023-2024 peak as reinsurers maintain their underwriting discipline. Fitch forecasts the sector's calendar-year combined ratio to be 88% for 2024 and expects its near-term return on equity to be very strong, at close to 20%."[19]

14 https://www.fnb.co.za/rates/LendingRates.html?srsltid=AfmBOopb3jdCgu4APYf_669lYek3r6LAwm2685q8UlesCLqZcYD4tDik

15 https://www.fnb.co.za/rates/LendingRates.html?srsltid=AfmBOopb3jdCgu4APYf_669lYek3r6LAwm2685q8UlesCLqZcYD4tDik

16 https://za.investing.com/rates-bonds/south-africa-10-year-bond-yield-historical-data

17 https://za.investing.com/rates-bonds/south-africa-10-year-bond-yield-historical-data

18 https://www.fitchratings.com/research/insurance/global-reinsurance-sector-outlook-revised-to-improving-07-09-2023

19 https://www.fitchratings.com/research/insurance/global-reinsurance-sector-outlook-revised-to-neutral-05-09-2024#:~:text=However%2C%20underlying%20margins%20are%20likely,%2C%20at%20close%20to%2020%25.

Earlier this year in June 2024, AM Best revised its outlook for the global reinsurance market from "stable" to **"positive"**, citing "robust profit margins along with higher attachment points and tighter terms and conditions that followed a period of drastic repricing." It went on to further note that "despite reinsurance rate increases decelerating, underwriting discipline is being maintained and profit margins remain healthy enough to absorb higher loss activity than recently experienced."[20]

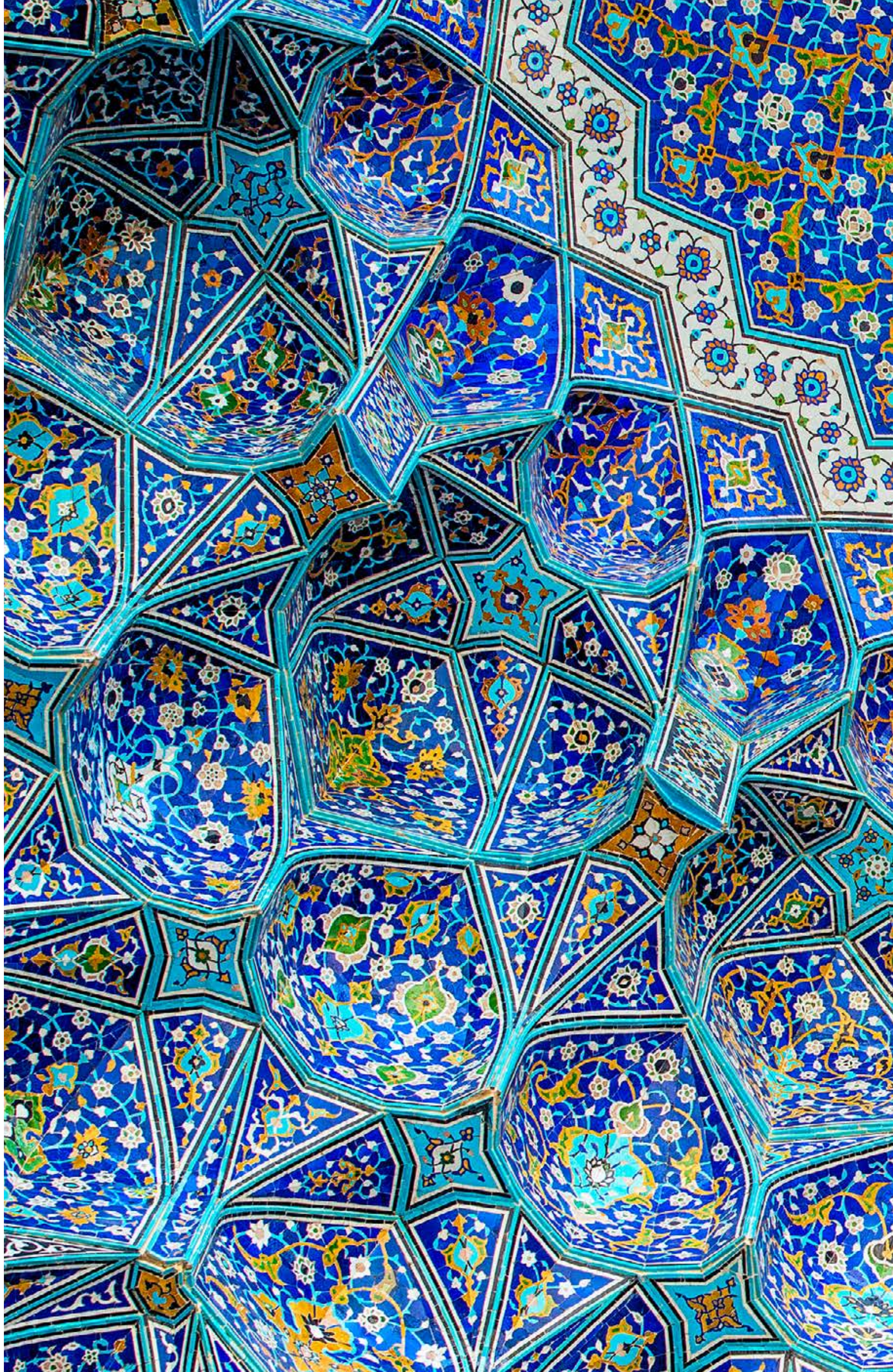
While hardened reinsurance renewals rates continued into 2024, South African reinsurers can be expected to continue with a cautious approach as they move into the 2025 underwriting cycle. A key common theme coming out of the international rating agency announcements is the maintenance of stringent and conservative underwriting disciplines by reinsurers, regardless of the direction in which premium rates might unfold.

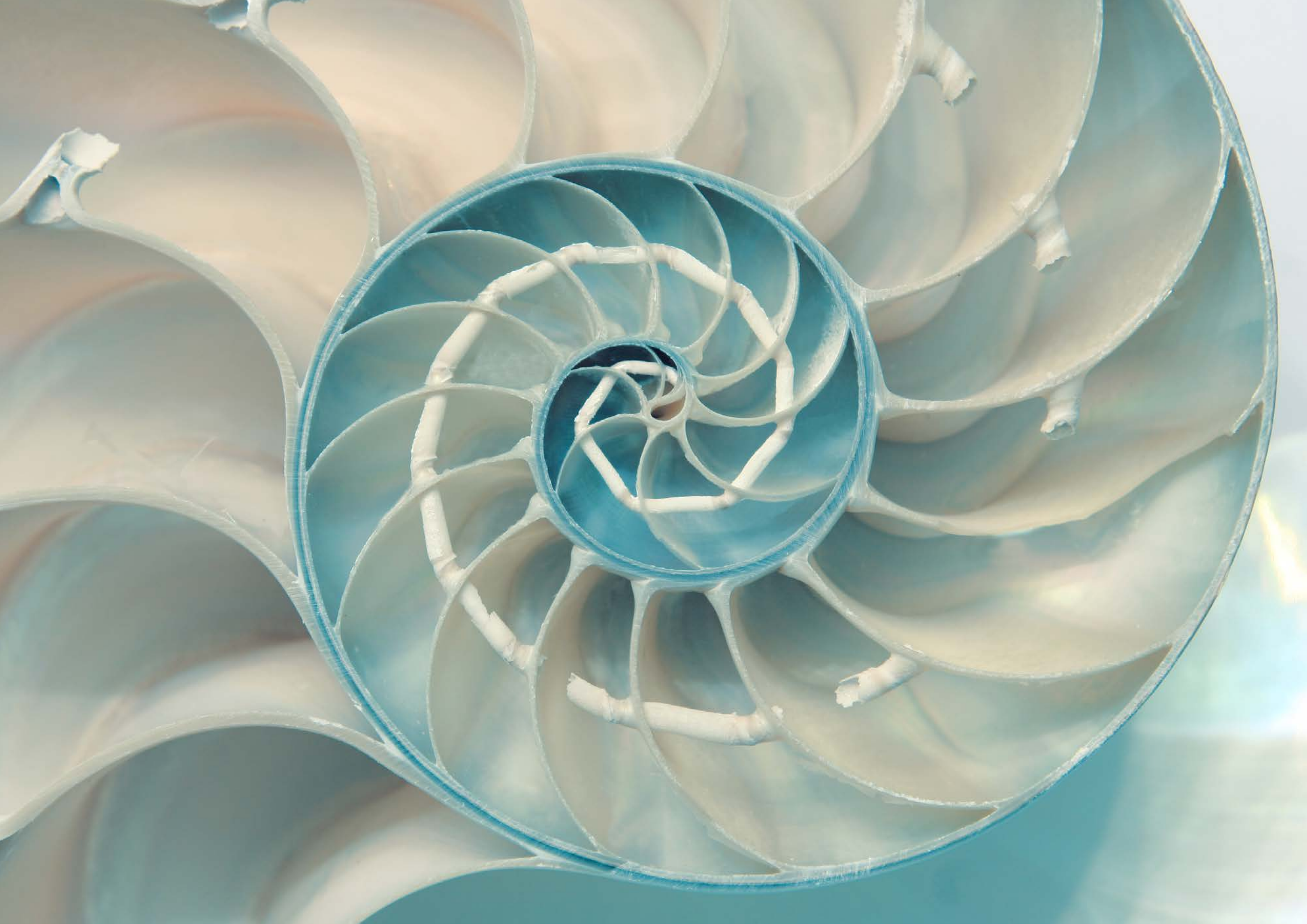
Reflecting on the risk landscape within which reinsurers were operating in over the past year, little has changed; from the instability brought on by local political uncertainty, infrastructure challenges, and a vulnerable and volatile civil sentiment, to geopolitical dynamics and climate change pressures. While the financial results for 2023 reflect a continued recovery from 2022, if we have learnt anything over the last few years it is that risk exposures in unprecedented and unexpected ways and forms are lurking around the corner. In a state of continuous uncertainty, constant vigilance is non-negotiable.

Employing agile operating models, continuous assessment of the risk landscape and innovative product offerings are key imperatives for reinsurers to be able to maintain and gain a competitive edge, whilst at the at same time protecting their balance sheets.

The stability provided by the reinsurance industry to the wider financial eco-system cannot be underestimated. As we have seen time and time again, no matter what the future might hold, reinsurers are seen as the cornerstone in maintaining the resilience of the insurance industry.

[20] https://www.icmif.org/news_story/am-best-revises-outlook-for-global-reinsurance-industry-to-positive-with-publication-of-new-market-segment-outlook/





KPMG's insurance practice

We provide audit, advisory and tax services to more than ninety percent of the insurance market.

We operate a specialist insurance audit unit of more than 200 professionals fully supported by tax, ESG, IT and corporate governance specialists, actuaries, lawyers and other regulatory professionals. This means that our insurance clients have the benefit of a team of insurance specialists every time.

The insurance industry is a priority segment for KPMG and we are leaders in this segment. Our broad portfolio of clients gives you the confidence that you are being served by professionals who understand all aspects of your business. Our insurance practice is staffed with:

45 Partners

65 Managers

Over **200** professional staff

Top of our game in everything we do

On an annual basis our staff attend more than **10** insurance industry training courses and they present another **10** courses, which are certified by the IISA (Insurance Institute of South Africa), to our clients.

Our partners are members of global and local professional committees and industry forums, covering IFRS 17, ESG, actuarial pricing and risk management, solvency, IT and tax.

Our local Insurance Regulatory Centre of Excellence maintains close ties with our global centre to ensure that we are always equipped to deal with regulatory issues based on global best practices to give you the best assistance in applying regulations in your business.

KPMG Insurance in the rest of the world

KPMG's UK Insurance Regulatory Centre of Excellence is a significant factor in the success of our local Regulatory Centre of Excellence.

KPMG's global insurance practice has more than **6 200 professionals** in member firms worldwide.

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The interconnectedness of the economy and geopolitics and their impact on the insurance sector

While inflation slowly moves towards target levels, interest rates remain elevated, and the global economy remains relatively resilient insofar as we have managed to avoid a general recession. Fears that prolonged elevated interest rates could lead to banking failures, due to increases in loan defaults as debt servicing became costlier, did not materialise. Furthermore, emerging market economies with their relatively frail fiscal conditions following elevated spending levels brought on by the COVID-19 pandemic, have continued to grow and the spike in inflation has generally not led to the wage-price spiral feared towards the end of 2022.

Global economic growth reached a low of 2.3% at the end of 2022 and has been improving since, with the International Monetary Fund (IMF) predicting steady growth of around 3.2% for both 2024 and 2025[1] supported by the predicted reductions in interest rates and the stimulating impact thereof on consumption and investment expenditure.

Median inflation has also slowed from a global peak of 9.4% at the end of 2022 and is expected to reach 2.8% by the end of 2024 and 2.4% in 2025, following the moderation in prices of fuel and food as well as the improvements in efficiency of global supply channels.

Therefore, by most indicators, it appears that the global economy will experience a gradual recovery following the disruptions caused by the global COVID-19 pandemic and the ongoing geopolitical conflicts[2] currently disrupting the global market.

The more positive expectations for the performance of the global economy in 2024 and beyond are centred around the predicted action of central banks to reduce interest rates in line with the moderation of inflation. This expectation has generally provided support for global equity and bond markets from the start of 2024, with new record levels being reached by the United States S&P 500 composite index as well as the Indian Nifty 50 index. This has been the case even as the expectations of the number and size of interest rate reductions have reduced and shifted later into 2024 in line with more modest reductions in inflation, implying that interest rates will remain higher for longer. Much of the reduction in inflation rates from the 2022 highs can be attributed to the moderation of energy prices and the price of goods as supply chains adjusted and adapted to the post pandemic and geopolitical disruptions. In contrast, services inflation has remained higher and has prevented more rapid deceleration of inflation.

1 International Monetary Fund (IMF), World Economic Outlook - Steady but Slow: Resilience amid Divergence. April 2024: https://www.imf.org/en/Publications/WEO/Issues/2024/04/16/world-economic-outlook-april-2024

2 Most notably the wars in Ukraine and in the Middle East

However, given the many different economic structures and strategies around the world, there is also much divergence between regional and country growth paths. According to the World Economic Outlook, the United States has experienced good economic growth and strong demand, while growth in Europe has been anaemic but is expected to improve from this year onwards based on loosening monetary policy and reduced energy costs. China's economy continues to be impacted by the problems experienced in its property sector triggered by a liquidity crunch, with weaker domestic demand and pressure on public debt. This may lead to trade surpluses and further impacts on existing trade tensions. The reconfiguration of global supply chains may lead to more geopolitics. This is expected to shift global trade and power to other large emerging markets that can accommodate these changes.

The IMF has stated that many low income emerging and developing countries have fared the worst and have to date been unable to emerge from the effects of the pandemic and the cost-of-living crises. To make progress, these countries and economies will have to focus on making the structural reforms that will lead to higher economic growth and at the same time attract investment while focusing on developmental goals and improving the quality of their human capital. These countries, especially those that are more indebted, are experiencing increased fiscal pressure as well as losses of total factor productivity[3] due to misallocation of capital and labour within sectors and countries.

The World Economic Outlook also emphasises that harnessing the expected positive productivity impacts from the growing integration of artificial intelligence (AI) through all aspects of the economy and for all citizens will require countries to improve their digital infrastructure and increase investment in human capital. Failure to do so will only increase the divergence of economic paths and development benefits when compared to those countries that implement these measures successfully.

While investment in the green economy has grown strongly in advanced economies and China[4], more needs to be done in emerging and developing economies where the negative effects of climate change will be experienced. This will require not only large-scale technology transfer, but also a significant increase in sustainability finance driven by the private sector. In addition to the global trends listed above there are a number of domestic factors that may negate or even reverse any positive impacts expected. The ongoing cost pressures imposed by the insufficient and inconsistent supply of electricity, along with the deteriorating logistics infrastructure throughout South Africa, will continue to contribute to higher output costs and keep prices higher for longer, further delaying the reduction of the inflation rate back to target levels. This impact is augmented by efficiency losses and reduced productivity due to widespread government malversation and governance failures, including incongruent policy and the overly centrist approach to governance.

South Africa conducted a general election at the end of May 2024, the result of which may have a range of possible outcomes on the economy and the insurance industry. The impact of the election will depend on how the result is perceived by local and international stakeholders in terms of political and economic risk, with an increase in perceived risk leading to generally higher domestic costs and economic pressures, while the opposite would be true for an improvement in South Africa's risk profile.

The impact of the macroeconomic environment, natural disasters and the ongoing geopolitical conflicts on the insurance industry are many and varied. These factors have resulted in changes to the demand for insurance products, cost of insuring risks and the viability of insurance as catastrophic risks increase in frequency and size in line with climate change impacts.

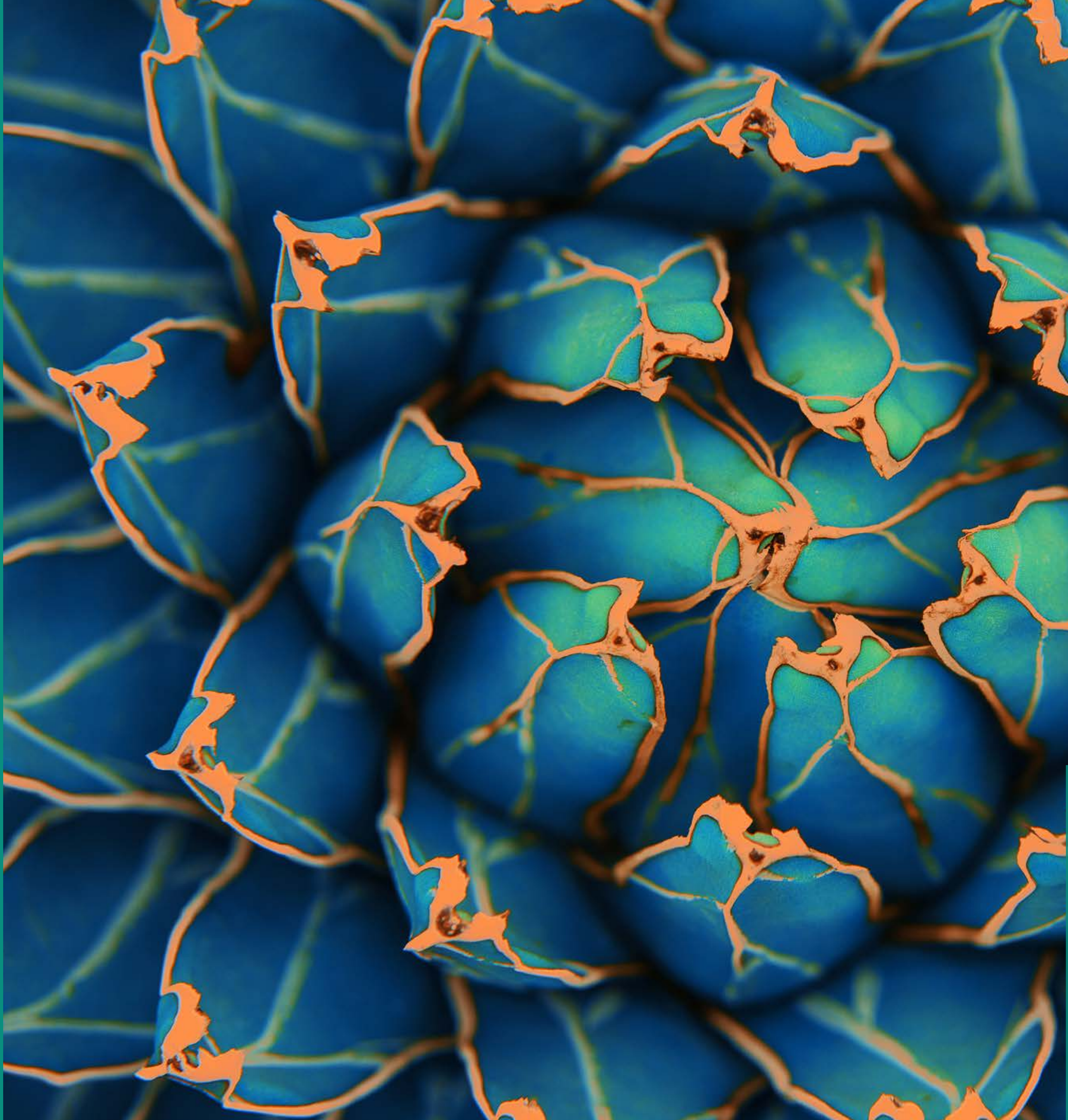
The global and local expectation is for a reduction in inflation through 2024, leading to a lowering of interest rates and consequent increase in economic growth. This would provide a tailwind to the insurance sector by simultaneously reducing the cost pressures underlying the insurance market while increasing the ability of both businesses and individuals to purchase insurance products. As mentioned above, this trend could however be reversed in South Africa where several structural problems have resulted in increased upward pressures on insurance costs as the economy faces a challenging logistic and policy environment, slow growth, high unemployment, a weakening currency, growing public debt, a shrinking tax base and bad governance.

[3] https://en.wikipedia.org/wiki/Total_factor_productivity

[4] International Monetary Fund (IMF), World Economic Outlook - Steady but Slow: Resilience amid Divergence. April 2024: https://www.imf.org/en/Publications/WEO/Issues/2024/04/16/world-economic-outlook-april-2024

In addition, climate change related insurance claims are rising both internationally and in South Africa, with ongoing global warming likely to worsen the situation in future. Apart from being the hottest year on record, South Africa in 2023 experienced a total of around ten weather-related claim events. Many of these events could be classified as significant, including the storms and flooding in the Western Cape, Eastern Cape and KwaZulu-Natal, and the hailstorms experienced in Gauteng and Mpumalanga. The result is that the insurance landscape is changing, with insurers and reinsurers adapting their strategies and loss models in step with the increased frequency and severity of these events and resulting in reduced coverage or even the exclusion of certain events. This may also result in reinsurers taking less risk from these types of events leaving insurers unable to smooth out losses over time, and significant increases in the cost of insurance.

The outcome of the 2024 general elections on the South African economy is critical in understanding the impacts on the local economy. With many other countries also going through general elections, the impact on the global and local economies will become even more critical to monitor and understand in the next few months.



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IFRS 17 Insurance Contracts – a first look at a new world

After a prolonged build-up and an extensive amount of preparation effort that went into implementation projects, *IFRS 17 Insurance Contracts* (IFRS 17) became effective on 1 January 2023. While most insurers had hoped that their implementation projects would be nearing completion by the end of 2022, very few insurers managed to achieve this. With a heavy strain on resources across all work streams, including accounting, actuarial and IT, as well as a delay in the close out of many technical topics across both the global and local insurance industries, implementation of IFRS 17 carried on into much of the IFRS 17 'live environment' in 2023.

As a result of these delays, disclosures included in the final set of financial statements prepared under IFRS 4 Insurance Contracts (IFRS 4) regarding the anticipated impact of IFRS 17 adoption was limited. Many insurers only provided directional steering of equity impacts of whether the adoption of IFRS 17 was expected to result in an overall increase or decrease in equity. Some insurers were able to provide an indicative range of the expected impact, and very few insurers were able to disclose a pinpointed estimate of the expected impact on equity. This limited disclosure was an early indication of how far the industry still had to progress to get adoption of IFRS 17 over the line. Another reason for insurers not disclosing the equity impact was due to the late finalisation of tax law amendments which were, at that point, still being analysed by insurers.

With a tremendous push by the industry over the last year, insurers have largely reached their goal of producing their first set of IFRS 17 compliant annual financial statements. Starting with the December 2023 year-ends, these new look IFRS 17 financial statements have been released to market, and trends have started to emerge regarding accounting policy choices made by insurers, as well as the look and feel of IFRS 17 disclosures.

In this article we will take a look at the results released to date and consider how these are aligning locally, as well as compared to the global market. Earlier this year KPMG International released 'Real-time IFRS 17 – Insurers' first annual reporting under IFRS 17 and IFRS 9'[1], an analysis performed over 53 global insurance companies where we share our key observations on:

- IFRS 17 and IFRS 9 accounting policies, disclosures and significant judgements applied by insurers;
- the impacts of IFRS 17 on key performance indicators (KPIs); and
- transition to IFRS 17 and IFRS 9.

As an add on to this global KPMG publication, and for South African context, in this article we have analysed 19 South African insurers' reports, which comprise 12 non-life insurers and 7 life insurers with December 2023 year-ends. As many insurers are still in the process of finalising their first set of IFRS 17 compliant financial statements, this is only a snap-shot analysis of the very first results released. This view will likely shift and mature as more results are released for non-December year-ends and the industry begins to settle into an IFRS 17 business as usual world.

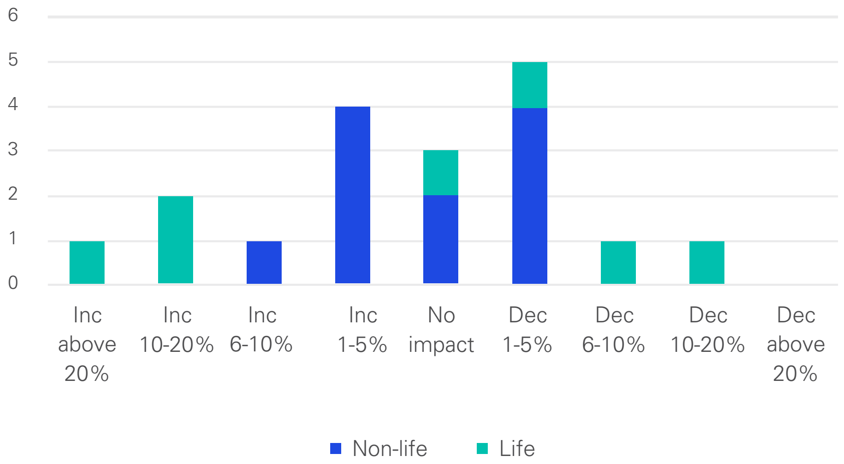
[1] https://kpmg.com/xx/en/our-insights/ifrg/2024/full-year-reports-real-time-ifrs17.html

Adoption of IFRS 17

Equity impact on adoption: of the 12 non-life South African insurers, 5 increased their equity on transition to IFRS 17, 4 decreased their equity, and 2 had no impact to equity. The percentage change on equity for these insurers ranged between 0% to 7% of total equity. This limited impact on non-life insurers is very much in line with the global trend. The remaining entity is a mutual insurer and due to the significant change IFRS 17 introduces for mutual insurers, the retained earnings is not comparable under IFRS 17 and IFRS 4. The impact for life insurers was far more prominent, with 3 life insurers experiencing an increase in equity, 3 experiencing a decrease, and only 1 having no impact on transition. The percentage change on equity ranged between 8% and 18%, with one outlier having a 43% impact on equity.

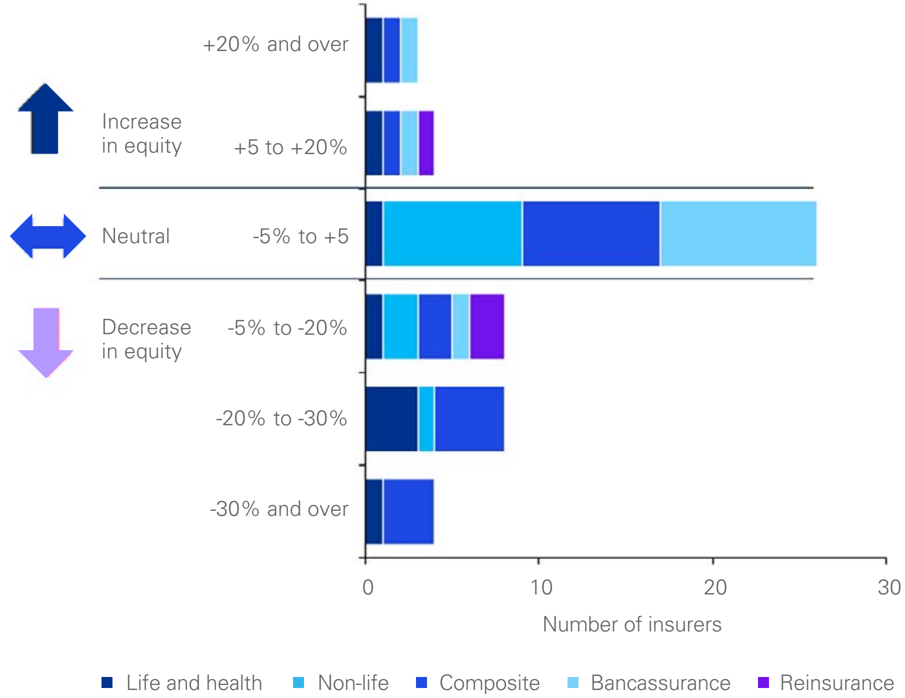
For South African insurers, the equity impact on adoption of IFRS 17 is summarised below:

Equity impact on transition



The KPMG International survey indicated the following results:

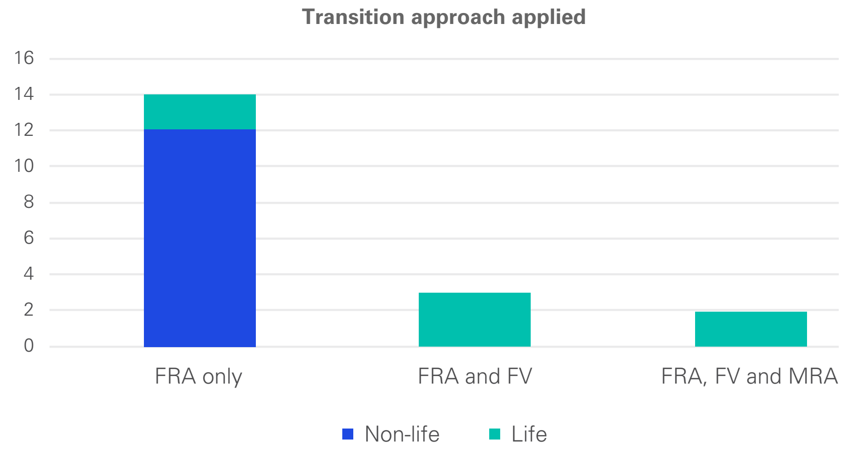
Impact on equity as at 1 Jan 2022 as disclosed in the FY23 accounts[2]



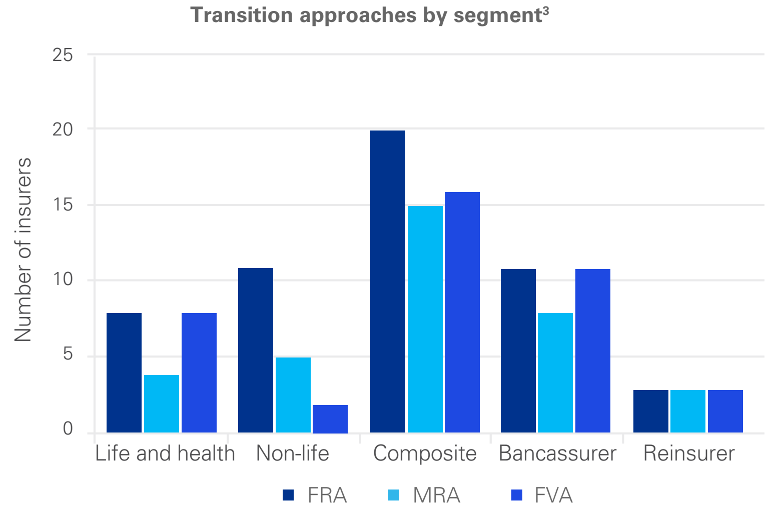
Very few South African insurers included the impact on the restated profit or loss for the comparative period, making it difficult to analyse the impact on profit or loss between what was previously reported and the restated comparative profit or loss.

[2] Where possible, we have included the impact on total shareholders' equity, including accumulated OCI. The impact includes changes in policies from consequential amendments to other accounting standards.

Transition approach: all 12 non-life insurers were able to apply the fully retrospective transition approach (FRA), with no indication of the use of the modified retrospective approach (MRA) or the fair value (FV) approach. This is in line with expectation, given the shorter terms of non-life insurance products. Of the 7 life insurers, 2 were able to apply the fully retrospective transition approach for their entire in force book of business. Where fully retrospective adoption was impracticable, 3 life insurers elected to apply the fair value approach, with the remaining 2 applying a mix of the fair value and modified retrospective approach. Disclosure regarding the impracticability of applying the fully retrospective approach varied across these insurers, with some insurers providing significant detail regarding the reasons for impracticability and others providing limited detail. Some insurers provided specific information on the periods for which it was impracticable to apply the FRA. Where dates for impracticability were provided, these were largely around the 2016/2017 years. The level of detail regarding the assumptions used in determining fair value (where this transition approach was used) also varied greatly between insurers, with some insurers having provided significant detail, and others only high-level disclosure.



Transition approaches applied, as included in the KPMG International survey:



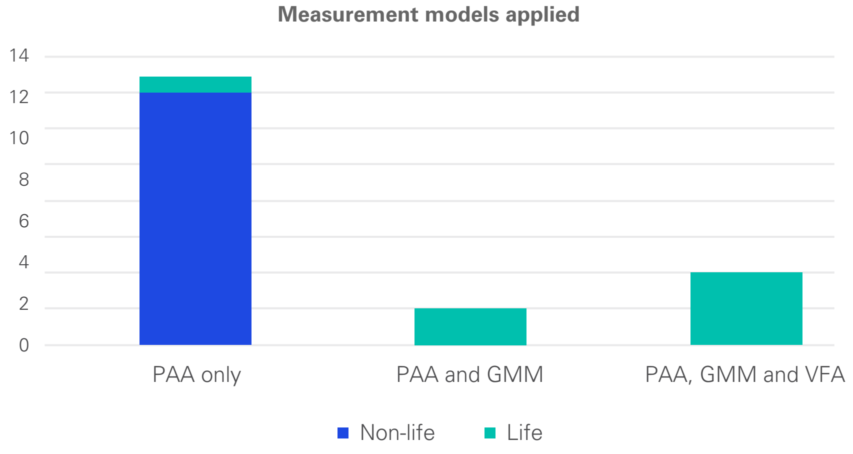
Adoption of *IFRS 9 Financial Instruments* (IFRS 9): sixteen of the insurers surveyed had already adopted IFRS 9, with only 3 insures having delayed adoption of IFRS 9 to align with the adoption of IFRS 17. This is largely due to many South African insurers being part of larger groups that chose not to defer the adoption of IFRS 9 until the adoption of IFRS 17.

Delays in reporting: twelve of the insurers reported within the four-month Prudential Authority (PA) deadline, although many of these reporting dates were very close to the PA regulatory deadline date. The remaining 7 reported after the four-month deadline. It should be noted, however, that this ratio may be skewed as many insurers with delayed reporting results were not able to be included in this initial analysis due to the delays, and the ultimate ratio once all insurers have completed first-time IFRS 17 reporting is likely to indicate a significant portion of insurers being delayed in their initial reporting. These observations provide an indication of the significant time and resource pressures financial reporting teams were working within in producing their first set of IFRS 17 compliant financial statements.

3 Insurers can apply multiple transition approaches as the approach is determined for each group of insurance contracts.

Measurement under IFRS 17

Measurement model: of the 12 non-life insurers considered, all have applied the Premium Allocation Approach (PAA) in accounting for their insurance contracts, with no contracts measured using the General Measurement Model (GMM) or the Variable Fee Approach (VFA). Of the 7 life insurers, only 1 applied the PAA, 2 applied both the GMM and PAA, and 4 applied the PAA, GMM and VFA in measuring their insurance contracts.



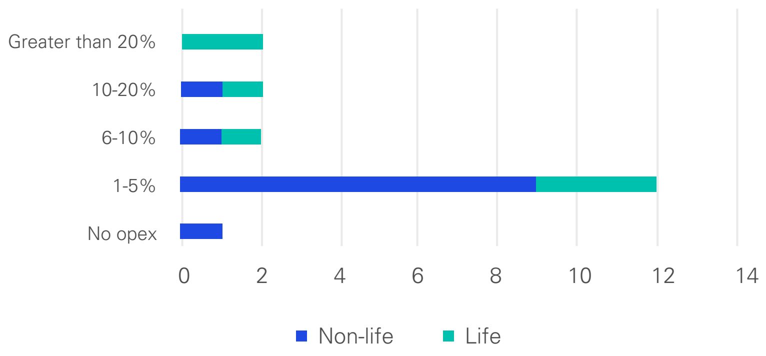
PAA eligibility: the level of detail included in the disclosure regarding eligibility assessments performed to use the PAA varied greatly between insurers. Almost all insurers indicated that at least a portion of their contracts have a coverage period of more than one year, but only a handful of insurers provided further disclosure regarding how the entity believes that the use of the PAA would produce a measurement of the liability for remaining coverage for the group that would not differ materially from one that would be produced applying the GMM, and whether this is a significant judgement area or not. As a future refinement, insurers should consider whether this should be disclosed as a significant judgement, and whether the level of disclosure regarding PAA eligibility is sufficient and appropriate given the value of contracts with a coverage period of more than one year.

Unit of account: of the 19 insurers, 6 indicated that the unit of account is not the legal contract, and the legal contract was split on the basis of substance over form. This is, for example, where multiple risks are written into the same policy, but the insurer accounts for these risks separately. While some insurers included this as a significant judgement with sufficient detail to enable a user to understand the accounting applied, this may be considered as an area of refinement for insurers that split the legal contract for accounting purposes, as the base assumption of the standard is that the unit of account is at a contract level. For the remaining 13 insurers, the disclosure seems to indicate the unit of account is the legal contract, but this was not always made clear in the disclosures.

Loss component: only 5 of the 12 non-life insurers recognised a loss component on gross business, with the loss components contributing a small portion of the total business underwritten. Five of the 7 life insurers recognised a loss component on at least a portion of their business. Interestingly, only some insurers that recognised a loss component on the gross business also recognised a loss recovery component on reinsurance contracts held.

Other operating expenses: with the adoption of IFRS 17, many costs which were previously recognised as other operating expenses within the income statement, have been reallocated to insurance service expense as directly attributable costs. As a result, the remaining other operating expenses caption within the income statement decreased significantly when compared to the reporting under IFRS 4. Costs which are not considered directly attributable to the servicing of insurance contracts remain within this line item. For 12 of the insurers, other operating expenses now range between 1% to 5% of insurance revenue, and between 6% to 12% for 3 of the insurers. Three of the larger life insurers have other operating expenses at between 20% to 25% of insurance revenue. Only 1 insurer (non-life) does not have any other operating expenses shown within the income statement.

Other operating expense as a % of insurance revenue



Insurance finance income and expense (IFIE): of the insurers that only applied the PAA, 2 insurers indicated that there was no IFIE impact. Of the other 11 insurers, 5 indicated that the IFIE impacted only the liability for incurred claims (LIC) (i.e. no IFIE impact on the liability for remaining coverage (LRC)). The remaining 6 insurers disclosed an IFIE impact on both the LRC and LIC. Across the board, the IFIE impact for insurers that only applied the PAA remains relatively small, especially with regards to the impact to the LRC. A limited number of insurers made it clear in their disclosures whether the paragraph 56 and 59(b) simplifications within the standard were applied or not. All insurers that applied GMM or VFA indicated an IFIE impact.

Other comprehensive income (OCI) option for IFIE: only 1 of the insurers elected to utilise the option to split IFIE between OCI and profit or loss. This is far below the 56% take up noted in the KPMG International survey.

Insurance acquisition cash flows (IACF) asset: only 2 non-life insurers recognised a separate IACF asset that is deferred for recognition in line with future renewals of currently underwritten contracts. None of the life insurers recognised a separate IACF asset.

Significant judgements, assumptions and estimates

Best estimate cash flows: a key theme throughout all the insurance disclosures provided is the judgement involved in the determination of best estimate cash flows. For life insurers this focused on the cash flows within the LRC, and for the non-life insurers this focused specifically on cash flows within the LIC. Much of this disclosure is what was previously made under IFRS 4, and we saw only minor changes to it for IFRS 17 purposes. Many of the insurers' qualitative disclosure still referred to outstanding claims (OCR) and incurred but not reported (IBNR) provisions, as well as allocated loss adjustment expense (ALAE) and unallocated loss adjustment expense (ULAE) provisions. While these terms are not IFRS 17 terms, the concepts relate to the broader considerations of LIC under IFRS 17. Understandably, these terms are understood and still used by the South African insurance industry, and insurers have ensured that the principles of these terms are carefully aligned to the principles of IFRS 17. Some insurers included the determination of all cash flows as a significant judgement, whereas others pinpointed specific cash flows where the estimation lies, for instance the estimation of those cash flows relating to claims incurred but not yet reported for non-life insurers. Among the life insurers, the disclosure regarding models and assumptions varied significantly, largely driven by the size of the organisation.

Discount rates: while all insurers included some detail on discount rates, the level of detail included varied considerably between insurers. This ranged from a single sentence detailing 'discount rates used are current rates', to more comprehensive disclosure of the various curves used and the adjustments made to those curves. The majority of insurers applied a bottom-up approach, with very few having indicated that they used a top-down approach.

Insurers provided disclosure around the use of a risk-free curve, adjusted for an illiquidity premium. Some insurers indicated that this illiquidity adjustment is included 'as appropriate' and others disclosed that this adjustment was not deemed necessary. Commonly used risk-free curves include the risk-free rates published by the Prudential Authority, the 10-year government bond risk-free curve, the observed mid-price swap yield curve for AA-rated banks and a curve derived from internally calculated swap curves.

Not all insurers included discount rates as a significant judgment or estimate, although this may be based on the quantitative impact for those insurers. However, where some insurers included this as a significant judgement, sensitivities for discount rates were not always included. This may be an area of future refinement for insurers.

Risk adjustment: as with discount rates, all insurers included some detail on risk adjustment, but the level of detail of this disclosure varied significantly between insurers. The method used to determine the risk adjustment was not always included within the disclosure. Eight insurers applied a confidence level or value at risk approach, with others noting a margins approach, a cost of capital approach, the use of an internal capital model and mixed approaches to determine the risk adjustment. Eleven insurers indicated a confidence level at the 75^{th} percentile, with 7 between the 75^{th} and 90^{th} percentiles, and 1 not having disclosed the confidence level. While the majority of insurers included a single confidence level, there were instances of insurers providing a confidence level range or providing different confidence levels for different measurement models or portfolios. Some insurers included the risk adjustment as a significant judgement or estimate, however many did not.

Coverage units: the level of detail provided by insurers regarding coverage units also varied significantly across the population. Some insurers provided disclosure of the coverage unit consideration for each type of product, and other insurers provided limited disclosure. It was also not always clear across insurers whether the coverage units are discounted or not. Coverage units were included as a significant judgement or estimate for some insurers, but not all.

The significant variance in the level of detail and specificity regarding IFRS 17 accounting policies and significant judgements was also observed as part of the KPMG International survey, indicating that this is not only a local trend. While a level of disparity in disclosures will always exist between insurers based on the size, complexity and materiality of each individual entity, it is expected that the market will find greater alignment in disclosures moving forward.

Presentation

Statement of financial position: as required by IFRS 17, all portfolios in a net asset position at reporting date are shown within the (re)insurance contract assets caption on the balance sheet, and all portfolios in a net liability position are shown within the (re)insurance contract liabilities caption on the balance sheet. For entities applying the PAA, the clear majority of gross portfolios are in a net liability position, with reinsurance portfolios in a net asset position at year-end. The only outliers to this are cell insurers that recognise the 'in substance reinsurance' arrangement with the cell owner at a significant liability value. For entities applying GMM or VFA, the split between whether the portfolios are in a net liability or net asset position at year-end is more balanced, with many insurers including balances in all four balance sheet captions at year-end.

Reinsurance expense: twelve insurers opted to disclose the reinsurance expense as a single net line on the face of the income statement. The other 7 insurers disclosed the gross up of reinsurance expenses and reinsurance income on the face of the income statement.

Disclosure aggregation: paragraph 96 of IFRS 17 requires insurers to consider the level of aggregation for which information is disclosed. Six of the insurers that only applied the PAA included the insurance contract opening to closing reconciliations at an entity level (i.e. one reconciliation for all gross business and one reconciliation for all reinsurance business). However, some of these insurers included other information relating to certain insurance financial statement captions at a more disaggregated level (i.e. within the insurance revenue or insurance service expense notes). The remaining 7 insurers that applied only the PAA disaggregated the reconciliations into between two or three bases, such as a split between personal and commercial; property, motor and other; and CAT and other reinsurance. For the insurers that applied multiple measurement models, the reconciliations were split between measurement models, with a few insurers also showing separate reconciliations based on the type of business written.

Expected CSM release: the majority of insurers included the buckets within 1 year, 2-5 years, 6-10 years and 10+ years to indicate the expected release of the CSM. The population is split equally between those that disclosed an interest element within the CSM maturity analysis, and those that did not.

Premium debtors from intermediaries: four insurers disclosed premium receivables from intermediaries as IFRS 9 financial assets, and 7 insurers disclosed these as part of the LRC under IFRS 17. For the remaining 8 insurers, the accounting policy choice was not clear within the financial statements.

Claims development: two of the non-life and 4 of the life insurers did not disclose claims development tables in line with the exemption set out under paragraph 130 of IFRS 17. For those insurers that disclosed claims development tables, the detail of these tables varied significantly.

KPIs: there is limited disclosure included in the financial statements regarding KPIs. Some insurers started to include some IFRS 17 aspects such as insurance revenue and CSM into the commentary, but this remains limited. Commentary within various reports still refers to IFRS 4 terminology such as gross written premiums and earned premiums.

Significant time and effort have gone into the initial sets of IFRS 17 compliant financial statements. While the initial population of IFRS 17 results available for analysis is small, it is a good base upon which to develop further analyses, as more insurers release their first set of results. As the dust settles on IFRS 17 transition and we move into an IFRS 17 business as usual world, insurers will have the ability to take a step back to consider their significant judgements, estimates and assumptions, how these are disclosed, and the interaction between the accounting policies and the risk management disclosure, ensuring that the financial statements tell a complete story to the user.

With all the knowledge and experience gained during the first year of reporting, insurers will likely consider refinements to IFRS 17 decisions, calculations and disclosures. The approach to dealing with these potential refinements is considered in the article 'Hindsight is 20/23: How to navigate 2024 with improved vision'.

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The transformational impact of generative artificial intelligence on the insurance industry

The insurance industry has always been driven by the need to manage risk and predict the future. Over the years, technological advancements have played a crucial role in helping insurers achieve these goals. From the early days of data science to the rise of artificial intelligence (AI), the industry has continually evolved, adopting new tools and techniques to enhance operations and meet changing customer expectations. As we stand on the brink of another technological revolution, generative AI is emerging as a game-changer, poised to reshape the insurance landscape in profound ways.

The evolution of AI in insurance

The initial foray into AI by the insurance industry was marked by its application in predictive analytics, risk modelling and claims management. Insurers leveraged AI to make data-driven decisions, improve accuracy and streamline processes. These early successes demonstrated AI's potential to transform the industry, setting the stage for more advanced applications. However, the advent of generative AI represents a significant leap forward. Unlike its predecessors, generative AI does not just analyse data - it creates, simulates and innovates data, offering insurers a new dimension of possibilities.

This evolution of AI from a predictive tool to a creative force is not just a technological milestone; it is a strategic imperative. The KPMG 2023 Global Tech Report[1] underscores this shift, with 52% of insurance CEOs identifying AI, including generative AI, as the most critical technology to implement in order to achieve their organisation's strategic goals over the next three years. This growing recognition highlights a pivotal moment for the industry - one where embracing generative AI could define the future of insurance. Global executives have acknowledged this, with 58% anticipating returns on their investment within the next three to five years[2]. Figure 1 illustrates the percentage of insurance sector leaders that are expecting a return on investment from generative AI implementations in the coming months and years.

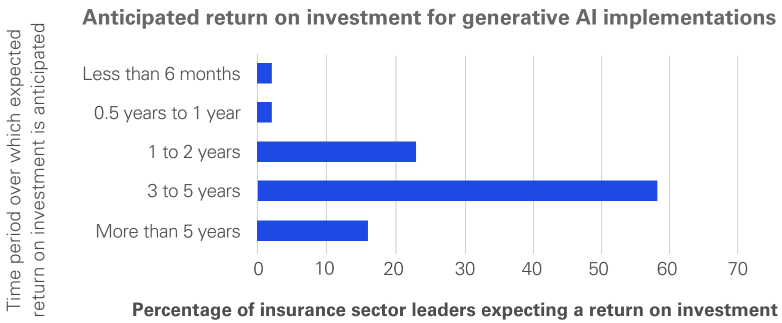

Figure 1: Percentage of insurance leaders anticipating a return on investment over the next five years

1 KPMG, "KPMG global tech report 2023," KPMG, United States, 2023 (https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2023/09/kpmg-global-tech-report.pdf).

2 KPMG, "KPMG 2023 Insurance CEO Outlook," KPMG International, United States, 2023 (https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2023/12/insurance-ceo-outlook-report-v5.pdf).

The rise of generative AI: beyond automation to innovation

As the insurance industry grapples with the challenges of modernisation, generative AI offers a pathway to not only streamline operations but also drive innovation. Traditional AI applications focused on automating routine tasks and optimising existing processes. While these efficiencies remain valuable, generative AI takes things further by enabling insurers to reimagine customer engagement, develop new product offerings and enhance decision-making processes. This shift from mere automation to innovation is where generative AI truly shines.

For example, AI-driven chatbots and virtual assistants are no longer just tools for handling customer queries; these are now sophisticated agents capable of understanding context, empathising with customers, and providing personalised solutions in real-time. These advancements illustrate how generative AI can elevate customer interactions from transactional to relational, creating deeper connections and enhancing brand loyalty.

Use cases of generative AI in the insurance industry

The impact of generative AI is already being observed across various functions within the insurance sector. Some of the most promising use cases include[3]:

1. **Fraud detection:** advanced AI algorithms are enhancing fraud detection by analysing patterns in claims data, allowing insurers to proactively identify and prevent fraudulent activities before significant losses are incurred.

2. **Customer personalisation:** generative AI is able to analyse vast amounts of customer data to tailor products and services, ensuring that offerings are precisely aligned with individual needs and preferences.

3. **Efficient claims processing:** AI-driven automation is revolutionising claims processing by reducing handling times and improving accuracy, ultimately leading to a superior customer experience.

4. **Legacy system modernisation:** by extracting valuable data from legacy systems and integrating it with modern AI solutions, insurers can extend the life of existing infrastructure while simultaneously reducing operational risks.

5. **Conversational agents:** generative AI enables conversational agents to provide personalised, human-like interactions, further automating processes and improving customer satisfaction.

These use cases highlight the broad applicability of generative AI in insurance, demonstrating its potential to revolutionise core functions while driving strategic growth.

Deep dive: the power of retrieval-augmented generation

Retrieval-augmented generation (RAG) is a powerful AI technique that improves how AI generates answers by combining its ability to create text with the ability to augment relevant information from external sources. RAG helps AI provide more accurate and contextually relevant responses by fetching the contextual, specific data applicable to a scenario or process, before generating its answer, as outlined in Figure 2.

3 KPMG, "The impact of artificial intelligence on the insurance industry," KPMG, Amsterdam, 2024 (https://kpmg.com/us/en/articles/2024/impact-artificial-intelligence-insurance-industry.html).

What is RAG?

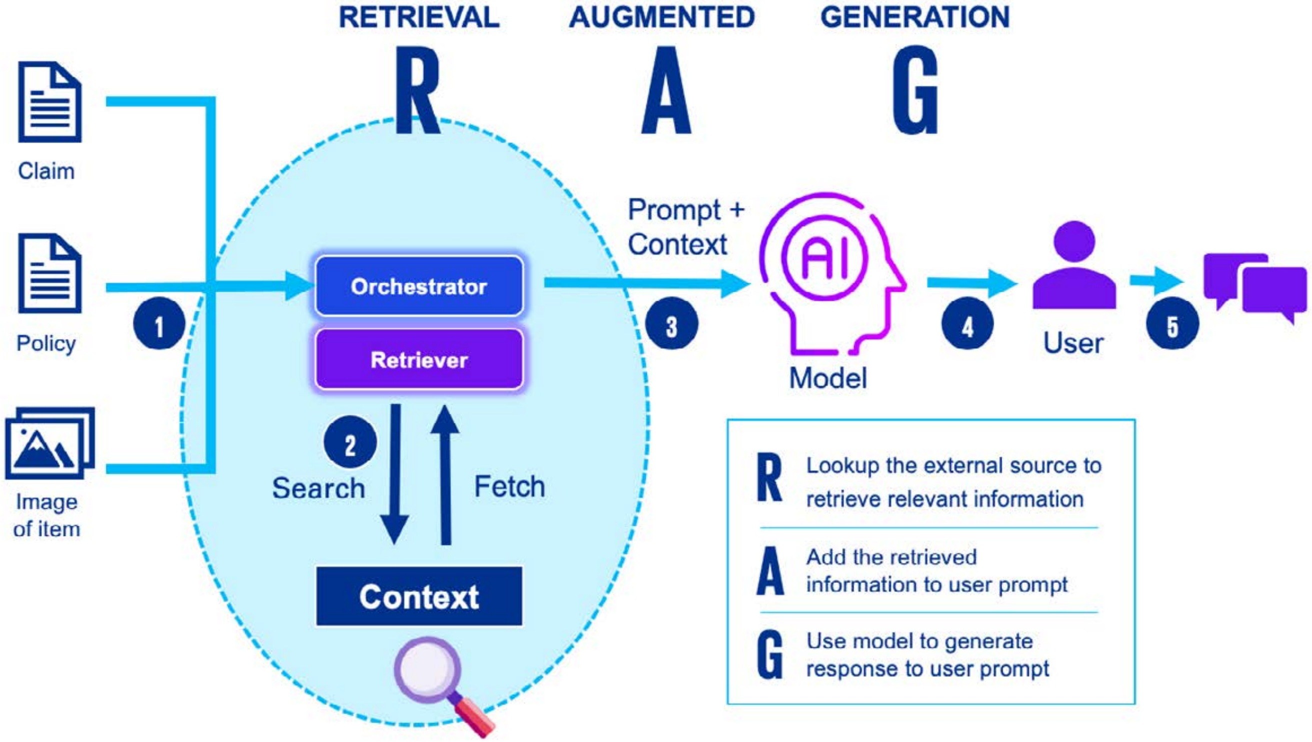

Figure 2: Illustration of the RAG process for a claim being analysed, following a query from the claimant

As we explore the numerous use cases for generative AI within the insurance industry, it becomes clear that RAG is a driver for ensuring contextual awareness for AI models embedded within insurance processes. While AI-driven automation and personalisation are already driving significant improvements, RAG takes these capabilities to the next level by enabling insurers to deliver smarter, more contextually relevant responses that directly address the complexities of modern claims processing.

Within the insurance industry, examples of business processes that have benefited from RAG enhanced generative AI include:

1. **Claims processing:** RAG-enhanced AI can retrieve relevant policy details, previous claims history and regulatory information to generate accurate and context-aware responses. This helps in faster, more consistent claims adjudication, reducing errors and improving customer satisfaction. This use-case is explored in further detail below.

2. **Customer service:** by accessing customer profiles, past interactions, personal preferences and product details, RAG can help AI generate highly relevant responses in real-time, improving the efficiency and personalisation of customer service.

3. **Product recommendations:** RAG can analyse customer data and existing product offerings to suggest tailored insurance products. This personalised approach assists in cross-selling and upselling, improving customer satisfaction and retention.

4. **Document automation:** RAG can automate the generation and customisation of insurance documents by pulling in the correct data, reducing manual efforts, and ensuring accuracy in policy documents, quotes and contracts.

5. **Regulatory compliance:** insurance companies can use RAG to assist with compliance by retrieving the latest regulatory guidelines and integrating with AI-driven decision-making processes, reducing the risk of non-compliance.

In a competitive market, differentiation requires more than just leveraging advanced technology - it demands innovative solutions that can seamlessly integrate into existing processes, while delivering tangible business value. Our recent observations indicate that the combination of generative AI and RAG provides for one of the most impactful solutions for insurers. This powerful pairing enhances AI's natural language processing capabilities with the ability to draw upon proprietary data, allowing insurers to unlock new efficiencies and elevate the customer experience.

To help insurers fully understand and capitalise on this potential, KPMG developed a proof of concept (PoC) that demonstrates how the use of generative AI and RAG together can revolutionise the insurance claims process. This PoC is designed to streamline operations, enhance decision-making and elevate customer satisfaction, providing a scalable solution that drives efficiency and innovation across the insurance value chain, and is able to improve process efficiency by 80% (results obtained though PoC testing).

With RAG, the AI system does not just process the claim - the retriever in the RAG system retrieves relevant information from the policyholder's records, external and regulatory guidelines, and generates a tailored response as depicted in Figure 3. This level of contextual understanding ensures that claims are handled more efficiently, with decisions that are both accurate and timely. By grounding AI outputs in contextual data (e.g. policy information, claim records, regulatory and compliance information), RAG enhances the reliability and effectiveness of AI-driven processes, setting a new standard for customer service in the insurance industry.

Retrieval

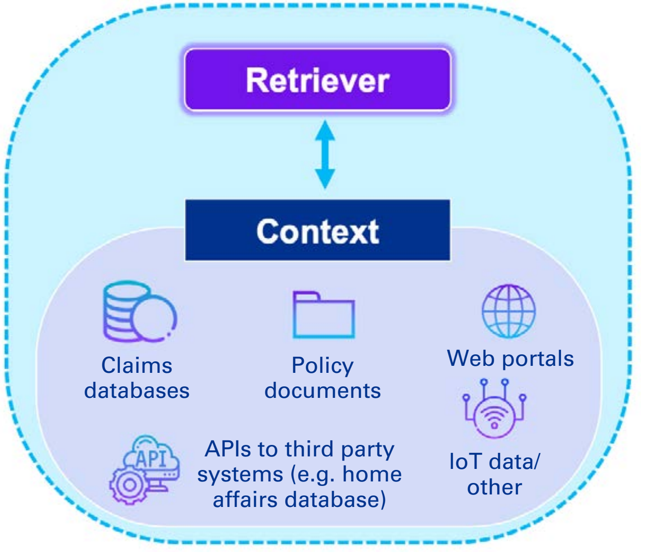

Figure 3: Illustration of the retriever in a RAG system, obtaining relevant context from connected data sources

Here is how KPMG's generative AI and RAG-enabled claims PoC can transform the insurance claims process as depicted in Figure 2:

1. **Claim submission:** the policyholder initiates a claim through a user-friendly digital portal, designed with intuitive workflows to ensure all necessary documentation, such as invoices and images, is accurately captured. This streamlined interface reflects the insurer's commitment to enhancing customer experience, while gathering comprehensive data from the outset.

2. **AI-driven analysis:** upon submission, the AI system, equipped with advanced vision and natural language processing capabilities, analyses the provided documents as part of the claimant's prompt. Additional information is grounded into the generative AI solution as part of a system message which provides specific instructions for the AI analysis.

3. **Contextual data retrieval:** the generative AI solution, combined with RAG, retrieves pertinent information from the policyholder's insurance policy and cross-references it with external databases, including regulatory updates and industry benchmarks. The dual-layer analysis ensures a holistic and contextually rich understanding of each claim. This comprehensive data retrieval creates a robust foundation for the AI to assess the claim, significantly reducing the likelihood of errors or omissions and providing more accurate, contextually informed decisions.

4. **AI-generated response:** after processing the retrieved data, the generative AI solution uses RAG to generate a tailored response to the claimant that outlines the claim status, potential payout and any further actions required. Grounded in real-time using contextually relevant information, this response aligns precisely with the policyholder's coverage and regulatory requirements.

5. **Human oversight and final decision:** to ensure the highest standards of accuracy and fairness are maintained and monitored, a human claims reviewer examines the AI-generated response. This step integrates human expertise with AI efficiency, blending the speed of automation with the nuanced judgment required for complex cases, thus maintaining compliance with company policies and regulatory standards.

6. **Claim resolution and communication:** once verified, the policyholder receives a clear, prompt decision on their claim. Integrating generative AI and RAG into the claims process ensures that responses are not only timely but also precise, leading to a smoother, more transparent experience for customers and a more efficient operation for insurers.

Navigating the future: opportunities and challenges

As insurers integrate generative AI into business operations, vast potential for innovation, efficiency and customer satisfaction is unlocked. Yet, this evolution also brings new challenges to the forefront. Ethical considerations, regulatory compliance, and the seamless integration of AI with existing systems are critical factors that must be carefully managed. Moreover, the importance of data quality cannot be overstated - clean and well-organised data is the foundation for AI to deliver accurate, transparent and fair decision-making. Ensuring this level of data integrity is essential for building trust and maintaining compliance with evolving regulations in the insurance sector. Moreover, the success of AI initiatives will hinge on how well an organisation can manage change. Insurers must foster a culture of innovation, empower their workforce with the necessary skills, and implement data governance frameworks that support AI-driven transformation. By doing so, the industry can fully harness the power of generative AI to drive growth, enhance customer experiences and remain competitive in an increasingly dynamic market.

To effectively navigate this transformative journey, insurers should consider adopting a strategic approach that balances ambition with practicality. Set out below is our view of best industry practices and actionable steps:

- **Sprint to save faster:** start by building internal and external confidence in AI. Identify a process ripe for AI-driven change and leverage technology alliances to quickly create a working example. Establish key performance indicators (KPIs) for savings, revenue and customer experience to measure success.

- **Upgrade to accelerate delivery:** if your transformation plan is more than three years old, it is time for a refresh. Review current plans to identify where AI can add the most value, while also reducing the risk of failure. Adjust your strategy to find additional cost efficiencies and accelerate delivery.

- **Re-imagine achieving value faster:** rethink your organisation for a future where AI reduces costs and delivers value. Be prepared to disrupt traditional structures in pursuit of savings and new revenue sources. With the guidance of experienced professionals and pre-built tools, create a step-by-step plan to accelerate time-to-value.

Conclusion

Generative AI is not just another technological advancement, it is a catalyst for transformation within the insurance industry. By integrating advanced AI techniques like RAG, insurers can unlock new efficiencies, deliver highly personalised services, and lead the way in shaping the future of insurance. The journey toward AI-driven innovation is just beginning, and those who embrace it today will be the leaders of tomorrow.

Modernising the claims function

At KPMG we believe that now is the right time for insurers to start reimagining how the claims function can live up to its full strategic potential. We have developed six claims-specific propositions that can be implemented seamlessly to address critical challenges faced by insurers within claims operations.

1 Business architecture and operating model

Redesign and implementation of operating model changes to meet strategic objectives

2 Ways of working

Capability improvement targeting performance management, culture and customer experience

3 Data and analytics

Diagnosing current **capability of data and analytics within the claims function** and design of measures to improve such capabilities

4 Digital claims

Implementation of **digital solutions** in claims management

5 Case reserving

Assist insurers to understand and identify **opportunities to improve claims reserving** practices

6 Indemnity

Application of advanced data analytics to identify and implement **indemnity and leakage reduction** opportunities

"The business case for transforming claims should be clear; claims transformation offers significant scope for productivity and efficiency improvements whilst also being able to deliver significant uplift in customer experience at this key moment of truth. Claims represent a broad cost base across which to identify leakage reduction opportunities which alone, should deliver the return on investment needed to underpin a business case for investment."

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Integrating climate risk into the own risk and solvency assessment

An emerging regulatory theme

Since the 2020 Task Force on Climate-related Financial Disclosures survey[1], the South African Prudential Authority (PA) has begun signalling its intent to integrate climate-related risk into its regulatory and supervisory mandate. In line with this, a guidance notice was released earlier in May 2024 on *'climate-related governance and risk practices for insurers'*. This guidance notice aims to illustrate approaches that should be considered in managing an insurer's climate-related governance and risks[2].

The steps taken by the PA are in-line with what we are seeing from regulators abroad. Climate stress testing exercises have already been used by several regulators, notably the Bank of England, the Australian Prudential Regulation Authority, the European Central Bank, Banque de France and the Hong Kong Monetary Authority[3]. These tests were carried out to estimate the size the financial exposures of participants and the financial services sector more broadly in respect of climate-related risks.

The aforementioned authorities have used scenarios as set out by the Network for Greening the Financial System[4] (NGFS) in its assessment of determining the impact of climate-related risks. Devised by climate scientists and economists, the seven scenarios set out by the NGFS provide a reference for how climate change (physical risk) and climate policy and technology trends (transition risk) could evolve in different futures. This framework is widely used by regulators for its consistency, comprehensiveness and alignment with international climate goals[5].

Network for Greening the Financial System[6]

Created in 2017 by a group of central banks and supervisors, the NGFS aims to support stakeholders in strengthening the global response required to meet the goals of the Paris Agreement (to limit the global temperature increase to 1.5 degrees by 2030). In addition, it seeks to enhance the role of the financial system in managing risks and mobilising capital for green and low carbon investments.

In 2021 the Bank of England ran three NGFS scenarios to explore the financial risks posed by climate change for the largest United Kingdom (UK) banks and insurers[7]. Results from the study indicated that the scenarios are likely to create a drag on the profitability of these financial institutions. Projections indicated that costs incurred will be lowest for the earlier and well managed activities performed to reduce greenhouse gas emissions, contributing to the slowdown of climate change. Results of the study also indicated that some potential unexpected losses from climate change that initially fall on banks and insurers may ultimately be passed onto its customers.

1 https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-public-awareness Financial-Sector-Awareness/9855

2 https://www.resbank.co.za/content/dam/sarb/what-we-do/prudential-regulation/climate-related-risk/2024/G1%20Insurers%20Climate%20Guidance_Risk.pdf

3 https://www.unepfi.org/themes/climate-change/a-comprehensive-review-of-global-supervisory-climate-stress-tests/

4 https://www.ngfs.net/en

5 https://www.unepfi.org/themes/climate-change/a-comprehensive-review-of-global-supervisory-climate-stress-tests/

6 https://www.ngfs.net/en/about-us/governance/origin-and-purpose

7 https://www.bankofengland.co.uk/stress-testing/2022/results-of-the-2021-climate-biennial-exploratory-scenario

Prudential policy: maintaining financial stability to support the fight against climate-change

Anecdotally, we are already seeing consumers starting to bear these costs in some markets. State Farm, California's largest insurer, has sought increases of as high as 52%[8] for some of its residential insurance rates. Under Proposition 103 enacted by voters in 1988, insurance companies are legally free to choose where they will write policies in California. As a result, insurance companies are writing more risks in areas of the state deemed less risky, especially with the continued threat of climate change.[9] In response to this, the Insurance Commissioner of California recently unveiled significant reforms, allowing insurers to incorporate the use of catastrophe models in California rate making, so long as insurers increase the extent of insurance cover provided in wildfire prone areas - a 'fundamental shortcoming of Proposition 103'[9]. The Californian regulator also released a statewide map showing areas where wildfire risk and FAIR Plan policies[11] are concentrated. With this map, insurance companies in California will have direct knowledge of where they need to write more policies in the state in order to utilise catastrophe modelling in determining rates. These rates are subject to the regulator's approval[10]. What we are witnessing in California is how the regulator is having to intervene to protect vulnerable communities, as well as safeguard the integrity of the state's insurance market.

This case-study demonstrates how climate risk stress testing and scenario modelling can help regulators to:This case-study demonstrates how climate risk stress testing and scenario modelling can help regulators to:

- develop targeted regulations and penalties;
- develop climate-related disclosure and reporting standards; and
- understand how climate change poses a systemic risk within the financial services sector and helps participants build climate stress testing and risk management capabilities.

From a business benefit perspective, climate risk stress testing can help insurers improve awareness of climate change and related risks and opportunities, enhance risk management practices, improve the communication and engagement with counterparties and improve risk management of day-to-day operations.

The own risk and solvency assessment (ORSA) process is a particularly useful tool for insurers to enhance their understanding of the risk profile and capital position of climate-related risks[12].

Incorporating climate risks into the ORSA

Climate change, with its far-reaching implications, has become a central concern for insurers. While the task of incorporating climate considerations into enterprise risk management (ERM) and ORSA processes may appear daunting, it is essential for the industry's resilience and long-term viability. Climate risk permeates various dimensions of risks traditionally faced by insurers, including market, credit, underwriting, mortality, morbidity, liquidity and operational risk.

8 https://edition.cnn.com/2024/07/02/business/state-farm-california-rate-hikes/index.html

9 https://www.insurance.ca.gov/0400-news/0100-press-releases/2024/release023-2024.cfm

10 https://www.insurance.ca.gov/0400-news/0100-press-releases/2024/release023-2024.cfm

11 FAIR plans, also known as Fair Access to Insurance Requirements plans, are state-mandated property insurance plans that provide coverage to individuals and businesses who are unable to obtain insurance in the regular market (https://content.naic.org/cipr-topics/fair-access-insurance-requirements-fair-plans#:~:text=Issue%3A%20FAIR%20plans%2C%20also%20known,insurance%20in%20the%20regular%20market.)

12 https://www.masthead.co.za/wp-content/uploads/2019/01/Prudential-Standard-GOI-3.1-ORSA.pdf

Included below is a summary of the South African prudential standards and guidance notes relevant to climate risk. Additionally, we outline next steps that insurers can take to integrate and embed climate risk considerations within their ORSA process.

Area of consideration	Prudential guidance[12]	Next steps and considerations
ERM integration	Governance and Operational Standard for Insurers (GOI) 3[12] sets out the expectations for insurers to *"Take into account any factor which may materially affect the sustainable long-term performance of assets, **including factors of an environmental, social and governance character**"* within their investment policy. Furthermore, GOI 3.1[12] sets out expectations for insurers to use the ORSA process to "…address a combination of quantitative and qualitative elements relevant to the medium- and **longer-term** business strategy of the insurer". This includes an expectation to "…identify, measure, monitor, manage, and report the short- and **long-term risks and potential risks of the insurer**;". While there is limited explicit guidance in relation to climate change in current legislation, the PA published further guidance to assist insurers in this assessment. The guidance[12]: • **3.1** sets out more clearly the regulator's stance that environmental, social and governance (ESG) risks should be integrated within the broader ERM process. This should support the identification of material risk and risk exposure from climate. • **3.1.2** sets the expectation for insurers to consider impacts across the balance sheet (i.e. assets and liabilities). • **3.2** sets clear expectations for the four control functions: risk management, compliance, actuarial and internal audit functions' responsibilities in relation to climate-related risk. • **3.8** recognises the importance of transition planning and development of transition plans to help mitigate the impact of climate-related risks.	The PA expects insurers to integrate climate risk into each step of the ERM process, frameworks and policies more explicitly. Some key steps to consider include: • Conduct thorough assessments to identify and evaluate climate-related risks and exposures. This includes understanding physical, transition and liability risks across the balance sheet. • Aggregate exposures across entities within a group to gain a comprehensive understanding of which exposures are or may become material across the entities within the group (be it life insurers, non-life insurers, banks, asset managers, health insurers or other non-financial services entities). • Consider which risk types defined within your organisation's risk taxonomy are likely to be materially impacted. • Material risks and exposures should be incorporated in the ORSA process, including emerging risk analysis and scenario testing. • Improvements and enhancements to processes and key opportunities should also be assessed on a continuous basis (e.g. technologies that could help mitigate climate risk impacts, new products, new policy clauses, sustainable investment opportunities, to name a few). • Develop transition plans once a thorough understanding of the materiality of climate-related risks is determined and documented.
Time horizon	The PA guidance sets the expectations for insurers to consider throughout the ORSA process, on a forward-looking basis over the business planning period and beyond, where relevant: **4.2.1** …"depending on the business mix, this time horizon will typically extend over a 3 to 5 year period for the ORSA. For some pure non-life insurers with short duration contracts, the time horizon may be shorter than 3 years. Some climate-related risks may however take longer to fully materialise, and insurers should ensure that the ORSA also includes appropriate scenarios with extended time horizon, where relevant."	The typical time horizon adopted by insurers for the ORSA process projections is three to five years, matching the business planning horizon. However, insurers are expected to also consider the impacts of long-term risks which span over a longer period than the typical business planning period. Insurers should assess the impact of climate scenarios over longer-term periods. This could be addressed through emerging risks included as part of the ORSA process, or outside of this process in a way that seeks to improve the understanding of longer-term impacts of climate change. Globally, financial services entities have been seen to rely on NGFS defined scenarios with time horizons of 10 years or more, looking as far out as the year 2050.

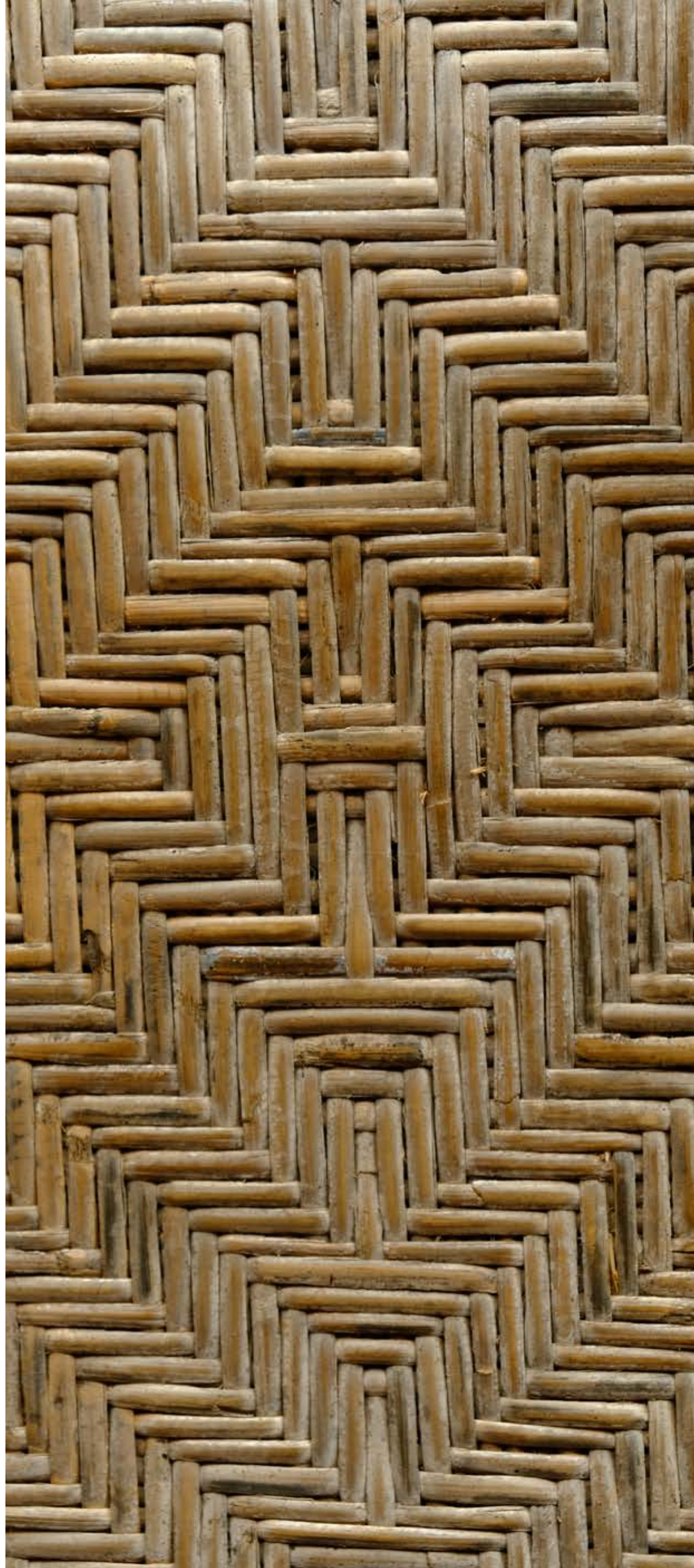
<table>
<tr><th>Area of consideration</th><th>Prudential guidance[12]</th><th>Next steps and considerations</th></tr>
<tr><td>Stress testing and scenario analysis</td><td>The PA guidance sets the expectations for insurers to develop and use climate scenarios, where appropriate, to enhance the understanding of climate risk and supplement risk and capital management processes:
4.3.2 Stress testing and scenario analysis should be designed such that the output can be used for decision-making at the appropriate management and strategic levels.
4.3.3 Insurers are expected to align the objectives of these analyses with the insurer’s risk appetite and risk management framework.
4.3.4 Scenarios should be designed such that it is sufficiently severe but plausible with a forward-looking perspective in mind.
4.3.4 When material, this analysis should include the identification and assessment of the direct and indirect impact of climate-related risks, including as part of the scenario analysis and (reverse) stress testing process.</td><td>Stress and scenario testing is a key component of the ORSA process and is employed to better understand the key risks faced using a forward-looking perspective.
We highlight a few examples of global practices below:
Climate risks and potential impacts can be better understood through scenario analysis, which can be qualitative or quantitative in nature. Insurers can begin with developing their thinking around which scenarios to test or wait for regulatory guidance to be provided. This was largely the case for UK financial institutions where the regulator conducted the Climate Biennial Exploratory Scenario (CBES) exercise in 2021[13]. This exercise applied to insurers and banks and the regulator specified the scenarios to be applied by these financial institutions.
Insurers should consider, as appropriate to the portfolio of risks, different scenario types: physical risk, transition risk or integrated scenarios (such as the NGFS scenarios).
For insurers that are ready to follow a quantitative approach, there are existing scenarios that can help in this respect. While these scenarios may not be tailored to the insurer’s portfolio, they are widely used globally and can help insurers build a solid foundation. The prevailing scenarios include the NGFS[14] and United Nations Environment Programme Finance Initiative[15] (UNEP FI) scenarios. The NGFS scenarios are long-term in nature and formed the foundation of the 2021 CBES exercise conducted in the UK. The UNEP FI scenarios cover medium-term analyses.
Insurance groups are encouraged to test the impact of a scenario on all entities within the group that are likely to be impacted by the chosen scenario.
To derive maximum value from scenario analysis, insurers and insurance groups will rely on their understanding of material climate-related exposures and emerging risks to develop bespoke scenarios that are severe but plausible and reflect the specific risk profile and business objectives at hand.
As with any scenario analysis, the value is often in exploring risk management actions that can be taken and understanding the likely beneficial impact these could have on asset portfolios, liability profiles, product development or other strategic initiatives.
Considering the data challenges associated with assessing climate risk, adopting a multi-disciplinary approach becomes crucial. Insurers can use other proven methods to refine forecasts, including expert elicitation and leveraging the science behind the 'wisdom of crowds'.
Regardless of the approach followed, there will be limitations and these need to be considered and communicated in the ORSA report. The journey towards climate-related resilience is iterative and it is important to foster a continuous improvement mindset.</td></tr>
</table>

13 https://www.bankofengland.co.uk/stress-testing/2022/results-of-the-2021-climate-biennial-exploratory-scenario

14 https://www.ngfs.net/ngfs-scenarios-portal/

15 https://www.unepfi.org/themes/climate-change/scenarios-for-assessing-climate-related-risks-new-short-term-scenario-narratives-by-unep-fi-and-niesr/

Area of consideration	Prudential guidance[12]	Next steps and considerations
ORSA reporting requirements	Based on the PA guidance, the following requirements should be clearly documented and explained in the ORSA documentation to allow for supervisory review: • **4.4.1.1** The process followed to identify, assess, monitor, and report on climate-related risks; • **4.4.1.2** The climate-related risks identified including their transmission channels and how these would result in financial risk to the insurer considering traditional risk categories; • **4.4.1.3** The impact these identified climate-related risks could have on the insurer's strategy and business plan; • **4.4.1.4** The impact these identified climate-related risks could have on the insurer's solvency position, liquidity, and profitability; • **4.4.1.5** Risk management and risk mitigation strategies to mitigate and manage these risks; • **4.4.1.6** Details on the scenario analysis and stress tests used to assess the impact from these risks; • **4.4.1.7** Contingency plans to deal with divergence and unexpected events; and • **4.4.1.8** Details on the challenges identified in the process of assessing climate-related risks and how these could be addressed in the future.	The ORSA process culminates annually into an ORSA report, that is board approved and submitted to the PA. Various sections of the ORSA report could be used to convey management's view on climate-related exposures, risks and opportunities. In particular: • the ERM section can be used to convey the insurer's current understanding of climate risks. The focus should be on risks assessed as being material to the insurer or the insurance group. • the emerging risk section is forward looking and focuses on the perspectives of risks that are still uncertain or not well understood. This section can be used to inform the board and regulators about longer-term risks associated with climate and key uncertainties. This can also form the basis of the thinking around which scenarios to test going forward. • the stress and scenario section will outline the narrative of the climate change scenarios selected. This will include information on the scenario narrative, key assumptions, assessed impact and management actions that can be taken to reduce the risk and limitations of the assessment.



Key challenges with scenario analysis

Assessing climate risk and integrating it into the ORSA process presents several challenges, particularly in scenario testing. We explore four key challenges below and provide potential ways to overcome these (the list of remediations is not intended to be exhaustive):

<table>
<tr><th>Challenge</th><th>Description</th><th>Remediation</th></tr>
<tr><td rowspan="2">Data limitations</td><td>Insufficient, incomplete or inaccurate historical data on climate-related events hampers accurate risk assessments.</td><td>As mentioned earlier, with the use of expert elicitation, experts can offer valuable insights even when historical data is insufficient or unavailable to understand the potential new normal caused by climate change. Bringing together the right experts to focus on the central issue of climate change and following a structured process of discussion and aggregation of collective views is an effective way to address an unfamiliar problem, especially one that has not been encountered before.</td></tr>
<tr><td>Insufficient data granularity hampers accurate risk assessment and scenario modelling.
Climate modelling tools must align with insurers' business exposure.</td><td>To address the issue of insufficient data granularity and ensure climate modelling tools align with insurers' business exposure, insurers can take several steps, including:
Research and compile a list of free and paid data sources that provide climate-related information. Once these have been assessed for relevance, explore membership or subscription options.
Lobby the regulator and various other relevant bodies that can support collection and maintenance of requisite industry-wide data required for climate-related modelling.
Invest in data collection to gather more granular data on climate-related risks. Insurers should define the data required to understand own business exposure to climate change and start collecting and maintaining the necessary levels of information. Data needs and data sources should be regularly monitored and updated as the science develops and the business understanding of climate-related risks and opportunities is enhanced.</td></tr>
<tr><td>Scenario uncertainty</td><td>Future climate scenarios are uncertain and diverse.</td><td>Actions insurers can take to enhance their understanding of the financial impact of climate change include:
Develop a range of scenarios over time that cover the physical, transitional and liability impacts on the insurance entity or group.
Stress test portfolios against various climate futures.
Seek a range of expertise in-house and externally, including but not limited to reinsurance providers, economists and other relevant experts.</td></tr>
<tr><td>Expertise</td><td>Insufficient in-house expertise to integrate climate risk into the risk assessment and ORSA processes.</td><td>Leverage external expertise or third-party service providers.
Seek training on climate-related topics to upskill board and senior management as needed.
Raise awareness about climate risks among employees, agents and policyholders.
Communicate transparently about climate risk exposure and mitigation efforts.
Engage with regulators to understand how expectations are developing and the range of market practices.
Identify areas where deeper expertise is required.</td></tr>
</table>

Challenge	Description	Remediation
Regulatory expectations	Locally, integrating climate change in the ORSA process and other risk assessment processes has not yet been legislated. In the near future this may change where regulators may enforce more robust climate risk management processes and the reporting thereof.	• Stay informed about regulatory updates, both locally and abroad. • Engage with regulatory bodies, such as the PA and Financial Sector Conduct Authority, to understand expectations. • Align internal practices with current guidance (Guidance Note 1 of 2024). Consider performing at least a self-assessment against this guidance or obtain an independent view to identify key gaps in current approaches to understand the risks and financial impact of climate change. • Participate in industry forums and working groups to share best practices and learn from peers.

ESG integration is not a once-off exercise

The ERM and ORSA processes are expected to continue to evolve from one reporting cycle to the next. We recommend that management indicate in each reporting cycle plans for improvement or reconsideration in the various areas impacted by climate change.

KPMG's recent banking survey demonstrates that banks predominantly rely on regulatory defined scenarios to inform scenario analysis and stress testing. However, leading banks are starting to develop their own scenarios. With insurance regulatory developments largely following that of the banking industry, it would be safe to assume that we can expect the insurance industry to follow a similar path.

Stakeholder collaboration – addressing the climate crisis together

There are several ways in which insurers can collaborate to effectively address climate risks within the industry and more broadly. While we include several options, the list is not exhaustive and other avenues may exist:

- **Participation in industry groups**
  By joining industry associations and working groups focused on climate risk, insurers can keep abreast of global developments and thought leadership. The Association for Savings and Investment in South Africa (ASISA) for example, has an ESG working group in which local insurers can participate.

- **Policy advocacy**
  Insurers can advocate for policies and regulation that support climate risk mitigation and adaptation. This includes engaging with policymakers to promote regulations that encourage sustainable practices. Regulations and policy can help to ensure insurers are on an equal footing and enforce a consistent set of rules. Without regulation some insurers could withdraw from certain markets, leaving segments of society vulnerable and exposed. Many large insurers advocate directly to policymakers and indirectly through trade associations for strategies that promote an orderly transition to a low-carbon economy[16].

16 Climate advocacy policy and participation... - Generali Group

- **Collaborative research**
  Insurers can actively engage in joint research projects or fund academic research to better understand climate risks and develop innovative solutions. Insurers could consider partnering with research institutions to further enhance their knowledge of climate risk impacts and mitigation strategies. By working with the Singapore Economic Development Board, for example, AON's Singapore-based Climate Hub was able to develop a Climate Risk Monitor. This tool helps AON's global clients navigate environmental risks and opportunities[17]. The tool uses standard emission scenarios over multiple time horizons to align with regulatory requirements.

- **Disaster response and recovery**
  Insurers can collaborate with governments and non-governmental organisations on disaster response and recovery efforts. This ensures a co-ordinated approach to managing the impacts of extreme weather events. At the 27th United Nations Meeting on climate (COP27) for example, the 'Loss and Damage Fund' was launched. These funds can be leveraged with other funding sources to implement meaningful adaptation and disaster risk reduction projects and tackle the rising protection gap against extreme events in the most vulnerable countries. (Re)insurers could engage through these platforms with governments and local actors to develop proposals to be submitted to the Loss and Damage Fund to launch or expand insurance solutions in these nations. The fund received pledges of just over USD 700 million to start assisting developing countries that are particularly vulnerable to the adverse effects of climate change[18].

- **Technology partnerships**
  Collaborating with technology companies to develop tools and solutions can enhance climate risk management. Allianz for example, has published a goal to invest EUR 20 billion (USD 21 billion) in climate and cleantech solutions by 2030[19].

- **Sharing best practices and lessons**
  Insurers would be encouraged to share best practices and lessons learned through industry conferences, webinars and publications. This not only helps insurers stay updated on the latest developments but provides an opportunity for benchmarking and improving own practices. For example, Old Mutual Insure recently presented on a micro approach to managing catastrophe risks at the Actuarial Society of South Africa's 2023 annual convention[20].

Conclusion

By collaborating in various ways insurers can enhance own resilience and that of the insurance industry while also providing additional benefit to society in their insurance product offering.

Climate change poses unprecedented challenges for the insurance industry. As extreme weather events become more frequent and regulatory expectations evolve, insurers must adapt swiftly to safeguard financial stability and meet policyholder needs. By using the ORSA as a starting point, insurers can begin to better quantify climate risk exposures and drive value for themselves and society more broadly.

17 Aon launches new climate risk tool | Captive International

18 COP28: Key messages and implications for insurers | The Geneva Association

19 Allianz to Invest Over $20 Billion in Climate & Cleantech Solutions by 2030 - ESG Today

20 It's getting harder to insure your home against climate risk. (oldmutual.co.za)

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Connecting *IFRS 17 Insurance Contracts* (IFRS 17) and tax legislation

The implementation of IFRS 17 and the various resulting changes to tax legislation resulted in numerous challenges experienced throughout the insurance industry over the last few months.

The recent amendments to section 28 of the Income Tax Act No. 58 of 1962 (the Act), as amended by the 2022, 2023 and 2024 Taxation Laws Amendment Acts, resulted in concerns within the non-life insurance industry. Section 28 of the Act addresses specific provisions relating to non-life insurance companies. Following the implementation of IFRS 17, the amended section 28 of the Act is applicable for years of assessment commencing on or after 1 January 2023. Industry concerns have arisen in respect of the tax treatment of certain amounts included in the once-off adjustments for the liability for remaining coverage (LRC), in terms of section 28(3C) of the Act, and the phasing-in amount, in terms of section 28(3D) of the Act.

For ease of reference, we will refer to the year ended prior to the effective date of IFRS 17 implementation, i.e. years of assessment commencing on or after 1 January 2022 but before 1 January 2023, as the transition year, and the year in which IFRS 17 is applied as the effective year.

Section 28(3C) addresses the tax treatment of the once-off adjustment non-life insurers should apply in the first year of assessment commencing on or after 1 January 2023.

The once-off adjustment is to be calculated as follows:

- add to taxable income amounts recoverable on claims incurred at the end of the transition year, which have not been received by the end of that year of assessment;
- deduct from taxable income the LRC at the end of the transition year had IFRS 17 been applied at the end of that year of assessment; and
- deduct from taxable income the net amounts of insurance and reinsurance premium debtors and reinsurance payables taken into account in determining the LRC as at the end of the transition year had IFRS 17 been applied at the end of that year of assessment.

Section 28(3D) introduces the concept of a 'phasing-in' amount which is to be applied over a period of three years commencing from 1 January 2023. This provision was introduced to provide relief to insurance taxpayers and spread either the additional tax liability or tax deduction a taxpayer may be liable for or entitled to post the implementation of IFRS 17.

The 'phasing-in amount' is calculated as the difference between:

a. the amount deductible for tax purposes under section 28(3) in respect of insurance contract liabilities for the last year of assessment commencing on or after 1 January 2022 but before 1 January 2023 (this will be the transition year *IFRS 4 Insurance Contacts* (IFRS 4) balances); and

b. the amount deductible for tax purposes under section 28(3) in respect of insurance contract liabilities for the transition year of assessment had IFRS 17 and the amended section 28(3) been applied at the end of the last year of assessment.

The amount calculated above is reduced for the difference between:

- the net amount of insurance and reinsurance premium debtors had IFRS 17 always been applied; and
- reinsurance premium payable at the end of the transition year of assessment had IFRS 17 always been applied;

other than amounts forming part of the liability for incurred claims (LIC).

The phasing-in amount is thereafter increased by the amount recoverable on claims incurred at the end of the transition year, which have not been received by the end of that year of assessment.

Our recent experience has highlighted several challenges and areas of uncertainty identified by non-life insurers, in the application of these amendments to the Act:

1. Salvages and recoveries

Prior to the amendments to section 28 of the Act, amounts relating to salvages and recoveries were required to be taxed only when the amounts were received by the insurer.

The amendments to section 28(3C) of the Act require non-life insurers to make a once-off adjustment to taxable income in the effective year by taxing salvages and recoveries that were not received at the end of the transition year.

While the application of section 28(3C) of the Act is a once-off adjustment to the taxable income of an insurer in the year of IFRS 17 implementation, insurers should carefully consider the impact when submitting the income tax return for the transition year.

Historically, some non-life insurers adopted a conservative approach and included in their tax the asset on salvages and recoveries each year as it was accrued, and not when these amounts were received. Consequently, for these insurers, since these amounts were already taxed during the transition year, applying the amendment to section 28(3C) will amount to an insurer being taxed twice on the same amount. This outcome is not considered to be aligned with the intention of the legislation.

To counter this unintended consequence, one option available to taxpayers would be to consider a re-submission of the transition year tax return.

Another option would be for these insurers to submit comments to National Treasury highlighting the anomaly and requesting relief, clarity or a potential update to the current legislative provisions. This may also be dealt with as a collective where National Treasury could be approached through industry representation bodies, such as the South African Insurance Association (SAIA).

2. Phasing-in amount

The ‘phasing-in amount’ calculated in terms of section 28(3D) is determined as either an initial additional tax or an initial tax deduction over a three-year period. It is important that this amount is appropriately determined in the year of IFRS 17 implementation, as well as assessed for continued appropriateness post implementation, as this calculation impacts financial and tax reporting for three financial periods.

To put it more simplistically, the phasing-in amount is the difference between the technical insurance liabilities calculated under IFRS 4 and the LIC calculated in terms of IFRS 17 at the end of the transition year. This amount is then adjusted for insurance and reinsurance premium debtors and reinsurance premiums payable **other than** amounts forming part of the LIC.

By deduction, this would imply that the difference between the IFRS 4 insurance technical liabilities and the IFRS 17 LIC amount should be adjusted by the insurance and reinsurance premium debtors and reinsurance premium payables **which are part of the LRC**.

However, section 28(3C) requires a once-off deduction of the LRC and includes an adjustment to reduce the LRC by the insurance and reinsurance premium debtors and reinsurance premium payables forming part of the LRC.

Reflecting on the requirements of section 28(3C) and 28(3D) of the Act, it appears that the same amounts require adjustment in respect of insurance and reinsurance premium debtors and reinsurance premium payables under both provisions, resulting in a potential double deduction that might materialise.

The intention of the legislation is to analyse the amounts specifically attributable to technical insurance liabilities, whilst simultaneously avoiding the duplication of adjustments. Based on our interpretation of the Act, it would be most appropriate to adjust for insurance and reinsurance premium debtors and reinsurance premium payables that are part of the LIC under section 28(3D).

3. Insurance related debtor and creditor balances

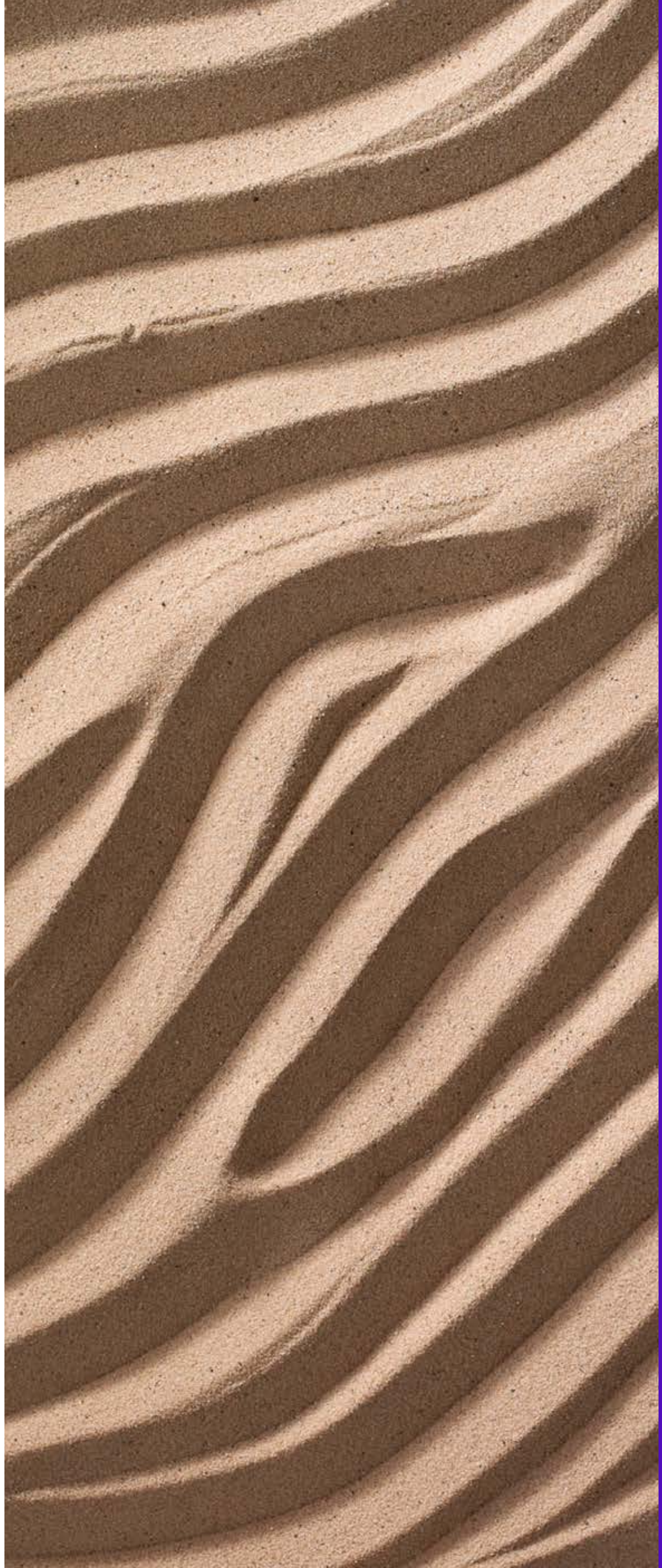
IFRS 17 requires insurance related debtor and creditor balances to be classified as part of the LIC or LRC. Under IFRS 4, these balances would have been presented separately from the insurance technical balances, typically as part of trade and other receivables or trade and other payables.

The application of the transitional provisions set out in sections 28(3C) and 28(3D) of the Act raises a concern in that assets or liabilities now classified as part technical insurance liabilities under IFRS 17 may potentially be taxed or deducted twice. To elaborate, the insurance related debtor or creditor balance may have already been taxed or deducted in the transition year, with the risk that the same amounts are taxed or deducted in the effective year as part of the application of the transition provisions.

While the Act does not contain any provisions which preclude an amount from being taxed twice, section 23B of the Act probits an amount from being deducted twice. We recommend that non-life insurers carefully examine the adjustments made as part of the application of transition provisions. Further, as it relates to there being no provisions in the Act which preclude an amount from being taxed twice, non-life insurers may consider making a submission to National Treasury highlighting the anomaly created by the transitional provisions.

Conclusion

The transition to IFRS 17 was an immensely complex exercise, equally so for accounting and tax practitioner. Instances of inadvertently ending up in a double taxation or double deduction scenario are plentiful. We encourage insurers to apply careful consideration in the determination of their taxable income, particularly as it relates to the tax return submission process currently underway for many non-life insurers. The legislative landscape is continuously evolving with not all the answers yet available in response to areas of challenge – insurers should continue to closely monitor this space and lobby for clarity through industry bodies or individual interactions with tax authorities.



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Strategic workforce analytics, insights and foresights for a sustainable competitive advantage in the insurance industry*

The advent of the COVID-19 pandemic threw employers and employees into an era of volatility, uncertainty, complexity and ambiguity. The pandemic upended the traditional approaches to the ways of work in a fundamentally disruptive manner, challenging convention and what was once deemed 'normal' within human resources (HR). The post-pandemic era has led to a fundamental shift from the past as new leading practices are being forged for a world of work that is continuously evolving due to changes in employee and employer expectations, and the impact of a rapidly developing digital transformation landscape.

We are now in the age of permanent disruption, groundbreaking trends and constant transformation. Organisations that are willing to make more radical changes and shape their workforce with the right skills, attitudes and flexibility will be better positioned for the future. Our research into the Future of HR[1] points to the emergence of new transformational playbooks for HR, categorised into six distinct areas:

- delivering on competitive strategies;
- engaging with digital;
- making the most of advanced analytics capabilities;
- building talent marketplaces;
- making purpose 'real' beyond rhetoric; and
- prioritising wellbeing.

Over the past decade, the emerging digital era and rapidly advancing technology landscape has fundamentally changed the face of insurance, this is true for both policyholders and insurers alike. The adoption of artificial intelligence (AI) and digital and cloud technologies have made the delivery of services to customers faster, simpler and more personalised, transforming businesses and operating models of incumbent insurers, as well as creating the opportunity for disruptive players entering the insurance industry with digitally enabled strategies. This has necessitated the HR function at insurance companies to embrace the change and identify opportunities for improvement, transformation and growth.

Rather than replacing jobs entirely, AI and emerging digital technologies will impact the way organisations perform tasks and apply skills. Consequently, the impact of AI and digitalisation at a task-level will drive companies to reorganise employee responsibilities, work allocations and job descriptions to achieve productivity gains and overall efficiency in the way that work is carried out. This is an unprecedented opportunity to make work more humanised and engaging as machines take on repetitive and routine tasks.

HR functions in the insurance industry have had to step up to the challenge of an increasingly dynamic and rapidly transforming business landscape, by adopting new HR practices and shifting towards experience-centric people enabling strategies at unprecedented speeds that mirror the shifting mindset towards personalisation and data-enabled ways of working. Rather than following the old playbooks, leading HR functions are fast innovating bold people strategies to be able to effectively reap sustainable competitive advantages.

1 The future of HR: From flux to flow (kpmg.com); https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2022/11/the-future-of-hr-report.pdf.

* This article has been adapted from an article published earlier in the year by KPMG International.

A recent KPMG survey conducted over 300 HR leaders and twelve global insurance organisations revealed that while each HR function needs to find its own way, there are common themes in addressing the challenges faced by the function today. The outcomes have been synthesised into key themes which have been tested with our global network of KPMG experts in HR. This research shines a spotlight on how pathfinding HR functions within the insurance industry are addressing these themes as they move towards 2025 and beyond, and what we can learn from this. Our research identified the top ten percent of HR functions as pathfinders. These are HR functions in the insurance industry that are leading their peers when it comes to navigating the contemporary challenges and opportunities. These HR pathfinders are leading the way in the following three distinct ways:

Workforce shaping: *understand how the shape, size, skills and organisation of the workforce needs to change to meet future demands*

Pathfinders are shaking up how critical skills are organised to help insurers find a better way to manage their talent needs. While matching 'people to jobs' has long been the dominant way of operating, the fast-changing skills required in insurance companies, particularly around technology and automation, as well as a competitive labour market filled with skills shortages, means that it is becoming increasingly necessary to rethink this approach.

The South African labour market for insurance talent remains a challenge and one that has seen even more constraints with the advent of advanced data and digital technology application across the business. The expectation by employers that skills will be available on a 'ready-made' basis will need to be reassessed.

Organisations are typically designed around the skills available in the market, and the reskilling and development of teams are central to realising strategic objectives. It has been recognised that a world of matching people to jobs has, in part, given way to one where it is now about matching skills to tasks. Many insurers have started experimenting with talent marketplaces; integrating employee data, business insights and business forecasting to do this. Talent marketplaces are currently quite novel, even in the most innovative HR functions; however, pathfinders are taking this seriously as a critical mechanism to gain competitive advantage.

Talent marketplaces are comprehensive datasets of the workforce and its unique capabilities, linked to an understanding of where and when those skills are needed across the organisation. Establishing an internal talent marketplace is a major undertaking. It means that organisations will need to review their datasets and continuously update their job architecture, skills taxonomies, as well as talent, performance and reward systems, using the right technological solutions. It means customising learning and development to align workforce capabilities with the organisation's current and future skills needs.

While building a talent marketplace will not happen overnight, there are a few 'get-rights' to realise the potential benefits such an approach can bring. Moving to a skills-first approach in how you resource your people, underpinned by data and analytics, and a culture nurtured towards sharing talent through a series of pilots (and learning from this) are all essential. It is what our pathfinders can demonstrate.

HR digital transformation capability: *an HR digital transformation agenda beyond the delivery of a core HR system of record*

The wave of technological innovations and advancements driving key changes in workforce management and the way in which work is executed has marked a pivotal moment in human history. The power of these developments in HR does not lie in the technology itself, but in how they are integrated into the human experience. It is about transitioning towards an empathetic and people-centric experience that puts workers at the centre of HR strategies in response to the ever-changing profile and demands of the workforce and to enable the company to benefit from a sustainable competitive human capital advantage. In a world that has become increasingly digital, with hybrid work arrangements and a globally connected workforce, the importance of "employee experience" and employee wellbeing has quickly risen to become a C-suite agenda item with an ongoing evaluation of emerging technology for enhancing the workforce experience and wellbeing.

Pathfinders have gone beyond on-premise technological solutions and cloud-based HR core technology systems. These insurers have shifted to more advanced emerging technologies as they work toward a workforce of the future, which will most likely feature AI-enabled employees, carrying out tasks in new and different ways.

The arrival of generative AI can spur innovation across roles and industries. No longer reserved to handle routine operations, generative AI has the potential to be a driving force for creative and novel solutions. However, to unlock the potential value of generative AI, insurance companies should understand the roles and tasks that they can augment, and the capacity, growth and productivity gains at stake from workforce reshaping. In order to truly capture value from the promise of generative AI, a new approach needs to be adopted, defined by augmentation of previously hard to automate knowledge workers[2] analytical and creative activities, rather than traditional repetitive processes and semi-structured data driven tasks. Insurers would be encouraged to expand their capabilities across knowledge worker roles, tasks and experiences. This requires a deconstruction of analytical and creative knowledge worker roles to ***digitally augment activities and tasks*** not easily automated with classical AI technologies, including text/content generation, synthetic voice generation, customer engagement, character image generation, advertisement and marketing content generation, voice of customer analysis and any type of creative assistance.

For example, recruitment teams can use AI algorithms to screen resumes, identify gaps in candidates' skills and experiences, and match candidates with specific job requirements. It can also scan social media for more information about candidates, in particular their behaviour outside of work. This significantly reduces selection time, allowing HR professionals to focus on the better suited individuals for the role.

Consequently, HR functions are confronted with strategic questions that relate to how the company can go about designing and deploying solutions around workers' needs, today and into the future. How can the insurer create productivity gains without jeopardising employee well-being? How can AI be used to design the organisation and build the workforce of the future?

Digital transformation may no longer have a final destination as new and emerging technologies fundamentally reshape our workforce of the future. HR digital transformation has risen to be a strategic capability for HR functions into the future as emerging technologies have created an ever-evolving current state.

Advanced workforce analytics capabilities: *maturing strategic decision making from hindsight insights to actionable foresights*

While HR functions have long used analytics to understand trends around hiring, attrition and employee engagement, this approach is seen by pathfinders as the minimum baseline expectation. As important as analytics are to HR functions, data quality, HR capability and functional integration are all potential barriers to making the best use of analytical capabilities. Data may be unclear or unavailable or fail to be translated in a meaningful way from raw source to valuable insight. Pathfinders are leveraging the traditionally strong data science and actuarial capabilities, which are typically concrete within insurance companies, to pioneer integrated data-driven, fact-based decision-making approaches to strategic HR management.

Pathfinders are increasingly providing for a stronger link between data, analytics, insights and foresights for strategic people decision-making. Insurers have integrated advanced, relational analytics into its processes, and have invested in technology and talent to ensure that insights are connected across the business, can be interpreted accurately and are acted on swiftly. To build this future, insurers need an HR and people strategy for data integrity, analytics and systems integration, supported by a strong commercial mind-set to provide decision support to the business.

2 High-level workers who apply theoretical and analytical knowledge in product and service development (Knowledge Workers - Definition, What They Do, Who (corporatefinanceinstitute.com).

HR must now transcend its role as the "people people" and drive performance and strategic value through delivering impactful workforce insights and foresights at the point of need. The data and digital transformation capabilities in workforce analytics have sped up the transition from a focus on the provision of hindsight management reports, to now offering more strategic and integrated foresights that enable the agility to pivot and cater for multiple strategic scenarios to capture market opportunities at pace and scale. Companies are leading the charge by investing in technology infrastructure, in addition to basic out-of-the-box functionalities from cloud vendors such as data visualisation tools and analytics automation tools, to enable the recruitment of the right people to drive this work forward and structuring the organisation strategically. HR pathfinders provide a strong link between data and decision-making. They have integrated advanced, relational analytics into their processes, and they have invested in technology and talent to ensure that insights are connected across the business, can be interpreted accurately, and acted on swiftly. They go out of their way to correlate findings from one area to another, so as to truly understand the business and their people.

Pathfinders focus on combining disparate data from HR, the broader organisation and external data sources. This enables the ability to build integrated dashboards and insights that result in a more comprehensive story. Building a strategic workforce insights and analytics capability enables the collection and analysis of data that can be used to identify patterns, trends, insights, and draw conclusions to inform people, operational and strategic business decisions to exploit opportunities and overcome challenges constraining business performance.

This approach opens up the playing field for innovation at pace and the potential to deliver strategy at scale for the insurance industry in how it leverages its talent, people, and organisational architecture to deliver strategy in an ever evolving and dynamically operating environment. HR leaders in pathfinder organisations are going beyond hindsight "rear view mirror" analysis by opting for much deeper insights, predictive and actionable foresights to answer the big questions leaders have about people in the business. They create strategic hypothesis, correlating quantitative and qualitative insights, then find unique answers that can have a valuable impact on decision-making and actions.

Conclusion

While pathfinders may be addressing similar issues, there is no one-size-fits-all approach. Each pathfinder tailors its HR function to their organisation's context. In this new reality, there is no guide; the solutions to increasingly AI-enabled, digital and people-related issues are, by their nature, experimental. Pathfinders have accepted an operational mantra that waiting to find the perfect solution before moving ahead will put their companies at a competitive disadvantage. Instead, HR pathfinders have embraced an agile mindset that they refer to as "making practice the new perfect". This agility gives them the freedom to test new ideas, even if risky. This approach also affords one the courage and support to fail forward, and the opportunity to try innovative solutions and learn from this. To achieve this on a sustainable basis and deliver exponential value to business, HR functions in the insurance industry are challenged to invest in developing distinctive capabilities in workforce shaping, digital transformation and workforce analytics for strategic insights and foresights.

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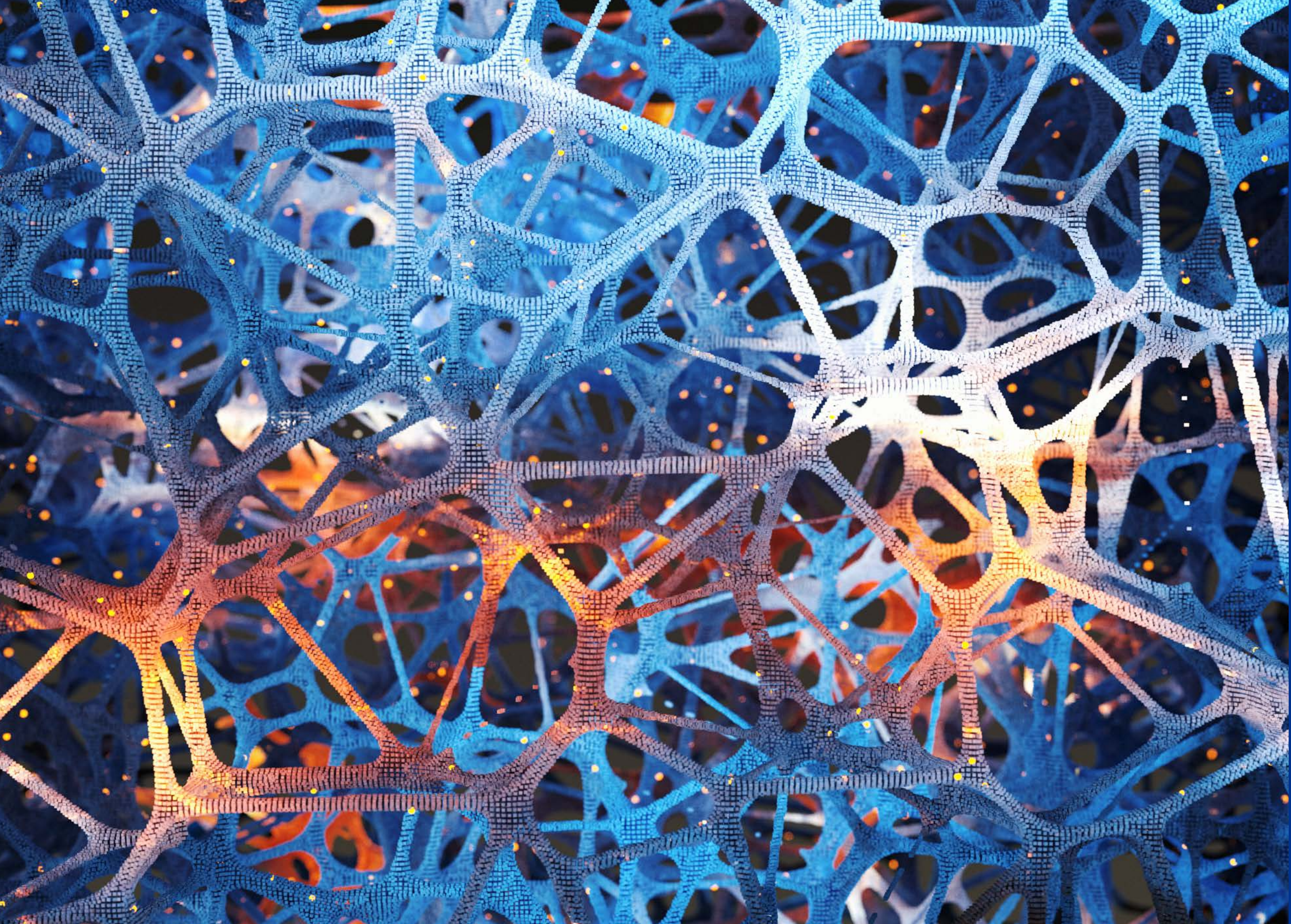

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Actuarial transformation – insights from a South African perspective

"Actuarial transformation" has become a popular catchphrase in actuarial valuation circles in recent years. What exactly does this phrase mean? In essence, it refers to the optimisation of actuarial valuation processes across one or more key dimensions, which may include data, systems, processes, models and people. Actuarial transformation is also referred to as "actuarial optimisation" or "actuarial modernisation".

Although this concept has enjoyed much airtime recently, the drive to enhance efficiency within the actuarial valuation process has long been essential. The increased importance of actuarial transformation has grown due to ever expanding financial and regulatory reporting requirements. As many of the readers of this article will be aware, the recent introduction of *IFRS 17 Insurance Contracts* (IFRS 17) has been a particular catalyst for the need to increase efficiency in the actuarial valuation space.

In addition, there is an ever-increasing challenge for actuaries to deal with growing data volumes and increasing product complexities.

Given that actuarial transformation spans multiple interlinked and complex dimensions, each insurer's challenges on enhancing actuarial efficiency will be unique.

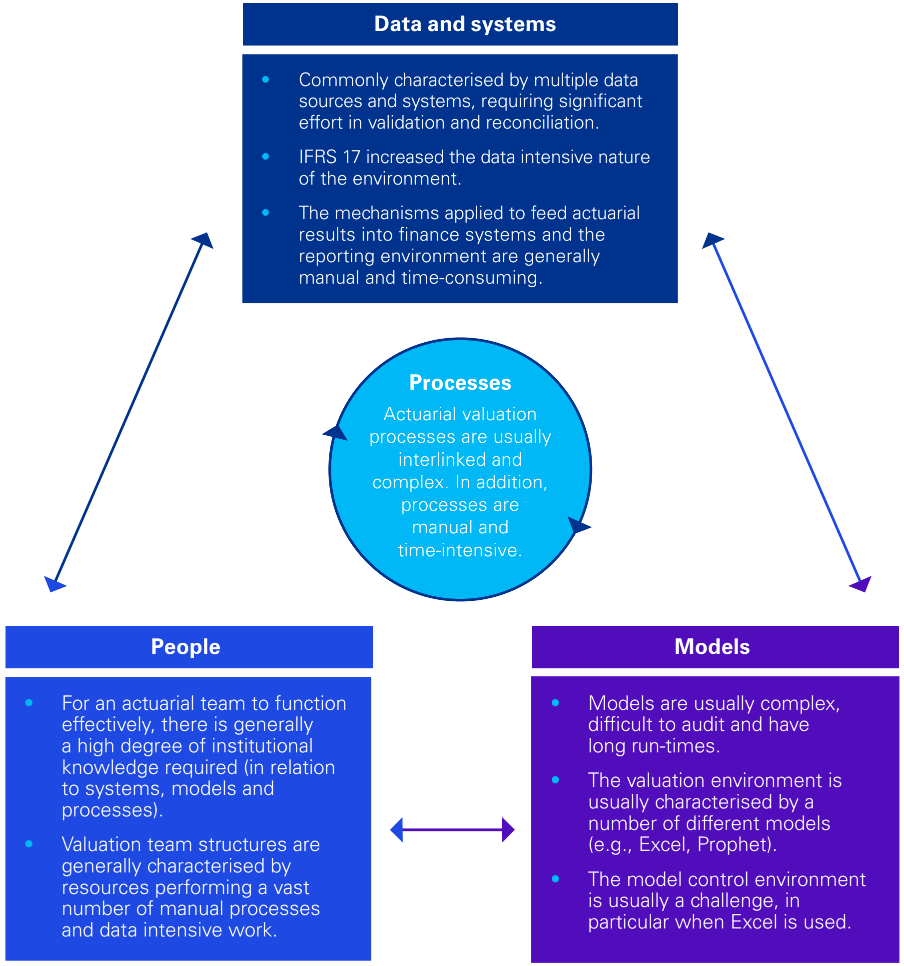
Considering the nuances of the dynamics within which South African insurers operate, we identified the need to develop a better understanding of the actuarial transformation landscape in this market. We surveyed a number of South African insurers to gain deeper insights around what actuarial transformation means to South African insurers, market practices being applied, and key implementation challenges for consideration. We trust that the insights gained will assist you in formulating your approach to actuarial transformation.

Themes emanating from the KPMG South African actuarial optimisation survey

Biggest challenge faced by the actuarial valuation function	Data extraction and preparation for valuation purposes.
Key benefit expected from actuarial transformation	Freeing up actuarial resource time to focus on adding business insights and value, as opposed to spending a disproportionate amount of time on data extraction and preparation.
Spend and progress on actuarial transformation	Most respondents indicated that their organisations are willing to invest, have started investing, and have made some progress – but that there is still a lot of work to do.
Biggest obstacle to implementing actuarial transformation	Insufficient time and resources, given that the valuation team and the business as a whole is focused on business-as-usual activities.

Let us start with context – an overview of the key components of the actuarial valuation environment

Before exploring the challenges and solutions related to actuarial transformation, it is useful to understand the key components of actuarial valuation processes. The graphic below provides an overview of the core elements of an actuarial valuation process.



Challenges within the actuarial valuation environment

An interesting initial take-out from our survey is that a number of survey respondents had not heard of actuarial transformation prior to taking the survey. In addition, more than 80% indicated that they have a basic understanding of what actuarial transformation entails. This suggests that a greater level of awareness is required, together with a better understanding of the potential solutions that are available to support effective actuarial transformation.

Our survey respondents indicated the top three challenges being:

1. **Data extraction and preparation:** extracting data from multiple systems, for example policy administration and finance systems, and reconciling the data and transforming it into a usable format for use in actuarial models.

2. **Updating and running models:** setting up models with required input assumptions and data, and then experiencing possible lengthy model run times.

3. **Model results review and transfer of results to the finance team:** review of model outputs to assess results against expectations, and transferring the model results (e.g. liability values) to the finance systems.

These insights are in contrast with lower risk challenges identified by survey participants, being (in descending order of priority):

1. **People and structures within the actuarial valuation function:** the number of actuarial resources, the level of skill and experience and the structure of the team.

2. **The use of data and analytics beyond the standard model results:** obtaining insights beyond simply producing the actuarial numbers, for example, analysing experience across multiple factors and developing predictive insights.

3. **Reporting clarity for business stakeholders:** the capability to analyse and explain the drivers of changes in liability, capital and other value metrics produced by the actuarial team.

4. **Experience investigations and setting assumptions:** analysing past experience with the aim of setting assumptions for actuarial valuations.

The possible conclusions that may be drawn from these responses are as follows:

- In light of the key challenge identified around data extraction and preparation, it is apparent that actuarial resources are not being used optimally. Valuations actuaries will be all too familiar with the challenges of spending countless hours on cleaning and reconciling data. In our experience, the root cause of this challenge is disjointed systems and databases, which have been built-up over a number of years, based on sub-optimal technology architectures.

- Once valuation results are determined by the actuarial valuation team, the next challenge is to assess whether these results are aligned to expectations, and the subsequent transfer of these results to the finance and reporting systems. Similar to the previous point, the root cause of this challenge is the limited prevalence of automated systems and processes within actuarial valuation processes and more widely across the business.

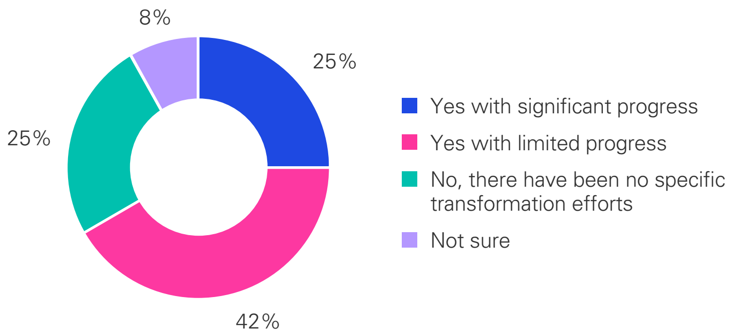
- Organisations are currently “battling the basics”, which understandably detracts from thinking about the use of more sophisticated analytics. This provides context as to why the use of data and analytics is currently lower on the list of priorities for actuarial valuation teams.

Given this context, it is useful to understand the extent to which IFRS 17 has driven the need for actuarial transformation. IFRS 17 has had a significant impact on data volumes, model complexity and model run times. Survey respondents indicated that the implementation of IFRS 17 increased the amount of effort and complexity required by the actuarial valuation function by around 50% to 75%. However, IFRS 17 results are required to be produced within the same timeframes as those applied under *FRS 4 Insurance Contracts* (IFRS 4), which indicates that actuarial teams have been under significant resource pressure since the introduction of IFRS 17.

Progress made by South African insurers with actuarial transformation

Our survey indicated that the majority of South African insurers are actively investing in information technology systems and data environments, in support of actuarial transformation. Further insight on this topic is provided in the diagram below, which indicates that, despite the large investment, the progress made has been slow.

In the past two years, has your organisation actively pursued actuarial transformation initiatives?



The likely conclusion from these responses is that insurers still have a long road ahead in their actuarial transformation journeys. This is not an unexpected response, given that actuarial transformation is multifaceted. It is also an indicator that actuarial optimisation requires time and must be tackled in a phased manner.

The benefits of actuarial transformation

Survey participants ranked the anticipated benefits to be gained from actuarial transformation as follows:

1. Freeing up actuarial resource time to focus on adding business insights and value
2. Streamlined processes
3. Improved business decision-making
4. Enhanced risk assessment accuracy
5. Facilitating better integration between the valuation and other business functions
6. Reduced operational and staff costs

These responses are indicative of a theme that has emerged from the survey: actuarial resources are currently being utilised in a sub-optimal manner and are consistently under pressure to deliver results under tight time constraints.

The path forward

The survey results provided indicators of the key aspects that insurers need to consider in their actuarial transformation journey, regardless of what the current status quo is:

- The critical ingredient to actuarial transformation is a sound technology environment. Without this core foundation, actuarial resources may end up spending undue effort and time on manual-intensive tasks such as data extraction, preparation and reconciliation.
- Process automation, which is strongly linked to an effective technology infrastructure, is an essential component to actuarial transformation. In particular, focus should be placed on automation of data feeds (both to and from actuarial models), as well as data validations and reconciliations.
- Each insurer's challenges within the actuarial transformation space will be unique. Insurers need to invest time in understanding their specific challenges, and then move to tackling actuarial optimisation in a phased manner.

While South African insurers are well aware of these challenges, there is still a long road ahead to optimal transformation.

Actuarial transformation capabilities

We believe actuarial transformation is inseparable from technology solutions and the broader finance function. However, we have observed that many actuarial operations lack optimisation across key areas, which may include data, processes, systems and people. This challenge has been amplified by the implementation of *IFRS 17 Insurance Contracts*.

We offer a multi-disciplinary approach that leverages our expertise across various domains to deliver comprehensive solutions:

- **Deep understanding:** we delve into your unique challenges, analysing data, processes, systems, models and people to develop a tailored roadmap for success.
- **Modular solutions:** we prioritise key areas for optimisation and maximum benefit, while minimising disruption.
- **Multi-disciplinary and multi-national expertise:** our team of local actuarial specialists, backed by a global network of over 1 000 professionals, brings unparalleled expertise. We also combine our expertise with digital capabilities, which supports our delivery of process automation, data management and technology solutions.
- **Technology alliances:** we leverage partnerships with industry leaders and global technology providers to provide cutting-edge solutions and seamless implementation.

We deliver practical and cost-conscious solutions, supporting you in your journey to optimise and free up actuarial resources to focus on value-adding activities.

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Hindsight is 20/23: How insurers navigate their IFRS 17 2024 reporting with improved vision

In March 2024, many insurers with December year-ends published their first set of the highly anticipated *IFRS 17 Insurance Contracts* (IFRS 17) compliant financial statements. This marked the culmination of a multi-year investment worthy of celebration. Yet, despite what appeared to be celebratory photo finishes, in many cases, the 2023 reporting deadline was still crossed with 'blurred IFRS 17 financial reporting vision', as insurers grappled with operational and reporting complexities in producing financial statements.

Post the most recent reporting period, insurers have analysed their 2023 financial statements against those of other insurers, both locally and globally. With this analysis, insurers' 'IFRS 17 financial reporting vision' improved. As a result, many insurers are identifying refinements and changes they may want or need to make post implementation in order to pursue optimal financial reporting in the next reporting period.

Insurers that are considering making changes or corrections to their 2023 financial results in the 2024 financial statements will be required to assess the accounting treatment and disclosure thereof under *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8).

Unfortunately, peering back through the corrective lens to the 2023 financial reporting period brings additional complexities that insurers will need to navigate under IAS 8; the application of which may not be easy.

Improved 'IFRS 17 financial reporting vision' may lead to changes and corrections after transition

As IFRS 17 is more deeply embedded and understood moving into the second year of implementation, insurers may identify IFRS 17-related operational and reporting shortfalls with an impact on the 2023 financial statements.

Insurers may want or have to address these shortfalls in the 2024 reporting period to ensure compliance, enhance reporting quality and improve benchmarking against peers. Refinements to valuation models and methodologies, re-calibration of systems and process enhancements to better accommodate sophisticated models are but some of the expected improvements.

Accounting for IFRS 17-related changes and corrections under IAS 8

Changes and corrections made in subsequent years to the recognition and measurement of groups of insurance contracts or the related presentation and disclosures previously reported in the 2023 financial statements are required to be accounted for and disclosed in accordance with the requirements of IAS 8. In addition, IFRS 17 contains specific disclosure requirements when changes are made to accounting policies and accounting estimates that need careful consideration.

Under IAS 8, companies need to determine whether a change amounts to a change in its initial accounting policy or a change in accounting estimate and account for the change accordingly. In both cases, companies should assess if such a change may indicate the correction of a prior period error. To be able to effectively perform this assessment, it is important to go back to the basics; the definitions and requirements of IAS 8.

Key distinctions between changes in accounting policies, changes in accounting estimates and the correction of prior period errors

The summary noted below provides an overview of the IAS 8 requirements that companies need to consider when making changes and corrections in the next financial reporting period:

Accounting policy

Specific **principles, bases, conventions, rules and practices** applied by an entity in preparing and presenting financial statements.

Change in accounting policy

If the change is required by IFRS
or
results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions.

Retrospective application*

Restate the opening balance of equity for the earliest prior period presented as if the new accounting policy had always been applied.

Accounting estimate

Monetary amounts in financial statements that are subject to **measurement uncertainty.**

Change in accounting estimate

If changes occur in the circumstances on which the accounting estimate was based
or
as a result of new information, new developments or more experience.

Prospective application*

Include adjustment in profit or loss in current and future periods, where applicable – "catch-up adjustment".

Where applicable, adjust the carrying amount of the related asset, liability or equity item in the period of the change.

Prior period error

Omissions from, and **misstatements** in, the entity's financial statements for one or more **prior periods** arising from a **failure to use, or misuse of, reliable information.**

Retrospective restatement*

If material, restate comparative amounts for the prior period(s); and

if the error occurred before the earliest prior period presented, restate the opening balances of assets, liabilities and equity for the earliest prior period presented.

***Unless retrospective application or retrospective restatement is impracticable.**

If a company believes it is impracticable to retrospectively apply a change in accounting policy or restate a prior period error, IAS 8 provides that the new accounting policy or the impact of the prior period error may be applied as at the beginning of the earliest period for which retrospective application or restatement is practicable.

Key considerations when assessing IFRS 17 changes under IAS 8

The considerations listed below are aimed at assisting insurers in identifying the correct starting point for a change or correction, i.e. accounting policy, accounting estimate or error, and to assess whether the requirements to change an accounting policy or accounting estimate are met. This will determine the accounting treatment and disclosure requirements for a change or correction.

When assessing changes or corrections under IAS 8:

Identify **what** the change or correction is.
Understand whether the change or correction is made to:

- specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements; or
- an estimation technique or inputs to an estimation technique that determines monetary amounts in financial statements that are subject to measurement uncertainty.

Understand **why** the change or correction is being considered.
Identify whether the change or correction:

- will result in reporting more relevant and reliable information; or
- results from changes in circumstances or new information, new developments or more experience derived after year-end.

Critically think about the information reported in the first year of IFRS 17 implementation. Did management **fail to use information** that was available at that point in time? Could the information reasonably have been expected to have been obtained and taken into account in the prior year?

Review the recognition, measurement and disclosure requirements of IFRS 17 when changes or corrections are made and determine if and how, this will impact the IAS 8 assessment.

Assessing changes to IFRS 17 financial reporting requires careful consideration and determining how to account for these adjustments under IAS 8 is complex.

Common changes to IFRS 17 financial reporting

Included below are common areas of change to the measurement and presentation of insurance contracts that insurers are currently considering:

General Measurement Model (GMM) applied to groups of contracts	**1**	Change in the method of allocating directly attributable overhead expenses
	2	Change in the reference portfolio when determining the discount rate under the top-down approach
	3	Change in the election to discount coverage units or not
Premium Allocation Approach (PAA) applied to groups of contracts	**4**	Change in the election to apply the PAA to qualifying contracts
Variable Fee Approach (VFA) applied to groups of contracts	**5**	Change in the quantitative threshold to determine VFA eligibility
Other considerations	**6**	Changes in presentation of the financial statements

Analysing the accounting treatment for these changes under IAS 8 has sparked insightful deliberations and some changes still require further assessment. Considerations to date are summarised below:

1. Change in the method of allocating directly attributable overhead expenses

Insurers apply judgement to determine which cash flows, that are within the boundary of insurance contracts, relate directly to the fulfilment of such contracts; particularly the extent to which fixed and variable overheads are directly attributable to fulfilling insurance contracts. IFRS 17 does not specify a methodology for attributing directly attributable overhead expenses to groups of insurance contracts. The standard only requires that the methods used be systematic and rational.

An insurer may decide to further refine the method it applies to allocate directly attributable fixed and variable overhead expenses subsequent to its first year of IFRS 17 reporting, for example, due to more experience. It could be argued that this change should be treated as a **change in accounting estimate** as the refinement will change the inputs to the estimation technique applied to allocate such cash flows. Its effect will impact amounts in the financial statements that are subject to measurement uncertainty. Such a refinement is not expected to change the insurer's accounting policy; which in principle is to allocate fixed and variable overheads that are directly attributable to the fulfilment of insurance contracts.

A change in measurement technique to reflect changes in circumstances or new information and developments, unless it is a prior period error, will generally be treated as a change in estimate under IAS 8.

This will require prospective application in the financial statements issued in the next reporting period, unless impracticable. Disclosure under IAS 8 will be required to inform users of the nature of the change to the method applied to allocate directly attributable overhead expenses and the amount of the change that has an effect in the current period or is expected to have an effect in future periods, to the extent practicable. Companies should also provide additional disclosure for users to assess the effects of changes in the judgements applied under IFRS 17.

2. Change in the reference portfolio when determining the discount rate under the top-down approach

In developing the estimated discount rate under the top-down approach, the insurer may change the reference portfolio from the target reference portfolio, that reflects assets that the insurer intends to acquire over time, to the actual reference portfolio once a desired portfolio has been acquired. This change should be accounted for under IAS 8.

Changing the composition of the reference portfolio does not change the measurement basis of the groups of insurance contracts (groups are still measured based on the present value of future cash flows). It could therefore be argued that this is not a change in accounting policy.

Instead, this change relates to an input to the estimation technique that is used to determine the value of a group of insurance contracts and should be treated as a **change in accounting estimate**.

We believe that subsequent changes in the actual assets that represent the reference portfolio will also constitute a change in accounting estimate.

IAS 8 requires that such a change be applied prospectively unless it is deemed impracticable. Disclosure under both IAS 8 and IFRS 17 will be required regarding the change in estimate in the financial statements issued in the next reporting period, similar to what has been noted above in respect of a change in the method of allocating directly attributable overhead expenses.

3. Change in the election to discount coverage units or not

IFRS 17 does not specify whether an insurer should consider the time value of money for coverage units.

A potential view is that the election to discount coverage units qualifies as a specific practice that insurers apply in preparing financial statements, constituting an accounting policy choice. Subsequent changes to the election to discount coverage units or not is viewed as a **change in accounting policy** if the change is not due to a prior period error.

This will require retrospective application in the financial statements issued in the next reporting period, unless impracticable. Disclosure regarding the nature of the change, the amount of the adjustment for each affected period and the reasons for applying the new accounting policy provides reliable and more relevant information as required by IAS 8.

4. Change in the election to apply the PAA to qualifying contracts

Insurers may choose to apply the PAA to groups of insurance contracts provided that certain criteria are met at inception. One criterion is that the insurer reasonably expects that the PAA would produce a measurement of the liability for remaining coverage (LRC) for a group of insurance contracts that would not differ materially from the measurement that would be achieved by applying the requirements of the GMM.

The question is whether an insurer may change this election subsequently and instead account for such groups of insurance contracts applying the requirements of the GMM.

Although the election to measure qualifying insurance contracts under the PAA is an accounting policy choice, the standard does not require or permit reassessment of the eligibility criteria or the election to apply the PAA measurement model.

Unless there is a modification of the contract, an insurer cannot revoke its election to apply the PAA and change its accounting policy retrospectively. In this case, the requirements of IFRS 17 prohibits such a change to be accounted for per the requirements of IAS 8 and the change in accounting policy can only be applied to new qualifying groups of insurance contracts that are issued.

IFRS 17 contains elections and limitations that may directly impact how insurers account for IFRS 17 changes or corrections under IAS 8. Consider if and how the requirements of IFRS 17 will impact the assessment made under IAS 8.

5. Change in the quantitative threshold to determine VFA eligibility

When a contract meets the definition of a direct participating contract, the VFA is applied to the group of contracts of which it forms part. Although such contracts are substantially investment-related service contracts, they are defined as insurance contracts for which an insurer expects to pay the policyholder an amount equal to a substantial share of the fair value returns from the underlying items; and expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in the fair value of the underlying items. Determining a quantitative threshold for a 'substantial' share or 'substantial' proportion to assess whether this criterion is met, requires judgement.

If, for example, a subsidiary decides to change its quantitative threshold of 'substantial' to align with its holding company's threshold, the impact of this change is required to be accounted for under IAS 8.

Since the threshold does not constitute a monetary amount in the financial statements that is subject to measurement uncertainty, nor is it an input to a measurement technique, it could be argued that this change is not a change in accounting estimate.

A potential view is that the threshold qualifies as a specific convention, rule or practice applied in preparing financial statements. Under this view, altering such a threshold impacts the criteria used to determine the application of different measurement models. This affects how transactions are recorded and reported and could possibly constitute a change in accounting policy, which will require retrospective application.

However, IFRS 17 requires an insurer to assess whether these conditions are met using its expectations at inception of the contract and explicitly states that it shall not reassess the conditions afterwards unless the contract is modified.

It could be argued that this requirement deals with ***subsequent changes*** as a result of changing circumstances or new expectations after initial recognition and that it does not address or override the requirements of IAS 8 in respect of changes in accounting policies. Conversely, it could be argued that this explicit requirement prohibits an insurer from subsequently changing a threshold applied to a group of contracts that has been recognised and that retrospective application would contradict the requirements of IFRS 17 and is not allowed.

Another possible view includes the consideration that an insurer's accounting policy is to apply IFRS 17 with regards to the measurement requirements of direct participating contracts. Assessing whether the threshold criterion is met is a judgement made in applying that accounting policy. Changing ***how*** the judgement is made is not a change in an accounting policy.

This assessment is complex and requires further consideration and scrutiny based on the specific facts and circumstances of the insurer.

6. Changes in presentation of the financial statements

Changes in the presentation of items reflected in the financial statements that affect the comparability of financial statements subsequent to first year implementation, are generally treated as **changes in accounting policies** even when IFRS 17 does not explicitly provide an accounting policy choice.

Examples of changes in presentation that should be treated as changes in accounting policies include where insurers elect to change the previous basis of presentation to now instead:

- disaggregate insurance finance income or expense for the period between profit or loss and other comprehensive income; or
- disaggregate the change in the risk adjustment for non-financial risk between (i) a change related to non-financial risk; and (ii) the effect of the time value of money and changes in the time value of money.

Given the complexity of this analysis under IAS 8, insurers should ensure that sufficient disclosure is provided to the users of the financial statements when making such changes or corrections.

Disclosure requirements for IFRS 17-related changes or corrections

Both IAS 8 and IFRS 17 contain specific disclosure requirements that insurers are required to include in their financial statements when changes are made in subsequent reporting periods.

IAS 8 disclosure requirements

IAS 8 provides specific disclosure requirements to enable users to understand the nature, amount and reason for the change or correction.

A summary of these disclosure requirements include:

Change in accounting policy policy	Correction of a prior period error	Change in accounting estimate
The **nature** of the change in accounting policy or prior period error.		**Nature and amount** of the change in accounting estimate that has an effect in the **current period** or is expected to have an effect in **future periods**, to the extent practicable.
For the **current period*** and **each prior period** presented, the **amount of the adjustment or correction**: (a) for each financial statement line item affected; and (b) for basic and diluted earnings per share, if applicable.		
Amount of the adjustment relating to **periods before those presented**, to the extent practicable.		
The **reasons** why applying the new accounting policy provides **reliable and more relevant information.**		
If retrospective application or restatement is **impracticable**, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.		If the amount of the effect in future periods is not disclosed because estimating it is impracticable, **an entity shall disclose that fact**.

* Only applicable to changes in accounting policies

IFRS 17 disclosure requirements

IFRS 17 also contains specific disclosure requirements that may be relevant when changes are made to accounting policies and accounting estimates.

Referring to the example where companies may change the reference portfolio from a target reference portfolio to the actual reference portfolio, IFRS 17 requires useful disclosure to be provided that will allow users to assess the effects of changes in the judgements applied to determine the discount rates, including disclosure of the effect of changes in the composition of the assets in the reference portfolio as a result of the change. Such disclosures need to be sufficient to enable the user to understand the impact of the change in the reference portfolio.

Relevant disclosures may include the effect of the change on the measurement of insurance contracts, the difference in basis points in the discount rate that results from the change in the reference portfolios and the impact on the statement of profit or loss.

Insurers need to identify the circumstances in which IFRS 17 requires additional disclosure in respect of changes or corrections and such disclosures should be provided in addition to IAS 8 disclosure requirements.

Conclusion

Navigating improved 'IFRS 17 financial reporting vision' post the first year of IFRS 17 implementation is more difficult than we anticipated. It brings about an additional layer of complexity to the already intricate insurance landscape. Insurers are encouraged to carefully assess changes and corrections based on the accounting and disclosure requirements of IAS 8 and IFRS 17 to ensure such changes or corrections are correctly accounted for and that sufficient disclosure is provided in the financial statements for the next reporting period.

However, as insurers continue applying IFRS 17 as part of business-as-usual, the clarity and insights gained after transition, much like new corrective lenses, present the opportunity to better analyse shortfalls in the 2023 reporting period and will allow insurers to pursue IFRS 17 financial reporting in 2024 that drives quality beyond compliance.

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Nudging the world towards sustainability

Insurance as prediction and prevention

One way of understanding insurance is to view it as a safety net – a way to limit the damage and/or losses caused by unexpected, tragic events – a burst geyser, a vehicle breakdown, a debilitating disease, or a natural disaster. In line with this view, the job of insurance companies is to calculate and pool risk. If insurers do their job well, people have a way to sustain their current quality of life, even when the unforeseen happens.

Increasingly, however, insurers have ventured beyond merely calculating the odds of unfortunate events, towards influencing or "fixing" the odds. Driven by enlightened self-interest, and armed with the techniques of the behavioural sciences, insurers now nudge and reward behaviours that make deleterious life events less likely. Whether by tracking our driving habits, financial decisions, grocery lists, or exercise routines, insurers have become masters at aligning our behaviours to our secret aspirations – safer, healthier, more responsible living. In a strange twist of irony, insurers are now more aligned to our interests and wellbeing than medical practitioners. While we traditionally trusted our GP and resentfully assented to insurance, now it would seem that insurers actively try to keep us healthy.

The question is whether insurers can wield their new behavioural powers to address other challenges? If we have unlocked the secrets of individual virtue to sustain personal health, wealth and wellbeing, could we also help humanity as a whole develop the environmental and social habits we so desperately need to address the climate crisis, inequality and human rights abuses?

Sustainable insurance

Enter the idea of "sustainable insurance". More than a decade ago, in 2012, the United Nations (UN) Finance Initiative published its "Principles for Sustainable Insurance". These principles aim not only to understand and protect against risk, but also to prevent and reduce environmental, social and governance risks (so-called "ESG" risks). The then UN Secretary-General, Ban Ki-moon, saw in these principles a roadmap for the insurance industry, "…to promote renewable energy, clean water, food security, sustainable cities and disaster-resilient communities"[1]. These principles are also meant to "catalyse and amplify transformational change" [1]. Much like insurers want their clients to adopt healthy, safe and financially responsible practices, so too do insurers now envision, through their products and services, "…a society in which people are aligned and incentivised to adopt sustainable practices"[1].

It is unfortunate, however, that the principles do not quite match the ambition. The four principles include:

1. embedding ESG issues in the decision-making of insurance businesses;
2. raising awareness, managing risk and developing solutions with clients and business partners;
3. promoting widespread action with governments and regulators; and
4. demonstrating accountability and transparency through regular reporting on these principles to the public.

1 UNEP FI. 2012. Principles of Sustainable Insurance. Switzerland: UNEP Finance Initiative, p.1 – 2.

Much of the actions recommended alongside these principles boil down to "dialogue" rather than "action", and twelve years after these principles were introduced it is not clear whether the industry has managed to transform itself, much less the practices of insurance clients at large. Even the 2020 Change to Principles for Sustainable Insurance (PSI) ESG "*Guide to Managing environmental, social and governance risks in non-life insurance business*" disappoints by being heavy on consultant-speak ("integrate ESG into strategy", "calculate risk appetite", "allocate roles and responsibilities", "set the tone"), but light on case studies of insurance products contributing to effective societal transformation. It should be noted, however, that this guide includes a comprehensive "heatmap" of ESG risks and possible mitigating actions.

To match the ambition of the PSI, and to test whether the power of behavioural insurance can be applied to the urgent sphere of ESG action, here are two initial recommendations.

Step 1: Moral maturity – getting our motivations right

One reason for the lack of progress in sustainable insurance is its predominantly financial motivation. Sustainable insurance is encouraged on the basis of the increasing recognition that "[s]ome ESG issues [are] potentially *financially material* (e.g. climate change, ecosystem degradation, pollution)"[2] [my emphasis]. Beyond the potential costs of ESG risks, insurers are also enticed into this area by "…the correlation between ESG factors and strong performance of companies across industries"[3].

While the fear of costs and the pull of profit can be a successful driver of innovation in insurance, the flipside of this motivation is that when ESG-based decisions are not financially optimal, profit will trump good sense. An example would be the potential profits to be gained from insuring yet more coal, oil and gas exploration or projects.

To achieve traction, the insurance industry needs a proper motivation. Much like insurers have projected for themselves ideals in different spheres of the life of the insured (exercise, diet, responsible driving, prudent financial planning), so sustainable insurance could sculp a picture of the desirable ESG behaviours of the people and companies that insurance companies insure; collect data on these behaviours; and nudge and reward companies in line with these behaviours. The ultimate motivation is human and corporate flourishing – meaningful or worthwhile life and commerce. A by-product of such life and commerce (and insuring it) is the livelihood that is earned in the process.

Step 2: Practical and effective actions

To have the envisioned transformative effect on society, insurers could:

- over time, work towards eliminating insuring projects or clients that conflict with ESG goals, be that fossil fuel expansion or the violation of human and indigenous rights;
- work towards only investing in companies aligned to ESG goals; and
- nudge individual and corporate clients towards the social and environmental aims they subscribe to.

Beyond recognising responsible driving and regular exercise, insurers could also reward more plant-based diets, the reduction of waste, and the lowering of individual carbon footprints.

On the other hand, corporate clients could equally be nudged towards desirable ESG behaviours by rewarding the use of renewable energies, the elimination of waste, and the promotion of human rights.

The sustainability of insurance

Participating in and promoting ESG behaviours among its clientele is not only a step towards sustaining communities and the planet, but also a way of making the insurance industry itself sustainable. Damage caused by natural disasters has made certain geographical areas uninsurable or unaffordable to insure (meaning a loss of clients), while pay-outs have resulted in massive financial losses for insurance companies. Amid this reality, it would be cynical to stop insuring the possible victims of an environmentally and politically unstable world, while providing cover for behaviours that cause the damage.

The insurance industry wields significant power, and with it the potential to shift mindsets and behaviours – for the benefit of clients, the insurance industry and the greater good of society.

[2] United Nations Environmental Programme. 2020. Managing environmental, social and governance risks in non-life insurance business. Switzerland: UN, p.4 (https://wedocs.unep.org/bitstream/handle/20.500.11822/33632/MESGRNLI.pdf?sequence=1&isAllowed=y).

[3] Ibid, p.4.

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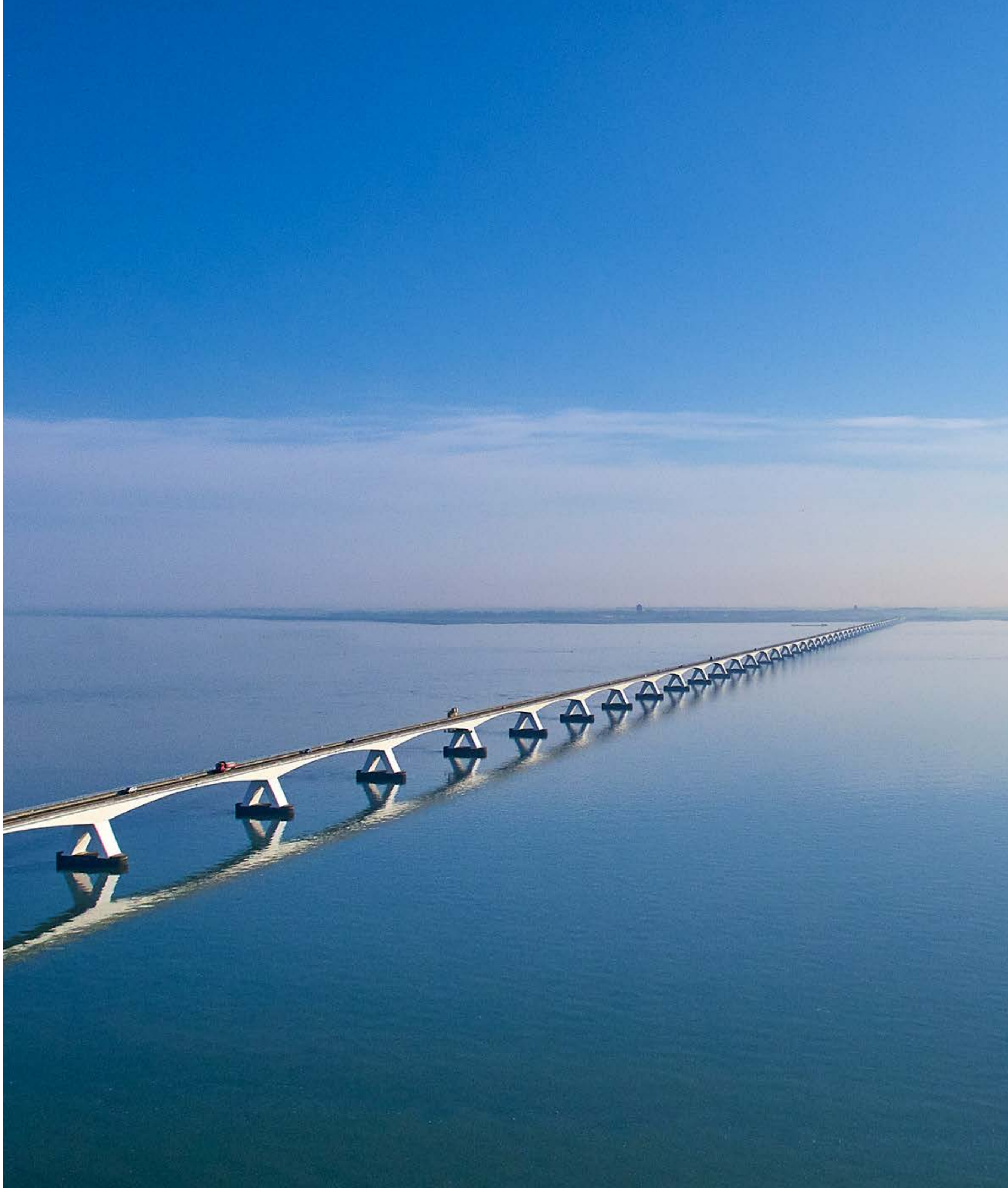
Mitigating insurance fraud risks

Introduction

Fraud in the insurance industry is on the rise due to a multitude of factors that create opportunities and incentives for fraudulent activities, including, but not limited to, financial instability, economic recessions, technology advancements, increased access to information and the pressure experienced by insurance agents and brokers to meet sales targets or earn commissions.

The insurance business lifecycle is highly prone to fraud which can lead to significant financial loss, reputational damage, regulatory penalties and operational disruptions.



While fraud in the insurance industry is not a new phenomenon, fraud is on the rise due to a multitude of factors that create opportunities and incentives for fraudulent activities. Some of the key reasons why fraud is increasing in the insurance industry include:

Economic downturns

Financial instability and economic recessions often lead individuals and businesses to commit fraud to gain financial relief. Economic stress can push otherwise honest individuals towards fraudulent activities to cover debts or maintain a certain lifestyle.

Technological advancements

While technology has streamlined many insurance processes, it has also provided fraudsters with new tools and methods to perpetrate fraud. Cybercriminals can exploit vulnerabilities in digital systems, manipulate data and create false identities more easily.

Complexity of insurance

The growing complexity and diversity of insurance products can create confusion among policyholders and provide opportunities for fraud. Misunderstandings about policy terms and coverage can lead to both opportunistic and deliberate fraud.

Weak regulatory oversight

Inconsistent regulations and lack of stringent enforcement can create environments where fraudulent activities are less likely to be detected or punished. Fraudsters may exploit these gaps to commit and get away with fraud.

Increase in organised crime

Organised crime groups are increasingly targeting the insurance industry due to the potential for high rewards. These groups often engage in sophisticated fraud schemes that are difficult to detect and combat.

Inadequate internal controls

Insurance companies may have insufficient internal controls and fraud detection mechanisms. This can be due to budget constraints, outdated technology, or lack of skilled personnel trained in fraud prevention.

Social and cultural factors

In some cultures, insurance fraud is perceived as a victimless crime or as a way to "beat the system." This social acceptance can encourage more people to engage in fraudulent activities.

Increased access to information

With more information available online, fraudsters can easily research and exploit specific vulnerabilities in insurance systems. This includes knowing how claims are processed and identifying weak spots in fraud detection systems.

Pressure to meet sales targets

Insurance agents and brokers under pressure to meet sales targets or earn commissions might resort to fraudulent activities, such as inflating claims or selling unnecessary to fake policies.

Addressing these factors requires a multifaceted approach, including better regulatory frameworks, advanced technology for fraud detection, improved internal controls, and public awareness campaigns to change cultural attitudes towards insurance fraud.

In this article we will discuss areas in an insurance business that are prone to fraud, the nature of the fraud risks and trends as well as navigate how insurance companies can mitigate the fraud risks.

Fraud in the insurance industry

Trends and statistics

The Association for Certified Fraud Examiners (ACFE) in its 'Occupational Fraud 2024: Report to the Nations'[1] concludes that corruption, payment tampering, and billing schemes are considered to be high-risk areas for insurance companies.

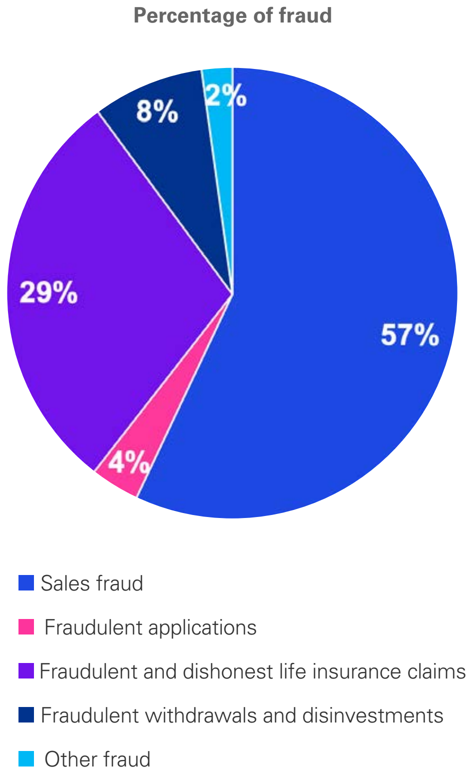
The ACFE study looked into the costs and effects of occupational (fraud committed by an organisation's employees) across eight regions namely; United States and Canada, Sub-Saharan Africa, Asia-Pacific, Southern Asia, Middle East and North Africa, Western Europe, Latin America and the Caribbean and Eastern Europe and Western/Central Asia. Of the total 1 921 fraud cases reported 299 (16%) cases were reported in Sub-Saharan Africa.

Of the 299 cases of reported fraud in Sub-Saharan Africa, 88 cases were reported in South Africa, the most in this region and across the whole of Africa. Specific to the insurance industry, ASISA provides further insights into the increasing cases of fraud.

The fraud statistics are divided into five categories as follows:

1. **Sales fraud:** fraudulent attempts by call centre agents, tied agents and independent financial advisers to benefit from commission/fees.
2. **Fraudulent applications:** misrepresentation, non-disclosure, impersonation, identity theft.
3. **Fraudulent and dishonest life insurance claims:** fraudulent and dishonest attempts to claim benefits from risk policies.
4. **Fraudulent withdrawals and disinvestments:** linked investment service providers, collective investment schemes, retirement funds.
5. **Other fraud:** fraudulent attempts to obtain investment policy benefits and bribery and corruption.

The graph below illustrates the percentage of fraud in each category:



From the ASISA fraud statistics, it is clear that sales fraud and fraud relating to life insurance claims are most prevalent in the insurance industry, making up 86% of reported instances in 2022.

[1] https://www.acfe.com/-/media/files/acfe/pdfs/rttn/2024/2024-report-to-the-nations.pdf

Areas prone to fraud in the lifecycle of an insurance business

Fraud can infiltrate every stage of the insurance business lifecycle, from product development and launch stage to post-settlement stage, affecting various processes along the way. Understanding the fraud prone areas helps insurers implement targeted strategies to prevent, detect and respond to fraud.

The illustration below depicts the insurance business lifecycle and the extent to which these areas are prone to fraud. The prevalence of fraud in the various areas is rated as high (red), medium (orange) or low (green) risk:

1. **Product development and launch:** during key processes such as market research, product specification, product pricing, commission agreement drafting, system set up, product roll out and regulatory filings.
2. **Sales, distribution and onboarding:** distribution strategy development, customer sourcing, application processing, know-your-client (KYC) checks, issuance and sales commission.
3. **Underwriting and risk management:** data aggregation, risk assessment, quote generation, technical underwriting, financial underwriting and risk commencement.
4. **Policy servicing and customer support:** billing and retention, policy cancellation/surrender, reinstatement, compliance handling, investigations and resolution and reporting.
5. **Claims management:** first notification of loss process, claim triage, claim investigation, fraud monitoring, arbitration and litigation and recovery.
6. **Investments:** portfolio management, investment strategy development, benefit payments, policy loans, policy surrenders and riders and add-ons.
7. **Actuarial and reinsurance:** pricing decisions, reserving, reinsurance placement, portfolio analysis, margin and persistency assessment and financial and regulatory findings.
8. **Procurement and vendor management:** vendor selection, evaluation, onboarding and contracting, vendor management, performance reviews and expense management.
9. **Risk and compliance:** risk analysis, risk mitigation, compliance monitoring, regulatory reporting and committee governance.
10. **Information and technology:** technology infrastructure, business continuity and disaster recovery plans, information technology general controls, user support and training, cloud and database, innovation and cyber security.
11. **Human resource:** recruitment, onboarding, performance review, workforce planning, payroll, rewards and incentives and termination.
12. **Financial reporting:** financial planning, reporting and analysis, accounts payable and receivable, billing and collections, tax planning and compliance and financial systems management.

Fraud risks in the insurance industry are multifaceted and there are various types of fraud which can manifest throughout the insurance lifecycle. Potential fraud risks include, but are not limited to:

Identity fraud: fraudsters using stolen identities to apply for insurance cover and submit false claims.

Misrepresentation: a false statement of fact which renders other statements misleading. This false statement can be made knowingly, recklessly or innocently.

Fronting: using legitimate or innocent individuals or entities to conceal the true ownership, control, or involvement of another person or organisation.

Claims fraud: submission of fraudulent claims, exaggeration of losses, or stage accidents to receive undeserved pay-outs.

Premium diversion: the unauthorised use or misappropriation of insurance premiums paid by policyholders to agents, brokers or representatives.

Billing fraud: the intentional manipulation or falsification of invoices, bills or payment to deceive an organisation into paying/overpaying for goods or services that were not provided.

Internal fraud: the intentional acts by employees, agents or contractors within an organisation that results in financial or non-financial loss or reputational damage.

Healthcare and provider fraud: intentional acts of deception, concealment or misrepresentation by healthcare providers to obtain unauthorised financial gain or benefits.

Policyholder fraud: the intentional acts of deception, concealment or misrepresentation by a policyholder or beneficiary to obtain unauthorised benefits, discounts or advantages.

Extortion: the unlawful attainment of money, property or services from another through coercion, threats or intimidation.

Reinsurance fraud: involves deceptive practice of one insurance company transferring a portion of its risks to another to reduce potential losses.

Disaster fraud schemes: an intentional deception to defraud individuals and the government that results in personal gain, e.g. charitable solicitation, contractual fraud, price gouging and insurance fraud.

Blackmail: the act of threatening to reveal sensitive, damaging or embarrassing information unless a person complies with certain demands involving payment, favours or compensation.

Agent fraud: refers to intentional acts of deception by agents including lapping, skimming, creating fictitious policies, forgery and churning.

Application fraud: individuals provide false or misleading information on an application with the intent to deceive the insurer and obtain coverage under false pretences.

Underwriting fraud: misrepresentation of risks during underwriting which can lead to under-priced policies.

Social engineering: a technique used by fraudsters to gain access to confidential information through manipulation. Deception fraudsters convince victims to perform actions or divulge confidential information.

Commission fraud: agents inflating their commission by engaging in fraudulent activities.

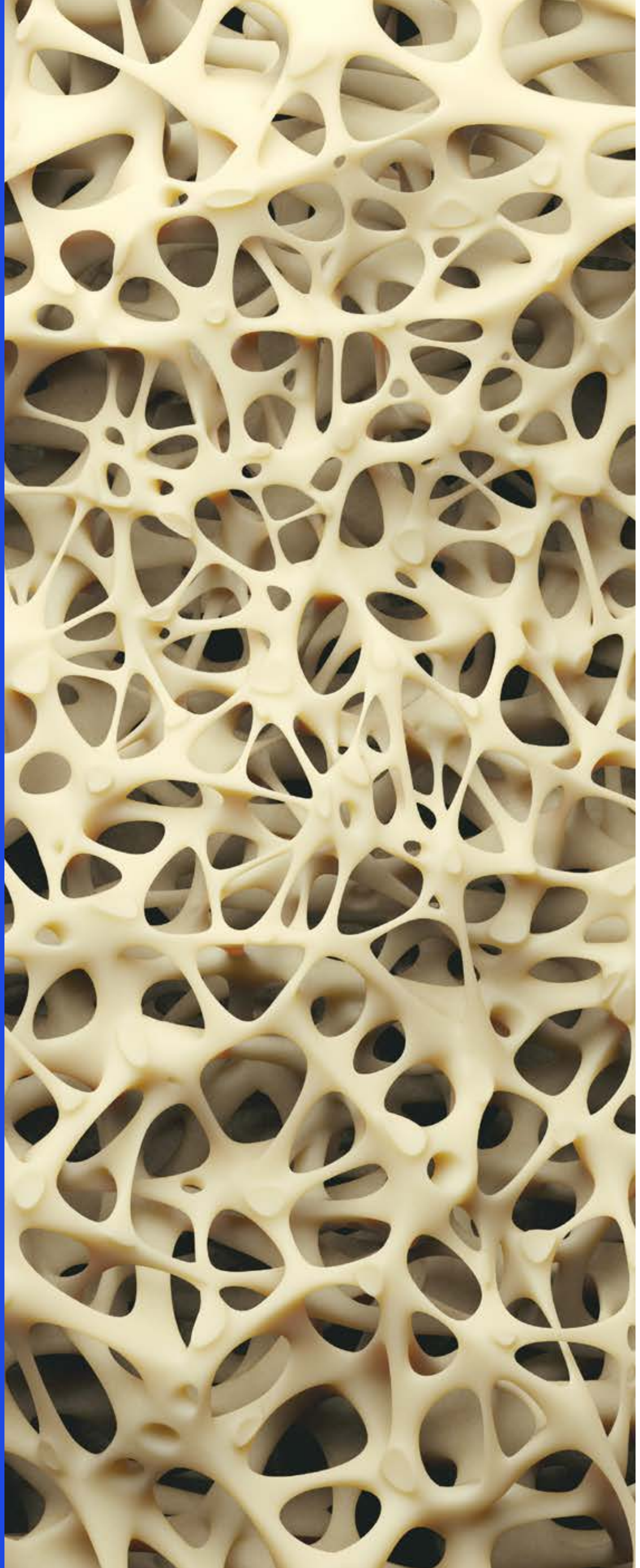
Secret commissions: unauthorised and concealed payments or receipt of commissions or favours to the agents without the knowledge of the principal.

Bribery: a form of corruption, including anything of value, such as cash, gifts, or control of proceeds from financial crimes, making them seem legitimate.

Money laundering: concealment of the origins or source of illicit funds obtained through criminal activities by integrating them into legitimate insurance transactions.

Abuse of company facilities: unauthorised, improper or excessive use of an organisation's resources, assets or services for personal gain, benefit or convenience.

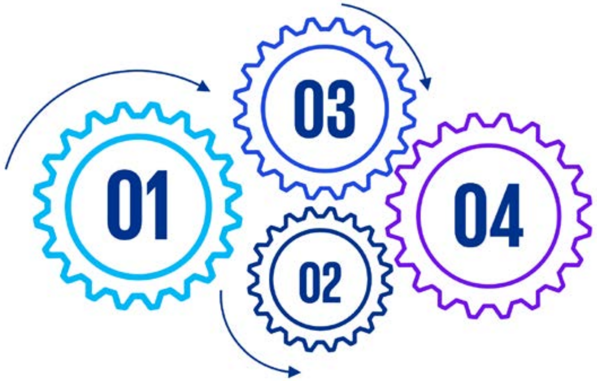
Deliberately omitting or refusing to report or act upon reports of any such irregular or dishonest conduct.



Mitigating the fraud risks

Due to the dynamic nature of fraud, it is imperative for insurance businesses to make strides towards implementing mature Fraud Risk Management Frameworks with adequate preventative and detective measures.

Below is an illustration of what a mature Fraud Risk Management Framework encompasses:



Design fraud risk governance and operating framework

- Develop anti-fraud policies, procedures and applicable guidelines.
- Identification and assessment of emerging fraud risks.

Identify fraud scenarios

- Identify fraud scenarios and categorise scenarios.
- Link fraud scenarios to overall business strategy for risk based thresholds/appetites.

Set up a fraud monitoring framework

Develop and implement underlying system architecture leveraging artificial intelligence and machine learning.

Adequate and timely reporting

Based on the early warning signals, triggers and fraud alert reports are generated and circulated to concerned stakeholders at different time intervals ranging from near real-time to annual periodicity.

A mature Fraud Risk Management Framework makes use of the following technical enablers:

Data warehouse

A centralised repository that stores and manages large amounts of data from various sources, including transactional data, customer information and external data sources. Data warehouses enable efficient data analysis, pattern recognition, reporting and business intelligence.

Interactive dashboards

Visual representations of data that provide real-time insights into fraud risk indicators, metrics and KPIs. Interactive dashboards allow users to explore data, identify trends, anomalies, suspicious activities and drill down into specific areas of concern.

Fraud alerts

Automated notifications triggered by suspicious activity or anomalies detected by the fraud detection system or predefined criteria. Fraud alerts enable timely investigation and response to potential fraud.

Risk scoring system

A scoring model that assigns a risk score to customers, transactions or activities based on factors such as behaviour, demographics and transaction history. Risk scoring helps prioritise investigations and focus on high-risk areas.

Integration with external industry-wide repository

Collaboration with external data sources, such as:

- Fraud databases (e.g. Fraud Prevention Service)
- Industry-specific repositories (e.g. credit union or bank networks)
- Public datasets (e.g. government records, public databases)

This integration enables access to shared intelligence, best practices and aggregated data to enhance fraud detection and prevention.

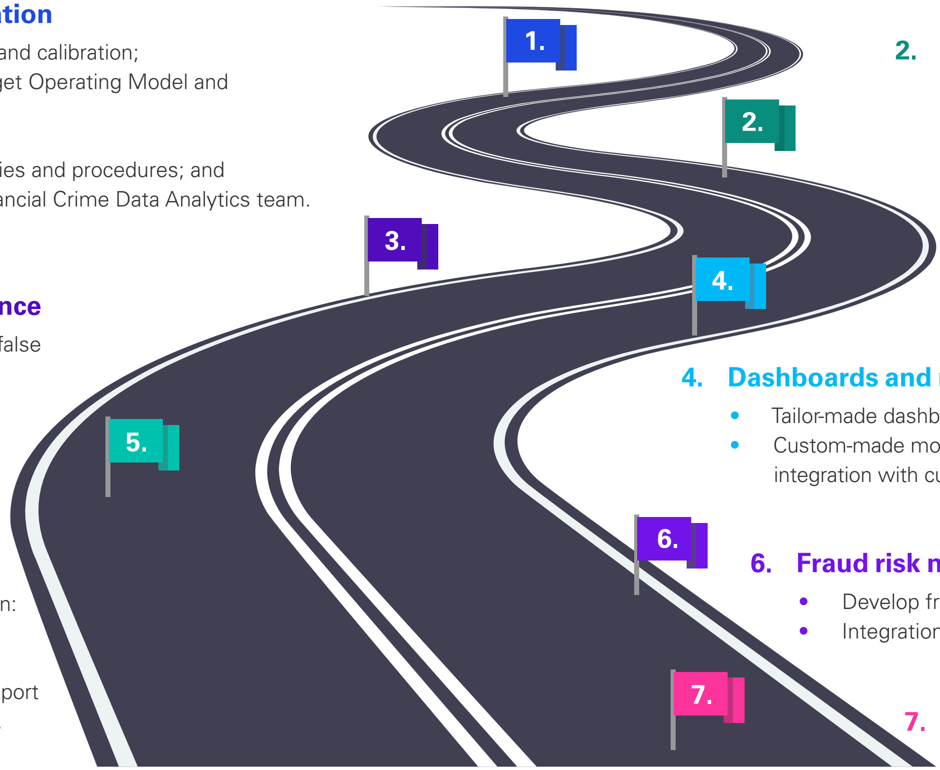
In addition to the above, combating insurance fraud requires co-operation between insurance companies, law enforcement and regulatory bodies and employing advanced technologies like artificial intelligence for fraud detection e.g. SAS.

KPMG business case on using SAS - a strategic plan for financial crime

Set out in the image below is our view of a best practice financial crime strategic plan which will assist towards the implementation of an effective Fraud or Financial Crime Intelligence Unit (FCIU) within a claims department or compliance function, that has strong capabilities for investigations and a holistic view over global financial crime risk.

We have also identified certain key observation which contribute to a robust strategic plan and operating functionality, which includes, but is not limited to:

- the establishment and development of various modular and investigation capabilities such as custom-made financial crime investigation solutions, custom-made anti-financial crime dashboards, a fraud risk management solution, and fraud risk assessment, reporting and transaction monitoring; and
- the solutions above being overlayed and powered by the use of machine learning capabilities, statistical anomaly detection and interactive network analysis.



1. Modelling and optimisation

- Deep-dive system review and calibration;
- Financial Crime Global Target Operating Model and risk assessment;
- Remediation initiatives;
- Updating group-wide policies and procedures; and
- Creation of an internal Financial Crime Data Analytics team.

2. Transaction monitoring

- Online integration between KYC and onboarding;
- Supporting the organisation to develop rules into the onboarding platform (for each business line); and
- Implementation of the transaction monitoring solution with various scenarios and segments, overlayed with custom-made rules.

3. Machine learning and artificial intelligence

- Machine learning use cases (e.g.: reduction of false positives, detecting new patterns);
- Deep-dive calibration of the scenarios and clustering; and
- Automation of non-value operations and work.

4. Dashboards and risk assessment monitoring

- Tailor-made dashboards for operations, risk and calibration; and
- Custom-made module for developing yearly risk assessments and integration with customer due diligence and transaction monitoring.

5. Corporate intelligence unit

- Integrating several systems into the new solution: fraud, claims, underwriting etc.;
- Holistic and cross-border investigations; and
- Development of a custom-made system to support internal and external reports and investigations.

6. Fraud risk management

- Develop fraud batch scenarios; and
- Integration of investigation and fraud risk management.

7. Real time screening (ongoing)

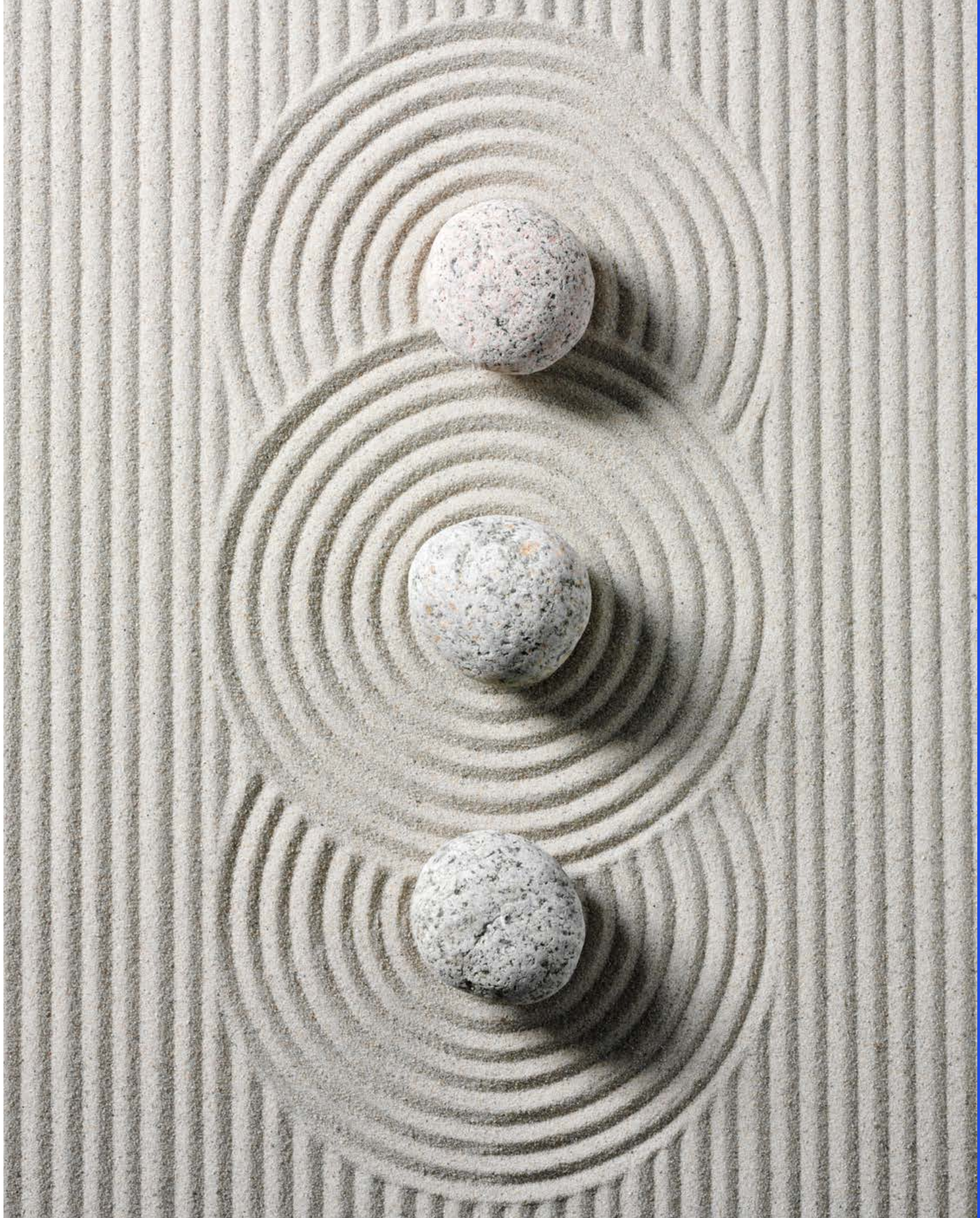
- Real time customer and transactions screening.

Conclusion

Insurance businesses need to invest in fostering ethical cultures, promote training and awareness programs and implement adequate measures to prevent fraud, bribery and corruption.

With the amendment of section 34 of the Prevention and Combatting of Corrupt Activities Act (PRECCA) the failure to prevent such activities has now been criminalised. Private entities, like insurance companies, now have the obligation to implement adequate prevention measures. However, no crime will be committed where a private-sector organisation or incorporated state-owned entity has put in place adequate prevention measures to stop anyone connected to the private-sector organisation or incorporated state-owned entity from agreeing to provide, providing, or offering to provide any gratification that is prohibited under Chapter 2 of the PRECCA. Failing to implement and prove that these measures have been implemented will find insurance companies liable in terms of PRECCA.

Therefore, implementation of appropriate prevention measures is now a necessity and no longer a "nice to have". Insurance companies should be geared up for insurance fraud and ensure that its procedures are 'adequate' to prevent corruption and be in a defendable position.



Controls improvement programme

Many South African insurers are in the process of improving and re-engineering their **"as is control environment"** to keep up with increased business complexities, evolving technologies and the roll-out of new regulations. A key design element of an effective control environment is the robust identification and management of emerging risks and the ability to adapt to evolving risk landscapes in a timely and flexible manner.

The KPMG Governance, Risk and Compliance team is able to assist you in re-engineering your organisation's control environment through the following service offerings:

- Gathering of information and documenting the "as is processes".
- Gap analysis assessment of your "as is control environment" to identify areas of improvement.
- Risk and key control identification in respect of core business areas linked to your people, processes and systems.
- Overlay your existing control environment against minimum industry leading controls, practices and regulatory guidance and identify opportunities for enhancement.
- Perform design and effectiveness assessments of both manual and automated controls, and tailor recommendations to sustain and embed an effective control environment.
- Develop and implement a control self-assessment framework to ensure continuous assessment, improvement and control owner accountability.

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Navigating the technology impact of Joint Standard 1 of 2023 on the insurance industry

The recently released regulation issued jointly by the Prudential Authority (PA) and the Financial Sector Conduct Authority (FSCA), Joint Standard 1 of 2023[1] ('Joint Standard 1' or 'the standard'), focusses on IT governance and risk management. The standard is expected to have a significant impact on the insurance industry through increased governance requirements that are to be complied with ultimately by the board of directors (or equivalent governing body).

IT risk management and governance has always been high on the agenda for organisations and many of the principles outlined in the standard are not new considerations. The standard, however, now mandates the following requirements which may not always have been high priority:

- enhanced documentation of risks and controls, noting responsible stakeholders;
- being able to report on IT governance to the regulator upon request; and
- obtaining assurance on IT-related governance structures that may have not been subject to assurance previously.

[1] https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-public-awareness/Communication/2023/Joint Communication-4-of-2023-Publication-of-the-Joint-Standard-IT-Gov-and-Risk

Tabled below are the key requirements of Joint Standard 1, what this means for insurers and principle questions that the board will need to address:

Requirement	What this means for insurers	Questions for the board
1. Enhanced IT governance Ultimately, the board of directors is now directly responsible for ensuring continuous compliance with Joint Standard 1 of 2023. The standard requires insurers to develop an IT strategy which aligns to the overall business strategy. In addition, comprehensive IT governance frameworks should align with the organisation's overall corporate governance framework, with the goal of deriving improved value from investment in technology.	To ensure that the overall governance frameworks are aligned to IT-specific governance frameworks and that organisational IT policies and standards are updated to reflect this alignment. Management may face challenges when incorporating IT risks into the overall business risk assessment and applicable governance mechanisms with a single point of accountability.	• Have we reviewed the IT strategy against the overall business strategy to ensure alignment and have we decided on how often this should be reviewed? • Have we ensured that the alignment of general business strategy and governance updates occur alongside the related IT requirements as part of the annual governance cycle? • Have we recently reviewed our governance frameworks against IT frameworks and ensured alignment? • Are our business and IT stakeholders convening regularly to ensure alignment and adapting governance frameworks as appropriate? • How often should we, as the board of directors, be assessing compliance with Joint Standard 1 to ensure that compliance is continuously being met, including obtaining periodic representation from key business stakeholders to support this requirement? • What mechanisms do we need to put into place to ensure that any instances of non-compliance with Joint Standard 1 are reported and remediated in a timely manner?
2. Focus on risk management The standard requires financial institutions (including insurers) to develop an IT risk management framework and regularly conduct risk assessments which aim to identify potential threats and mitigate the risk of these threats materialising. The standard aims to encourage insurers to adopt a proactive approach in building defences against potential disruptions.	To ensure that an effective risk management framework is managed and linked to risk assessments conducted by management. Management may face challenges in performing risk assessments and implementing responses to these risks in a timely manner. Further challenges include ensuring that controls implemented effectively mitigate the risk to operate consistently.	• Does our risk register account for all IT risks noted in the standard? • Do we have an IT risk management framework that notes the frequency of risk assessments, who is responsible for conducting the risk assessments and how these risks will be managed, reported and documented?
3. Outsourcing and third-party management Insurers are urged to identify, assess and manage third-party agreements and associated risks relating to technology providers*. **This is covered in a separate Joint Standard – refer to the link in footnote 2[2].*	To ensure that IT risks relating to third-parties are considered and managed with appropriate mitigations implemented. Management may face challenges in adequately identifying relevant third-party risks by not fully understanding third-party operational environments and may also face challenges in confirming that third-party risks are appropriately addressed, either by the third-party or by the insurer's internal control processes.	• Have we identified all third-parties that our organisation engages with and is exposed to? • Have we performed risk assessments over these third-parties and ensured that we have identified mitigations prioritised to key third-parties? • Have we built risk assessment measures into our contracts with third-parties, where possible? • Have we obtained assurance (e.g. SOC reports) from our third-parties to ensure that the relevant technology risks have been effectively managed? • Have we identified Complementary User Entity Controls specified in the assurance reports from third-parties and have these been effectively implemented into our organisation?

2 https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-public-awareness/covid-19-response/2024/joint-comms-1-of-2024/Joint%20Standard%201%20of%202024%20Outsourcing%20by%20Insurers.pdf

Requirement	What this means for insurers	Questions for the board
4. Reporting to the regulatory authority Insurance institutions are required to notify the regulatory authority in the event of system failures, malfunction, delay or any disruptive events.	To ensure that any disruptive events are reported to the regulator and that the risk of non-compliance in the event of failure to report, is managed effectively. Management may face difficulty in ensuring that an effective process is in place to identify relevant risk events across the organisation and that they are reported to relevant stakeholders in a timely manner.	• Have we defined the disruptive events that are to be reported to the regulator to ensure compliance? • Is there an established process, including internal stakeholder engagement, to enable reporting in a timely manner? • Do we know which individual or function is tasked with regulatory reporting per our defined definitions of disruptive events?
5. Protection of data In developing an IT strategy, insurance companies are required to incorporate processes that maintain the confidentiality and integrity of data, such as: • identifying and managing the risk associated with financial products; • ensuring backup systems and procedures and business continuity plans are in place; • access control mechanisms; and • maintaining services that are managed by third-parties.	The everchanging nature of technology has resulted in record numbers of privacy violations and cybersecurity incidents. The standard places emphasis on the importance of client information and the safeguarding thereof. The standard urges insurers to make use of measures to protect client information such as: • access control mechanisms; • continuous compliance with regulatory data protection standards; and • encryption of data. IT processes that can be implemented to ensure business continuity include, but are not limited to: • vulnerability assessments; • penetration testing; • incident response plans which delve into root cause analysis and lessons learnt; and • consideration of technologies that provide insight into emerging threats.	• Do we have effective response mechanisms in place relating to data protection, cybersecurity and resilience and business continuity risks? • How often are these response mechanisms reviewed and reassessed to consider new or evolving risk exposures? • Do these responses include the formalisation of specific policies, procedures and effective reporting, as well as clearly defined responsibilities and functions that own the technology risks?

Challenges faced by organisations

1. Resource intensive

For small to medium organisations, co-ordinating and implementing comprehensive IT governance and risk management frameworks, structures and policies are costly and skills intensive. A balance between compliance and operational cost management is imperative. Small to medium insurers have implemented different strategies to overcome the cost and resource intensiveness of co-ordinating and implementing comprehensive IT governance frameworks, as noted below:

- Cloud services provide insurers with the opportunity to leverage off the reduced need for on-premise intrinsic infrastructure which lowers the cost of the management of IT.
- Insurers have moved towards outsourcing IT functions or collaborating with organisations that specialise in the management of IT. Although this introduces different risks to insurers, this mechanism allows insurers to access appropriate expertise and information technology infrastructure at a lower cost than that of in-house development.
- By implementing AI and automation, insurers can leverage off streamlining business and IT processes, remove the element of manual intervention, reduce the risk of error and increase the efficiency of reporting. This not only increases precision but contributes towards costs reduction.
- Investing time and effort into the training and development of employees will ensure that staff are well-versed in terms of IT governance procedures, practices and maintenance. Management will benefit from redefining the roles of IT staff to include performance of control activities with a focus on governance, highlighting that IT roles are no longer limited to execution activities but also includes evidencing sound governance activities as part of their execution.

2. Adaptation period

Insurance institutions are known for operating complex and intricate systems. The process of organisations adapting to the new standard may involve significant changes to existing IT infrastructure, frameworks, policies and structures. Insurance institutions face the possibility of experiencing disruption, as a result of adapting to requirements, and this could in turn impact day-to-day operations due to vulnerabilities.

The implementation of Joint Standard 1 can be sub-categorised into three phases: current, transition and future. The current phase speaks to identifying where insurers are in terms of Joint Standard 1 maturity. The future state is the desired place the insurer would like to be, i.e. in ensuring compliance with Joint Standard 1. The transition phase is thus the most critical phase of the implementation cycle as insurers need to clearly define and identify the temporary measures that need to be implemented in moving from the current state to the future state.

As an example, large volumes of data are maintained by insurance companies. As a starting point in the current phase, it is imperative for the organisation to identify critical data to the organisation and the risks that will materialise if that data is compromised due to a lack of IT information security governance. In order to get to the desired future state of being secure, there are certain measures that should be put in place during the transition phase. Examples of these measures include the encryption of customer data at rest and in transit which can be achieved using encryption algorithms. In conjunction, the use of access controls in implementing least privilege access would result in granting users access only to the data they need to perform job duties.

3. Evolution of threats

While the standards address current IT concerns, the fast-evolving nature of cyber threats raises questions about the long-term relevance of the prescribed measures. Insurance institutions must remain agile and continually update their defences to stay ahead of emerging risks, requiring a sustained commitment to ongoing adaptation and improvement.

The National Institute of Standards and Technology (NIST) framework is widely regarded as a benchmark for managing and mitigating cyber risks. It provides a structured approach to identifying, protecting, detecting, responding to and recovering from cyber incidents. Insurers often adopt this framework to tailor their defences based on specific risk profiles. The regular performance of risk assessments provides insurers with a basis to remain informed on potential threats and vulnerabilities that exist within the IT environment. This is not limited to the insurer's system landscape but also the risk of third-party vendors and external stakeholders. Insurers can also benefit from joining information-sharing organisations such as the Financial Services Information Sharing and Analysis Center (FS-ISAC), which facilitates the exchange of threat intelligence and emerging cyber risks within the industry. This helps insurers maintain real-time awareness of cyber threats.

Insurers are increasingly shifting towards a Zero Trust Architecture, which mandates continuous verification of access requests, regardless of whether they originate inside or outside the network. This approach limits the likelihood of successful breaches by restricting access based on user identity and device security.

Additionally, insurers often conduct simulated cyber-attacks, such as phishing tests, to assess employee preparedness and improve their ability to identify and respond to threats. Insurers are encouraged to continuously perform vulnerability scans and penetration tests to uncover weaknesses within systems and mitigate these weaknesses before they can be exploited by malicious actors. The maintenance of a well-documented and tested incident response plan, that includes roles and responsibilities, communication strategies, and post-incident analysis to ensure swift recovery, is imperative.

Insurers are also encouraged to maintain awareness of regulatory guidelines, such as the General Data Protection Regulation, Protection of Personal Information Act and Joint Standards, which outline security requirements. Collaboration with regulators can also enhance preparedness for emerging threats.

Lessons learnt and insights gained from previous technology-related regulatory implementations

1. Management controls, while possibly adequate, may not always be appropriately evidenced

Our observations indicate that while management may have designed and implemented adequate controls as a response to the identified risk, there is a lack of audit trail to evidence that these controls are consistently performed by management, making it difficult to confirm that controls are operating effectively.

2. Control reporting

To collate the required information and align with relevant stakeholders within an organisation is not always straightforward. As controls serve multiple purposes to address operational, financial reporting or regulatory risks, controls can be at different levels of maturity for each business area and therefore may not be well documented and tracked for effectiveness. Reporting on control effectiveness, to cover the requirements of the standard, may prove to be a challenge when controls are maintained across divisions without a uniform reporting structure. Legacy reporting structures will need to be adjusted to allow for reporting at an organisational level in a timely manner.

3. Assurance fatigue

With the technology landscape always receiving heightened levels of attention due to the associated risk, it is of no surprise that multiple streams of assurance may be required by various stakeholders to appropriately manage this risk. This can range from internal assurance (internal audit), external assurance (mandatory external audit or ISAE 3402/SOC engagements for service providers), and focused regulatory audits. This places a resource capacity burden on IT staff and management to provide input to various assurance providers, whilst also maintaining a focus on executing day-to-day tasks required to effectively maintain the IT landscape and operations.

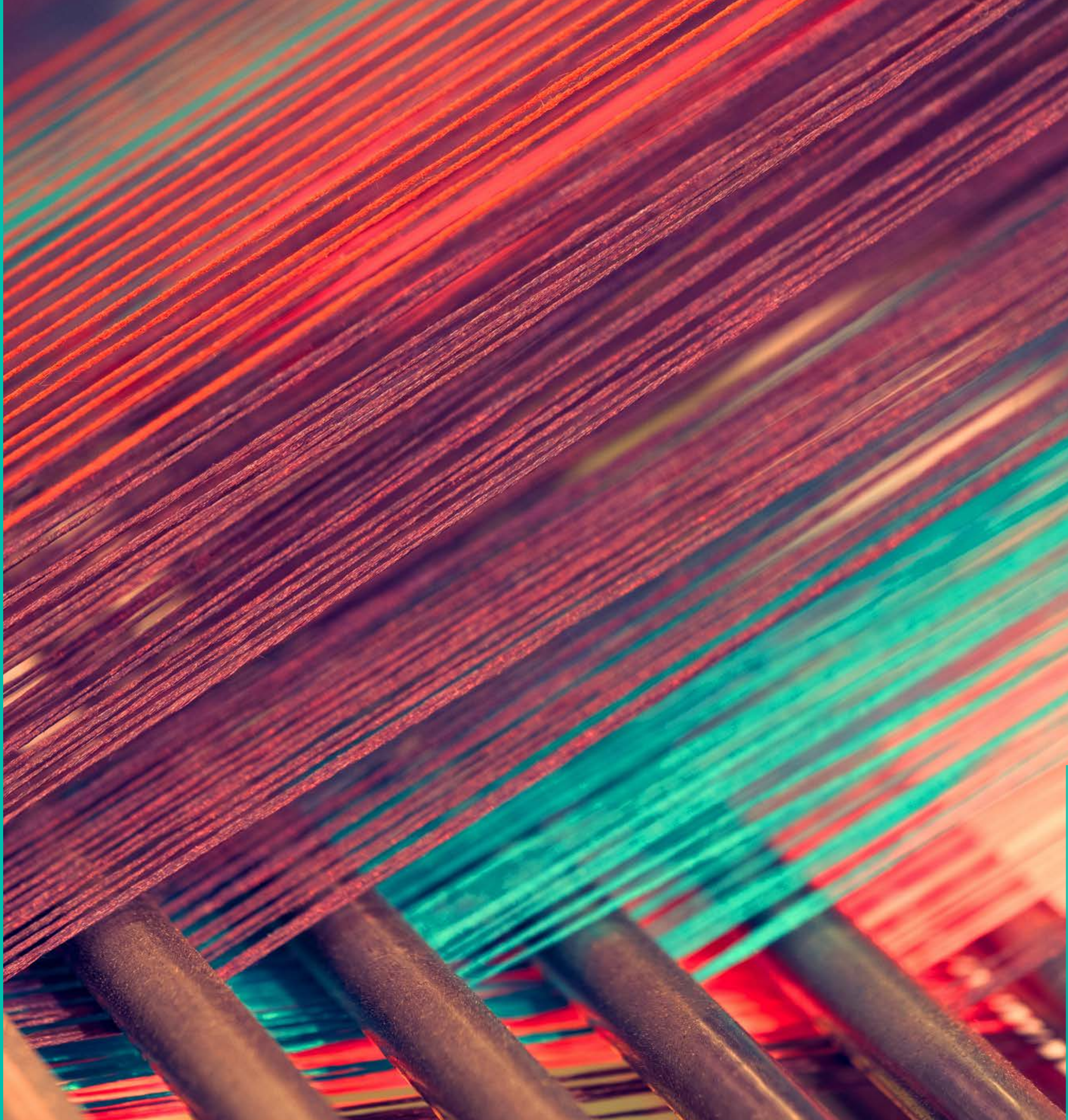
The benefits of complying with Joint Standard 1

The benefits extend far beyond just being compliant. Joint Standard 1 provides insurers with an opportunity to establish a culture of risk awareness through regular conversation on risk appetite and risk tolerance. More importantly, it provides insurers with the opportunity to align IT risk management efforts with that of the rest of the business. For insurers to fortify their strategy, integration with cybersecurity and third-party risk assessment is key, to ultimately understand how the strategy of the organisation is impacted by risks related to IT.

Insurers will realise the benefits of Joint Standard 1 by harnessing lessons learnt from the outcomes of incidents within their own environment, understanding the root cause of these incidents and the remediation required over risks and controls.

Conclusion

Joint Standard 1 of 2023 reshapes the landscape of IT governance for South African insurers. The overall impact on insurers will include short-term disruption to day-to-day activities as management embeds control and reporting mechanisms to complement business as usual activities. The long-term benefit will be enhanced insights into the organisation’s technology landscape and mitigation of IT related incidents, which ultimately promotes an IT resilient organisation. The integration of IT risk and governance activities as part of an overall risk strategy allows the board to have a holistic view of risks and controls.



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The rise of (dis)regulation in the insurance industry in Africa

The International Association of Insurance Supervisors (IAIS) is the global standard-setting body responsible for developing and assisting in the implementation of principles, standards and guidance, as well as supporting material for the supervision of the insurance sector[1]. Currently, there are twenty African members of the IAIS, representing 33 countries. While the African continent is home to almost eighteen percent of the global population, the insurance industry in Africa represents less than three percent of insured catastrophe losses worldwide.

Despite the low levels of insurance uptake, there continues to be increased interest and focus from major international investors, brokers, insurers, reinsurers and other stakeholders[2]. What is pleasing to note is that the regulatory frameworks across the continent are evolving to ensure governance, compliance and supervision in the sector with varying levels of maturity; an important contributor in ensuring the sustained attractiveness from the international market.

As reflected on the right, the regulatory supervisory mechanisms in place across Africa, such as having dedicated prudential and conduct authorities established to appropriately supervise financial and insurance institutions, are well evolved.

[1] https://www.iaisweb.org/

[2] https://www.statista.com/topics/4206/insurance-industry-in-africa/

Key financial services regulators across Africa

Botswana
Non-Bank Financial Institutions Regulatory Authority (NBFIRA)

Tanzania
Tanzanian Insurance Regulatory Authority (TIRA)

Nigeria
National Insurance Commission (NAICOM)

Kenya
Kenya Insurance Regulatory Authority (IRA)

Ghana
National Insurance Commission (NIC)

South Africa
Prudential Authority (PA) and Financial Sector Conduct Authority (FSCA)

Rwanda
National Insurance Commission (NIC)

Mauritius
Financial Services Commission (FSC)

Financial Action Task Force (FATF) grey list

At the time of writing this article twelve of the 21 countries on the FATF grey list are from the African continent, with weak anti-money laundering regimes, failure to prosecute financial criminals and inherent weaknesses in applying a risk-based approach being among the common deficiencies identified in respect of these countries. While it is well understood that being included on the FATF's grey list impacts a country's ability to raise foreign direct investment, with associated capital inflows decreasing on average by 7.6% of GDP[3], it would be equally important to consider the impact of the grey listing on the regulatory frameworks in these countries' insurance sectors.

African countries currently grey listed by the FATF

- Burkina Faso
- Namibia
- Cameroon
- Nigeria
- Democratic Republic of Congo
- Senegal
- Kenya
- South Africa
- Mozambique
- South Sudan
- Mali
- Tanzania

[3] Kenya's independent, self-funded, multi-sectorial, non-political and apex non-profit Federation committed to consumer protection, education, research, consultancy, litigation, anti-counterfeits campaign and business rating on consumerism and customer-care issues (https://cofek.africa/about-us/)

Mauritius was removed from the grey list in 2021 after a remarkable turn-around, spending only one year on the notorious naughty list. The Mauritian Central Bank, Bank of Mauritius, made a concerted effort to address the technical deficiencies identified by the FATF in record time. This swift action renewed much needed trust in the Mauritian financial services sector. Had such timely intervention not taken place, this would have had a negative impact on insurers. Reinsurers and international partners would have been reluctant to partner with Mauritian insurers, while enhanced due diligence and know-your-customer (KYC) requirements would have increased the cost of doing business for stakeholders.

In 2023 two of Africa's largest economies were added to the grey list - Nigeria and South Africa. These countries are going to need to show an increase in financial crime prosecutions to have this indictment lifted. South Africa has since amended six laws that are key to the effectiveness of South Africa's anti-money laundering (AML) and combating the financing of terrorism (CFT) measures. While the FATF has commended South Africa on its significant progress made in addressing the deficiencies identified, there is still much work to be done and the global watch dog will be taking careful note. In Nigeria, NAICOM recently published AML related regulations with which insurance companies need to comply, which are expected to increase insurers' focus on robust customer due diligence and KYC protocols.

Kenya and Namibia are the most recent African countries to be added to the FATF grey list as of 23 February 2024, resulting in a flurry of regulatory activity as the regulators in both countries come to grips with the technical and strategic deficiencies identified in their respective mutual evaluations. In 2023 Kenya issued the AML Amendment Act 2023 and will need to complete a national terrorist financing assessment.

Conduct and a culture of fair treatment of customers

Whilst South Africa still awaits the proclamation of the Conduct of Financial Institutions Bill, the FSCA declared in its 2024 regulatory plan that developing the conduct regulatory framework is a priority for the conduct regulator over the next three years. This transition project is envisaged to be a multi-year project with implementation implications cutting across the sector. Nigeria has made great strides in the realm of market conduct, having published revised market conduct standards for insurers and reinsurers in January 2024. These standards can be distinguished from the principles-based market conduct regime envisaged for South Africa, with the NAICOM standards outlining specific aspects for enhancing fair treatment of customers, including guidelines on interacting with customers, examples of what fair treatment of customers entails and the responsibilities of senior management. We can clearly see that the Nigerian environment is more prescriptive and rules-based and it could be argued that this is simpler to implement. However, looking a bit deeper into the purpose of market conduct regulations, a principle-based framework allows for agility, flexibility and room for nuances in the financial services sector to achieve the broader goals.

Kenya's IRA declares that treating customers fairly (TCF) is the new normal for financial services firms and states that this is not merely a compliance exercise but a cultural shift in the way firms treat its customers. The regulator has also provided a self-assessment tool which creates an opportunity for firms to evaluate their organisation against the stipulated TCF requirements. The IRA issued the Insurance Amendment Bill in 2023, adding offences and penalties for management in insurance companies, with the main objective to increase accountability.

The Financial Services Commission in Mauritius, perturbed by lack of transparency and complex product structures as far back as 2013, has prioritised competency standards, benchmarking international standards and best practices to ensure that the Mauritian market is aligned with its peers. This was then followed by a market conduct evaluation of the industry, inspired by the Australian Securities and Investments Commission interventions.

With remarkable progress in the market conduct area of regulation, I would argue that vulnerable customers can look forward to fairer outcomes in the financial services sector. What remains to be seen is how intrusive regulators will be and how this supervision will practically play out. Will we see prohibitive fines and intense scrutiny changing behaviour or will this be white elephant regulation that has the best of intentions but no teeth?

Data privacy matters across the continent

As of January 2024, 36 out of 55 African countries (65%) have established data protection laws, with Ethiopia, Namibia and Malawi in the process of considering draft legislation to protect privacy in these territories. However, this still leaves almost a third of the continent without active data privacy regulations. The number of data protection laws in Africa has more than doubled in the last decade, and a third of these laws were passed in just the last five years. Seychelles, Tunisia and Bukina Faso were seen to be leading the charge with their data privacy rules established as early as 2004, while Nigeria only passed the Nigerian Data Protection Act in 2023[4].

However, the mere enactment of the law does not necessarily mean strict or effective enforcement and in many countries, regulators are still finding their feet. It appears that as regulatory authority monitoring regimes mature, we can expect increased scrutiny and more penalties for non-compliance.

According to the Association of Kenya Insurers, future looking trends in the insurance industry revolve primarily around data. Kenya has a dedicated data protection body - The Office of the Data Protection Commissioner (ODPC) established under the Data Protection Act (DPA) in 2019. In September 2023, the ODPC issued three penalty notices totaling KES 9,375,000[5], setting a crucial precedent in the enforcement of data privacy rights and compliance with the DPA. This finding was in respect of a digital credit provider operating mobile lending apps and misusing personal information obtained from third parties.

The South African Information Regulator issued its first administrative penalty under the Protection of Personal Information Act, with a fine of R5 million imposed against the Department of Justice and Constitutional Development[6] for failing to comply with an enforcement notice and requiring improvement to its cybersecurity controls.

The increasing prevalence of next generation technology is another trend that is being outlined by the Association of Kenya Insurers, calling for a heightened need for cybersecurity related regulations. The Kenyan government issued a roadmap, plotting the path from 2022 to 2027 addressing its plan to overcome risks of cyber threat. In South Africa, the joint standards pertaining to Information Technology Governance and Risk Management, and Cyber Security and Cyber Resilience Requirements, have also recently been finalised.

Across the continent data privacy seems to be a hot topic and regulators are enforcing this regulation with much enthusiasm for the rule of law. This may be an area that sets Africa on a new trajectory, protecting the rights of individuals to secure its privacy and recognise the sovereignty of data.

Regulation matters in Africa

We need constant vigilance by our regulators and regular reflection on the ultimate purpose of each piece of regulation to ensure the protection of the man on the street and his hard-earned money. Much work remains to reach this goal and with this work comes much opportunity to create a safe and robust insurance sector for the people of Africa.

4 https://dataprotection.africa/nigeria/

5 https://iapp.org/news/b/kenyas-odpc-issues-kes9-375m-in-data-protection-fines

6 Inforegulator.org.za

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Real-time reserving and reporting

One of the reasons we like watching sporting events in a live environment is that we can share in the banter with our friends, and give our expert opinion on the incredible try, amazing catch or mind-blowing free kick.

If you are an avid sports fanatic as I am and missed a match for whatever reason, you might occasionally play catch up and watch the replay within a few days of the event; less commonly would you watch the match a month or two after it had taken place. The world keeps moving and the conversation moves on quickly, so talking about a match that happened two months ago is 'ancient history' …unless your team just won the world cup for the fourth time, in which case it never gets old! Otherwise, something new has already happened and captured everyone's attention.

So why are we behind the times when it comes to financial reporting, and, in particular, why are we still running ad-hoc annual or quarterly reserving processes that often take a full quarter to report results? What would it take to get us closer to real-time actuarial reserving and financial reporting?

Firstly, why would we want to get to a state of real-time reporting?

Many of us may have heard of sports betting syndicates that try to gain an edge by having someone dial in from the stadium where the sporting event is happening, providing the back-office with live updates, benefitting from the lag on tv or radio transmission.

While having access to more accurate and up-to-date reserve estimates more frequently should allow insurance companies to respond to adverse developments more quickly, rather than deliberating on developments one or two months after the event, this is probably not the primary incentive.

> My view is that the main benefit would be derived through efficiency gains and longer-term cost savings that could be achieved. The automation of reserving and reporting processes would free up valuable time of business managers, actuaries, accountants and IT specialists to focus on other priorities, such as areas of judgement or higher risk. For example, more time could be spent on analytics to understand and respond to the underlying drivers of change in the business within shorter time frames.

Big data, robots, machine learning, generative artificial intelligence (AI) - technology is moving forward at pace. This begs the question, why have we not seen more significant progress in the automation of actuarial reserving and financial reporting within the insurance industry? Especially given the cloud enabled technologies now available.

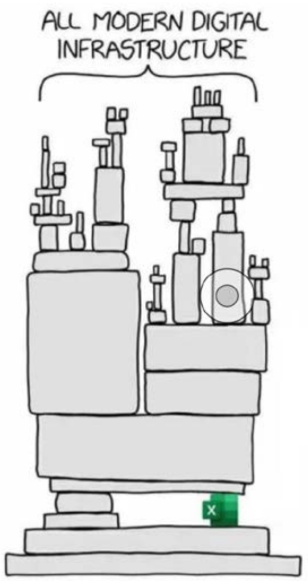
Constructive collaboration across business units and specialists is one of the biggest challenges to overcome, to bridge the gaps between:

- IT specialists, who understand the technology landscape and possibilities;
- actuarial resources that understand the data requirements, assumptions and key areas of judgement in technical reserving models; and
- the broader financial reporting teams, that understand the reporting requirements and business needs and who need to find the best way to communicate results with various stakeholders.

There is a lot of new technology out there and as technology develops, what is possible to achieve and the cost thereof keeps changing. Keeping on top of the fast moving, dynamic technology landscape and joining the dots between this and business reporting needs is where real value can be added.

IT specialists, actuaries and accountants speak different languages and can easily get frustrated with each other. Significant value can be unlocked by reducing this friction, and overcoming challenges created by structural silos within entities, that create political barriers to organisation-wide initiatives. These challenges can be compounded by the inappropriate design of key performance indicators, that can result in short-term budget focus, rather than long-term value creation.

We need to be cognisant of the circumstances. Incumbent business and process owners have typically invested significant amounts of time and money to develop the status quo and may resist change. In the spirit of typical human nature of protecting one's territory, these individuals might argue that it is near to impossible to automate as there are many key judgements that need to be made and ad-hoc manual updates to numerous excel spreadsheets are an essential part of the process:



- Key judgements - yes! That is why the specialists making those judgements should be focusing on analytics that can help understand the drivers of change and appropriateness of assumptions.

- Impossible to automate – no!

Interestingly, machine learning and artificial intelligence developments have seen companies attempting to 'clone' experts, to improve outcomes that will result in robust and consistent decision making. For example, robots are being trained by top-performing call centre operators to 'clone' their responses.

Despite all of the technological advances in this respect, I think the human touch and expert judgement overlay will continue to be critical.

To achieve the vision of real-time reporting, in addition to getting the right people in the room and getting everyone to collaborate as one, it would be key to source and cleanse data from numerous channels and systems.

As we know the foundation of excellence in financial reporting is built on quality data. Data would need to be sourced at the required level of granularity, appropriately structured and integrated to provide a live feed into systems in the required format. Of course, application programming interfaces (APIs) could assist with this aspect, facilitating the exchange of data between different software applications; and cloud services could speed up processing times.

In parallel to focusing on the data-feed, the model assumptions and logic would need to be untangled from the plethora of software and/or Excel spreadsheets currently in use. With the logic and assumptions as inputs, robust software could be developed relatively cost-effectively nowadays, and improved visual analytic reporting tools could be used to enhance the quality of management information.

Distilling the current processes into the key components, as described above, would also result in improved governance, reduced operational risks associated with manual processes, and increase transparency and understanding of key assumptions.

This would seem like a natural next step given the direction within which *IFRS 17 Insurance Contracts* has already taken us. Let us say goodbye to out of date and ad-hoc reserving and financial reporting. As much as I look forward to watching live sport this weekend, I am also excited about the prospect of reserving and reporting being produced in real-time!

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The East African insurance industry overview

The outlook for the insurance sector in East Africa is positive, with significant growth potential driven by increasing awareness, regulatory reforms, technology adoption and market diversification. However, the region faces challenges, such as low insurance penetration, economic volatility and regulatory fragmentation across countries within the segment.

Included below are current drivers of growth in the insurance sector:

a. Economic expansion

Rising middle class: economic growth in East Africa, particularly in Kenya, Uganda, Tanzania and Rwanda, is contributing to an uptick in disposable incomes, particularly in respect of the emerging middle class. There has been increased demand observed from this demographic for the purchase of insurance products such as life, health and property insurance.

Infrastructure projects: large-scale infrastructure projects in the region are boosting demand for commercial insurance products, particularly in sectors like construction, transportation and energy.

b. Regulatory reforms

Risk-based supervision: regulators in East Africa are increasingly adopting risk-based supervision models, enhancing transparency and stability within the insurance sector. These reforms are aimed at improving solvency, capital adequacy and governance among insurers.

Harmonisation efforts: there are ongoing efforts to harmonise insurance regulations within the East African Community (EAC), which may contribute to streamlined cross-border operations for insurers and create an integrated regional market.

c. Technology and digital transformation

Insurtech adoption: technology is playing a crucial role in improving access to insurance products in East Africa. Mobile platforms and digital tools are enabling insurers to reach underserved populations, especially in rural areas. Mobile insurance (e.g. M-Bima in Kenya) is growing in popularity, making it easier to distribute and manage insurance products.

Automation and artificial intelligence (AI): insurers are adopting AI, machine learning and data analytics to enhance underwriting, improve operational efficiency and accuracy, and for risk assessment and customer service.

d. Microinsurance and inclusivity

Microinsurance: there is growing focus on microinsurance to target low-income individuals and small and medium enterprises (SMEs). These products are tailored to provide affordable coverage for health, agriculture, life and asset insurance, especially for people in rural areas who are vulnerable to risks such as drought and illness.

Inclusive insurance: efforts to develop products catering for informal sectors and low-income households are expanding, driven by partnerships between insurers, non-governmental organisations (NGOs) and mobile network operators.

Key performance metrics

Gross written premium (GWP): the region witnessed an increase in GWP, with Kenya leading the pack, followed by Tanzania and Uganda. However, the GWP growth rate varies by country, driven by economic performance, regulatory changes and increased awareness.

Insurance penetration: despite the growth, insurance penetration remains relatively low across East Africa. In Kenya, penetration is approximately 2% to 3%, while in other countries like Uganda, Tanzania and Rwanda, it hovers around 1%. This is significantly lower compared to global averages.

Claims ratios: there has been an uptick in claims due to increased awareness and a rise in natural disasters such as floods, which have impacted insurers' profitability. However, insurers are investing in improving claims processing and fraud detection.

Growth opportunities

a. Untapped market potential

Low penetration rates: as noted above, insurance penetration rates in East Africa remain relatively low compared to global standards. This suggests an opportunity for insurers to expand and deepen market coverage.

There is growing demand for life and health insurance products due to increasing awareness of health risks, urbanisation and improvements in healthcare services.

b. Agricultural insurance

Agriculture is a vital part of East Africa’s economy, yet it faces significant risks from climate change and natural disasters. Insurers are increasingly providing agricultural insurance products, such as index-based insurance, to protect farmers from drought, floods and other climate-related risks.

c. Regional integration

The EAC and African Continental Free Trade Area (AfCFTA) agreements offer insurers the chance to expand operations across borders, benefiting from a larger and more integrated market. This could lead to more cross-border mergers and acquisitions, as well as the introduction of regional insurance products.

The sector is, however, faced with significant challenges that will require collaboration with various stakeholders such as the regulators, legislators, partners and various economic players for policy interventions to be addressed. Some of these challenges include:

- **Regulatory fragmentation**
  While there are efforts to harmonise regulations across the EAC, each country still has distinct regulatory frameworks, making it difficult for insurers to operate seamlessly across the region. Regulatory fragmentation leads to compliance challenges and higher operational costs for multinational insurers.

- **Low consumer awareness and trust**
  Many East Africans still lack awareness of the benefits of insurance or mistrust insurers due to previous negative experiences with claims settlement. This presents a significant barrier to insurance penetration, particularly in rural areas.

  Efforts to increase financial literacy and educate potential customers on the importance of insurance are critical to overcoming this challenge.

- **Economic volatility**
  The region faces periodic economic challenges, such as inflation, currency fluctuations, and political instability, which can affect the purchasing power of potential insurance customers. Economic volatility can also lead to higher default rates on insurance premiums, affecting insurer profitability.

- **High cost of distribution**
  The traditional insurance distribution model, which relies heavily on agents and brokers, can be costly, particularly in regions where population density is low. Insurers need to find innovative and cost-effective ways to reach customers, especially in rural and underserved areas.

d. Sustainability and environmental, social and governance (ESG) focus

As awareness of climate change grows, insurers are increasingly focusing on sustainable insurance products. ESG factors are becoming important considerations for insurers in the region as they aim to develop products that promote sustainability and respond to climate risks.

Insurers are beginning to offer products that protect against climate risks, which are particularly important for the agricultural and tourism sectors in East Africa.

IFRS 17 Insurance Contracts (IFRS 17) implementation reflections

The adoption and implementation of IFRS 17 marked a significant milestone in the global insurance industry, introducing a substantial shift in how insurance contracts are recognised, measured, presented and disclosed. The new standard is designed to increase transparency and comparability of financial statements across the industry. The journey to implementing IFRS 17 has been particularly challenging for the East African insurance industry, given the region's unique regulatory environment, market dynamics and varying levels of preparedness amongst insurers.

Included below are our key observations from the first year of implementation:

1. Level of preparedness and readiness

Initial challenges: the East African insurance sector faced considerable challenges in preparing for IFRS 17. Many insurers struggled with understanding the complexities of the new standard, including its requirements for detailed data, actuarial models and new accounting processes. The lack of local expertise further complicated the implementation process.

Regulatory support: regulators in East Africa provided varying levels of support. In some countries, regulators issued guidelines and timelines to assist insurers, while in others, the guidance was less clear, leading to inconsistencies in implementation across the region.

Technology and systems: a significant challenge for many insurers was upgrading or replacing existing IT systems to handle the new data requirements and reporting processes mandated by IFRS 17. Smaller insurers particularly struggled with the financial burden of these upgrades.

2. Transition and implementation

Approach to transition: insurers in East Africa adopted different approaches to transition to IFRS 17. Some opted for a full retrospective approach, while others chose a modified retrospective or fair value approach, depending on the availability of historical data and the complexity of their suite of insurance contracts and products.

A number of notable challenges were observed across the region related to the selection of transition approaches and measurement models, the application of discounting techniques and the determination of the risk adjustment.

As it relates to insurance finance income or expenses, the decision to recognise these amounts through profit or loss or through other comprehensive income was a tussle. This was particularly relevant to insurers where parent companies are domiciled in other jurisdictions with stable interest rate environments. These insurers were divided between adopting their parent companies’ accounting policy positions and obtaining exemptions to consider an approach that would be more reasonable and prudent considering the region’s economic uniqueness and realities.

Training and capacity building: the first year saw significant investments in training and capacity building by insurers, regulators and professional bodies. Insurers partnered with consultants, auditors and training institutions to upskill staff on the new standard. However, the pace of training was often slower than required, leading to a steep learning curve during the initial implementation phase.

Operational challenges: several operational challenges, including the integration of actuarial and finance functions, became more prominent, along with the need for more robust internal controls and the requirement for more granular data collection and analysis.

3. Financial reporting and impact

Financial statement changes: the first set of financial statements prepared under IFRS 17 showed significant differences from those prepared under *IFRS 4 Insurance Contracts* (IFRS 4). Insurers reported changes in profit recognition patterns, with some experiencing greater volatility in reported earnings due to the new measurement models.

Investor communication: insurers had to spend considerable effort communicating these changes to investors and stakeholders. The complexity of IFRS 17 made it challenging for investors to understand the true financial position and performance of insurers, leading to the need for enhanced disclosures and communication strategies.

Comparability issues: despite the objective of IFRS 17 to enhance comparability, the first year revealed that differences in implementation approaches across the region led to comparability issues, particularly for multinational insurers operating in multiple East African markets.

Post-implementation review

1. Lessons learnt

Importance of early planning: one of the key lessons learnt from the first year of IFRS 17 implementation is the importance of early and thorough planning. Insurers that started preparations early and invested in robust project management structures were better positioned to meet the challenges of the new standard.

Continuous training: the need for continuous training and education cannot be overstated. Insurers that invested in ongoing training for staff, rather than relying on once-off sessions, found the transition smoother and more manageable with more value gained in translating learnings into day-to-day operations.

Collaboration with stakeholders: effective collaboration with regulators, auditors and industry peers was crucial. Insurers that actively engaged with these stakeholders throughout the implementation process benefited from shared knowledge and experiences.

2. Regulatory and industry feedback

Regulatory adjustments: following the first year of implementation, some regulators in East Africa have indicated the need to refine guidelines and timelines based on the experiences of the industry. There is also a push for more harmonised regulations across the region to address comparability challenges.

Industry collaboration: the insurance industry in East Africa is considering forming more formalised working groups to share best practices and address common challenges in IFRS 17 implementation. This could lead to more standardised approaches and reduced implementation costs for smaller insurers.

3. Where to from here with IFRS 17

Continued evolution: the journey of IFRS 17 implementation is far from over. Insurers in East Africa will continue to refine processes, systems and reporting practices in the coming years as more experience is gained in understanding the standard.

Focus on data quality: improving data quality and granularity will remain a top priority. Insurers are likely to invest further in data management systems and analytics to meet the ongoing demands of IFRS 17 reporting.

Long-term impact: over the long-term, IFRS 17 is expected to bring about more transparency and comparability in the East African insurance industry, ultimately leading to greater investor confidence and a more robust insurance market.

The first year of implementation in the East African insurance sector has been a challenging but necessary journey. The experiences and lessons learned during this period will shape the future of financial reporting in the region and globally, paving the way for a more transparent and resilient insurance industry. Continued collaboration, investment in training, and focus on data quality will be essential as the sector moves forward with IFRS 17.

Future outlook for the East African region

a. Moderate to strong growth

The East African insurance market is expected to experience moderate to strong growth in the coming years, driven by increasing demand for life, health and agricultural insurance. Microinsurance and the expansion of digital distribution channels will be key growth areas.

b. Increased competition

With the entry of multinational insurance companies and the rise of local players, competition in the East African insurance sector is intensifying. Insurers will need to innovate and offer more tailored products to meet the diverse needs of consumers.

c. Continued regulatory evolution

Regulatory reforms aimed at improving solvency, transparency and consumer protection will continue to shape the landscape of the insurance sector. Insurers will need to stay agile and adaptable to these regulatory changes.

Overall, the outlook for the insurance sector in East Africa is promising, with significant opportunities for growth through innovation, technology adoption and regulatory harmonisation. However, insurers must navigate challenges related to low penetration, regulatory fragmentation and economic volatility. Those insurers that are able to leverage digital platforms and expand into underserved markets, while offering sustainable products, will be well-positioned to thrive in this ever-evolving market.

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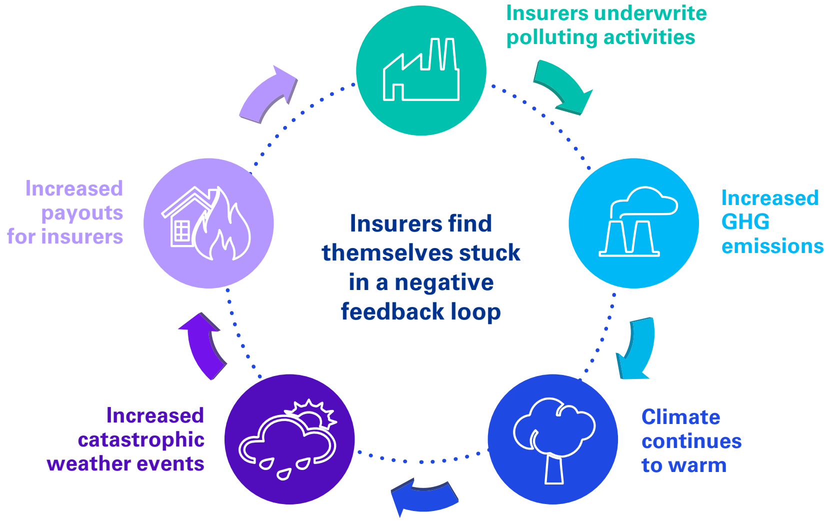
A reporting burden or a strategic imperative: the emergence of transition planning in the insurance industry

Since the 26th United Nations Framework Convention on Climate Change (also known as COP26) was held in Glasgow in 2021, there has been an upswell in the sentiment that financial institutions have a responsibility to accelerate the transition to a greener future[1]. The concept of fiduciary duty in this regard has been largely re-examined, extending beyond just financial returns for investors, to sustainable outcomes for society[2].

With climate conditions continuing to warm and persistent and more severe catastrophic weather events occurring at higher rates of frequency, scientists have made it clear that we need to significantly reduce green-house-gas (GHG) emissions. Either this, or we must accept the reality of increased destruction of physical assets, the loss of livelihoods and the fragmentation of communities[3].

These scenarios will become increasingly expensive for insurance companies to provide protection. There is also the possibility that these risks are not feasible to finance and/or are uninsurable – as has been the case for properties in parts of California[4]. The Bank of England's 2022 climate stress testing highlighted that risks captured in the Climate Biennial Exploratory Scenarios are likely to create a drag on the profitability of banks and insurers domiciled in the United Kingdom (UK). In South Africa, during the recent April 2024 storms that occurred in the Western Cape, non-life insurers received 160 claims in two days, which included claims over several heritage properties where the reinstatement thereof would cost 'millions'[5].

If we zoom out, we can see that insurers are caught in a negative feedback loop - insurers continue to underwrite polluting industries such as mining operations, with these industries contributing to warmer climate conditions, resulting in catastrophic weather events continuing to occur and insurance payouts eventually ensuing once disaster strikes.



1 United Nations Environment Programme (2021) What does COP26 mean for adaptation? Available at: https://www.unep.org/news-and-stories/story/what-does-cop26-mean-adaptation (Accessed: 11 August 2024).

2 Principles for Responsible Investment (PRI) (n.d.) Building on fiduciary duty in the 21st century: A legal framework for impact. Available at: https://www.unpri.org/fiduciary-duty/building-on-fiduciary-duty-in-the-21st-century-a-legal-framework-for-impact/12058.article (Accessed: 02 August 2024).

3 World Resources Institute (2023) 2023 IPCC AR6 Synthesis Report: Climate Change Findings. Available at: https://www.wri.org/insights/2023-ipcc-ar6-synthesis-report-climate-change-findings (Accessed: 04 August 2024).

4 CNN (2024). California's wildfires and housing insurance crisis. [online] Available at: https://edition.cnn com/2024/08/18/business/californias-wildfires-housing-insurance-crisis/index.html [Accessed 21 Aug. 2024]

5 Cape Times (2023) Cape of Storms to cost millions. Available at: https://www.iol.co.za/capetimes/news/cape-of-storms-to-cost-millions-92f84afb-b7fc-4f9c-8109-da736fa9984a (Accessed: 04 August 2024).

This leads us to consider and explore the answer to a very important question - how can insurance companies support those insured to become greener and more sustainable? This is important not only for those insured, but for the long term resilience of the industry.

It can be argued that financial institutions are relatively non-polluting when compared to other industries like mining and agriculture. Yet, through the respective underwriting services provided, insurers can inadvertently enable businesses to continue to pollute. Non-for-profit institutions, such as Reclaim Finance, aim to address this incongruence with a mandate to 'put finance to work for the climate'[6]. Many of these institutions have lobbied that financial institutions should take the route of 'robust exclusion and engagement policies'[6] to tackle polluting activities like fossil fuel expansion. Yet with the mining sector continuing to be a source of high profit generation for many large asset managers, this is wishful thinking. In the South African context, where the mining sector posted a net profit of USD15.7 billion in 2022[7] and employs nearly half-a-million people, this sector remains critical for job and energy security.

Leading insurers recognise that there is a need to transition away from polluting industries. For example, in April 2024 Zurich Insurance announced that it will no longer provide new insurance underwriting for oil and gas projects[8]. It also intends to mandate its highest-emitting corporate clients to implement strategies for reducing carbon emissions. On home soil, Santam also released a 'climate change position statement', emphasising the need to divest from a coal to low carbon economy[9]. Taking local considerations into account, Santam also highlighted the need for the just transition and consideration for stakeholders who are vulnerable to the effects of a low carbon transition[9].

Whilst insurers are at various stages of maturity, the concept of transition planning and understanding what a move to a low-carbon economy for high emitting sectors entails, is responsible as well as strategic. With many insurers having committed to net zero, insurers need to understand how to monitor and reduce their own GHG emissions, and importantly the GHG emissions of their underwriting book.

This leads us to a second set of important questions - what is a transition plan, and can it accelerate the myriad of competing environmental, sustainability and social factors insurers grapple with?

[6] Reclaim Finance (2022) Scorecard: Which asset managers are pushing back on fossil fuel expansion? Available at: https://reclaimfinance.org/site/en/2022/04/20/scorecard-which-asset-managers-are-pushing-back-on-fossil-fuel-expansion/ (Accessed: 19 August 2024).

[7] London Mining Network (2023) Corporate mining and Southern Africa. Available at: https://londonminingnetwork org/2023/08/corporate-mining-sa/ (Accessed: 08 August 2024).

[8] Insurance Business Magazine (2023) Zurich Insurance stops underwriting new fossil fuel projects. Available at: https://www.insurancebusinessmag.com/us/news/environmental/zurich-insurance-stops-underwriting-new-fossil-fuel-projects-484241.aspx (Accessed: 02 August 2024).

[9] Santam (n.d.) Climate Change Position Statement. Available at: https://www.santam.co.za/media/e0inhc0v santam-climate-change-position-statement_final-draft_exco_.pdf (Accessed: 02 August 2024).

What is a transition plan?

Whilst there is no single definition of a transition plan, this can largely be defined as an *externally-oriented* statement intended to inform stakeholders about an entity's ambitions and high-level actions in response to climate change, as well as its accountability mechanisms. Transition plans can also be used to facilitate co-operation and co-ordinated action between value chain partners and are explicitly required under most corporate climate disclosure standards.

As with many emerging fields, guidance on the scope of transition plans differs. A few examples are set out below:

Guidance	Definition
European Financial Reporting Advisory Group (EFRAG)	The exposure draft of European Sustainability Reporting Standards (ESRS) E1 Climate Change[10] defines a transition plan as the "Aspect of an undertaking's overall strategy that lays out a set of targets and actions supporting its transition toward limiting climate change to 1.5°C"[11].
International Financial Reporting Standards (IFRS) Sustainability Standards	Accompanying guidance on climate-related disclosures defines a climate-related transition plan as, "an aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions"[12].
Glasgow Financial Alliance for Net-Zero (GFANZ)	The GFANZ final report for financial institutions[13] defines a net zero transition plan as "a set of goals, actions, and accountability mechanisms to align an entity's business activities with a pathway to net-zero GHG emissions that delivers real-economy emissions reduction in line with achieving global net zero"[14].
The UK Transition Plan Taskforce (TPT)	The TPTs' Disclosure Framework[15] builds on definitions such as those set out above and suggests that a good practice transition plan clearly articulates an entity's "objectives and priorities for responding and contributing to the transition towards a low GHG-emissions, climate-resilient economy. It also sets out whether and how the entity is pursuing these objectives and priorities in a manner that captures opportunities, avoids adverse impacts for stakeholders and society, and safeguards the natural environment"[16].

Although these frameworks are nuanced, there are several overlapping themes which are important for all transition plans. Broadly, transition plans should cover objectives and priorities to:

- decarbornise business models, strategies, operations and value chains in the short-, medium- and long-term;
- enhance resilience to the ever-changing climate and respond to the risks and opportunities that arise from transition; and
- embed and accelerate the economy-wide transition to a low-GHG emissions, climate-resilient society.

It is also important that transition plans address ESG risks and opportunities that have been identified as material for the insurer. A double materiality assessment (DMA) for example, is a good exercise for insurers to perform to identify material ESG risks and opportunities.

A DMA is the process for prioritising sustainability topics. Material topics are those that have an impact on the company (financial materiality) and/or through which the company has an impact on society and/or the environment (impact materiality)[17].

The outputs of the DMA can then be used to inform the transition plan and key activities in response to the risks and opportunities surfaced. A DMA is currently used by insurers to identify material topics for Corporate Sustainability Reporting Disclosures (CSRD).

10 https://www.efrag.org/sites/default/files/sites/webpublishing/SiteAssets/ED_ESRS_E1.pdf

11 European Financial Reporting Advisory Group (EFRAG) (2023) Draft European Sustainability Reporting Standards (ESRS) E1. Available at: https://www.efrag.org/sites/default/files/sites/webpublishing/SiteAssets ED_ESRS_E1.pdf (Accessed: 02 August 2024).

12 International Financial Reporting Standards (IFRS) (2022) Climate-related disclosures: Strategy and decision making and climate-related targets. Available at: https://www.ifrs.org/content/dam/ifrs/meetings/2022/november/issb/ap4a-climate-related-disclosures-strategy-and-decision-making-and-climate-related-targets.pdf (Accessed: 10 August 2024).

13 https://assets.bbhub.io/company/sites/63/2022/09/Recommendations-and-Guidance-on-Financial-Institution-Net-zero-Transition-Plans-November-2022.pdf

14 Bloomberg (2022) Recommendations and guidance on financial institution net-zero transition plans. Available at: https://assets.bbhub.io/companysites/63/2022/09/Recommendations-and-Guidance-on-Financial-Institution Net-zero-Transition-Plans-November-2022.pdf (Accessed: 04 August 2024).

15 https://transitiontaskforce.net/wp-content/uploads/2023/10/TPT_Disclosure-framework-2023.pdf

16 Transition Plan Taskforce (TPT) (2023) Disclosure framework. Available at: https://transitiontaskforce.net/wp-content uploads/2023/10/TPT_Disclosureframework-2023.pdf (Accessed: 03 August 2024).

17 https://kpmg.com/be/en/home/services/sustainability-services/double-materiality-assessment.html

What do transition plans look like in the insurance industry?

GFANZ provides an overview of some of the first transition plans that have been released into the market across the asset management, banking and insurance sectors. As with any new reporting initiatives, these reports vary in specificity.

From an insurance perspective, there are several key themes across many of these reports. The information below is derived from publicly available transition plan reports.

Theme	Example commitments, initiatives and metrics
Reduction in GHG emissions from own operations and supply chain	Own operations: Allianz committed to sustainable aviation fuel purchases for remaining air-travel emissions as of 2023[18]. Supply chain: Dia-ichi Life holdings built a sophisticated GHG data management system and engaged with 55 investees to understand GHG emissions[19].
Investments in climate solutions	Allianz committed to engaging with 20 million motor retail customers to support transition to electric mobility as well as offered clients incentives for reducing emissions in the motor retail sector[18].
Sustainable investment mandates	The Phoenix Group committed to a 25% reduction by 2025 in the carbon emissions intensity of its listed equity and credit assets over which it has control (c. EUR160 billion)[20].
Stakeholder engagement	Allianz is taking a lead role in the UN-convened Net Zero Asset Owner Alliance[18], a member-led initiative of institutional investors committed to transitioning their investment portfolios to net zero GHG emissions by 2050 – consistent with a maximum temperature rise of 1.5°C.
Policy and advocacy	The Phoenix Group is developing innovative commercial models, both unilaterally and in collaboration with others, to overcome market barriers to scaling up investment in proven technologies such as heat pumps[20].

Many of the commitments highlighted above indicate the importance of cross-sectorial engagement, industry collaboration and partnerships – all of which are important for insurers to reach its net zero goals.

Transition planning – opportunities for product innovation

If done thoroughly, transition planning extends beyond an onerous reporting obligation. This exercise can help insurers understand the decarbonisation pathways of different sectors and think strategically about their product mix. A recent study demonstrates that the number of patents for clean energy insurance has doubled in the last decade[21]. This trend underscores a strategic shift towards developing and targeting these specialised products. For example, industry leaders like Zurich, Aon and Munich Re are providing comprehensive insurance solutions for hydrogen projects and addressing the risks associated with clean energy infrastructure. Similarly, the patents for carbon capture within the insurance sector increased from 2 009 in 2014 to 5 143 in 2023. These collaborations play a crucial role in accelerating the energy transition and meeting net zero targets[22].

Although these are examples from abroad, our South African president, Cyril Ramaposa, has been clear that he plans to drive South Africa towards a low-carbon economy through the scaling up of renewable energy sources and reducing reliance on coal. To do so, we will need substantial investment to build sustainable infrastructure, develop green technologies and support social programmes[23]. Insurers in South Africa can help to support the renewable energy transition through innovative underwriting and product offerings, like parametric insurance, as well as investing their own assets in renewable projects. A transition plan can help insurers identify and articulate how they can help their customers and the country move towards a net zero target by 2050.

18 Allianz (2023) Inaugural Net-Zero Transition Plan. Available at: https://www.allianz.com/content/dam/onemarketing/azcom/Allianz_com/sustainability/documents/Allianz_Inaugural-Net-Zero-Transition-Plan.pdf (Accessed: 02 August 2024).

19 Dai-ichi Life Holdings (2023) Net-zero transition plan. Available at: https://www.dai-ichi-life-hd.com/en/sustainability/environment/nztransitionplan.html (Accessed: 02 August 2024).

20 Phoenix Group (2023) Net-zero transition plan. Available at: https://www.thephoenixgroup.com/media/vtlix0gh/net-zero-transition-plan.pdf (Accessed: 02 August 2024).

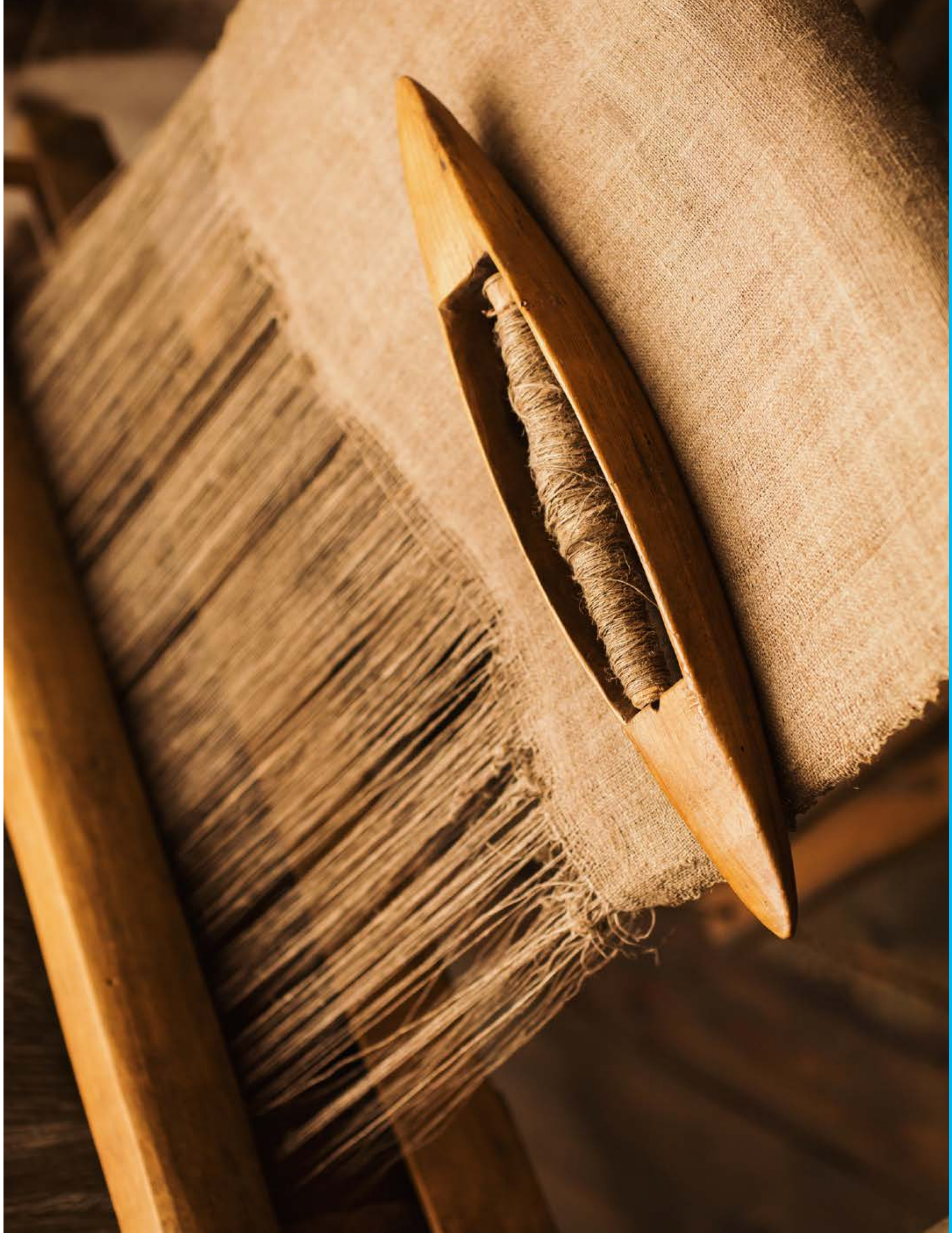
21 GlobalData (2023) Insurance industry sees surge in clean energy and carbon capture patents, reveals GlobalData. Available at: https://www.globaldata.com/media/insurance/insurance-industry-sees-surge-in-clean-energy-and-carbon-capture-patents-reveals-globaldata/ (Accessed: 11 August 2024).

22 https://www.globaldata.com/media/insurance/insurance-industry-sees-surge-in-clean-energy-and-carbon-capture-patents-reveals-globaldata/#:~:text=Similarly%2C%20the%20patents%20for%20carbon,ongoing%20innovation%20within%20these%20segments.

23 Mail & Guardian (2023) Ramaphosa: Just energy transition will need R1.7 trillion. Available at: https://mg.co.za business/2024-07-15-ramaphosa-just-energy-transition-will-need-r1-7-trillion/#:~:text=he%20Just%20Energy%2 Transition%20Investment%20Plan%20for%20the,decarbonisation%20commitments%20by%202050%2C%2 president%20Cyril%20Ramaphosa%20said.

Effective transition planning within the insurance industry is more than a strategic necessity - it is a proactive approach to ensuring business continuity, regulatory compliance, competitive advantage and long-term sustainability. Like the real economy, insurers also have a duty to play in the transition to a low carbon, greener future. The sustainability of the sector depends on it.

As the landscape continues to evolve, driven by technological advancements, shifting regulatory requirements and changing customer expectations, insurers must embrace a forward thinking mindset. By implementing robust transition plans, insurers can navigate disruptions, mitigate risks and capitalise on new opportunities. Ultimately, a well-crafted transition plan not only safeguards an insurer's competitive edge but also builds resilience, fostering confidence among stakeholders and positions the organisation for continued growth and success.



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[1] https://kpmg.com/xx/en/home/insights/2024/02/kpmg-firms-recognized-as-a-global-leader-in-esg-and-sustainability consulting.html

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Developments in respect of value-added tax

While the last few years have seen a low extent of activity in respect of VAT legislation specifically related to the insurance industry, the last twelve months have seen two notable developments for South African insurers which we explore in this article.

Indemnities by way of reinstatement

The most welcome and long outstanding matter that has finally been addressed is the clarification of the treatment of output VAT imposed on and documentary evidence required by an insured party in respect of indemnities by way of reinstatement. This relates to instances where assets of the insured party are repaired or replaced by the insurer, commonly referred to as "reinstatement".

The insurance industry treated these transactions for VAT purposes consistently with the written approval granted by the South African Revenue Service (SARS), in that output VAT was not imposed on the insured party in respect of indemnities by way of reinstatement. However, the VAT treatment of these transactions caused a fair amount of debate when section 72 of the VAT Act was amended in 2019.

The debate arose in respect of section 8(8) of the VAT Act, which triggers a deemed supply for the insured VAT vendor in relation to indemnity payments. This section of the VAT Act was intended to deal with cash indemnities paid by an insurer to an insured or a third-party in respect of third-party damages. Given the wording of this section of the VAT Act, SARS, after almost 30 years, interpreted the wording as including payments made to suppliers of goods or services where the insurer contracts with aforesaid suppliers to reinstate a damage. The interpretation applied by SARS would have resulted in all payments made by insurers to indemnify insureds, whether by way of cash indemnity payments or indemnities by way of reinstatement, which resulted in output tax being payable by insured parties registered as VAT vendors.

The purpose of the section 72 amendment of the VAT Act was to give SARS the discretionary power to issue rulings to overcome difficulties, anomalies or incongruities, for as long as the ruling does not have the effect of substantially increasing or reducing the VAT liability due by VAT vendors. This section was subsequently amended to limit its application, since it had the effect of SARS becoming a law maker, as opposed to an administrator of an Act of Parliament.

One of the qualifying criteria introduced in section 72 of the VAT Act was that these rulings may not be in contrast with the construct of the VAT Act. Following the amendment to section 72 of the VAT Act issued in 2019, SARS had a change of heart which caused intensive debate, the necessity for at least two senior counsel opinions, continuous negotiation and multiple submissions for amendments to National Treasury, all of which were driven by the South African Insurance Association (SAIA).

These efforts paid off when section 8(8) of the VAT Act was amended and section 8(8A) was introduced with effect from January 2024. SARS released an updated BGR 14 (Issue 4) on 22 May 2024 to take the amendments into account. The effect was essentially the same as what the original section 72 ruling achieved (pre-2019 amendments), however, this application is now based on specific provisions in the VAT Act. In summary, there will be no output VAT imposed on the insured party in respect of indemnities by way of reinstatement. Output VAT will now only be imposed on the insured party, third-party or the third-party's insurer (in the event of a third-party claim) in respect of cash indemnity payments.

Capitec case

Another development during the year and of importance to insurers is in respect of the judgement in the Capitec case, a landmark case heard in the Constitutional Court. This case dealt with credit insurance which Capitec supplied free of charge to its debtors in respect of loans provided. This case considered whether or not Capitec was correct in having claimed a section 16(3)(c) deduction in terms of the VAT Act, when it credited its debtors accounts by the indemnity amount that arose as a result of the occurrence of the “insured event”, being death or retrenchment.

Section 16(3)(c) of the VAT Act provides for a deduction of an amount equal to the tax fraction of any payment made to indemnify another person in terms of any contract of insurance, but only if the contract of insurance is a taxable supply.

Another important section of the VAT Act to consider in respect of this judgement is section 10(23) of the VAT Act, which provides that where a supply is made for no consideration, the value of the supply is deemed to be nil.

Initially, the Tax Court found in favour of Capitec. Thereafter, the Supreme Court of Appeal found in favour of SARS. The Supreme Court of Appeal was of the opinion that no deduction can be claimed since the “insurance” provided was in respect of debt, the creation of which is exempt from VAT. The Constitutional Court, similar to the lower courts, was not asked to consider if the credit insurance provided was indeed insurance, but rather whether the insurance provided was in fact a taxable supply for no consideration, as envisaged in section 10(23) of the VAT Act, and if so, whether a deduction in terms of section 16(3(c) of the VAT Act is claimable.

The Constitutional Court held that the insurance service is factually provided without any charge, on the basis that the loan agreements with customers stipulated that Capitec provides the credit insurance cover free of charge. The Constitutional Court further held that section 10(23) of the VAT Act does indeed find application in the circumstances.

Regarding the deductibility of the tax fraction in terms of section 16(3)(c) of the VAT Act, the Constitutional Court confirmed that no apportionment provisions exist in the VAT Act dealing with deductions, such as the deduction by insurers in respect of indemnity payments made under a taxable contract of insurance. The Constitutional Court nevertheless considered the apportionment of the claim, on the basis that the service provided by Capitec at no charge also involved taxable fees and the credit insurance in question, with the result that the credit insurance was actually supplied partially in the course of making taxable supplies. On this basis, and without any specific legislative provisions, the Constitutional Court held that it is correct in law, based on a number of Income Tax cases, that apportionment of deductions is to be applied in certain circumstances where the legislation does not specifically cater for the same, but where it is fair and reasonable within the construct of the statute. On this basis the Constitutional Court referred the matter back to SARS to consider issuing a section 72 ruling under the VAT Act to facilitate the appropriate apportionment of the deduction.

The court went on to further to suggest that SARS should have pro-actively considered an appropriate method of apportionment and issued a section 72 ruling in terms of the VAT Act, despite the fact that Capitec did not believe that apportionment is necessary and consequently did not apply for such a ruling.

The decisions by the Constitutional Court in this matter sparked widespread commentary and debate, and placed SARS in a very difficult position, given the basis of the decisions. The case further raised questions on what the wider implications of these decisions could be on other industries or transactions. For example, does the Constitutional Court’s interpretation apply to non-life insurers whereby input VAT deductions on indemnities might need to be apportioned, by virtue of the fact that non-life insurers also earn exempt investment income?

SARS, in our view, was equally placed in a very difficult position to give effect to the judgement, considering that the amendment to section 72 of the VAT Act was introduced to ensure that SARS is not in a position to effectively make the law, by virtue of rulings issued in terms of section 72 of the VAT Act. To pro-actively issue a section 72 ruling in terms of the VAT Act whilst it believed that no deduction could be made, could potentially amount to SARS contravening this requirement.

Another debate that has arisen is whether the cover provided is in fact insurance as defined in the VAT Act, and if so, whether the cover in question was envisaged by the lawmaker when the VAT Act was introduced. Even if the cover provided is insurance, the question is whether the cover provided actually constitutes life insurance cover in the conventional sense. Since the VAT Act defines the term "insurance" broadly, to include any cover provided in terms of a contract/agreement, with no specific requirement for premiums to be payable, one cannot have regard to the Insurance Act for guidance in this regard. While, the VAT Act does make reference to life insurance as defined in the Insurance Act, which is exempt in terms of the VAT Act, the cover provided by Capitec does not constitute life insurance and therefore does not have relevance in this regard.

Given the substantial deviation in the conventional interpretation of the relevant sections to date, and the potential wider impact these decisions may have, it is believed that SARS will in all probability consider legislative amendments to avoid any obscure results and to give effect to the legislator's original intention, i.e. to include the supply of non-life insurance in the VAT Act. Until then, it remains to be seen how SARS will interpret and apply the judgements in practice.

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The not-so-happy path for insurers

One of the challenges for South African insurers is the difficulty in improving business performance due to a disconnect between operational processes and technological capabilities. Often, the way internal processes run in the live business environment is quite different from how they were designed or how management believes they operate.

In recent years, significant investments have been made by insurers in technology and people, particularly in respect of *IFRS 17 Insurance Contracts* (IFRS 17) implementations, cloud infrastructure, data warehousing and cybersecurity management and controls. However, investment in core business process optimisation has lagged. With many large-scale transformational projects now complete or nearing completion, the remaining process gaps and inefficiencies are glaring, with many insurers continuing to experience process bottlenecks and implementing manual workarounds, resulting in mounting frustrations and declining intra-organisational trust. It remains a difficult climb, as the feedback from our South African actuarial transformation survey referenced in this survey confirms.

Insurance executives rightly describe their digital transformation journeys as landing on a "not-so-happy path", after all the efforts made in other areas of technology to-date. This begs the question - how does one modernise insurance processes, particularly finance and actuarial processes, whilst also ensuring that key stakeholder pain points are effectively addressed?

Understanding the pain

Before addressing process challenges in finance and actuarial transformations, it is essential for stakeholders to understand the type of processes that are involved in the problem statement.

Think about automating processes in operational areas of the business. Despite the inherent complexities prevalent in actuarial underwriting, onboarding customers during the sales process, providing policy quotations, or performing predictive modelling for lapses and retention, these non-finance processes typically deal with high volumes of transactional data which is accompanied by metadata[1], often making these processes easier to automate.

However, finance processes are different in nature. These processes are generally characterised by more aggregated and summarised data that require grouping, transformation or modelling of a particular formula, and often require period-on period comparisons across a number of different metrics. Finance user needs are cyclical, with different groups of users having different needs at different points in time, and each step requiring a different level of intervention.

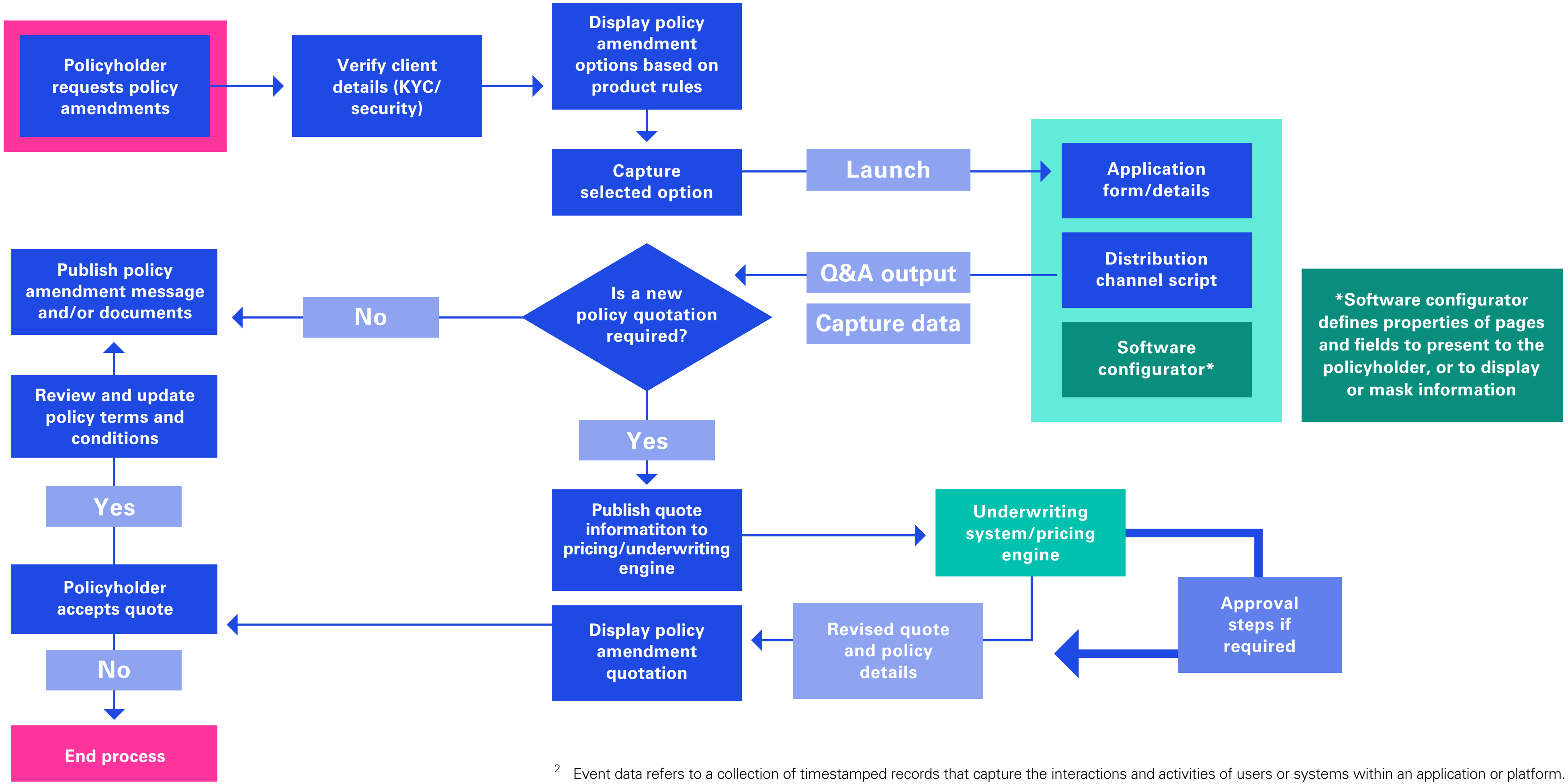
Let us refer to finance process needs as "management information" or "analytical data", to create the distinction from transactional data. While finance processes are built on transactional data as a key input (e.g. premiums, claims and expenditures), the challenge lies in automating the processes and models that generate management information, i.e. the tasks that transform transactional data into aggregated analytical data.

[1] Data that provides information to describe and explain other data e.g. timestamps (https://dataedo.com/kb/data-glossary/what-is-metadata)

Which process map?

When dealing with high transaction volumes and large amounts of data, finding an optimal "happy path" is easier. The process usually starts with extracting case-centric event data[2], which is stored in event logs[3]. This step involves describing the sequence of events, also known as a case, from beginning to end. The information of the case is captured in logs that typically include three key attributes: a case ID (identifying the case), an activity (description of the event in the process), and a timestamp (when the event occurred).

Diagram 1: Example of a policy amendment case and its events



[2] Event data refers to a collection of timestamped records that capture the interactions and activities of users or systems within an application or platform. Event data is typically stored in a structured format, making it easier to analyse and derive insights from. (https://www.dremio.com/wiki/event-data/). See also https://www.celonis.com/blog/what-is-object-centric-process-mining-ocpm/

[3] An event log is a chronologically ordered record of events occurring within a system or process, often used for troubleshooting and analysis purposes. (https://sematext.com/glossary/event-log/)

A business analyst can use this event data to understand the extent of efficiency within an insurer's processes. By analysing the most frequent starting and ending activities, as well as the connecting activities in between, one is able to gain full transparency into the workflows. This allows one to identify common problems and hidden opportunities to remove inefficiencies.

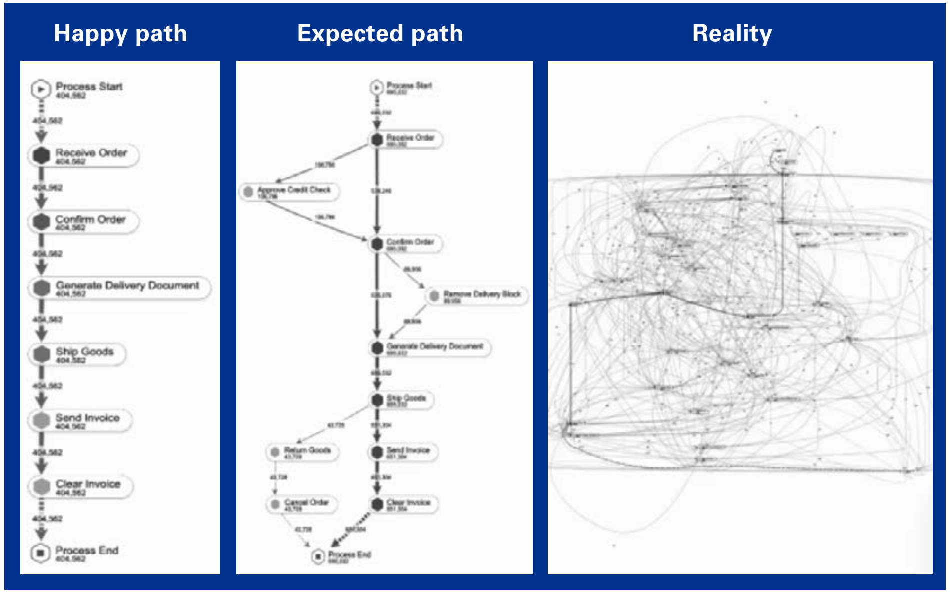
In such high transactional data scenarios, making tooling decisions is also simpler. There are excellent process mining and engineering software tools available that reduce the effort required to modernise processes. These tools help insurers transition from having a static, two-dimensional view of processes to dynamic, three-dimensional views. This is where the value lies, in being able to obtain insights to identify areas of opportunity and remediation to ultimately implement robust process optimisation initiatives.

However, certain traditional process mining techniques have limitations:

- data extraction and manipulation can remain a challenging and repetitive manual task for most insurers and can negate the efficiencies obtained through data transformation and analyses;
- 3D reality is squeezed into 2D event logs and models making it difficult to understand and visualise the true reality of the operationalisation of processes;
- interactions between cases and activities (i.e. how the sequence of events followed by a particular client or user influences another case) in a process are not always clearly defined or captured, which can take valuable time and effort to document in a manual fashion; and
- defining such relationships often require building a relational database[4], which is seldom catered for in traditional process mining techniques.

Object-centric process mining (OCPM) is a new approach that addresses the limitations of traditional case-centric process automation techniques. Tools that incorporate OCPM can help insurers better visualise and analyse the complexity and interconnectedness of modern business operations.

Diagram 2: Examples of organisational workflows



Source: https://www.celonis.com/blog/what-is-object-centric-process-mining-ocpm/

A detailed explanation of how these OCPM techniques work is out-of-scope for this article. For those that are interested in the topic, there are modern software tools available that leverage the use of object-centric event data (tracking events with its multiple cases) instead of case centric event data (following a single case path) that can help an insurer gain a clearer understanding of its processes, leading to more effective identification and resolution of operational inefficiencies.

So back to the difficult path for finance areas….

4 A relational database (RDB) is a way of structuring information in tables, rows, and columns. An RDB has the ability to establish links or relationships between information by joining tables, which makes it easy to understand and gain insights about the relationship between various data points. (https://cloud.google.com/learn/what-is-a-relational-database).

A different journey

Unlike high transactional volume processes where deviations from standard processes are measurable, non-transactional processes (that may still involve high volumes of data, for example, actuarial liability calculations for financial reporting purposes) rely substantially on the involvement of people. Adding further to this complexity is the fact that these processes are characterised by intricate workflows across different systems, manual improvised activities and cross-dimensional collaboration between various teams. In this multifaceted environment, what is considered to be standard business process and a deviation from the norm is hard to agree on, as this is nuanced and tailored for each insurer's specific needs and the legacy systems and processes by which it is characterised.

The good news is that advances in process engineering can also be tailored for management information process needs to achieve operational excellence. This can be achieved in combination with other software tools.

The journey starts with similar principles. First, process mapping and analyses. This step is crucial and may require more effort for non-finance processes given all the manual steps and preferred ways different people in the value chain have set things up for themselves to cope with the challenge at hand. Assembling a cross-functional team to map out the entire process, including all steps, decision-making points and stakeholders involved is usually part of the recipe for success.

Next, is to identify bottlenecks and redundancies. This requires maturity from participants in the process as they look for areas where the process slows down or where there are unnecessary steps involved. Identifying opportunities for improvement is often easier to spot in "the other team", but the discipline required is to ask probing questions about your own processes that can ideally be sped up. Usually, some external party challenge is required to cause enough offence to start admitting there might be areas for improvement in your own team - not-so-happy finance colleagues challenging discomforted actuaries, and vice versa, should be seen as a necessary part of the journey that is being walked together.

Last is data analysis - to analyse the source data sets and ultimate post-transformation management information, and each step in the journey thereto. If you have not been able to identify trends and patterns, then you have not applied enough investigative time on your journeys. This helps in understanding where inefficiencies lie and how they can be addressed.

By following these steps, insurers can start optimising their non-transactional processes, leading to better operational efficiency and improved customer experiences. This readiness is what unlocks the transformational steps that can then be explored.

The happy-path

The common goal at hand is to focus on automating repetitive tasks wherever possible, and considering the right tooling for the particular problem. By implementing workflow automation options, insurers are able to optimise their processes, leading to better operational efficiencies.

Included below are some examples of best practice initiatives that insurers have applied to non-transactional finance processes:

- **Workflow tooling and robotic process automation**

  Robotic process automation (RPA) integrates technologies that recognise user interfaces with tools designed to execute workflows. By combining these technologies, RPA can automate repetitive tasks. This automation mimics human interactions with digital systems, making processes more efficient and reducing the need for manual intervention. These applications follow predetermined actions within specified applications, replicating and replacing human interactions required to complete business processes.

  These technologies assist in designing and developing automated processes and controls for better validation, simplified reporting and dynamic dashboards to track process efficiency. Workflow management tools help track task progress and ensure completion in a timely manner. It can also integrate with other systems to automate data exchange and eliminate manual handoffs. Even if the transaction volumes are low, RPA can significantly improve efficiency and reduce manual effort.

- **Insurance specific system-agnostic workflow and governance tools**

  Willis Towers Watson's (WTW) Unify tool is an example of an enterprise-wide system integration, automation and governance platform designed specifically for the insurance industry. It can integrate with disparate systems in an insurer's ecosystem, allowing application programming interface (API)[5][6] driven data flows, automating routine tasks and providing best practice built-in governance reporting. It can be integrated with other data visualisation tools and help streamline the broader finance reporting process.

- **Streamlining Excel file processes**

  Manual data inputs, extraction of results from actuarial software models, and the subsequent manipulation in Excel models create bottlenecks in actuarial workflows and generating results for finance teams. Using, for example, Python software[7] to convert Excel models into Python code can streamline the process of translating Excel-based calculations into efficient automated scripts which can also be integrated within workflow software to improve user experience. Automation software can be used in conjunction with collaboration tools to facilitate communication and information sharing between teams.

  An increasing number of insurers are also exploring generative artificial intelligence (AI) where security parameters have been set up to leverage available AI tooling without compromising company sensitive data.

- **Incorporating R[8] and Python scripts into business planning tools**

  Integrating R and Python scripts into business planning tools can enable better handling of larger data sets and more complex calculations, enhancing comprehensive business planning. Again, these can be integrated within workflow software to improve user experience.

- **Other actuarial modelling considerations**

  Most common actuarial models, like Prophet, currently run on central processing units (CPUs), which can take days for a full model run with thousands of simulations to compute. Insurers are looking at ways to improve processing time by improving speed and reducing cost. In addition to replacing existing actuarial models with low code actuarial software solutions, e.g. RiskAgility Financial Modeller (FM), or other low code solutions, e.g. SAS that integrates with other process software tools, some insurers are migrating these models from CPU to graphics processing units (GPU) (which is a specialised processor that enables a significant improvement in processing speed and cost reduction). With GPU the vectorisation[9] benefits can potentially outweigh the increased IT costs for some model types.

5 APIs are mechanisms that enable two software components to communicate with each other using a set of definitions and protocols. (https://aws.amazon.com/what-is/api/#:~:text=API%20stands%20for%2Application%20Programming,other%20using%20requests%20and%20responses)

6 APIs are an accessible way to extract and share data within and across organisations. (https://www.mulesoft.com/resources/api/what-is-an-api)

7 Python is a high-level, general-purpose programming language known for its readability, simplicity and versatility. It is used for building websites, software, automating tasks and conducting data analyses.

8 R programming is a free, open-source programming language designed specifically for data mining, statistical analysis, data visualisation and machine learning.

9 Vectorisation is a technique used by PC processors to perform calculations on multiple elements of an array simultaneously, rather than processing each element one-by-one. This allows for faster computation, often achieving speeds up to N/4 times faster, where N is the number of elements in the array.

Of course, there are other wider considerations that need to be taken into account:

- When assessing which platform might be the best for your organisation, consider factors such as functionality, cloud support, service support, maintenance and available skill sets.
- Assess the extent of compatibility between current and prospective model platforms and data conversion tools.
- Agree on standardised data specifications within the organisation and implement appropriate mechanisms to effectively monitor the maintenance of data lineage[10].
- Continuously assess the objectives of the transformation journey to ensure that focus is maintained on efficient business outcomes and that the design remains fit for purpose.
- Engage with business-as-usual teams during the change journey to circumvent and minimise transition risk.
- Supplement the operational efficiency transformation journey with the involvement of the right level of expertise where required, e.g. process automation, data management, technology solutions and/or program management experts.

From pain to gain

Optimising business performance requires a nuanced approach to process engineering. High transactional data processes benefit from traditional process mining techniques, which allow for clear identification and automation of repetitive tasks. Tools like RPA and advanced workflow management systems can significantly enhance efficiency and reduce manual effort.

However, non-transactional processes, characterised not only by high volumes of data but also more complex and nuanced workflows and interventions, demand a different strategy. Here, similar steps are followed to understand and map out processes in detail, identify bottlenecks, and leveraging tailored automation tools, but with a different lens. Only once these steps are effectively taken can integration of other advanced technologies be considered for further investment to streamline operations.

Ultimately, the key to successful process optimisation lies in a comprehensive understanding of the particular challenges and requirements of the type of process you are dealing with, and the specific goals, objective and nuances of your organisation. Once that is understood, the happy path may not be that elusive any longer.

[10] Data lineage is the process of tracking the flow of data over time, providing a clear understanding of where the data originated, how it has changed, and its ultimate destination within the data pipeline. (https://www.ibm.com/topics/data-lineage)

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The value of insurance

Introduction

Meet Lucy. Lucy is 24 years old and has just graduated from university. She started her first job and rented her first apartment. As Lucy is scrolling through various online stores in an endeavour to furnish her new abode, she stumbles upon a killer clearance sale. After a few hours of retail therapy, Lucy bought an air fryer, coffee machine and a robot vacuum.

After a night out with a few friends, Lucy takes an Uber home. On her way home in the Uber, she tries to activate her robot vacuum using her mobile app. An error message pops up on her phone. When Lucy arrives home, she finds her apartment flooded and her robot vacuum floating upside down.

If only Lucy was insured...

If you are like me, having grown up listening to Hannah Montana and watching Disney classics such as High School Musical and the Suite Life of Zack & Cody, you will find yourself a main member of "the first global generation", namely Gen Z.

According to research, Gen Z is expected to make up 30% of the global workforce by 2025[1]. With employment and a salary comes great responsibility, some refer to this as "adulting".

In the context of this article, responsibility is knowing the value of being insured.

Insurance is like what shin guards are for soccer players, helmets are for cyclists and mouth guards are for hockey players. Insurance is all about protection and security; planning for the unexpected and making sure you are covered in times of loss or damage.

So why does insurance matter? [2 3]

1. It protects your family and loved ones

2. Provides income protection

3. Guaranteed financial support

4. Reduced financial burden

5. Emergency assistance

6. Built in savings mechanisms through no-claims or low-claims benefits

7. Gives you peace of mind

Still don't see the value of insurance? Perhaps a brief history of insurance will further support my argument.

[1] Gen Z in the Workplace: Statistics and 2024 Trends: https://jobtoday.com/us/blog/gen-z-in-the-workplace-statistics-and-2024-trends/

[2] Why Insurance Is Important in South Africa? https://rcs.co.za/media/why-insurance-is-important/

[3] The importance of short-term insurance cover. https://www.iol.co.za/personal-finance/insurance/the-importance-of-short-term-insurance-cover-cf466ec7-37ed-4017-82ab-90b16adf0797

Where did it all begin?

Research shows that the first example of insurance and risk transfer can be found in the Code of Hammurabi. The Code of Hammurabi is a Babylonian law code composed during 1750 BC. It is written in the Old Babylonian dialect of Akkadian. The primary copy of the text is inscribed on a basalt stele, which now resides in the Louvre museum in Paris. It is one of the oldest deciphered writings of significant length in the world[4].

The Hammurabi Code describes a form of bottomry[4].

During the time of the Roman Empire, large cities such as Rome depended on maritime trade for the sufficient supply of food, however this was not without its risks. The Romans developed a maritime law that included insurance-related concepts, such as bottomry[4].

Bottomry, referring to the ship's bottom or keel, is a maritime transaction whereby the owner of a vessel borrows money and uses the vessel as collateral for the loan[5]. The repayment of the loan is contingent upon the ship successfully completing the voyage. If the ship were lost at sea, the lenders would lose their money; if the ship arrived at port, the owner would pay the "resicum", or interest on the loan[5].

The history of insurance is as old as time. Insurance has served as one of the oldest risk management techniques in economic trade and has continued to evolve as time went on. Today, there are various kinds of insurance that are customised to suit individual needs. These are health insurance, car insurance, life insurance, funeral plans, personal accident plans, income protection plans, homeowner's insurance, renter's insurance, travel insurance and pet insurance, to name a few.

Not only has the product offering evolved, but so has the service delivery.

Figure 1: The Hammurabi Codex, as displayed in the Louvre museum [4].

Where is it now?

Throughout the generations, technology rapidly evolved. Baby Boomers grew up during the television expansion, Gen X grew up during the computer revolution and Millennials grew up during the internet explosion[6].

What is unique to Gen Z, is that all of the above have been part of our lives from the beginning and so it comes as no surprise when we are look for service delivery "at the click of a button".

Take Lucy as an example. After the tragic demise of her beloved robot vacuum, Lucy realises that she needs household insurance. Lucy is looking for a quick and easy service offering, one where she can sign up online within a few seconds, with minimal human interaction.

Luckily for Lucy, the fourth industrial revolution brought numerous technological advances, insurtech being a primary example.

Insurtech is where technological innovation meets insurance. It is the use of technology innovations designed to find cost savings and efficiency from the current insurance industry model[7].

4 Insurance and risk: some history. https://risk-engineering.org/concept/history-of-insurance

5 Bottomry: What It is, How It Works, Example. https://www.investopedia.com/terms/b/bottomry.asp

6 Defining generations: Where Millennials end and Generation Z begins. https://www.pewresearch.org/short-reads/2019/01/17/where-millennials-end-and-generation-z-begins/

7 Overview of Insurtech & Its Impact on the Insurance Industry. https://www.investopedia.com/terms/i/insurtech.asp

Included below are a few factors highlighting the benefits and improvements offered by insurtech[8]:

Enhances the customer experience
By leveraging technology, customers are more engaged in selecting and customising their coverage and getting personalised service. The future of insurtech is moving towards self-serve, online dealings.

Promotes efficiency
Customers can often research and explore options using the internet and apps without having to wait for business hours or an available representative.

Emphasises individuality
Many new tools are now available to better understand each individual's true needs. This not only improves pricing but delivers more reliable and consistent coverage based on historical data.

Improves flexibility
Modern insurtech offerings are more likely to give individuals specific coverage for a particular need over a fixed duration.

Reduces operating costs
Insurtech companies can operate remotely with staff engaging with customers around the world, thereby reducing overhead costs.

Fraud reduction
By leveraging data, analytics, trend analyses and machine learning, insurtech companies may be able to detect fraudulent activities if inconsistencies in data are observed. In addition, big data may also be able to identify potential loopholes, such as inconsistent, incomplete or inaccurate information or suspicious behaviour, that insurers can seek to close to avoid exploitation.

Insurtech is all about modernising insurance in the name of convenience – perfect for us "Zoomers".

[8] Overview of Insurtech & Its Impact on the Insurance Industry. https://www.investopedia.com/terms/i/insurtech.asp#toc-understanding-insurtech

Who is leading the charge?

Five insurtech companies that are leading the revolution in the South African market are[9]:

Pineapple - Pineapple is a mobile-first insurance company that aims to simplify the insurance process and reduce costs. The company uses a peer-to-peer insurance model, where users form small groups and contribute to a shared pool of funds to cover claims. Pineapple's artificial intelligence (AI)-powered app provides a platform for users to manage their policies, submit claims and track their contributions.

Yalu - Yalu is a digital insurance provider that focuses on providing affordable credit life insurance. The company's mission is to provide customers with protection against debt in a way that is easy to understand, affordable and accessible. The company's underwriting process and use of technology are designed to offer a fast and simple claims approval process.

Naked - Naked is a digital insurer that aims to provide customers with a personalised insurance experience. The company's insurance products allow customers to tailor their coverage to their needs, which can lead to lower premiums. Naked's app-based platform is designed to make it easy for customers to manage their policies, submit claims and track their spending. The company's use of AI and machine learning algorithms enables it to offer personalised pricing based on individual risk profiles.

Click2Sure - Click2Sure is an insurtech company that offers a range of insurance products to businesses and individuals. The company's digital platform is designed to allow customers to purchase insurance policies quickly and easily. Click2Sure's claims process uses AI to automate claims assessments, reducing the time and cost of processing claims. The company has partnered with a range of businesses, including e-commerce platforms, to offer insurance products that are tailored to specific customer needs.

Switch by Santam (previously known as JaSure) - Switch is a South African insurtech company that aims to provide customers with a transparent and hassle-free insurance experience. The company's app-based platform allows customers to purchase insurance policies, manage their policies, and submit claims easily and quickly. Switch's insurance products are designed to be affordable. The company's use of AI and machine learning algorithms enables it to offer personalised pricing based on individual risk profiles.

So, what is next?

From basalt to artificial intelligence - insurance, just like technology, has evolved and will continue to evolve over time.

As a Gen Z-er, Lucy values individualism, modernisation, transparency, affordability and simplicity. Heaps of paperwork, long phone calls and endless online forms are a thing of the past.

The future of insurance lies in customised and affordable insurance that is easy to understand and tailored to suit individual needs, with additional offerings, like no-claim benefits. Where Lucy can insure her robot vacuum, her sister, Shannon, can insure her Dyson Airwrap.

So, let us learn from Lucy. There is value in having peace of mind.

9 The 5 insurtech companies that are revolutionizing the South African market. https://venturesafrica.com/the-5-insurtech-companies-that-are-revolutionizing-the-south-african-market/

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Navigating the current tax landscape for life insurance companies

Introduction and background

The introduction of *IFRS 17 Insurance Contracts* (IFRS 17) has marked a transformative period for the insurance industry, signalling significant change to how insurance contracts are accounted for globally.

The transition from *IFRS 4 Insurance Contracts* (IFRS 4) to IFRS 17 has not only altered the way in which technical insurance liabilities and profits are recognised and measured, it has also introduced new complexities in the calculation of taxable income.

Insurers with 31 December year-ends have reported 2023 year-end results under the new standard for the first time. This has been a period of intense adjustment as insurers endeavoured to understand the impacts of IFRS 17 on taxable income and overall tax liabilities for the 2023 and subsequent financial years.

The expectation of insurers of the impact of IFRS 17 on the related business-as-usual and transitional tax provisions was varied across the industry. The variation in expectations was largely dependent on the specific facts and circumstances of each insurance company, which highlighted the importance of a tailored approach to the implementation of IFRS 17 for tax purposes.

In the run-up to the implementation of IFRS 17, industry bodies and stakeholders engaged in extensive lobbying and discussions with tax legislators to obtain guidance to address anticipated implementation challenges. Despite these efforts, unanticipated tax impacts emerged post-implementation of the standard.

In this article we share with you our observations on the practical challenges life insurers are grappling with in determining taxable income, as a result of the implementation of IFRS 17, as well as other observations that have also had an impact on the determination of the tax position of life insurers.

IFRS 17 related observations

Premium debtors

Section 29A(15) of the Income Tax Act (the Act) sets out the manner in which the transition phasing-in amount is to be calculated and requires an adjustment for ‘premium debtors’ as reported in the annual financial statements. However, it is not explicit that this adjustment should apply only to premium debtors classified as part of the liability or asset for remaining coverage under IFRS 17. Under IFRS 17 the liability or asset for remaining coverage is adjusted for insurance and reinsurance receivables and payables, including premium debtors, but excludes premium debtors accounted for under *IFRS 9 Financial Instruments* (IFRS 9). This ambiguity in legislation may result in premium debtors accounted for under IFRS 9 being inappropriately included in determining the transition phasing-in amount.

In our view it is evident that the intention of the legislation is for this adjustment to specifically address premium debtors classified under IFRS 17. We recommend that insurers carefully understand the accounting classification of premium debtors as set out in the annual financial statements to ensure that the appropriate amounts are taken into account in determining the phasing-in amount.

Unwind of deferred tax on the equity adjustment

At the date of implementation of IFRS 17, insurers were required to recognise an equity adjustment arising from the transition from IFRS 4 to IFRS 17. The equity adjustment results in a deferred tax asset or liability arising, as it reflects the amount that is expected to unwind over the next six years in terms of section 29A(15) of the Act.

Should an increase in equity arise on transition, a deferred tax liability would arise with the insurer being liable to pay one-sixth of the transition from phasing-in amount to SARS at the end of the first financial year post implementation. The realisation of the deferred tax balance arising on the equity adjustment results in a reduction in the deferred tax liability and increase in the deferred tax expense in profit or loss. Simultaneously, a current tax liability is raised, with a current tax expense recognised in profit or loss.

Consequently, this transaction results in a nil impact on the income tax expense.

In practice we have observed some insurers having only recognised the impact on current tax, without accounting for the impact on deferred tax, resulting in a higher income tax expense recognised.

We recommend that insurers assess all related tax impacts resulting from equity adjustment to ensure that the correct tax position is determined.

Contractual service margin

IFRS 17 introduces the concept of the contractual service margin (CSM), representing the unearned profit of a group of insurance contracts. The allocation of the CSM to the appropriate policyholder fund for tax purposes is a crucial step as this allocation directly influences the timing and determination of taxable income, in particular policyholder funds.

Insurers may face challenges with this allocation due to the complexity of IFRS 17 and specific tax reporting requirements. The difficulty is compounded by the need for detailed contract-level data, which many insurers' legacy systems may not be able to provide. Moreover, varying tax treatments across policyholder funds can lead to errors, resulting in under- or overpayment of taxes. If insurers had not previously maintained controls and appropriate historical information with regard to the allocation of policy information, these challenges are exacerbated under IFRS 17.

It is essential that the finance and tax departments work hand in hand to determine the correct allocation of policies and CSM to the respective policyholder funds. Insurers would also be encouraged to establish clear internal processes to clarify best practices for the CSM allocation.

Other observations

While significant attention has been given to IFRS 17, life insurers continue to face a barrage of other critical tax-related challenges. Included below are our observations in respect of these matters.

Assessed losses

Section 20(1) of the Act, dealing with the treatment of assessed losses, was amended by the Taxation Laws Amendment Act of 2022. The impact of the amendment is that companies in a positive taxable income position for a year of assessment ending on or after 31 March 2023, would be restricted from utilising any assessed losses carried forward in excess of 80% of taxable income, subject to certain limitations. Consequently, companies would be required to pay income tax on 20% of their taxable income, despite having an assessed loss that potentially exceeds taxable income.

The application of this amendment created uncertainty for life insurers with an assessed loss in a tax-paying policyholder fund. This uncertainty arises from how the assessed loss limitation impacts the determination of taxable income in the policyholder fund, which also has a taxable transfer deduction available in a particular year of assessment.

The taxable income of a life insurer should first be calculated in terms of section 29A of the Act before applying the assessed loss limitation. This view is confirmed (albeit in part) in the newly published Binding General Ruling 73 (dated 30 July 2024). To address any ambiguities, SARS has suggested that the Act may need to be amended to clarify the sequence of adjustments for life insurers.

The incorrect application of the assessed loss limitation and the resultant impact on the taxable transfer deduction may result in an inaccurate assessed loss carried forward and taxable income determined in respect of the policyholder fund.

The impact of the aforementioned assessed loss limitation means potentially higher taxable income and consequently, an increased tax liability, especially where significant taxable interfund transfers are involved.

We understand that SARS aims to align the disclosure on form 7 (of the IT14L tax return) with the final assessment it issues, ensuring that both the set-off of assessed losses and the taxable amount due to the assessed loss limitation are clearly reflected.

Differences in asset balances for accounting and tax reporting

Life insurers often face discrepancies between asset balances reported for accounting and tax purposes. Accounting standards aim to provide a true and fair view of a company's financial position, often requiring fair value measurement and recognition of unrealised gains and losses. In contrast, tax reporting focuses on historical cost and realised gains, resulting in different asset values across the two bases. Common contributors to the difference in accounting and tax bases include divergent valuation methods, timing of income and expense recognition, differing depreciation, amortisation and wear and tear rates, impairments and write-downs and revaluation reserves.

We have observed that understanding the reconciling items between these two bases is an area of common challenge experienced by the industry. Insurers often struggle with the implementation of effective systems and processes to track these differences accurately, leading to potential errors in the determination of taxable income and capital gains tax. The key challenge is that legacy systems may not fully integrate the fair value accounting standards with tax reporting requirements, making it difficult to reconcile values consistently and accurately.

If tax implications are not appropriately considered, this may also affect the pricing of insurance products. Inaccurate tax assumptions may lead to mispricing, which could impact profitability and competitiveness of impacted insurance products. To mitigate these risks, we recommend that life insurers conduct regular reconciliations between accounting and tax bases, maintain a comprehensive audit trail, enable team-wide awareness and understanding of reconciling differences and utilise integrated software for tracking the differences between accounting and tax amounts.

Income tax reporting errors

Life insurers occasionally encounter challenges in respect of the reporting of investment income due to inaccuracies emanating from underlying asset administration systems. For example, interest income may be incorrectly reported as dividend income. This increases the tax compliance risk as the tax treatment of interest income is vastly different to dividend income.

This challenge often arises as a result of the use of multiple legacy systems that do not integrate seamlessly, or where information is housed with third-party asset administrators. This challenge is exacerbated by the complexity of modern investment portfolios, where numerous income types need to be tracked and classified accurately.

The root cause often stems from ineffective communication between insurers and asset administrators, as well as unclear or inconsistent instructions. This misalignment increases the risk of errors and can lead to the overpayment or underpayment of tax.

Ensuring accurate and consistent investment income reporting necessitates clear communication and robust oversight over the asset administration processes. We recommend that insurers implement stringent checks and controls to verify the accuracy of income classification and ensure that asset administrators are effectively upskilled to understand the importance of accurate investment income reporting.

Conclusion

The implementation of IFRS 17 has brought about significant change and uncertainties for life insurers, exacerbated by day-to-day business-as-usual challenges. Continuous collaboration between industry bodies and National Treasury is essential to ensure that industry challenges, concerns and observations are comprehensively and robustly addressed.


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Insurance industry training

Our tailor-made insurance training courses are designed to meet the specific needs of your organisation. We offer training on the following topics which include, but are not limited to:

- insurance regulations;
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- solvency reporting;
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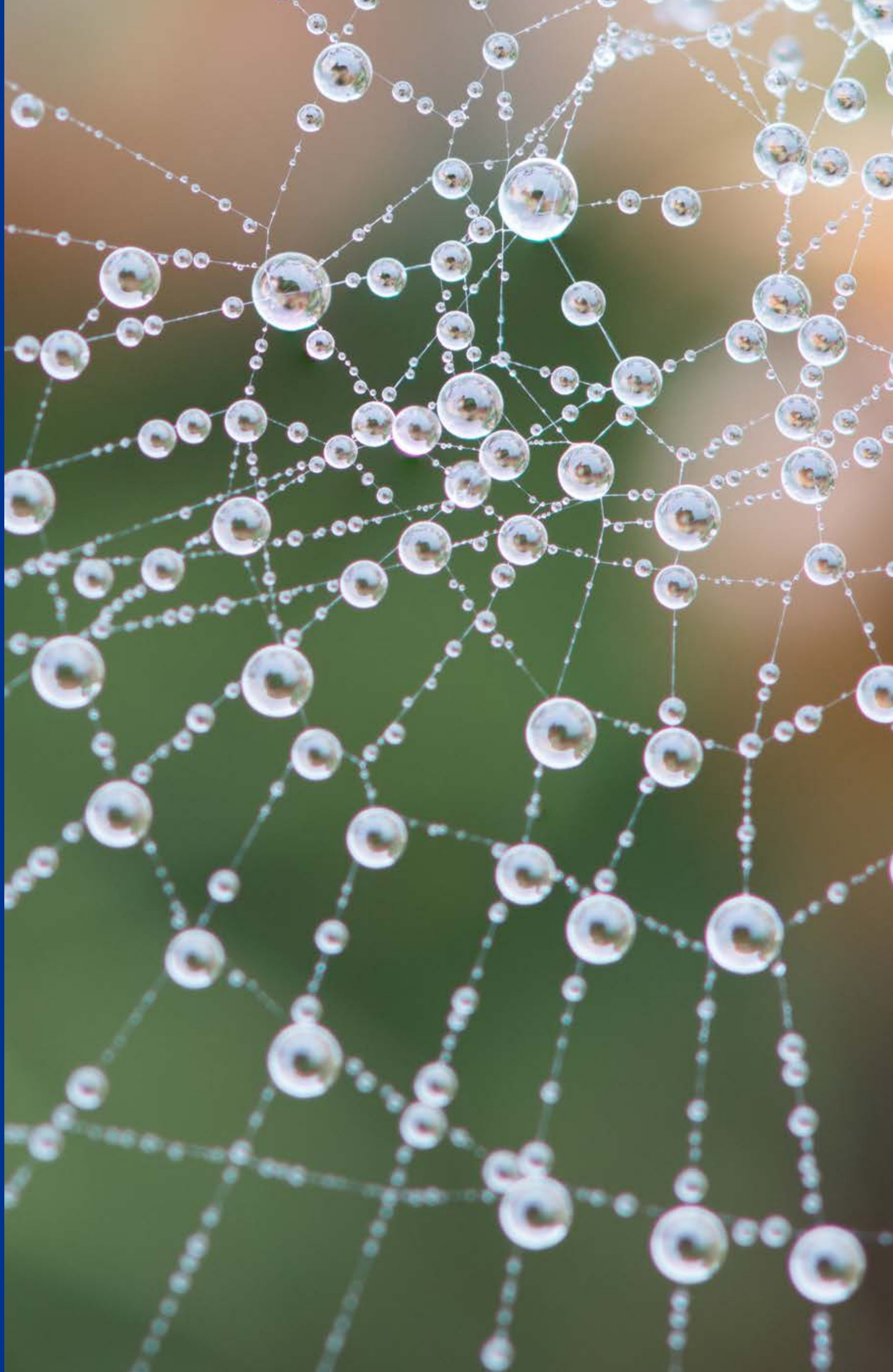

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Our social responsibility related to fraud

He's a fraudster, a bilk, a cheater and a conman. A chiseler, a dirty shark and a sharpie. A finagler, skinner, swindler and trickster[1]. Who knew there were so many words for fraudster?

The varied incarnations of the fraudster talks to the changing, pervasive and culturally agnostic nature of fraud. Wherever there is trust, there is fraud. All fraud includes a betrayal of trust. This makes fraud one of the more heinous crimes in an age where many of our economic interactions are based entirely on trust: when I buy something at a shop I seldom question whether it is what it claims to be; when I swipe my card and am told I have paid a certain amount, I do not question whether that was what actually left my account; when an expert makes a pronouncement, am I to question every comment? However, increasingly, we are required to be sceptical of anything which is represented to us, and this is because of fraudsters in their various guises. The erosion of trust is a basic social problem, which businesses are increasingly expected to address and evidence through the social aspects of their environmental, social and governance (ESG) programs and reporting.

Bing tells me that: "Fraudsters are individuals who engage in deceptive practices to gain financial or personal benefits. They often use various tactics to trick people into giving away money, personal information, or other valuable assets."[2] As this is an article in an "insurance survey" we will narrow this down to financial crime and, in-particular, insurance fraud.

My colleagues, Shirley and Eugine, have included an insightful and thought-provoking piece in this survey, *Mitigating insurance fraud risks*, which highlights the increasing trend of insurance fraud and the extent of the problem for the insurance industry. Whilst their article delves into the processes and controls relevant to fraud prevention, this article will explore the social and psychological aspects of fraud. As we will see, fraud is deeply interconnected between businesses, individuals and communities. Hopefully I will convince you that fraud in South Africa is a deeper-seated problem than one which can be solved only through internal processes and controls.

South Africa has various socio-economic problems which link directly to the psychosocial risk factors which increase the likelihood and incidence of fraud. With the increasing emphasis on ESG responsibilities, this article provides a practical, real-world link directly into the social aspects. I will argue that insurers' social responsibilities require community-based interventions to address the root cause of fraud. In fact, without these interventions the incidence of fraud in South Africa is likely to continue to increase. However, these interventions will help insurers meet their social obligations and concurrently address some of the root causes of financial crime and insurance fraud.

Fraud prevention as conceptualised in the insurance industry is often about preventing insurers (or the policyholders) from being exposed to fraudulent attacks. This approach does not necessarily consider the root cause of individuals or organisations pursuing fraud in the first place. Why is it that these individuals choose to pursue a life of crime? As people often say, "if those crooks spent as much time and energy on honest pursuits they would be gainfully employed." So why is it that they are not gainfully employed? Put another way, fraud entails a decision to illegally exploit an opportunity to obtain some incentive – our question is why do some people make that decision? We will double-click on the attitudes and rationalisations behind fraud in the South African context. This also leads to alternative interventions for consideration related to fraud prevention.

[1] https://www.merriam-webster.com/dictionary/fraudster.

[2] It is remarkable how easily you could replace "fraudster" with "politician" in this sentence.

However, before we get into the weeds let us consider the battleground. South Africa is a country with unique challenges and dynamics. I will assume that the reader of this article concurs that South Africa has an unequal economy, high rates of unorganised crime and advanced levels of organised crime. Consequently, I will only highlight a few key indicators which are relevant to the rest of this article. It is a well-established fact that economic inequality is positively correlated with crime[3 4], although the connection specifically to financial crime is not well explored. South Africa ranks amongst the worst in the world on income inequality as measured by the Gini Coefficient[5 6]. This measure basically says that the gap between the rich and the poor in South Africa is extreme, even by international standards. Furthermore, the unemployment rate was around 33.5% in early 2024, and is particularly high amongst young job seekers[7]. The global organised crime index[8] ranks South Africa seventh out of 193 countries on criminality, first in Southern Africa and third in Africa. It is because of these factors that we landed up on the Financial Action Task Force's grey list[9].

If insurers were to do a "social risk assessment" like what many insurers are doing for climate and environmental risks, we would conclude that there are significant, increasing risks in South Africa which need to be proactively managed. In this context, the sociological and psychological factors which increase the likelihood of individuals committing fraud are considered social risks for insurers. We will explore these risks below.

At an individual level, fraudsters are driven by a variety of psychological motivations, which can be complex and multifaceted. The most obvious is personal financial gain. However, as a motivator for fraud in particular, this appears arbitrary. Financial gain also motivates people to work harder, study harder, invest more in their children's and their own personal development, amongst many other factors. The core psychological question to ask is why choose the criminal route rather than a lawful one?

We can draw a distinction between financial gain and greed, where the latter reflects on an internal experience, "an insatiable desire for material gain"[10] and "an endless effort to satisfy the need without ever reaching satisfaction."[11] A key aspect of greed is the desire to possess more than one is entitled to. Without a belief that one is entitled to more than is being received it is hard to support the decision to take more than is being lawfully offered. This is true whether what is being offered is from one's employer, client, service provider or community. This is the traditional "rationalisation" of fraud. Hollinger and Clark in a study of 12 000 employees concluded that "the more dissatisfied the employee, the more likely he or she was to engage in criminal behaviour"[12]. If I believe I am being treated unfairly I am likely to rationalise taking more than my lawful due. This is commonly described as "wages in kind"[13], in that employees are seen as supplementing their wages with unlawful fringe benefits.

In South Africa, this sense of entitlement is easy to understand, as social circumstances are often not fair, the economic reality is loaded against certain groups, and this unfairness is regularly highlighted by many of our leaders. It is easy to imagine that someone who is struggling to pay rent could compare their circumstances to the owner of the R700 million property in Camps Bay and feel that perhaps they are entitled to a little bit more. If you live in South Africa, you probably agree that in some sense they are entitled to more. The tension is that fraud is seldom a Robin Hood scenario where the "bad guys" are easily defined targets and therefore stealing from them is "morally justified"[14]. Fraud tends rather to hurt the common person, not the super wealthy. No individual organisation can redress historical inequalities, but within its sphere of influence organisations can promote a healthier narrative and practices.

3 https://financesonline.com/how-income-inequality-affects-crime-rates/

4 https://www.economist.com/graphic-detail/2018/06/07/the-stark-relationship-between-income-inequality-and-crime

5 https://financesonline.com/how-income-inequality-affects-crime-rates/

6 https://ourworldindata.org/grapher/economic-inequality-gini-index?time=2019

7 https://tradingeconomics.com/country-list/unemployment-rate

8 https://ocindex.net/

9 It is not all doom and gloom; we are also ranked first in Southern Africa for resilience to organised crime and fourth in Africa on this scale. This latter statistic refers to the advanced infrastructure we currently have which can combat organised crime, notably a strong business community and advanced laws and judiciary.

10 https://en.wikipedia.org/wiki/Greed

11 Attributed to Erich Fromm

12 https://www.journalofaccountancy.com/issues/2001/feb/whyemployeescommitfraud.html

13 https://www.journalofaccountancy.com/issues/2001/feb/whyemployeescommitfraud.html

14 If theft is ever morally justified it is a whole article in itself.

In terms of social risks which could impact insurers, the inequalities and related narratives in South Africa link directly to the risk of employee, policyholder and service provider fraud. Against this backdrop ESG reporting on fair practices within an organisation, and to its key stakeholders, would go some way in addressing a sense of entitlement (or unfairness) amongst these stakeholders. If an employee has a substantial body of evidence to support that their pay is market related and fair, it is harder to feel entitled to more. This combines with an open and transparent performance appraisal process[15]. However, can the board say with confidence that its remuneration practices are fair? What processes are in place to support this, and the communications mechanisms in place to share this information with staff? Similarly, if policyholders know that their premiums are reasonably priced and the 15% increase in operating profit is not at their expense, they might feel less entitled to fudge that claim. However, are policyholders really getting a fair deal and what evidence could you provide to them to support this position?

Unfortunately, many criminals still act as such in the face of a mountain of evidence that there is nothing special about them. As a consequence, they hold onto the belief that they are entitled to more than their peers. This talks to other psychological motivators. One of these is the psychological satisfaction obtained from these behaviours. This includes “a sense of power, control, or superiority derived from outsmarting systems and individuals”[16]. Vendettas against institutions are also seen as a motivator. In South Africa this could also extend to “the system” in general. When considering the structural forces which hold many in poverty in South Africa it is not a stretch to imagine a sense that the system is worth outsmarting, with employers or insurers identified as part of the system. Beating this system overcomes years of feeling powerless. It is also even perceived as the right thing to do. For decades the system in South Africa has been the bad guy and consequently this narrative is deeply embedded in South African consciousness. It is therefore not surprising that people may feel empowered and even satisfied when they find ways to outsmart the system.

Back to Robin Hood, when Robin leads his band of merry men to rob the nobility, he is perceived as a hero. If you have ever watched a Robin Hood film and rooted for Robin, you have bought into this mindset temporarily. As a business community and in conjunction with the government we need to address and change this narrative. Many insurers have extensive community outreach and social development programs, and positioning businesses in this context is important. The sense of powerlessness that supports these behaviours or the social anger which justifies fraud is something we will come back to.

Fraudulent behaviour also plays out in relation to self-esteem and self-image. “Fraudsters may engage in deceitful activities to appear successful, sophisticated, or influential to others. This psychological need for recognition and self-worth can be a powerful motivator.”[17] Gangsters are portrayed as powerful and even stylish, whether in the Godfather or music videos. This motivator provides a good segue into the sociological factors underpinning fraud and organised crime.

Crime syndicates, gangs, mobs, cabals, cartels and bands of merry men; all synonyms for crime syndicates. These social entities operate within complex social, economic, political and psychological networks. As with individuals, financial gain is an obvious motivator for crime syndicates. With the high levels of unemployment in South Africa this makes the attractiveness of organised crime more obvious. However, as with the individual, the question is why people organise themselves into groups with the intention of breaking the law.

Crime syndicates are deeply embedded in their social environments with connections into legitimate business and political groups[18]. These syndicates often operate patron-client relationships where powerful individuals (patrons) offer protection, resources and status to less powerful individuals (clients) in exchange for loyalty and services[19]. For young men in particular this is an important factor. The sense of belonging, importance and social standing are key elements that attract youngsters into a life of crime[20]. Yet ironically these are exactly the factors formal employment should also be offering: financial security, a sense of purpose and belonging, social standing and connections into power structures. Young men join crime syndicates when their own environment is failing to meet these needs, as much as, if not more than, for financial gain.

15 https://financialcrimeacademy.org/understanding-fraudsters/

16 https://www.fraudio.com/blog/the-psychology-of-a-fraudster

17 https://www.crowe.com/uk/insights/understanding-the-psychology-of-a-fraudster

18 https://academic.oup.com/edited-volume/38662/chapter/335789089

19 https://www.ojp.gov/ncjrs/virtual-library/abstracts/syndicated-crime-its-structure-function-and-modus-operandi-crime

20 https://onlinelibrary.wiley.com/doi/full/10.4073/csr.2018.11

However, it goes further. The sense of identity and group loyalty offered by organised crime is intentionally reinforced through rituals and shared experiences. These organisations even have codes of conduct, which offer structure and clear rules[21]. All these aspects (shared experiences, rituals, structures and rules) are aspects of social development which should be coming from the community, school or family environment. Anxiety from uncaring environments and the breakdown of family structures contribute to the development of criminal behaviour. Lack of guardianship and positive role models can lead individuals towards crime.

In an ESG framework, the level of economic inequality, unemployment, a lack of social cohesion and disaffected youth are social risks which directly impact insurers' internal and external stakeholders and can lead to increased incidence of fraud. Insurers can play an important role in mitigating these risks and consequently the root cause of syndicated insurance fraud, whilst concurrently delivering on expectations related to social responsibility. Many insurers are involved in community-based programs and if anything, the above indicates that these are more important than ever. Insurers would do well to consider whether their fraud experience links to particular communities or regions. This would entail assessing whether there are trends in fraud experience which link them to geographic locations and communities. Once these are identified, insurers can proactively support local community-based programs to combat the root causes of crime. These programs also help in changing the narrative about the role of business as partner or bad guy.

Community-based programs play a crucial role in preventing youth involvement in organised crime by addressing the root causes and providing positive alternatives. There are various forms to these interventions. Programs that focus on education and practical skills-based training provide youth with the skills needed for gainful employment, reducing the allure of criminal activities[22]. Engaging youth in sports, arts and other recreational activities keeps them occupied and away from negative influences[23]. These activities also help build teamwork and discipline. Strengthening family bonds through counselling and support services can create a stable home environment, reducing the likelihood of youth turning to crime[24].

These options obviously require some financial outlay to support relevant specialists, social workers, counsellors or community workers. However, the simple act of the giving of time can play an important role. Connecting youth with positive role models and mentors can guide them towards making better life choices. Mentors can offer support, advice and a sense of belonging.

Whether through financial support or the provision of time and human resources, supporting these programs, when effectively implemented, can significantly reduce youth involvement in organised crime by offering them hope, opportunities and a sense of purpose. These programs are also well aligned with the expectations under ESG frameworks, and have the added benefit of reducing the medium-term incidence of fraud.

Financial crime and insurance fraud are deeply embedded in individual psychological factors and social circumstances, which are particularly prevalent in South Africa. The connection between the story we tell about fairness and the rationalisation for committing fraud is something that can be actively managed and changed through proper reporting and communication. The connections between individuals, crime syndicates, communities, families and schools mean that combatting syndicated fraud requires community-based programs which tackle the problem at its root-cause. Regional and geographic fraud statistics could be seen as a barometer of what kind of social investment is required and where. Identifying and then partnering with relevant programs within these communities is a medium-term strategy to reducing the actual incidence of fraud, which simultaneously helps meet insurers' social responsibilities and talks to stakeholders' expectations under ESG frameworks.

21 VAN DER WESTHUIZEN, Marichen and GAWULAYO, Sibulelo. Youths in gangs on the Cape Flats: if not in gangs, then what? Social work (Stellenbosch. Online) [online]. 2021

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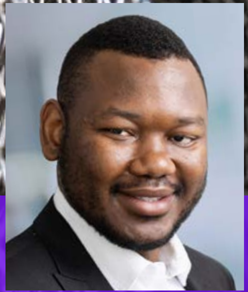

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Are you prepared to tackle cyber-attacks head-on?

Introduction

The insurance industry has evolved alongside the constantly growing economy and has adapted to the complexity that comes with the evolutions in global trade and technology advancements to stay relevant in today's world and respond to present-day risks. Currently, cybersecurity is a growing threat and has become a top priority for executives globally. According to the World Economic Forum Global Risks Perception Survey (2023), cyber-attacks on critical infrastructure ranked fifth in terms of risks that are most likely to present a material crisis on a global scale.

The challenges presented by advanced networks and computer applications in today's world create cybersecurity vulnerabilities even in developed economies. Since the onset of COVID-19, the rise in remote work and data access has kept people connected despite physical barriers. While there are benefits to this increased connectivity, it also comes with cybersecurity risks. The increase in home connectivity, self-driving vehicles and generative artificial intelligence (AI) creates more data points, leading to opportunities for advanced cyber-attacks.

In response to the increasing threat of cyber-attacks, regulators around the world are taking action. In South Africa, the Prudential Authority issued a joint standard on cybersecurity and cyber resilience. This standard outlines the requirements for sound practices and processes related to cybersecurity and cyber resilience for financial institutions operating in South Africa.

The problem statement

In response to the increasing threat of cyber-attacks, insurers are having to evolve the nature of cyber insurance product offerings in line with the changing cyber threat landscape, which includes data breaches and ransomware attacks. Factors such as increasing computing power available to criminals, as well as the commoditisation of cybercrime through ransomware, further propels the opportunity for cyber criminals.

Given that these risks are dynamic and may not be well understood, underwriting may be challenging because of the complexity and uncertainty involved in estimating future losses, and not having sufficient claims history to accurately project claims and assess underwriting risk factors.

The risk of cyber-attacks is a serious concern for insurers and individuals alike. The growing availability of online and digital banking services has provided cyber-criminals with more opportunities to commit online banking fraud. Although banking fraud primarily targets individuals, it can also affect other entities.

There is a great opportunity for insurers in South Africa. Some consumers are aware of the importance of detecting and preventing cyber-attacks, but they will also be turning to the insurance market to help manage the risk in case their preventive measures fail.

The opportunity

Munich Re's 2024 Risk and Trends report noted the high proportion of uninsured cyber risks, the growing demand for cyber insurance and that 87% of managers surveyed believe their company is not adequately protected against cyber risks. The increasing threat from cyber criminals is driving the need for cyber insurance across the globe.

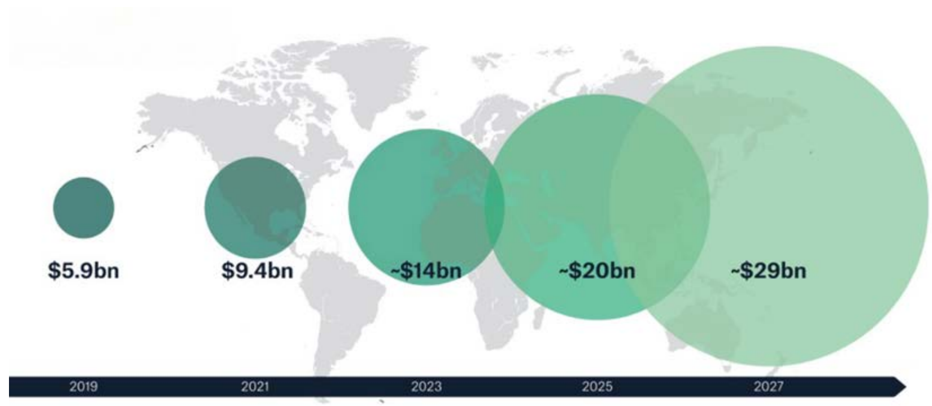
Studies on cybersecurity reveal that organisations are not fully prepared for the growing frequency and complexity of cyber-attacks, including the related potential financial impacts. Many organisations overestimate their ability to deal with these threats and are not accurately assessing the scale of challenges that might materialise.

At the core of an insurance business is the management of risk, and every risk presents an opportunity. Insurance companies in South Africa are encouraged to continue to innovate and offer tailor-made products that address the diverse needs of policyholders relating to cybersecurity, in respect of organisations and individuals alike. This may come at a high cost to the policyholder. Caution should be exercised in underwriting these risks as claims related to cyber-attacks could be substantial, with the availability of court precedents in respect of related claims disputes being limited.

In determining the risks to be underwritten, the insurance company and policyholder will need to align to clearly understand and define the specific risks and circumstances being covered. In addition, the insurer should also ensure that reinsurance structures are appropriately aligned to manage its own capital and solvency requirements.

Conclusion

Cyber insurance market: gross written premium expectations 2019 - 2027



Source: Munich Re: 2024

The cyber insurance market is expected to grow to USD 29 billion by 2027, driven by the awareness of the increasing frequency and sophistication of cyber-attacks and the potential financial repercussions, as well as by stricter regulatory requirements.

The growing threat from cyber criminals and rapid technological advances are fuelling the demand for cyber insurance across the globe. South African insurers should be prepared to develop products that cater to diverse client needs, while at the same time gaining a competitive edge. However, caution should be exercised as this is a relatively new area. Herein lies the opportunity for the insurance industry – to go back to basics and do what it does best, protecting the public interest in times of need.

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Managing and mitigating third-party cyber risks with the use of artificial intelligence

Introduction

Modern interconnected digital landscapes mean that organisations face unprecedented cybersecurity challenges. The growing complexity of these ecosystems render traditional defence mechanisms insufficient to mitigate ever-evolving threats. Cybersecurity vendors are leveraging these integrated technologies to build more advanced product iterations and increase the efficiency and efficacy of their defensive toolsets.

At the same time, artificial intelligence (AI) is emerging as a driving force behind the next digital revolution. Generative AI in particular, long restricted to primitive chatbots, has grown into complex systems such as ChatGPT-4 and Gemini Pro, redefining the possibilities around how insurers can engage with customers, analyse and process claims, create and underwrite policies and manage risk.

However, as with any technological advancement, AI has its own set of challenges, including data privacy, accountability and AI hallucination[1]. The concept of "Trusted AI" has emerged as a set of guiding principles that ensure AI systems are safe, accountable and transparent. AI has shown promise in helping organisations tackle one of the more challenging aspects of cyber risk management: third-party cyber risk management (TPCRM). While it is no panacea, under the right use cases and supported by responsible governance, AI can unlock incredible benefits.

The rapid development of AI

In the second quarter of 2024, OpenAI and Google released their most advanced iterations of their respective Large Language Models (LLM) AI platforms, amongst a litany of new AI startups. Both excel in producing content that may be considered "human like", and both provide improved language comprehension from text. Digital personal assistants are now equally capable of reviewing software source code on screen while having spoken discussions in real time with low latency, including real-time translation. AI integration across multiple product lines creates ease of access and reduces user friction. In the insurance industry, LLMs are already being used to analyse reports, claims and regulatory documents, the organisation and screening of client documents and policy compliance analysis.

[1] AI hallucinations are incorrect or misleading results that AI models generate. These errors can be caused by a variety of factors, including insufficient training data, incorrect assumptions made by the model, or biases in the data used to train the model. (https://cloud.google.com/discover/what-are-ai-hallucinations)

While these developments demonstrate real benefits to users, threat actors[2] are also leveraging these breakthroughs to modernise their own attack vectors and introduce innovative strategies to compromise people, processes and technologies. As the saying goes "seeing is believing", threat actors can now utilise AI to create deep fake audio and video to create social engineering attacks so realistic it would seem like science fiction. Unfortunately, this is the reality faced by many cybersecurity teams that are finding it increasingly difficult to outpace threat actors. Responsible AI usage can go a long way towards alleviating the challenges.

Importance of TPCRM

TPCRM has grown into a significant area of challenge for organisations in recent years, given the complex and fast-paced eco-systems in which it operates, with many organisations being heavily dependent on a significant number of third parties for a vast array of operational processes.

In a recent filing, a large US-based insurer notified the public, its policyholders and other key stakeholders of a significant data breach incident that occurred. The breach, which affected more than 28 000 people, was directly attributable to a weakness in a third-party service provider's software. The information acquired ranged from an individual's financial account number to credit/debit card number (in combination with the security code, access code, password or PIN for the account). This is but one in a plethora of examples of such breaches.

Industry regulators are not turning a blind eye. Following on the heels of the Protection of Personal Information Act (POPIA) and the Cybercrimes Act, the Financial Sector Conduct Authority (FSCA) and the Prudential Authority (PA) in May 2024 released the Joint Standard on Cybersecurity and Cyber Resilience, with TPCRM being a significant focus point for the standard.

On the AI front, government and industry stakeholders in South Africa recently convened a National AI Summit to share the contents of a draft National AI Plan. Further afield, the European Union (EU) published the ground-breaking Artificial Intelligence Act (EU AI Act) during August 2024. The AI Act is expected to set a new global standard for AI regulation, targeting compliance by 2026.

Leveraging trusted AI for third-party cyber risk management

AI is increasingly being used to perform dynamic risk assessments on third-party cybersecurity postures. This involves leveraging machine learning models to assess third-party risk likelihood and impact, and utilising correlation analysis to incorporate internal and external data sources more efficiently than even before. Other demonstratable use cases include inspecting control evidence submitted as part of due diligence during the TPCRM lifecycle, by leveraging LLM's trained on leading security practices.

To stay ahead, third-party risk service offerings have innovated with the integration of AI, machine learning (ML) and natural language processing (NLP) into TPCRM solutions. Use cases of AI-enabled digital workers (e.g. AI trained chatbots) across the TPCRM lifecycle provide increased visibility, better efficiencies, reduced operating costs and informed decision making for better risk management.

Early information coming out of KACEY (KPMG's Intelligent Automation capability framework for transforming third-party risk management programs) provides interesting statistics, with some successful implementation results indicating a multiple factor increase in program efficiency while reducing costs by more than 50%.

[2] Threat actors, also known as cyberthreat actors or malicious actors, are individuals or groups that intentionally cause harm to digital devices or systems. Threat actors exploit vulnerabilities in computer systems, networks and software to perpetuate various cyberattacks, including phishing, ransomware and malware attacks. (https://www.ibm.com/topics/threat-actor)

The effective use of trusted AI solutions allows security teams to concentrate on strategic tasks, reducing the leg-work associated with onerous manual tasks. As organisations become ever more connected, the strategic deployment of trusted AI solutions offers a promising path forward, including, but not limited to:

- Increased capacity to assess the rapidly increasing volume of third-party usage;
- Consistent and reliable risk information;
- Alignment for communicating and understanding third-party risk across functions and measuring program performance over time;
- Breaking down information silos preventing a co-ordinated approach throughout organisations, and lead to better utilisation of third-party data; and
- Detecting and responding to risk posture changes in real time with dynamic ongoing assessment processes.

Conclusion

The impact of AI is vast and not yet fully appreciated. One thing is certain: it cannot be ignored. As organisational environments evolve with advancements in technology, so do the potential threats. The integration of AI in TPCRM processes opens new avenues for improving efficiency and quality in risk management. AI will assist forward thinking organisations to better navigate third-party risks, thereby safeguarding their operations and maintaining resilience against evolving threats. Organisations that are considering the integration of AI into their architecture, should create, build and execute a strategy and framework for deploying AI technologies responsibly and ethically, with demonstrable return on investment.

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Cyber risk management in the East African insurance industry

The insurance sector is undergoing significant transformation, evidenced by the high rate of digital transformation. In addition, data has become a valuable resource, making companies that collect and process data vulnerable to cyberattacks. Insurance companies are often exposed to this risk due to the extent of sensitive customer information collected from policyholders. This article highlights key cyber risk trends prevalent in the East African insurance sector, common cyberattacks and critical strategies to implement to effectively safeguard information assets.

Cyber risk trends

Digital transformation

The use of new technologies has been on the rise with the primary aim to enhance the customer experience. The implementation of digitisation through automated underwriting, claims processing and digital policy management are key areas for strategic growth. However, the increased use of digitisation in these processes increases the extent of vulnerability to cyber risk.

Data privacy and regulatory compliance

The recent implementation of data protection regulations across the region, such as the Kenya Data Protection Act (2019), The Data Protection and Privacy Act of Uganda (2019), Rwanda's Data Privacy Law (2021) and Tanzania's Personal Data Protection Act (2022), demonstrates the importance placed by regulators in the protection of personal information of data subjects.

Cloud solutions

Insurance providers have now begun to use cloud computing for storage and processing of large amounts of data. Cloud solutions provide scalability, savings and operational flexibility. However, this shift increases the exposure to cyberattacks, particularly when organisations fail to enforce strong security measures to protect cloud infrastructure. Misconfigured cloud settings, weak authentication mechanisms and insecure application programming interfaces are common points of exploitation.

Digital fraud

With more digital connections established between internet users in today's world, cyberattackers have turned towards exploiting weaknesses in systems. This results in the perpetration of cyber-enabled fraud, including policy manipulation, false claims and identity theft. This trend is particularly common with mobile insurance services within the region whereby attackers exploit poor authentication processes to file fraudulent claims.

Cyberattacks in the insurance industry

Ransomware

As the cyber threat landscape continues to evolve, ransomware continues to be one of the more prevalent cyber threats faced by insurance companies. Attackers gain access to critical business information such as customer records, policyholder information and claims documentation, after which they encrypt and demand a ransom for decryption. In most instances, organisations are caught between paying the ransom with no guarantee of data retrieval or losing access to vital private and confidential information, resulting in operational losses, system downtime and reputational damage.

Phishing

Phishing attacks also continue to pose a significant risk as fraudsters target internal stakeholders through fake emails. These messages often look genuine, as if they were sent by customers or trusted institutions. When an employee clicks on malicious links or downloads an attachment, attackers open scripts that enable them to gain unauthorised access into the environment. This allows the attacker to steal login credentials, amongst other private information, that would help in perpetuating other forms of attacks such as data breaches or malware dissemination.

Third-party vendor risk

Insurers frequently outsource key processes such as claims processing, IT services or cloud storage to third-party vendors. Vulnerabilities present due to weak cybersecurity at the third-party vendor can be taken advantage of by cyberattackers with a detrimental downstream impact on the insurer.

Data breaches

Insurance companies handle large volumes of personally identifiable information such as names, addresses, identification numbers and financial details. Cybercriminals target this data for a variety of malicious reasons, including identity theft and financial fraud. Not only do data breaches lead to direct financial losses, it also leads to the erosion of trust amongst customers and other key stakeholders, potentially resulting in regulatory penalties.

Strategic initiatives to assist with the protection of information assets

To mitigate the growing risk of cyberattack in East Africa, insurance companies would be encouraged to implement comprehensive cybersecurity strategies. Set out below are key considerations when designing your information asset protection strategy.

Investment in cybersecurity infrastructure

Insurance companies are encouraged to invest in cybersecurity infrastructure such as firewalls, intrusion detection systems, encryption and multi-factor authentication. Regular system updates and patches help reduce vulnerabilities that hackers may exploit.

Cybersecurity training and awareness

Safety awareness is another important lever in designing your cyber risk strategy. All stakeholders, such as employees and vendors who have access to the organisation’s infrastructure, should be regularly trained on how to recognise phishing attempts or suspicious emails among other types of social engineering. Regular simulations can help equip stakeholders with the necessary knowledge in responding effectively to potential threats.

Incident response planning

This step involves developing and maintaining an incident response plan which outlines specific steps that must be taken in the event of a cyberattack. This plan must include the identification of key personnel responsible for incident management, communication protocols as well as procedures for minimising attack impacts.

Secure third-party relationships

Insurance companies are encouraged to undertake rigorous vetting processes prior to onboarding third-party vendors, due to hazards posed by vendors that are external entities. This includes conducting third-party risk assessments that will inform the cybersecurity clauses to be incorporated during contracting, carrying out regular security assessments of vendors and setting up self-attestation mechanisms to ensure compliance with industry standards.

Data encryption and access controls

The employment of data encryption is another key control to consider, both at rest and in transit, to ensure that sensitive information remains protected even if it gets into the wrong hands. Additionally, access to critical systems and data should be restricted to authorised personnel, and strong authentication measures should be enforced.

Regular security audits

Routine security audits and penetration testing can help insurance companies identify vulnerabilities within systems and processes. By proactively addressing these weaknesses, insurers can reduce the likelihood of successful cyberattacks.

Cyber insurance

Given the evolving cyber threat landscape, insurers should consider purchasing cyber insurance to mitigate the financial impact of potential attacks. This coverage can help address costs associated with breach response, legal fees and regulatory fines.

Conclusion

Insurance companies are consistently and highly exposed to the risk of cyberattack, considering the extent of information assets held. Awareness of the cyberattack landscape is essential to the design of effective countermeasures. However, this risk can be constructively managed by investing in cyber security infrastructure, conducting regular employee training, implementing incident response planning, and performing third-party risk management assessments. Given the ever-evolving risk landscape, constant vigilance and ease of adaptability have become the new norm.

Technology-enabled cyber services

Our primary objective is to help you improve your organisation's cybersecurity posture and capabilities **now and for the future**. Whether you are entering an uncharted market, launching new products and services, or interacting with customers in a different way, KPMG can help you anticipate tomorrow, move faster and gain a competitive edge with secure and trusted technology.

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Strategy and governance

- Cyber maturity and risk assessments
- Compliance and regulatory guidance
- Security policy and framework development
- Cyber operating model development

Cyber transformation

- Security operations solutions
- Secure cloud migration and integration

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The relationship between risk management and operational resilience

After the 2007/2008 global financial crisis, regulators and organisations placed a key focus on financial stability as the crisis demonstrated to regulators that a financial collapse at one financial institution could threaten the manner in which risk management and operational resilience is effectively managed by many, if not all, financial institutions. These learnings led to regulators issuing a number of directives within their jurisdictions and working more closely with the financial services industry to mitigate these risks.

Over the past decade, whilst a strong focus on financial resilience remains, it has become evident that risks are ever evolving and multi-dimensional. This has resulted in a shift toward operational resilience. Recent events such as the COVID-19 pandemic, from which the world is still recovering, have made it clear that low likelihood, high impact events are happening more frequently and need to be addressed in an adequate and pro-active manner.

Defining resilience

Operational resilience is the ability to deliver critical operations in the face of disruption. It allows organisations to absorb internal and external shocks, ensuring the continuity of core operations by protecting key processes and resources such as systems, data, people and property. It is furthermore considered as an outcome that benefits from the effective management of operational risks.

Operational resilience is not defined uniformly globally, and especially within the African region. The Business Continuity Institute (BCI) published the results of the Africa Region Survey on Operational Resilience in May 2023. The results indicate that there is still confusion as to how to implement and ensure operational resilience, how traditional business continuity practices play a role and its differentiation from organisational resilience. In addition, most organisations in the banking and wider financial services sector stated that regulatory requirements are the main motive for having an operational resilience programme in place.

Defining risk management

Risk management is the process of identifying, assessing and controlling threats to an organisation's capital, earnings and operations. These risks stem from a variety of sources, including financial uncertainties, legal liabilities, technology issues, strategic management errors, accidents and natural disasters.

A successful risk management programme helps an organisation consider the full range of risks it faces. Risk management also examines the relationship between different types of business risks and the cascading impact these could have on an organisation's strategic goals.

The relationship between risk management and operational resilience

Risk management and operational resilience management complement each other and are both necessary in today's high-risk operating environment due to internal and external influences that organisations need to navigate. Operational resilience management focuses on contingencies to ensure availability of the organisation's critical resources, products and services, and risk management serves as an integral function to limit risk materialisation that may lead to unavailability, by ensuring adequate risk mitigation.

While the risk of interruption is the primary focus of operational resilience management, other risks and potential impacts that are identified through risk management may require further analysis to determine whether operational resilience strategies and solutions are required. In addition, the performance of activities under operational resilience management may lead to the identification of areas where further risk management is required.

By leveraging each other and creating synergies, operational resilience and risk management activities can be co-ordinated to reduce risk in all spheres of the organisation's internal and external environment.

Applying a concerted effort in achieving operational resilience will increasingly enable organisations to achieve greater synergies across strategic, financial, and operational activities, together with enhancing stakeholder trust and reducing operational risks to a level which is acceptable and within impact tolerances. Risks are no longer on the horizon but creeping up onto our doorsteps without warning, which makes the case for redefining resilience in a manner which is consistent with leading practices and within the context of the organisation.

The establishment of risk and resilience capabilities that are driven through cohesion, ongoing communication and consultation enable the organisation to effectively manage risks that impact the organisation's ability to continue in the pursuit of its objectives and strive for excellence where most needed.

Failure to manage risks effectively results in the surpassing of risk thresholds that will require continuity and resilience measures to be activated. Operational resilience, therefore, serves as the organisation's contingency to manage disruption-related risks.

Deriving value from the interplay between risk and resilience

When designing a strategy to create leverage and synergy between risk and resilience, it is vital to understand the way in which these disciplines work within the organisation to derive value at a strategic, operational and tactical level.

At a **strategic** level, leadership, commitment and governance are the underlying foundations upon which the organisation can emphasise the importance of risk and resilience and establish a structured approach for the respective objectives to be executed, monitored and governed. This approach will promote the "Strategic Linkage" between risk and resilience and enable the organisation to create efficiencies through the establishment of common approaches to reduce the duplication of efforts.

At an **operational** level, the organisation defines the arrangements, processes and activities that support strategic objectives in alignment with the tone at the top and the direction provided through the organisation's established governance structures. Through establishment of risk and operational resilience programs the organisation can set milestones, conditions for success and explain how the respective activities and tasks will be put into operation and in doing so, continuously measure its effectiveness. Hence, the "Operational Linkage" between risk and resilience seeks to create a dynamic relationship between the risk and resilience programs associated and aligned through ongoing communication and consultation between leaders of these business areas.

At a **tactical** level, the organisation's established processes and activities are executed within the respective areas in order to achieve the desired outcomes. While the establishment of programs outline the requirements, the performance of activities to enable the successful achievement of objectives takes place at the tactical level through execution on the ground. Hence, the "Tactical Linkage" between risk and resilience outlines the linkage between the operational areas where the continuous performance of activities is required that enables these activities to co-create and serve as inputs into each other. These inputs are intended to further enhance activities by leveraging efforts, leading to better decision making and continuous improvement.

The synergy between risk and resilience programs and activities within the organisation should enhance the functioning of both programs. Accordingly, the development of a holistic approach to risk and resilience will be beneficial for organisations adopting these principles.

Practical ways in which the synergies between risk and operational resilience can be executed include, amongst others, the following:

- Enable cohesion and optimisation of the appropriate steering committees to drive a consistent approach to responsibilities, accountabilities, consulting and informing of the disciplines. This will enable the organisation to create efficiencies through the establishment of common approaches to reduce duplication of efforts and create a better overall understanding and ownership of these disciplines and associated responsibilities.
- Implement an ongoing monitoring process to confirm that legislative and regulatory requirements related to risk and resilience are adequately satisfied and consistent with current practices.
- Establish an effective communication medium to ensure accessibility and cohesion.

The alignment of risk and operational resilience efforts can be enhanced by way of the following:

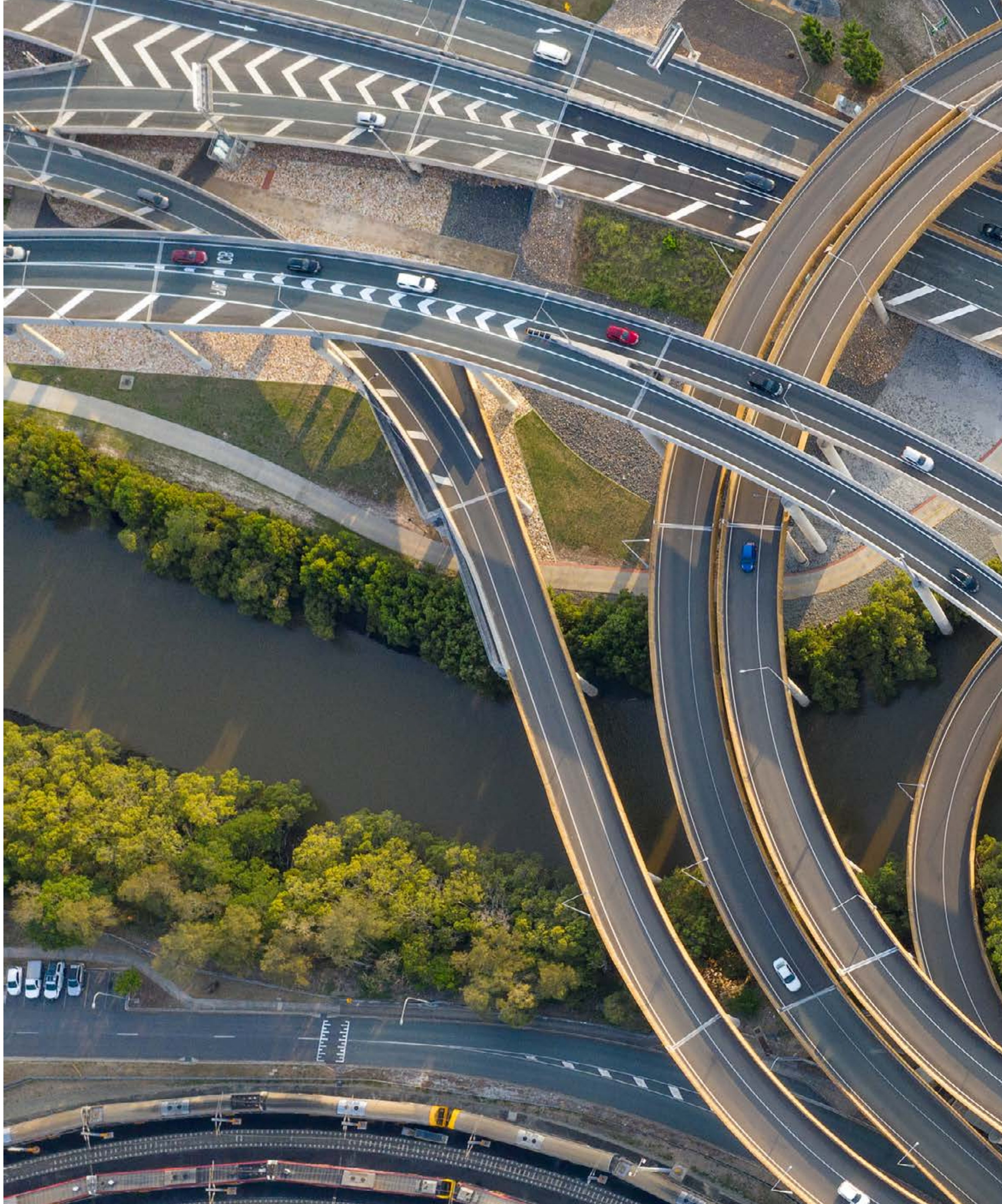
- Promote resiliency improvements through awareness over "what could go wrong" and possible recovery strategies to ensure that risk exposures are appropriately managed by considering risk appetite and tolerance levels.
- Evaluate and analyse insights from business continuity impact assessments when planning and performing risk scenario analysis.
- Identify interruption risks through risk identification activities as a basis to apply to resilience scenario planning processes. Leverage risk assessments to inform and provide inputs into business impact assessment activities to better understand the relevant impacts on operational process interruptions.
- Perform post-interruption event analysis to determine the effectiveness of operational resilience program response capabilities and identify interconnected risks as part of the risk assessment process.
- Conduct risk assessment activities and apply insights gained from resiliency and recovery capability assessments performed over operational resilience programs.
- Enhance efforts to co-ordinate risk and operational resilience activities relating to the identification of business interruptions and continuity events. This can be achieved through the development of specific tools and templates to identify and monitor risk events and incidents and establish effective mechanisms to report these events at a management and governance level.

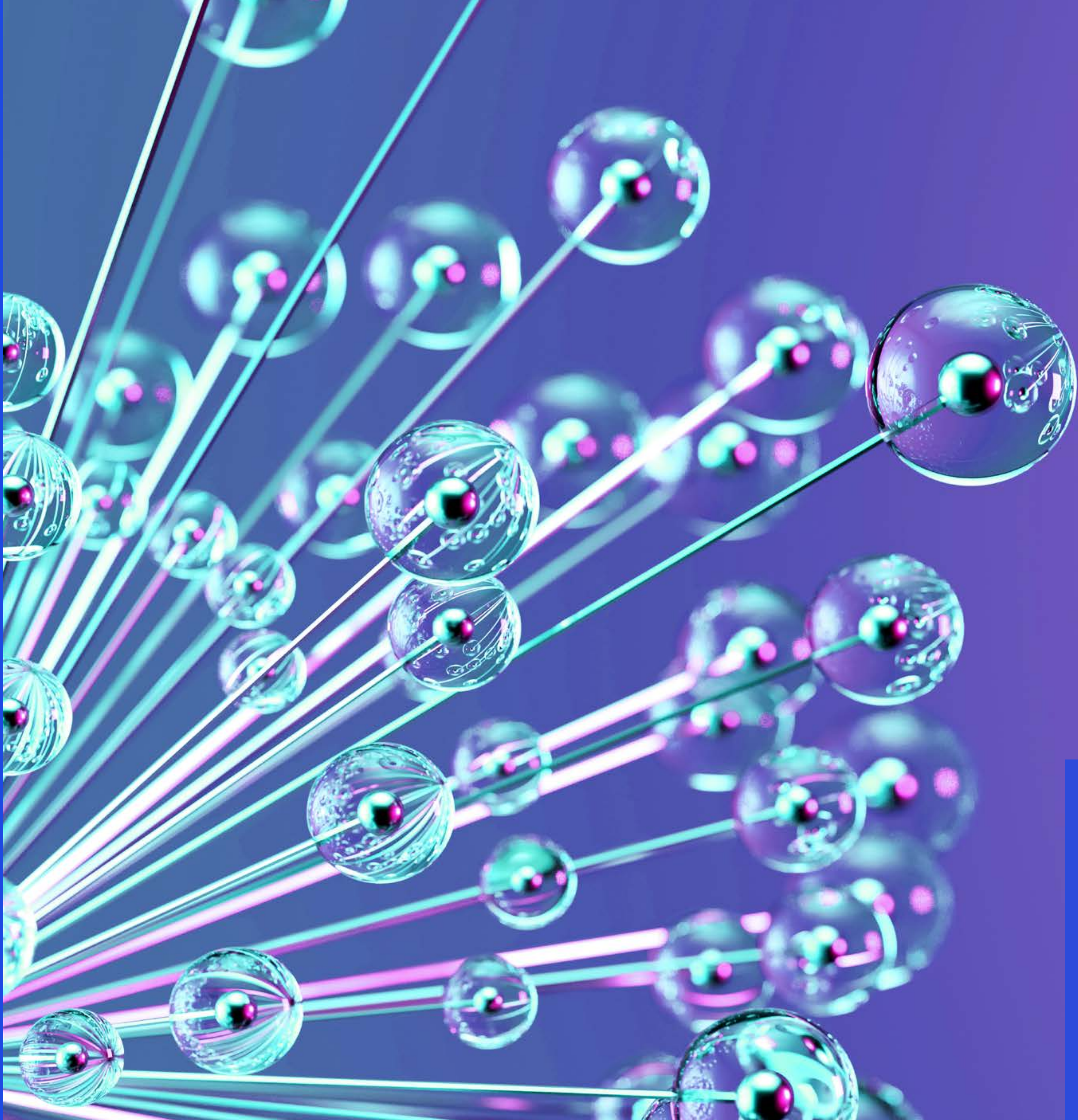
The operational resilience program effectiveness analysis should provide a feedback loop to the overall risk efforts, thereby providing comfort that resiliency and recoverability efforts reduce interruptions and risk impact.

Conclusion

Risk management and operational resilience is not about re-inventing the wheel but more so an opportunity to bring together several focus areas into a holistic, all-encompassing approach. This will ensure the continuation of important business services and promote the achievement of organisational objectives in a co-ordinated manner.

Synergies between risk and resilience seek to address the gap between "Proactive" and "Reactive" resilience to ensure that organisations are not only anticipating challenges, but also recognising opportunities in advance and taking action to embed resilience in business-as-usual activities.





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Lights out and away we go

Introduction

Fast cars driving around in circles at breakneck speeds; wearing down tyre treads in less than an hour; drivers being traded like commodities amongst corporates at exorbitant costs. As unbelievable as it sounds, Formula 1 racing is no doubt entrancing - it is no wonder that it is one of the most popular sports in the world. 2023 saw record-breaking attendance with 5.7 million attendees across all races globally, and a year-on-year increase in revenue of 25%, reaching USD 3.222 billion. 2024 continues to see this growing trend in viewership.

Formula 1 is having a moment right now and this made me think - could there be some similarities with the insurance industry? At first glance, Formula 1 and the insurance industry appear to be worlds apart. However, upon closer inspection there are parallels between these two industries. This article will explore the overlaps and learnings between these two seemingly different, but surprising more closely aligned, industries.

How does insurance work in Formula 1?

If you watched the Monaco Grand Prix this year, you would remember the incident involving Perez, Magnussen and Hulkenberg which ended all three drivers' races. It was a dramatic crash as Perez lost all four corners of his car, the back end of Magnussen's car completely detached from the rest of the car and Hulkenberg was also unable to continue. There was debris strewn across the track, a red flag and an obliterated Red Bull racing car.

I wonder if Red Bull's insurance covered this crash.

Hang on, do Formula 1 teams even have car insurance? The answer is not that straightforward.

Formula 1 cars are never used on public roads so there is no legal requirement for these cars to be insured. However, as the sport pushes these vehicles to their absolute limits and damage to the chassis is common, one would assume that these vehicles are insured! Surprisingly, this is not the case in modern day Formula 1.

The probability of the car being damaged in a race is so high, it is not a question of will the insurer have to pay out, but rather when will the insurer pay out on the damage and at what cost. This is similar to drivers with a poor driving history struggling to find insurance cover. For this reason, most, if not all, insurance companies are reluctant to take on the risk and racing teams bear the responsibility for any damage that occurs to the car during a race.

Formula 1 racing teams are required to put together a budget for on-track incidents and mechanical failures using proceeds from corporate sponsors. Teams also set aside spare parts and machinery for future use should they be required. Racing teams are therefore, in a way, self-insuring.

The Monaco Grand Prix incident is estimated to have cost Red Bull up to USD 3 million to repair the car, denting its reserve for future races.

If these racing cars are not insured against damages, then what are they insured for, if anything?

Formula 1 teams do not have insurance on their cars for anything that happens on the racetrack; they are insured for events that are off track and outside of the team's control, including travel from one event to another, weather damage, theft and vandalism.

Racing teams also have liability cover to provide protection from legal action in the event that an incident occurs, and a spectator or crew member is injured or killed. The Formula 1 Group carries up to USD 100 million in liability insurance cover to protect drivers, crew members and spectators. This type of cover would have been necessary in the above scenario where pieces of the Red Bull car went flying around and hit against the barriers, potentially injuring spectators and/or crew members on the side of the track.

So, what do Formula 1 and the insurance industry have in common?

The weather affects us all in many ways and forms. It dictates how we dress, provides us with a green energy source, it cost Lando Norris a win in the 2021 Russian Grand Prix due to the spate of rain that hit the circuit in the last few laps, and it can destroy communities as experienced with the tornado in Tongaat, Kwa-Zulu Natal earlier this year. In a world of increasingly extreme, frequent and unusual weather, fast and accurate weather forecasts have never been more important.

Formula 1 teams are constantly informed about the weather, with minute-by-minute updates to optimise the car's performance. As do insurers, to inform underwriting decisions and prepare for adverse weather events that may result in additional claims.

If you watched the Canadian Grand Prix this year, you would have seen the vital role that the weather played in determining teams' strategies for the race. Race engineers provided drivers with precise and real-time information, such as how many minutes until the rain would start, which corner it will hit first, how intense it will be and how long it will last. Formula 1 cars are designed in such a way that the car's performance is influenced by air and track temperatures, and the impact of the wind and rain. Therefore, weather is one of the most challenging and key variable data sets that racing teams require. In order to optimise performance, racing teams must have reliable, accurate and constant weather data, as it can be the difference between victory or defeat.

On the insurance side, the weather can negatively impact profit margins for insurers. Adverse weather events such as floods, fires, hurricanes and tornados, cause extensive damage to property and the loss of lives, resulting in a large number of claims and financial loss for insurers and reinsurers alike.

As climate change accelerates the frequency, severity and unpredictability of adverse weather events, the ability to track, monitor and predict weather events is vital. The more insight insurers have on expected weather patterns, the more accurately one can prepare. As in Formula 1, insurers need fast and accurate weather data to make informed decisions. These decisions can be the difference in insurance companies and their policyholders suffering large losses, versus providing the best cover to sustain insurance operations and the livelihoods of policyholders.

Both Formula 1 racing teams and insurers would benefit from a crystal ball showing how the weather will materialise in the future, allowing adequate preparation for what is coming.

For insurers, early-warning systems are the closest mechanism of prediction to a Magic 8 ball. These early-warning systems make use of data, machine learning and advanced modelling techniques to identify potential adverse weather events. Insurers can use the data from these systems to inform their customers in advance to protect themselves and their property (as many insurers do by sending an SMS to clients, asking them to park their cars under cover to protect them from an incoming hailstorm).

By analysing real-time weather data, early-warning systems can forecast adverse weather conditions with a remarkable degree of accuracy. With the increasing impact of climate change on weather patterns, early warning systems have become an invaluable tool for insurance providers.

Formula 1 has a slightly different way of predicting future weather patterns. It has its own travelling weather service and instead of looking at the big picture (as insurers do), it focuses on the sky around the circuit, tracking storms and clouds on approach. This is known as micro-forecasting as used by an airport. However, Formula 1 has an added complication in that races are in new locations every week. Each week racing teams set up weather radars, which are assembled on-site, somewhere in the vicinity of the track. At Spa in Belgium the radar monitoring device is set up in a cow pasture, but in Brazil, it is placed on the 27th floor of a skyscraper.

What is clear from the above is the importance of understanding the timing and effects of weather – from how I plan my route, diary and destination arrival time if it rains, how it informs the strategy of a Formula 1 team's race, to the way in which it impacts the operations of an insurance company. We all make use of weather data and forecasts to make informed decisions in our everyday lives to achieve our desired outcomes, be it to keep warm, win a race or maximise revenue.

How has Formula 1 impacted the insurance industry?

Seven-time Formula 1 champion, Lewis Hamilton, is used to driving at over 320km/h on the circuit. He has, however, revealed that he is terrified of driving on normal roads. Imagine his trauma if he were to drive on our South African roads with the potholes, taxis and everything else they have to offer.

If a seven-time world champion is afraid of normal roads but experiences accidents from time-to-time on a circuit which he isn't afraid of, it begs the question of what it means to be a good driver. Especially on South African roads, which are amongst the most dangerous in the world, with almost 90% of accidents caused by bad driving[1].

This is a question that Discovery was also interested in, resulting in the introduction of the Vitality Drive programme. Discovery's driver behaviour programme rewards you for driving well, to encourage you to become a better driver and stay safe on the roads. This is in turn is opportunistic for Discovery in optimising its bottom line.

Discovery CEO, Adrian Gore, saw an opportunity to develop this programme. However, the primary question was: how do you monitor a person's driving behaviour? To bring Vitality Drive to life, Discovery enlisted the help of one of the most successful Formula 1 car designers of all time, Rory Byrne. Byrne is a South African engineer who designed Formula 1 race cars that have won 99 Grands Prix, seven Constructors' titles and seven Drivers' titles[2].

You might be thinking, did a Formula 1 car designer really help develop the Vitality Drive programme? Yes, Byrne used his experience and knowledge from Formula 1 racing to pioneer innovative initiatives in working towards the improvement of the South African insurance industry. He lent his knowledge and experience of vehicle telematics[3] from Formula 1 to refine the model that Discovery uses to make this programme possible.

Vitality Drive uses the latest vehicle telematics technology (the DQ-Track model) to collect information about your driving behaviour such as acceleration, braking, cornering, speeding, night-time driving, distance driven and cell phone usage whilst at the wheel. Discovery applies actuarial algorithms to the driving data to develop a scientific measure of driver behaviour. This provides an understanding of how well you drive and how you can improve. The programme incentivises Discovery's customers to drive better and make sure their vehicles are safe to drive. This improved driving behaviour benefits Discovery with fewer car accidents and claims to pay. Discovery can also use the data from this technology to inform premium pricing - the better someone's driving behaviour, the less likely they are to have an accident and thus a lower premium can be offered.

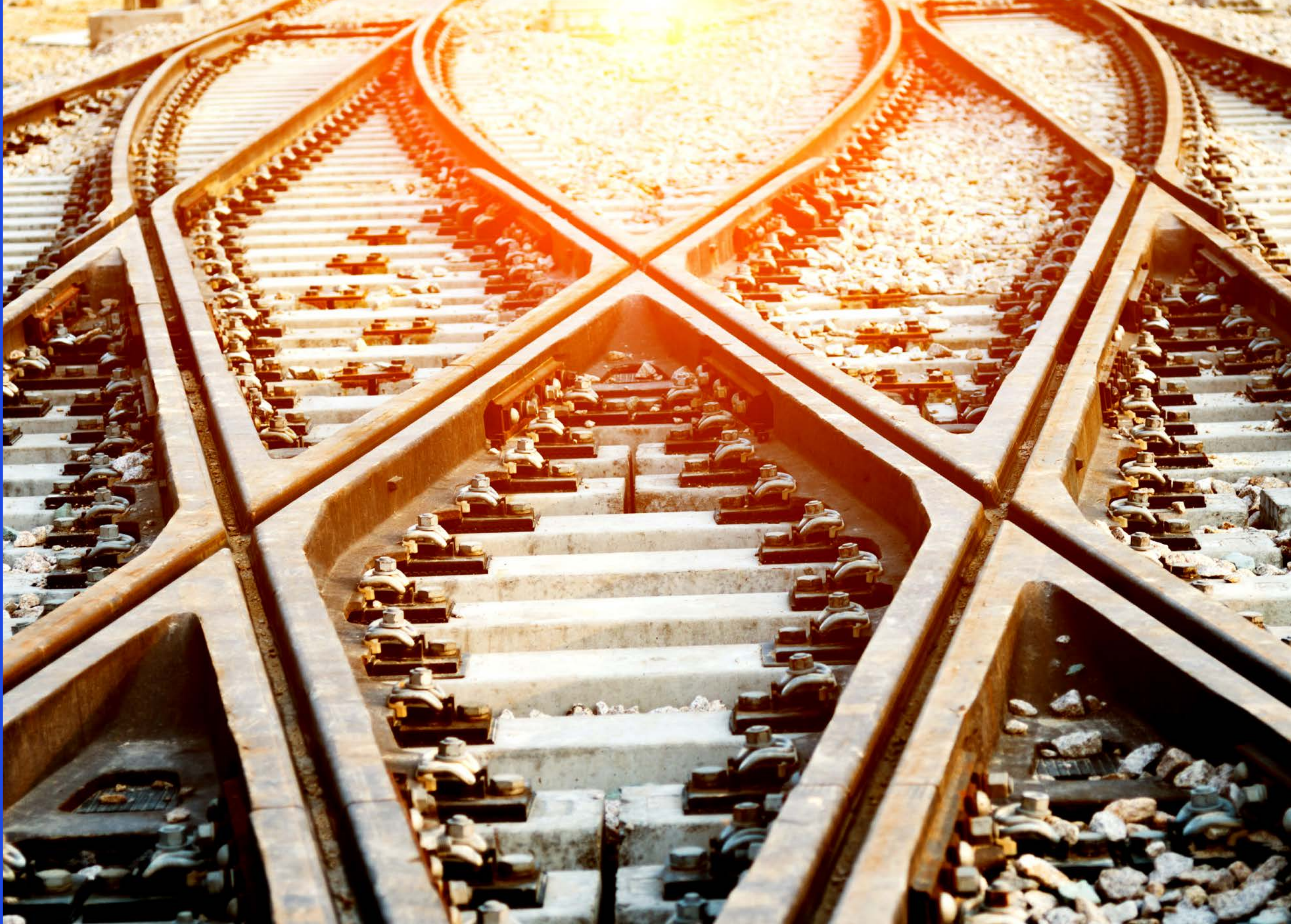
Similarly, in the modern era of Formula 1, race performance is all about telemetry. These cars contain various sensors which record as much data as possible, such as speed, suspension movements, directional forces, throttle, braking and more. This data is collected and analysed to understand even the most minute nuance of the race car. Engineers can use this information to understand why Lewis Hamilton is slower than George Russell based on how each driver handles their car.

Telematics revolutionised the sport and contributed to the exponential development of racing technology that we have seen throughout recent years. While Formula 1 teams use telematics to collect data to develop their racing strategy, telematics have enabled insurers such as Discovery to promote good driving on South African roads and lower the number of claims paid.

1 https://www.discovery.co.za/corporate/good-driving-discovery-drivers-improving-sa-roads.

2 The Constructors' Championship is one of two world championships contested in Formula 1. The Formula 1 team with the most championship points at the end of the season becomes the world champion.

3 Telematics is a system used to collect data along with a range of vehicle-specific information and store it in a database. It integrates both wireless telecommunications and information technology (informatics) to process, deliver actionable data and efficiently convey information over vast networks.



What can the insurance industry learn from Formula 1?

McLaren's 2024 Formula 1 season has been a strong one, with the team currently in second place in the Constructor's Championship. After every race each team will debrief on its performance and propose changes to be made to improve the performance of the car, as well as the driver's strategy, for the next race. The next race is usually held in two weeks' time but can sometimes be as close as seven days' time. This requires rapid iteration and innovation. By the end of the season, cars are on average two seconds faster per lap.

> In Formula 1, the innovative, adaptive and agile teams are the ones that go on to win races. Similarly, those insurers that have risen to the challenge of being more agile and innovative in the development of their strategies and the execution thereof, are the ones that will attract more customers, gain a competitive edge and respond to the evolving risk landscape more vigorously.

While insurers are not able to release new products to the market as fast as Formula 1 teams upgrade their cars, insurers can adopt the concept of enterprise-wide agility to respond at a faster pace to market forces, which will in return improve customer satisfaction, employee engagement and contribute to an effective risk management culture.

The shift in this direction for the industry has also been echoed by the Prudential Authority in the 2024 flavour of the year around 'Strategic business growth and resilience of the regulated financial institutions' business models in the current environment'.

Conclusion

Formula 1 and insurance are not as different as one would think. Both are highly regulated, built on innovation and play a vital role in people's lives. While there are also a number of divergent practices, there are interesting similarities and lessons learnt that can be applied to the insurance industry.

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Redefining resilience for East African insurers

Introduction

Enhanced governance, risk management, and compliance (GRC) is an advanced implementation of GRC that leverages innovative technologies to improve on conventional GRC approaches. It involves the integration of technology solutions such as advanced analytics and artificial intelligence (AI) to improve the agility, flexibility and responsiveness in identifying and managing emerging risks.

The insurance sector in East Africa comprises of large, medium and small organisations, with most of the insurance companies classified as small and medium enterprises (SMEs). According to a 2019 report by the International Finance Corporation on SME finance in Africa[1], SMEs often struggle to acquire adequate resources and expertise to implement GRC frameworks.

Conventional GRC systems are expensive to acquire with average costs ranging from USD 60 000 to USD 400 000, according to a Forrester Wave report[2]. Further, there are additional costs to be incurred relating to customisations, implementation, maintenance, training and software upgrades, amongst others. The high cost of acquiring and maintaining GRC systems has been a hinderance, especially for SME insurers.

With the prevailing economic environment and many competing priorities, the adoption of conventional GRC systems by SME insurers may not be feasible, primarily due to the cost burden. However, there is a market opportunity for more affordable and enhanced GRC solutions.

What is the fuss about enhanced GRC programs?

Enhanced GRC programs not only focus on avoiding future failures, they also seek to augment enterprise strategy, processes and culture in a way that supports proactive and co-ordinated risk management and promotes informed decision making. As organisations seek better decision making that will not only navigate disruptions but also anticipate and profit from them, enhanced GRC programs become more critical.

For insurers that have already implemented conventional GRC programs, there is a case for modernising their current suite of GRC platforms to forward-leaning programs, leveraging enhanced data analytics and AI. Enhanced GRC platforms provide the ability to obtain insights into emerging risks to provide organisations the ability to anticipate, navigate and leverage disruptions. As insurers pursue digital transformation journeys, it is key to have GRC platforms leverage the immense data collected by digitised processes to enhance risk management and decision-making.

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2 Forrester Research. (2018). The Forrester Wave: Governance, Risk, And Compliance Platforms, Q1 2018. Forrester Research, Inc.

The case for building resilience

Enterprise resilience is becoming a key differentiator amongst organisations that proactively anticipate and shape their futures amid disruptions, versus those that simply react to change. Resilient enterprises do not only emerge from disruptions but also take advantage of the disruptions to discover new frontiers. For insurers in East Africa to develop resilient enterprises, there is a need to change the mindset from that of problem-solving to opportunity-seeking. GRC platforms provide a framework in which resilience can be built in an enterprise in a structured way as demonstrated below:

Aspect	Impact on resilience
Governance	Promotes strategic alignment, fosters a culture of resilience, prioritises risk preparedness and embeds resilient thinking.
Risk management	Offers a holistic view of risks by breaking down silos and fostering co-ordinated responses; and allows for the early detection of threats which enable proactive mitigation strategies.
Compliance	Agility in meeting regulatory requirements will become inherent within the process; minimises disruptions from non-compliance issues; guards against data breaches; and protects customer trust and corporate reputation.
Overall impact	Enables informed choices under uncertainty; enhanced leveraging of risk and compliance insights for strategic advantage; robust systems and processes underpinned by a strong foundation capable of withstanding disruptions; and strengthened stakeholder relationships.

Building enterprise resilience using enhanced GRC systems

With the uptake of digital transformation by organisations and increased adoption of technology by consumers, insurers are in an ever-better position to gain in-depth insights and identify vulnerabilities through deep analysis of data from various sources. Previously, this would infer immense investment into data analytics systems and hiring and continuous upskilling of data analytics experts. With the advent of advanced AI algorithms and machine learning, the cost of the implementation of data analytics capabilities can be significantly reduced.

In order to minimise costs around the implementation of data analytics, it is not sufficient to only collect data but also to ensure that data is collected in usable formats which can be guided by an enhanced GRC framework.

The insurance sector in East Africa is relatively developed in taking advantage of advanced data analytics for decision-making and product development purposes. However, there is a gap in the way analytics are utilised across the organisation. For instance, actuarial teams leverage deep analytics to develop products, risk management teams utilise advanced analytics to gain an understanding of risks, and internal audit departments utilise data analytics to test the efficiency and effectiveness of controls. However, the results of data analytics are not shared in a co-ordinated and structured manner. This results in a siloed approach in the way insurers utilise and analyse data data and the insights that it can bring. To build resilience, it is key for insurers to enable a co-ordinated and cross-functional approach in advanced data analytics for risk management and decision-making purposes across the business.

One of the ways of ensuring co-ordinated efforts in data analytics and other resilience initiatives is ensuring there is a robust resilience framework. KPMG's enterprise resilience framework demonstrated on the following page provides a best practice view around the structure that can be implemented to assist in anticipating and flexibly adapting operational strategies, whilst navigating the ever-changing risk landscape with foresight, predictive capabilities and informed decision-making.

Vision and mission

Objective	Agility	Efficiency	Sustainability	Innovation	Adaptability	
Enterprise resilience component	Strategic resilience	Operational resilience	Financial resilience	Organisational resilience	Technological resilience	Reputational resilience
Enterprise resilience workflow	**Strategic alignment** Define strategic objectives and corresponding key factors and activities to support strategic goals.	**Modelling** Identify key uncertainties/metrics. Develop quantitative modelling for predictive analysis and simulations.	**Reporting** Enterprise resilience dashboard as a centralised platform for strategic insights on resilience levels and capabilities.	**Resilience enhancement strategy** Identify strategic options to enhance resilience level and optimal strategy based on return on investment and confidence level.		
Backbone	Data-driven and AI-enabled approach					

Dealing with internal headwinds to enhance GRC solution implementation

It has been observed that GRC systems in the East African market face headwinds from internal stakeholders starting all the way at the top from leadership. Most frequently, GRC proponents cannot convincingly answer the question, "What is the return on investment for GRC?" Despite proponents experiencing difficulties of not having a functional GRC, the return on investment for a GRC system is often unclear and where presented, it is done so unconvincingly, leading to insufficient to no budget allocations.

As we earlier assessed, most insurers in East Africa are classified as SMEs, meaning that these insurers have limited financial muscle for expensive solutions. Due to the competing realities for finances, proponents of GRC would require a compelling case to obtain sufficient budget allocations.

Another headwind is what would be referred to as "once bitten, twice shy". This arises where an insurer has previously tried to implement various technologies within the business, with little clarity around whether the objectives and business benefits were achieved. As a result, leadership will often be weary of implementing new technology solutions.

To deal with internal headwinds, it is critical to have a clear approach on the implementation of the GRC solution. In addition, the impact and return on investment should be convincingly communicated.

How to put together a compelling investment case for enhanced GRC solutions

Investment cases for enhanced GRC systems should consider both tangible and intangible benefits. One common challenge we have observed is the inability to quantify the benefits. For instance, one of the tangible benefits of implementing an enhanced GRC system would be the integration of processes and platforms. Often, this benefit would be left unquantified and thus hard for decision-makers to appreciate the impact of the GRC system. However, a compelling investment case would be to demonstrate the return on investment (ROI) of this benefit and how the actual results will be measured. In this case, an ROI statement along the lines of a reduction in manual labour efforts enabling personnel to engage in more strategic initiatives, would be beneficial.

Set out below are best practice steps to implement for creating a compelling GRC investment case:

- Estimate the costs and benefits of the GRC program. This requires cognisance of the organisation's current state, and the sector within which it operates, amongst other factors.
- Demonstrate a clear path to ROI, articulating how the anticipated results will be measured and over what time frame.
- Account for intangible benefits. In addition to having accounted for the tangible benefits when demonstrating the ROI of adopting a GRC platform, ensure that the intangible benefits are not left out. Intangible benefits are those that would be hard to quantify but would be observed from the implementation of the program. For instance, the program will promote efficiency in risk and control assessments. However, it would be beneficial to include the mechanisms that will be used to track efficiency gains.
- Critically define the business value of an enhanced GRC program. The ultimate answer to the investment case would be what business values.

There is no one-size fits all solution as each insurer is dealing with different peculiarities. However, the above guidance provides a structured way of putting together a GRC investment case.

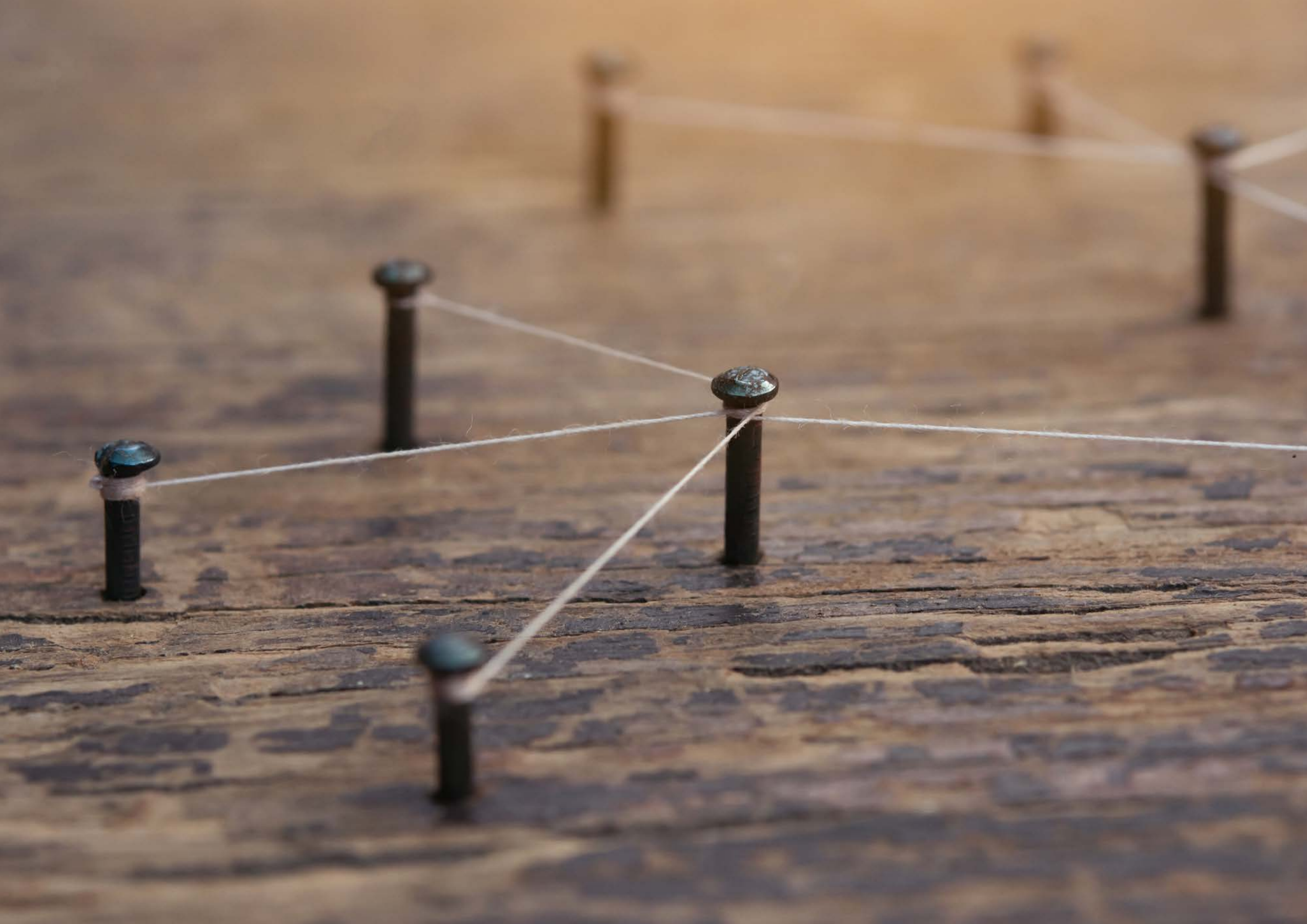
Moving forward

The benefits of an enhanced GRC system implementation are clear. However, it is also clear that such a program might not be affordable for most insurers in the East Africa region. This calls for insurers to do the most with what is already available.

Advanced analytics will enable insurers to identify vulnerabilities by identifying trends and hidden patterns, simulate different risk scenarios and predict potential disruptions. The result of these analytics would enable insurers to be proactive in dealing with emerging risks, anticipate disruptions and take advantage of these disruptions to develop competitive advantages.

With the understanding that the insurance sector in East Africa is home to a vast array of skilled data analysts, insurers should explore ways of eliminating silos in data analytics. This case does not advocate for over utilisation of available resources but for the enterprise to identify key skills that could be collaboratively utilised in an effective manner.

Ultimately, implementation of an enhanced GRC program has significant business benefits as a robust solution for enhancing enterprise resilience.



Post deal integration and separation services

KPMG's Integration & Separation advisory services cover the implementation planning and execution activities that support acquisitions and divestments respectively. We have extensive experience and knowledge from working across all sectors to bring leading edge expertise to our clients, having one of the longest established Integration & Separation advisory teams among professional services firms. Our Integration & Separation practitioners work closely alongside senior management throughout all stages of the transaction life cycle in undertaking the following services:

- Advising on synergy-related value and "up-side" in the bid process.
- Identify and assess key "hot spots"/"linkages" critical to integration or separation success.
- Develop an operational standalone "blueprint".
- Conduct standalone and stranded cost analyses.
- Carry out detailed planning in preparation for day 1 and thereafter (including HR, finance, IT, procurement and facilities impacts, amongst others).
- Compile a view on Transitional Services Arrangements (TSA's) along with the setup and running of suitable governance to oversee the service delivery and deal with challenges.
- Drive overall programme management and benefits tracking.

As part of our bespoke and tailored approach, we ensure that the impact on business-as-usual is minimised by defining the core integration and separation principles, establishing robust governance which drives accountability, and implementing a controlled programme which provides for a seamless day 1 transition. In addition, we carry out an ongoing review of risks and challenges in transitioning your organisation to either a standalone or integrated business. We also place significant emphasis on the careful management of interdependencies and interlinkages between organisations as well as functional workstreams involved in order to deliver successfully on all the integration and separation programmes we undertake.

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Agile operating models

The insurance industry is increasingly embracing digital transformation and evolving business models to improve customer experience, streamline operations, provide innovative products and enhance risk management. Digital technologies, such as cloud, artificial intelligence (AI), data analytics and automation, are pioneering the modernisation of insurance organisations and improving the total customer value proposition. KPMG global research identified that the insurance industry continues to drive a digital-first approach, with customer centricity continuing to be key to capture and sustain business growth[1].

As the insurance industry shifts towards digital, it is important to ensure that digital investments are creating value throughout the transformation process in a sustainable manner. A recent survey conducted by Harvard Business Review revealed that only 31% of expected revenue uplift and 25% of expected cost savings were realised through investments in digital and AI[2]. For insurers to better capitalise on the business benefits brought on by digital technologies, digital investments should be aligned to customer value creation and technology teams and business owners need to work closely together.

Introducing 'Agile'

Agile, whilst initially designed as a methodology aimed at improving project management and delivery capabilities, has evolved into a way organisations structure and deliver products continuously and collaboratively. It is founded on a set of principles (Agile Manifesto)[3] that enable organisations to respond faster to change and improve time to market. While traditional Waterfall[4] delivery methods deliver value at the end of a project, Agile follows an approach of breaking down large and complex requirements into smaller working segments that realise quicker time to value. Enterprise Agile has become imperative to modern technology delivery models, supporting changing customer needs and building business versatility and resilience to support an evolving insurance market.

As the concept of Agile evolved, it was identified that the framework and principles also found application to the broader enterprise. The broader enterprise-wide adoption resulted in the implementation of Agile operating models, which can be defined as an approach where an organisation's structures, processes and culture are designed to embrace the principles of agile methodologies. An Agile operating model introduces business benefits through cross functional teams, flatter structures, iterative work cycles, flexible planning, performance metrics, customer centricity and collaboration, to name but a few.

1 https://kpmg.com/us/en/articles/2024/experience-payoffs-how-to-deliver-successful-customer-experience.html

2 https://hbr.org/2023/07/the-value-of-digital-transformation

3 The Agile Manifesto is a document that outlines the central values and principles of Agile software development. Officially referred to as the Manifesto for Agile Software Development, the guide aims to provide an effective model for teams to successfully adopt the philosophy of Agile project management and use it to improve their work process. (https://www.wrike.com/agile-guide/agile-manifesto/)

4 The waterfall model is a linear, sequential approach to the software development lifecycle (SDLC) that is popular in software engineering and product development. (https://www.techtarget.com/searchsoftwarequality definition/waterfall-model#:~:text=The%20waterfall%20model%20is%20a,the%20edge%20of%20a%20cliff)

KPMG developed a supporting framework for the design of an Agile operating model. The image set our below depicts the key levers of the KPMG Agile Operating Model framework.

Performance management

- Quantified strategic themes
- End-to-end leading metrics
- Outcome based
- Team over individual

Organisation and governance

- Value stream and product driven organisational design
- Business and IT integration
- Empowered teams
- Agile aligned lines of defence

People, skills and culture

- Agile leadership and mindset
- Agile competences
- Engineering culture

Capabilities and services

- Product and service management
- Agile team and scaling methods
- Development operations

Locations and partner ecosystem

- Integrated supplier ecosystem
- Agile contracting
- Facilities enhancing agile working

Technology

- Modular architecture
- On-demand infrastructure as code
- Continuous integration, continuous deployment

World renowned academic and business consultant, Clayton Christensen, noted that of the 30 000 new products introduced each year on a global and cross-sectoral basis, 95% failed. This was largely due to a lack of empathy and understanding of customer needs when designing new products[5]. For this reason, insurance organisations need to ensure that products and services consider the customer at the core of the design and execution process.

Collaboration between business and technology teams is essential in adopting an Agile approach, with the role of 'Product Owner' being the integration point between the two teams. The Product Owner plays a key role in representing the business, ultimately ensuring that products are aligned to the customers for whom they are designed. This role is key in driving the business strategy and direction of the product, and helping shape the technology roadmap to ensure products are suitable for customers. This includes remaining abreast of changing customer expectations, regulations and market conditions.

[5] https://professionalprograms.mit.edu/blog/design/why-95-of-new-products-miss-the-mark-and-how-yours-can-avoid-the-same-fate/

The benefits of an Agile operating model

Insurance organisations are increasingly adopting Agile operating models, with great results. These insurers have been observed to introduce new products and features faster to the market, allowing the insurer to respond to the needs of the customer and market demands in an easily adaptable manner. Salesforce Research conducted a survey where it was identified that 80% of customers believe that customer experience is as important as the product and service. In addition, the research identified that customers expect personalisation when technology advances, more data is provided by the customer, and the customer spends more money for the product or service[6].

Customer experience and products need to evolve according to the changing customer expectation. Agile is a key enabler to support faster delivery of new products, features and functionality, which continually adapts to customer preferences and desired experience. In addition to the changing customer needs, the flexibility and iterative nature of this operating model supports the ability to manage risk and compliance with regulatory requirements. This approach underscores the importance of communication and collaboration between business and technology teams, to create better alignment between ideation, design and build, resulting in products with lower defects, higher sustained quality and greater market success – ultimately providing the insurer with a competitive edge.

Set out in the table to the right are key considerations for an insurer in building a business case to adopt an Agile operating model:

Business case factor	Detailed consideration
Increased flexibility and adaptability	Agile organisations can quickly pivot in response to market changes, emerging trends or customer feedback. This is due to shorter planning cycles and the iterative nature of Agile work.
Faster time to market	By breaking projects into smaller, manageable pieces and focusing on the delivery of minimum viable products, Agile enables organisations to release products and services more quickly, often improving competitiveness.
Enhanced customer satisfaction	Through frequent releases and continuous feedback, Agile helps ensure that the final product aligns closely with customer needs, leading to improved customer satisfaction and loyalty.
Improved product quality	Agile practices encourage regular testing and quality assurance throughout the development process, which can result in higher quality products released to market.
Increased efficiency	By minimising bureaucracy, encouraging cross-functional collaboration and eliminating unnecessary work, Agile helps to increase the efficiency of teams.
Enhanced innovation	The iterative approach of Agile allows for the exploration of new ideas at a lower cost. Teams can experiment with different solutions and pivot based on results, fostering a culture of innovation.
Higher employee engagement and morale	Agile often leads to more satisfied employees due to its emphasis on collaboration, autonomy and the sense of achievement that comes from rapid, incremental progress.
Better risk management	Agile's iterative nature allows for early detection and resolution of issues, reducing risks related to budget, time and scope overruns.
Continuous improvement	The retrospective aspect of Agile promotes a cycle of reflection and improvement at regular intervals, driving incremental improvements in both products and processes.
Improved collaboration and communication	Agile organisations emphasise open communication and collaboration, which can result in more cohesive teams and better cross-functional work.
Enhanced collaboration and alignment between business and IT	Agile promotes the alignment of business stakeholders and IT development teams by involving both in regular planning, review and feedback sessions.

6 https://www.salesforce.com/resources/articles/customer-expectations/

Figure 1 - SAFe research: key benefits realised by customers.

The adoption of an Agile operating model brings a profusion of benefits, supported by research and client case studies from Scaled Agile[7]:

- enhanced engagement and a happier employee experience through collaboration;
- employee satisfaction through working towards a common goal;
- improvement in productivity by breaking down silos and driving decision making within product teams; and
- quality and time to market is improved through increased focus and dedication to the product and consumers.

Key considerations for effective implementation

- **Clarity in roles and responsibilities to enhance delivery**

  The adoption of Agile within the insurance industry requires patience and time to test to iteratively adopt the best methodologies and practices. In addition, changing the culture and behaviours to support a new operating model requires a robust change management framework and a focused skills development programme to ensure continuity and sustainability in operations and performance.

- **Effective change management**

  Culture and discipline are important, particularly as it relates to self-autonomous teams, allowing decision making and governance to reside within teams to make quicker decisions in favour of the customer and business proposition. In addition, teams need to take responsibility for their actions and own the outcomes of the delivery. Change management practices will aid the resistance, with close monitoring of performance metrics across teams to address specific challenges as and if they arise.

- **The congruence of technologies to effectively support segmentation and agile delivery**

  Many legacy insurance technologies are limited in being able to provide information at a segmented or product level to enable effective monitoring and analysis at a granular level. This is where Insurtechs are capitalising and offering micro-service solutions to best serve business segments and provide choice in selection and decision making. It is important to understand the technology landscape, and how best to segment for delivery and support.

- **Leadership support**

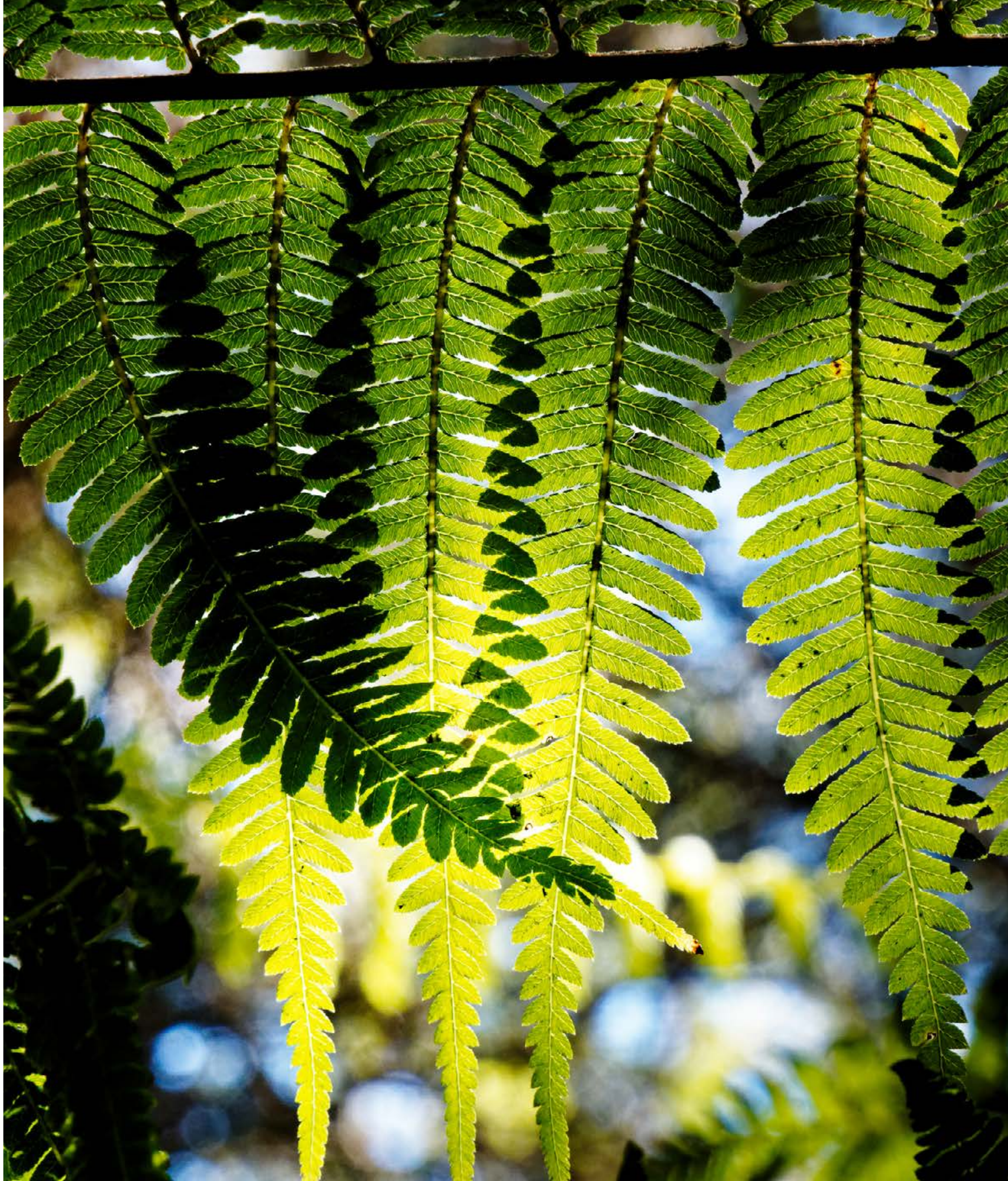
  Initial transitions require high levels of communication within teams to align the workforce to the strategy and value of the transition. Leadership can play an active role in guiding and steering the adoption from the transition phase to when operations normalise. It is important that implementation of an Agile operating model is seen as a continuous transformation journey, requiring leaders to remain active within the process.

[7] https://scaledagileframework.com/

Conclusion

Agile supports the anchoring of customer centricity in products and services, enabled by a focused and cross-functional team, integrating business and technology in everyday work.

There is no one-sized-fits-all or single solution to adopting an Agile operating model. The best approach is through trial and error, whereby learnings are captured to continuously improve and scale as the model matures. Taking a phased approach has less risk associated with impacting business operations and performance and allows the workforce to transition at a pace that is manageable for the change ahead.



Life insurance industry financial results

IFRS 4 Insurance Contracts

LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Jun-23	Jun-22	Jun-23	Jun-22	Jun-23	Jun-22	Jun-23	Jun-22 Restated	Jun-23	Jun-22
Group/Company	**1Life Insurance (RF) Limited**		**Assupol Life Limited**		**AVBOB Mutual Assurance Society**		**Discovery Life Limited**		**Guardrisk Life Limited**	
Share capital and premium	398 000	398 000	490 019	490 019	-	-	1 416 000	1 416 000	70 000	70 000
Retained earnings/(deficit)	1 307 425	1 154 669	4 425 867	4 247 910	6 234 944	6 231 944	33 009 000	30 472 000	424 289	343 087
Other reserves	-	-	296 827	290 378	-	-	(198 000)	(215 000)	-	-
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
Total shareholders' funds	**1 705 425**	**1 552 669**	**5 212 713**	**5 028 307**	**6 234 944**	**6 231 944**	**34 227 000**	**31 673 000**	**494 289**	**413 087**
Policyholder liabilities under insurance and reinsurance contracts and contracts with DPFs	384 440	476 900	-	-	22 687 323	18 354 573	100 560 000	89 066 000	-	-
Policyholder liabilities under investment contracts	2 654 766	2 556 817	5 799 937	4 121 547	-	-	-	-	15 729 639	12 143 752
Preference share liability	-	-	-	-	-	-	-	-	-	-
Linked liability	-	-	-	-	-	-	-	-	-	-
Reinsurance contract liability	-	-	-	-	-	-	6 080 000	6 062 000	2 787 890	2 013 160
Cell owners' interest	-	-	-	-	-	-	-	-	6 661 682	4 126 870
Current tax payable	-	-	-	22 261	8 704	7 336	38 000	441 000	222 521	150 120
Deferred tax liability	312 748	258 519	461 908	701 129	292 049	89 682	9 218 000	8 905 000	-	-
Other liabilities	201 178	155 683	1 370 745	1 120 060	10 187 102	10 100 098	22 993 000	17 141 000	845 308	437 051
Total liabilities	**3 553 132**	**3 447 919**	**7 632 590**	**5 964 997**	**33 175 178**	**28 551 689**	**138 889 000**	**121 615 000**	**26 247 040**	**18 870 953**
Total investments	**3 157 586**	**2 972 339**	**9 421 779**	**7 354 311**	**36 194 367**	**31 281 545**	**119 045 000**	**101 325 000**	**22 401 046**	**16 567 869**
Assets arising from insurance contracts	1 595 339	1 436 297	2 264 106	2 567 083	-	-	41 263 000	39 662 000	1 209 342	155 601
PPE, goodwill and intangible assets, non-current assets classified as held for sale	-	-	472 714	412 934	296 568	318 037	96 000	41 000	-	-
Reinsurers' share of policyholder liabilities	277 125	357 148	20 284	66 302	17 494	17 971	267 000	217 000	826 873	884 950
Deferred acquisition costs	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	189 877	215 252	421 643	379 480	1 665 482	2 257 067	3 315 000	2 434 000	841 938	518 989
Other assets	37 774	18 509	242 698	213 194	1 076 401	909 013	8 096 000	8 392 000	942 424	742 056
Current/Deferred tax asset	856	1 043	2 079	-	159 810	-	1 034 000	1 217 000	519 706	414 575
Total assets	**5 258 557**	**5 000 588**	**12 845 303**	**10 993 304**	**39 410 122**	**34 783 633**	**173 116 000**	**153 288 000**	**26 741 329**	**19 284 040**
Total assets/Total liabilities	148%	145%	168%	184%	119%	122%	125%	126%	102%	102%
Increase in shareholders' funds	10%		4%		0%		8%		20%	

LIFE INSURERS | Statement of Financial Position | R'000

Accounting Year end	Jun-23	Jun-22 Restated	Jun-23	Jun-22 Restated	Jun-23	Jun-22 Restated	Jun-23	Jun-22
Group /Company	**Hollard Life Assurance Company Limited**		**Hollard Specialist Life Limited**		**Momentum Metropolitan Life Limited**		**OUTsurance Life Insurance Company Limited**	
Share capital and premium	20 000	20 000	94 687	94 687	1 041 000	1 041 000	445 002	445 002
Retained earnings/(deficit)	1 168 232	1 112 804	633 265	787 140	10 701 000	9 121 000	411 674	301 912
Other reserves	-	-	-	-	4 617 000	4 191 000	3 676	837
Non-controlling interests	-	-	-	-	-	-	-	-
Total shareholders' funds	**1 188 232**	**1 132 804**	**727 952**	**881 827**	**16 359 000**	**14 353 000**	**860 352**	**747 751**
Policyholder liabilities under insurance and reinsurance contracts and contracts with DPFs	3 283 557	3 010 825	-	-	122 929 000	115 760 000	969 140	828 182
Policyholder liabilities under investment contracts	29 237 642	27 334 168	109 947	104 116	338 166 000	290 763 000	1 230 640	64 053
Preference share liability	-	-	-	-	-	-	-	-
Linked liability	-	-	-	-	-	-	-	-
Reinsurance contract liability	256 858	267 835	275	-	-	-	-	-
Cell owners' interest	-	-	20 345	20 623	-	-	-	-
Current tax payable	32 815	-	-	-	793 000	50 000	1 114	30 438
Deferred tax liability	1 154 034	1 408 029	129 244	154 607	1 120 000	1 051 000	19 095	23 263
Other liabilities	1 798 559	1 696 505	198 819	101 882	30 412 000	26 972 000	296 199	101 239
Total liabilities	**35 763 465**	**33 717 362**	**458 630**	**381 228**	**493 420 000**	**434 596 000**	**2 516 188**	**1 047 175**
Total investments	**31 306 485**	**27 784 710**	**819 564**	**836 191**	**478 385 000**	**426 070 000**	**2 871 725**	**1 414 715**
Assets arising from insurance contracts	-	-	95 621	176 383	-	-	-	-
PPE, goodwill and intangible assets, non-current assets classified as held for sale	227 230	293 198	6 141	100	7 588 000	3 258 000	-	-
Reinsurers' share of policyholder liabilities	1 922 351	1 841 709	99 644	118 894	4 986 000	2 988 000	247 090	158 977
Deferred acquisition costs	-	-	-	-	-	-	-	-
Cash and cash equivalents	806 474	1 945 473	131 483	106 242	14 928 000	12 386 000	184 772	175 495
Other assets	835 277	729 104	12 427	18 327	3 892 000	4 247 000	52 548	25 599
Current/Deferred tax asset	1 853 880	2 255 972	21 702	6 918	-	-	20 405	20 140
Total assets	**36 951 697**	**34 850 166**	**1 186 582**	**1 263 055**	**509 779 000**	**448 949 000**	**3 376 540**	**1 794 926**
Total assets/Total liabilities	103%	103%	259%	331%	103%	103%	134%	171%
Increase in shareholders' funds	5%		(17%)		14%		15%	

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-23	Jun-22	Jun-23	Jun-22	Jun-23	Jun-22	Jun-23	Jun-22 Restated	Jun-23	Jun-22
Group/Company	**1Life Insurance (RF) Limited**		**Assupol Life Limited**		**AVBOB Mutual Assurance Society**		**Discovery Life Limited**		**Guardrisk Life Limited**	
Recurring premiums							21 645 000	19 755 000	10 821 900	9 148 875
Single premiums	1 637 405	1 514 612	5 027 415	4 714 047	6 233 046	5 739 498	10 138 000	9 360 000	(4 718)	68 189
Other premiums							-	-	-	-
Reinsurance premiums	(166 868)	(160 761)	(208 555)	(178 012)	(1 963)	(1 956)	(3 853 000)	(3 524 000)	(8 502 325)	(7 669 902)
Net premium income	**1 470 537**	**1 353 851**	**4 818 860**	**4 536 035**	**6 231 083**	**5 737 542**	**27 930 000**	**25 591 000**	**2 314 857**	**1 547 162**
Total net investment income	**96 929**	**70 106**	**731 799**	**331 126**	**3 868 818**	**2 079 390**	**13 112 000**	**1 464 000**	**1 925 380**	**457 795**
Commission received	-	-	1 997	3 895	-	-	-	-	67 545	36 506
Other unallocated income including service fees from investment contracts	53 185	18 305	116 547	83 467	2 576	685	3 258 000	2 966 000	12 071	11 821
Total income	**1 620 651**	**1 442 262**	**5 669 203**	**4 954 523**	**10 102 477**	**7 817 617**	**44 300 000**	**30 021 000**	**4 319 853**	**2 053 284**
Death/disability benefits			(944 710)	(1 055 479)	(1 986 283)	(2 074 264)	(9 287 000)	(12 073 000)		
Maturity benefits			(464 588)	(356 900)	(908)	(941)	-	-		
Annuity benefits	(673 140)	(860 089)	(77 094)	(41 890)	-	-	(631 000)	(629 000)	(3 006 590)	(3 187 313)
Surrender benefits			(21 778)	(22 319)	(307 262)	(255 608)	(12 555 000)	(11 381 000)		
Withdrawals and other benefits			(478 006)	(542 377)	(425 648)	(354 416)	(2 287 000)	(2 004 000)		
Reinsurance recoveries	188 558	228 451	175 301	192 990	1 139	1 378	3 271 000	4 791 000	2 963 069	3 168 975
Net policyholder benefits under insurance contracts	**(484 582)**	**(631 638)**	**(1 810 875)**	**(1 825 975)**	**(2 718 962)**	**(2 683 851)**	**(21 489 000)**	**(21 296 000)**	**(43 521)**	**(18 338)**
Change in cell owners' liability	-	-	-	-	-	-	-	-	(420 860)	(261 651)
Change in assets arising from insurance contracts	156 447	165 045	-	-	-	-	4 984 000	5 299 000	-	-
Change in policyholder liabilities under insurance contracts	15 033	46 737	(348 996)	(63 491)	(4 336 095)	(2 303 696)	(14 594 000)	(3 221 000)	546 214	733 495
Fair value adjustments on policyholder liabilities under investment contracts	(3 742)	(7 579)	(328 924)	(116 412)	-	-	(2 593 000)	260 000	(1 389 078)	(163 120)
Acquisition costs	(245 172)	(203 847)	(911 869)	(859 099)	(842 246)	(887 902)	(3 332 000)	(2 945 000)	(2 484 455)	(1 991 024)
Administration, management and other expenses	(838 790)	(755 649)	(1 446 509)	(1 310 508)	(1 958 662)	(1 821 851)	(3 824 000)	(3 531 000)	(297 675)	(189 217)
Total expenses	**(1 400 806)**	**(1 386 931)**	**(4 847 173)**	**(4 175 485)**	**(9 855 965)**	**(7 697 300)**	**(40 848 000)**	**(25 434 000)**	**(4 089 375)**	**(1 889 855)**
Equity-accounted earnings (incl. hyper-inflationary adjustments)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit/(Loss) before tax	**219 845**	**55 331**	**822 030**	**779 038**	**246 512**	**120 317**	**3 452 000**	**4 587 000**	**230 478**	**163 429**

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-23	Jun-22	Jun-23	Jun-22	Jun-23	Jun-22	Jun-23	Jun-22 Restated	Jun-23	Jun-22
Group/Company	**1Life Insurance (RF) Limited**		**Assupol Life Limited**		**AVBOB Mutual Assurance Society**		**Discovery Life Limited**		**Guardrisk Life Limited**	
Taxation	(67 089)	19 961	(93 467)	(156 653)	(244 143)	(117 735)	(910 000)	(1 216 000)	(66 276)	(47 382)
Profit/(Loss) after tax	**152 756**	**75 292**	**728 563**	**622 385**	**2 369**	**2 582**	**2 542 000**	**3 371 000**	**164 202**	**116 047**
Other comprehensive income	**-**	**-**	**-**	**-**	**631**	**(82)**	**(4 000)**	**5 000**	**-**	**-**
Total comprehensive income for the year	**152 756**	**75 292**	**728 563**	**622 385**	**3 000**	**2 500**	**2 538 000**	**3 376 000**	**164 202**	**116 047**
Other transfers to/(from) retained earnings	-	-	(19 356)	-	-	-	(5 000)	1 000	-	-
Other comprehensive income not charged against retained earnings	-	-	-	-	-	-	4 000	(5 000)	-	-
Ordinary dividends	-	-	531 250	186 551	-	-	-	-	83 000	80 000
Allocated to preference shareholders	-	-	-	-	-	-	-	-	-	-
Allocated to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Change in retained earnings	**152 756**	**75 292**	**177 957**	**435 834**	**3 000**	**2 500**	**2 537 000**	**3 372 000**	**81 202**	**36 047**
Management expenses to net premium income	57%	56%	30%	29%	31%	32%	14%	14%	13%	12%
Tax as a % of profit/(loss) before tax	31%	(36%)	11%	20%	99%	98%	26%	27%	29%	29%
Comments	Company		Company		Society		Company		Company	

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-23	Jun-22 Restated	Jun-23	Jun-22 Restated	Jun-23	Jun-22 Restated	Jun-23	Jun-22
Group/Company	**Hollard Life Assurance Company Limited**		**Hollard Specialist Life Limited**		**Momentum Metropolitan Life Limited**		**OUTsurance Life Insurance Company Limited**	
Recurring premiums	6 879 837	6 834 229	610 511	635 241				
Single premiums	-	-	-	-	31 287 000	27 429 000	940 090	797 910
Other premiums	(30 864)	178 878	45 254	45 826				
Reinsurance premiums	(1 841 342)	(1 718 394)	(1 716)	(2 723)	(3 741 000)	(3 251 000)	(135 974)	(93 975)
Net premium income	**5 007 631**	**5 294 713**	**654 049**	**678 344**	**27 546 000**	**24 178 000**	**804 116**	**703 935**
Total net investment income	**196 654**	**249 034**	**73 571**	**50 666**	**59 641 000**	**17 055 000**	**102 892**	**56 978**
Commission received	-	-	-	-	-	-	-	-
Other unallocated income including service fees from investment contracts	413 760	237 256	18 957	11 596	4 152 000	3 889 000	7 323	240
Total income	**5 618 045**	**5 781 003**	**746 577**	**740 606**	**91 339 000**	**45 122 000**	**914 331**	**761 153**
Death/disability benefits	(3 536 446)	(4 861 618)	(68 010)	(23 245)	(11 628 000)	(15 053 000)	(317 866)	(393 610)
Maturity benefits	-	(1 527)	(712)	(226)	(3 945 000)	(4 020 000)	-	-
Annuity benefits	(1 366)	(1 265)	-	-	(5 988 000)	(5 266 000)	-	-
Surrender benefits	(16 589)	(14 178)	-	-	(2 084 000)	(2 042 000)	-	-
Withdrawals and other benefits	(78 204)	(71 814)	(204 871)	(296 691)	(504 000)	(402 000)	(23 953)	(17 788)
Reinsurance recoveries	1 432 712	2 159 923	19 003	21 288	3 327 000	4 682 000	153 666	164 328
Net policyholder benefits under insurance contracts	**(2 199 893)**	**(2 790 479)**	**(254 590)**	**(298 874)**	**(20 822 000)**	**(22 101 000)**	**(188 153)**	**(247 070)**
Change in cell owners' liability	-	-	-	-	-	-	-	-
Change in assets arising from insurance contracts	-	-	-	-	-	-	-	-
Change in policyholder liabilities under insurance contracts	(249 836)	(260 592)	(86 317)	45 659	(5 171 000)	3 494 000	(52 845)	(3 086)
Fair value adjustments on policyholder liabilities under investment contracts	-	-	2 462	(3 498)	(46 199 000)	(9 022 000)	-	-
Acquisition costs	(485 851)	(462 392)	(155 211)	(61 535)	(3 545 000)	(3 515 000)	(1 720)	23
Administration, management and other expenses	(1 601 607)	(1 967 412)	(348 529)	(211 556)	(8 827 000)	(7 391 000)	(517 528)	(371 549)
Total expenses	**(4 537 187)**	**(5 480 875)**	**(842 185)**	**(529 804)**	**(84 564 000)**	**(38 535 000)**	**(760 246)**	**(621 682)**
Equity-accounted earnings (incl. hyper-inflationary adjustments)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit/(Loss) before tax	**1 080 858**	**300 128**	**(95 608)**	**210 802**	**6 775 000**	**6 587 000**	**154 085**	**139 471**

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-23	Jun-22 Restated	Jun-23	Jun-22 Restated	Jun-23	Jun-22 Restated	Jun-23	Jun-22
Group/Company	**Hollard Life Assurance Company Limited**		**Hollard Specialist Life Limited**		**Momentum Metropolitan Life Limited**		**OUTsurance Life Insurance Company Limited**	
Taxation	(342 485)	(240 155)	3 984	(55 465)	(2 525 000)	(1 888 000)	(44 323)	(39 537)
Profit/(Loss) after tax	**738 373**	**59 973**	**(91 624)**	**155 337**	**4 250 000**	**4 699 000**	**109 762**	**99 934**
Other comprehensive income	**-**	**-**	**-**	**-**	**935 000**	**(1 134 000)**	**2 839**	**50**
Total comprehensive income for the year	**738 373**	**59 973**	**(91 624)**	**155 337**	**5 185 000**	**3 565 000**	**112 601**	**99 984**
Other transfers to/(from) retained earnings	-	-	-	-	536 000	44 000	-	-
Other comprehensive income not charged against retained earnings	-	-	-	-	(941 000)	1 108 000	(2 839)	(50)
Ordinary dividends	682 945	274 737	62 251	194 429	3 200 000	700 000	-	-
Allocated to preference shareholders	-	-	-	-	-	-	-	-
Allocated to non-controlling interests	-	-	-	-	-	-	-	-
Change in retained earnings	**55 428**	**(214 764)**	**(153 875)**	**(39 092)**	**1 580 000**	**4 017 000**	**109 762**	**99 934**
Management expenses to net premium income	32%	37%	53%	31%	32%	31%	64%	53%
Tax as a % of profit/(loss) before tax	32%	80%	4%	26%	37%	29%	29%	28%
Comments	Company		Company		Company		Company	

IFRS 17 Insurance Contracts

LIFE INSURERS | Statement of Financial Position | R'000

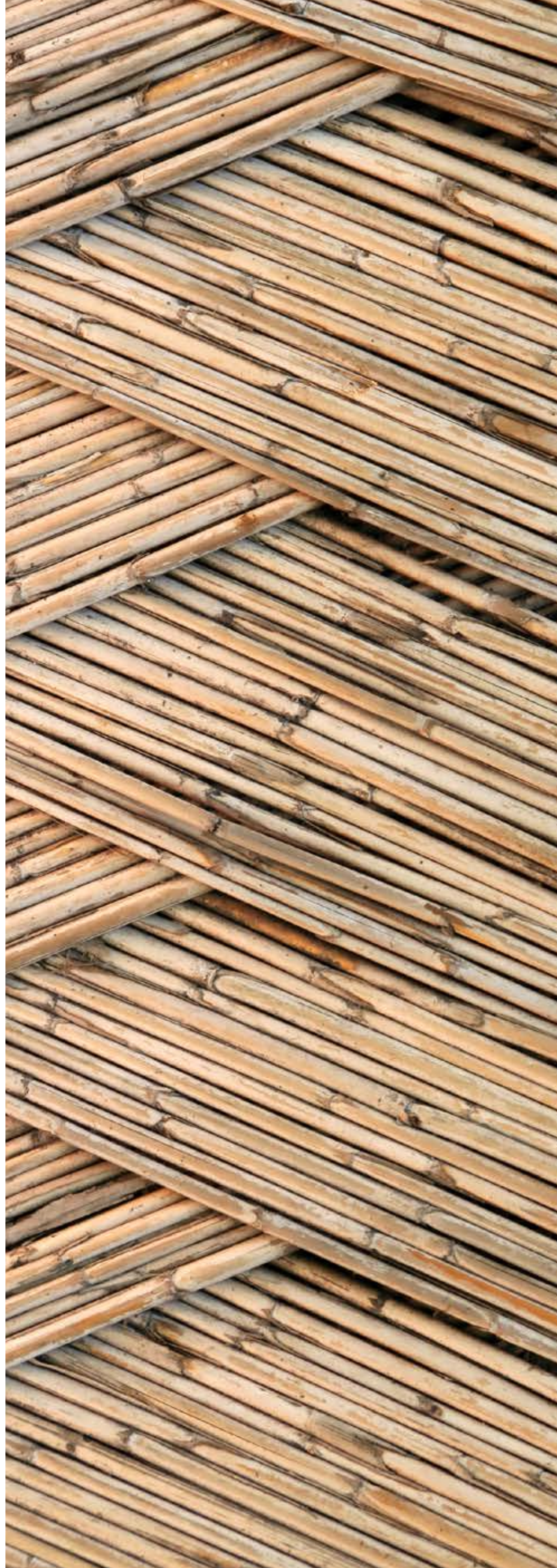
Accounting year end	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated
Group/Company	**Absa Life Limited**		**Bryte Life Company Limited**		**Centriq Life Insurance Company Limited**		**Liberty Group Limited**		**Nedgroup Life Assurance Company Limited**	
Share capital and premium	24 000	24 000	126 744	126 744	15 000	15 000	189 000	189 000	55 000	55 000
Retained earnings/(deficit)	1 535 135	1 308 526	(97 032)	(106 947)	71 755	43 465	12 303 000	12 979 000	1 996 546	2 500 193
Other reserves	(137 237)	(223 919)	-	(65)	-	-	196 000	231 000	-	-
Non-controlling interests	-	-	-	-	-	-	3 726 000	6 235 000	-	-
Total shareholders' funds	**1 421 898**	**1 108 607**	**29 712**	**19 732**	**86 755**	**58 465**	**16 414 000**	**19 634 000**	**2 051 546**	**2 555 193**
Insurance contract liabilities	3 239 156	3 073 949	41 207	60 429	1 770 097	1 162 666	245 207 000	226 007 000	884 848	941 421
Reinsurance contract liabilities	365 630	311 855	-	-	2 928 926	1 404 009	-	-	6 510	-
Policyholder liabilities under investment contracts	21 247 384	19 998 976	-	-	-	-	149 980 000	134 832 000	2 078 709	2 786 831
Preference share liability	-	-	15 000	15 000	-	-	-	-	-	-
Linked liability	-	-	-	-	-	-	-	-	-	-
Current tax payable	-	-	-	35	202 349	14 350	718 000	681 000	29 508	11 042
Deferred tax liability	14 997	-	-	-	-	-	1 235 000	707 000	79 921	100 651
Other liabilities	910 418	1 500 835	5 004	10 382	27 345	12 268	39 704 000	41 988 000	222 810	154 331
Total liabilities	**25 777 585**	**24 885 615**	**61 211**	**85 846**	**4 928 717**	**2 593 293**	**436 844 000**	**404 215 000**	**3 302 306**	**3 994 276**
Total investments	**24 438 287**	**23 828 976**	**35 230**	**33 001**	**4 045 140**	**1 928 443**	**399 123 000**	**365 840 000**	**4 607 999**	**5 751 467**
Assets arising from insurance contracts*	-	-	-	-	-	-	520 000	569 000	-	-
PPE, goodwill and intangible assets, non-current assets classified as held for sale	451 766	346 832	274	1 245	-	-	31 384 000	30 735 000	152 600	210 600
Insurance contract assets	608 020	475 408	-	-	18 419	14 425	1 205 000	1 084 000	44 164	128 557
Reinsurance contract assets	412 406	403 411	12 958	17 607	724 430	460 548	4 349 000	4 678 000	212 403	205 553
Cash and cash equivalents	649 440	413 587	39 637	51 172	116 097	103 839	13 019 000	18 200 000	225 324	138 283
Other assets	632 771	506 523	2 611	2 553	65 001	85 157	3 530 000	2 621 000	109 612	110 009
Current/Deferred tax asset	6 793	19 485	213	-	46 385	59 346	128 000	122 000	1 750	5 000
Total assets	**27 199 483**	**25 994 222**	**90 923**	**105 578**	**5 015 472**	**2 651 758**	**453 258 000**	**423 849 000**	**5 353 852**	**6 549 469**
Total assets/Total liabilities	106%	104%	149%	123%	102%	102%	104%	105%	162%	164%
Increase in shareholders' funds	28%		51%		48%		(16%)		(20%)	

* Included in this line are assets backing insurance/investment contracts measured under IFRS 9.

LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated
Group/Company	**Nedgroup Structured Life Limited**		**Old Mutual Life Assurance Company (South Africa) Limited**		**Sanlam Limited**	
Share capital and premium	26 351	26 351	6 423 000	6 423 000	6 375 000	9 896 000
Retained earnings/(deficit)	87 597	77 688	18 666 000	17 528 000	71 148 000	68 444 000
Other reserves	-	-	15 000	(144 000)	11 007 000	6 237 000
Non-controlling interests	-	-	-	-	8 375 000	14 381 000
Total shareholders' funds	**113 948**	**104 039**	**25 104 000**	**23 807 000**	**96 905 000**	**98 958 000**
Insurance contract liabilities	-	-	557 618 000	523 954 000	193 374 000	205 389 000
Reinsurance contract liabilities	-	-	34 000	18 000	5 686 000	4 171 000
Policyholder liabilities under investment contracts	15 359 249	13 988 054	226 262 000	190 494 000	488 501 000	441 660 000
Preference share liability	-	-	-	-	-	-
Linked liability	-	-	-	-	-	-
Current tax payable	549	-	191 000	434 000	1 938 000	1 963 000
Deferred tax liability	-	-	3 812 000	2 046 000	8 768 000	6 601 000
Other liabilities	2 676	2 347	69 989 000	67 663 000	195 280 000	239 412 000
Total liabilities	**15 362 474**	**13 990 401**	**857 906 000**	**784 609 000**	**893 547 000**	**899 196 000**
Total investments	**101 267**	**95 542**	**838 600 000**	**772 305 000**	**836 398 000**	**778 647 000**
Assets arising from insurance contracts*	15 359 249	13 988 054	273 000	284 000	-	-
PPE, goodwill and intangible assets, non-current assets classified as held for sale	-	-	7 973 000	7 260 000	61 189 000	120 393 000
Insurance contract assets	-	-	4 577 000	3 225 000	9 478 000	8 858 000
Reinsurance contract assets	-	-	2 742 000	2 569 000	14 530 000	18 680 000
Cash and cash equivalents	11 074	1 737	10 727 000	6 681 000	25 829 000	36 866 000
Other assets	4 832	5 358	15 226 000	12 762 000	40 455 000	32 506 000
Current/Deferred tax asset	-	3 749	2 892 000	3 330 000	2 573 000	2 204 000
Total assets	**15 476 422**	**14 094 440**	**883 010 000**	**808 416 000**	**990 452 000**	**998 154 000**
Total assets/Total liabilities	101%	101%	103%	103%	111%	111%
Increase in shareholders' funds	10%		5%		(2%)	

* Included in this line are assets backing insurance/investment contracts measured under IFRS 9.



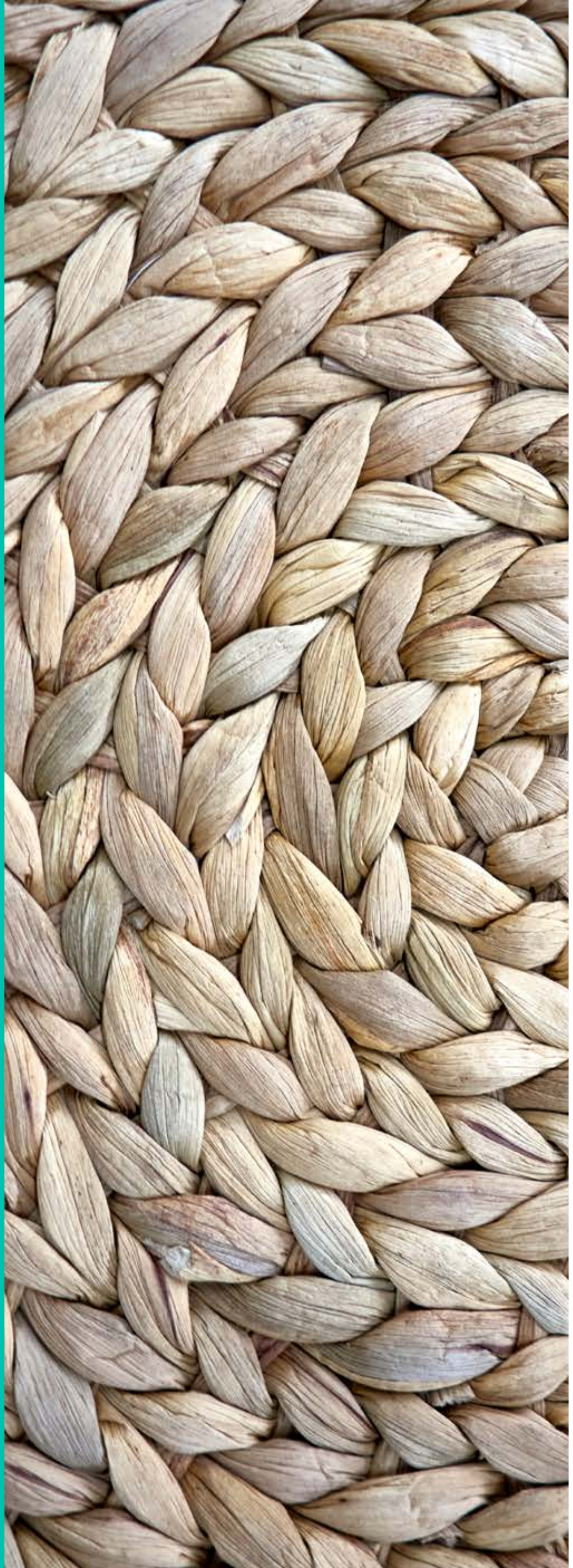
LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated
Group/Company	**Absa Life Limited**		**Bryte Life Company Limited**		**Centriq Life Insurance Company Limited**		**Liberty Group Limited**		**Nedgroup Life Assurance Company Limited**	
Insurance revenue	4 788 592	4 779 761	118 193	130 120	6 743 072	5 351 173	31 220 000	28 450 000	2 335 764	2 441 325
Insurance service expenses	(3 476 262)	(3 331 245)	(101 711)	(125 958)	(4 101 844)	(3 135 464)	(23 307 000)	(22 004 000)	(1 280 358)	(1 007 047)
Net expenses from reinsurance contracts	(123 966)	(293 189)	(4 394)	(6 715)	(1 920 928)	(1 646 808)	(527 000)	23 000	(32 053)	11 129
Insurance service result	**1 188 364**	**1 155 327**	**12 088**	**(2 553)**	**720 300**	**568 901**	**7 386 000**	**6 469 000**	**1 023 353**	**1 445 407**
Net finance income/(expense) from insurance contracts	11 661	(34 067)	-	-	115 294	(176 876)	(25 977 000)	(5 100 000)	14 724	(104 688)
Net finance income/(expense) from reinsurance contracts	(79 871)	(39 285)	-	-	(350 962)	110 015	319 000	106 000	(898)	8 631
Net insurance result	**1 120 154**	**1 081 975**	**12 088**	**(2 553)**	**484 632**	**502 040**	**(18 272 000)**	**1 475 000**	**1 037 179**	**1 349 350**
Total net investment income	**1 857 054**	**(1 077 627)**	**6 984**	**4 593**	**270 368**	**86 057**	**46 839 000**	**7 107 000**	**489 607**	**248 902**
Net income before other operating expenses and other income	**2 977 208**	**4 348**	**19 072**	**2 040**	**755 000**	**588 097**	**28 567 000**	**8 582 000**	**1 526 786**	**1 598 252**
Commission received	67 763	95 391	-	-	-	-	-	-	-	-
Other unallocated income	-	-	-	-	-	-	2 203 000	2 086 000	33 806	33 322
Service fees from investment contracts	-	-	-	-	-	-	-	-	-	-
Fair value adjustments/movement on policyholder liabilities under investment contracts	(1 448 208)	1 319 666	-	-	-	-	(18 091 000)	(1 284 000)	(23 026)	(179 616)
Administration, management and other expenses	(244 313)	(176 079)	(9 157)	(15 644)	(80 494)	(54 461)	(7 758 000)	(7 121 000)	(107 072)	(61 114)
Equity-accounted earnings (incl. hyper-inflationary adjustments)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit/(Loss) before tax	**1 352 450**	**1 243 326**	**9 915**	**(13 604)**	**674 506**	**533 636**	**4 921 000**	**2 263 000**	**1 430 494**	**1 390 844**
Taxation	(422 841)	(405 189)	-	-	(621 216)	(499 613)	(2 455 000)	(940 000)	(384 141)	(388 028)
Profit/(Loss) after tax	**929 609**	**838 137**	**9 915**	**(13 604)**	**53 290**	**34 023**	**2 466 000**	**1 323 000**	**1 046 353**	**1 002 816**
Other comprehensive income	**124 437**	**(450 271)**	**-**	**-**	**-**	**-**	**61 000**	**(8 000)**	**-**	**-**
Total comprehensive income for the year	**1 054 046**	**387 866**	**9 915**	**(13 604)**	**53 290**	**34 023**	**2 527 000**	**1 315 000**	**1 046 353**	**1 002 816**
Other transfer to/(from) retained earnings	-	-	-	-	-	-	535 000	186 000	-	-
Other comprehensive income not charged against retained earnings	(124 437)	450 271	-	-	-	-	(61 000)	8 000	-	-
Ordinary dividends	703 000	450 000	-	-	25 000	15 000	3 298 000	2 000 000	1 550 000	850 000

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated
Group/Company	**Absa Life Limited**		**Bryte Life Company Limited**		**Centriq Life Insurance Company Limited**		**Liberty Group Limited**		**Nedgroup Life Assurance Company Limited**	
Allocated to preference shareholders	-	-	-	-	-	-	-	-	-	-
Allocated to non-controlling interests	-	-	-	-	-	-	379 000	267 000	-	-
Change in retained earnings **	**226 609**	**388 137**	**9 915**	**(13 604)**	**28 290**	**19 023**	**(676 000)**	**(758 000)**	**(503 647)**	**152 816**
Net (expenses)/income from reinsurance contracts/insurance contracts result (insurance revenue less insurance service expenses)	9%	20%	27%	161%	73%	74%	7%	0%	3%	(1%)
Insurance service expenses/insurance revenue	73%	70%	86%	97%	61%	59%	75%	77%	55%	41%
Insurance service result/profit/(loss) before tax	88%	93%	122%	19%	107%	107%	150%	286%	72%	104%
Tax as a % of profit/(loss) before tax	31%	33%	-	-	92%	94%	50%	42%	27%	28%
Comments	Company		Company		Company		Group		Company	

** The impact of IFRS 9 and IFRS 17 transition is included in this movement and reflects the current year view of movement in retained earnings.



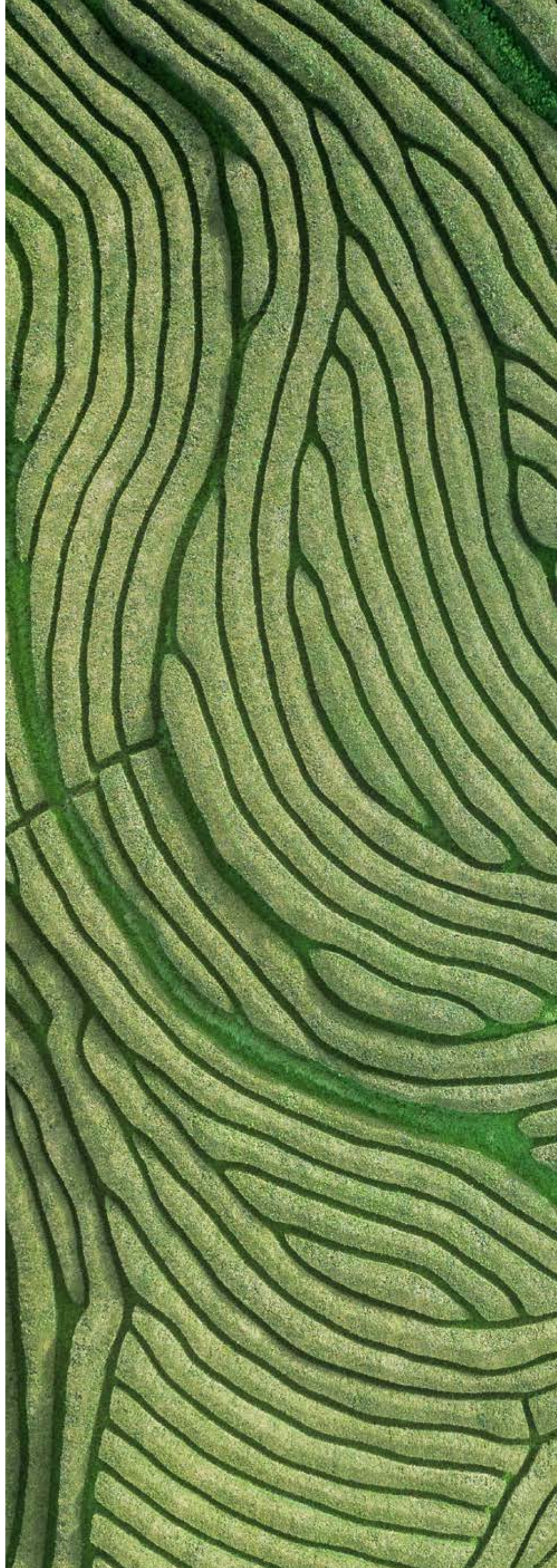
LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated
Group/Company	**Nedgroup Structured Life Limited**		**Old Mutual Life Assurance Company (South Africa) Limited**		**Sanlam Limited**	
Insurance revenue	-	-	37 432 000	36 005 000	112 282 000	110 526 000
Insurance service expenses	-	-	(28 625 000)	(28 463 000)	(90 425 000)	(95 212 000)
Net expenses from reinsurance contracts	-	-	(128 000)	87 000	(10 565 000)	(4 937 000)
Insurance service result	**-**	**-**	**8 679 000**	**7 629 000**	**11 292 000**	**10 377 000**
Net finance income/(expense) from insurance contracts	-	-	(62 924 000)	(7 792 000)	(15 602 000)	(8 398 000)
Net finance income/(expense) from reinsurance contracts	-	-	367 000	(29 000)	192 000	718 000
Net insurance result	**-**	**-**	**(53 878 000)**	**(192 000)**	**(4 118 000)**	**2 697 000**
Total net investment income	**9 616**	**5 755**	**91 503 000**	**(1 553 000)**	**105 360 000**	**18 329 000**
Net income before other operating expenses and other income	**9 616**	**5 755**	**37 625 000**	**(1 745 000)**	**101 242 000**	**21 026 000**
Commission received	-	-	3 037 000	2 302 000	-	-
Other unallocated income	25 601	(2 544)	2 019 000	2 236 000	20 332 000	15 130 000
Service fees from investment contracts	6 558	6 178	-	-	-	-
Fair value adjustments/movement on policyholder liabilities under investment contracts	-	-	(23 775 000)	6 099 000	(77 662 000)	(3 553 000)
Administration, management and other expenses	(2 541)	(2 898)	(10 424 000)	(8 303 000)	(22 532 000)	(18 047 000)
Equity-accounted earnings (incl. hyper-inflationary adjustments)	**-**	**-**	**-**	**-**	**3 406 000**	**3 166 000**
Profit/(Loss) before tax	**39 234**	**6 491**	**8 482 000**	**589 000**	**24 786 000**	**17 722 000**
Taxation	(29 325)	(158)	(3 862 000)	1 067 000	(7 789 000)	(3 864 000)
Profit/(Loss) after tax	**9 909**	**6 333**	**4 620 000**	**1 656 000**	**16 997 000**	**13 858 000**
Other comprehensive income	**-**	**-**	**49 000**	**(144 000)**	**(151 000)**	**(2 186 000)**
Total comprehensive income for the year	**9 909**	**6 333**	**4 669 000**	**1 512 000**	**16 846 000**	**11 672 000**
Other transfer to/(from) retained earnings	-	-	65 000	487 000	(4 354 000)	(277 000)
Other comprehensive income not charged against retained earnings	-	-	(46 000)	10 000	151 000	2 186 000
Ordinary dividends	-	-	3 550 000	5 480 000	7 420 000	6 959 000

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated
Group/Company	**Nedgroup Structured Life Limited**		**Old Mutual Life Assurance Company (South Africa) Limited**		**Sanlam Limited**	
Allocated to preference shareholders	-	-	-	-	-	-
Allocated to non-controlling interests	-	-	-	-	2 519 000	1 601 000
Change in retained earnings **	**9 909**	**6 333**	**1 138 000**	**(3 471 000)**	**2 704 000**	**5 021 000**
Net (expenses)/income from reinsurance contracts/insurance contracts result (insurance revenue less insurance service expenses)	-	-	1%	(1%)	48%	32%
Insurance service expenses/insurance revenue	-	-	76%	79%	81%	86%
Insurance service result/profit/(loss) before tax	-	-	102%	1 295%	46%	59%
Tax as a % of profit/(loss) before tax	75%	2%	46%	(181%)	31%	22%
Comments	Company		Company		Group	

** The impact of IFRS 9 and IFRS 17 transition is included in this movement and reflects the current year view of movement in retained earnings.



Non-life insurance industry financial results

IFRS 4 Insurance Contracts

NON-LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Jun-23	Jun-22	Jun-23	Jun-22	Jun-23	Jun-22	Jun-23	Jun-22	Mar-23	Mar-22
Group/Company	**Auto and General Insurance Company (RF) Limited**		**Budget Insurance Company (RF) Limited**		**Dial Direct Insurance (RF) Limited**		**Discovery Insure Limited**		**Escap SOC Limited**	
Share capital and share premium	53 506	53 506	80 001	80 001	20 001	20 001	2 552 000	2 402 000	379 500	379 500
Retained earnings/(deficit)	609 985	578 556	340 690	365 273	233 330	238 131	(429 000)	(531 000)	12 822 041	10 789 703
Other reserves	-	-	-	-	-	-	(70 000)	(68 000)	-	-
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
Total shareholders' funds	**663 491**	**632 062**	**420 691**	**445 274**	**253 331**	**258 132**	**2 053 000**	**1 803 000**	**13 201 541**	**11 169 203**
Gross outstanding claims provision	448 533	457 129	277 321	277 525	81 005	88 437	673 000	673 000	11 557 227	11 667 790
Gross unearned premium provision	165 238	148 734	51 829	42 419	83 325	93 737	289 000	245 000	502 818	756 524
Payables due to reinsurers	127 706	90 590	20 286	24 406	9 957	-	488 000	250 000	27 261	129 504
Reinsurers' share of expected salvages and recoveries	64 846	72 070	51 799	56 592	14 995	16 070	-	-	-	-
Owing to cell owners	-	-	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	-	-	-	-	-	-	-	-	-	-
Deferred tax liability	-	-	-	-	-	-	-	-	-	78 474
Other liabilities (including lease liabilites)	487 054	540 483	298 828	318 821	92 660	136 280	440 000	471 000	280 229	265 241
Total liabilities	**1 293 377**	**1 309 006**	**700 063**	**719 763**	**281 942**	**334 524**	**1 890 000**	**1 639 000**	**12 367 535**	**12 897 533**
Total investments including investments in subsidiaries	**1 123 814**	**1 063 391**	**695 558**	**639 685**	**373 969**	**400 442**	**2 125 000**	**1 919 000**	**21 702 070**	**19 872 178**
Deferred tax asset, intangible assets, PPE and ROU assets	8 536	27 713	6 591	17 581	1 315	5 633	399 000	390 000	20 235	18
Reinsurers' share of outstanding claims provision	96 377	87 298	40 946	38 009	14 113	14 837	25 000	14 000	2 816 126	2 919 928
Reinsurers' share of unearned premium provision	-	-	-	-	-	-	25 000	10 000	212 251	309 952
Reinsurance assets - due from reinsurers	141 120	169 226	8 051	34 858	1 192	10 159	508 000	406 000	69 806	26 666
Gross expected salvages and recoveries	87 073	96 782	73 151	80 576	21 144	22 736	-	-	-	-
Deferred aquisition costs	16 214	14 801	4	21	1	4	62 000	66 000	-	-
Cash and cash equivalents	295 126	321 890	238 024	309 590	97 869	117 862	340 000	133 000	34 013	95 615
Other assets	188 608	159 967	58 429	44 717	25 670	20 983	459 000	504 000	714 575	842 379
Total assets	**1 956 868**	**1 941 068**	**1 120 754**	**1 165 037**	**535 273**	**592 656**	**3 943 000**	**3 442 000**	**25 569 076**	**24 066 736**
International solvency margin	101%	105%	94%	105%	192%	179%	35%	35%	614%	437%
Total assets/Total liabilities	151%	148%	160%	162%	190%	177%	209%	210%	207%	187%
Change in shareholders' funds	5%		(6%)		(2%)		14%		18%	

NON-LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Jun-23	Jun-22	Jun-23	Jun-22	Jun-23	Jun-22 Restated	Jun-23	Jun-22 Restated	Mar-23	Mar-22
Group/Company	**First for Women Insurance Company (RF) Limited**		**Guardrisk Insurance Company Limited**		**The Hollard Insurance Company Limited**		**Hollard Specialist Insurance Limited**		**Infiniti Insurance Limited**	
Share capital and share premium	82 000	82 000	324 414	324 414	1 642 601	1 642 601	400 503	400 503	187 230	187 230
Retained earnings/(deficit)	189 577	186 474	582 785	416 453	1 120 957	1 106 898	(135 728)	(106 870)	397 955	336 205
Other reserves	-	-	3 651	2 220	4 012	4 012	-	-	-	-
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
Total shareholders' funds	**271 577**	**268 474**	**910 850**	**743 087**	**2 767 570**	**2 753 511**	**264 775**	**293 633**	**585 185**	**523 435**
Gross outstanding claims provision	109 695	115 728	5 666 651	10 142 501	4 647 039	6 445 182	96 228	204 765	556 603	482 783
Gross unearned premium provision	61 789	53 309	8 274 927	6 847 534	4 790 768	2 605 694	122 785	143 315	252 029	266 190
Payables due to reinsurers	19 379	13 068	1 295 995	1 072 745	1 474 025	1 080 798	156	21 963	71 413	68 798
Reinsurers' share of expected salvages and recoveries	22 348	24 548	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	9 127 693	6 984 600	-	-	160 758	204 484	-	-
Deferred reinsurance commission revenue	-	-	235 518	182 177	-	-	-	-	18 663	18 831
Deferred tax liability	-	-	-	-	169 024	179 742	-	-	59 850	37 848
Other liabilities (including lease liabilites)	142 956	156 316	920 426	566 973	3 010 072	2 272 587	101 941	102 875	289 206	213 947
Total liabilities	**356 167**	**362 969**	**25 521 210**	**25 796 530**	**14 090 928**	**12 584 003**	**481 868**	**677 402**	**1 247 764**	**1 088 397**
Total investments including investments in subsidiaries	**382 399**	**350 198**	**17 205 598**	**12 787 428**	**7 142 062**	**5 051 662**	**504 432**	**705 402**	**1 153 940**	**1 015 704**
Deferred tax asset, intangible assets, PPE and ROU assets	8 323	11 712	78 583	77 080	495 715	540 984	6 222	10 007	1 609	1 922
Reinsurers' share of outstanding claims provision	19 736	18 937	4 740 247	9 221 830	2 098 278	4 283 453	2 269	23 546	352 324	275 114
Reinsurers' share of unearned premium provision	-	-	1 464 470	1 031 338	1 101 120	658 232	4 671	5 116	72 886	75 948
Reinsurance assets - due from reinsurers	529	10 450	130 869	141 125	1 402 544	883 050	7 299	41 786	5 443	2 748
Gross expected salvages and recoveries	31 618	34 667	-	-	-	-	-	-	-	-
Deferred aquisition costs	2	8	253 878	163 531	133 972	115 273	40 489	42 114	54 781	58 088
Cash and cash equivalents	159 657	182 944	1 352 545	1 288 836	1 735 798	1 873 353	158 916	103 260	48 838	87 665
Other assets	25 480	22 527	1 205 870	1 828 449	2 749 009	1 931 507	22 345	39 804	143 128	94 643
Total assets	**627 744**	**631 443**	**26 432 060**	**26 539 617**	**16 858 498**	**15 337 514**	**746 643**	**971 035**	**1 832 949**	**1 611 832**
International solvency margin	123%	127%	17%	15%	28%	34%	48%	30%	52%	49%
Total assets/Total liabilities	176%	174%	104%	103%	120%	122%	155%	143%	147%	148%
Change in shareholders' funds	1%		23%		1%		(10%)		12%	

NON-LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Jun-23	Jun-22	Jun-23	Jun-22	Jun-23	Jun-22	Jun-23	Jun-22	Mar-23	Mar-22
Group/Company	**King Price Insurance Company Limited**		**Lombard Insurance Company Limited**		**Momentum Insure Company Limited**		**OUTsurance Insurance Company Limited**		**Sasria SOC Limited**	
Share capital and share premium	890 000	850 000	189 050	189 050	2 004 559	1 424 559	25 000	25 000	22 000 000	22 000 000
Retained earnings/(deficit)	(370 571)	(431 617)	703 907	594 801	(458 265)	(151 059)	3 184 356	3 106 721	(11 516 135)	(15 098 628)
Other reserves	96 475	61 468	-	-	6 800	4 460	26 521	(4 635)	-	-
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
Total shareholders' funds	**615 904**	**479 851**	**892 957**	**783 851**	**1 553 094**	**1 277 960**	**3 235 877**	**3 127 086**	**10 483 865**	**6 901 372**
Gross outstanding claims provision	297 236	310 825	3 084 162	2 849 425	1 152 857	815 970	936 862	964 934	2 617 070	12 097 737
Gross unearned premium provision	31 548	14 982	934 101	822 196			1 147 573	1 060 035	699 860	596 429
Payables due to reinsurers	68 535	119 609	1 784 097	1 781 521	-	-	28 620	110 228	463 646	164 057
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	-	-	138 365	116 994	-	-	-	-	162 584	99 374
Deferred tax liability	-	-	-	-	-	-	-	-	-	-
Other liabilities (including lease liabilites)	381 368	368 933	534 916	477 786	262 099	361 641	1 626 165	1 148 019	121 834	50 113
Total liabilities	**778 687**	**814 349**	**6 475 641**	**6 047 922**	**1 414 956**	**1 177 611**	**3 739 220**	**3 283 216**	**4 064 994**	**13 007 710**
Total investments including investments in subsidiaries	**209 931**	**188 069**	**3 054 590**	**2 818 526**	**2 030 255**	**1 376 934**	**5 676 418**	**4 946 333**	**6 546 617**	**37 302**
Deferred tax asset, intangible assets, PPE and ROU assets	379 223	394 520	88 335	46 513	365 310	397 759	738 834	493 478	1 008 539	857 778
Reinsurers' share of outstanding claims provision	255 003	249 472	2 396 179	2 256 304	253 769	111 830	1 700	142 634	1 559 743	2 588 686
Reinsurers' share of unearned premium provision	12 585	13 125	534 934	446 809			-	-	367 328	238 844
Reinsurance assets - due from reinsurers	42 300	46 865	49 159	24 153	-	-	23 320	272 454	17 607	17 607
Gross expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Deferred aquisition costs	117	2 417	144 674	121 201	35 489	34 287	-	-	189 657	161 966
Cash and cash equivalents	186 430	116 299	695 992	721 260	137 117	94 542	181 733	362 514	4 127 328	14 578 781
Other assets	309 002	283 433	404 735	397 007	146 110	440 219	353 092	192 889	732 040	1 428 118
Total assets	**1 394 591**	**1 294 200**	**7 368 598**	**6 831 773**	**2 968 050**	**2 455 571**	**6 975 097**	**6 410 302**	**14 548 859**	**19 909 082**
International solvency margin	119%	110%	69%	70%	53%	47%	30%	31%	613%	335%
Total assets/Total liabilities	179%	159%	114%	113%	210%	209%	187%	195%	358%	153%
Change in shareholders' funds	28%		14%		22%		3%		52%	

NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-23	Jun-22	Jun-23	Jun-22	Jun-23	Jun-22	Jun-23	Jun-22	Mar-23	Mar-22
Group/Company	**Auto and General Insurance Company (RF) Limited**		**Budget Insurance Company (RF) Limited**		**Dial Direct Insurance (RF) Limited**		**Discovery Insure Limited**		**Escap SOC Limited**	
Gross premiums written	3 261 776	3 067 547	1 963 026	1 865 294	683 412	742 735	5 927 000	5 195 000	4 507 809	4 124 859
Net premiums written	671 642	610 298	456 293	427 579	121 485	134 555	5 281 000	4 926 000	1 995 742	2 474 455
Net premiums earned	**655 138**	**604 211**	**446 883**	**425 784**	**131 897**	**144 541**	**5 281 000**	**4 926 000**	**2 151 747**	**2 558 209**
Total net investment income	**97 559**	**61 739**	**64 878**	**41 047**	**33 702**	**23 974**	**178 000**	**132 000**	**1 286 420**	**997 383**
Reinsurance commission revenue	1 088 435	1 026 177	673 501	640 043	249 463	269 927	-	-	323 550	307 416
Other income	341 794	247 336	27 939	30 962	34 404	37 417	13 000	22 000	21 996	15 965
Total income	**2 182 926**	**1 939 463**	**1 213 201**	**1 137 836**	**449 466**	**475 859**	**5 472 000**	**5 080 000**	**3 783 713**	**3 878 973**
Net claims incurred	(509 727)	(463 548)	(334 421)	(330 303)	(105 706)	(119 233)	(3 118 000)	(3 222 000)	(969 574)	(2 486 848)
Acquisition costs	(335 773)	(311 891)	(54 212)	(46 890)	(8 379)	(10 160)	(920 000)	(782 000)	-	-
Cell owners' transactions	-	-	-	-	-	-	-	-	-	-
Management and other expenses	(1 201 137)	(1 104 723)	(783 161)	(755 103)	(280 626)	(334 619)	(1 289 000)	(1 265 000)	(108 563)	6 196
Total expenses	**(2 046 637)**	**(1 880 162)**	**(1 171 794)**	**(1 132 296)**	**(394 711)**	**(464 012)**	**(5 327 000)**	**(5 269 000)**	**(1 078 137)**	**(2 480 652)**
Net profit/(loss) before tax	**136 289**	**59 301**	**41 407**	**5 540**	**54 755**	**11 847**	**145 000**	**(189 000)**	**2 705 576**	**1 398 321**
Taxation	(39 860)	(17 853)	(10 990)	(1 934)	(14 556)	(3 330)	(41 000)	46 000	(673 238)	(366 393)
Net profit/(loss) after tax	**96 429**	**41 448**	**30 417**	**3 606**	**40 199**	**8 517**	**104 000**	**(143 000)**	**2 032 338**	**1 031 928**
Other comprehensive income	-	-	-	-	-	-	(1 000)	2 000	-	-
Total comprehensive income for the year	**96 429**	**41 448**	**30 417**	**3 606**	**40 199**	**8 517**	**103 000**	**(141 000)**	**2 032 338**	**1 031 928**
Transfer to/(from) retained earnings	-	-	-	-	-	-	(2 000)	-	-	-
Other comprehensive income	-	-	-	-	-	-	1 000	(2 000)	-	-
Dividends	65 000	-	55 000	-	45 000	-	-	30 000	-	600 000
Change in retained earnings	**31 429**	**41 448**	**(24 583)**	**3 606**	**(4 801)**	**8 517**	**102 000**	**(173 000)**	**2 032 338**	**431 928**
Net premiums written to gross premiums written	21%	20%	23%	23%	18%	18%	89%	95%	44%	60%
Net claims incurred to net premiums earned	78%	77%	75%	78%	80%	82%	59%	65%	45%	97%
Management and other expenses to net premiums earned	183%	183%	175%	177%	213%	232%	24%	26%	5%	0%
Combined ratio	479%	481%	413%	416%	488%	508%	101%	107%	65%	109%
Operating ratio	493%	491%	427%	426%	514%	524%	104%	110%	125%	148%
Return on equity	15%	7%	7%	1%	16%	3%	5%	(8%)	15%	9%

NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-23	Jun-22	Jun-23	Jun-22	Jun-23	Jun-22 Restated	Jun-23	Jun-22 Restated	Mar-23	Mar-22
Group/Company	**First for Women Insurance Company (RF) Limited**		**Guardrisk Insurance Company Limited**		**The Hollard Insurance Company Limited**		**Hollard Specialist Insurance Limited**		**Infiniti Insurance Limited**	
Gross premiums written	1 000 662	958 065	15 450 642	13 250 978	16 189 864	12 047 545	530 005	996 518	1 398 381	1 331 607
Net premiums written	229 307	216 111	6 719 675	5 600 803	11 604 039	8 477 942	526 597	979 299	1 123 044	1 079 776
Net premiums earned	**220 827**	**211 197**	**5 449 895**	**4 850 247**	**9 822 057**	**8 200 161**	**546 435**	**979 376**	**1 134 143**	**1 059 184**
Total net investment income	**37 552**	**23 136**	**1 208 695**	**712 597**	**701 158**	**629 046**	**66 146**	**53 559**	**177 658**	**25 378**
Reinsurance commission revenue	344 760	330 384	1 834 516	1 379 362	-	-	-	-	68 599	65 468
Other income	13 580	9 955	187 601	160 506	193 676	107 045	11 192	20 146	-	-
Total income	**616 719**	**574 672**	**8 680 707**	**7 102 712**	**10 716 891**	**8 936 252**	**623 773**	**1 053 081**	**1 380 400**	**1 150 030**
Net claims incurred	(148 982)	(145 302)	(1 625 010)	(1 540 614)	(6 097 072)	(4 752 296)	(244 889)	(526 032)	(649 362)	(548 747)
Acquisition costs	(19 126)	(18 984)	(1 696 376)	(1 494 906)	(896 601)	(790 474)	(73 054)	(130 276)	(217 635)	(201 255)
Cell owners' transactions	-	-	(619 592)	(369 835)	-	-	-	-	-	-
Management and other expenses	(396 656)	(400 131)	(4 288 017)	(3 345 618)	(3 171 899)	(2 467 128)	(221 023)	(216 087)	(360 719)	(335 116)
Total expenses	**(564 764)**	**(564 417)**	**(8 228 995)**	**(6 750 973)**	**(10 165 572)**	**(8 009 898)**	**(538 966)**	**(872 395)**	**(1 227 716)**	**(1 085 118)**
Net profit/(loss) before tax	**51 955**	**10 255**	**451 712**	**351 739**	**551 319**	**926 354**	**84 807**	**180 686**	**152 684**	**64 912**
Taxation	(13 852)	(3 232)	(120 380)	(96 508)	(81 883)	(182 294)	(42 915)	(75 858)	(25 934)	(16 399)
Net profit/(loss) after tax	**38 103**	**7 023**	**331 332**	**255 231**	**469 436**	**744 060**	**41 892**	**104 828**	**126 750**	**48 513**
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**38 103**	**7 023**	**331 332**	**255 231**	**469 436**	**744 060**	**41 892**	**104 828**	**126 750**	**48 513**
Transfer to/(from) retained earnings	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Dividends	35 000	-	165 000	270 000	455 377	861 767	70 750	24 180	65 000	145 000
Change in retained earnings	**3 103**	**7 023**	**166 332**	**(14 769)**	**14 059**	**(117 707)**	**(28 858)**	**80 648**	**61 750**	**(96 487)**
Net premiums written to gross premiums written	23%	23%	43%	42%	72%	70%	99%	98%	80%	81%
Net claims incurred to net premiums earned	67%	69%	30%	32%	62%	58%	45%	54%	57%	52%
Management and other expenses to net premiums earned	180%	189%	79%	69%	32%	30%	40%	22%	32%	32%
Combined ratio	412%	424%	173%	160%	103%	98%	99%	89%	114%	109%
Operating ratio	429%	435%	195%	175%	111%	105%	111%	95%	130%	111%
Return on equity	14%	3%	36%	34%	17%	27%	16%	36%	22%	9%

NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-23	Jun-22	Jun-23	Jun-22	Jun-23	Jun-22	Jun-23	Jun-22	Mar-23	Mar-22
Group/Company	**King Price Insurance Company Limited**		**Lombard Insurance Company Limited**		**Momentum Insure Company Limited**		**OUTsurance Insurance Company Limited**		**Sasria SOC Limited**	
Gross premiums written	3 181 016	2 808 529	3 923 415	3 232 561	3 061 234	2 848 781	11 160 232	10 252 807	4 570 818	3 152 458
Net premiums written	542 189	426 890	1 319 592	1 171 432	2 987 684	2 761 034	10 962 099	10 012 418	1 683 888	1 977 071
Net premiums earned	**518 547**	**436 533**	**1 296 812**	**1 118 970**	**2 955 810**	**2 739 415**	**10 938 713**	**9 993 859**	**1 708 942**	**2 062 281**
Total net investment income	**21 517**	**11 882**	**252 398**	**145 916**	**115 272**	**74 488**	**497 355**	**444 853**	**693 516**	**323 623**
Reinsurance commission revenue	1 026 336	820 195	844 192	592 912	3 974	13 850	-	-	1 011 564	314 302
Other income	14 163	14 730	38 965	22 296	211 818	171 693	-	-	7 736	17 846
Total income	**1 580 563**	**1 283 340**	**2 432 367**	**1 880 094**	**3 286 874**	**2 999 446**	**11 436 068**	**10 438 712**	**3 421 758**	**2 718 052**
Net claims incurred	(231 716)	(221 218)	(586 699)	(468 960)	(2 266 862)	(1 917 067)	(5 777 741)	(5 300 392)	1 723 392	(25 889 869)
Acquisition costs	(742 558)	(620 126)	(897 928)	(745 569)	(301 753)	(283 674)	(45 278)	(32 886)	(646 665)	(445 778)
Cell owners' transactions	-	-	-	-	-	-	-	-	-	-
Management and other expenses	(554 184)	(525 218)	(804 024)	(587 768)	(997 124)	(881 821)	(3 031 216)	(2 668 721)	(884 823)	(676 448)
Total expenses	**(1 528 458)**	**(1 366 562)**	**(2 288 651)**	**(1 802 297)**	**(3 565 739)**	**(3 082 562)**	**(8 854 235)**	**(8 001 999)**	**191 904**	**(27 012 095)**
Net profit/(loss) before tax	**52 105**	**(83 222)**	**143 716**	**77 797**	**(278 865)**	**(83 116)**	**2 581 833**	**2 436 713**	**3 613 662**	**(24 294 043)**
Taxation	(8 198)	3 711	(34 610)	(26 994)	(28 341)	91 786	(727 198)	(694 280)	(31 169)	836 970
Net profit/(loss) after tax	**43 907**	**(79 511)**	**109 106**	**50 803**	**(307 206)**	**8 670**	**1 854 635**	**1 742 433**	**3 582 493**	**(23 457 073)**
Other comprehensive income	17 139	-	-	-	483	916	31 157	(7 700)	-	-
Total comprehensive income for the year	**61 046**	**(79 511)**	**109 106**	**50 803**	**(306 723)**	**9 586**	**1 885 792**	**1 734 733**	**3 582 493**	**(23 457 073)**
Transfer to/(from) retained earnings	-	-	-	-	-	(502 840)	-	-	-	-
Other comprehensive income	-	-	-	-	(483)	(916)	(31 157)	7 700	-	-
Dividends	-	-	-	105 000	-	-	1 777 000	1 875 750	-	-
Change in retained earnings	**61 046**	**(79 511)**	**109 106**	**(54 197)**	**(307 206)**	**511 510**	**77 635**	**(133 317)**	**3 582 493**	**(23 457 073)**
Net premiums written to gross premiums written	17%	15%	34%	36%	98%	97%	98%	98%	37%	63%
Net claims incurred to net premiums earned	45%	51%	45%	42%	77%	70%	53%	53%	(101%)	1 255%
Management and other expenses to net premiums earned	107%	120%	62%	53%	34%	32%	28%	27%	52%	33%
Combined ratio	493%	501%	242%	214%	121%	113%	81%	80%	48%	1 325%
Operating ratio	497%	504%	261%	227%	125%	116%	85%	85%	89%	1 341%
Return on equity	7%	(17%)	12%	6%	(20%)	1%	57%	56%	34%	(340%)

IFRS 17 Insurance Contracts

NON-LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated
Group/Company	**Absa Insurance Company Limited**		**Bryte Insurance Company Limited**		**Centriq Insurance Company Limited**		**Chubb Insurance South Africa Limited**		**Compass Insurance Company Limited**	
Share capital and premium	31 000	31 000	504 650	504 650	55 000	55 000	115 000	115 000	114 284	114 284
Retained earnings/(deficit)	1 607 144	1 405 365	1 611 014	1 354 526	590 393	479 935	205 891	181 525	330 216	271 148
Other reserves	11 960	6 573	(16 256)	(19 289)	-	-	452	775	205	(2 687)
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
Total shareholders' funds	**1 650 104**	**1 442 938**	**2 099 408**	**1 839 887**	**645 393**	**534 935**	**321 343**	**297 300**	**444 705**	**382 745**
Insurance contract liabilities	991 008	968 361	5 210 540	5 504 093	12 272 638	11 418 063	1 166 650	1 489 390	1 194 616	984 645
Reinsurance contract liabilities	-	-	-	-	1 246 420	1 107 296	-	-	712	4 634
Policyholder liabilities under investment contracts	-	-	-	-	4 452 376	3 471 847	-	-	-	-
Preference share liability	-	-	400 000	400 000	-	-	-	-	-	-
Linked liability	-	-	-	-	-	-	-	-	-	-
Current tax payable	-	9 257	-	-	-	-	-	-	-	95
Deferred tax liability	51 859	-	49 635	-	468 627	2 569	-	-	554	-
Other liabilities	380 880	262 538	609 678	699 568	542 217	739 667	52 933	49 167	32 832	64 189
Total liabilities	**1 423 747**	**1 240 156**	**6 269 853**	**6 603 661**	**18 982 278**	**16 739 442**	**1 219 583**	**1 538 557**	**1 228 714**	**1 053 563**
Total investments	**2 178 848**	**2 158 182**	**4 509 319**	**3 695 348**	**16 860 683**	**14 219 607**	**319 456**	**350 253**	**531 742**	**581 288**
Assets arising from insurance contracts	-	-	-	-	-	-	-	-	-	-
PPE, goodwill and intangible assets, non-current assets classified as held for sale	283 426	201 323	261 626	262 834	6 407	9 465	4 067	4 529	2 577	5 398
Insurance contract assets	-	-	-	-	58 110	50 663	-	3 305	5 881	154
Reinsurance contract assets	63 990	95 380	2 759 571	3 617 742	1 090 938	1 400 850	930 577	1 229 048	957 689	745 516
Cash and cash equivalents	395 817	128 474	693 206	682 777	583 920	689 432	252 715	223 029	157 330	101 022
Other assets	103 566	94 544	140 404	151 259	745 931	815 981	23 687	12 731	16 299	1 088
Current/Deferred tax asset	48 204	5 191	5 135	33 588	281 682	88 379	10 424	12 962	1 901	1 842
Total assets	**3 073 851**	**2 683 094**	**8 369 261**	**8 443 548**	**19 627 671**	**17 274 377**	**1 540 926**	**1 835 857**	**1 673 419**	**1 436 308**
Total assets/Total liabilities	216%	216%	133%	128%	103%	103%	126%	119%	136%	136%
Increase in shareholders' funds	14%		14%		21%		8%		16%	

NON-LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated
Group/Company	**The Federated Employers Mutual Assurance Company (RF) Proprietary Limited**		**MiWay Insurance Limited**		**Nedgroup Insurance Company Limited**		**Old Mutual Insure Limited**		**Old Mutual Alternative Risk Transfer Insure Limited**	
Share capital and premium	-	-	250 101	250 101	5 000	5 000	2 612 000	2 312 000	4 550	4 550
Retained earnings/(deficit)	-	-	93 511	163 160	1 259 800	1 180 128	2 852 000	2 234 000	249 123	224 785
Other reserves	-	-	-	-	-	-	-	-	-	-
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
Total shareholders' funds	**-**	**-**	**343 612**	**413 261**	**1 264 800**	**1 185 128**	**5 464 000**	**4 546 000**	**253 673**	**229 335**
Insurance contract liabilities	9 134 000	8 233 000	430 043	344 202	345 964	293 372	3 993 000	3 506 000	1 408 602	1 164 350
Reinsurance contract liabilities	-	-	-	-	-	-	203 000	21 000	1 028 466	775 563
Policyholder liabilities under investment contracts	-	-	-	-	-	-	-	-	-	-
Preference share liability	-	-	-	-	-	-	-	-	-	-
Linked liability	-	-	-	-	-	-	-	-	-	-
Current tax payable	-	-	-	-	-	2 029	-	-	-	6 226
Deferred tax liability	-	-	-	-	55 719	23 749	-	31 000	73 227	4 696
Other liabilities	234 000	188 000	425 455	258 012	51 762	43 915	1 887 000	1 917 000	675 436	699 326
Total liabilities	**9 368 000**	**8 421 000**	**855 498**	**602 214**	**453 445**	**363 065**	**6 083 000**	**5 475 000**	**3 185 731**	**2 650 161**
Total investments	**9 187 000**	**8 248 000**	**357 518**	**432 657**	**1 547 030**	**1 454 050**	**6 058 000**	**4 796 000**	**2 248 115**	**1 826 860**
Assets arising from insurance contracts	-	-	-	-	-	-	-	-	-	-
PPE, goodwill and intangible assets, non-current assets classified as held for sale	107 000	98 000	216 932	81 432	5 518	5 190	861 000	542 000	611	1 237
Insurance contract assets	-	-	-	-	-	-	-	-	6 772	3 958
Reinsurance contract assets	41 000	47 000	364 399	291 182	57 051	46 717	2 587 000	2 622 000	352 468	404 121
Cash and cash equivalents	25 000	13 000	163 792	118 681	79 790	32 173	1 270 000	1 363 000	618 327	550 232
Other assets	8 000	15 000	66 186	67 077	2 314	10 063	705 000	669 000	135 118	93 088
Current/Deferred tax asset	-	-	30 283	24 446	26 542	-	66 000	29 000	77 993	-
Total assets	**9 368 000**	**8 421 000**	**1 199 110**	**1 015 475**	**1 718 245**	**1 548 193**	**11 547 000**	**10 021 000**	**3 439 404**	**2 879 496**
Total assets/Total liabilities	100%	100%	140%	169%	379%	426%	190%	183%	108%	109%
Increase in shareholders' funds	0%		(17%)		7%		20%		11%	

NON-LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated
Group/Company	**Santam Limited**		**Standard Insurance Limited**	
Share capital and premium	103 000	103 000	30 000	30 000
Retained earnings/(deficit)	8 636 000	9 070 000	2 680 674	2 279 620
Other reserves	-	(35 000)	140	140
Non-controlling interests	-	-	-	-
Total shareholders' funds	**8 739 000**	**9 138 000**	**2 710 814**	**2 309 760**
Insurance contract liabilities	16 592 000	19 857 000	696 612	871 779
Reinsurance contract liabilities	-	-	-	-
Policyholder liabilities under investment contracts	-	-	-	-
Preference share liability	-	-	-	-
Linked liability	-	-	-	-
Current tax payable	-	267 000	-	21 997
Deferred tax liability	571 000	23 000	24 234	13 223
Other liabilities	5 629 000	4 971 000	123 109	80 486
Total liabilities	**22 792 000**	**25 118 000**	**843 955**	**987 485**
Total investments	**18 697 000**	**15 172 000**	**2 585 193**	**2 181 210**
Assets arising from insurance contracts	-	-	-	-
PPE, goodwill and intangible assets, non-current assets classified as held for sale	911 000	2 775 000	162 063	55 836
Insurance contract assets	340 000	624 000	14 520	3 390
Reinsurance contract assets	8 401 000	12 159 000	127 886	297 720
Cash and cash equivalents	1 415 000	2 356 000	348 685	498 604
Other assets	1 591 000	1 170 000	293 709	260 485
Current/Deferred tax asset	176 000	-	22 713	-
Total assets	**31 531 000**	**34 256 000**	**3 554 769**	**3 297 245**
Total assets/Total liabilities	138%	136%	421%	334%
Increase in shareholders' funds	(4%)		17%	

NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated
Group/Company	**Absa Insurance Company Limited**		**Bryte Insurance Company Limited**		**Centriq Insurance Company Limited**		**Chubb Insurance South Africa Limited**		**Compass Insurance Company Limited**	
Insurance revenue	3 726 667	3 435 652	6 919 778	5 950 453	3 209 093	2 795 683	744 879	852 975	2 119 968	1 915 420
Insurance service expenses	(3 189 023)	(3 058 368)	(5 490 575)	(6 174 416)	(2 582 253)	(2 812 597)	(197 571)	(671 586)	(1 892 175)	(1 965 287)
Net expenses from reinsurance contracts	(118 024)	75 261	(1 070 556)	116 141	(468 965)	178 599	(449 490)	(67 780)	(142 243)	141 070
Insurance service result	**419 620**	**452 545**	**358 647**	**(107 822)**	**157 875**	**161 685**	**97 818**	**113 609**	**85 550**	**91 203**
Net finance income/(expense) from insurance contracts	(458)	5 138	(37 787)	113 992	(770 191)	(414 440)	(92 898)	(63 252)	(49)	(4 584)
Net finance income/(expense) from reinsurance contracts	263	(550)	22 331	(48 824)	(131 033)	(19 394)	73 563	53 492	(176)	3 684
Net insurance result	**419 425**	**457 133**	**343 191**	**(42 654)**	**(743 349)**	**(272 149)**	**78 483**	**103 849**	**85 325**	**90 303**
Total net investment income	**235 896**	**145 092**	**383 921**	**150 323**	**1 139 238**	**602 313**	**30 419**	**18 454**	**65 883**	**58 082**
Net income before other operating expenses and other income	**655 321**	**602 225**	**727 112**	**107 669**	**395 889**	**330 164**	**108 902**	**122 303**	**151 208**	**148 385**
Commission received	4 473	5 231	-	-	-	-	-	-	-	-
Other unallocated income	49 272	48 285	3 400	3 329	283 500	147 149	4 323	8 636	17 753	11 249
Service fees from investment contracts	-	-	-	-	-	-	-	-	-	-
Fair value adjustments on policyholder liabilities under investment contracts	-	-	-	-	-	-	-	-	-	-
Administration, management and other expenses	(431 925)	(399 460)	(369 494)	(375 340)	(32 047)	(38 497)	(15 152)	(604)	(66 708)	(56 545)
Equity-accounted earnings (incl. hyper-inflationary adjustments)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit/(Loss) before tax	**277 141**	**256 281**	**361 018**	**(264 342)**	**647 342**	**438 816**	**98 073**	**130 335**	**102 253**	**103 089**
Taxation	(75 362)	(74 386)	(104 530)	66 724	(466 884)	(308 535)	(26 639)	(37 205)	(23 185)	(22 820)
Profit/(Loss) after tax	**201 779**	**181 895**	**256 488**	**(197 618)**	**180 458**	**130 281**	**71 434**	**93 130**	**79 068**	**80 269**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2 892**	**(4 632)**
Total comprehensive income for the year	**201 779**	**181 895**	**256 488**	**(197 618)**	**180 458**	**130 281**	**71 434**	**93 130**	**81 960**	**75 367**
Other transfer to/(from) retained earnings	-	-	-	-	-	-	-	-	-	-
Other comprehensive income not charged against retained earnings	-	-	-	-	-	-	-	-	(2 892)	4 632

NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated
Group/Company	**Absa Insurance Company Limited**		**Bryte Insurance Company Limited**		**Centriq Insurance Company Limited**		**Chubb Insurance South Africa Limited**		**Compass Insurance Company Limited**	
Ordinary dividends	-	-	-	10 000	70 000	65 000	47 068	64 028	20 000	35 000
Allocated to preference shareholders	-	-	-	-	-	-	-	-	-	-
Allocated to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Change in retained earnings *	**201 779**	**181 895**	**256 488**	**(207 618)**	**110 458**	**65 281**	**24 366**	**29 102**	**59 068**	**45 269**
Net (expenses)/income from reinsurance contracts/insurance contracts result (insurance revenue less insurance service expenses)	22%	(20%)	75%	52%	75%	1 056%	82%	37%	62%	283%
Insurance service expenses/ insurance revenue	86%	89%	79%	104%	80%	101%	27%	79%	89%	103%
Insurance service result/profit/(loss) before tax	151%	177%	99%	41%	24%	37%	100%	87%	84%	88%
Tax as a % of profit/(loss) before tax	27%	29%	29%	25%	72%	70%	27%	29%	23%	22%
Comments	Company		Company		Company		Company		Company	

* The impact of IFRS 9 and IFRS 17 transition is included in this movement and reflects the current year view of movement in retained earnings.

NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated
Group/Company	**The Federated Employers Mutual Assurance Company (RF) Proprietary Limited**		**MiWay Insurance Limited**		**Nedgroup Insurance Company Limited**		**Old Mutual Insure Limited**		**Old Mutual Alternative Risk Transfer Insure Limited**	
Insurance revenue	1 017 000	914 000	3 391 871	3 240 085	1 305 203	1 186 949	12 526 000	11 487 000	4 823 026	4 182 254
Insurance service expenses	(775 000)	(770 000)	(3 217 479)	(2 960 790)	(1 265 422)	(1 155 164)	(11 541 000)	(11 567 000)	(4 224 774)	(4 068 258)
Net expenses from reinsurance contracts	(13 000)	5 000	(149 758)	(98 527)	(47 140)	(6 334)	(1 169 000)	449 000	(750 154)	(220 470)
Insurance service result	**229 000**	**149 000**	**24 634**	**180 768**	**(7 359)**	**25 451**	**(184 000)**	**369 000**	**(151 902)**	**(106 474)**
Net finance income/(expense) from insurance contracts	(303 000)	(214 000)	-	-	1 646	-	(133 000)	(68 000)	(48 609)	(24 025)
Net finance income/(expense) from reinsurance contracts	-	-	-	-	-	-	67 000	53 000	42 582	24 103
Net insurance result	**(74 000)**	**(65 000)**	**24 634**	**180 768**	**(5 713)**	**25 451**	**(250 000)**	**354 000**	**(157 929)**	**(106 396)**
Total net investment income	**1 090 000**	**(43 000)**	**42 106**	**28 223**	**140 927**	**91 142**	**1 233 000**	**328 000**	**145 564**	**41 631**
Net income before other operating expenses and other income	**1 016 000**	**(108 000)**	**66 740**	**208 991**	**135 214**	**116 593**	**983 000**	**682 000**	**(12 365)**	**(64 765)**
Commission received	-	-	-	-	-	-	-	-	-	-
Other unallocated income	-	-	5 931	3 388	3 403	5 770	47 000	54 000	118 465	139 029
Service fees from investment contracts	-	-	-	-	-	-	-	-	-	-
Fair value adjustments on policyholder liabilities under investment contracts	-	-	-	-	-	-	-	-	-	-
Administration, management and other expenses	(1 016 000)	108 000	(23 423)	(33 606)	(35 284)	(12 382)	(481 000)	(443 000)	(73 626)	(74 001)
Equity-accounted earnings (incl. hyper-inflationary adjustments)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(7 000)**	**-**	**-**
Profit/(Loss) before tax	**-**	**-**	**49 248**	**178 773**	**103 333**	**109 981**	**549 000**	**286 000**	**32 474**	**263**
Taxation	-	-	(13 897)	(48 155)	(23 661)	(27 957)	71 000	(57 000)	(8 136)	(611)
Profit/(Loss) after tax	**-**	**-**	**35 351**	**130 618**	**79 672**	**82 024**	**620 000**	**229 000**	**24 338**	**(348)**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**(2 000)**	**(3 000)**	**-**	**-**
Total comprehensive income for the year	**-**	**-**	**35 351**	**130 618**	**79 672**	**82 024**	**618 000**	**226 000**	**24 338**	**(348)**
Other transfer to/(from) retained earnings	-	-	-	-	-	-	-	-	-	-
Other comprehensive income not charged against retained earnings	-	-	-	-	-	-	-	-	-	-

NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated
Group/Company	**The Federated Employers Mutual Assurance Company (RF) Proprietary Limited**		**MiWay Insurance Limited**		**Nedgroup Insurance Company Limited**		**Old Mutual Insure Limited**		**Old Mutual Alternative Risk Transfer Insure Limited**	
Ordinary dividends	-	-	105 000	100 000	-	-	-	200 000	-	-
Allocated to preference shareholders	-	-	-	-	-	-	-	-	-	-
Allocated to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Change in retained earnings *	**-**	**-**	**(69 649)**	**30 618**	**79 672**	**82 024**	**618 000**	**26 000**	**24 338**	**(348)**
Net (expenses)/income from reinsurance contracts/insurance contracts result (insurance revenue less insurance service expenses)	5%	(3%)	86%	35%	118%	20%	119%	561%	125%	193%
Insurance service expenses/ insurance revenue	76%	84%	95%	91%	97%	97%	92%	101%	88%	97%
Insurance service result/profit/(loss) before tax	0%	0%	50%	101%	(7%)	23%	(34%)	129%	(468%)	(40 484%)
Tax as a % of profit/(loss) before tax	0%	0%	28%	27%	23%	25%	(13%)	20%	25%	232%
Comments	Company		Company		Company		Company		Company	

* The impact of IFRS 9 and IFRS 17 transition is included in this movement and reflects the current year view of movement in retained earnings.

NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated
Group/Company	**Santam Limited**		**Standard Insurance Limited**	
Insurance revenue	33 005 000	31 500 000	3 466 641	3 231 861
Insurance service expenses	(27 185 000)	(29 941 000)	(2 916 222)	(3 283 272)
Net expenses from reinsurance contracts	(4 184 000)	45 000	(148 987)	428 367
Insurance service result	**1 636 000**	**1 604 000**	**401 432**	**376 956**
Net finance income/(expense) from insurance contracts	(1 489 000)	(665 000)	(39 414)	(7 941)
Net finance income/(expense) from reinsurance contracts	636 000	456 000	10 545	906
Net insurance result	**783 000**	**1 395 000**	**372 563**	**369 921**
Total net investment income	**2 879 000**	**1 356 000**	**251 478**	**134 056**
Net income before other operating expenses and other income	**3 662 000**	**2 751 000**	**624 041**	**503 977**
Commission received	-	-	-	-
Other unallocated income	717 000	115 000	10 224	7 629
Service fees from investment contracts	-	-	-	-
Fair value adjustments on policyholder liabilities under investment contracts	-	-	-	-
Administration, management and other expenses	(677 000)	(543 000)	(91 229)	(47 286)
Equity-accounted earnings (incl. hyper-inflationary adjustments)	**-**	**-**	**-**	**-**
Profit/(Loss) before tax	**3 702 000**	**2 323 000**	**543 036**	**464 320**
Taxation	(579 000)	(474 000)	(141 982)	(135 466)
Profit/(Loss) after tax	**3 123 000**	**1 849 000**	**401 054**	**328 854**
Other comprehensive income	**35 000**	**-**	**-**	**-**
Total comprehensive income for the year	**3 158 000**	**1 849 000**	**401 054**	**328 854**
Other transfer to/(from) retained earnings	39 000	16 000	-	-
Other comprehensive income not charged against retained earnings	(35 000)	-	-	-

NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated
Group/Company	**Santam Limited**		**Standard Insurance Limited**	
Ordinary dividends	3 592 000	2 362 000	-	150 000
Allocated to preference shareholders	-	-	-	-
Allocated to non-controlling interests	-	-	-	-
Change in retained earnings *	**(430 000)**	**(497 000)**	**401 054**	**178 854**
Net (expenses)/income from reinsurance contracts/insurance contracts result (insurance revenue less insurance service expenses)	72%	(3%)	27%	833%
Insurance service expenses/ insurance revenue	82%	95%	84%	102%
Insurance service result/profit/(loss) before tax	44%	69%	74%	81%
Tax as a % of profit/(loss) before tax	16%	20%	26%	29%
Comments	Company		Company	

* The impact of IFRS 9 and IFRS 17 transition is included in this movement and reflects the current year view of movement in retained earnings.

Reinsurance industry financial results

IFRS 17 Insurance Contracts

REINSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated
Group /Company	**African Reinsurance Corporation (South Africa) Limited**		**Hannover Re South Africa Limited**	
Share capital and premium	80 300	80 300	1 177 292	1 177 292
Retained earnings/(deficit)	997 390	912 383	1 581 617	1 453 060
Other reserves	51 702	51 702	(403 178)	(335 259)
Non-controlling interests	-	-	-	-
Total shareholders' funds	**1 129 392**	**1 044 385**	**2 355 731**	**2 295 093**
Insurance contract liabilities*	1 634 605	1 379 112	4 239 120	4 466 061
Reinsurance contract liabilities**	6	13 610	1 278 443	1 279 295
Policyholder liabilities under investment contracts	-	-	-	-
Preference share liability	-	-	-	-
Linked liability	-	-	-	-
Current tax payable	-	-	-	-
Deferred tax liability	16 382	13 049	-	-
Other liabilities	2 351 478	2 298 229	452 675	298 133
Total liabilities	**4 002 471**	**3 704 000**	**5 970 238**	**6 043 489**
Total investments	**3 805 021**	**3 270 994**	**3 574 220**	**3 527 713**
Policyholder assets	-	-	-	-
PPE, goodwill and intangible assets, non-current assets classified as held for sale	1 377	812	-	-
Insurance contract assets*	89 693	69 899	668 856	383 636
Reinsurance contract assets**	1 124 661	1 355 341	3 544 396	3 902 243
Cash and cash equivalents	69 115	15 255	330 442	274 089
Other assets	15 164	23 476	96 509	146 795
Current/Deferred tax asset	26 832	12 608	111 546	104 106
Total assets	**5 131 863**	**4 748 385**	**8 325 969**	**8 338 582**
Return on equity	8%	5%	12%	18%
Total assets/Total liabilities	128%	128%	139%	138%
Change in shareholders' funds	8%		3%	

* Insurance contracts reflected here refer to contracts issued by the reinsurer in its capacity as the reinsurer.

** Reinsurance contracts reflected here refer to retrocession contracts held by the reinsurer in its capacity as the reinsurer.

REINSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated
Group /Company	**Munich Reinsurance Company of Africa Limited**		**SCOR SE (Incorporated in France) - Africa Branch**	
Share capital and premium	1 344 915	1 344 915	-	-
Retained earnings/(deficit)	2 286 987	1 933 545	(874 981)	(595 043)
Other reserves	(30 618)	(138 728)	(85 746)	(72 503)
Non-controlling interests	-	-	-	-
Total shareholders' funds	**3 601 284**	**3 139 732**	**(960 727)**	**(667 546)**
Insurance contract liabilities*	15 661 638	14 140 887	3 120 377	3 203 503
Reinsurance contract liabilities**	418 837	290 292	1 997 831	1 757 293
Policyholder liabilities under investment contracts	18 871	374 948	-	-
Preference share liability	-	-	-	-
Linked liability	-	-	-	-
Current tax payable	-	36 411	-	-
Deferred tax liability	273 863	182 623	-	-
Other liabilities	656 466	658 157	247 160	279 259
Total liabilities	**17 029 675**	**15 683 318**	**5 365 368**	**5 240 055**
Total investments	**3 492 357**	**3 648 014**	**440 842**	**233 182**
Policyholder assets	2 028 934	1 493 729	-	-
PPE, goodwill and intangible assets, non-current assets classified as held for sale	21 668	56 522	10 173	1 615
Insurance contract assets*	2 072 253	2 043 458	1 439 505	1 803 902
Reinsurance contract assets**	10 715 091	9 602 233	1 457 129	1 401 193
Cash and cash equivalents	1 806 743	829 015	927 160	898 195
Other assets	415 573	1 150 079	129 555	233 106
Current/Deferred tax asset	78 340	-	277	1 316
Total assets	**20 630 959**	**18 823 050**	**4 404 641**	**4 572 509**
Return on equity	13%	16%	28%	36%
Total assets/Total liabilities	121%	120%	82%	87%
Change in shareholders' funds	15%		44%	

* Insurance contracts reflected here refer to contracts issued by the reinsurer in its capacity as the reinsurer.

** Reinsurance contracts reflected here refer to retrocession contracts held by the reinsurer in its capacity as the reinsurer.

REINSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated
Group /Company	**African Reinsurance Corporation (South Africa) Limited**		**Hannover Re South Africa Limited**	
Insurance revenue	2 490 270	2 243 863	5 452 293	5 232 405
Insurance service expenses	(2 251 013)	(2 298 732)	(4 119 895)	(4 267 471)
Net (expenses)/income from reinsurance contracts	(244 984)	42 624	(960 104)	(438 082)
Insurance service result	**(5 727)**	**(12 245)**	**372 294**	**526 852**
Net finance income/(expense) from insurance contracts	(75 904)	(41 402)	(264 685)	(339 578)
Net finance income/(expense) from reinsurance contracts	61 257	32 752	198 845	242 929
Currency gains/(losses) from insurance/reinsurance finance result	-	-	3 317	(3 062)
Net insurance result	**(20 374)**	**(20 895)**	**309 771**	**427 141**
Investment income from assets backing insurance contracts	**-**	**-**	**-**	**-**
Total net investment income	**192 064**	**121 725**	**287 738**	**322 072**
Net income before other operating expenses and other income	**171 690**	**100 830**	**597 509**	**749 213**
Commission received (non-insurance)	-	-	-	-
Other unallocated income	37 434	43 733	15 206	15 081
Service fees from investment contracts	-	-	-	-
Fair value adjustments on policyholder liabilities under investment contracts	-	-	-	-
Administration, management and other expenses	(96 450)	(79 129)	(222 126)	(222 636)
Equity-accounted earnings	-	-	-	-
Profit/(Loss) before tax	**112 674**	**65 434**	**390 589**	**541 658**
Taxation	(27 667)	(17 061)	(112 032)	(135 311)
Profit/(Loss) after tax	**85 007**	**48 373**	**278 557**	**406 347**
Other comprehensive income	**-**	**-**	**(67 918)**	**(168 562)**
Total comprehensive income for the year	**85 007**	**48 373**	**210 639**	**237 785**
Other transfer to/(from) retained earnings	-	-	67 918	168 562
Other comprehensive income not charged against retained earnings	-	-	-	-
Ordinary dividends	-	-	150 000	-

REINSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated
Company/Branch	**African Reinsurance Corporation (South Africa) Limited**		**Hannover Re South Africa Limited**	
Allocated to preference shareholders	-	-	-	-
Allocated to non-controlling interests	-	-	-	-
Change in retained earnings * **	**85 007**	**48 373**	**128 557**	**406 347**
Net (expenses)/income from reinsurance contracts/insurance contracts result (insurance revenue less insurance service expenses)	102%	78%	72%	45%
Insurance service expenses/insurance revenue	90%	102%	76%	82%
Insurance service result/profit/(loss) before tax	(5%)	(19%)	95%	97%
Tax as a % of profit/(loss) before tax	25%	26%	29%	25%
Comments	Composite company		Composite company	

*** The impact of IFRS 9 and IFRS 17 transition is included in this movement and reflects the current year view of movement in retained earnings.

REINSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated
Group /Company	**Munich Reinsurance Company of Africa Limited**		**SCOR SE (Incorporated in France) - Africa Branch**	
Insurance revenue	11 166 555	11 837 033	1 647 374	1 926 639
Insurance service expenses	(9 948 332)	(13 058 353)	(1 138 031)	(1 784 686)
Net (expenses)/income from reinsurance contracts	(861 264)	1 646 043	(601 940)	(203 758)
Insurance service result	**356 959**	**424 723**	**(92 597)**	**(61 805)**
Net finance income/(expense) from insurance contracts	(838 233)	(469 798)	(151 885)	(100 482)
Net finance income/(expense) from reinsurance contracts	650 384	302 939	19 367	46 950
Currency gains/(losses) from insurance/reinsurance finance result	-	-	-	-
Net insurance result	**169 110**	**257 864**	**(225 115)**	**(115 337)**
Investment income from assets backing insurance contracts	**305 809**	**113 646**	**-**	**-**
Total net investment income	**424 104**	**387 952**	**117 723**	**50 083**
Net income before other operating expenses and other income	**899 023**	**759 462**	**(107 392)**	**(65 254)**
Commission received (non-insurance)	-	-	-	-
Other unallocated income	13 084	15 878	12 775	-
Service fees from investment contracts	-	-	-	-
Fair value adjustments on policyholder liabilities under investment contracts	-	-	-	-
Administration, management and other expenses	(143 968)	(95 989)	(173 840)	(173 880)
Equity-accounted earnings	-	-	-	-
Profit/(Loss) before tax	**768 139**	**679 351**	**(268 457)**	**(239 134)**
Taxation	(290 085)	(176 425)	-	-
Profit/(Loss) after tax	**478 054**	**502 926**	**(268 457)**	**(239 134)**
Other comprehensive income	**47 579**	**(116 066)**	**(4 092)**	**16 088**
Total comprehensive income for the year	**525 633**	**386 860**	**(272 549)**	**(223 046)**
Other transfer to/(from) retained earnings	(42 191)	1 213 795	(7 389)	310 497
Other comprehensive income not charged against retained earnings	-	-	-	-
Ordinary dividends	130 000	800 000	-	-

REINSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-23	Dec-22 Restated	Dec-23	Dec-22 Restated
Company/Branch	**Munich Reinsurance Company of Africa Limited**		**SCOR SE (Incorporated in France) - Africa Branch**	
Allocated to preference shareholders	-	-	-	-
Allocated to non-controlling interests	-	-	-	-
Change in retained earnings ***	**353 442**	**800 655**	**(279 938)**	**87 451**
Net (expenses)/income from reinsurance contracts/insurance contracts result (insurance revenue less insurance service expenses)	71%	135%	118%	144%
Insurance service expenses/insurance revenue	89%	110%	69%	93%
Insurance service result/profit/(loss) before tax	46%	63%	34%	26%
Tax as a % of profit/(loss) before tax	38%	26%	0%	0%
Comments	Composite company		Composite branch	

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