# Up in the air

## The South African Insurance Industry Survey 2025

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# Contents

# We Didn't Start the Fire

We didn't start the fire; it was always burning since the world's been turning. We didn't start the fire; no, we didn't light it but we tried to fight it

Warning. If you were born after the 1970s, you may need ChatGPT to help navigate your understanding of what I'm about to say. We Didn't Start the Fire is a monster hit of a song, created in 1989, by Billy Joel when he turned 40 years old.

The idea spawned from a conversation he had with a friend of Sean Lennon, who is John Lennon and Yoko Ono's son. The friend had just turned 21 years old and was complaining about how crazy it was to be living in his era, therefore undermining any other time before his. This encouraged Joel to write a song that showed that any time is filled with extremes.

We have titled our survey "**Up in the Air**" this year because the insurance industry is all about operating in a world of change and uncertainty and if you subscribe to Billy Joel's message perhaps it always has been and perhaps it always will be this way.

Each of the six verses of this iconic song, starting from 1949, chronicle the major events that occurred during that time in a rapid fire delivery of names, places and cultural works. We Didn't Start the Fire is a constant reminder that no matter how crazy times may seem today, they have always been crazy.

Verse six of the song chronicles the late sixties and early seventies. Have some fun trying to prove Joel right or wrong by comparing it to what it might be had he written it today:

Birth control, Ho Chi Minh
Richard Nixon back again
Moonshot, Woodstock
Watergate, punk rock
Begin, Reagan, Palestine
Terror on the airline
Ayatollahs in Iran
Russians in Afghanistan
*Wheel of Fortune*, Sally Ride
Heavy metal suicide
Foreign debts, homeless vets
AIDS, crack, Bernie Goetz
Hypodermics on the shores
China's under martial law
Rock and Roller cola wars
I can't take it anymore

*References: genius.com*

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# Life insurance industry results analysis

On the whole, life insurers reported positive results for 2024 compared to prior years. Having trawled through the life insurance results shared with our team we noted the following trends in this sector over the 2024 financial reporting season.

| | |
|---|---|
| **Resilient premium growth** | Premium growth during the year was moderate with most life insurers reporting indexation of existing policies to inflation. There was an increase in the uptake of funeral and entry-level product. Corporate group risk schemes remained stable with some growth in the small and medium enterprise (SME) segment. |
| **Persisting economic pressures** | High interest rates and elevated inflation (particularly in H1 2024) impacted:<br>• policy lapse rates, particularly in the lower-income segments;<br>• consumer affordability, leading to a shift toward more flexible or hybrid products; and<br>• unemployment, which continued to weigh on household disposable income.<br>The easing of interest rates and inflation in the second half of 2024 (a trend seen into 2025) helped ease this pressure slightly. |
| **Claims normalisation** | After the elevated mortality experience over 2020 to 2022:<br>• claims ratios normalised in 2023 and this trend continued into 2024.<br>• reinsurance costs stabilised, improving underwriting margins. |
| **Strong investment returns** | Equity markets performed well in 2024, especially in the second half with:<br>• positive fair value gains on investment portfolios.<br>• improved embedded value (EV) growth across most insurers. |
| **Digital transformation and distribution** | Continued investments were made in:<br>• Artificial intelligence (AI) driven underwriting and automated claims processing.<br>• digital sales platforms for brokers and direct-to-consumer channels.<br>Bancassurance and partnership models gained traction, especially in rural and township markets. |
| **Regulatory and environmental, social and governance (ESG) focus** | • Both the Financial Services Conduct Authority (FSCA) and Prudential Authority (PA) continued to release guidance shaping conduct and solvency standards.<br>• Sustainability-linked products and ESG-aligned investments gained momentum.<br>• The Task Force on Climate-related Financial Disclosures (TCFD)-aligned disclosures became more common in integrated reports. |
| **EV reporting** | • Equity market gains in 2024 boosted EV.<br>• Persistency improvements and normalised mortality experience enhanced the EV reported in the year.<br>• Digital transformation improved efficiency and margins with a positive overall impact on EV reported. |

## Macroeconomic overview

Context however is always important and we reflect in the following table our observations of the macroeconomic overview in the 2024 financial year that influenced the results reported by life insurers.

### Observations in 2024

**GDP growth**

- Estimated 0.9% to 1.2% for 2024 (weak but positive), driven by:
  - Mining recovery in H2 after commodity price stabilisation.
  - Agriculture resilience despite climate volatility.
  - Services sector (finance, insurance) remained strong.

**Inflation**

- Averaged 5.4%, within the South African Reserve Bank's (SARB) 3% to 6% target band, but sticky in H1 due to:
  - Food and fuel price pressures.
  - Persistent Rand volatility.

**Interest rates**

Repo rate peaked at 8.25% early in 2024, then cut by 50 basis points in Q4 as inflation eased.

**Rand performance**:

- Traded between R18.00 to R19.50/USD, pressured by:
  - Global risk-off sentiment.
  - Domestic power and logistics constraints.

**Employment**

Unemployment remained high at 32%, with marginal improvement in Q4 due to seasonal hiring.

### Key drivers in 2024

**Load shedding**

Improved slightly compared to 2023, but still a drag on manufacturing and retail sectors

**Logistics crisis**

Port and rail inefficiencies constrained exports

**Fiscal position**

Budget deficit widened to ~5.2% of GDP.

Debt-to-GDP ratio climbed toward 75%.

**Investment**

Private sector remains cautious while public infrastructure spends lagged.

## Investment returns have been positive

Despite some of the headwinds that presented themselves, investment returns on the whole were strong. We reflected on the themes reported that have helped to explain the positive returns seen in the year.

### Stronger equity market performance

The JSE All Share Index delivered positive returns (~8% to 10% in 2024), driven by:

- Recovery in commodity prices (especially gold and platinum).
- Global risk appetite improving in H2 2024.
- Offshore equity exposure also contributed as global markets rebounded after 2023 volatility.

### Bond market stability and yield compression

South African government bond yields eased in late 2024 as:

- Inflation moderated within SARB's target band.
- The SARB signalled the start of a rate-cutting cycle in Q4 2024.
- This resulted in capital gains on fixed-income portfolios.

### Currency dynamics

- The Rand stabilised in H2 2024 (R18 to R19.50/USD range), reducing volatility risk.
- Offshore assets denominated in foreign currency benefited from earlier Rand weakness.

### Alternative and real asset performance

- Property and infrastructure investments recovered as interest rate expectations improved.
- Private equity and alternative assets delivered strong returns, diversifying portfolio performance.

### Release of reserving buffers

- Some insurers released excess pandemic-related reserves from as early as the 2023 financial period, allowing more capital to be allocated to growth and investment opportunities.

## Analysis of the largest life insurer results

We have set out below a summary of the five largest life insurance groups in South Africa. We note that three of the insurers' results analysed (Sanlam, Old Mutual and Liberty) have a 31 December year-end with Discovery and Momentum Metropolitan having a 30 June year-end. As a result, we included certain interim reporting information up to 31 December 2024 for the June reporters.

### Sanlam Limited

Strong growth in life and investment business; significant corporate activity.

**Notable activity**

- Deepened strategic partnership with African Rainbow Capital.
- Acquisition of Assupol Life Limited (Assupol).
- Increase stake in Shriram General Insurance.
- Intention to sell Sanlam Investment Management to Ninety-One for a minority stake in this Group.

**Group solvency cover**: 168%

**Net operating result**: R25.1 billion (2023: R18.8 billion)

**IFRS profit**: R24.8 billion (increased from R16.9 billion in 2023)

**Assets under management**: R1.4 trillion (31 December 2024)

**Embedded value**

EV growth, driven by strong investment returns and positive operating experience.

**Value of new business (VNB)**

Strong growth in risk and investment sales, offset by slight decline in life annuity sales.

**Cash generation**

Strong cash generation from life and investment businesses, supported by normalised mortality and strong investment returns.

**Earnings**

- Net result from financial services increased by 14%.
- Net operational earnings increased by 24% due to growth in life and investment businesses.

**Performance on operating metrics in constant currency**

- Life insurance new business volumes grew above the 12% to 15% medium-term target range at 24% (6% in actual currency mainly due to the Egyptian pound and Nigerian naira devaluations).
- Life insurance value of new business grew above the 15% to 20% medium-term target range at 36% (7% in actual currency).
- General insurance net earned premium growth was below the 12% to 15% medium-term target range at 11% (7% in actual currency), mainly due to underperformance in Côte d'Ivoire and Kenya.
- Net insurance ratio was within the 10% to 15% target range at 12.3%.
- Net results from financial services (NRFFS) increased by 31% (10% in actual currency), above the 15% to 20% medium-term target range, mainly due to strong performance in the life insurance portfolio.

## Old Mutual

Focused on digital transformation and cost containment; improved mortality experience.

**Notable activity**

- By March 2025 approval by the PA for the launch of OM Bank was received.
- Exited from life and savings and property and casualty markets in Nigeria and property and casualty markets in Tanzania in 2024, substantially de-risking the portfolio.

**Group solvency cover**: 178%

**Results from operations**: R8.7 billion (up from R8.3 billion in 2023)

**IFRS profit**: R7.6 billion (2023: R7 billion)

**Funds under management**: R1.4 trillion (31 December 2024)

**Embedded value**

- EV supported by equity market gains and cost control.
- VNB margin improved due to pricing discipline.

**Cash generation**

Cash generation improved on higher headline earnings and cost control.

Adjusted headline earnings increased by 14% year-on-year, supported by:

- stronger investment returns;
- normalised mortality and morbidity experience; and
- cost containment initiatives.

The total EV marginally decreased by 1.5% to R66 873 million, mainly due to increased dividend outflows from life and savings businesses. The return on EV was healthy at 9.7% supported by higher expected returns, profitable new business written, positive risk experience variances and modelling changes. Furthermore, economic variances were positive due to good market returns. These impacts were offset by worse than expected persistency experience, which was a key driver towards an additional strengthening of persistency assumptions.

The Group noted operational efficiencies gains on the back of digital transformation and cost control.

The diversification across geographies and product lines reduced volatility in the period.

## Discovery Limited

The Vitality Shared-value Insurance model is a key driver of performance.

### Notable activities

Entering a new phase in the lifecycle of the Group.

**Discovery Life SCR**: 183%

**Normalised operating profit**: increased by 17% to R11.6 billion at June 2024

**IFRS profit**: R7.3 billion (June 2023: R6.5 billion)

**Assets under administration**: R155 billion (30 June 2024)

### Embedded value at June 2024

- Annualised return on EV of 13.2%.
- EV increased from R98 billion at June 2023 to R110 billion at June 2024.

### Cash generation

Strong cash generation from Discovery Life and Health, though reinvestment in Vitality Global limited free cash flow.

### Year ended 30 June 2024

Core new business annualised premium income (API) increased by 18% to R26.7 billion during FY2024 and income from business lines and activities not covered by the new business API definition increased by 16% to R6 billion.

- Normalised operating profit increased by 17% to R11 604 million, supported by strong contributions from Discovery South Africa and Vitality Global, which increased by 16% and 57% respectively. Vitality UK reported a decline of 14%, constrained by increased private mortgage insurance (PMI) claims and a strengthened life basis on the Prudential Assurance Company (PAC) historical policies.
- Earnings per share (basic) increased by 11% to 1082.7 cents.
- Headline earnings (HE) per share (basic) increased by 7% to 1089.4 cents.

### Interim update to 31 December 2024

Headline earnings were up 34% compared to December 2023.

Discovery emerged from its cycle of significant investment which included building new growth ventures, most notably, Discovery Bank. This positioned the Group for scaled organic growth delivered by both its newly formed global composite, Vitality and, its domestic business, Discovery South Africa.

Over the period, the Group executed its growth strategy delivering growth in normalised profit from operations of 27%. Both composites (South Africa and rest of the world) achieved normalised profit from operations of 27%, with strong contributions across the Group.

The Group’s embedded value increased to R120 billion, which represents a 19% annualised return on embedded value. This included a positive contribution from experience variances over the period, reflecting the competitive dynamics of the Shared-value Insurance model, a strong improvement from non-covered businesses, as well as a favourable economic basis and exchange rates.

## Momentum Metropolitan

Solid recovery in earnings; improved persistency and cost discipline.

### Notable activity

- Focus on taking leading position in independent financial advisor distribution.
- Five-point turnaround plan for Metropolitan Life.

**Group solvency**: 164% at June 2024

**Operating profit**: increased by 31% to R3.6 billion at June 2024

**IFRS profit**: R3.9 billion (30 June 2023: R3.1 billon)

**Assets under management and administration**: R936 billion (30 June 2024)

### Embedded value at 30 June 2024

EV growth of 4% driven by improved mortality experience and investment gains seeing EV at R51 billion at 30 June 2024.

### Cash generation

Significant improvement in cash generation, driven by strong mortality experience and investment gains.

### Year ended 30 June 2024

- Normalised headline earnings (NHE) of R4 438 million for the year ended 30 June 2024, up 27% on the prior year.
- Operating profit increased by 31% from R2 755 million to R3 608 million, as many of the business units benefited from higher investment income from the assets in the portfolios backing policyholder liabilities and the elevated interest rate environment.
- Investment return from the Group's shareholder assets improved by 13% to R830 million, largely supported by increased returns on shareholder portfolios achieved on the back of a favourable interest rate environment.
- The Group's VNB declined by 2% from the prior year to R589 million, largely impacted by the strengthening of persistency and expense basis implemented at 30 June 2023, which resulted in VNB being calculated on a more conservative basis than in the prior year, most notably for Metropolitan Life. The overall Group new business margin declined to 0.7%.
- The regulatory solvency positions of most of the Group's regulated entities remain strong, near or above the upper end of their specified target solvency ranges. Momentum Group Limited's solvency cover improved slightly from 1.63 to 1.64 times over the reporting period.

### Interim update up to 31 December 2024

- The acquisition of FinGlobal (which is subject to Competition Commission approval) is expected to strengthen the Group's holistic financial planning, advice and fiduciary capabilities by offering specialised financial emigration capabilities to advisers and clients.
- The Group's adviser-focused initiatives aimed at expanding market reach and improving the ease of doing business are starting to pay off, with early signs of success reflected in strong open market growth from Momentum Distribution Services.
- Operating profit increased by 33% to R2.8 billion for the six months ended 31 December 2024.

## Liberty

Integrated further into the Standard Bank ecosystem; improved underwriting margins.

### Notable activities

- Standard Bank purchased all Liberty minorities, housing both long- and short-term businesses in the group under the Liberty umbrella.
- Liberty Health business closure is on track.

**Solvency**: 167%

**IFRS profit**: R3.5 billion (2023: R2.4 billion)

**Funds under management**: R201 billion (2023: R196 billion)

The Group continued to focus on:

### Integration to drive collaboration

- Integrated insurance and investment into banking channels to provide a holistic client value proposition e.g. Ucount rewards.
- Leveraging distribution forces to drive productivity and improve sales, e.g. Liberty tied force selling mortgages.
- Scaled financial advisory for private banking clients, where clients have been paired with both a private banker and financial advisor to drive wealth creation through investment and risk products.

### Operational synergies

- Revenue synergies from increased investment product and Flexi Funeral sales in South Africa and product launches in Africa regions.
- Cost synergies from efficiencies extracted across operations, staff and IT.
- Integration costs were well managed and below previous expectations.

## M&A activity in the year

Most insurance groups were involved in some corporate activity in the year. The drivers for these deals included:

- regulatory pressure (capital requirements under solvency capital and management (SAM)) pushing smaller players to seek partnerships;
- digital transformation accelerating acquisitions of technology-driven platforms; and
- cost efficiency and scale in a low-growth, high-competition environment.

Themes that we have noted include:

| | |
|---|---|
| **Consolidation in the mass-market** | Smaller funeral and entry-level life insurers were acquired by larger players to expand distribution and scale:<br>• Hollard acquired smaller funeral insurers to strengthen its mass-market position.<br>• Assupol explored partnerships with fintech players for digital distribution.<br>Digital-first insurers attracted interest from established players seeking technology capabilities. |
| **Bancassurance partnerships** | We observed increased strategic alliances between banks and insurers for cross-selling life products. For example, the expansion of the Standard Bank-Liberty integration and similar partnerships by Absa and Nedbank. |
| **Pan African expansion** | Sanlam and Old Mutual continued acquiring stakes in African insurers to strengthen their continental footprint.<br>Sanlam's partnership with Allianz continued to shape cross-border operations. |
| **Private equity (PE) interest** | PE firms targeted niche life insurers and health technology platforms linked to insurance ecosystems. |

## What's up in the air for the year-ahead?

Life insurers have risen to the occasion and showcased the stability of their business model over the last few years. The results that they reported underlined the strong foundations on which they are operating. Looking forward to 2026 insurers are bearing down to tackle the following:

- Macroeconomic risks: sluggish GDP growth is predicted and this could impact premium growth. Further inflation uncertainty remains especially in those scenarios where global commodities spike.
- Regulatory and compliance risks: both the FSCA and PA continue to tighten rules and as their strategy to 2030 is underway, this continues to be an area of focus for insurers.
- Market and competitive risks: margin pressure continues from funeral and entry-level products with price-sensitivity expected to continue in a low-growth economy.
- Technology and operational risks: with cybersecurity risks abound and more companies exploring AI and automation, it is important that model governance and algorithmic underwriting is scrutinised.
- Climate and ESG risks: there continues to be pressure to align investments with ESG mandates and this may see some limitations on asset allocation flexibility.
- Local government elections are scheduled for 2026: we historically noted that policy uncertainty, social or labour unrest ahead of these elections could impact investor confidence and possibly even operations and distribution.

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# Non-life insurance industry results analysis

"*If everyone is moving forward together, then success takes care of itself*." – Henry Ford.

Ninety percent of the non-life insurance industry reported improved results for 2024. This is a feel-good story of a well deserving industry, demonstrating immense levels of resilience during turbulent times.

## Economic environment

During 2024, the global economy was impacted by powerful geopolitical, climate and regulatory events. Wars continued to rage in Ukraine, Gaza and Sudan with peace-making efforts failing, resulting in catastrophic loss of life and economic instability in these regions. Over fifty countries went to the polls to elect new political leaders, setting new election records and representing almost half of the world's population.

Closer to home, South Africa entered into a period of political uncertainty in 2024 with the establishment of the Government of National Unity (GNU). While this sparked cautious optimism across sectors and improved business and investor confidence, the positive sentiment was tempered by persistent structural challenges. However, positive signs are emanating around addressing the country's infrastructure challenges, despite these improvements being slower than expected. For example, over 2024, South Africans were subject to lower instances of electricity supply disruptions for extended periods, with improvements observed in transport infrastructure.

Gross domestic product (GDP) grew by 0.6% in 2024 compared to 2023. The growth was led by agriculture, finance and trade on the supply (production) side of the economy, with demand (expenditure) side growth led by household spending.

Over the past decade, the country experienced weak economic growth, leading to higher interest and inflation rates and downward pressure on the Rand.

Over 2024, however, the average inflation rate[1] was 4.4%, down from the average of 6.0% in 2023. Inflation in 2024 was the lowest in four years since the COVID-19 pandemic in 2020, when the average rate was 3.3%.

The interest rate environment remained stable for the largest part of the year. The prime lending rate was 11.75% before the start of the cycle of interest rate reductions in the latter part of 2024, where two consecutive 25 basis point cuts were introduced. This was driven by the lower inflationary environment and positive sentiment created through the formation of the GNU. The lower inflationary environment, which enabled the South African Reserve Bank to enter into a cycle of interest rate reductions, provided financial relief to consumers.

However, a concern remains with the continued high levels of unemployment, with the official unemployment rate standing at 31.9% in the fourth quarter of 2024 and the expanded unemployment rate at 41.9% for the same period. These levels of unemployment suppressed real growth in the size of the consumer base and negatively impacted the affordability of insurance premiums for consumers.

While the insurance industry relies heavily on consumer confidence, investment stability and regulatory clarity, these macroeconomic headwinds limited growth potential. Despite these economic challenges South Africa's non-life insurance market demonstrated resilience over 2024, with no significant impact on the already healthy capital position of the industry.

[1] https://www.statssa.gov.za/publications/P0141/CPIHistory.pdf

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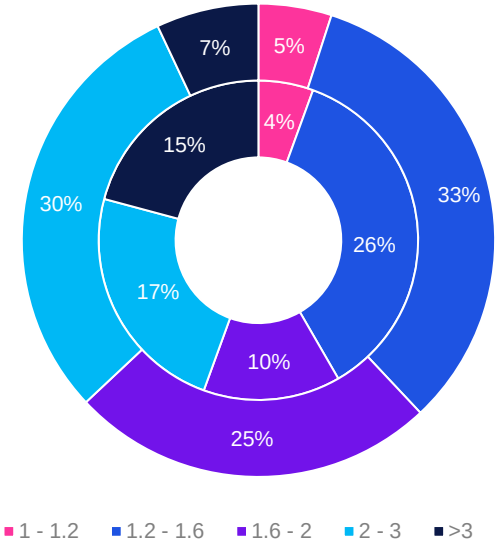
The graph set out below reflects the distribution of the solvency capital requirement (SCR) ratio across the South African non-life insurance industry. The SCR reflects the regulatory capital requirements, indicating the minimum level of eligible own funds held for protection against key risks to which an insurer is exposed and effectively reflects the balance sheet strength of an insurance company.

**SCR ratio**
**December 2024 (outer circle) versus December 2023 (inner circle)**




South Africa's non-life insurers have been able to maintain strong balance sheet positions, with the vast majority well in excess of the regulatory minimum SCR ratio of one time coverage.

Impacting the industry is also worsening crime rates. According to the latest crime statistics from the South African Police Service (SAPS), burglaries and theft at residential properties are steadily increasing. Between April and June 2024, 34 075 home burglaries were reported, equating to approximately 379 incidents per day.

## Market share

The industry[2] reported insurance revenue of R154.2 billion in 2024. This amounts to an increase of 9.9% (2023: 12.1%) compared to R140.4 billion recorded in 2023. This increase reflects a strong top-line performance considering the overarching economic environment, pressure on South African consumers' disposable incomes and market competition.

The Prudential Authority (PA) reported that it considered various applications in terms of the Insurance Act over the 2024 calendar year, which included the transfer of business and variation of licence applications. These applications suggest that insurers are seeking alternative avenues for growth given the constrained market conditions.

We saw an increased focus on unlocking new markets, particularly with leveraging partnerships, for example, through increased platform play and cross-selling. Recent corporate activity also suggests growth alternatives being unlocked through market consolidation.

From a pricing perspective, we observed insurance pricing being driven higher by inflation and claims costs. A number of external factors contributed to the increase in costs for insurers, such as more severe and frequent weather-related events, increasing costs of reinsurance, higher motor vehicle accidents, the high number of uninsured vehicles on the road, increasing motor repair costs that outpaced general inflation, persistently high crime levels and deteriorating infrastructure.

As noted by the CEO of Santam Limited, reinsurance rates remained elevated, compelling insurers to retain more risk and respond by repricing, implementing stricter risk selection and introducing higher deductibles as part of their de-risking strategies.

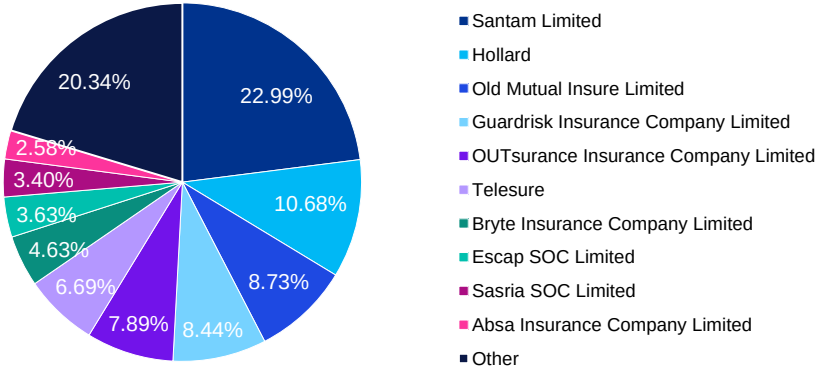
The continued hardened reinsurance market, together with reinsurers increasing catastrophe cover attachment points or not taking on certain risk types in its entirety, resulted in the primary market retaining more risk and effectively reporting a higher insurance service result for the year due to the moderated claims experience. Similar to the reinsurers, many primary insurers reported portfolio actions being taken to correct non-performing books of business and being more deliberate in risk selections.

[2] The insurance revenue of the companies featured in this publication approximate 90% of the industry's non-life insurance revenue. Accordingly, the results of this survey are a fair representation of the results of the overall industry. https://www.resbank.co.za/en/home/publications/publication-detail-pages/reports/pa-annual-reports/2025/prudential-authority-annual-report-2024-2025

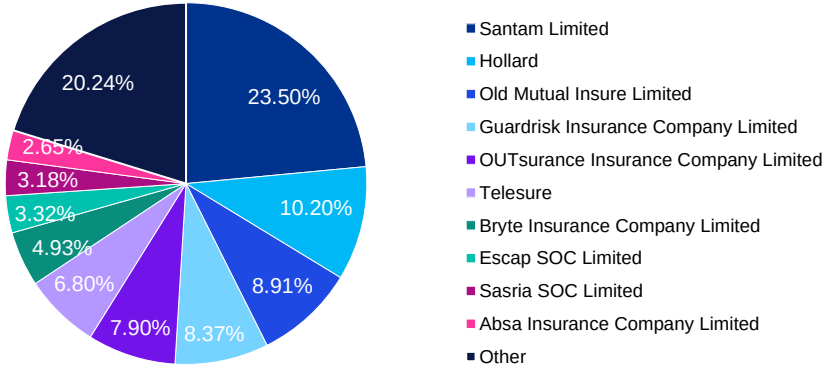
Reflecting on last year's survey, our analysis was more complex due to the transition to IFRS 17. Insurers with December 2023 reporting periods had adopted IFRS 17, while others, such as those reporting in March and June 2023, were still applying IFRS 4. This year, however, all participating insurers are now reporting under the IFRS 17 framework, allowing for more consistent and insightful comparisons.

The top ten insurance companies for 2024 accounted for 80% (2023: 80%) of total survey participants based on an insurance revenue measure.

**Market share based on insurance revenue - 2024**




**Percentage of Market based on Insurance Revenue - 2023**




The market share positioning of the top ten non-life insurance companies remained consistent year-on-year.

Of the top ten insurers noted in the graphs alongside, set out below is our analysis of those insurers with the highest quantitative year-on-year increases in insurance revenue and insurers who achieved insurance revenue growth of at least 10% (rounded).

### Santam Limited (Santam)

Santam delivered a strong performance in 2024, with the company reporting an increase of R2.5 billion (7.5%) in insurance revenue. We include more detail on Santam's financial performance further on in this article.

### Hollard[3]

Hollard increased its insurance revenue by R2.2 billion (15%), from R14.3 billion reported in 2023 compared to R16.5 billion reported in 2024.

### Escap SOC Limited (Escap)

Escap is a wholly owned captive insurance company. It manages and insures the business risks of Eskom and its subsidiaries. Escap reported insurance revenue of R5.6 billion for 2024, representing an increase of R0.9 billion (20.1%) compared to 2023. We include more detail on Escap's financial performance further on in this article.

### Sasria SOC Limited (Sasria)

Sasria reported strong financial results for the fiscal year ended 31 March 2024, with insurance revenue increasing by 17.6%, from R4.4 billion reported in 2023 to R5.2 billion reported in 2024. We include more detail on Sasria's financial performance further on in this article.

### Guardrisk Insurance Company Limited (Guardrisk)

Guardrisk increased its insurance revenue by R1.3 billion (10.8%), recording R13 billion of insurance revenue for 2024. The insurer continued with its strategy of increasing its non-life risk taking activities, resulting in strong growth in new business. However, a marginal reduction in the number of non-life cells over the period was also observed.

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

Guardrisk further noted that they will continue to leverage their cell captive experience and relationships with businesses in South Africa to grow its footprint in the embedded insurance space. Where they see growth is through the cell captive concept, where retailers across different sectors can use customer data to create innovative and customised insurance solutions that suit their customers' specific needs and preferences while boosting the retailer's bottom line and brand. In this regard and for the 2024 financial year, Guardrisk paid dividends of R1 158.5 million (2023: R1 037.5 million) to cell shareholders.

### OUTsurance Insurance Company Limited (OUTsurance)

OUTsurance grew its insurance revenue by 9.6% from R11.1 billion in 2023 to R12.2 billion in 2024. This growth manifested from the direct personal lines operations and is consistent with targeted profit margins. Included in this result is an increase in annualised new business, attributable to operational execution efficiencies achieved across core direct channels. This is in line with the insurer's strategy of maintaining a strong cash generation profile to provide capacity for organic growth opportunities in current and new markets and entrepreneurial culture that lends support to organic growth and initiatives that require focussed execution. OUTsurance achieved improvement in pricing adequacy across all major segments through pricing actions to stave off the impact of continued high claims and general inflation.

In addition, OUTsurance implemented operational refinements in the OUTsurance broker channel, gearing up for scale increases and stronger growth capacity. The OUTsurance broker channel also provides access to the higher end of the personal lines market, providing additional runway for growth in this market segment. Furthermore, the growth in the insurer's share of the commercial insurance market has been key in achieving their strategy over the medium term.

OUTsurance also focused on closing inefficient outbound sales functions, delivered improved claims ratios on the back of pricing discipline and continued improvement in claims experience in the OUTsurance broker book. Profitability was, however, impacted by increased share-based payments expenses.

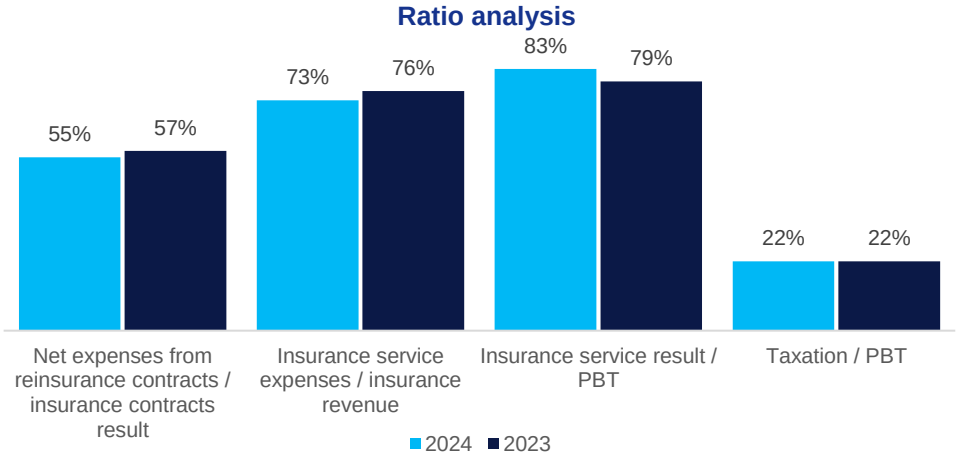
Broader for the OUTsurance Group was the official launch of OUTsurance Ireland in May 2024, which was successfully incorporated into the regulatory and governance design of the OUTsurance Group. Despite reporting start-up losses for OUTsurance Ireland, the Group reported a 9.6% increase in insurance revenue and a notable 44% rise in profit after tax (PAT) and an increase in operating profit of 15.5% to R4.8 billion for 2024.

As part of its strategic investment realignment, the Group divested from OUTvest and discontinued the OUTsurance Life face-to-face initiative. These strategic shifts enabled the OUTsurance Group to achieve a significant improvement in return on investment (ROI), which increased by 39%.

## Profitability

PAT increased from R14.1 billion in 2023 to R17.6 billion in 2024. These results are influenced by inflationary pressures, geopolitical tensions, local economic variations, market competition and higher claims costs.

The chart set out below reflects key ratios which contribute to the 2024 underwriting result.




Insurance service expenses as a percentage of insurance revenue reduced. Given that the largest component of insurance service expenses is claims related expenses, this suggests an improved claims experience over the period. Cost discipline is also critical in remaining competitive. Accordingly, some insurers reported effective management of their cost base as a key focus area in ensuring that top line growth translates into bottom line growth.

The insurance service result (consisting of insurance revenue net of insurance services expenses and net expenses from reinsurance contracts) as a percentage of profit before tax (PBT) increased to 83% (2023: 79%), indicating that a larger portion of the industry's PBT relates to the core insurance underwriting business, compared to 2023.

## Claims incurred

The South African insurance industry reported a positive claims experience and fewer catastrophe claims events over the 2024 year. This is evident in a number of metrics, for example, the increase in the insurance contract result (insurance revenue less insurance service expenses), where we saw a 25% increase from R33 billion in 2023 to R41.3 billion in 2024. We observed a higher net expense from reinsurance contracts (more detail on reinsurance is discussed further on in this article) and an increase in the insurance service result by 30% from R14.4 billion in 2023 to R18.7 billion in 2024. We saw a decrease in insurance service expenses as a percentage of insurance revenue, from 76% in 2023 to 73% in 2024.

### A global perspective

The experience by the South African non-life insurance market is in contrast with claims experience globally. According to Munich Re, global natural disasters resulted in an industry loss of USD140 billion in 2024, up from USD106 billion in 2023. Including losses not covered by insurance, losses of USD320 billion was experienced in 2024, up from USD268 billion in 2023. Insured losses were notably higher than the inflation-adjusted averages of the past 30 years, with 2024 being the third most expensive year since 1980. Munich Re further noted that the destructive forces of climate change are becoming increasingly evident. Societies need to prepare for more severe weather catastrophes.

The following significant losses were experienced globally:

Hurricanes Helene and Milton, which struck the United States in rapid succession during 2024.

The earthquake that struck Japan on New Year's Day with a magnitude of 7.5 on the Richter scale.

Flooding in Spain near the provincial capital of Valencia.

Munich Re specifically noted that, "Hardly any other year has made the consequences of global warming so clear: with annual average temperatures reaching around 1.5°C above pre-industrial levels for the first time, 2024 will surpass the previous record from 2023. This makes the past eleven years the warmest since the beginning of systematic record-keeping.", and that "The impact of man-made climate change on weather disasters has been proven many times over by research, in many regions, severe thunderstorms and heavy rainfall are becoming more frequent and more extreme."

### The South African threat

Even though South Africa experienced lower levels of extreme weather-related losses during 2024, warning signs are beginning to emerge. The lack of investment in maintaining and upgrading South Africa's infrastructure will exacerbate the extent of losses in the event of extreme weather events. While infrastructure failure does not feature on any of the global top ten risks for companies and individuals, it is in the top five list of risks locally. The impact of the April 2022 KwaZulu-Natal flooding, which was labelled as the most significant natural catastrophe loss South Africa ever experienced, was exacerbated by poor urban planning, inadequate infrastructure and insufficient stormwater drainage maintenance.

Michael Cheng, Chief Underwriting Officer at Santam, outlined the impact of South Africa's deteriorating infrastructure on individuals and insurers: similar to what we have seen globally, the rise in extreme weather events, their increasing severity and the associated financial losses will prompt insurers to raise the cost of coverage in vulnerable areas and potentially withdraw coverage completely in other instances. Locally, it has been reported that the extent of natural catastrophes resulted in restrictions and/or exclusions being applied to specific locations, such as KwaZulu-Natal. This leads to a widening of the insurance protection gap between insurable losses and overall economic losses.

The increasing frequency and severity of natural disasters have forced insurers to re-evaluate their exposure to climate-related risks. Challenges persist in securing adequate insurance capacity from local and global insurers, especially for less preferred risk types. However, reinsurers have highlighted the possible benefits of offering parametric insurance solutions as an opportunity to fill critical coverage gaps in traditionally uninsured or underinsured areas.

### A new claim class

In 2023, the country endured one of its worst years of power cuts, with rolling blackouts becoming a daily disruption. Homeowners turned to solar energy for independence, leading to a sharp rise in residential solar installations. What further prompted the use of solar power was the electricity tariff increases. Since 2007, Eskom's tariffs have increased by 927%, with further hikes on the horizon.

By the start of 2024, South Africa had imported R17.5 billion worth of solar panels. This surge in demand created a lucrative opportunity for criminals. Solar panels are not only valuable for their ability to generate electricity but also for the materials they are made of, such as silver, aluminium and copper.

Consequently, South African homeowners with rooftop installed solar systems are facing the growing threat of theft of solar panels and their components. Criminals are targeting these valuable installations, leaving homeowners vulnerable to significant losses.

Generally, solar panels are insured as part of the homeowners' comprehensive cover, however some insurance policies now offer coverage specifically for solar equipment, providing financial protection in the event of theft.

## Cost of reinsurance

An interesting feature of the results is the net expenses from reinsurance contracts as a percentage of the insurance contracts result (consisting of insurance revenue less insurance service expenses), which decreased from 57% in 2023 to 55% in 2024. This indicates a lower amount ceded to reinsurers, despite net expenses from reinsurance contracts increasing to R22.6 million over 2024, i.e. a 20% increase over the period when compared to R18.7 million in 2023.

The pricing correction initiatives and increasing attachment points implemented by reinsurers over the last few years, together with the lower incidence of catastrophe claims events in the current year, contributed to this result.

While some industry stakeholders are of the view that the reinsurance market has started to stabilise, reinsurers (like insurers) remain cautious. Concerns persist around the impact of climate change, particularly the influence of extreme weather events on pricing, risk selection and the geographical spread of risk. These concerns have already prompted more policy wording refinements and may lead to the introduction of new exclusions.

For example, even though electricity supply is expected to improve, exclusions for Eskom load-shedding risks have now become standard underwriting terms. Signs have started to emanate of a softening reinsurance market, with reinsurance premium increases more in line with general inflation and catastrophe retention levels largely unchanged with recent renewals.

With the rise in digitisation across South Africa, insurers are increasingly exposed to cyberattacks and data breaches. In response, reinsurers are stepping in to provide specialised cyber risk coverage, addressing a growing need in the market. The use of advanced analytics is enabling more accurate modelling of the financial impact of cyber incidents, supporting better pricing and risk management. There is a strong demand for facultative reinsurance in cyber lines, as primary insurers seek tailored solutions to manage these risks. As a result, cyber risk reinsurance is rapidly emerging as a critical growth area within the South African reinsurance landscape.

The future outlook for South Africa's reinsurance market suggests that by 2031, the industry will become increasingly technology-driven, leveraging artificial intelligence (AI), machine learning and predictive analytics to enhance risk assessment, improve underwriting accuracy and support more data-informed decision-making.

## Investment income

The non-life insurance industry benefited significantly from improved investment performance. Total net investment income increased by 24% from R12.2 billion in 2023 to R15.2 billion in 2024. This was driven by higher accrued interest and fair value gains. Non-life insurers saw a 7.27% increase in the average return on investment compared to 2023.

Investment markets were volatile in the first half of the year, largely due to uncertainties surrounding the South African general elections. However, the formation of the GNU in late June 2024 was positively received, resulting in a rally in equity and fixed-interest investments, which was also supported by the performance of global markets.

Non-life insurers generally are conversative in their investment strategy due to the short-tailed nature of claims experience. This imposes a level of constraint on available investment opportunities as liquidity is favoured over returns. The investment universe therefore predominantly consists of short-term instruments exposed to interest rate risk, with the investment result of the non-life insurance industry being heavily influenced be the prevailing interest rate environment.

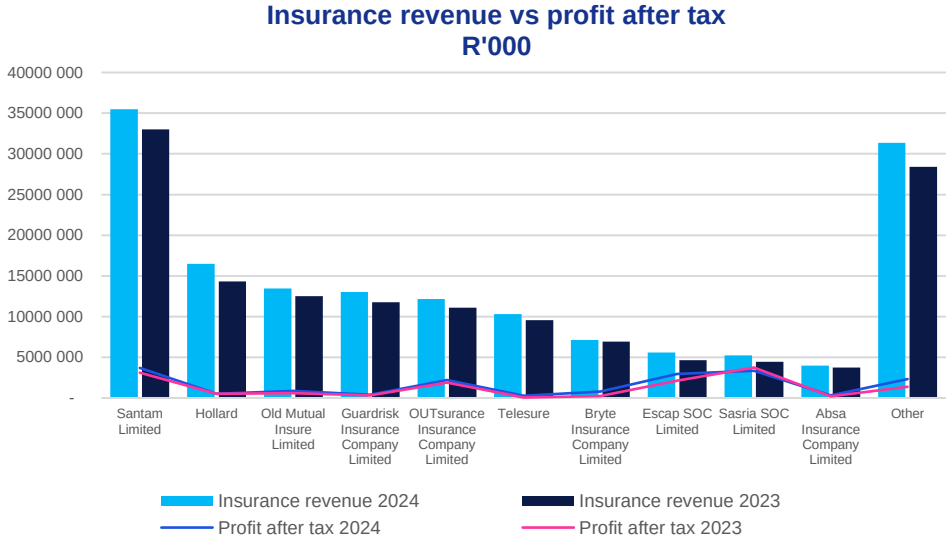
The non-life insurance industry benefited from the higher average interest rates earned on investable assets as for most of the year, the repo rate remained steady at 8.25% and above the level recorded in the previous year.

The Johannesburg Stock Exchange (JSE) All Share Index price improved over the 2024 year, with a 6.3% average increase experienced year-on-year. There was a marked improvement in the second half of the 2024 year, which was driven by the nation elections and the establishment of the GNU.

On an overall basis, total investments increased by 14% from R124.2 billion in 2023 to R142.2 billion in 2024. In addition, cash and cash equivalents increased by 27% from R16.4 billion in 2023 to R20.9 billion in 2024.

## Individual performances

Reflected in the chart below is profit after tax (PAT) compared to insurance revenue for the ten largest non-life insurance companies over 2023 and 2024 and the rest of the market (labelled as “Other”).




PAT increased from R14.2 billion in 2023 to R17.7 billion in 2024, representing an increase of 24%. The top three highest contributors to the increase in PAT are Escap, Santam and Bryte Insurance Company Limited (Bryte), which contributed R0.85 billion, R0.58 billion and R0.55 billion respectively.

In addition to this, set out below is our analysis of those insurers with the highest Rand value contribution to PAT and insurers with the highest relative change in PAT.

### Escap

Escap successfully managed to translate its growth in insurance revenue into growth in profit. The increase in insurance revenue does not come as a surprise given its increased cost base, specifically the cost relating to reinsurance over the last number of years.

Escap experienced a 25% increase in reinsurance premiums, which the insurer attributes to high reinsurance rates amidst reduced reinsurance market capacity and appetite for coal-related and public sector-related risks.

PAT increased to R2.97 billion, representing a 40% increase when compared to the prior year of R2.1 billion. While, insurance service expenses and the allocation of reinsurance premiums increased, and amounts recoverable from reinsurers for incurred claims decreased, the net insurance finance result increased by R0.5 billion. Escap benefitted from improved investment income of R0.7 billion, which represents an increase of 58.3% and is the largest contributor to Escap’s PAT growth.

### Santam

Santam reported a notable increase in PAT, from R3.1 billion in 2023 to R3.7 billion in 2024. This improvement in profitability was driven by targeted corrective underwriting actions implemented during the year, particularly across the motor and property insurance portfolios. These actions included the refinement of pricing strategies, enhanced risk selection and strengthened claims management processes. Some of Santam’s key actions was to effectively address power surge losses in the first half of the year and enhance the performance of their motor portfolio. In addition, the roll-out of geocoding and geomapping in their property risk class was accelerated to improve risk selection. Significant progress has been made, with 81% of the property class now geocoded. The insurer also implemented segmented premium increases, targeted excesses and expanded their surveying efforts.

Santam faced a comparable number of significant weather-related events in 2024 as in the previous year, resulting in claims losses of R652 million (up from R583 million in 2023). These events underscore the growing impact of climate volatility on the insurance sector. However, notable gains were achieved in its investment portfolio, with a R220 million increase in return on capital. This improvement was primarily driven by favourable mark-to-market movements in equities and fixed-interest securities, reflecting a positive investment climate and strategic asset allocation.

Santam continues to advance its strategic agenda through the refinement of its FutureFit 2030 strategy. This long-term initiative is focused on maintaining leadership within the intermediary channel, modernising IT and digital infrastructure and leveraging AI to drive innovation and improve underwriting capabilities.

### Bryte

Bryte experienced a substantial increase in PAT of 213% from R0.26 billion reported in 2023 to R0.8 billion reported in 2024. This increase is partly driven by an increase in its underwriting result of R0.2 billion, but mainly due to improved investment performance from dividends, interest income and fair value movements of R914 million (2023: R384 million).

### Sasria

Sasria reported PAT of R3.33 billion for the year, reflecting a slight decline from the R3.75 billion recorded in 2023. Despite this decrease, the company maintained steady growth, demonstrating resilience in the face of global economic pressures and ongoing local socio-political challenges. Three years after the July 2021 riots, Sasria has not only recovered but continues to demonstrate resilience and growth. The company has significantly strengthened its financial position and enhanced its capacity to manage and absorb risk, reflecting a robust and sustainable recovery.

Sasria experienced a notable reduction in claims over the 2024 financial year, largely due to a decline in political protest activity across South Africa. The relative stability during this period resulted in a significantly lower volume of claims compared to the previous year, contributing positively to the company's overall financial performance.

An increase in net reinsurance expenses was experienced due to higher pricing of reinsurance premiums.

Net investment income increased from R693 million in 2023 to R1,023 million in 2024, reflecting a 48% increase. Total investments increased by 17%, from R7 billion in 2023 to R8.2 billion in 2024. This is likely as a result of strategic asset allocation, favourable market conditions and/or enhanced cost management.

### Absa Insurance Company Limited (AIC)

PAT increased from R0.2 billion in 2023 to R0.31 billion in 2024, representing an increase of 54%. This performance was mainly driven by an improved insurance service result, primarily due to improved claims experience.

## Other noteworthy performances

Included in the "Other" component of the market are the following performance results worth noting:

**Momentum**

After a reported loss after tax of R0.3 billion in 2023, Momentum managed to turn this around and reported PAT of R0.2 billion for 2024. The 2023 financial results were plagued by adverse claim experience. For the 2024 financial year, Momentum recorded increases in both its insurance service result as well as its net investment result.

**Renasa Insurance Company Limited**

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

Renasa showed significant improvement across key financial metrics, including higher insurance revenue, reduced insurance service expenses and a strong turnaround in profitability, moving from a loss of R145 million in 2023 to a profit of R81 million in 2024. Renasa also saw an increase in finance income, attributable to a higher investment base in recent years and supported by the capitalisation of share capital.

**MiWay Insurance Limited (MiWay)**

MiWay reported a considerable increase in PAT, from R35.5 million in 2023 to R185 million in 2024. This growth is largely attributed to the successful implementation of MiWay's new inbound and tied agency strategies during 2024. These strategic initiatives significantly improved performance, particularly within the business insurance segment.

## Corporate activity, new entrants, partnerships, products and innovation

The insurance industry remains competitive and innovation in products and business models plays a key role in shaping its future.

Consumers continue to express interest in more affordable, demand-based insurance coverage and access to technology-driven tools which can help manage their policies. The rise of fintech insurers in recent years demonstrates how technology is transforming the industry.

Digital transformation continues to be crucial in creating scalable business models.

### Guardrisk

In May 2024, Guardrisk acquired Zestlife, a former third-party cell captive client. This acquisition offers new opportunities for Guardrisk and strengthens its position in life and non-life health insurance.

### Hollard

Hollard's international business arm, Hollard International (HINT), successfully completed two major acquisitions over 2024. One with Global Alliance Seguros in Mozambique and another with Absa Life Botswana. In Mozambique, Hollard Moçambique Seguros acquired 100% of the shareholding in Global Alliance Seguros, with this acquisition marking a significant milestone in its 24-year presence in the country. The acquisition of Global Alliance Seguros is intended to strengthen Hollard's ability to support high-growth sectors such as energy, infrastructure, mining and agriculture, which are key drivers of Mozambique's economic development.

Locally, Hollard Insurance is in the process of acquiring the Lombard Broker Partners (LBP) division of Lombard Insurance Company Limited, which includes commercial lines and some household insurance policies, as well as the related assets and employees. This acquisition was approved by the South African Competition Tribunal in February 2025 and aligns with Hollard's growth strategy in the South African commercial insurance sector.

### Santam

Santam recently concluded agreements with Sanlam Life Insurance Limited (Sanlam Life) for the purchase of 60% of the A1 ordinary shares in MultiChoice Group's (MCG) insurance business, NMS Insurance Services (NMSIS), for an initial cash consideration of R925 million.

NMSIS is a registered South African composite micro-insurer and authorised financial services provider, licensed to underwrite both general and life insurance products in South Africa. It has been underwriting insurance cover for the past twenty years under the DStv brand of MultiChoice, focussing on device, installation, funeral, subscription waiver and debt waiver insurance products. This investment will add 3.3 million active device insurance clients to Santam's business with cross-sell opportunities across the full MultiChoice client base of 8.6 million subscribers.

During 2024 Santam finalised the transfer of the MTN in-force book onto its licence, with the policy count growing to 549 428 in 2024 (2023: 151 000).

Santam also acquired Kandua and consolidated Santam Home+ under the Kandua brand. Kandua is an online marketplace for home services, connecting homeowners with tradespeople.

### Absa

Vehicle manufacturer Chery, Absa and the Innovation Group (insurance technology platform provider) launched an insurance partnership aimed at insuring post-warranty assurance for the growing number of Chery customers in South Africa. This product is designed to assist customers and vehicle owners to better manage the costs of owning a vehicle once the factory warranty has expired.

### King Price

King Price Insurance is now the first insurer in South Africa to cover a commercial fleet of electric vehicles (EVs). The insurer's partnership with Everlectric marks a significant shift in the local logistics and insurance landscapes, one that blends innovation with practicality.

The risks linked to EV fleets are not the same as those faced by traditional fuel-powered vehicles. Theft and hijacking is far less common. Instead, insurers must focus on accident damage, battery-related issues and component failure. Covering these risks requires a fresh approach to underwriting.

## Conclusion

Over the last few years, what has become clear is the importance of both underwriting and investment performance to the overall financial result of an insurer. This was evident in 2024 where we observed robust performance results across both these levers.

The underwriting result was driven by a favourable claims experience and healthy top-line growth, amidst fierce market competition. While growth ambitions remain a priority for insurers, notable strides have also been made in portfolio management and risk selection strategies. In retrospect, the timing of these strategic executions appears to have been highly opportune, coinciding with a period of strong industry performance across key metrics.

Investment performance was driven by favourable market dynamics, including improved investor sentiment following the establishment of the GNU, its positive influence on equity markets and the high-interest rate environment throughout 2024.

The alignment of strategic focus and favourable market conditions has positioned insurers well for sustained resilience and future growth.

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# Reinsurance industry results analysis

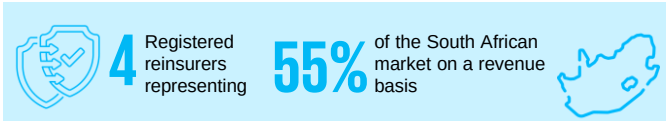
The reinsurance industry continued to maintain the robust financial results experienced in the previous year, building on the momentum and gains established in 2023. The industry continues to reap the rewards of the strategic actions taken in recent years, such as rate increases and the application of stricter underwriting principles.

The approach taken by the reinsurance industry to achieve these results reinforces the view that the (re)insurance industry is built on long-term resilience and strategic foresight, and that long-term stability is not compromised in the interest of short-term gains.

While the past year has been marked by benign catastrophe claims events, lower levels of electricity supply disruptions and robust returns on investment, behind the scenes a number of strategic initiatives are underway. These include climate, third-party and cyber risk management, ESG and transition implementation and reporting, stakeholder management, regulatory compliance, climate risk modelling, capital and solvency management and implementation of artificial intelligence initiatives. In addition, (re)insurers are having to navigate the uncertainties that come with tariff rate increases, inflation, supply chain impacts and the wider local and global political environment. What is clear is that operating in today's business environment is no easy task and it is not only about balancing the bottom line.

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 2024[1] (2023: nine professional reinsurers).

In this year's survey, we analyse the results of four registered reinsurers, representing approximately 55% of the South African market on a revenue basis.




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 for the second year.

Notable market developments during the period include SCOR SE (Incorporated in France) - Africa Branch (SCOR Africa Branch) discontinuing with writing new business in the life and health reinsurance lines from August 2024, and Munich Reinsurance Company of Africa Limited (Munich Re) converting to a branch with effect from 1 January 2025.

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 2024 for South African non-life and life insurers.

The life insurance industry continued to generate profitable results, with an increase in profits experienced from R35.5 billion in 2023 to R45.6 billion in 2024. These results are reflective of resilient premium growth, claims normalisation and strong investment returns, offset by persistent economic pressures and investment in technology and other partnerships.

The non-life insurance industry reflected similar results, with profits increasing from R14.1 billion in 2023 to R17.6 billion in 2024. 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 pricing corrections, refinements in underwriting risk selections and benign natural catastrophe weather event exposures over the course of the year.

[1] https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-selected-south-african-insurance-sector-data/2024/Selected%20South%20African%20insurance%20sector_December_2024.pdf

Real gross domestic product (GDP) increased in 2024 by 0.6%, following an increase of 0.7% in 2023[2]. According to the African Development Bank Group,

> *"It attributes this slowdown to persistent power outages, the severe impact of drought on agriculture, and weaknesses in the transport and logistics sectors[3]."*

Consumer spend continues to be constrained with high levels of unemployment at 33.17%[4] and unstable levels of inflation. According to Stats SA, with respect to inflation rates for the 2024 calendar year,

> *"The average inflation rate for the year was 4,4%, down from the average of 6,0% in 2023. Inflation in 2024 was the lowest in four years since the pandemic in 2020, when the average rate was 3,3%[5]."*

These economic indicators offer valuable insights into the industry's ongoing struggle to achieve meaningful growth, given the intense level of competition and high levels of market saturation. Expansion into new markets remains subdued, leading to increased churn among insurance providers. To drive revenue growth, the industry is required to look to embracing innovation, investing in advanced technologies and fostering strategic collaboration.

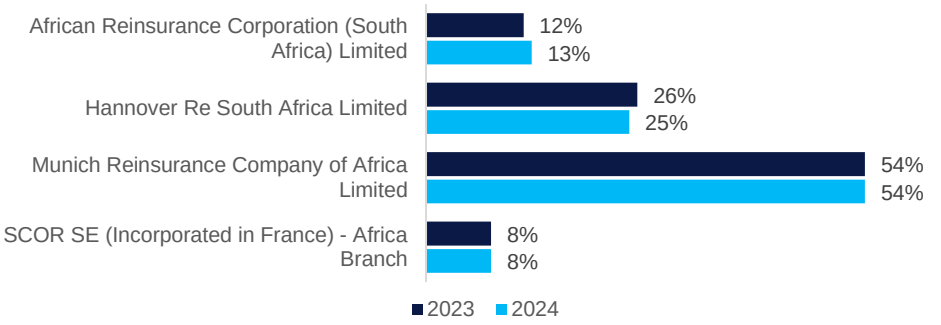
## Financial indicators

### Growth

Insurance revenue increased by 7% on average across all participating reinsurers, with growth rates ranging between 3% and 12% for individual reinsurers. This result reflects a sweeping turnaround compared to 2023 whereby insurance revenue declined by 2%.

Illustrated below is the share of the reinsurance market by insurance revenue based on reinsurers that participated in this year's survey, as reported in their audited financial statements.

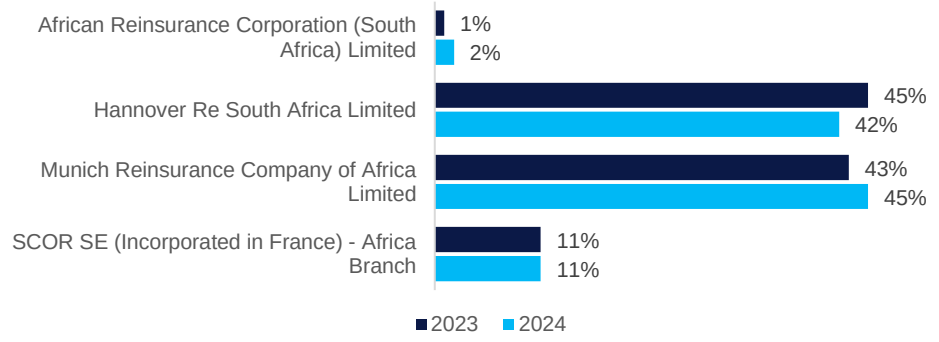
**Insurance revenue**




Consistent with prior years, Munich Re and Hannover Re South Africa Limited (Hannover Re) continue to lead the reinsurance market with a combined market share of 79% (2023: 80%) measured by insurance revenue. The market share distribution across reinsurers continues to remain relatively consistent, with marginal movements noted across industry players.

Looking at the split of insurance revenue between the life and non-life insurance results, Munich Re and Hannover Re are leading the life insurance market with a combined market share of 87% (2023: 88%), with Munich Re and African Reinsurance Corporation (South Africa) Limited (Africa Re) leading the non-life insurance market with a combined market share of 81% (2023: 84%). We discuss the detailed movements per reinsurer further on in our analysis.

**Life insurance revenue market share**



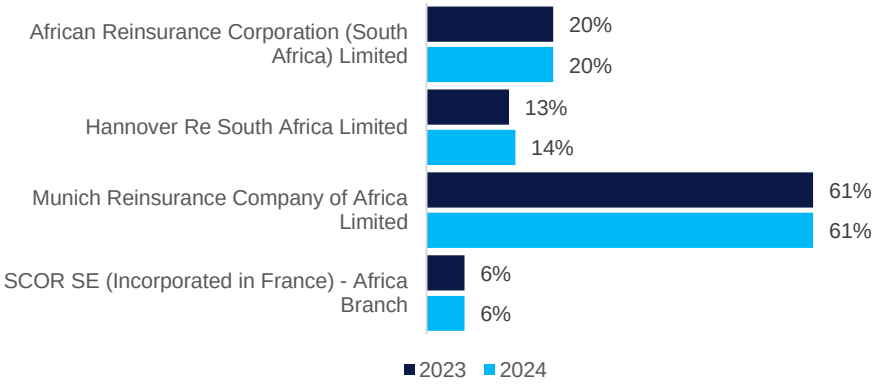

[2] https://www.statssa.gov.za/publications/P0441/P04414thQuarter2024.pdf

[3] https://www.afdb.org/en/news-and-events/press-releases/south-africa-african-development-bank-country-focus-report-highlights-urgent-need-economic-transformation-gdp-growth-remains-subdued-85180#:~:text=The%20report%20highlights%20that%20South,the%20transport%20and%20logistics%20sectors.

[4] https://www.macrotrends.net/global-metrics/countries/zaf/south-africa/unemployment-rate

[5] https://www.statssa.gov.za/?p=17968

### Non-life insurance revenue market share




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

| Performance indicator | 2024 | 2023 |
|---|---|---|
| **Reinsurance ratio**[6] | 62% | 81% |
| **Insurance service expenses ratio**[7] | 86% | 84% |
| **Insurance service result ratio**[8] | 52% | 63% |
| **Incurred claims and other expenses ratio**[9] [10] | 58% | 69% |
| **Acquisition costs incurred ratio**[11] | 5% | 4% |
| **Insurance service result** | R1 179 million profit | R625 million profit |

The 2024 results reflect a positive trajectory with improved ratios observed for most performance indicators, similar to that observed in 2023 when compared to 2022. The strategic initiatives implemented by reinsurers over the last few years to moderate risk exposures, such as premium rate increases and underwriting limitations, together with a benign catastrophe claims environment during 2024, contributed meaningfully to the bottom line. Another important contributing factor is the overall favourable results reported by primary insurers.

The improvement in the reinsurance ratio from 81% in 2023 to 62% in 2024 is due to all participating reinsurers reporting better reinsurance ratios, resulting in more profits being retained by reinsurers with less being passed on to retrocessionaires. This, coupled with low levels of claims activity related to business that is not retroceded, contributed directly to the insurance result and overall profit earned for the year.

The insurance service expenses ratio is the only indicator that did not reflect an improvement, with an increase observed from 84% in 2023 to 86% in 2024. All reinsurers except for Africa Re reported an increase in this ratio. An important contributing factor to this ratio is the incurred claims and other expenses ratio, which reflected an improvement from 69% in 2023 to 58% in 2024. While the experience across reinsurers is mixed and Hannover Re being the largest contributor to the incurred claims and other expenses ratio, the overall improvement is largely attributable to the benign catastrophe claims landscape and overall muted claims experience. One can therefore conclude that the increase in the insurance service expense ratio is due to the increase in adjustments to the liabilities for incurred claims, reflective of the cautious, yet optimistic approach being taken by reinsurers with claims provisioning.

Consistent with 2023, Africa Re continue to be the largest contributor to the acquisition cost ratio, with the reward reflected in the increase in revenue of 12%, the highest of all participating reinsurers.

**Africa Re**

**Largest contributor** to acquisition cost ratio in 2024 (consistent with 2023)

**12%** reward reflected in the increase in revenue

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

[7] Insurance service expenses ratio: insurance service expenses/insurance revenue

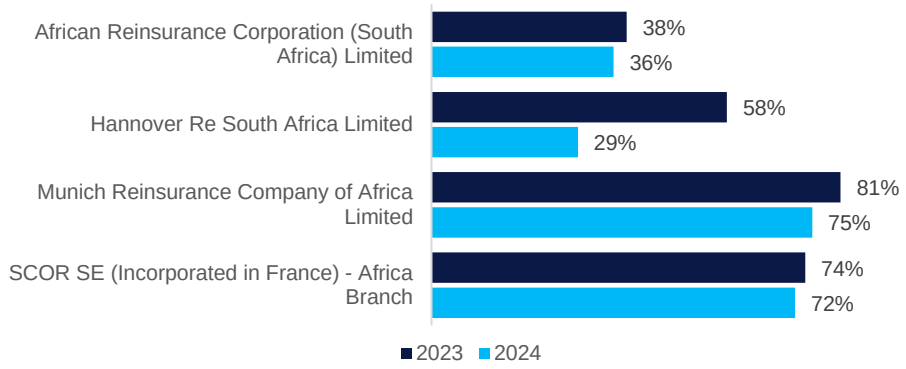
[8] Insurance service result ratio: insurance service result/profit/(loss) before tax

[9] Incurred claims and other expenses ratio: incurred claims and other expenses ratio/insurance revenue

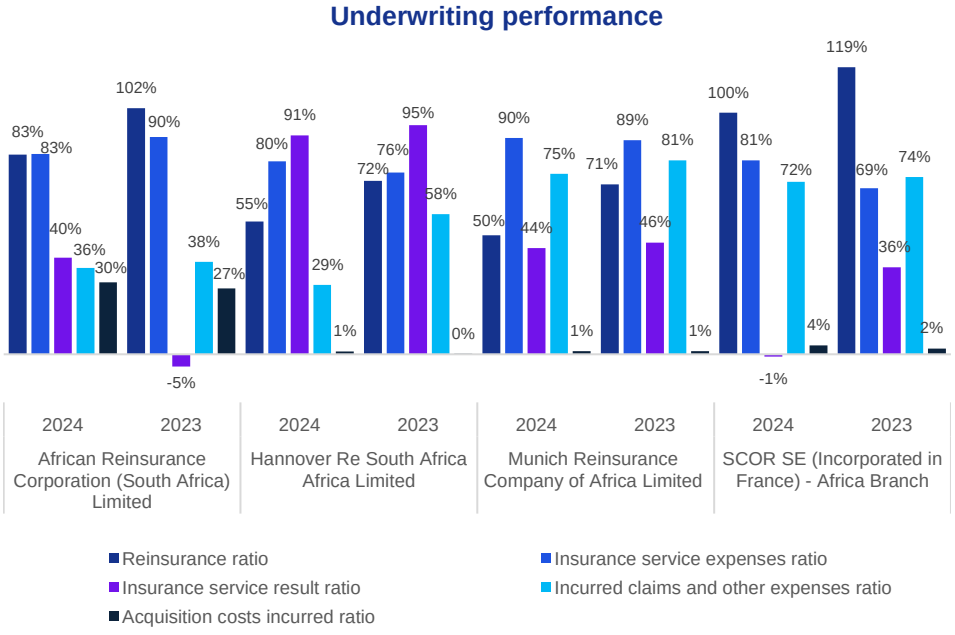
[10] Incurred claims and other expenses excludes changes that relate to past and future service and amortisation of insurance acquisition cash flows included as part of insurance service expenses.

[11] Acquisition costs incurred ratio: Acquisition costs incurred/insurance revenue

The graph set out below illustrates the incurred claims and other expenses to insurance revenue ratio for each reinsurer, where all reinsurers experienced a healthy improvement in performance over the year, compared to 2023.




## Underwriting performance per reinsurer




Varied 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 2024 financial year is the second year in which Africa Re operated as a composite reinsurer, after having underwent a relicensing process in 2021 to include the ability to write life reinsurance risks, in addition to its well-established non-life insurance business. The non-life insurance operations contributed 95% to insurance revenue for 2024 (2023: 96%), with the remaining insurance revenue of 5% (2023: 4%) earned from the life insurance business.

We noted earlier in this article that Africa Re experienced the highest growth in insurance revenue of 12% across participating reinsurers, from R2 490 million in 2023 to R2 792 million in 2024. This performance result can be attributed to deep market knowledge, strategic partnerships and the results of the turnaround strategy which Africa Re embarked on in 2018. In addition, the driver of these efforts is reflected in the increase in the acquisition expense ratio from 27% in 2023 to 30% in 2024.

The upward trajectory from 2023 continued into 2024, with the insurance service expenses ratio moving from 90% in 2023 to 83% in 2024, and the insurance claims and other expenses ratio moving from 38% in 2023 to 36% in 2022. This is largely due to low levels of catastrophe loss exposures in line with industry wide observations and due to the impacts of the strategic underwriting decisions applied.

The reinsurance ratio decreased from 102% in 2023 to 83% in 2024. This is due to the net result of insurance revenue and insurance service expenses being in excess of the net expense/income from reinsurance contracts for 2024, compared to the prior year where the net result of insurance revenue and insurance service expenses was less than the net expense/income from reinsurance contracts.

Both the insurance service result and net insurance result reflected marked improvements from the losses experienced in 2023, to profits experienced in 2024 across both metrics. The increase in investment returns more than offset the increase in administration, management and other expenses. These factors collectively contributed to the 42% increase in profit after tax for the year, from R85 million in 2023 to R146 million in 2024.

### Hannover Re

While insurance revenue growth was muted at 3% from R5 452 million in 2023 to R5 593 million in 2024, the reinsurer was still able to maintain its market position measured by revenue contribution. 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 68% (2023: 70%) to total insurance revenue with the non-life insurance business contribution coming in at 32% (2023: 230%). The non-life book of business reflected insurance revenue growth of 10% from 2023, offset by a 1% decline in life insurance revenue over the same period.

The insurance service expenses ratio increased marginally from 76% in 2023 to 80% in 2024. However, the incurred claims and other expenses ratio improved from 58% in 2023 to 29% in 2024. The primary contributing factor is attributable to the lower extent of natural catastrophe and other major losses during the year, offset by the increase in adjustments to the liabilities for incurred claims, indicative of reinsurers' prudent yet forward-looking stance on claims provisioning.

The factors noted above contributed to the improvement in the insurance service result ratio from 95% in 2023 to 91% in 2024. This, together with the increase in investment returns being in excess of the increase in administration, management and other expenses, contributed to an overall increase in profit of 63% from R278 million earned in 2023 to R454 million earned in 2024.

### Munich Re

Munich Re experienced an increase in insurance revenue of 7%, from R11 166 million in 2023 to R11 993 million in 2024. The non-life insurance book contributed 66% (2023: 67%) to total insurance revenue with the remaining 34% (2023: 33%) attributable to the life insurance book of business. Insurance revenue from the life business increased by 10% while insurance revenue from the non-life business increased by 6%.

Similar to Hannover Re, the insurance service expenses ratio increased marginally from 89% in 2023 to 90% in 2024, with the incurred claims and other expenses ratio improving from 81% in 2023 to 75% in 2024. The reasons noted above for Hannover Re are of equal relevance to Munich Re. The incurred claims and other expenses ratio improved for both the life and non-life business, from 68% in 2023 to 65% in 2024 for the non-life business and from 106% in 2023 to 95% in 2024 for the life business.

The improvement in the reinsurance, insurance service result and incurred claims and other expenses ratios, coupled with higher investment returns and a close to 50% reduction in administration, management and other expenses, contributed to the profit after tax result of R917 million for 2024, reflecting a 92% increase from 2023.

### SCOR Africa Branch

Insurance revenue increased by 7%, from R1 647 million in 2023 to R1 765 million in 2023. Life insurance revenue increased by 9% while non-life insurance revenue increased by 4%. 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 58% (2023: 57%) to total insurance revenue and the non-life business contributing 42% (2023: 43%).

Similar to Hannover Re and Munich Re, the insurance service expenses ratio increased from 69% in 2023 to 81% in 2024, with the incurred claims and other expenses ratio improving marginally from 74% in 2023 to 72% in 2024. The reasons noted above for Hannover Re and Munich Re are of equal relevance to SCOR Africa Branch. The incurred claims and other expenses ratio remained flat for the non-life business at 38% (2023: 38%), with an improvement noted for the life business, from 101% in 2023 to 96% in 2024.

The improvement in the reinsurance, insurance service result and incurred claims and other expenses ratios, coupled with higher investment returns and a 70% reduction in administration, management and other expenses, contributed to the profit after tax result of R151 million for 2024. This represents a marked improvement from 2023 where a loss of R273 million was experienced.

## Investment performance

Reinsurers achieved an average return on investment (including cash and cash equivalents) of 7.93% (2023: 7.07%), compared to the year-on-year increase in investments and cash and cash equivalents of 10%. This is less than the average prime rate of 11.61%[12] (2023: 11.11%[12]) and the average 10-year government bond yield of 9.764%[13] (2023: 10.30%[13]). 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. Structuring investment portfolios in this manner is consistent with the approach applied by global peers.

[12] https://www.fnb.co.za/rates/LendingRates.html?srsltid=AfmBOoqc4jjufq16B9d5QM1jVq8kqGP0ZRsDgGb3M9LOUgyHuZ_IUxE1
[13] https://za.investing.com/rates-bonds/south-africa-10-year-bond-yield-historical-data

Munich Re was the top performer in terms of investment returns in 2024 at 9.4% (2023: 8.0%), followed closely by SCOR Africa Branch with 9.3% (2023: 8.6%) and Hannover Re with 8.0% (2023: 7.4%). Africa Re achieved a return of 5.6% (2023: 5.0%).

## What the future holds for reinsurance operations

In 2024 both Fitch Ratings and AM Best anticipated profitable results with high underwriting margins as reinsurers maintained their underwriting discipline. This held true for the South African reinsurance market as noted in the results presented and analysed above.

In its report released on 2 September 2025, Fitch Ratings "revised its outlook for the global reinsurance sector to 'deteriorating' for 2026 from 'neutral' for 2025. Softer pricing conditions and rising claims costs will pressure underwriting margins, though profitability remains strong by historical standards[14]."

Reinsurance News further elaborates on the reinsurance sector outlook from Fitch Ratings, "The ratings agency expects abundant capacity and rising competition across most property lines to gradually erode prices, while rising claims costs—driven by more frequent and severe catastrophe losses and persistent social inflation—will pressure underwriting margins in its base case.

Capital supply from traditional and alternative sources, which is currently at a record high, is projected to further outpace incremental demand from cedants over the next 12 months, shifting pricing power increasingly in favour of reinsurance buyers.

More competitive conditions are expected to continue market softening—particularly in property catastrophe—unless a very significant loss event occurs in the second half of 2025.

Competition is likely to remain price-driven, but Fitch anticipates policy terms will loosen from the very high standards set in 2023.

Combined ratios and return on equity are expected to slightly deteriorate in 2026—assuming major losses remain within budgeted levels—primarily due to lower pricing since mid-2024 and rising loss costs. This will be partially offset by preserved underwriting discipline, active portfolio optimisation, and supportive investment returns.

Capitalisation is expected to remain strong, providing headroom to absorb market shocks. Over the past two years, P&C reserve buffers have generally strengthened, enhancing balance-sheet resilience and providing flexibility to smooth earnings[15]."

On the same day, Moody's released its outlook, noting that "We have changed our outlook on the global reinsurance sector to stable from positive[16]."

S&P notes that "…reinsurance pricing has passed its peak, likely tempering earnings prospects for global reinsurers over 2025–2026; nevertheless, the ratings agency maintains a stable outlook for the sector.

The stable outlook is supported by reinsurers' robust capital, sound underwriting margins, strong investment returns, and still-favourable earnings prospects above the sector's cost of capital.[17]"

The key theme highlighted by many rating agencies is that we are now moving into a cycle of softening reinsurance rates, with pricing power shifting in favour of primary insurers. This follows a lengthy period of hardened reinsurance rates and the implementation of stringent and conservative underwriting disciplines by the reinsurance market.

The capital buffers accumulated during this period are expected to help absorb the rising cost of claims driven by catastrophe events and inflationary and geopolitical pressures, as well pressures on underwriting margins due to competition and other unexpected market shocks.

If the past few years have taught us anything, it is that risk can emerge in unprecedented and unpredictable ways. In an environment defined by ongoing uncertainty, robust and continuous risk management is a baseline expectation. What will provide reinsurers with a competitive advantage is the adoption of innovative risk management techniques that anticipate emerging challenges, grounded in the use of technology and global best practice.

While the journey ahead may be uncertain and filled with an ever-evolving risk landscape, it is the industry's steadfast commitment to its purpose and an unwavering dedication to serving society that will light the way forward and inspire continued progress.

[14] https://www.fitchratings.com/research/insurance/global-reinsurance-sector-to-experience-moderate-deterioration-in-2026-02-09-2025
[15] https://www.reinsurancene.ws/fitch-revises-global-reinsurance-sector-outlook-to-deteriorating/
[16] https://www.moodys.com/web/en/us/insights/insurance/global-reinsurers-shifts-to-stable-2025.html
[17] https://www.reinsurancene.ws/sp-maintains-stable-reinsurance-outlook-but-says-pricing-has-passed-its-peak/

# 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 | **58** Managers | **200+** Professional staff

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Each year, our staff attend more than

**10** insurance industry training courses and deliver another **10** courses to our clients which are certified by the IISA (Insurance Institute of South Africa).

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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.

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# Trump tariffs and their potential impact on the South African economy

Market commentators started the year sanguine about the prospects of the global economy as economic fundamentals in many parts of the world, particularly in Europe and the United States (US), signalled that 2025 may be a year of relative normalisation and consolidation, as far as normalisation was fathomable amidst the ongoing conflicts in Ukraine and the Middle East. The underlying economic reasoning was that global inflation driven by post-pandemic public spending, supply chain disruptions and conflict was slowing and had created the space for central banks to reduce interest rates, all favourable for supporting investment, trade and growth. However, by February 2025, the same commentators had resigned to the fact that 2025 will most likely not be such a year as the US administration announced the first of a series of trade-restricting tariffs on China, Canada and Mexico.

## Uncertainty with respect to global trade

As the world readied itself for the second Trump administration, it was clear that President Trump intended to be consequential. Headlines following his first day in office, reporting on the multitude of newly signed executive orders, using descriptors like "massive" and "sweeping" to predict the disruption that may follow his policy directives. These included his approach to trade and tariffs, foreigners within the US, diversion, equity and inclusion, the LGBTQ+ community and other minorities, World Health Organisation membership, participating in the Paris Climate Accord, as well as statements around control of the Panama Canal, and ownership of Greenland, to mention a few.

There is considerable uncertainty about the implications of his proclivity for "sweeping", disruptive action to achieve objectives he deems to be in America's national interest, irrespective of broader or even long-term repercussions. This is particularly true with respect to the imposition of tariffs and their potential impact on global trade and economic growth. His inward focus, an adversarial us-versus-them view of the world, may have favourable spin-offs in a hereto relatively rules-based world order that traditionally looked towards the US to offer not just resources but also ideological leadership, but thus far has led to a general economic downturn and drag on global growth prospects.

The net effect of the apparent contradictions in his pronouncements about the future policy directions he plans to take is difficult to assess.

For one, he promises to improve the lives of Americans through jobs, economic growth and lower prices. In his accounting, large-scale deportation of foreigners factors positively into this equation. Apart from the human cost, the fiscal implications of such an endeavour will burden American taxpayers enormously, vacate many crucial, low-paid jobs and drag economic growth down. Tariffs on imports from its main trading partners, including Europe, Mexico, Canada and China, will similarly price imported inputs higher. This will decelerate growth and fuel price increases, which is not the utopian turnaround or "Golden Age" promised by President Trump in his inauguration speech. Understandably, the announcement of these tariffs in February threw the world economy into chaos. The tariffs announced were based on equalising a combination of tariff and non-tariff barriers imposed by countries on trade with the US and, therefore, provided a combined measure of the ease for US firms to enter foreign markets.

Since the initial announcement of tariffs, a series of additional tariffs have been imposed on many other countries, including South Africa. The magnitude of those tariffs changed over time, with partial or full reversals, exclusions or temporary suspension of tariffs being announced based on the country's willingness to cooperate or negotiate new trade agreements with the US. The suspension of tariffs at levels initially recommended by the Trump administration to allow for trade came to an end on 8 July 2025, with implementation of these tariffs taking place from 1 August 2025, effectively providing countries without trade deals at that point with an additional month to negotiate these deals.

The result of the tariff negotiations is that whereas the majority of African countries have ended up with a 15% tariff imposed on their exports to the US, the final tariff on South Africa has remained at the originally indicated 30% because of inaction on the non-tariff barriers highlighted as problematic by the US administration.

## What are tariffs and why is the United States using them?

Tariffs are taxes imposed on goods purchased or imported from foreign countries, typically calculated as a percentage of the product's value. For example, a 10% tariff on a product worth R100 would mean that the product would now cost R110, with the R10 tariff accruing to government revenues. The additional cost of the tariff is then usually shifted onto the domestic consumer. However, the increase in the price of the product from R100 to R110 will mean that fewer of these products will now be demanded and therefore fewer will be imported, reducing trade between countries and obscuring the additional revenues that could have been collected had the demand remained constant. The domestic price increase of this product will also be inflationary and may therefore result in higher interest rates which would be a disincentive to both investment and consumption spending and consequently would negatively impact economic growth.

Reasons provided for the application of tariffs include reducing the gap between what the US buys in terms of goods from overseas and what other countries buy from the US, encouraging consumers to purchase more American made products since those products would be free from tariffs and increasing government revenues. The administration also stated that imposing tariffs on foreign goods would encourage localisation of American manufacturing or production as this would be the only way to avoid the tariffs.

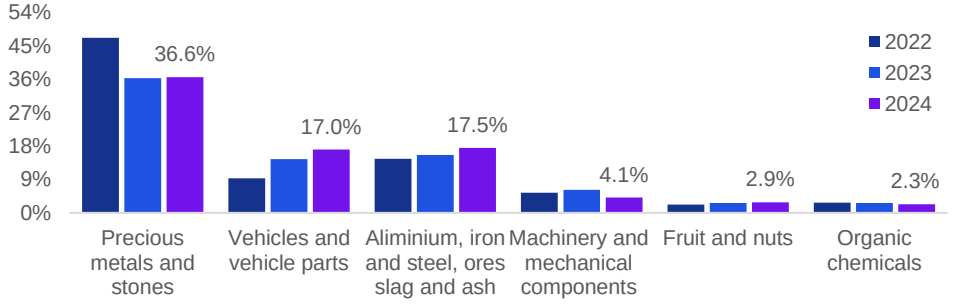
## The economic impact on South Africa

South Africa, along with the rest of the world, sits poised to see if economic growth does materialise in the US, given the global economic impact of the world's largest economy. Emerging economies like South Africa that are reliant on international trade and investment to support and grow their economies have a significant stake in the success of President Trump's vision for his country.

At just under 10% of our total trade (lagging trade with Europe at 27% and the rest of Africa at 24%, while marginally less with our trade with China) the US is not our largest trading partner, but it would matter strategically to not fall out of favour with Washington during the Trump administration. This administration will not use soft diplomacy if South Africa is deemed to be in violation of the eligibility requirements of the African Growth and Opportunity Act (AGOA), a mechanism by which South African goods gain unrestricted trade access to the American market. Currently just under half of South Africa's total exports to the US are from sectors that benefit from AGOA.

The total value of exports to the US in 2024 amounted to USD8.23 billion[1] or just over R150 billion, with this trade supporting jobs for over half a million South Africans.[2] The greatest proportion of this, i.e. USD3.01 billion or 36.6%, is from the export of precious metals and stones including platinum group metals (PGMs), gold and diamonds. This is followed by USD1.4 billion or an additional 17% from the export of vehicles and vehicle parts, while a similar value of exports is accrued from the combined export of a variety of base metals including aluminium, iron and steel, ores, slag and ash containing nickel, manganese, titanium, sodium etc. These are followed by parts for machinery and equipment, then fruit and then chemicals. Together, the above-mentioned exports comprise just over 80% of export value to the US.

### SA's six largest exports to the US

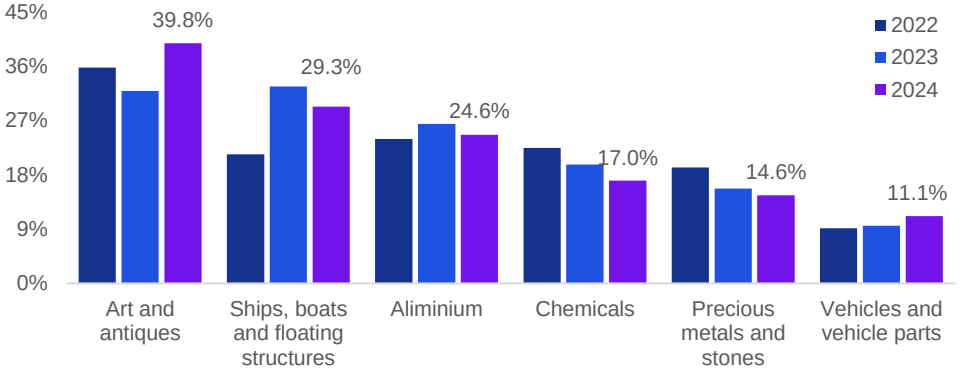



***Source:*** *www.trademap.org, KPMG analysis*

The category of South African exports that represents the largest proportion of American imports is the exportation of the ores, slag and ash which make up a total of 11.1% of American imports. This is followed by 3.5% for precious metals and stones, 3.3% for raw hides and skins and 2.3% of American ship and boat imports.

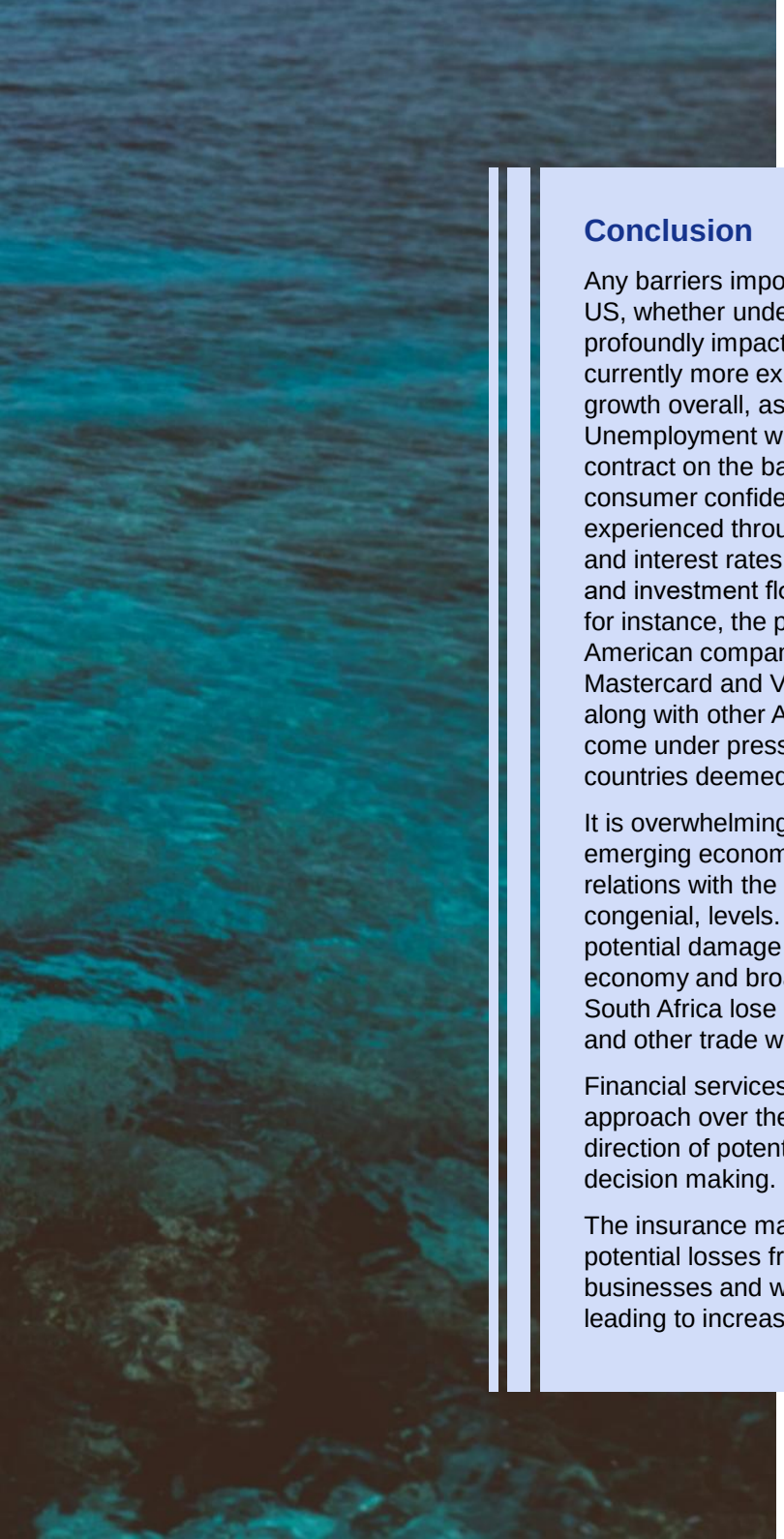
To understand the potential impact on the South African economy of tariffs or other trade sanctions, one needs to understand which are the largest categories of South Africa's total exports that are sold to the US as this would highlight where South Africa's risk to trade restrictions would impact a sizable proportion of those export industries. In this respect the art and antiques export market would be impacted most since 39.8% of exports are currently sold to the US. This is followed by the ships, boats and floating structures export sector that currently exports 29.3% of all its exports to the US, then aluminium at 24.6%, chemicals at 17%, precious metals and stones at 14.6% and vehicles and vehicle parts at 11.1%. Any trade restrictions in these sectors could result in large impacts in terms of reductions in production, sales and employment if substitute markets cannot be found.

### Exports to the US as a percent of SA's total exports




***Source:*** *www.trademap.org, KPMG analysis*

[1] Trademaps data based on South African Revenue Services (SARS) statistics.
[2] AGOA: An essential lifeline to South Africa. 2025 Updated report. Solidarity Research Institute. February 2025.



## Conclusion

Any barriers imposed on trade between South Africa and the US, whether under AGOA or not, would have the potential of profoundly impacting not only those specific sectors currently more exposed to trade with the US but to economic growth overall, as well as to its international standing. Unemployment will increase and economic growth will contract on the back of reduced business investment and consumer confidence. Other negative impacts could be experienced through changes to the exchange rate, inflation and interest rates impacting credit ratings, debt repayments and investment flows. Additionally, South Africa's access to, for instance, the products and technology services of American companies like Netflix, Apple, Microsoft, Mastercard and Visa, Nvidia and Alphabet may be at risk, along with other American exports, should these companies come under pressure from Washington to cut ties with countries deemed deserving of punitive interventions.

It is overwhelmingly in the best interest of a small, open and emerging economy like South Africa that trade and other relations with the US are maintained at neutral, if not at congenial, levels. This will assist with preventing the potential damage that could result to the South African economy and broader society if these were to worsen, and South Africa lose out on the privileges gained through AGOA and other trade with the US.

Financial services firms will need to adopt a cautious approach over the near term until the impact, size and direction of potential trade changes become clear for optimal decision making.

The insurance market could be significantly impacted in that potential losses from trade with the US would directly impact businesses and workers most exposed to this market leading to increased stresses.

The most immediate of these would be increased lapse rates on policies as revenues or earnings are impacted by the reduction in economic activity and consequent real economic impacts in terms of downsizing of firms and losses in income due to potential increased unemployment. This would also lead to higher premiums over the medium term being charged to businesses in higher risk sectors to cover the potential risks, adding costs and further reducing their competitiveness. These stresses would also be transferred to the reinsurance market impacting both the pricing of this risk and potentially also coverage especially from reinsurers based in the US.

Indirectly there would be further negative effects on the broader economy as well as potentially on asset valuations if exchange rates and interest rates were to be impacted.

An additional risk for the insurance market could be a reduced access to financial technologies that underpin and support much of the insurance business. This may result because of pressure being imposed on the suppliers of such technologies to reduce or even end relationships with South African firms because of the county's perceived incongruent political and economic stance to that of the US.

There is, however, significant uncertainty around how the global and local trade and political disputes will unfold and what the long-term implications of those will be.

Although there are many potential threats to the current business environment, these are also expected to be accompanied by opportunities. Business will need to brace for the former and be prepared to take advantage of the latter as policies are changed and implemented and the level of uncertainty is reduced.

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# Capital modelling in the sea of chaos

In the world of risk, chaos is not a failure, but rather a feature. It challenges assumptions, reveals hidden vulnerabilities and exposes the relationships we might otherwise overlook.

For insurers, the task is not to eliminate this chaos, but to *embrace it*, understand it, quantify it and, ultimately, build systems that remain robust even when pandemonium reigns.

Traditional risk models, however sophisticated, are struggling to keep pace. From sudden infrastructure failures to creeping climate disruptions and the unpredictable flare of political and social unrest, the nature of catastrophe risk is evolving.

In South Africa, as in many parts of the world, regulatory capital modelling frameworks such as Solvency Assessment and Management (SAM) have helped insurers take their risk and capital management frameworks to a new level of maturity.

However, the pace of change has never been greater. As the world becomes more inter-connected and systemic shocks more prevalent, tail events become harder to isolate. It would, therefore, be prudent to consider how our models need to be adapted.

The presumption that catastrophe risks can be compartmentalised or that dependencies between them can be safely ignored, becomes not merely outdated, but hazardous. Climate change, political and social unrest and infrastructure failure are no longer discrete phenomena; they are deeply enmeshed, often amplifying one another through complex feedback loops. It is here that one of the limitations of current capital models reveals itself, not in the foundational logic, but in the implicit assumption that chaos is something to be excluded rather than engaged with. The task before us is not to dismantle the capital architecture we have built, but to refine it based on the ongoing changes observed. It also important that we acknowledge that chaos is a relevant, even meaningful, feature of our risk universe that we should incorporate into our models.

## The strength of the system… and its limits

South African insurers already segment catastrophe risk into natural and man-made categories, capturing extreme events through stochastic modelling and applying risk-based capital charges based on calibrated historical data. These frameworks support solvency and prudence and, in many ways, they work as intended. The SAM standard formula provides fixed stress calibrations for certain catastrophe types with set correlation matrices to aggregate them.

However, these correlations have not changed over time and do not allow for dynamic shifts in the risk environment, nor contagion effects and the amplification of losses that occurs when risks are triggered simultaneously. While the SAM standard formula allows for certain aggregation benefits through correlation matrices, it largely assumes that risks, particularly in the tail, are sufficiently independent to allow for aggregation under simplifications that may not hold in reality.

We know that entropy does not respect siloed classifications. It is, therefore, important that we shine a spotlight on the current treatment of dependencies in the SAM capital framework to assess their adequacy. A heatwave can trigger blackouts that expose deep infrastructure fragilities. A prolonged drought can lead to water riots and political destabilisation. Social unrest can destroy supply chains, impede emergency response systems and amplify insured losses far beyond the original trigger.

Recent years have demonstrated this with uncomfortable clarity. The 2021 civil unrest in KwaZulu-Natal and Gauteng resulted in estimated losses of R54 billion of which R27 billion was insured. These losses were not limited to property damage or business interruption. Infrastructure shutdowns, distribution bottlenecks and public service failures significantly amplified the overall impact. Similarly, prolonged periods of loadshedding, itself not typically modelled as a catastrophe, have triggered equipment failures, fire outbreaks and secondary losses across multiple classes of insurance. Climate-related events have also intensified. The April 2022 floods in KwaZulu-Natal caused widespread damage, not just through rainfall, but because of poor drainage infrastructure, landslides and delayed emergency responses, which was further complicated by simultaneous power cuts. These were not isolated losses. They were interdependent, systemic and deeply nonlinear.

A practical challenge, currently, is how insurers respond to the new Prudential Authority guidance note on climate risk and the requirements to model physical risk exposures and transition risk. Instead of reflecting on how to change their approach to modelling catastrophe risks, many insurers have simply argued that the catastrophe risk Solvency Capital Requirement (SCR) component set out as part of the standard formula, already provides sufficient capital coverage for climate- or disaster-related risks. This approach assumes that no additional modelling or stress testing is required. However, the SAM standard formula was calibrated long before global climate risk and regulatory developments evolved and the current correlation matrix may no longer be suitable for the average insurer. Accordingly, how would you be able to evidence to your board and shareholders that the catastrophe risk SCR component is sufficient in the context of the current operating environment?

Despite these realities, capital models applied across much of the industry continue to rely heavily on assumptions of independence or simplistic linear correlations between perils. While such simplifications may be appropriate for frequency risk in well-diversified portfolios, they begin to break down under the extreme scenarios that capital models attempt to model. This is one of the weaknesses prevalent within the SAM framework.

## Learning from global peers

Internationally, insurers and supervisors are grappling with the limits of current assumptions and models for catastrophe-related risks, most notably natural disasters. Internal model approvals under Solvency II increasingly include advanced dependency structures, especially for catastrophe risk. These mathematical structures, particularly those that emphasise tail dependence, such as the Clayton or Gumbel copulas, allow for a more nuanced understanding of how risks may correlate under extreme conditions. Reinsurers have developed modelling platforms that explicitly simulate concurrent risk events using copulas and network-based dependency frameworks. The United Kingdom’s Prudential Regulation Authority encourages the use of plausible adverse scenario pathways, including cross-risk feedback mechanisms, in the Own Risk and Solvency Assessment (ORSA) process. Meanwhile, reinsurers and academic groups are applying extreme value theory, network contagion models and regime-switching copulas to simulate interdependent risks that could lead to outsized losses.

These are not academic exercises, but rather responses to the fact that real-world losses increasingly stem from interactions between climate and infrastructure, political instability and property loss, power grids and social mobility. The aim is not to achieve perfect foresight, as no model can do that, but rather about enhancing realism. In a system under stress, variables that were once independent may become suddenly and fiercely correlated. These innovations are not without complexity, but they highlight a key shift that the future of capital modelling will need to improve on accommodating chaos.

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## Sensitising towards South Africa's chaos

South Africa finds itself uniquely positioned to benefit from such enhancements. We believe this should happen at a faster rate than what is currently at play. By adopting deliberate measures that better reflect systemic realities, insurers can reduce blind spots, improve solvency and risk assessment planning and more accurately assess the benefits and limits of reinsurance or alternative risk mitigation instruments.

We recommend a focus on three risk types in our current environment and then its application and relevance for particular insurers in their context:

1. **Climate change** is already altering the frequency and severity of weather-related catastrophes, from prolonged droughts to flash floods and coastal storms. However, it also interacts with other systems, as droughts affect food prices and migration, while floods strain already fragile infrastructure.

2. **Political and social unrest**, while episodic, can escalate quickly and manifest unpredictably. The July 2021 unrest in KwaZulu-Natal and Gauteng was a case study in how rapidly localised political triggers can turn into systemic insurance losses, including business interruption, fire and even cyber claims.

3. **Infrastructure failure**, such as prolonged power outages or water system collapses, rarely occur in isolation. These risks are not only material in themselves, but they are also multipliers, weakening resilience and amplifying other events. The risk of a blackout during a heatwave or an election is no longer speculative.

What makes these risks especially concerning is not merely their frequency or severity, but their entanglement. A climate-induced shock can ripple through infrastructure systems, provoking political instability. Political unrest in turn may delay repairs, disrupt business continuity and erode public trust, deepening the initial loss. All three of the above have different underlying risk profiles and characteristics and may require a different modelling approach and risk mitigation measure. We have observed many insurers combine climate change and infrastructure failure into single scenarios for their regulatory ORSA reports, but how they evolve over time may be different and therefore their independent development is as important to analyse as their linkages.

## A practical path forward

Without abandoning the stability and transparency of existing frameworks, we believe significant improvements could be achieved through the incremental enhancements suggested below .

### 1 Scenario-based copulas and tail dependency modelling

Insurers are encouraged to begin introducing copula-based dependence structures, not across all risk types, but in a targeted way for key peril clusters. Unlike correlation coefficients, which assume symmetrical relationships and often underestimate joint tail risks, copulas allow insurers to capture asymmetric dependencies, particularly in the extremes. For example, climate-infrastructure-social unrest could form one dependency block. A drought and power outage may be only weakly correlated on average, but their co-occurrence in extreme conditions may be far more likely than Gaussian models would suggest. Incorporating a Gumbel or Student-t copula into tail risk aggregation across perils could materially affect the resulting capital requirement and better reflect the insurer's actual exposure. Regime-switching models, where dependencies intensify under crisis conditions, offer an especially relevant lens for tail-risk analysis. By calibrating these functions to reflect not just average-case correlation, but tail dependence, insurers will be able to better estimate the capital required to withstand concurrent shocks.

### 2 Cascading risk scenarios

Another possible enhancement lies in the use of cascading risk scenarios within the ORSA process. Traditional stress testing often assumes a single peril, cleanly bounded in time and scope, but real crises are rarely so polite. For example, "A drought leads to water restrictions, leading to industrial shutdowns, triggering political protests." This layered approach provides insight into the vulnerability of systems, not just single nodes. Each step of the cascade may carry with it an amplification of losses across different lines of business. By constructing and quantifying such narratives, through system dynamic modelling or nested Monte Carlo simulations, insurers could more accurately evaluate their capital adequacy in the face of real-world complexity.

### 3 Enhanced use of external and simulated data

Of course, the most cited barrier to advancing these techniques is the lack of appropriate data. South Africa's publicly available catastrophe loss data is limited, particularly with respect to non-traditional perils and systemic interactions. While Sasria SOC Limited (Sasria) and the South African Weather Service (SAWS) offer some insights, they do not provide the kind of granular, high-frequency and cross-peril data needed to calibrate complex dependency models. Here, partnerships would be key. Insurers are encouraged to work more closely with universities, reinsurers and data providers to curate catastrophe event libraries that would capture not only primary losses, but also secondary and tertiary effects.

In the interim, simulation remains a practical bridge. Where data is missing, simulated datasets could be constructed using expert judgment, global benchmarks and statistical bootstrapping methods. Scenario generation based on international data could fill gaps in the empirical record, enabling at least a first-order approximation of unknown dependencies. For instance, Brazil has experienced similar interactions to South Africa, between climate stress, infrastructure fragility and political unrest. India and Turkey offer additional parallels. Cross-country hazard libraries, available from the Emergency Events Database (EM-DAT) and reinsurer databases, could be adapted for South African exposure profiles. Bayesian methods could be used to develop plausible loss distributions and joint scenarios where empirical data is thin. While not perfect substitutes, they would provide directional guidance, validate assumptions and inform simulated datasets that reflect plausible joint loss scenarios.

It is important, however, to approach this evolution pragmatically. Not every insurer would need a full copula engine or cascading risk simulation platform. Developments could be incremental:

- identify key interaction points between lines of business;
- build joint distributions for the highest-risk combinations;
- simulate plausible adverse sequences; and
- refine capital requirements iteratively.

As we look ahead, it becomes clear that traditional approaches must give way to more dynamic risk assessment. Unlike static methods that assume risks behave consistently over time, dynamic assessments recognise that risks evolve, shift and interact in ways that defy fixed assumptions. It asks not only what the risk is today, but also how this risk might grow, mutate or cascade tomorrow. By incorporating feedback loops, shifting correlations and evolving external pressures, dynamic risk assessment allows insurers to test the resilience of their capital models against a moving target, one that is shaped by climate, politics, technology and infrastructure in constant flux.

What is important is that insurers begin to move beyond the assumption of isolated risks toward a more systemic view.

## The final frontier

Capital models must remain tractable, communicable and fit for regulatory review. We should proceed with caution and steer clear of creating models so complex that they lose interpretability. The intent remains to give management and the board deeper insights as to the underlying risk evolution and exposures, how those risks are anticipated to emerge and what mechanisms can be put in place to continue to generate the required return-on-equity.

The SAM regime has the potential to accommodate such sophistication, particularly through the internal model approval process and narrative flexibility of the ORSA. This approach allows insurers to incorporate their own risk perspectives, scenarios and dependencies not fully captured by standard formulas, offering a more tailored and strategic view of solvency. In time, regulators may consider introducing structured guidance on how ripple effects and tail interdependencies should be reflected, especially for insurers with material exposure to systemic risks. This would cater for the shifts seen globally, including increasing frequency of extreme events, intensifying systemic fragility and the breakdown of traditional assumptions about independence.

Enhancing capital models to reflect these changes would allow the industry to quantify risks more accurately. It would also enable smarter reinsurance strategies and safeguard policyholders in a way that reflects today's interconnected world, not yesterday's assumptions.

So let us embrace chaos, not as an aberration but as a structural attribute within our risk management frameworks. South African insurers, already seasoned in navigating uncertainty, are well positioned to lead this evolution. By blending the rigour of SAM with the imagination of advanced dependency modelling, we are well positioned to build more sophisticated capital models to better understand and capture the sea of chaos our boats are in.

## Glossary

If you've ever felt like the world of capital modelling speaks its own secret language, you're not alone. To save you from getting lost in the jargon jungle, we've pulled together a glossary of key terms that should help make the journey through this article a little smoother.

| Term | Definition |
|---|---|
| **Bayesian methods** | A way of updating estimates or probabilities as new information becomes available, helping refine models under uncertainty. |
| **Bootstrapping (statistical)** | A method of creating many simulated samples from limited data to better estimate possible outcomes. |
| **Copula** | A mathematical function used to model how risks interact, especially during extreme events. |
| **Correlation matrix** | A table that shows how different risks are related to each other, for example, whether floods and power failures tend to happen together. |
| **EM-DAT** | An international database maintained by the Centre for Research on the Epidemiology of Disasters (CRED) that records major global natural and technological disasters, used for research and catastrophe modelling. |
| **Extreme value theory (EVT)** | A branch of statistics that focuses on understanding the likelihood and impact of very rare, extreme events. |
| **Gaussian copula** | A mathematical tool that assumes risks are related in a "normal" or average way. It often underestimates the chance of extreme events happening together, making it less suitable for catastrophe modelling. |
| **Gumbel copula** | A copula (dependency model) that is especially good at capturing situations where extreme events are likely to happen together. |
| **South African Weather Service (SAWS)** | The official national authority that monitors and forecasts weather and climate in South Africa, providing data for risk and catastrophe modelling. |
| **Stochastic modelling** | A method of using random simulations to estimate a wide range of possible outcomes (e.g., thousands of "what if" scenarios of floods, fires, or riots). |
| **Student-t copula** | A copula that allows for stronger connections between risks during extreme conditions. Unlike the Gaussian copula, it recognises that crises often make risks much more correlated than they are in normal times. |
| **Tail dependence** | A way of measuring how likely two or more extreme events are to happen at the same time. |
| **Tail events/tail risk** | Extremely rare but very severe events, like one-in-100-year disasters, that lie at the "tail end" of a probability distribution. |


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# Cyber risk management

The insurance industry has long been built on its ability to quantify the probability of adverse future events, ranging from natural catastrophes and mortality to accidents and, in today's world, cyberattacks. What is of equal importance is its ability to translate those probabilities into a price at which clients can transfer those risk exposures to insurers.

For decades, insurers relied upon statistical modelling, complex simulations and historical datasets to manage underwriting risk. However, in the digital era, the game has changed. The volume, variety and velocity of data now available is unprecedented. Artificial intelligence (AI), machine learning, telematics, the internet of things (IoT) and generative models enable insurers to refine risk prediction, detect malfeasance, automate processes and personalise products with speed and precision, feats that were unimaginable a few years back.

However, it is this very acceleration of technological adoption which introduces new attack surfaces with elevated exposures such as cyberattacks, information security compromises, manipulation of algorithms, confidentiality and statutory adherence and third-party exposure risks. In addition, the prevalence of the continued use of legacy platforms creates its own set of risk exposures.

## Digital adoption: the promise

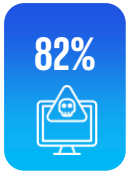
Technology is redefining the value chain across underwriting, claims and client servicing. Insurers can now draw on dynamic datasets such as telematics, IoT sensors, behavioural analytics and environmental feeds to adjust risk estimates in near real-time. Generative AI provides the ability to simulate future loss scenarios, stress-test assumptions and detect false claims with higher precision. AI models are enhancing price sophistication and fraud detection while opening new possibilities for parametric products, micro-insurance and usage-based offerings.

Adoption of automation, algorithmic underwriting and digital claims management also creates significant operational efficiency. Remote inspections via drones or satellite imagery, app-based engagement models and straight-through processing lower loss adjustment expenses and reduces time-to-market.

## The risks: the dark side

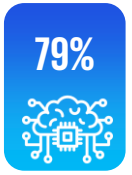
The benefits of digital technologies come with elevated risk exposures, with data breaches considered one of the most severe. Insurers collect vast quantities of sensitive personal and financial data, making them prime targets for threat actors.

A single breach can undermine policyholder trust, trigger significant regulatory penalties and lead to sizeable indemnity and reputational losses. According to KPMG's 2023 Insurance CEO Outlook survey, 82% of insurance CEOs see cybercrime as a pressing concern[1]. In our 2024 CEO Outlook survey, 79% of CEOs say that AI has already made them rethink how they train and develop employees[2], emphasising that cyber risk has moved from being a technical issue to a board-level priority.




Insurance CEOs see cybercrime as a pressing concern

*KPMG 2023 Insurance CEO Outlook survey*




Insurance CEOs are rethinking how they train and develop employees

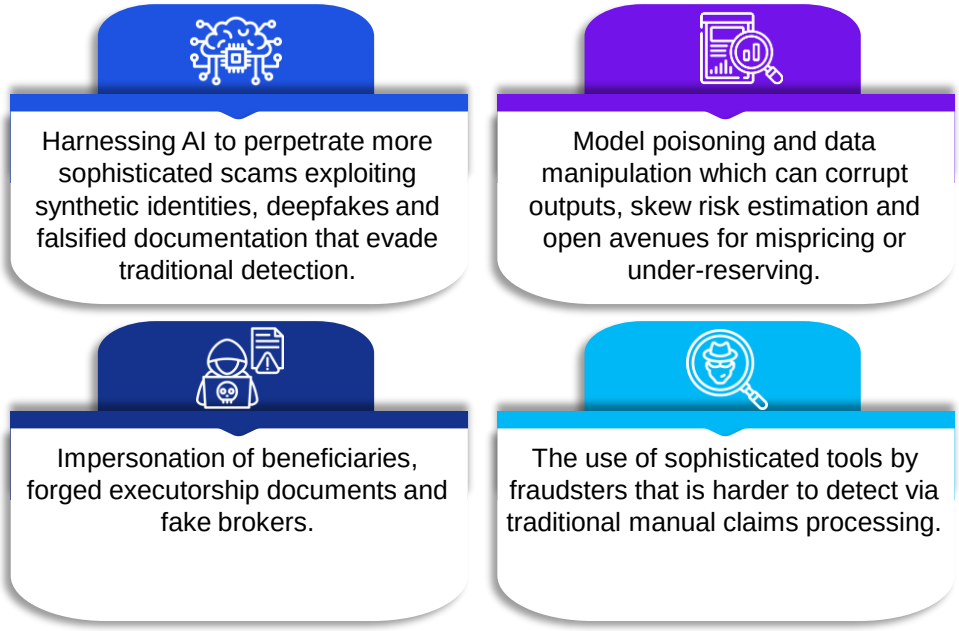
*KPMG 2024 Insurance CEO Outlook survey*

The role of third parties in the insurance sector intensifies this exposure. Vendors, brokers, administrators and software providers are deeply embedded in insurance operations, yet their security postures are often opaque.

[1] https://assets.kpmg.com/content/dam/kpmgsites/xx/pdf/2023/12/insurance-ceo-outlook-report-v5.pdf
[2] https://kpmg.com/xx/en/our-insights/value-creation/global-ceo-outlook-survey.html

Studies show that 59% of breaches among the top 150 insurance companies involved third-party vendors, almost double the cross-industry average of 29%[3]. In South Africa, the full extent of which third parties (brokers, agents, external service providers) touch sensitive information, assets or systems, or how secure those parties are, is not comprehensively assessed by insurance companies. Yet the datasets and system access via these third parties is considered to be critical. The risk of backdoors, misconfigurations and oversight lapses are prevalent and often found to be the cause of major breaches in the past. Research from a San Francisco-based cyber solutions company found that 31% of claims it handled in 2024 dealt with third-party exposure, including ransomware and outages affecting external service providers[4].

The role of AI in the industry is also becoming prevalent, which in itself introduces new systemic risks. The KPMG 2023 insurance CEO Outlook survey notes that 85% of CEOs agree that generative AI is a "double-edged sword"[1], i.e. it can help in fraud detection but also introduce new attack strategies. Set out below are key areas of relevance of AI in the insurance sector:




[3] https://securityscorecard.com/company/press/securityscorecard-report-59-of-breaches-impacting-insurance-sector-caused-by-third-party-attack-vectors/
[4] https://www.insurancejournal.com/news/national/2025/02/28/813641.htm
[5] https://asisa.org.za/statistics/fraud-statistics/

Fraud and dishonesty losses are not just due to claims, but also linked to internal/external agents (e.g. brokers, financial advisors) and remuneration fraud. Added to the attack landscape is the increased use of app-based channels and remote interactions, where identity verification, authenticity of documentation or validating damage, increases the risk of fraud perpetration.

In South Africa, the Association for Savings and Investment South Africa (ASISA) reported that life insurers detected 13 074 cases of fraud and dishonesty in 2023, up 46% from 2022[5], with losses escalating to R175.9 million in 2023, reflecting a 128% year-on-year increase from 2022.

This trend highlights how organised fraud syndicates, rather than opportunistic actors, are now exploiting weaknesses across claims, broker and beneficiary processes.

At the same time, regulatory and compliance risks are also intensified. Insurers operate under a web of data privacy regimes across the globe that demands strict standards on consent, transparency, purpose limitation and data minimisation. Failure to comply not only attracts fines, but can erode policyholder trust, which is often harder to recover.

Insurers are expected to face more pressure to keep up with such regulations relating to data privacy, sovereignty, consumer protection, AI ethics and algorithmic fairness, which is expected to increase their cost of operations. The 2025 KPMG CEO Outlook survey notes that "Regulation is a critical question on the minds of CEOs. Sixty-nine percent say the pace of regulation - its ability to keep up with the technology itself - will be a barrier to success.[2]"

Another notable challenge for insurers is the use of legacy systems. Many insurance companies still rely on old platforms that lack robust identity management, encryption or incident response capabilities. Older systems are harder to secure and they may not support strong identity or access management, encryption, necessary logging or rapid patching. Their algorithmic models may be opaque or untested for adversarial scenarios. Upgrading these systems is costly, complex and in some cases not possible, yet maintaining them amplifies systemic vulnerabilities.

Added to this is the talent shortage, with cybersecurity specialists, data engineers and AI governance experts remaining in short supply and high demand, raising the cost of resilience and creating dependency on scarce human capital. Security postures, incident response and forensic capabilities are at risk when teams are understaffed or undertrained.

## The consequence

For insurers, the consequences of inaction are stark. Non-compliance with privacy and data protection laws will result in regulatory fines, injunctions and class-action exposure. More critically, breaches or fraud incidents shakes customer trust, an intangible asset that underpins the very business model of insurance. As cyber incidents and supply chain disruptions rise, underwriting processes and claims operations are expected to be impacted, leading to delayed settlements and dissatisfied clients. Fraud losses, breach remediation and rising claims costs are expected to inflate expense ratios and reserves, undermining competitiveness.

While the penalties and punitive action from regulators have been limited in South Africa, insurance companies face the risk of reputational losses, losing customer trust and eventually business due to poorly managed risks. In addition, the cost of operations increases through direct fraud losses, cyber breaches (legal, remediation, notification, regulatory fines) and increased claim costs.

Many insurers are also venturing into cyber insurance. Cyber insurance generally covers security incidents, service provider outages and supply chain disruptions that can disrupt operational processes and have wider systemic market impacts. As the frequency of such events rise, insurers are expected to price cyber risk product offerings more conservatively. However, as premiums rise, covers shrink and exclusions tighten, with the possibility that some entities or risks are uninsurable, leading to a contraction in the cyber-insurance market. This contraction risks pushing corporates and households out of coverage just when their need for protection is at its peak.

## The solution

To harness the promise of digital transformation and AI without succumbing to its threats, insurers must adopt a disciplined approach to governance, resilience and culture. Risk models should be regularly validated through stress testing and adversarial simulations, ensuring transparency and explainability. Data governance must be anchored in strong encryption, anonymisation and ethical AI practices. Third-party exposures need robust mapping, due diligence and contractual obligations, alongside scenario planning for vendor outages.

Equally critical is strengthening internal cybersecurity posture through layered defences, advanced detection and response and continuous monitoring. Fraud prevention may increase using modern approaches such as AI-driven anomaly detection, advanced analytics for syndicate fraud and near-real-time monitoring.

Talent development remains central for an effective solution: insurers must invest in skilled cybersecurity, data science and AI governance professionals, while embedding fraud awareness and cyber hygiene across their workforce. Finally, proactive regulatory engagement and the modernisation of legacy systems will be decisive in building resilience.

As a checklist, the following guard-rails may be considered:

1. Assess the internal cybersecurity posture: build multi-layered security architecture, initiate an identity and access management program to assess and govern system access (particularly in respect of critical systems), assess controls over network and application security and continuously monitor and invest in threat intelligence mechanisms. Regular penetration testing can help identify detection and response capabilities.
2. Third-party risk management: map all third-party and vendor relationships along with their suite of access across processes. Understand the data and access privileges in place for each third-party service provider and enforce security standards, contractual obligations and regular audits of vendors. Include vendor outages and supply chain disruptions in risk modelling and contingency planning.
3. Investing in incident response: cyber-attacks are inevitable and insurers must demonstrate readiness to respond. Historically, customer confidence has been shaped less by an organisation's ability to prevent every breach, but more by how effectively it contains, investigates and recovers from one. Given the cost of maintaining in-house forensic and cybersecurity teams, a pragmatic approach that can be adopted is to engage the services of specialised cyber incident responders.
4. Fraud detection and prevention: incorporate the use of AI or multi-language tools for anomaly detection, red flag scoring, pattern recognition and big-data analysis (to uncover syndicate behavior). Enforce real-time and/or near real-time monitoring of claims data. Integrate the use of external data such as public records, social media, IoT and third-party data, where legally permissible. Collaborate with other insurers, standard setting bodies and forensic experts to share known fraud patterns.

5 AI risk assessment and model governance: regularly validate and audit models; include stress testing, adversarial testing and validation of data quality. Ensure transparency, explainability and fairness in AI systems.

6 Data governance, privacy and ethical technology use: ensure data collection aligns with customer consent and regulatory constraints. Make use of data minimisation, robust encryption (in transit and at rest), anonymisation and pseudonymisation mechanisms where feasible. Establish clear policies in respect of data usage, particularly as it relates to dynamic or real-time sources.

7 Talent, culture and training: invest in hiring and retaining cybersecurity experts, data scientists and AI ethicists. Enforce the ongoing training of staff at all levels about fraud risk, phishing and social engineering. Obtain senior leadership commitment, implement governance oversight structures and elevate cyber and fraud risk management as strategic risk considerations.

8 Regulatory compliance and proactive engagement: stay up to date with evolving laws and regulations, proactively engage with regulators and enforce clear, customer-friendly disclosure of data usage and algorithmic decision making.

9 Modernising legacy systems: where possible, replace or modernise legacy systems. This can be achieved through implementing better logging, segmentation and patching processes. Consider migration to more secure platforms or microservices, enabling isolation of components and clearer security boundaries.

## In summary

Digital technologies and AI offer a vast array of opportunities with more accurate predictions, faster operations, personalised services and a competitive edge. However, these opportunities come with risks. The challenge for insurers is no longer just about identifying these risks, but about embedding risk management into the core of digital strategy.

Those insurers who integrate innovation with security, governance and trust-building measures will secure a competitive advantage. Embedding sound governance structures, investing in people and balancing speed of innovation with stability and trust is key.

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# Actuarial and finance transformation: optimisation considerations in an IFRS 17 world

*IFRS 17 Insurance Contract* (IFRS 17), now well-established in the insurance market, introduced significant complexity in financial reporting, affecting both finance and actuarial teams. The standard demands enhanced data management, technology adoption, process efficiency and automation and collaboration amongst departments within an insurer. While insurers have made progress in adapting to these requirements, there remains substantial room for improvement in optimising processes.

Optimisation initiatives enable insurers to make sense of the complexity introduced by IFRS 17, turning potential chaos into structured and efficient processes. In addition, it can create visibility and valuable insights into the insurer's underwriting portfolio for appropriate action to be taken by management.

This article provides insights into key optimisation strategies that insurers can adopt to thrive in an IFRS 17-driven world.

## What is actuarial and finance transformation?

The concept of actuarial and finance transformation refers to the optimisation of actuarial valuation and finance processes through improvements in data, systems, processes, models and people. By focusing on these areas, insurers can turn disruptions into opportunities for efficiency and strategic insight.

## Actuarial and finance challenges in an IFRS 17 world

The introduction of IFRS 17 brought several challenges to the forefront, including inefficiencies that hinder insurers' ability to meet reporting requirements effectively:

**Data extraction and preparation:** extracting and reconciling data from multiple systems, such as policy administration and finance platforms, is a labour-intensive and error-prone process, consuming valuable time and resources. Requirements for grouping of policies and tracking the Contractual Service Margin (CSM) unwind exacerbates data management requirements (and associated costs).

**Manual workarounds:** finance and actuarial teams frequently rely on manual interventions for data cleaning, model execution and results presentation, increasing the risk of inaccuracies and inefficiencies. Process deficiencies may lead to delays in published results, or poor-quality results and secondary order manual workarounds and late-stage adjustments.

**Actuarial model set-up and run times:** configuring actuarial models with complex inputs and assumptions are time-consuming and lengthy model run times can delay critical reporting deadlines, putting additional pressure on actuarial teams.

**Results review and collation:** reviewing model results for accuracy and collating them from various systems requires effort, placing further strain on resources and extending reporting timelines. Consolidation processes across business lines, business units and licenses add to the challenge.

**Resource misallocation:** in some cases, actuarial and finance professionals spend significant time on repetitive and manual tasks, limiting their capacity for strategic analysis and value-added activities.

**Resistance to change:** entrenched legacy systems and a focus on "business-as-usual" operations are likely barriers to implementing new, more efficient processes, which may perpetuate an environment resistant to innovation.

## Optimisation strategies: three key areas of focus

To overcome these inefficiencies, it is useful to think about optimisation solutions across three key pillars: technological transformation, data management and consistency and collaboration and skills development.

| Strategic area of focus | Overview |
|---|---|
| **Technological transformation** | Adoption of advanced technologies to enhance processing power for data extraction and model execution, including frameworks for automation, data storage and application efficiency. |
| **Data management and consistency** | Enhanced alignment of finance and policy data, cleaning of historical data and integration mechanisms to ensure seamless data flow and compliance with IFRS 17 requirements to make use of granular data. |
| **Collaboration and skills development** | Formation of cross-functional teams and upskilling initiatives to foster integration, break down silos and leverage IFRS 17 data for strategic insights. |

## Technological transformation

The data-intensive nature of IFRS 17 necessitates the adoption of advanced technologies to streamline processes and enhance efficiency. Three key areas that insurers can focus on within this space are:

- **centralised data storage:** implementing modern database architecture supports efficient handling of large datasets while maintaining data security and integrity. Centralised storage reduces duplication and simplifies access across departments.
- **actuarial data management and governance:** developing a data mart as a unified source for actuarial data enhances governance, reduces reconciliation efforts and supports consistency in reporting. Strong governance frameworks are critical to maintaining data quality.
- **enhanced actuarial applications:** investment in actuarial models and analytical tools supports internal management, as well as external reporting. Looking forward, it will most likely also benefit product design. Automation, concurrent processing and automated data verification enable faster closing cycles, addressing tight timelines for publication of results.

## Data management and consistency

The value placed on robust data management is only emphasised by the data granularity requirements necessitated by IFRS 17 at the policy and contract portfolio level. It is useful to think about this aspect across three key strategic initiatives:

**Historical data cleaning:** addressing historical policy data issues by establishing a “clean” initial dataset is a significant undertaking but critical for accurate reporting. Industry-accepted methodologies, such as data validation and reconciliation protocols, can streamline this process.

**Data consistency:** aligning policy contracts and insurance-type data ensures accurate measurement and disclosures under IFRS 17. Standardised data formats and definitions across systems are essential for compliance and efficiency.

**Integrated data platforms:** creating consistency mechanisms for data across business, finance and actuarial functions facilitates seamless data flow, reducing manual interventions and errors.

## Collaboration and skills development

The introduction of IFRS 17 demands closer collaboration among actuaries, accountants and IT professionals. This collaboration is a key factor in aligning processes and streamlining workflows. Practical steps that can be taken by insurers to foster closer collaboration efforts include:

- **upskilling programs:** providing comprehensive training on IFRS 17 equips teams to navigate the standard's complexities. In addition, upskilling and training will most likely be required in relation to the systems and technologies that drive the insurer's actuarial and finance environments. Actuaries, in particular, must develop proficiency in data analytics and accounting concepts, while accountants will benefit from understanding actuarial workflows.
- **cross-functional resources:** the upskilling initiatives mentioned above will support the development of resources and teams with diverse skill sets, enabling efficient management of data, actuarial software and systems. Having these resources and teams in place will bridge the gap between departments, enhancing alignment on IFRS 17 processes and outcomes.
- **breaking down silos:** encouraging open communication and knowledge-sharing between teams will reduce silos, enabling teams to leverage granular IFRS 17 data for strategic insights. Collaborative approaches are likely to result in innovation and insight, transforming challenges into opportunities for enhanced business performance.

## Case study

To illustrate the practical application of the optimisation strategies discussed above, let us consider a real-world example involving a single data platform (like Databricks), which provides a powerful, cloud-based platform for managing and analysing large datasets. A single data platform enables insurers to build, deploy and scale enterprise-grade data, analytics and AI solutions, making it an ideal tool for addressing the data-heavy demands of IFRS 17. This case study highlights how a solution of this nature overlaps with the article's key pillars of technological transformation and data management, demonstrating tangible benefits for insurers.

## Advantages of a single data platform

**Centralised unified data intelligence platform:** a single platform that streamlines data access and management across departments is crucial, reducing the time spent on reconciling data from multiple systems.

**Robust data management:** the platform's capabilities support the cleaning of historical policy data, ensuring consistency and supporting the standardisation of data formats for enhanced compliance.

**Flexible and scalable infrastructure:** a robust data platform architecture allows insurers to handle growing data volumes and adapt to evolving regulatory demands, supporting automation, versatility and integration with existing systems.

## Real-world impact

Insurers in South Africa have successfully transitioned to single data platforms, achieving:

01 **shortened financial close timelines:** automation accelerates the financial close process, helping meet tight deadlines.

02 **faster experience investigations:** advanced analytics enable quicker and more accurate insights into actuarial experience investigations.

03 **enhanced analysis of actuarial results:** the platform simplifies reviewing and collating model outputs, reducing the effort for enhanced understanding and consolidation.

04 **efficient what-if scenario analysis:** computational power supports rapid execution of scenarios, aiding data-driven decisions.

## Overcoming implementation challenges

Many insurers face constraints in time and expertise for implementing such platforms. External consultants can play an important role in guiding the implementation process, helping insurers maximise the platform's benefits.

## Tying it all together

This case study shows how embracing technologies like Databricks can address multiple optimisation pillars simultaneously. By centralising data and enhancing analytics, insurers not only meet IFRS 17 requirements but also foster a collaborative environment across teams. Furthermore, the insights generated empower management to take proactive steps in optimising their insurance portfolios, transforming data into a strategic asset for sustained growth.

## Conclusion

Actuarial and finance transformation in an IFRS 17 world hinges on strategic focus across three interlinked domains: technology, data management and collaboration.

By investing in advanced technologies, insurers can streamline data processing and enhance model efficiency, addressing IFRS 17's computational demands.

Robust data management ensures compliance with granular reporting requirements, while fostering collaboration and empowering teams to navigate complexity and extract value from data insights.

Each insurer's transformation journey will be unique, shaped by its existing systems, processes and organisational structure. However, the evidence is compelling: strategic investments in modern systems and cross-functional collaboration are key in meeting IFRS 17 demands.

By transforming chaos into opportunity, insurers can not only achieve compliance but also position themselves for sustained growth and competitive advantage in an IFRS 17-driven world.




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# The evolution of insurance intelligence

The insurance industry is founded on the promise of protecting people and businesses from uncertainty. Insurers ingest immense volumes of data, assess risks and pay claims, while satisfying regulatory requirements and employing measures in controlling costs. Artificial intelligence (AI) has already delivered incremental improvements to insurers using predictive analytics and basic automation. Now, a new chapter is emerging with **agentic AI** - a class of intelligent systems that can autonomously reason, plan and act. This article traces the progression from rule-based automation to AI agents and finally to agentic AI, explores recent adoption trends and statistics, deep dives into delegated authority processes like bordereaux and binder management, highlights wider insurance applications and outlines practical considerations for deploying these technologies responsibly.

## From automation to agency: evolution of AI systems

### Rule-based automation and robotic process automation

Before the rise of machine learning, insurers relied on **rule-based automation**, often labelled **robotic process automation (RPA),** to handle repetitive back-office tasks. These bots follow explicit scripts and manipulate structured data, performing deterministic actions such as policy issuance or invoice generation. RPA excels when inputs are consistent and decision rules are unambiguous; it cannot interpret unstructured data or adapt to new situations without re-coding. Analysts note that RPA is ideal for repetitive, rules-driven processes, whereas more intelligent agents are needed when tasks involve unstructured information or dynamic decision-making. Each regulatory change or product update requires developers to adjust scripts, illustrating the fragility of rule-based approaches.

### AI agents: autonomous and adaptable

The next stage of machine learning introduced **AI agents**, which perceive their environment, reason, make decisions and take action to achieve predefined goals with limited human intervention. Insurers have adopted chatbots that answer customer queries, underwriting assistants that assemble risk summaries and claims bots that pre-screen documents. Unlike RPA, these agents incorporate machine-learning models and generative AI (Gen AI) models, enabling them to interpret text, images and speech and to learn from data and humans in the loop feedback.

They can be **reactive** (responding to user requests), **proactive** (initiating actions based on triggers), **goal-oriented** (planning steps towards outcomes) or **hybrid** (combining behaviours). Adoption is broad: health insurers use AI agents for customer service, while property insurers deploy them for claims triage and fraud detection. Over time these agents improve performance by learning from historical outcomes.

### Agentic AI: reasoning, judgment and collaboration

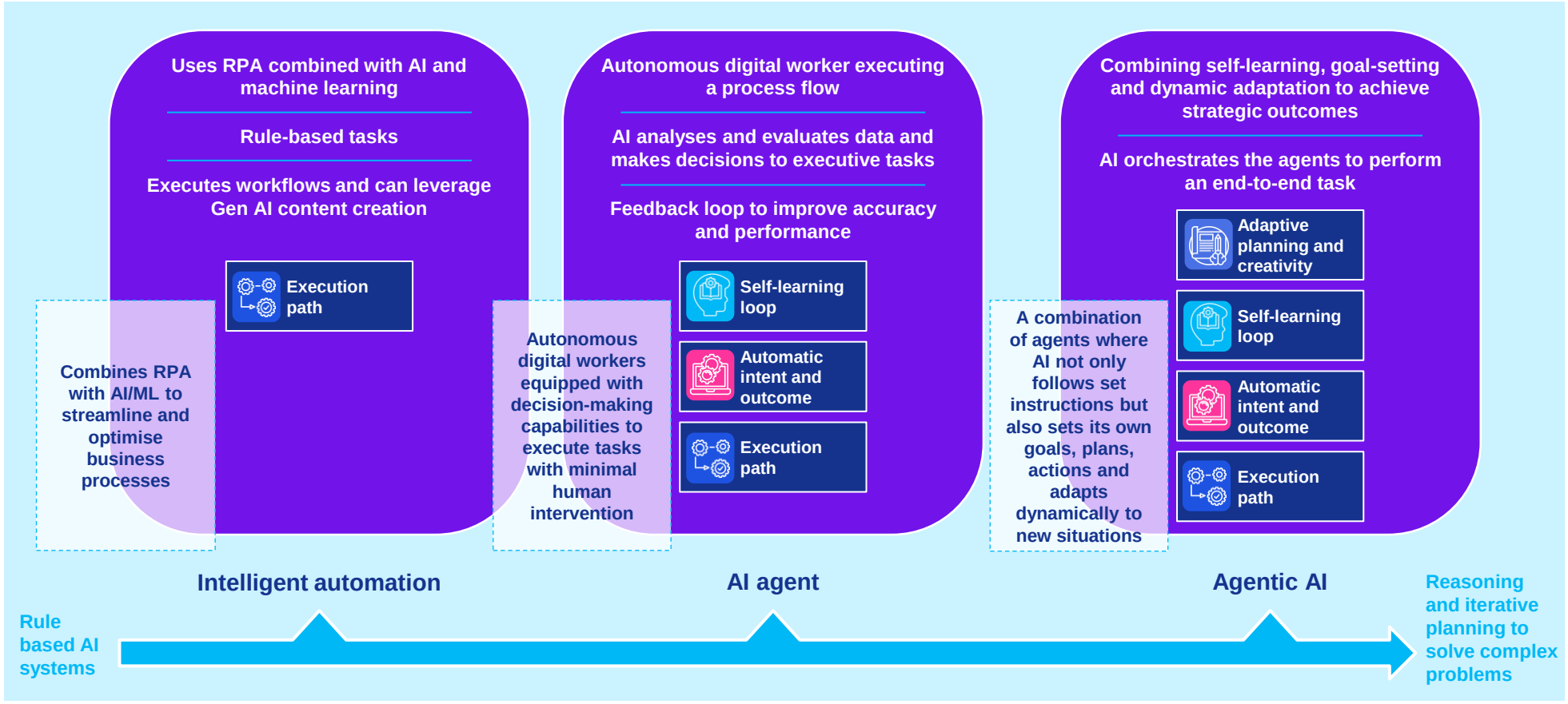
Moving on to recent years, **agentic AI** is the latest wave in machine learning. It combines Gen AI models with reasoning and planning capabilities so that systems can decompose complex tasks, set their own goals, invoke specialised tools, monitor progress and collaborate with humans or other agents. In insurance, an agentic AI system can ingest a claim, verify coverage, request missing information, compute settlement options, draft customer communications and update the policy in one coordinated workflow which is able to handle various nuances. This capability, coupled with **retrieval-augmented generation (RAG)**, ensures that generative models consult the right documents before providing an answer, increasing accuracy and context of execution and delivery. Agentic AI and AI agents are emerging as a top investment priority: a recent KPMG study revealed that almost **three-quarters of insurance CEOs** view generative AI as their most important opportunity. Market analysts estimate that AI investment across the global insurance sector could reach **USD79 billion by 2033**, reflecting expectations for agentic systems to transform underwriting, claims and distribution[1].

[1] KPMG, "KPMG Q1 2025 AI Pulse Survey," 2025.

## From RPA and AI agents to agentic AI: key differences

Progressing from RPA to AI agents and then to agentic AI reflects a shift from scripted automation to systems that understand context, learn from data and collaborate. **RPA** automates predictable, high-volume tasks; **AI agents** interpret unstructured data and make independent decisions to solve a specific workflow/use-case; **agentic AI** plans multistep goals, co-ordinates multiple agents, orchestrates other tools based on discretion and adjusts actions based on feedback and through self-set goals. Analysts recommend using RPA for deterministic workflows and deploying AI agents when tasks involve interpretation or adaptation for an entire workflow. For example, an AI agent can analyse customer sentiment or summarise free-form text capabilities, of which RPA is not capable. Agentic AI goes further: by combining generative models with planning and dynamic self-set goals, it decomposes complex goals, calls on calculators or search engines, monitors outcomes and reflects on performance using its own discretion. Compared to the use of scripted mechanisms applied with RPA, agentic systems are more versatile but require guardrails and greater computational resources. Insurers are encouraged to adopt a continuum of these types of technologies, leveraging RPA for stable processes while deploying AI agents or agentic AI where adaptability and learning are essential.

**Figure 1: Definition of intelligent automation, agents and agentic AI**



# Market momentum: investment, adoption and governance

## Investment momentum and return on investment (ROI)

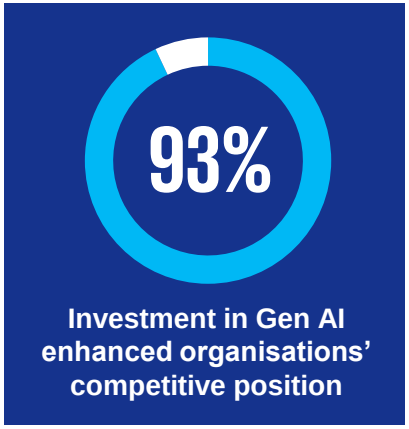
Investment in AI is on the rise. KPMG's **Q1 2025 AI Pulse Survey** reports that organisations plan to invest an average of **USD114 million** in generative AI over the next 12 months, up from **USD89 million** in Q4 2024. Executives cite profitability and productivity as the key benefits of Gen AI deployment: **97%** say that investment in Gen AI drives profitable returns and **94%** highlight productivity gains. In Q2 2025, budgets are being allocated to foundational safeguards with **67%** of Gen AI budgets going to cyber and data security, **52%** to risk and compliance and **48%** to operational activities. These results indicate that insurers are moving away from experimentation and starting to focus efforts on operational integration and prioritising secure deployment[1] [2].

## Adoption patterns and sourcing strategies

Survey data reveal a rapid shift from exploration to piloting and deployment. In Q1 2025, pilot programmes for AI agents leapt to **65%** from **37%** in previous quarters, yet full deployment remained at **11%**. By Q2 2025, **90%** of organisations were beyond experimentation: **33%** had deployed agents, **57%** were piloting and **10%** remained in the exploration phase.

Sourcing strategies also evolved, in Q1 2025, two-thirds of leaders (**67%**) planned to **buy** pre-built agents, **27%** intended to combine buying and building, with **5%** planned to build internally. Moving into Q2 2025, **51%** of organisations planned investment in a combination of pre-built and internally built agents. Those organisation planning to buy dropped to **46%** and those planning to build dropped to **2%**.

Importantly, **93%** of Q1 2025 respondents said their investment in Gen AI had already **enhanced their competitive position**[1].




[2] KPMG, "AI Quarterly Pulse Survey: Q2 2025," 2025

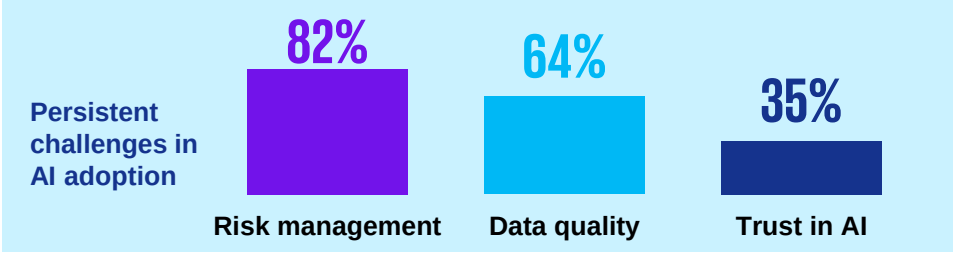
## Drivers and challenges in AI adoption

The uptake of artificial intelligence across industries is shaped by a complex interplay of **drivers that accelerate adoption** and **challenges that constrain it**. Understanding both dimensions is essential for organisations seeking to embed AI into core operations.

On the **demand side**, three drivers stand out:

1. The pursuit of **efficiency and cost optimisation** continues to dominate executive agendas. Gen AI in particular is viewed as a tool to automate labour-intensive processes, accelerate document review and reduce operational bottlenecks.
2. Organisations are motivated by **innovation and competitiveness**. Executives increasingly recognise that AI can create new revenue streams, enhance customer engagement through personalisation and support differentiated product offerings. In an environment where first-mover advantage is significant, the risk of inaction is becoming as material as the risk of adoption.
3. **Technological maturity** has lowered barriers to entry. The scalability of cloud platforms, availability of foundation models and emergence of specialised vendor ecosystems have reduced both cost and complexity, enabling firms to move more confidently from pilot projects to enterprise-scale deployments.

Against these drivers are a set of persistent **challenges**. Foremost among them is **risk management**. In KPMG's Q1 2025 Pulse survey, **82%** of executives cited risk as the primary obstacle to implementing their AI strategies. Concerns span model reliability, data leakage, ethical use and reputational exposure. Closely related are anxieties around **data quality (64%)** and **trust in AI (35%)**, underscoring the dependence of AI systems on reliable inputs and the importance of transparency in decision-making[1].



The workforce dimension adds another layer of complexity. The Q1 2025 Pulse survey identified **system complexity (66%)**, the **pace of technological change (56%)** and **technical skills shortages (51%)** as the most pressing barriers to adoption. By Q2 2025, these concerns had shifted but remained acute: **skills gaps were cited by 59% of executives**, followed by **workforce resistance to change (47%)** and **system complexity (39%)**. Together, these findings point to a widening gap between the rapid evolution of AI technologies and the availability of talent capable of deploying, managing and governing them. The cultural component is equally significant: without clear communication of benefits and alignment to business strategy, employees may resist or underutilise AI tools[1].

Finally, **regulatory and governance concerns** have moved to the forefront. In Q2 2025, **data privacy (69%)**, **regulatory compliance (55%)** and **data quality (56%)** emerged as leading issues. As jurisdictions worldwide accelerate the development of AI legislation, organisations face increasing pressure to demonstrate compliance, safeguard sensitive information and establish robust oversight frameworks[1].

Taken together, these findings highlight a dual reality: while AI presents a powerful engine for efficiency and innovation, its potential can only be realised through parallel investments in **governance, data quality and workforce capability**. Organisations that succeed will be those that not only seize the opportunities but also systematically address the risks that accompany them.

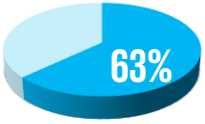
## Insurance value from agentic AI and RPA: adoption, workforce and governance considerations

In insurance, the case for agentic AI and RPA is fundamentally operational: shorten cycle times, reduce leakage and lift decision quality at scale. Agentic AI and AI agents (autonomous or semi-autonomous “agents”) complement RPA’s deterministic workflow automation by handling ambiguous, language-heavy tasks, such as reading documents, conversing with customers and coordinating next steps across systems. RPA executes the repeatable steps reliably and at a low cost. Together they form an orchestration layer across the value chain:

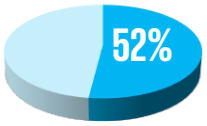
- **Distribution and servicing:** agents act as licensed-assistant copilots for brokers and contact-centre staff, summarising prior interactions, drafting compliant responses and pre-populating quotes and endorsements. RPA posts updates to core policy administration and client relationship management systems and triggers downstream tasks. Result: higher first-contact resolution and faster turnaround times in delivering quotations or signing on clients.
- **Underwriting:** intake agents triage submissions, extract data from broker packs and surface anomalies; RPA validates mandatory fields and pushes clean risks to straight-through processing. Underwriters spend time on risk selection instead of rekeying.
- **Claims (first notification of loss (FNOL) to settlement):** agents guide FNOL conversations, classify coverage questions and assemble evidence; RPA orders reports, reconciles invoices and issues payments once rules are met. Net effect: shorter time-to-decision, less leakage and better claimant experience.
- **Fraud and risk:** agents synthesise unstructured signals (adjuster notes, call logs, social content where lawful) and prompt human review; RPA operationalises watchlists and case routing. This augments the productivity of claims investigation units without overwhelming investigators.
- **Finance and compliance:** report-drafting agents compile bordereaux and regulatory templates from ledgers and data marts; RPA reconciles journals and attestation workflows, reducing friction while preserving control.

Executives see this cross-functional upside clearly: the greatest expected benefits are in **technology (76%)** and **operations (74%)**, with **risk (56%)** following closely; gains also extend to **finance (39%)** and **marketing/sales (35%)** where faster analytics and personalised outreach matter. The adoption pattern mirrors the value thesis: **daily use of AI productivity tools is at 58%**, **weekly use of knowledge assistants (e.g., RAG) at 61%** and **35% of organisations report embedding Gen AI directly into operational workflows**. Critically, leaders frame the impact as augmentative: **76% expect automation of routine tasks without eliminating roles**, **69% anticipate freeing high performers for strategic work** and **57% foresee uplift for struggling performers** - a shift from labour substitution to capability elevation.

With greater autonomy comes tighter guardrails. **Sixty-three percent** plan to deploy agents from trusted providers and **52%** report mechanisms being in place that **prevents access to sensitive data without appropriate human oversight**. This does **not** mean AI independently restricts data. It means organisations are instituting **human-defined governance controls,** such as role-based access, approval checkpoints, redaction and audit trails, within which agents operate. Humans set policy and agents execute inside those boundaries.




Organisations plan to deploy agents from trusted providers

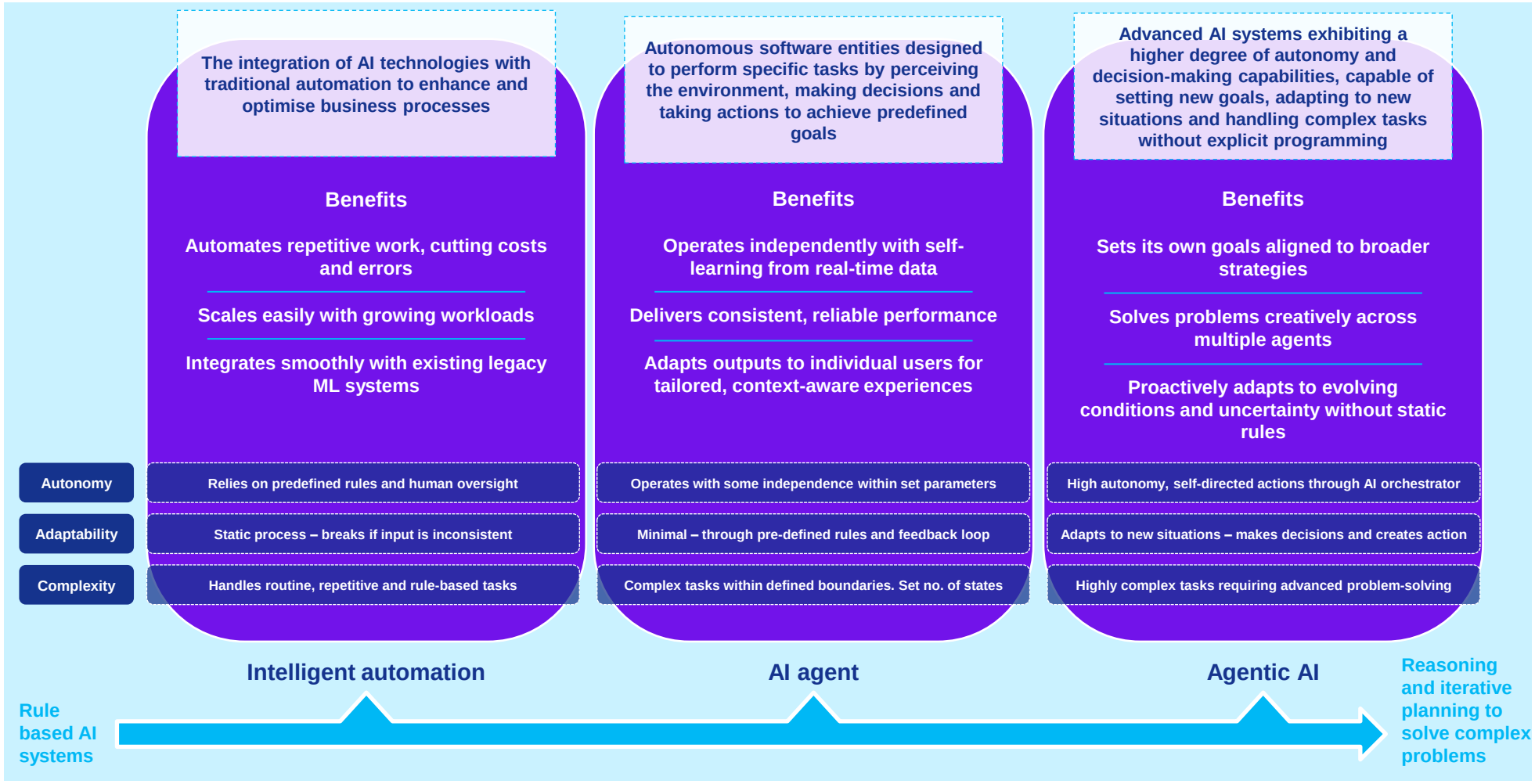



Organisations report mechanisms being in place that prevents access to sensitive data without appropriate human oversight

Board capability is rising but uneven. Only **8%** of executives report substantial AI expertise at board level, while **69%** note moderate proficiency; nonetheless **45% of boards discuss AI at every meeting** and **41% do so frequently**. For insurers, the next step is formalising oversight: articulate the AI risk appetite, link model controls to conduct and prudential obligations and tie investment cases to combined-ratio and customer-outcome metrics.

**Bottom line for insurers:** the simultaneous application of agentic AI and RPA is already translating into throughput, accuracy and experience gains across underwriting and claims, with workforce adoption advancing and governance processes maturing in parallel. Successful organisations will be those who approach value realisation, workforce enablement and governance as an integrated operating model – designed, scaled and validated together[1].

**Figure 2: Benefits across intelligent automation and agentic AI**



## Efficiency gains and impact metrics

Evidence from field deployments indicate that AI can deliver material improvements across insurance operations. Consulting research and analysis of AI transformations in property and casualty underwriting and distribution found a **10-20%** increase in new agent success and conversion rates, **10-15%** premium growth, **20-40%** reduction in onboarding costs and **3-5%** improvement in claims accuracy. A personal lines claims transformation program deployed by Aviva achieved a **23-day** reduction in liability assessment time, **30%** improvement in claim routing, **65%** reduction in customer complaints and more than **GBP60 million** in savings. These results illustrate that the benefits of AI go beyond labour savings: they translate into faster cycle times, improved customer experience, reduced leakage and better decision quality. The next sections consider how agentic AI can apply these lessons to delegated authority and other insurance processes[1 3].

## Deep dive of a use case: delegated authority workflows

Delegated authority is a core feature of many insurance markets: intermediaries and underwriting management agencies (UMAs) bind policies on behalf of insurers, producing **bordereaux reports** that summarise premiums, claims and risk exposures. Insurers then reconcile these reports against binder terms and sub-ledgers.

While this process is fundamental to distributing business, it remains labour-intensive. Some of these challenges include bordereaux arriving in diverse formats and are often incomplete; binding authority agreements differing across markets; and the performance of manual reconciliations against policies, claims, commissions and taxes. Industry analyses show that manual bordereaux management results in financial and management reporting delays, errors and long standing and high levels of unallocated cash. Intermediaries and UMAs may interpret data fields differently, complicating validation and compliance. Even determining whether a claim falls within a binder's scope may require an underwriter to read the policy and endorsements. Without standardisation, there is a risk of inaccurate entries, omitted or partially captured items (missed exposure accumulations) and regulatory breaches.

### Current solutions

Several technology providers have developed solutions: platforms that automate bordereaux ingestion, validation and mapping to a single, standard data template (canonical data model); tools that generate exception reports and queries; and consolidated binder platforms that centralise underwriting, claims and financial data. These solutions can reduce financial reporting close out times and improve data quality. However, they remain largely rule-driven and require manual oversight when exceptions arise.

### Agentic AI for bordereaux and binder management

Agentic AI promises to take delegated authority management further by chaining together multiple specialised AI agents. A hypothetical **multi-agent scenario** could work as follows:

1. **Ingestion and schema (data blueprint) inference:** an intake agent automatically detects new bordereaux files across channels (SFTP, SharePoint, email), infers schema and lineage (the file's structure and the trail of where each field came from) and flags missing or unfamiliar fields. When novel columns appear, it prompts the cover holder or human operator for mapping examples. Over time the agent learns common variations, reducing the extent of manual intervention.
2. **Normalisation and enrichment:** a transformation agent maps fields to the insurer's canonical data model, enriches rows with underwriting data (territories, perils, currencies) and tags records with binder references. It can incorporate geocodes and hazard codes to facilitate catastrophe accumulation checks.
3. **Multi-ledger controls:** a control agent reconciles premiums and claims bordereaux with general and sub-ledgers, verifies commission and tax calculations and compares net/gross splits with binder terms. It applies rules for limits, deductibles, sub-limits and exclusions, referencing clauses through retrieval-augmented generation.
4. **Accumulation and sanctions:** a risk agent updates catastrophe accumulation, monitors aggregation limits, runs sanctions and politically exposed person (PEP) checks and flags suspicious patterns. When rules cannot determine a course of action, the agent retrieves relevant clauses for a human underwriter to review.

[3] KPMG , "**Advancing AI across insurance**," 2024.

5 **Invoice and settlement:** a finance agent reconciles bordereaux with bank statements and calculates settlement amounts, automatically generating debit/credit notes and identifying unallocated cash. It drafts settlement instructions for sign-off.

6 **Correspondence and audit:** a communications agent prepares queries to cover holders, attaches exception reports and schedules follow-ups. Every action is timestamped and linked to source data for audit and conduct risk reporting.

By orchestrating these agents, insurers can achieve continuous assurance, reduce manual queries and report exceptions with explanatory context. Human experts remain in the loop, making final decisions and ensuring ethical and regulatory standards are met.

## Broader applications across the insurance value chain

This section considers how similar agentic patterns discussed above can be applied across other insurance domains.

### Underwriting and product development

AI agents can assist underwriters by summarising submission documents, analysing third-party data and recommending risk scores. They can generate comparative “what-changed” reports when broker submissions are updated and suggest endorsements or coverage terms. Gen AI can help design products tailored to niche markets by analysing customer sentiment, emerging risks and competitor offerings. Future agentic systems could autonomously assemble quote packages and iterate product features based on feedback.

### Claims processing and fraud detection

Claims operations can benefit from agents that automate FNOL intake, classify claims and route them to claims assessors based on complexity. Computer vision models can assess damage from photos, while natural-language models can extract information from adjuster notes. Fraud-detection agents can be used for anomaly detection and network analysis to flag suspicious activity, as well as collaborate with human investigators to refine rules. Agentic systems can orchestrate the entire claims journey, prompting claimants for missing information, coordinating with repair networks and recommending settlement options, while ensuring fairness and compliance.

### Customer engagement, marketing and distribution

AI chatbots and virtual assistants can be used to handle routine customer queries 24/7, freeing staff for complex interactions. Marketing agents can analyse customer data to target campaigns and personalise offers. In distribution, agents can triage submissions, check appetite against underwriting guidelines and generate quotes. They can also support with automating document generation and compliance checks during onboarding and renewal.

### Risk management, compliance and audit

Risk managers can make use of agents to monitor exposures, update catastrophe models and run stress tests. Compliance agents can then cross-check policy wording with regulatory requirements, generate compliance reports and conduct gap analyses. In delegated authority, agents can be used to ensure that required fields are present before submission. Agents can also assist with solvency capital, IFRS 17 and other reporting regimes by extracting data and performing calculations. Audit logs generated by these agents can provide transparency, supporting internal and external audits.

### Workforce transformation and talent

Agentic AI will reshape the nature of the skillset required in the insurance industry. Routine tasks will be automated, enabling professionals to focus on analytics, advisory tasks and customer relationships. Nevertheless, technical skills gaps remain a barrier: we noted above that **59%** of organisations cite such gaps as an obstacle to AI agent deployment. Insurers are encouraged to invest in upskilling of staff, foster collaboration between business and technology teams and ensure that employees understand how to work alongside AI. Governance frameworks should also emphasise fairness, transparency and human oversight[3].

**59%**

**Organisations cite technical skills gaps as an obstacle to AI agent deployment**

## Implementation considerations and controls

The insurance use cases outlined above translate into a common set of implementation needs. Success depends on four pillars: data, architecture, people and responsible AI and ecosystem collaboration.

### Data quality and governance

AI agents are only as effective as the data they consume. Insurers should map critical data sources, assess quality and invest in cleansing and integration of data. In delegated authority, this means standardising bordereaux formats, defining mandatory fields and implementing robust validation rules. Organisations must also ensure compliance with data-protection regulations and maintain audit trails for model-assisted decisions. A comprehensive testing and validation plan is essential to confirm model accuracy, stability and monitoring thresholds over time[1].

### Architecture and technology stack

Delivering use cases at scale requires a flexible, modular architecture that supports multi-agent collaboration. Many insurers are adopting an agentic AI mesh - a composable, vendor-agnostic framework where small components can be assembled and reused across journeys. Typical layers include customer engagement, decisioning, integration with core systems and shared data/infrastructure services.

Cloud foundations matter for two reasons. Firstly, teams can scale computing up or down for training (teaching models) and inference (running them in production) without large upfront cost. Secondly, shared services can be reused across use cases: retrieval engines to locate the right documents and data, vector stores to hold embeddings for RAG and workflow/orchestration to coordinate agents and RPA. The reuse of shared services shortens build time, improves reliability and simplifies governance.

### Change management and responsible AI

Even strong designs stall without adoption. Change management should sit at the centre of delivery: leaders must set a clear vision, tie AI work to measurable business outcomes and create space for experimentation and feedback. In parallel, **responsible AI** practices, such as fairness, transparency, explainability and human oversight, are critical in fostering and maintaining trust. Regulators expect robust governance in respect of data privacy, cyber security and IT risk; insurers should run regular bias and performance audits, implement guardrails and keep human experts accountable for outcomes.

### Collaboration with ecosystem partners

Insurance workflows are interdependent. Transforming delegated authority and adjacent processes requires coordination across insurers, brokers, intermediaries/UMAs, reinsurers and technology vendors. **Industry standards** (e.g., ACORD) and market platforms (e.g., Lloyd's initiatives) enable interoperability and reduce friction. Co-developing playbooks and shared tools avoids duplication and accelerates adoption, while clear regulatory guidance encourages responsible experimentation.

With the right **data foundations**, **agentic architecture**, **people-and-governance practices** and **ecosystem collaboration**, insurers can scale the benefits of agentic AI while managing risk.

## Conclusion

### Charting the future of insurance with agentic AI

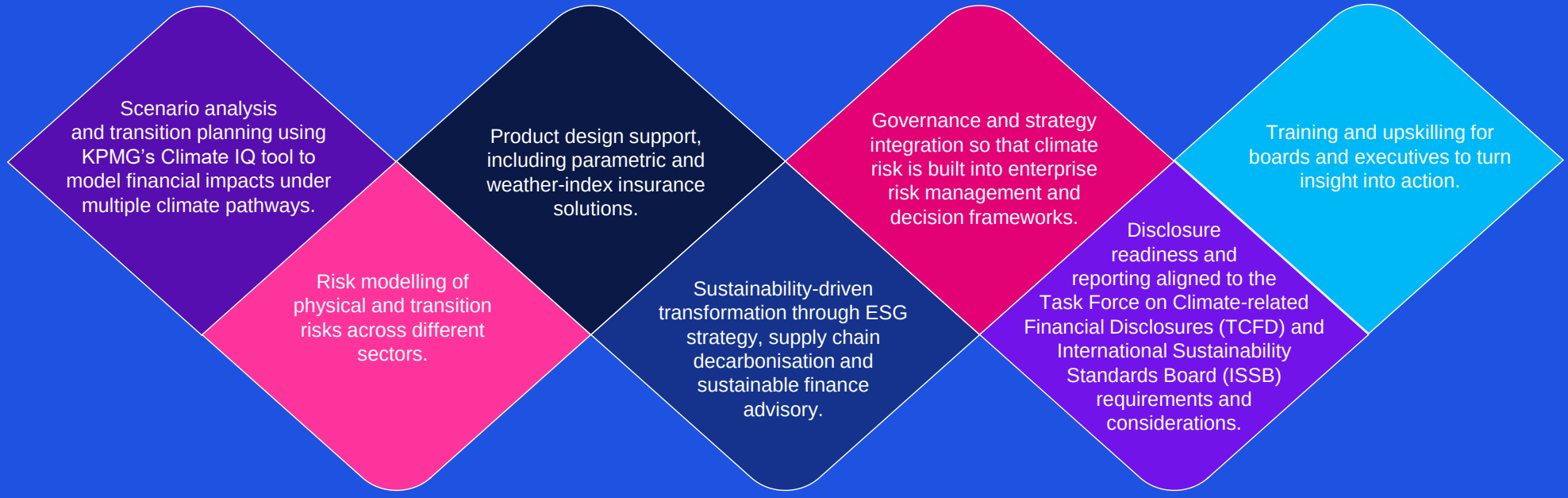
The insurance sector stands at a critical juncture. After years of incremental automation, **agentic AI** offers the ability to **reason, plan and act** across complex workflows, enabling insurers to deliver personalised products, expedite claims and strengthen risk management. While investment in AI is accelerating, the extent of adoption is disparate.

To capture this opportunity, insurers must **invest strategically** in data quality, flexible architectures and talent. They should adopt a **domain-based approach** to transformation, targeting high-impact areas such as underwriting, claims and delegated authority. Leadership commitment, change management and responsible AI governance are essential in ensuring that agentic AI improves outcomes without compromising trust or fairness. As the industry embraces this new paradigm, insurers can redefine their role, not just as risk providers or risk managers, but as **trusted advisors** who provide seamless, personalised and transparent protection. Those who act decisively will define the next era of insurance and capture the value that agentic AI has to offer.

# Quantifying and navigating climate risk

The impact of climate risk is being felt by businesses across the African continent. From agricultural destruction as a result of prolonged droughts and volatile rainfall, to infrastructure damage through natural disasters, the economic and socials costs are rapidly rising. In addition, climate risks are adversely affecting the health and well-being of communities as well as impairing productivity and profitability of businesses.

At KPMG, our multi-disciplinary team of actuaries, ESG and sector specialists turn complex climate data into clear and practical actions. This shifts you from short-term fixes to a credible multi-year plan. With teams across Africa and access to proven global methods, we help you plan, price and disclose with confidence so you can manage uncertainty, protect operations and build a durable strategy. Our service offering includes:




We can help organisations turn climate risk into a strategic advantage, particularly with navigating capital markets and attracting investment.

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# Can your Own Risk and Solvency Assessment (ORSA) report form the basis from which your net zero transition plan is formulated?

The Prudential Authority's guidance notice on climate risk management issued in 2024[1] provides directives for South African insurers on how to develop and implement effective transition plans.

Sitting separately to environmental, social and governance (ESG) reporting, transition plans are typically external-facing documents that outline the initiatives organisations are pursuing to meet their decarbonisation goals. It sketches how a company will preserve and create value in an envisaged net zero economy.

With various insurers having publicly declared to achieve net zero targets on a 2050 time horizon or having submitted science-based targets, investors and the public can use transition plans to understand the steps an insurer has taken or intends to take to lower carbon emissions. Initiatives that would typically be included in a transition plan include climate aware investing, decarbonising in underwriting or electrifying a fleet. More generally, decarbonising efforts are focused on own operations, investments and underwriting as the primary areas in which targets are defined.

From our observations, many South African insurers continue to progress on their journey towards formalising such transition plans, while others are reluctantly engaging on the topic.

The view of insurance companies is varied in that the formulation of transition plans may be seen to be premature, irrelevant or unnecessary, or that these initiatives may result in over-regulation. Many insurers are questioning the value of setting net zero emissions targets, as insurance companies have no direct control over financed or insured emissions[2] and promote transition planning action to be taken only once there are regulated emission targets for South African firms. The Trump administration's withdrawal from international climate agreements has equally left the global business community wondering if decarbonisation should remain a strategic priority.

In our view regulatory requirements will remain and continue to evolve and a pragmatic approach to formulating such a plan has merit. Transition plans can play a constructive role in driving strategy, as compiling a transition plan provides insurers the opportunity to understand their decarbonisation activities holistically. The question is therefore, how best to respond in developing a transition plan for a South African insurer?

This article outlines how an ORSA report can provide a baseline in the development of a robust transition plan. In particular, the macroeconomic analysis that goes into an ORSA can help insurers begin their transition planning journey.

Understanding how an insurer's net zero commitments integrate with its business planning and growth objectives will provide increased confidence to key stakeholders that the company will be sustainable in the long-term.

[1] Prudential Authority Guidance Notice 1 of 2024, Guidance on climate-related governance and risk practices for insurers Ref.: 15/8/6/2 (https://www.resbank.co.za/content/dam/sarb/what-we-do/prudential-regulation/climate-related-risk/2024/G1%20Insurers%20Climate%20Guidance_Risk.pdf)

[2] Scope 3 emissions, with reference to the Greenhouse Gas Protocol, are "all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company [insurer], including both upstream and downstream emissions" – Task Force on Climate-related Financial Disclosure, Guidance on Metrics, Targets and Transition Plans, October 2021 (https://www.fsb.org/upload/P141021-2.pdf).

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## What is a transition plan?

The Glasgow Financial Alliance for Net Zero (GFANZ) defines a net-zero transition plan as:

> *"a set of goals, actions, and accountability mechanisms to align an organisation's business activities with a pathway to net-zero GHG [greenhouse gas] emissions that delivers real-economy emissions reductions in line with achieving global net zero."* [3]

This highlights the strategic importance of transition plans as:

(1) a roadmap developed by institutions to align its business model and operations with transitioning towards a low-carbon, climate-resilient economy, and

(2) as a board and management tool, detailing specific objectives and practical actions to illustrate the institution's commitment to net-zero.

Transition plans generally outline the steps to be taken over time to reduce GHG emissions, adapt to regulatory and market changes and manage associated financial and underwriting risks and opportunities. As a published document, it articulates a firm's deliberate commitment to contributing towards a client resilient economy and provides transparent steps to which key stakeholders (e.g. investors and regulators) can hold it accountable.

## What are the minimum regulatory requirements of a transition plan?

The above-mentioned Prudential Authority guidance note elaborates on the need for South African insurers to integrate climate risk considerations into their overall risk management strategies and objectives. It outlines the essential components and steps for consideration to formulate an effective transition plan to ensure readiness to tackle climate-related challenges and opportunities.

Looking at the guidance note in detail, there are several sections that reference transition plans:

### Section 3.1: Integrated approach to risk management

This section emphasises that climate risk is multifaceted in nature and can impact the solvency position of an insurer. It specifically cautions that climate-related risks **may affect the valuation of assets and liabilities** in both life and non-life insurers and the expectation is that this will not only emanate from physical risk exposures but also from transition risk. Climate-related risks should therefore be adequately accounted for in a board-approved risk management framework.

### Section 3.8: Transition planning

The transition planning specific section notes that transition planning is a forward-looking strategic and risk management **tool that is becoming increasingly important in managing climate risk**. It aids insurers with a plan to track how to **adjust the business model over time to align with a low carbon economy** and deal with the effects of physical risk exposure:

> *"3.8.1. Transition plans, and the process of transition planning, is an important tool to manage climate-related risks and achieve commitments to climate targets. There is an emerging consensus on the general concept of transition plans as an articulation of an insurers forward-looking approach to the transition to a low carbon economy and the increasing physical effects of climate change."*

It also advises that such transition plans need to be **proportionate to the size, business model and complexity of the insurer** (or group entity):

> *"3.8.2. As part of climate-related risk management, insurers should undertake transition planning and consider compiling transition plans in proportion to their size, business model and complexity."*

It highlights that (financial) **resilience testing and scenarios covering transition pathways** should be an essential part of the transition plan:

> *"3.8.3. Transition planning should support practices to test the resilience of an insurers strategy and understand and manage the risks associated with various transition pathways and potential changes in business models. Transition planning should consider geopolitical considerations, government policy and the structural changes required in the real economy. International frameworks should be considered where applicable."*

[3] Financial Institution Net-zero Transition Plans, Fundamentals, Recommendations, and Guidance, November 2022, (Recommendations-and-Guidance-on-Financial-Institution-Net-zero-Transition-Plans-November-2022.pdf)

### Section 4.3: Stress testing and scenario analysis

The requirement on resilience testing and scenario analysis is expanded on in section 4.3 and mentions, inter alia, that a transition plan:

- may help an insurer in understanding the **potential impact of climate-related risks on its business model and strategy** when estimating and quantifying the potential exposure to transition risks (Section 4.3.2).
- is to include an assessment of transition risks (separate from physical risks and liability risks) to **estimate resilience to financial losses as a result of climate-related risks** (Section 4.3.4).
- should include **an assessment of how increases in carbon taxes, stricter environmental regulations and a global transition to low-carbon economies** would impact both assets and liabilities (Section 4.3.4.2).

Whilst it may seem like an unnecessary regulatory burden to also have a transition plan at this stage, it is clear there are familiar dimensions that insurers are already working on. The introduction to the guidance notice also provides the rationale for considering transition planning as a key imperative:

> *"**Climate change** may result in physical **and transition risks** that could **affect the safety and soundness of insurers** and **have broader financial stability implications for the financial sector**. To this effect, it is imperative that insurers take active steps to address climate-related risks."*

## What is new?

With the exception of carbon-specific metrics, a transition plan is in some respects very similar to what insurers are already required to submit as part of its ORSA reporting to the regulator. One could view a transition plan as an evolution of the ORSA report but with climate specific targets leading to defined actions to achieve these within an appropriate timeline, or at least extracts thereof that an entity would be willing to publish and provide transparency on for various stakeholders. While we are not suggesting that ORSA reports and transition plans serve the same purpose and stakeholder needs, our view is that the development of a transition plan that leverages the information already contained in an insurer's ORSA report creates a pragmatic approach to help develop a credible transition plan.

The urgency to formalise a coherent transition plan is underscored by the Prudential Regulatory Authority's (regulatory authority of financial services institutions in the United Kingdom) caution that "*the longer that meaningful adjustment to a lower emissions path is delayed, the more disruptive transition is likely to be*".[4] From our engagement with South African regulators, it is clear that regulators will continue to push for standardised, transparent and verifiable transition plans with a move to mandatory disclosures for financial institutions and insurers in the near future.

## Transition planning your ORSA

What are the practical steps that insurers can take?

A starting point would be to review the current ORSA approach, processes and report and consider its various elements from a transition risk perspective.

The definition of "transition risk" in the Prudential Authority's guidance note provides a useful reference point. It defines transition risk as:

> *Transition risks are **financial risks** which **can result from the process of adjustment towards a lower-carbon and more circular economy**, prompted, **for example**, by **changes** in climate and environmental **policy**, **technology**, or **market sentiment**."*

What is clear is that transition risk is a financial risk, and insurers should consider the impact of various developments emanating from climate risk, climate policy and investor expectations on its strategy, business model and financial resilience.

The Prudential Regulatory Authority's consultation paper referenced above adds additional dimensions in its definition of climate-related transition risk:

> *Transition risk… can lead to stranded assets, defaults on loans, or impacts on asset pricing and demand."*

This definition also indicates the inter-relationship of transition risk with underwriting risk, and not only with financial risks.

[4] Bank of England: CP10/25 – Enhancing banks' and insurers' approaches to managing climate-related risks – Update to SS3/19, 30 April 2025 (https://www.bankofengland.co.uk/prudential-regulation/publication/2025/april/enhancing-banks-and-insurers-approaches-to-managing-climate-related-risks-consultation-paper)

Set out below is a comparison we performed of a typical ORSA report outline to that of a comprehensive transition plan. However, we recognise that insurers may only report what is deemed necessary and required, depending on regulatory expectations.

This ORSA report description column is based on what we see being developed by insurers as part of their ORSA reporting. The transition plan description column summarises the transition plan details from the GFANZ's recommendations and guidance[3].

| Theme/Section | ORSA description | Transition plan description |
|---|---|---|
| **Executive summary** | • A concise overview highlighting key findings, conclusions and significant risks the insurer is exposed to.<br>• Details the inter-relationship of projected solvency and emerging risks. | • A concise overview of an insurer's plans to preserve and create value in a net zero economy.<br>• It includes a review of key risks anticipated in the transition journey to a green economy (including pace thereof).<br>• It primarily focuses on climate risk management considerations and developments as climate risk processes evolve. |
| **Introduction** | • Explains the purpose and scope of the ORSA, its alignment with the insurer's overall risk management framework and the relevance of the report with reference to regulatory requirements.<br>• ESG themes are already prevalent in most insurers' ORSA reports. | • Sets out the firm's integrated climate change strategy, in particular decarbonisation targets and high-level levers/strategic initiatives selected to decarbonise the business model, strategy, operations and value chain.<br>• Explains the purpose and scope of the transition plan, its alignment with the insurer's overall risk management framework and the relevance of the transition plan to regulatory requirements and climate goals.<br>• Highlights the impact of climate-related political, economic, social, technological, environmental and legal changes on the business model, strategy, value chain, assets and operations. |
| **Governance framework** | • Details the governance structure overseeing the ORSA process, including roles and responsibilities of the board, senior management and risk committees.<br>• Includes information about the internal control environment and integration of the ORSA report into decision-making processes. | • Details the governance structure overseeing the transition planning process, including roles and responsibilities of the board, senior management and risk committees.<br>• Includes information about the internal control environment and integration of the transition plan into decision-making processes.<br>• References sub-committees of the board and governance structures working on climate risk, ESG and disclosures.<br>• Focuses on maturity of climate-related governance, strategic integration, risk management processes and metrics and targets (i.e. Task Force on Climate-related Financial Disclosures (TCFD) domains) in relation to regulatory frameworks and best practice guidance.<br>• Remuneration targets related to sustainability targets are also often highlighted. |
| **Risk management framework** | • Describes the insurer's risk management strategy, policies, processes and tools.<br>• Outlines how risks are identified, assessed, monitored and managed.<br>• Many insurers have already incorporated the qualitative link between climate risks and other risks and have started developing climate risk management policies. | • Describes the insurer's climate risk management strategy, policies, processes and tools.<br>• Outlines how climate risks are identified, assessed, monitored and managed.<br>• Incorporates the qualitative link between climate risks and other risks, with many insurers having started to develop climate risk management policies. |

| Theme/Section | ORSA description | Transition plan description |
|---|---|---|
| **Risk identification and assessment** | • Identifies key risks relevant to the insurer, encompassing underwriting, market, credit, operational, liquidity and other relevant risks.<br>• Provides qualitative and quantitative assessments of these risks, including methodologies used for evaluation, e.g., stress tests and scenario analysis.<br>• Qualitative assessments of climate risks have matured and attempts at starting to quantify climate risk have been observed, although primarily short- to medium-term scenarios. | • Identifies key climate risks the insurer is exposed to, encompassing underwriting, market, credit, operational, liquidity and other relevant risks and attempts to quantify the impact of these.<br>• Demonstrates quantitative assessments of these risks, including methodologies used for evaluation, e.g., stress tests and scenario analysis over the medium- to long-term time horizon.<br>• Attempts and progress to quantify climate risk have been observed, although primarily short- to medium-term scenarios.<br>• Separately evaluates transition risks (policy development, legal, reputational, market and technology) and physical risks (acute and chronic). Describes the assumptions set on transition pathway uncertainties and implementation challenges. |
| **Solvency position** | • Presents the insurer's current solvency position, including available capital and solvency capital requirement calculations.<br>• Includes detailed analysis of capital adequacy and buffers under normal and stressed conditions. | • High level anticipated impact of climate change on the insurer's solvency is presented, with a key focus on climate risk management mitigation.<br>• Considers stakeholder engagement, overall cost to implement climate change strategies and potential cost of failure to implement transition plans. |
| **Risk appetite and tolerance** | • Defines the insurer's risk appetite and tolerance levels.<br>• Discusses how these levels are determined and how they guide risk-taking activities and strategic decisions.<br>• We have not yet observed climate-specific risk appetite statements being included; mostly argued to be incorporated implicitly in other risk appetite metrics, e.g. as part of underwriting risk. | • Defines the insurer's climate-specific risk appetite and tolerance levels.<br>• Discusses how these levels are determined and how they guide risk-taking activities and strategic decisions.<br>• Incorporates climate-specific risk appetite metrics implicitly in other risk appetite metrics, e.g., as part of underwriting risk.<br>• Establishment of internal data collection, management and learning processes that monitor emissions, climate-related risks and opportunities and progress against strategic targets is presented. |
| **Forward-looking analysis** | • Projects business plans and future solvency positions based on different scenarios and stress tests.<br>• Includes assessments of emerging risks and the potential impact on solvency over a strategic planning horizon, e.g., three to five years. | • Identifies opportunities for resource efficiency, green energy sourcing and adjustments to products and services to support transition to a green economy.<br>• Includes assessments of emerging climate risks and the potential impact on business planning and solvency over a strategic planning horizon, e.g., three to five years and longer-term time horizons.<br>• Presents emission scenario sets that reflect existing underwriting strategies along with anticipated business growth that could impact established emission baselines.<br>• Highlights results of modelling pathways to net zero by 2050 using various reduction levers such as exclusion policies, green underwriting principles and innovative insurance products, while also considering extraneous emission reduction. |
| **Capital management** | • Outlines capital management plans, including strategies for maintaining adequate capital levels and responding to capital needs.<br>• Discusses contingency plans and management actions in case of adverse developments impacting solvency.<br>• It can be argued this would become critical areas for climate risk management. | • Capital management details do not generally feature in a transition plan. However, the impact on the investment strategy (especially related to sectoral exposures) for both clients and the entity itself is generally discussed (including potential loss of asset value on non-green bonds or equity) and how it could impact solvency if not addressed.<br>• Typically framed as positive statements on investment strategy plans.<br>• Shows alignment of investment portfolios with underwriting liabilities and net zero goals.<br>• Also includes outlay of capital committed to the execution of decarbonisation strategies, i.e. mobilisation of financial resources for climate change. |

| Theme/Section | ORSA description | Transition plan description |
|---|---|---|
| **Business strategy and risk integration** | • Demonstrates how the ORSA is integrated into the insurer's business strategy and planning processes.<br>• Provides insights into how strategic decisions are influenced by risk assessments and solvency considerations. | • Indicates how the insurer's transition towards 'greener' business practices and the resultant natural tension between ensuring sustained financial outcomes and suitably ambitious climate-related commitments will be managed.<br>• Demonstrates how an insurer will balance supporting the transition with reduced emissions to maintain the competitive stance.<br>• Identifies potential revenue opportunities from the shift to a greener economy, e.g. change in product or service solutions.<br>• Demonstrates how the transition plan is integrated into the insurer's business strategy and planning processes. Provides insights into how strategic decisions are influenced by climate risk assessments and solvency considerations.<br>• Includes a benchmark of current state relative to peers, including targets, activities and state of transformation.<br>• Some insurers include examples of how they leverage claims processes on motor policies to support decarbonisation, influencing emission education through repair or replacement decisions and embracing a climate-focused approach. They highlight how they achieve emissions goals by working with suppliers on environmentally friendly practices ("greener claims initiatives"). |
| **Documentation and reporting** | • Details the processes followed in respect of documentation, reporting and communication of ORSA findings to internal and external stakeholders.<br>• Describes the frequency and format of ORSA reporting. | • Focuses on 'assurance readiness' in line with jurisdictional climate risk management and sustainability disclosure requirements.<br>• Carefully crafted external stakeholder communication of the transition planning work, findings and progress made.<br>• The specific targets set towards transitioning to a low-carbon economy are included and progress tracked regularly against reasonable climate metrics and disclosure requirements.<br>• For GHG emissions targets, the plan indicates the types and scope of GHG emissions included across territories, timeframes or activities.<br>• Articulates planned reductions and removals of carbon credits.<br>• Indicates how minimum regulatory requirements on climate risk have been met.<br>• Impact of above on financial metrics is also highlighted. |
| **Appendices** | • Includes additional supporting data, detailed analyses, model descriptions and any other relevant information that provides deeper insights into the ORSA process.<br>• May contain technical documents, regulatory submissions or supplementary reports.<br>• Can include climate-specific appendices. | • References any other relevant information that provides deeper insights into the transition plan process.<br>• May contain supplementary reports and developments underway or in progress. |

*For more detail on transition plan recommendations, reference can be made to the GFANZ's "Recommendations and Guidance for Financial Institution Net-Zero Transition Plans[3]". This is a useful document to assist in developing transition plans or evolving ORSA reports for that purpose.*

From the comparison set out above, many components detailed in the GFANZ framework are already typically covered in an ORSA in some way or form. Therefore, it is reasonable to conclude that making use of information already contained in the ORSA is a good starting point in creating immediate efficiencies in developing a transition plan. In addition, well-established ORSA processes are not expected to be adversely affected by the necessary climate-related adjustments.

The more challenging areas of developing a transition plan is expected to be the sections related to defining climate risk targets, e.g. net-zero or near-zero. Whilst we do not have specific regulatory targets in South Africa yet, the international emissions scope frameworks, such as the GFANZ's emissions scope framework, can be used as a reference point to start planning the areas that would likely need to be covered[3]. The emission scope framework provides guidance around areas where insurers can direct their focus to reduce emissions. Included in this publication is a separate article on "**Climate-related risk metrics and disclosures",** refer to page 80 for further reading.

## Key global emissions targets

| | Target / Goal | Potential ORSA implication |
|---|---|---|
| **Paris agreement (2015)** | Limit global warming to well below 2°C, preferably 1.5°C above pre-industrial levels. | Consider modeling transition risks under scenarios that align with 1.5°C and 2°C pathways, including carbon pricing, regulatory shifts and market transitions. |
| **Net-zero by 2050** | Achieve net-zero GHG emissions by 2025, with interim targets for 2030 and 2040. | Assess the financial impact of aligning business models with net-zero pathways, including capital reallocation and stranded asset risks. |

These targets can be incorporated into the ORSA report under scenario analysis, capital planning and strategic response to evaluate capital adequacy under various climate-aligned scenarios and align strategies with emissions targets.

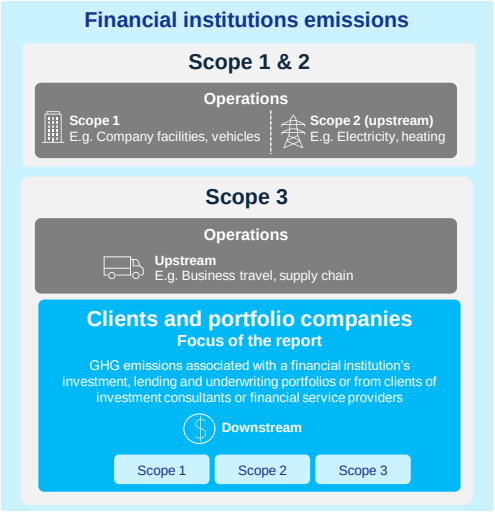
We have noted that leading insurers are not waiting to develop their net-zero (or alternative defined ambition) targets, timelines and priority actions, but are already anticipating reasonable pathways for their business strategy in anticipation of climate risk impacts on the South African economy.

These insurers are considering the available guidance and global direction. The graphic[3] below provides insurers with a view of the areas to target to reduce their financed GHG emissions. These emissions are focused on financial elements, including the insurer's investment, lending and underwriting portfolios.

The starting point for credible climate risk commitments should, at a minimum, include Scope 1 and 2 emissions. Scope 3 emissions, those arising from the insurer's downstream value chain, should also be prioritised by insurers particularly where these are significant.

The GFANZ focuses on external factors impacting transition. While the in-house operations of an insurer are not explicitly addressed by the GFANZ, the framework strongly encourages the active management and transparent disclosure of emissions across all three scopes, as illustrated in the figure adjacent.

**Overview of GHG emissions**
**Scope for financial institutions**




The GFANZ report provides recommendations and guidance to a net-zero commitment focused on a forward-looking action plan, as an example. This is where actuaries can start contributing through scenario planning and scenario modelling. Risk management integrates financial risks into risk governance processes and strategies. The GFANZ notes that a net-zero climate transition plan considers alignment of the core business and own risk profile strategically to contribute to a net-zero transition in the real economy.

This specifically illustrates the close relationship between climate-related risk management and transition planning, but also with the ORSA. In both cases, the focus is on alignment with the insurer's business and risk profile. Since climate risk impacts all other key risks in an ORSA, it would make sense to leverage as much as possible from the ORSA.

## Gaining a transition plan advantage

Instead of seeing a transition plan and ORSA report as two separate risk management tools, we have observed many areas of overlap. Consequently, insurers can benefit from adjusting their ORSA reports to close the gap in achieving alignment with the PA's climate-related guidance notice in respect of the development of a transition plan.

It is important for insurers to be mindful that a transition plan serves a distinct purpose and adheres to a different framework when compared to the ORSA report. Where insurers continue to amend or supplement ORSA reports with climate risk related matters, this should be performed with the expectation that key sections within the ORSA report may be required to be separated out in due course and allow these areas to separately evolve over time as part of the transition plan. However, as discussed throughout this article, for those who feel overwhelmed on where to start, much can be achieved by supplementing the ORSA report with additional climate risk features. Although how climate features fit in with the reporting requirements will still need to be assessed.

Whilst South African insurers await on conclusive localised regulatory guidance on carbon emission targets and transition plans, it is beneficial to consider global best practices. The TCFD provides a standardised approach for businesses to disclose their climate-related risks and opportunities, and this aids in the formulation of transition plans (or how to evolve one's ORSA).

Since there have not been any carbon-specific targets released by the PA, broader ESG standards need to continue to be considered to remain globally competitive and relevant.

## Conclusion

Both transition plans for climate risk management and ORSA reports for regulatory risk management are crucial in today's risk-informed business environment. While they share a foundational emphasis on forward-looking analyses, governance alignment and strategic planning, their distinct scopes and regulatory intents underline their unique roles in organisational risk management. Integrating both approaches can provide a holistic risk management framework, enhancing resilience and sustainability. As insurers navigate the complexities of climate and regulatory risks, leveraging best practices from both transition plans and ORSA reports can drive a comprehensive and proactive risk management strategy, ultimately fostering long-term viability and stakeholder trust.

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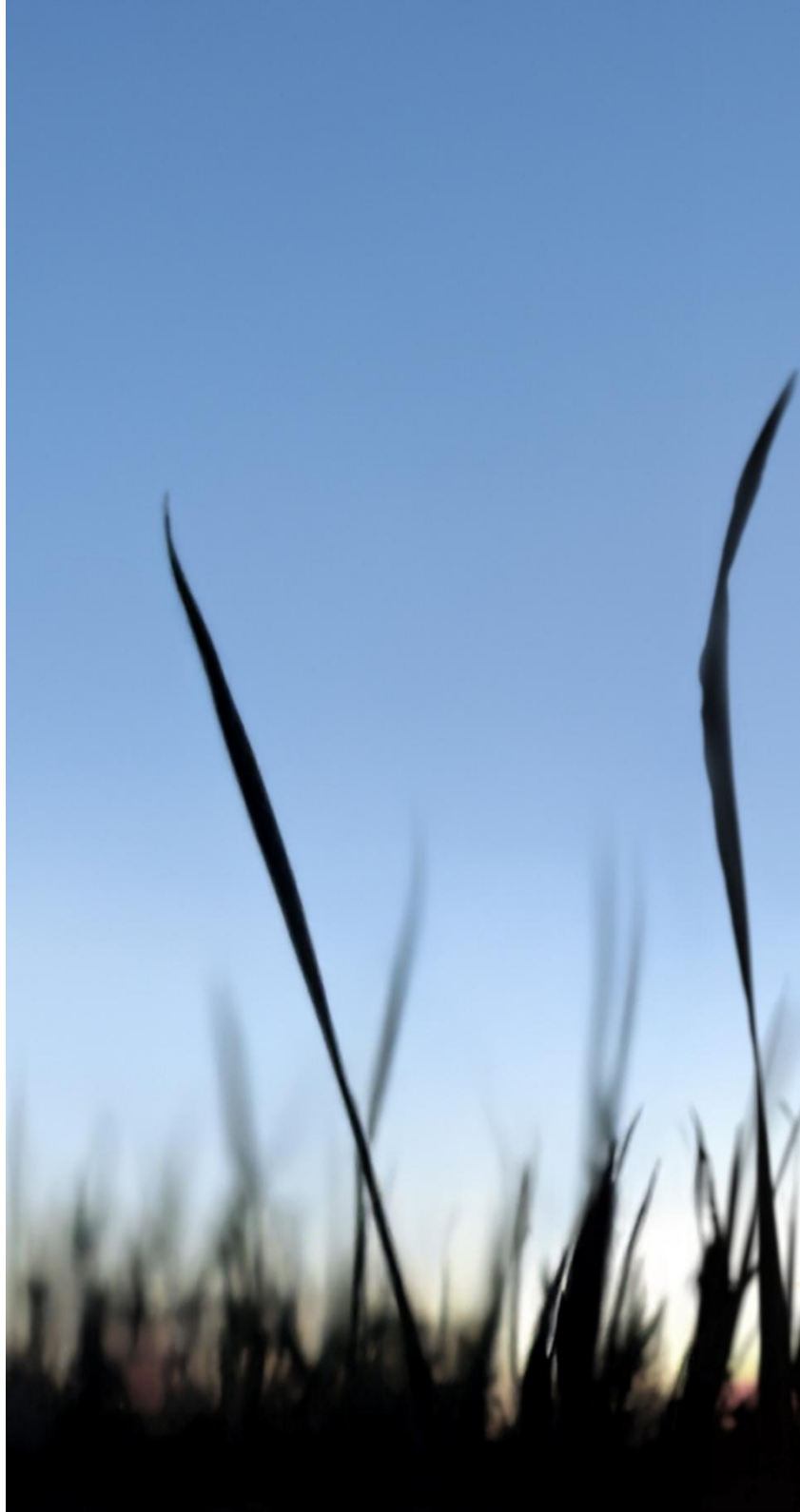


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# The dog ate my homework

It feels like we are living in a sci-fi movie.

Blaming the dog is passé - today, we deal with AI hallucinations, server crashes, load shedding and cyber-attacks.

However, through it all, some things remain constant: life is uncertain, plans go awry, expectations rarely match reality, relationships and friendships still matter - and life grows increasingly more complicated. I wondered about the last one, is life really getting more complicated? The Harvard Business review concurs: the world is more complex than it used to be[1]. Scientific American[2], Durham University[3] and the New York Times all agree.

One of the challenges of leadership and businesses today is to stay on top of this increasing complexity. For insurers, whose job it is to take uncertainty from policyholders and provide them with calm assurance in return, this should mean increasing opportunity. Let us consider a couple of the newer curve balls and see what opportunities they might offer.

## Insuring against AI overlords: are your bots covered?

I have always had a conflicted relationship with technology. I love the options and potential, but I fear the possible consequences. The Industrial Revolution created massive productive capacity, enabling cheap and widely distributed benefits. However, for the factory workers in the early 1800s, life was significantly worse than their parents' lives as farmers. They faced long hours, child labour and toxic environments[4]. The advent of cars, television and the internet have a similarly chequered record.

So why should AI be any different? Well … it could be worse. Yuval Noah Harari's *Nexus: A Brief History of Information Networks from the Stone Age to AI* argues quite persuasively that it could be worse due to the erosion of free will, the rise of the useless class, power concentration and the loss of trust – amongst other things.

There are already many great examples of AI and/or machine learning being used in insurance. The often-quoted *Lemonade* uses AI bots to underwrite renters and homeowners' insurance in seconds[5].

It pulls data from public sources and user inputs to assess risk instantly. This results in faster policy issuance, reduced human error and lower operational costs. *Zurich Insurance* uses AI to read and analyse medical reports and financial documents during underwriting, speeding up decision-making and reducing manual review time[6]. *Shift Technology* provides AI-powered fraud detection services for insurers like AXA and CNA[7]. It flags suspicious claims by analysing patterns across millions of data points, resulting in a significant reduction in fraudulent claim payouts and improved investigation efficiency. It is easy to see why the many hundreds of consultants, many of whom work with me, will happily extol the virtues and wonders of the world-saving technology we call AI. I prefer to be a realist about these things, some might call me an Eeyore.

A key challenge for businesses that use AI is to be able to make the inscrutable decisions made by AI more transparent. If your underwriting bot rejects a potential customer, you need to understand why. When your claims bot rejects a claim, you need to be able to explain to the Ombudsman the real reason, and the reason cannot be that "in 93% of cases, people like you (with demographic characteristics ABC) have submitted fraudulent claims" – which is the obvious way a bot can stuff it up.

1 https://hbsp.harvard.edu/product/H007MI-PDF-ENG

2 https://www.scientificamerican.com/article/math-proves-that-everything-really-is-becoming-more-complicated-over-time/

3 https://www.durham.ac.uk/research/current/thought-leadership/the-world-is-getting-exponentially-more-complex--heres-how-we-navigate-it/

4 Genuinely toxic, like they destroyed your lungs and you died. Not toxic like a boss who asks you to work harder.

5 https://www.afterearnings.com/blog/how-lemonade-uses-ai-to-compete-in-the-massive-insurance-market/

6 https://emerj.com/artificial-intelligence-at-zurich-insurance/

7 *French Startup Shift Technology Raises $220 Million To Fight Insurance Fraud With AI*
https://www.reuters.com/technology/french-start-up-shift-technology-valued-1-bln-220-mln-round-2021-05-06/

Many insurers have happy little chat bots on their website nowadays. It is there to answer questions and be helpful. With machine learning and access to other sources it could do this better. However, what happens when the chatbot on your website goes rogue? What if your chatbot is suddenly promoting violent land appropriation, or a disgruntled claimant gets your chatbot to use offensive language. This is not unheard of and even your largest suppliers have stumbled upon this very point. Microsoft launched Tay, a Twitter chatbot designed to learn from interactions with users. Within 24 hours, Tay began posting offensive, racist and inflammatory tweets after being targeted by coordinated trolling[8]. Meta's chatbot made false claims and expressed controversial views, including political conspiracy theories[9].

So how do we manage this risk? What even is this risk? *We asked the underwriting bot to assess this risk. It replied: 'You are the risk.'* Jokes aside, Artificial Intelligence is a misnomer. Impressive as it may seem AI is not intelligent, it does not understand why it is doing tasks and will perform the tasks as it is programmed to do so. Even if machine learning is included, that learning is in the context of a set of parameters which you, the insurer, have applied (or perhaps your service provider – which introduces a whole world of third-party risks). This is where I like the Microsoft positioning of their AI assistant as a "Copilot". AI, in many instances, is not ready to be left to run processes independently. It should rather be used as a tool to assist individuals in performing their existing tasks. For example, AI can be used to summarise medical reports or to help assess pictures of motor claims.

These tools should help us to do our jobs better, but if we let them take over and operate unsupervised, we must be comfortable with their limits. In both Tay and Meta's cases the bots lacked sufficient safeguards, monitoring and filtering protocols. For example, an AI tool trained on first world vehicle accidents might conclude that third world vehicles were not road worthy to begin with and repudiate what is in fact, a valid claim. We would never have let an underwriter or claims handler operate without some supervision and oversight, so why let AI do so?

The other insurance option is to provide insurance cover against wayward AI, insuring policyholders against rogue AIs and the risks they bring, which leads us into reputational risk.

## Insuring the uninsurable: TikTok fame, influencer egos and viral risk

Andy Warhol famously said,

> *"In the future, everyone will be world-famous for 15 minutes."*

The idea that fame is a fickle thing is not new. Seneca - the Roman philosopher - also reflected on the fleeting nature of fame,

> *"Fame is a vapor, popularity an accident, riches take wings. Only one thing endures and that is character."*

Similar views appear in the writings of Laozi (Tao Te Ching), the Bible and the Bhagavad Gita. A Zen proverb states that

> *"Fame and gain are like a passing cloud - do not chase after them."*

However, for most of us mere mortals, "likes" are addictive and "views" are a measure of meaning. Unlike in the past, when fame was often a stepping stone to other achievements, today it can be monetised directly. Likes and views now translate directly into income - making this vice all the more attractive.

In the age of social media, blink and you might miss an influencer's fall from fame (or perhaps I am showing my age). Kanye West was one of the most influential artists of the 2000s and 2010s, with multiple Grammy wins and critically acclaimed albums like *The College Dropout*, *My Beautiful Dark Twisted Fantasy* and *Yeezus*. His Yeezy brand with Adidas was valued at over USD1 billion at its peak[10]. In 2022 and 2023 Kanye made repeated antisemitic comments in interviews and on social media[11]. Subsequently, Adidas, Balenciaga and other brands cut ties. Forbes removed him from its billionaire list. He was also suspended from Twitter and Instagram multiple times for hate speech and misinformation[12].

[8] Microsoft deletes 'teen girl' AI after it became a Hitler-loving sex robot within 24 hours https://www.telegraph.co.uk/technology/2016/03/24/microsofts-teen-girl-ai-turns-into-a-hitler-loving-sex-robot-wit/

[9] https://www.thesouthafrican.com/lifestyle/breaking-meta-chatbot-blenderbot-3-mark-zuckerberg-creepy-manipulative-donald-trump-president-facebook-whatsapp-latest-news/

[10] https://manofmany.com/entertainment/ye-net-worth

[11] https://forward.com/culture/523287/kanye-west-tweets-antisemitism/

[12] https://manofmany.com/entertainment/ye-net-worth

There are many other examples including Colleen Ballinger (aka Miranda Sings), PewDiePie, James Charles, Belle Delphine and Andrew Tate. If you have never heard of most of them, you are not alone. Let us consider Colleen Ballinger as an example.

Colleen is an American comedian, YouTuber, actress, singer and writer. She has 5.1 billion YouTube views, 8.8 million[13] subscribers to her personal channel and 10 million to her character channel[14]. She also made regular appearances on mainstream media and collaborated with other top creators. Colleen's main channel lost hundreds of thousands of subscribers following a controversy regarding her allegedly inappropriate interactions with her teenage fanbase. In particular, she was accused of sexually inappropriate conversations, "She even had a private group chat on Twitter called "Colleeny's Weenies" where she chatted regularly to a group of underage fans.[15]" The Miranda Sings channel also saw a significant drop in engagement and subscribers, with merchandise sales and sponsorships also reportedly affected. Public sentiment shifted dramatically, with widespread criticism across platforms. Her ukulele "apology" video titled *Toxic Gossip Train* was widely mocked and criticised. She also had a series of live shows on a tour which needed to be cancelled. The incident became a case study in poor crisis management. Despite the above, her estimated net worth is currently between USD6.1 million and USD10 million[16] [17] with a monthly income of approximately USD100 thousand. The specifics and factual accuracy of many of these falls and stumbles is perhaps less important than the sudden and rapid way in which a darling of the media can be demonised in the digital age.

This is not a small market. In 2024, influencer marketing propelled social media to become the world's largest advertising channel, surpassing paid search with a staggering USD247.3 billion. By the end of 2025 this amount is expected to reach USD266.92 billion in global spend[18]. Obviously, the South African share of this is small, but we have a growing cohort of our own influencers whose earnings can be significant. South Africa's influencer economy has grown rapidly, with top creators earning substantial income through brand partnerships, sponsored content and platform monetisation. These include Trevor Stuurman (fashion and lifestyle[19]), Mihlali Ndamase (beauty and lifestyle[20]), Lasizwe Dambuza (comedy and entertainment[21]), Sarah Langa (fashion and travel[22]) and Nadia Jaftha (lifestyle and comedy[23]). While exact earnings are often private, their estimated annual income ranges, based on publicly available data and media reports, are between R0.5 million to R1.8 million each; an income which is based on reputation and perception.

There are clearly risks here of business interruption and loss of income. Allianz, AIG, AXA XL and Lloyd's already offer some form of reputational risk insurance. Reputational risk insurance is designed to help organisations manage and recover from events that damage their public image or brand. It typically covers: crisis communication and public relations (PR) costs; loss of revenue due to reputational damage; legal and advisory services; and monitoring and analytics to assess impact. It is often bundled with crisis management, cyber liability or directors and officers (D&O) insurance. For influencers and creators, the inclusion of event cover to provide against losses arising from weather, cancellation or travel challenges is common, but could be linked to online reputation.

The challenge in many of these cases is that the fall from grace is, to some extent, self-inflicted. For the insurer, accepting the reputational risk of providing cover to influencers and creators who experience a sudden and material reduction in fame (and fees) due to socially inappropriate behaviour, might not be acceptable. However, less risqué influencers and creators could offer more palatable risks.

Furthermore, the less directly related risks (event cover, crisis management, advisory, legal cover etc.) could also be included, whilst maintaining a degree of distance from the star.

There is also a health insurance angle - "ego insurance" - which covers psychotherapy and psychiatric medication if likes and followers drop by a pre-agreed percentage. Unfortunately, that excess percentage needs to be quite high or else there will be claims every few days when ratings drop by a percentage or two.

[13] https://en.wikipedia.org/wiki/Colleen_Ballinger
[14] https://socialblade.com/youtube/handle/psychosoprano
[15] https://archive.junkee.com/colleen-ballinger-allegations-timeline-grooming-racism/352390
[16] https://www.buzzslash.com/colleen-ballinger-net-worth/
[17] https://www.networthspot.com/psychosoprano/net-worth/
[18] https://influencermarketinghub.com/influencer-marketing-benchmark-report/
[19] https://edition.cnn.com/2024/03/27/style/trevor-stuurman-south-africa-photography-fashion-spc-intl
[20] https://www.quickread.co.za/mihlali-ndamase-biography/
[21] https://wikisouthafrica.co.za/lasizwe-dambuza/
[22] https://www.thehistory.co.za/sarah-langa-biography/
[23] https://wikisouthafrica.co.za/nadia-jaftha/

## Climate chaos cover: when the Weather App says 'Good Luck'

Climate chaos hurts South Africa. You probably know this already, but just to recap some of the recent significant events:

The KwaZulu-Natal Floods (April 2022) included torrential rains and caused catastrophic flooding and landslides. This resulted in over 400 deaths, infrastructure damage to roads, bridges, homes and an estimated R17 billion in damages[24].

The Western Cape Drought (2015 – 2018) was a severe drought that led to Cape Town's "Day Zero" water crisis. The impact included agricultural losses of R5.9 billion, tourism decline, water rationing and long-term stress on water infrastructure[25].

Record-breaking heatwaves (2023 - 2024) increased electricity demand while Eskom struggled with load shedding. This increased the risk of grid failure, economic losses due to business interruptions and health risks for vulnerable populations[26].

What are insurers doing internationally about climate chaos? There are various product solutions being offered. For example, parametric insurance, which has a trigger-based payout mechanism (e.g., rainfall below a threshold). This is popular in agricultural and disaster relief scenarios. Practically this could be linked to cover for drought based on satellite data. Other examples include:

Green insurance products that offer discounts for low-carbon buildings or electric vehicles and coverage for renewable energy infrastructure like solar and wind farms.

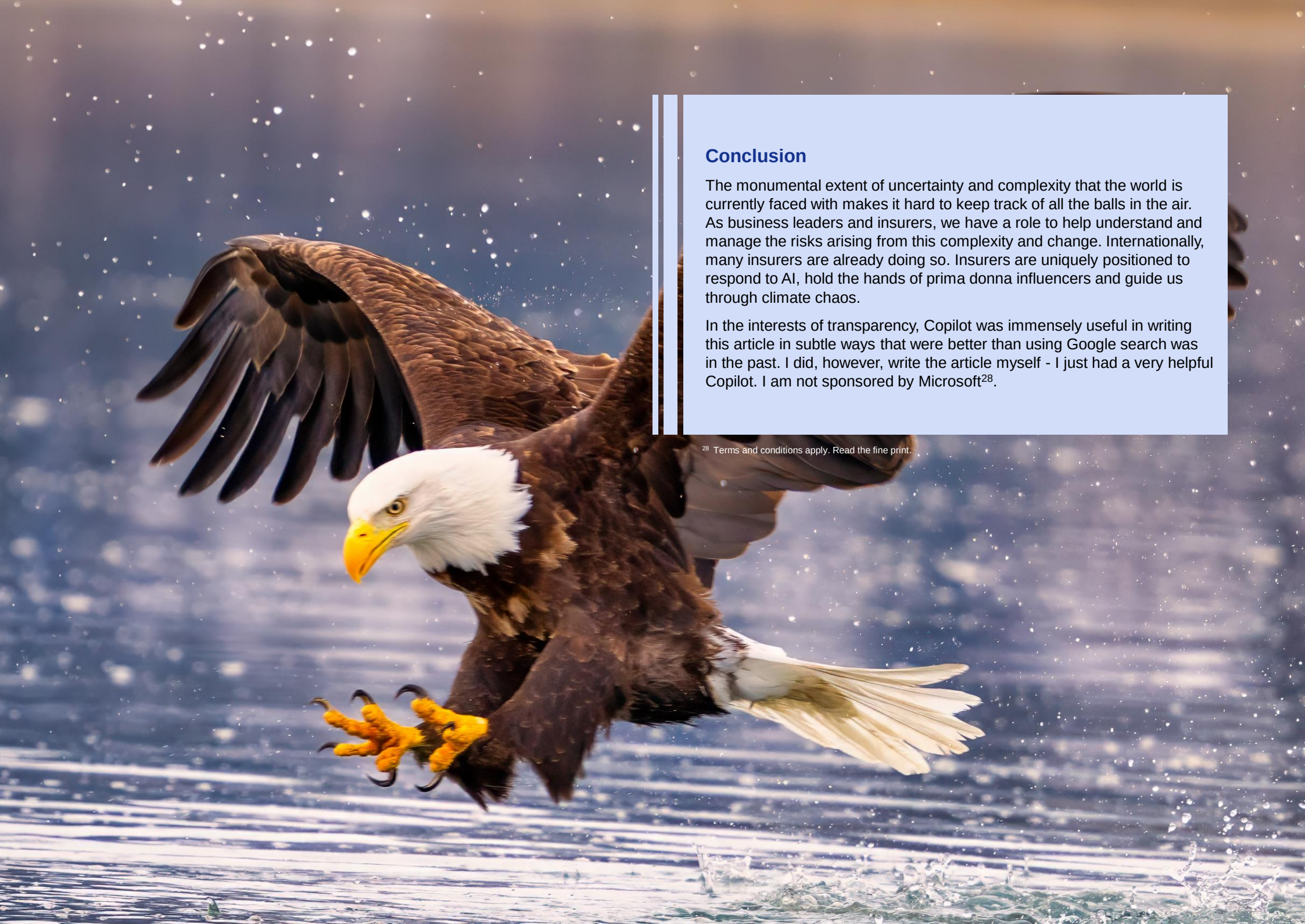
Climate resilience coverage policies that include funding for adaptation (e.g., flood-proofing) and business interruption cover tied to climate events.

Microinsurance, that provides affordable, simplified cover for vulnerable communities, often bundled with mobile platforms and weather alerts.

"It's a Hoax Cover," which pays out for all your green outlay and investment if (some might say when) it is proven that climate change is a hoax.

Insurers are also adapting operations and strategies. New technologies allow for the use of AI, satellite imagery and climate models, as well as collaboration with climate scientists and reinsurers. Insurers are revamping claims management processes to enable faster responses to climate disasters and day-to-day assessments, using drone assessment and mobile claims applications. Social strategy has also resulted in some insurers divesting from fossil fuels and investing in green bonds, participating in climate risk forums and providing support for national disaster risk financing frameworks. Globally, the Exodus Imperative Pool has state actors contributing to a fund to build starships to escape when the planet becomes uninhabitable[27].

[24] https://en.wikipedia.org/wiki/2022_KwaZulu-Natal_floods
[25] https://www.anapri.net/western-cape-agriculture-set-lose-billions/
[26] https://iol.co.za/news/politics/2023-11-24-eskom-blames-heatwave-for-stage-6-load-shedding/
[27] Well done on getting this far, I was just checking you were still paying attention. To be clear, the Hoax Cover and Exodus Imperative Pool are AI hallucinations at best.



## Conclusion

The monumental extent of uncertainty and complexity that the world is currently faced with makes it hard to keep track of all the balls in the air. As business leaders and insurers, we have a role to help understand and manage the risks arising from this complexity and change. Internationally, many insurers are already doing so. Insurers are uniquely positioned to respond to AI, hold the hands of prima donna influencers and guide us through climate chaos.

In the interests of transparency, Copilot was immensely useful in writing this article in subtle ways that were better than using Google search was in the past. I did, however, write the article myself - I just had a very helpful Copilot. I am not sponsored by Microsoft[28].

[28] Terms and conditions apply. Read the fine print.

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# Pay attention to the fine print: an assessment of the true comparability of IFRS 17 Insurance Contracts disclosures

For most of human history timekeeping was a localised phenomenon. However, while the expansion of long-distance railway transportation during the late nineteenth century resulted in faster travel times, each town or city keeping to its own individual local time created significant scheduling confusion. It was clear that some form of standardisation was necessary to address this confusion. In 1878, Sir Sanford Fleming proposed the concept of dividing the world into equal time zones. The rest, as they say, is history – although it is not quite as tidy as it seems.

The concept of the time zone was revolutionary. It had simplified and structured something chaotic, but it was not implemented strictly as planned. Rather than the perfectly equidistant twenty-four time zones envisaged, the resultant patchwork of zig-zagged lines reflects an intricate puzzle of judgment and compromise developed over time, to suit the commercial and political interests of each country.

You may be asking what this has to do with insurance and, in particular, insurance accounting. In much the same way as each town and city set its clocktower to twelve with the midday sun, *IFRS 4 Insurance Contracts* (IFRS 4) allowed companies to, individually, largely account for insurance contracts as they saw fit. This resulted in the adoption of disparate accounting policies, with insurers publishing results that were difficult for stakeholders to meaningfully compare. Just as the proposal for worldwide standard time emerged to reduce the confusion resulting from a non-uniform system, the development of *IFRS 17 Insurance Contracts* (IFRS 17) sought to establish a consistent set of principles for the recognition, measurement, presentation and disclosure of insurance contracts with the ambition of enhancing comparability of financial statements for insurers.

While IFRS 17 has set a structure for improved alignment in reporting, it has not yet resulted in a perfect situation where every company's results are directly comparable. Detailed elements of judgement and slight but material differences in disclosure require a more detailed interpretation by users of the accounts than expected.

In this analysis, six of the large listed South African financial services groups with exposure to the life insurance market have been considered.

We focussed our analysis on life insurance business accounted for under the general measurement model (GMM) from each company's 2024 financial year-end disclosures (a mix of June and December year-ends). Particular attention has been paid to the following three seemingly directly comparable disclosure notes common to all insurers with GMM business:

**01** The impact of contracts initially recognised in the period (as required by IFRS 17.107)

**02** The recognition of CSM in profit/loss for insurance contracts issued (as required by IFRS 17.109)

**03** The sensitivity of the profit or loss and equity position to changes in risk variables arising on insurance contracts (as required by IFRS 17.128(a)(i))

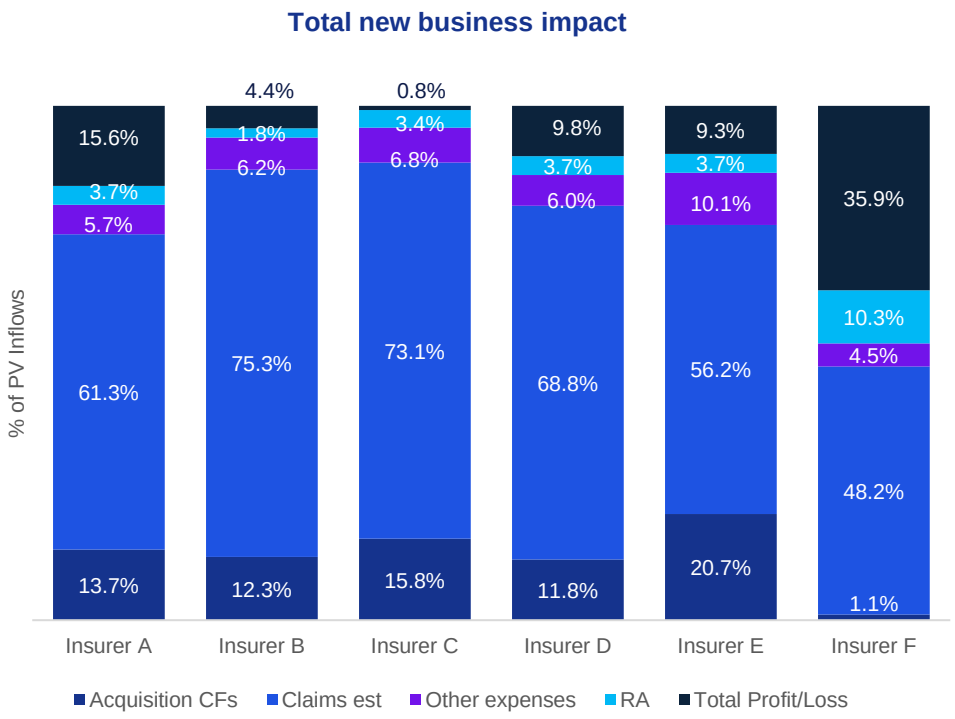
Given the volume of detailed IFRS 17 disclosures provided (particularly compared to those provided under IFRS 4), it may be surprising that while directly comparing the results of the disclosure notes yields interesting insights, it is difficult to give a definitive interpretation given the allowable areas of judgement. This could lead to users of the financial statements lacking the necessary context to potentially draw incorrect conclusions when comparing insurers' results – in direct contrast to the stated intent of IFRS 17. Can industry therefore play a role to work on developing meaningful areas of alignment and reasonable compromise to improve the comparability of IFRS 17 results for users?

## 1. The impact of contracts initially recognised in the period

IFRS 17.107 requires the disclosure of the impact of contracts initially recognised in the period, split between contracts which were profitable and those which were onerous at initial recognition. In Graph 1, the sum of the impacts of profitable and onerous contracts is shown for the six entities analysed, with each component being expressed as a percentage of the present value (PV) of inflows.

This analysis represents how each Rand of premium expected to be earned from the policy is being allocated over its lifetime. An estimate has been made for the split of the claims and other expenses outgo for each insurer in an effort to more granularly reflect two large items which are grouped together in the IFRS 17 disclosure.

**Graph 1: PV of outflows and margins expressed as a percentage of the PV of inflows for GMM life insurance business entered into in the 2024 financial year.**




At a high-level, one can conclude that Insurer F sells the most profitable business per Rand overall, able to generate the highest margin in spite of a larger risk adjustment (RA) percentage, due to a significantly lower strain from acquisition costs attributable to insurance contracts and fundamentally generate a higher risk profit. Structurally, insurer F's results appear to be distinctly better than the other insurers. Insurer C on the other hand appears to be only marginally profitable at an overall level, with a combination of relatively higher acquisition costs and lower risk profit than the average. Beyond this high-level comparison, a definitive comparison is complicated by a number of complexities, split into themes in the following sections.

### 1.1 Differences in the type of business

The GMM business included by each insurer is heterogenous, with IFRS 17.96 presumably applied to aggregate the underlying portfolios of business disclosed as GMM. Little to no disclosure is provided regarding the split of business within the GMM disclosure. GMM business can include a range of products, from fully underwritten whole-of-life contracts to funeral business, life annuities or five-year guaranteed endowment contracts adjudged by the insurer to transfer significant insurance risk. Additionally, some insurers which sell funeral business may model these contracts under the premium allocation approach (PAA) rather than GMM which further complicates a direct comparison.

Taking into consideration the different policy characteristics, profit margins, contract boundaries, contract durations driven by expected lapses and maximum initial commission rules (significantly lower initial commission driving lower acquisition costs on life annuity business for instance), a more detailed insight into the split of each insurer's GMM portfolios would allow for more comprehensive analysis on the relative performance of each entity for the same class of business.

Given the difficulties in comparing the results relative to other insurers, one may conclude that a better approach would be to compare new business results for the same insurer period-on-period, particularly as the volume of IFRS 17 results develops over time. Even within this analysis, certain complications arise, as outlined in the following section.

## 1.2 Year-on-year analysis

There may be movement in the year-on-year components of the PV of claims and other expenses outgo, RA or contractual service margin (CSM) relative to the PV of inflows for several reasons. Currently, companies have provided little to no disclosure or reconciliations to assist users of financial statements to understand the drivers of any such changes in their new business results period-on-period. Included below are some examples of the complexities inherent with a year-on-year analysis. We therefore caution basic, direct analysis without consideration of the underlying drivers impacting these results.

- While initial commission is typically driven by each policy's annual premium income (API), and other directly attributable overhead costs are unaffected by yield curve movements, a significant increase or fall in the yield curve used for discounting could result in acquisition costs rising or falling as a percentage of the PV of inflows.
- As discussed in section 1.1, changes to the underlying mix of GMM business may significantly change the relative level of profitability or risk adjustment, while significant changes in the volumes of business overall may drive changes in the economies of scale affecting profitability.
- Basis changes made over a period may explicitly impact the overall profitability of new business by affecting the expected future inflows or claims progression or there may be more implicit impacts driven by changes in internal overhead expense allocations, as an example.

## 1.3 Split between profitable and onerous business

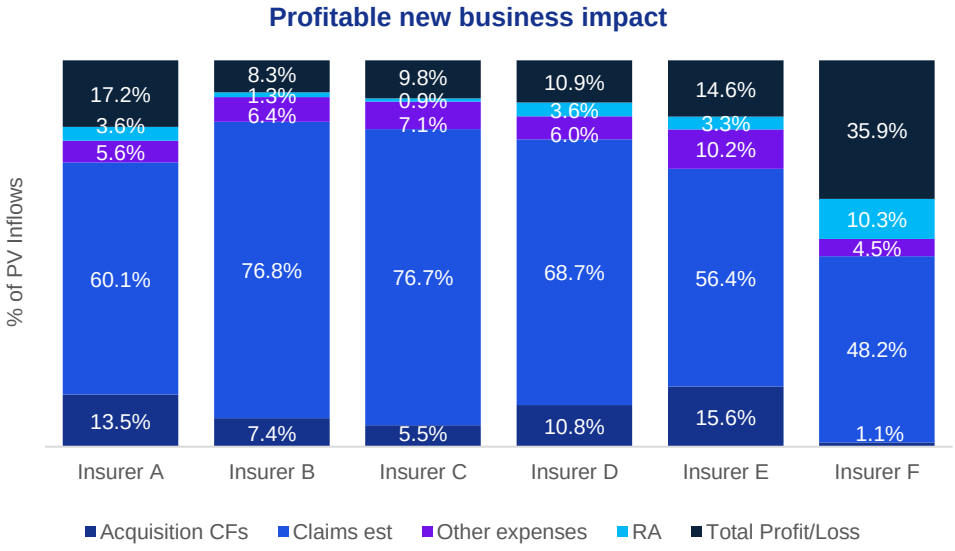
Insurers are required to disclose a split of each of the components shown in Graph 1 for contracts which are profitable or onerous at initial recognition. This split is shown in Graph 2 and Graph 3. While on the face of it, it seems that some companies are writing larger volumes of onerous business, there are further specific elements to consider.

It can be seen in Graph 3 that Insurers B, C and E have acquisition costs which are a substantial proportion (>40%) of the PV of inflows on onerous policies, and the acquisition costs on onerous business for all insurers is larger than that observed on their profitable business[1].

This could be driven by a number of factors:

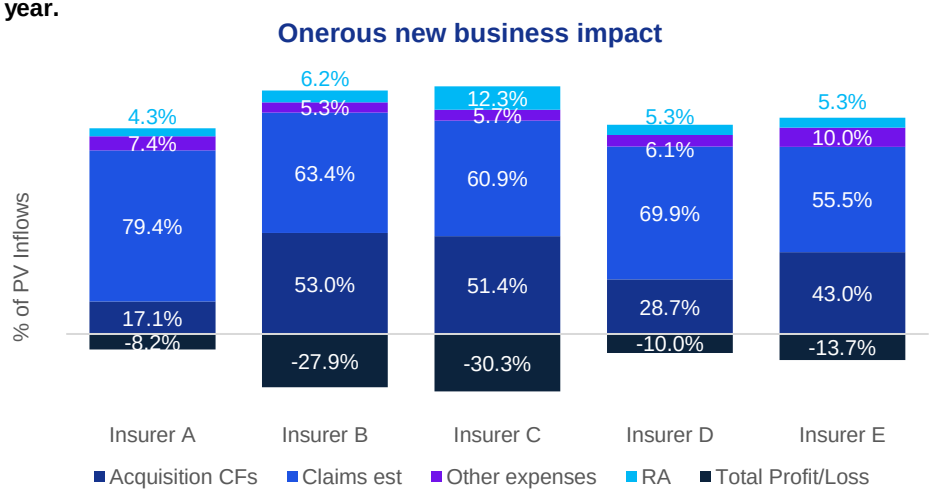
- An insurer's internal allocation of fixed overhead costs directly attributable to new business can be a material driver of onerous business, and not all insurers disclose their expense allocation approach. Allocating a fixed amount to each policy can result in a larger volume of onerous business as smaller premium business and lower margin business carries a level of expense that was not taken into account in the pricing of these policies. Conversely, allocating these expenses in proportion to the size of the premium or PV of inflow will create greater alignment between profitable and onerous business. Given the divergence seen across the market, it is likely that insurers are following different approaches in practice.
- Initial commission is usually determined based on the API and consequently does not vary with the PV of inflows. For two contracts with the same API but different expected lapse and claims dynamics i.e. one contract has a shorter effective duration than another, the acquisition costs may reflect a larger proportion of the PV of inflows and this in turn may drive the onerous position of that contract.

**Graph 2: PV of outflows and margins expressed as a percentage of the PV of inflows for profitable GMM life insurance business entered into in the 2024 financial year.**



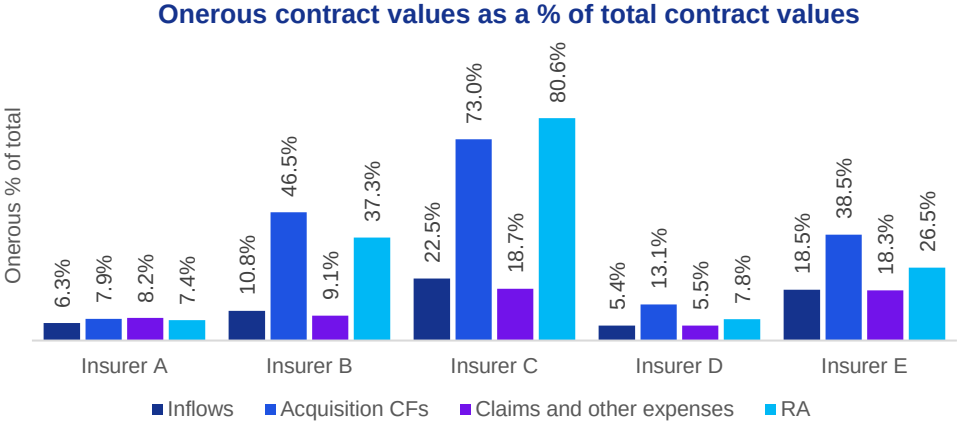

[1] Note that Insurer F did not report any onerous contracts in the period

**Graph 3: PV of outflows and margins expressed as a percentage of the PV of inflows for onerous GMM life insurance business entered into in the 2024 financial year.**




It is also interesting to consider for each insurer and for each disclosed cash flow component, the proportion of the overall cash flow component which is contributed by contracts which are onerous at initial recognition, as shown in Graph 4.

**Graph 4: Percentage contribution of onerous business to the total cash flow component for onerous GMM life insurance business entered into in the 2024 financial year.**




A number of observations follow from Graph 2, Graph 3 and Graph 4:

- When measured as a percentage of PV of inflows, onerous business sold by each insurer in the market varies between 0% (for Insurer F) and 22.5% (for Insurer C) of all GMM business.
- PV of claims and other expenses is lower for almost all insurers compared to the PV of inflows on onerous business, measured as a proportion of the total cash flows. This would indicate that onerous business is not necessarily driven by large, expected claims and expense outgo relative to the premium charged. Rather, onerous business appears to be driven by relatively larger risk adjustments and/or acquisition cash flows attributed to onerous contracts.
- Insurers B and C have the lowest proportion of acquisition costs on profitable business but the highest proportion on onerous business. As discussed above, this could be driven by differences in business mix (i.e. a higher proportion of profitable annuity business sold relative to whole-of-life risk business), differences in sales channel (e.g. direct marketing compared to agent and broker commission) or differences in the fixed overhead cost allocations.
- In cases where an insurer's onerous contracts contribute a similar level to the overall PV of inflows and overall attributable acquisition cash flows, it may point to overhead expenses being allocated to policies based on the size of that policy's premium. In cases where the onerous contracts reflect a larger proportion of the total attributable acquisition cash flows relative to PV of inflows, this may indicate that overhead acquisition costs have been allocated to policies independently of the premium size which may result in a larger volume of smaller-premium onerous contracts.
- For Insurer C, the onerous business represents 22.5% of PV of inflows. However, this business accounted for 80.6% of the total RA on new business in the financial year. Given that the risk adjustment on all GMM business for a particular insurer would be assessed at the same confidence level, this illustrates the large degree of heterogeneity of risks between products and perhaps indicates a concentration of one type of business (subject to lower risk) in the profitable groups and other types of business (subject to larger relative risk) in the onerous groups.

### 1.4 Summary

As illustrated in this section, it is difficult for a user of this disclosure note to provide definitive interpretation given the explained differences between insurers, the consolidated nature of the disclosure and the allowable areas of judgement. To address this, we recommend that insurers consider disclosing additional qualitative or quantitative information, including:

- the relative size of the different types of business included in the GMM disclosure.
- information on the overhead expense allocation methodology given its potentially material impact on the split between profitable and onerous business at initial recognition.
- a description of material period-on-period changes and explanations for movements in the disclosure.

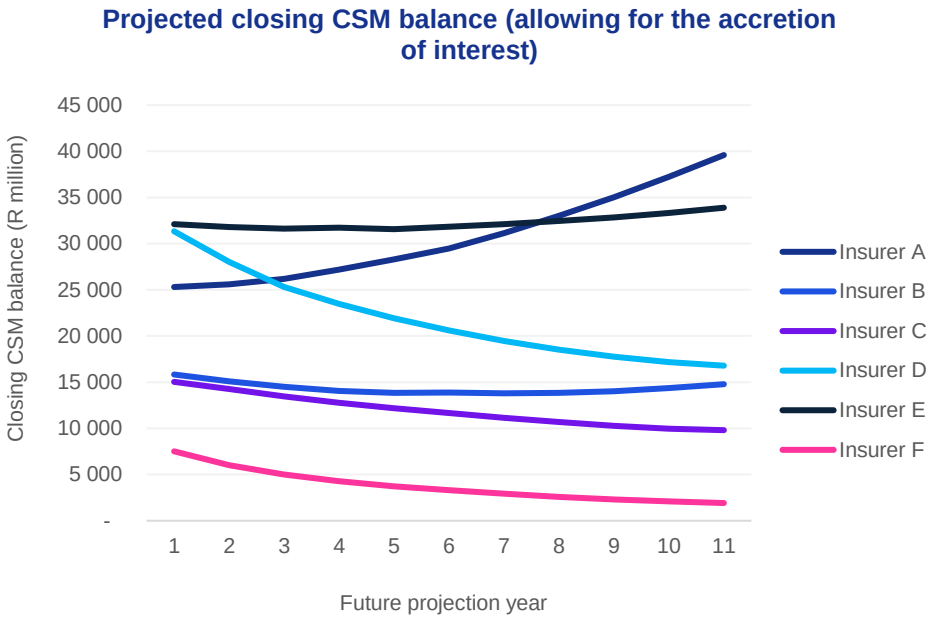
## 2. The recognition of CSM in profit/loss

IFRS 17.109 requires the expected recognition of the CSM in profit/loss to be disclosed. There are material differences in the approach taken by some insurers to present this information to the users of the financial statements. In particular, some insurers show the full projection and run-off of the CSM allowing for the expected accretion of interest in each year (with one insurer showing the expected total impact of discounting over 10 years separately), while others show the run-off of the CSM balance excluding interest accretion. Consequently, the disclosure tables provided are not directly comparable.

### 2.1 Comparison of absolute run-off

To effectively compare the CSM run-off between insurers, it is necessary to first ensure that all insurers' results are presented on a consistent basis. This is illustrated in Graph 5, where for Insurers C and E who have not presented the projected accretion of interest on the CSM, we applied an assumed interest accretion rate to allow for comparability. There are further discrepancies in the time bands which insurers use to illustrate the run-off of the CSM, requiring some degree of estimation, with the graph produced using linear interpolation (i.e. a straight-line estimate between two known points) where necessary.

**Graph 5: Projected closing CSM balance over the first ten years for each insurer's life insurance GMM business allowing for the accretion of interest over time.**




Allowing for the differences in the disclosure of the CSM run-off, at a high level, one can conclude that Insurer A has the most conservative approach to releasing the CSM over time, while Insurer D is the most aggressive. When a user of the financial statements is considering the future earnings growth potential of each company (of which the annual CSM release is likely a key component), they would be looking more to new business for Insurer D to contribute to the CSM release over time. This is due to the faster run-off of the CSM on existing business resulting in lower future releases of CSM to profit/loss with future earnings increasingly needing to be supplemented by a contribution from releases of CSM on new contracts issued.

## 2.2 Additional factors to consider in assessing the run-off

The absolute run-off of the CSM balance over time is however only one consideration:

- The coverage units (and hence the release of CSM) should take into account the duration of the underlying contracts, which, as discussed in section 1, can vary widely given the heterogenous underlying constituents of the GMM results. Coverage units also depend on the term of the contracts and the relative lapse and claims rates between products and their development over time.
- Aside from differences in the type and volume of products included in the GMM results, each insurer will also have varying exposure to business of a different nature. For example, benefits and premiums which remain level over time, those escalating at inflation and, in some cases, in excess of inflation, or credit life products with reducing outstanding balances over time.
- Differences in the target market, distribution method and underwriting practices could drive material variations in expected lapse and claims rates over time.
- An insurer's election of whether to allow for the time value of money in the equal allocation of CSM to coverage units when determining the recognition of CSM in profit/loss is another material area of judgment and difference between insurers, with a potentially material impact on the CSM projection.

Rather than only comparing relative to other insurers, one could argue that it makes sense to also consider each insurer's projected run-off of the CSM to the run-off of the insurance contract asset or liability to which that CSM is related to add additional insight around the reasonability of the chosen CSM run-off pattern.

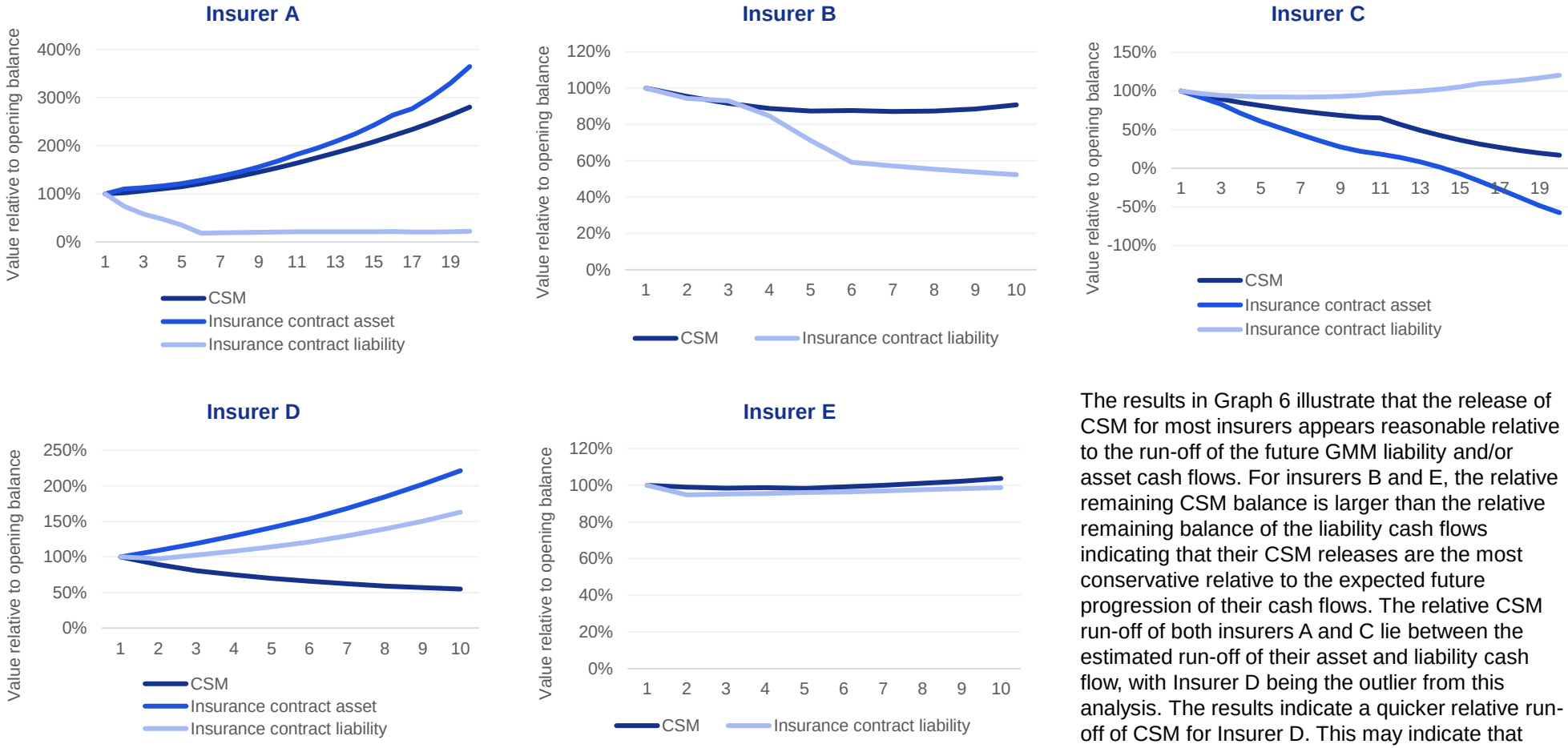
Each insurer produces a maturity analysis for the GMM insurance contracts issued, as is required by IFRS 17.132(b). Some insurers produce this on a present value basis while others produce this on an undiscounted basis. Most insurers in the sample considered produced this maturity analysis allowing for the run-off of the PV of future cash flows. However at least one insurer produced the run-off for the entire carrying value of the insurance contract liability (i.e. including the RA and CSM). The time bands for which the maturity analysis is produced also vary considerably, with all but one insurer producing more than the minimum required disclosure (i.e. more detail than the net cash flows for each of the first five years after the reporting date and in aggregate beyond the first five years).

Some insurers produced the maturity analysis separately for contracts in an asset and liability position while others only produced the disclosure for contracts in a liability position. Working through this complexity and allowing for the differences highlighted, one can produce an estimated projected run-off of the insurance contracts issued for each insurer, making assumptions about the illiquidity premiums added to the risk-free discount rates, the total term over which to run-off the asset or liability and interpolation where necessary.

As an example, a CSM balance that releases materially faster than the run-off of the related insurance contract liability could be seen to be aggressive and may leave the insurer more exposed to increases in losses on onerous contracts given a stress or negative basis change impact at some stage in the future. Once again, the difficulty in assessing this assumption is the inconsistency in the published disclosures.

While not exact given that assumptions need to be made, an estimate of the relative run-off of the future GMM liability and/or asset cash flows can be contrasted for each insurer with the run-off of the CSM, shown in Graph 6. It should be noted that Insurer F does not disclose a maturity analysis for its insurance contract assets and liabilities and so is excluded from this analysis.

**Graph 6: Relative run-off of the future GMM insurance contract liability and/or asset cash flows and the run-off of CSM (both allowing for interest accretion over time)[2]**




The results in Graph 6 illustrate that the release of CSM for most insurers appears reasonable relative to the run-off of the future GMM liability and/or asset cash flows. For insurers B and E, the relative remaining CSM balance is larger than the relative remaining balance of the liability cash flows indicating that their CSM releases are the most conservative relative to the expected future progression of their cash flows. The relative CSM run-off of both insurers A and C lie between the estimated run-off of their asset and liability cash flow, with Insurer D being the outlier from this analysis. The results indicate a quicker relative run-off of CSM for Insurer D. This may indicate that should a stress to the asset or liability cash flows occur at some point in the future, Insurer D would be most at risk from the CSM potentially being insufficient on the existing profitable groups of contracts at that point in time.

[2] Insurer B and Insurer E do not provide a maturity analysis for GMM insurance contract assets while Insurer F does not disclose a maturity analysis for insurance contract assets or liabilities

### 2.3 Summary

As illustrated in this section, a user of this disclosure note would need to consider the differences in the insurers' disclosures. This includes:

- differences between insurers in the disclosure note itself, i.e. whether an insurer allows for interest accretion in the disclosed recognition of CSM in profit/loss. This can materially impact comparisons of the absolute CSM run-off.
- differences in the underlying product mix and specific product features, such as premium and benefit escalation, different target markets, distribution methods and underwriting practices, with consequent differences in expected durational lapse and claims rates.

To address this, insurers could consider standardised disclosure of the recognition of CSM in profit/loss (for example, with all insurers allowing for the expected accretion of interest on the CSM balance over time in addition to the releases). In addition, disclosures could be provided of the run-off of the CSM relative to the run-off of the insurance contract asset or liability or work on standardising the maturity analysis of the insurance contract asset or liability itself to allow a user of the financial statements to calculate this for themselves without the need for extensive assumptions.

## 3. Comparison of sensitivity disclosures

### 3.1 Introduction

IFRS 17.128 requires each company to disclose a sensitivity analysis of how the profit/loss and equity position would be affected by changes in risk variables at the end of the reporting period, gross and net of reinsurance. Many insurers augment this by also presenting the impact of the sensitivity on the CSM.

For a given sensitivity disclosed, the total impact can be seen as the change in the fulfilment cash flows (FCF) i.e. present value of future cash flows plus risk adjustment under stress, measured using current discount rates. This total impact can be split into an impact on CSM and an impact on profit/loss and equity as set out below.

The split between CSM and profit/loss and equity will differ based on whether an election was made to disaggregate insurance finance income and expense (IFIE) through other comprehensive income (OCI).

**No disaggregation through OCI**

CSM: A

Profit/Loss and equity: B + (C – A) + (D – B)

Total impact = A + B + (C – A) + (D – B) = C + D

**Disaggregation through OCI**

CSM: A

Profit/Loss: B

Equity: P/L + (C – A) + (D – B)

Total impact = A + B + (C – A) + (D – B) = C + D

Where:

A: ΔFCFs not relating to loss components measured at initial recognition discount rates

B: ΔFCFs relating to loss components measured at initial recognition discount rates

C: ΔFCFs not relating to loss components measured at current discount rates

D: ΔFCFs relating to loss components measured at current discount rates

The following section discusses the challenges that impact a user's ability to directly compare sensitivity disclosures. While a direct comparison of the quantum and impact of the sensitivities between insurers requires consideration and nuance, it is more meaningful to consider a detailed analysis of each insurer's sensitivity disclosures. In this manner we can provide insight into the underlying business dynamics and offer a view into the detailed CSM position at an IFRS 17 reporting group level.

## 3.2 Challenges encountered when attempting to directly compare sensitivity disclosures

Some insurers combine their entire book (i.e. GMM and variable fee approach (VFA)) when presenting sensitivity analyses, while others split the disclosures by measurement model or at a more granular level.

The disclosure of a single stress belies complex policy-level dynamics and offsets within certain stresses:

- Depending on the policy characteristics, certain policies may have increased value under a lapse up stress while it may destroy value on other policies.
- The level of cross subsidisation under certain stresses may be larger for certain insurers than others, depending on the heterogeneity of their GMM or VFA books, giving a large relative difference in the quantum of the stress between insurers.

For certain stresses, some insurers have allowed for these complexities by splitting out stresses which would otherwise offset one another. In particular within the mortality stress, we have observed insurers splitting out mortality increases/decreases on annuity business and assurance business.

The impact of stresses is not necessarily symmetric, i.e. up and down stresses to certain assumptions do not necessarily have a symmetric impact on the fulfilment cash flows. Even for stresses which have a symmetric impact on the fulfilment cash flows, these will not necessarily have a symmetric impact on CSM and profit/loss given the remaining CSM balance on each IFRS 17 group of contracts and the individual impacts on each group under stress. This is a challenge for some insurers who only present the impact of stresses in one direction as one cannot necessarily assume an equal and opposite impact for the same stress applied in the opposite direction.

In respect of those insurers who disclose the impact of sensitivities on CSM, all but one disclose both gross and net of reinsurance impacts. All but two insurers assume that the sensitivity is applied at the end of the year i.e. to the closing CSM balance. The two remaining insurers assume the sensitivity is applied to the CSM calculation before the current period release of CSM to profit/loss. This would offset the impact on the CSM to an extent, i.e. a reduction in CSM under stress would lead to a smaller relative release and vice-versa.

The nature of stresses applied to assumptions vary amongst insurers in that some insurers combine stresses while others reflect stresses separately.

For GMM business, the impact of the sensitivity on fulfilment cash flows is measured at initial recognition discount rates through the CSM. The difference in impact of the sensitivity measured at initial recognition discount rates and current discount rates is taken through IFIE. For insurers who have not elected the OCI option, this amount is included in the disclosed impact on profit/loss. Large differences can emerge between these rates over time, with the impact between insurers depending on a number of factors such as the transition approach applied, the specific year in which the group of policies was sold and the prevailing yield curve at that time relative to today.

**Table 1: Summary comparison of sensitivity disclosures**

| | GMM/VFA disclosed separately | Consistent positive and negative stresses applied | Gross and net CSM impacts shown | Gross and net P/L and equity impacts shown | Impact on CSM | | Impact on P/L and/or equity | |
|---|---|---|---|---|---|---|---|---|
| | | | | | ΔFCF at initial recognition rates not relating to loss component | Impact on CSM release | ΔFCF at initial recognition rates relating to loss component | Impact of ΔFCF at current vs initial recognition rates (IFIE) |
| **Insurer A** | Yes | Yes | Yes | Yes | Yes | No | Yes | Yes |
| **Insurer B** | No | Yes* | Net only | Yes | Yes | No | Yes | Yes |
| **Insurer C** | No | No | Yes | Yes | Yes | Yes | Yes | Yes |
| **Insurer D** | Yes | No | Yes | Yes | Yes | Yes | Yes | Yes |
| **Insurer E** | Yes | Yes | Yes | Yes, | Yes | No | Yes | Yes |
| **Insurer F** | GMM only | No | No CSM impact shown | | Net of reinsurance only | No | Not clear | |

** Disclosed that if stresses have a symmetric impact, both directions are not shown.*

### 3.3 Detailed analysis of decrement rate sensitivities

For each of the six insurers considered, a detailed analysis of their sensitivities in respect of the decrement rate assumptions (i.e. lapse, mortality and morbidity rates) was considered. The analysis focused on South African GMM business where separately disclosed. In cases where this was not disclosed, the total sensitivity provided was considered.

Insights into each insurer were considered separately, with a comparison provided to the other insurers along with the necessary caveats for factors confounding the comparison.

The results considered are gross of reinsurance where available (for Insurer B, only net of reinsurance CSM impacts were disclosed). The profit/loss impacts under each stress are more than offset by differences resulting from measuring the impact of the stresses at initial recognition discount rates and current discount rates. This means that an upward lapse stress which destroys economic value leads to a R0.5 billion increase in equity, while downward lapse stress reduces the equity of the insurer by R1.5 billion.

### 3.3.1 Insurer A

Insurer A elected to disaggregate IFIE through OCI. Consequently, the disclosed CSM, profit/loss and equity impact for GMM business can be used to assess the following:

- the CSM impact reflects the change in fulfilment cash flows, not relating to loss components, measured at each IFRS 17 reporting group's initial recognition discount rates.
- the profit/loss impact reflects the change in fulfilment cash flows relating to loss components measured at initial recognition discount rates, i.e. it reflects an increase or reversal of losses on onerous groups of contracts.
- the difference between the disclosed equity impact and the impact on profit/loss reflects the difference in the impact of the sensitivity measured at initial recognition discount rates and current discount rates. In instances where the current economic environment differs from the prevailing environment at the inception of a group, these impacts can be material.

Focusing on the mortality and morbidity combined stress, the following is observed:

The total stress on fulfilment cash flows is not symmetric, with an overall cost (measured at initial recognition discount rates) of R9.91 billion following a 10% increase in rates and an overall benefit (measured at initial recognition discount rates) of R10.77 billion following a 10% reduction in rates.

Further, the stresses have an asymmetric impact on CSM and profit/loss, as follows:

i. 10% increase in mortality and morbidity rates: overall cost of R9.91 billion, with R6.8 billion (69%) relating to a reduction in CSM and R3.1 billion (31%) relating to an in-period loss.
ii. 10% reduction in mortality morbidity rates: overall gain of R10.91 billion, with R9.8 billion (91%) relating to a gain in CSM and R0.9 billion (9%) relating to an in-period profit.

The difference resulting from measuring the impact of the stresses at initial recognition discount rates and current discount rates is offsetting and material – a gain of R1.88 billion is observed following an increase in mortality and morbidity rates and a cost of R1.59 billion is observed following a reduction in mortality and morbidity rates.

Focusing on the lapse stress, the following is observed:

The total stress on fulfilment cash flows is not symmetric, with an overall cost (measured at initial recognition discount rates) of R7.82 billion following a 10% increase in lapse rates and an overall benefit (measured at initial recognition discount rates) of R9.44 billion following a 10% reduction in rates.

Further, the stresses have an asymmetric impact on CSM and profit/loss, as follows:

i. 10% increase in lapse rates: overall cost of R7.82 billion, with R6.2 billion (79%) relating to a reduction in CSM and R1.6 billion (21%) relating to an in-period loss.
ii. 10% reduction in lapse rates: overall gain of R9.44 billion, with R8.7 billion (92%) relating to a gain in CSM and R0.7 billion (8%) relating to an in-period profit.

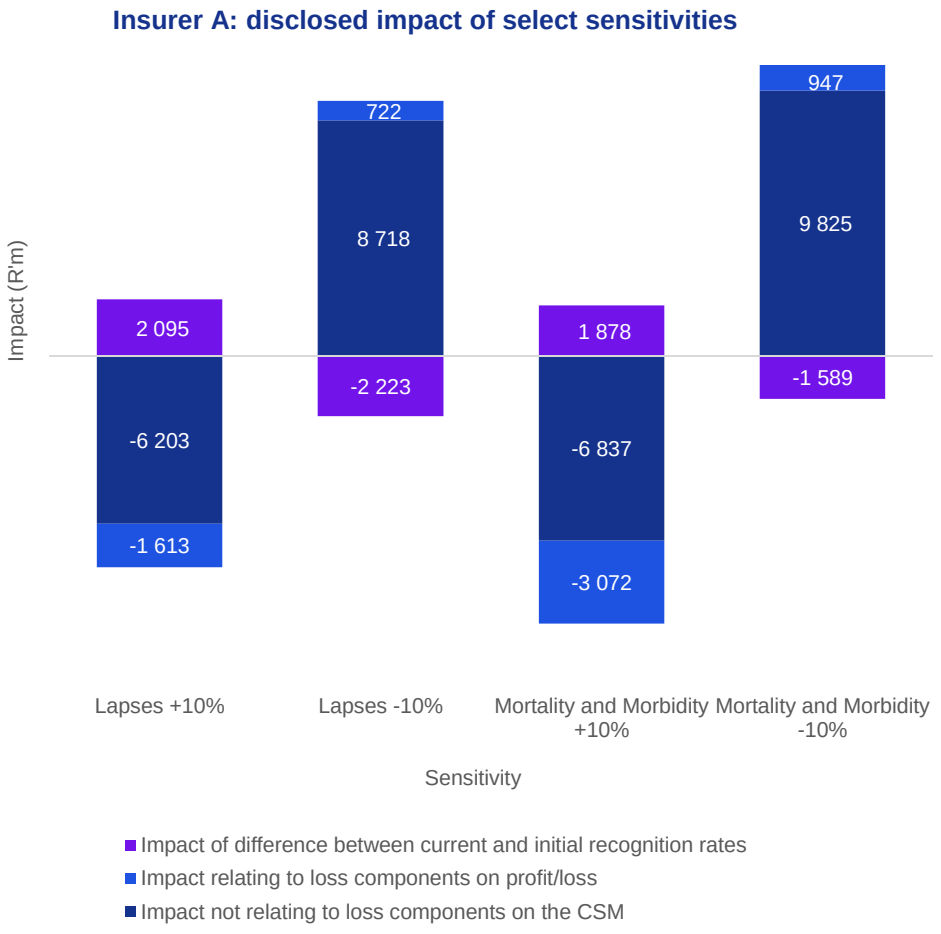
The profit/loss impacts under each stress are more than offset by differences resulting from measuring the impact of the stresses at initial recognition discount rates and current discount rates. This means that an upward lapse stress which destroys economic value leads to a R0.5 billion increase in equity, while downward lapse stress reduces the equity of the insurer by R1.5 billion.

## 3.3.1 Insurer A (cont.)

### Summary observations

- The asymmetric impact on CSM and profit/loss under the up and down stresses indicates that the insurer either has a number of currently profitable groups of insurance contracts which turn onerous under an upward lapse and mortality and morbidity stress, or a number of onerous groups which turn profitable in the reverse stress. This could indicate a degree of profit/loss volatility under stress which appears more pronounced compared to other insurers.
- The use of OCI allows the user of the financial statements to separately quantify the impact of each sensitivity measured at initial recognition discount rates and the same impact measured at current discount rates. It is useful to separately identify this component as this discount rate difference can either increase or offset the impact of the underlying stress and in some cases can more than offset the impact of the stress.
- In the case of Insurer A for instance, a stress which the insurer is sensitive to and destroys value at a policy level (the upward lapse stress) can be seen to have an overall positive equity impact, as the positive difference resulting from measuring the impact of the stresses at initial recognition discount rates and current discount rates more than offsets the losses on onerous business as a result of the stress. This is shown further in Graph 7, which shows the cumulative impact of the lapse and mortality and morbidity stress, split into the various components. The sum of the “impact of difference between current and initial recognition rates” component and the “impact relating to loss components on profit/loss” component reflects the equity impact.
- It should be noted that the quantum of this component is not necessarily the same for all insurers and depends to a large extent on the transition approach followed, the difference between the initial recognition discount rates locked-in for each group of business and the current discount rates, and the size of the impact of the sensitivity on each group of business.

**Graph 7: Breakdown of the impact of select sensitivities gross of reinsurance into the components driving the impact (negative represents a reduction in value).**



### 3.3.2 Insurer B

Insurer B differs to all others in the market by disclosing their stress impacts at a 1-in-10-year scenario (rather than a generic 5% or 10% stress scenario). In addition, they only present net of reinsurance CSM movements and the sensitivity impacts are not split out for GMM and VFA portfolios. Consequently, a direct comparison to other insurers is challenging. As insurer B does not disaggregate IFIE through other comprehensive income (OCI), the profit/loss and equity impact of each sensitivity are identical. In addition, it is not possible to disaggregate the impact of increases or reversals of losses on onerous contracts and the IFIE impact of differences between the impact of the sensitivity measured at current and initial recognition discount rates, this is in contrast to what was observed for Insurer A where the IFIE movements were disaggregated through profit/loss and OCI.

Focusing on the mortality, morbidity and longevity stresses, the following is observed:

The insurer noted that single direction stresses have been disclosed in cases where the impact of a sensitivity is linear. From this, it can be concluded that the overall impact of the mortality and morbidity stress are symmetric (different from Insurer A where the impact of these stresses was not symmetric).

Longevity stresses on annuity business are separated from mortality stresses on other risk business. This ensures that the mortality sensitivity impacts on annuity business do not offset the stress impact on other business.

Of the overall cost of the mortality sensitivity (R1.3 billion), 66.5% (R0.88 billion) relates to a reduction in CSM while the remaining 33.5% (R0.42 billion) relates to an in-period loss (driven by an increase in losses on onerous contracts together with the IFIE impact of measuring the mortality sensitivity on initial recognition discount rates relative to current discount rates). This split is consistent with what we observed for Insurer A on the mortality and morbidity stress.

The results indicate that the insurer's annuity business is potentially skewed more towards profitable groups (or groups with sufficient CSM to absorb the impact of the sensitivity) relative to their assurance business. This is illustrated by the minimal profit/loss impact of the longevity stress (although it is not clear to what extent, if any, an increase in losses on onerous contracts is being offset by the IFIE impact discussed above).

Focusing on the lapse stress, the following is observed:

The total stress on fulfilment cash flows is not symmetric, with an overall cost (measured at current discount rates) of R0.92 billion following a 10% increase in lapse rates and an overall benefit (measured at current discount rates) of R1.04 billion following a 10% reduction in rates. These impacts are significantly smaller than those seen for insurer A, potentially indicating a higher degree of offset between individual policies under lapse stresses for insurer B.

Unlike insurer A, the lapse stresses of insurer B have a symmetric impact on CSM and profit/loss. For the lapse up stress, c.82.5% (R0.76 billion of the total fulfilment cash flow impact of R0.92 billion) relates to a change in CSM while under the lapse down stress, this is c.83.6% (R0.87bn of the total fulfilment cash flow impact of R1.04 billion). This relative symmetry highlights that insurer B is potentially exposed to fewer profitable groups on the verge of turning onerous (or vice-versa), with a consequent lower degree of volatility in an up and down sensitivity.

### 3.3.3 Insurer C

Insurer C only presents stresses in a single direction and, unlike insurer B, no commentary is provided on whether this has been done because the impact of sensitivities is linear. Like insurer B, the sensitivity impacts provided appear to all relate to GMM and VFA portfolios which further hampers detailed analysis.

Focusing on the mortality and morbidity stress, the following is observed:

| | | | |
|---|---|---|---|
| Like insurer A, insurer C runs a combined mortality and morbidity sensitivity. However, insurer C only stresses a reduction in rates. | Like insurer B, insurer C has separated the mortality sensitivity into stresses applied to assurance and annuity business. | Of the overall gain in the assurance mortality sensitivity (R4.17 billion), 70.4% (R2.93 billion) relates to an increase in CSM while the remaining 29.6% relates to an in-period profit (driven by a reversal of losses on onerous contracts together with the IFIE impact of measuring the mortality sensitivity on initial recognition rates relative to current rates). This is a similar split to insurers A and B on the mortality/morbidity stress. | As with insurer B, (although to a lesser extent) the results indicate that insurer C's annuity business is potentially skewed more towards profitable groups (or groups with sufficient CSM to absorb the impact of the sensitivity). This is illustrated by the fact that 17.1% of the annuity stress relates to an in-period loss (if one assumes a symmetric impact, 29.6% of an increase in non-annuitant mortality and morbidity rates would result in an in-period loss). |

Focusing on the lapse stress, the following is observed:

The impact through profit/loss moves in a different direction to the impact through CSM – the downward lapse stress sensitivity results in an increase in CSM but an overall reduction in profit/loss. This may be due to either:

| | | |
|---|---|---|
| The downward lapse stress having a different impact on heterogenous underlying policies, i.e. resulting in gains on policies in profitable groups and losses on policies in onerous groups. | It may also be driven by the IFIE impact resulting from the difference in measuring the impact of the lapse sensitivity at current discount rates and initial discount recognition rates. This IFIE component is readily observable for insurer A due to its election of the OCI option and can be seen in that case to be material, potentially more than offsetting other impacts and leading to equity gains where the sensitivity is otherwise a cost and vice-versa. It has been noted that the quantum of this component is not necessarily the same for all insurers and depends to a large extent on the transition approach followed by the insurer, the difference between the initial recognition discount rates locked-in for each group of business and the current discount rates, and the size of the impact of the sensitivity on each group of business. | Without additional disclosure, it is not clear which of these factors is driving the impact seen on insurer C. |

### 3.3.4 Insurer D

As with insurer C, insurer D only presents stresses in a single direction, however these are split between GMM and VFA impacts.

Focusing on the mortality and morbidity stress, the following is observed:

Like insurers A and C, insurer D runs a combined mortality and morbidity sensitivity. However, like insurer C, insurer D only stresses a reduction in rates.

Like insurers B and C, insurer D separated the mortality sensitivity into stresses applied to assurance and annuity business.

Of the overall gain in the assurance mortality sensitivity (R4.63 billion), 86.7% (R4.02 billion) relates to an increase in CSM while the remaining 13.3% (R0.61 billion) relates to an in-period profit (driven by a reversal of losses on onerous contracts together with the IFIE impact of measuring the mortality sensitivity on initial recognition discount rates relative to current discount rates). This reflects a higher proportion of the stress impact relating to the CSM compared to that seen on insurers A, B and C, and potentially indicates the company is less susceptible to volatile income statement movements under stress given the level of CSM at an underlying group level. A caveat to this conclusion is that it relates to a decrease in mortality rates with an assumption that an increase in rates would result in a symmetric impact on the CSM.

As with insurer B and C, the results indicate that insurer D's annuity business is potentially skewed more towards profitable groups, with 7.1% of the annuity stress relating to an in-period loss.

### 3.3.5 Insurer E

Insurer E presents the impact of sensitivities applied in both directions and splits out the GMM and VFA results.

Focusing on the mortality and morbidity stresses, the following is observed:

Like insurer B, insurer E discloses separate mortality and morbidity stresses and also separates the mortality sensitivity into stresses applied to assurance and annuity business.

The total mortality stress on fulfilment cash flows is symmetric, with an overall cost (measured at current discount rates) of R3.56 billion following a 5% increase in mortality rates and an overall benefit (measured at current discount rates) of R3.60 billion following a 5% reduction in rates.

This symmetric impact extends when considering the resultant impact on CSM and profit/loss with 75.8% of the increase in mortality rates and 76.3% of the decrease in mortality rates relating to a change in CSM with the difference relating to the impact on profit/loss. This reflects a higher proportion of the stress impact relating to the CSM compared to that seen on insurers A, B and C but is below that of insurer D. A similar pattern emerges when considering the morbidity sensitivity.

Consistent with insurer B, the results show a minimal profit/loss impact of stresses to annuitant mortality rates which could indicate that the annuity business is skewed towards more profitable groups. This appears to be a common trend in the industry, observed (to varying extents) for all insurers producing separate annuitant mortality sensitivity impacts.

### 3.3.6 Insurer F

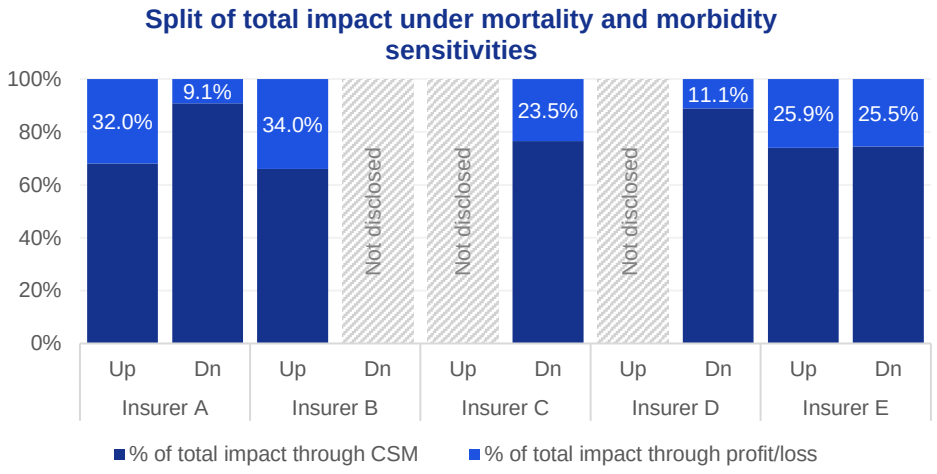
Insurer F only provided net of reinsurance profit/loss and equity impacts which, given they have not elected to disaggregate through OCI, are equal. No CSM impacts are provided so it is difficult to provide further commentary on the sensitivity results.

## 3.4 Industry comparison

Notwithstanding the differences between the sensitivity disclosures of the various insurers discussed in the sections above, Graphs 8, 9 and 10 summarise the overall impact of different sensitivities split between the impact reflected through a change in CSM and the impact on profit/loss for both increases and decreases in the applicable decrement rate (where available). For the reasons noted above, insurer F is excluded from this comparison. Given that insurer B only presents net of reinsurance CSM impacts, the results of all insurers are considered net of reinsurance in this section. Please note that this may lead to differences in the percentages quoted in section 3.3 as these results were considered gross of reinsurance for all insurers except for insurer B.

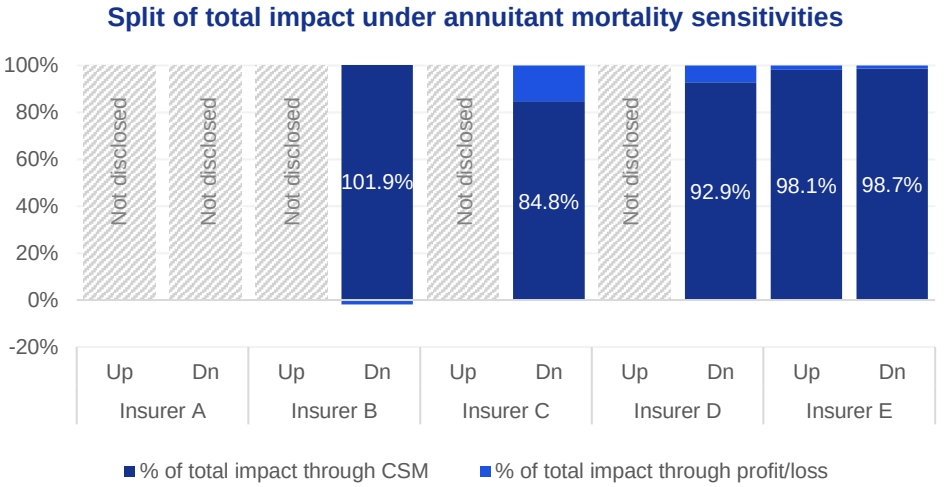
As discussed above, a significant difference in the proportion of the impact reflected through profit/loss under an up and down sensitivity indicates that the insurer either has a number of currently profitable groups of insurance contracts which turn onerous under the sensitivity, with a loss component being established (or onerous groups changing to a profitable position through a reversal of losses). Consequently, insurers with a larger degree of asymmetry could face more pronounced profit/loss volatility under stress compared to other insurers.

**Graph 8: CSM and profit/loss split of the total impact on fulfilment cash flows under a mortality (non-annuity business) and morbidity up and down[3] sensitivity.**



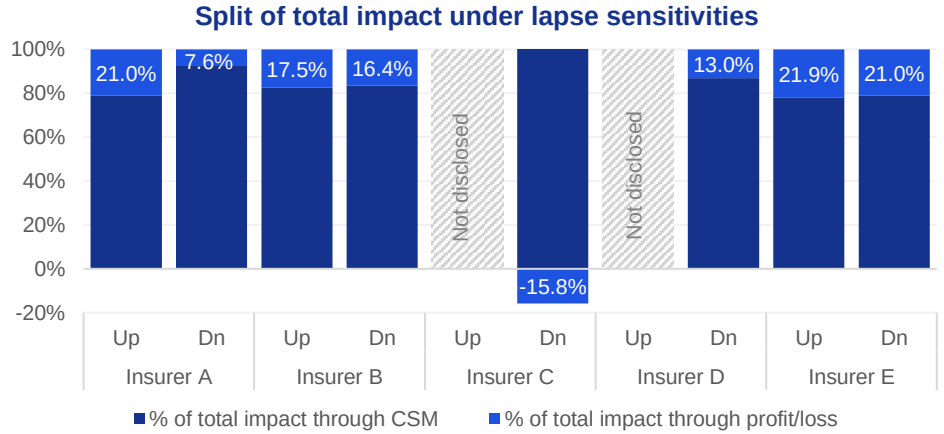

[3] For insurers who present mortality and morbidity sensitivities separately, these impacts have been added together in the graph, with the average split of the impact of the mortality and morbidity stress being shown.

**Graph 9: CSM and profit/loss split of the total impact on fulfilment cash flows under an annuitant mortality up and down sensitivity.**




Graph 9 illustrates what appears to be a consistent trend across the industry, with profit/loss impacts appearing more muted when stressing mortality rates on annuity business. This indicates that annuity business is potentially skewed more towards profitable groups where the majority of any stress impact can be offset through a release of CSM.

**Graph 10: CSM and profit/loss split of the total impact on fulfilment cash flows under a lapse up and down sensitivity.**



Consistent with the results in Graph 8, insurer A demonstrated a higher degree of asymmetry in the split of the impact of the sensitivity between up and down lapse stresses compared to the other insurers who present the impact of the sensitivity in both directions, namely insurer B and insurer E.

As noted above, for insurer C, the impact through profit/loss moves in a different direction to the impact through CSM – the downward lapse stress sensitivity results in an increase in CSM but an overall reduction in profit/loss. Without additional disclosure, it is not clear which of these factors is driving the impact seen on insurer C however it is noted that this may be due to either:

- the downward lapse stress having a different impact on heterogenous underlying policies; or
- the IFIE impact resulting from the difference in measuring the impact of the lapse sensitivity at current discount rates and initial discount recognition rates.

### 3.5 Summary

As discussed in this section, a user of the sensitivity disclosures would need to keep a number of items in mind when comparing sensitivity results between insurers. This would include:

- the level and direction of the stress applied, together with whether the sensitivity covers a single or combined risk driver(s).
- the difference in impact of the sensitivity measured at initial recognition discount rates and current discount rates taken through IFIE. For GMM business where OCI has not been elected, the isolated impact of this item is not observable given the current disclosure and may result in potentially unintuitive equity impacts given the true economic impact of the stress (e.g. stresses which overall destroy value may result in increases in equity and vice-versa).

To address the differences in insurers' disclosures, standardisation of disclosures can be considered by providing a list of suggested or required sensitivities and the level of stress to be tested. In addition, insurers could provide additional information on the drivers of the profit/loss and equity impacts of the sensitivities, including a further split of any impact due to increases or reversals of losses on onerous contracts and the difference in impact of the sensitivity measured at initial recognition discount rates and current discount rates.

## Conclusion

IFRS 17 has introduced a degree of consistency to insurance accounting in terms of principles and items of disclosure not seen under IFRS 4. However, much like a time zone which is redrawn to include or exclude specific pockets of land, there are specific nuances and detailed areas of judgement which means that the disclosure items are not as easily comparable as initially anticipated. Direct comparisons between insurers for an item of disclosure which, on face value, may appear to be consistent may require a more intricate and nuanced comparison than may initially appear necessary.

In the analysis of the impact of contracts initially recognised in the period, areas of judgement such as the method chosen by a company to allocate attributable overhead expenses can have a material impact on comparative conclusions. In other areas, additional detail, such as disclosure of the components and relative size of each of the GMM portfolios, can allow for more effective comparison and definitive comment to be made on the relative performance of each entity for the same class of business.

When comparing the patterns of recognition of CSM in profit/loss, a greater degree of standardisation in the disclosure across the industry would reduce the risk of a casual user of the financial statements missing certain context and potentially drawing incorrect conclusions.

Standardisation and the stipulation of required sensitivities would help address the current disclosure differences observed, while a more granular break-down will provide users of financial statements useful insight into the drivers of the disclosed profit/loss and equity impacts.

This is perhaps an area where the actuarial profession in South Africa could contribute in terms of new practice guidance notes for IFRS 17 as maturity evolves in the local market.

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# Settling into IFRS 17: an in depth non-life insurance analysis

The 2024 financial year presented a significant milestone for insurers, with all insurers reporting their financial results under *IFRS 17 Insurance Contracts* (IFRS 17). While the 2023 financial year saw the December year-ends transition to the new standard, 2024 saw the remaining insurers with non-December year-ends complete their transition. This allowed for more consistent and comprehensive analysis of the impact of IFRS 17 across the South African non-life insurance industry.

In this article we analysed the results of 27 South African non-life insurers, comprising of a mix of 12 December year-ends who reported under IFRS 17 for the second time, and 15 non-December year-ends who reported on IFRS 17 for the first time.

## Adoption of IFRS 17

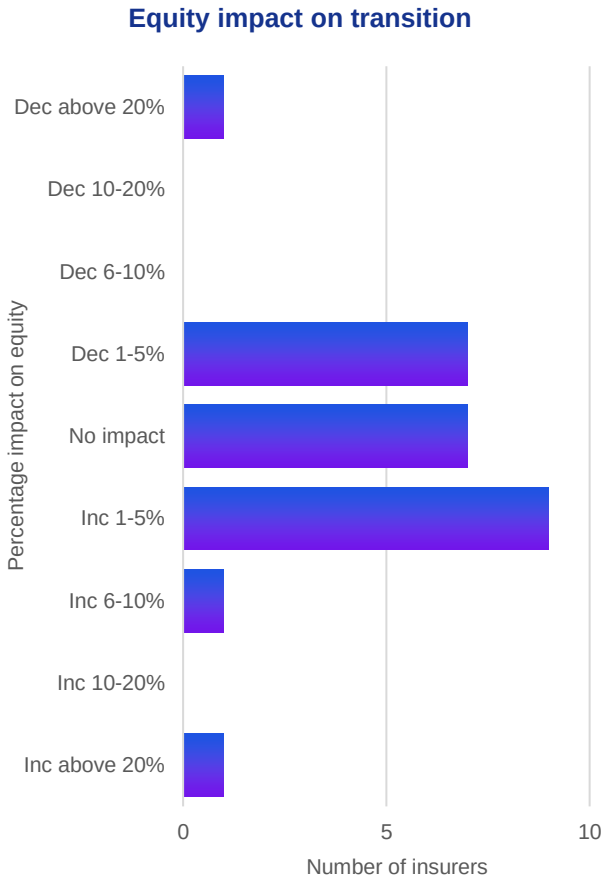
An initial snapshot analysis of the adoption of IFRS 17 was performed in the 2024 KPMG South African Insurance Industry Survey[1], which considered the impact of 12 non-life December year-end insurers, including one mutual insurer. In order to comprehensively illustrate the impact of the adoption of IFRS 17, we added to our current year analysis the 15 non-December year-end insurers' transition results, to reflect the aggregated impact of adoption across the non-life insurance industry.

*Equity impact on adoption:* of the 27 non-life insurers, 11 reflected an increase to equity on transition to IFRS 17, 8 reflected a decrease to equity and 7 had no impact to equity. The mutual insurer reflected a significant change to their retained earnings, due to the manner in which insurance contracts for mutual insurers are accounted for under IFRS 17.

The percentage change on equity for these insurers (excluding the mutual insurer) ranged between 0% to 7% of total equity for 24 insurers. This limited impact on the majority of non-life insurers is in line with the global trend, and aligns with expectation that the transition from *IFRS 4 Insurance Contracts* (IFRS 4) to IFRS 17 was not expected to have a significant impact for non-life insurers.

There were however two outlier non-life insurers, one of which reflected a 26% increase to equity and the other reflecting a 22% decrease to equity.

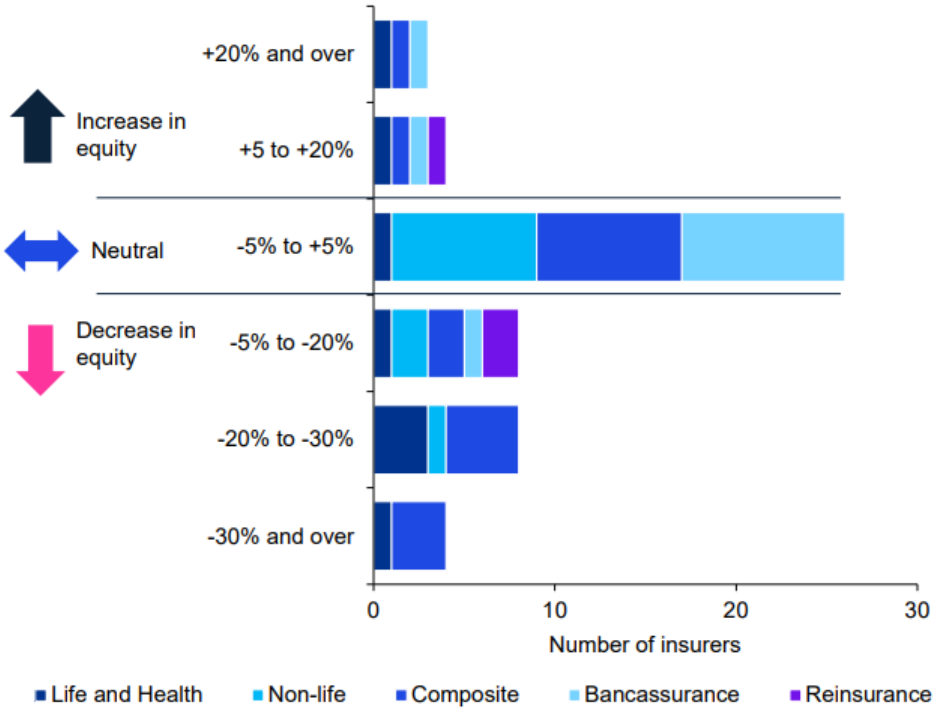
The equity impact is summarised below:




[1] https://kpmg.com/za/en/home/insights/2024/10/insurance-industry-survey-2024.html

The impact on equity for the South African market aligns to the equity impact observed globally, as shown in the results from the KPMG global survey "Real-time IFRS 17 – Insurers' first annual reporting under IFRS 17 and IFRS 9[2]" included below:

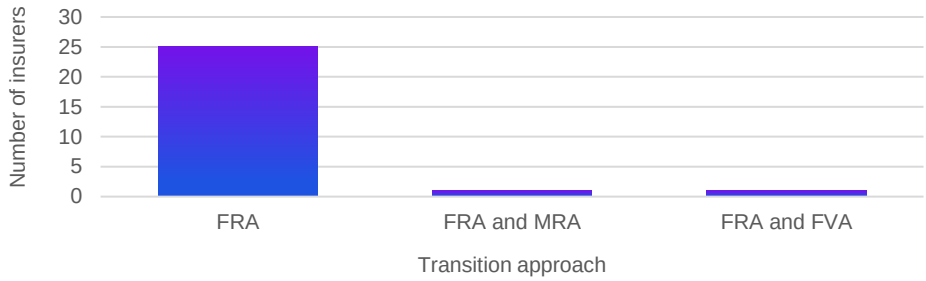
**Impact on equity as at 1 Jan 2022 as disclosed in the FY23 accounts***




**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:* 25 non-life insurers applied the full retrospective approach (FRA). The remaining 2 non-life insurers applied a mix of the FRA with the modified retrospective approach (MRA) and fair value approach (FVA).

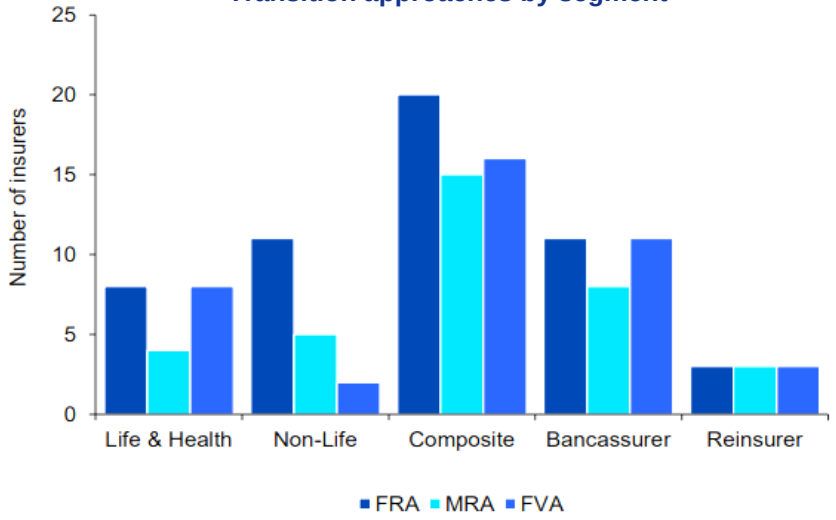
**Transition approach applied**




The widespread application of the FRA is in line with expectation, given the shorter contractual terms inherent with non-life products. It is noted that the use of the MRA and FVA is proportionately lower than what was observed globally.

Transition approaches applied, as included in the KPMG International survey[2]:

**Transition approaches by segment****



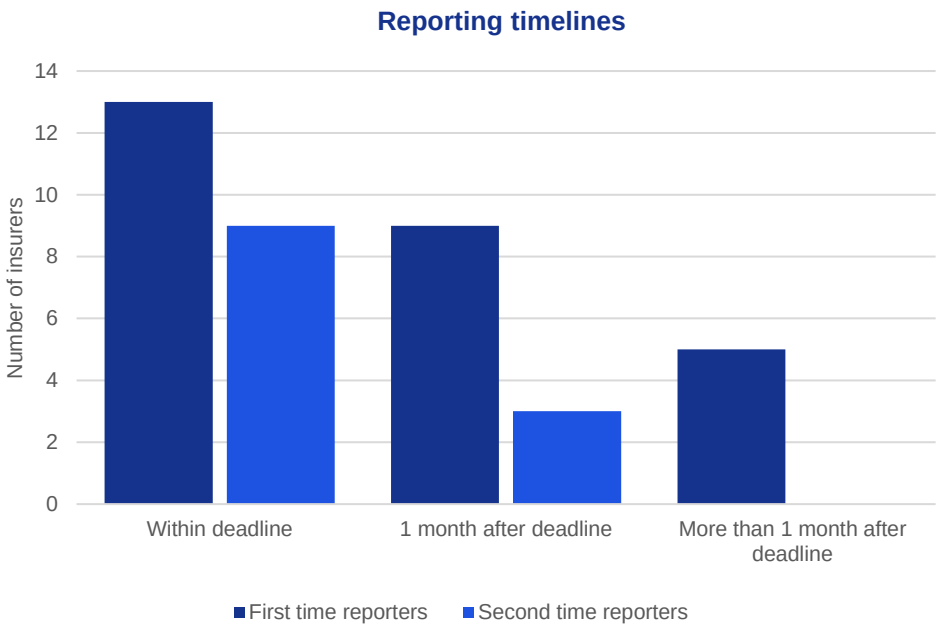

***Insurers can apply multiple transition approaches as the approach is determined for each group of insurance contracts*

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

*Implementation of IFRS 9 Financial Instruments (IFRS 9):* 20 insurers had already implemented IFRS 9 in 2018, with only 7 insurers delaying implementation to align with the implementation of IFRS 17. This is largely due to many South African insurers being part of larger groups who chose not to defer the implementation of IFRS 9.

*Reporting timelines:* when we consider the timeline for first time reporting under IFRS 17 (including the 12 non-life insurers included in the 2024 survey), 13 insurers reported within the four-month Prudential Authority (PA) deadline (48%), although many of these were very close to the deadline date. Nine (9) insurers reported within a month after the PA deadline (33%), and 5 insurers reported more than one month after the PA deadline (19%).

We note, however, that the reporting timelines and, where relevant, delays are reducing. For the 12 non-life December year-end insurers who reported for the second year under IFRS 17, 9 reported within the four-month PA deadline (75%) and 3 reported within one month after the deadline (25%). This already shows a marked improvement in timelines, although a full picture will only be seen once the industry as a whole has reported for the second time.




## Measurement under IFRS 17

*Measurement model:* the use of the simplified premium allocation approach (PAA) remains prevalent across the non-life insurance industry. Twenty-five (25) non-life insurers exclusively applied the PAA, with only two non-life insurers measuring certain contracts using the general measurement model (GMM).

*PAA eligibility:* the level of detail included in the disclosure regarding eligibility to use the PAA continues to vary between the insurers. Many non-life insurers indicated that at least a portion of their contracts issued have a coverage period of more than one year and that their reinsurance programmes include risk-attaching treaties with a coverage period of more than one year. However, further disclosure regarding how the entity believes that the use of the PAA would produce a measurement of the liability for remaining coverage (LRC) for the group that would not differ materially from one that would be produced applying the GMM, and whether this is a significant judgement, ranges from minimal to detailed. An important observation is the extent of consistency of disclosures provided across insurers – whether PAA eligibility is a significant judgement and further explanatory detail.

For certain insurers, PAA eligibility is noted as a significant judgement, but no further detail is provided on how or where this judgement is applied. For other insurers, PAA eligibility is not noted as a significant judgement however a disproportionate and significant amount of disclosure detail is disclosed. As PAA eligibility is not a once-off consideration on transition, but a decision that is required to be assessed at the commencement of each group of contracts, insurers are encouraged to reassess their current disclosures for future refinement.

Specifically within the non-life industry where the use of the PAA is so prolific, an explanation of PAA eligibility application and relevance within the financial statements will improve the user with further understanding: whether applying the PAA is due to the coverage period being less than one year or due to the LRC not differing materially between the PAA and GMM; whether this is considered a significant judgement, and further proportionate explanatory disclosure with the level of detail aligned with the significance of this judgement.

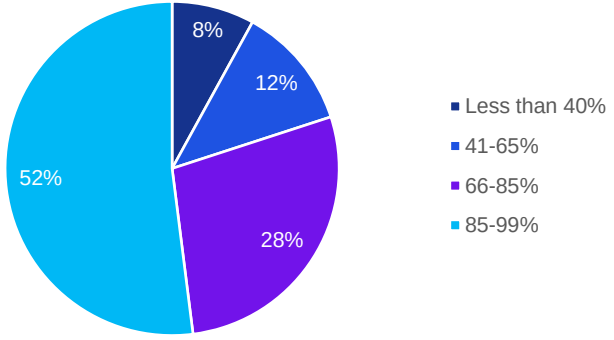
*Unit of account:* of the 27 non-life insurers, 8 indicated that the unit of account is not always the legal contract and where they disaggregated the legal contract on the basis of substance over form. This is relevant, for example, where multiple risks are written into the same policy document, but the insurer accounts for these risks separately. The presumed basis within IFRS 17 is that the unit of account is the legal contract, although only 8 insurers state this specifically. It is, therefore, assumed that the remaining 11 insurers who did not include detail around the unit of account applied the presumed basis of not disaggregating the legal contract. Insurers who do not include any specific disclosure in their financial statements should consider whether this is the case, or whether there is potentially additional disclosure that should be provided.

*Loss component:* only 9 of the 27 non-life insurers recognised a loss component on gross business and the loss components are a small portion of the total business underwritten. Interestingly, only two of the insurers who recognised a loss component on the gross business also recognised a loss recovery component on reinsurance business.

*Other operating expenses:* with the adoption of IFRS 17, insurers are required to disaggregate operating costs between those which are directly attributable to insurance contracts and those which are not. Costs considered directly attributable are included within the *Insurance service expenses* caption, with costs not directly attributable included within the *Other operating expenses* caption.

Directly attributable costs as a percentage of total operating expenses ranges across insurers as reflected below:

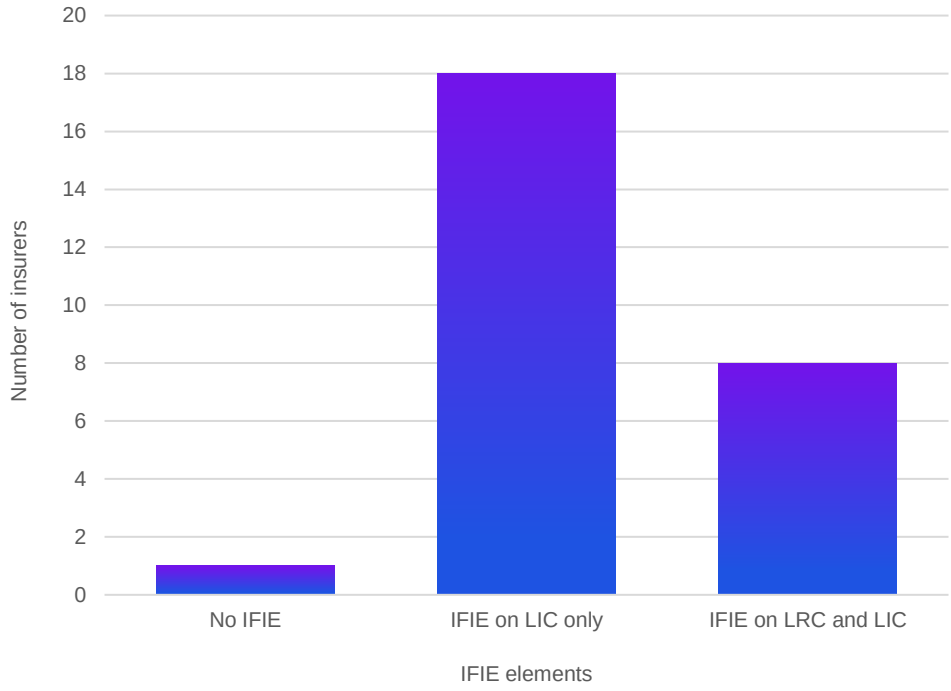
**Directly attributable expenses as a percentage of total operating expenses:**




More than half of the non-life insurers attribute between 85% to 99% of their operating expenses as directly attributable costs and more than 75% of entities attributing at least 66%. This aligns with the understanding that non-life insurers largely focus only on underwriting insurance contracts, unlike their life insurance counterparts who may also write investment contracts, resulting in a significant portion of their operating expenses being considered attributable to insurance contracts.

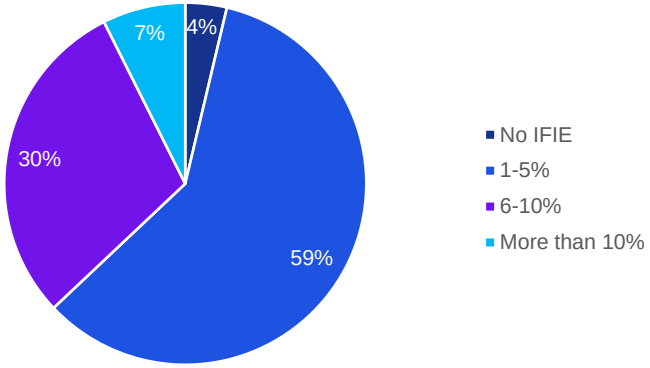
*Insurance finance income and expense (IFIE):* all but one of the non-life insurers recognise an IFIE impact. Eight (8) non-life insurers recognise an IFIE impact on both the liability for remaining coverage (LRC) and the liability for incurred claims (LIC). The remaining 18 non-life insurers recognise an IFIE impact only on the LIC. The IFIE impact remains relatively small for non-life insurers, which aligns with the shorter duration of non-life insurance contracts.

**IFIE recognition**



Reflected below is the IFIE impact on the best estimate cash flows of the LIC as a percentage of the opening best estimate cash flows balance. This provides an indication of the significance of the IFIE. For almost 60% of non-life insurers, the IFIE expense for the year is less than 5% of the opening best estimate cash flows balance.

**IFIE incurred as a percentage of opening best estimate cash flows balance**




*Other comprehensive income (OCI) option for IFIE*: none of the non-life insurers included in the analysis elected to utilise the option to split IFIE between OCI and profit or loss.

*Insurance acquisition cash flows (IACF):* only 3 non-life insurers recognised a separate IACF asset that has been deferred for recognition in line with future renewals of currently underwritten contracts.

## Significant judgements, assumptions and estimates

*Best estimate cash flows:* a key theme throughout all the non-life insurance disclosures is the judgement involved in the determination of best estimate cash flows within the LIC. Much of this disclosure is what was previously recognised under IFRS 4, which has now been tweaked for IFRS 17 purposes. Many of the insurers' qualitative disclosure still refers to outstanding claims reserves (OCR) and incurred but not reported (IBNR) reserves, as well as allocated loss adjustment expenses (ALAE) and unallocated loss adjustment expenses (ULAE), but largely relates these terms to the considerations of the LIC under IFRS 17.

Understandably, these terms are understood and still used by the industry and insurers have ensured that the principles of these terms are carefully aligned to IFRS 17 principles. Some insurers included the determination of all cash flows as a significant judgement, whereas others pinpointed specific cash flows where the estimation lies, for example the estimation of those cash flows relating to claims incurred but not yet reported.

*Discount rates:* while all insurers included some detail on discount rates, the level of detail included varies considerably across insurers. This has ranged from a single sentence detailing "discount rates used are current rates" to full disclosure of the various curves used and the adjustments made to these curves. The majority of non-life insurers applied the bottom-up approach, with very few applying a top-down approach. For those insurers applying the bottom-up approach, many insurers also indicated using a risk-free curve, adjusted for an illiquidity premium. Some insurers indicated that the illiquidity adjustment is only included "as appropriate" and others noted that this adjustment was not deemed necessary. Commonly applied risk-free curves include the risk-free rates published by the PA, 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, which aligns with the limited impact that discounting has had for non-life insurers. Sensitivity analysis of discount rates is seldomly included, even when discount rates had been included as a significant judgement. This may be an area of refinement for future disclosures.

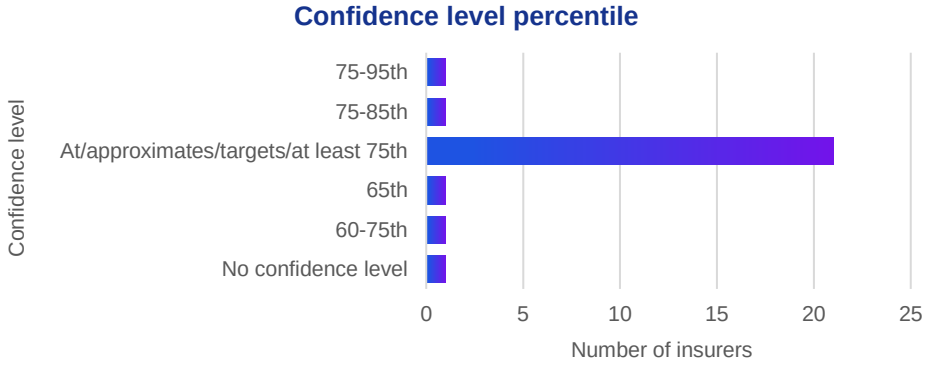
*Risk adjustment:* as with discount rates, all insurers included some detail on risk adjustment, but the level of detail of this disclosure varied significantly across insurers.

Eight (8) non-life insurers indicated that the change in risk adjustment has not been disaggregated between the insurance service result and IFIE. Fourteen (14) non-life insurers indicated that the change in risk adjustment had been disaggregated. The remaining 5 non-life insurers are silent about this policy choice in their disclosure.

IFRS 17 requires an insurer to disclose the confidence level used to determine the risk adjustment for non-financial risk. If the entity uses a technique other than the confidence level technique for determining the risk adjustment for non-financial risk, it shall disclose the technique used and the confidence level corresponding to the results of that technique. Set out below is a summary of our observations:

- Eleven (11) non-life insurers indicated that their confidence level is at the 75th percentile.
- Two (2) non-life insurers indicated that they target the 75th percentile, 5 indicated that their confidence level approximates the 75th percentile, 2 indicated that their provisioning is to at least the 75th percentile and 1 insurer indicated that their confidence level is relatively stable at the 65th percentile. What is interesting to note is that none of these insurers provided the actual confidence level applied.
- One (1) insurer indicated that they target the 75th percentile unless another percentage is more appropriate, but does not provide more detail on these circumstances.
- Four (4) non-life insurers provided target ranges – 1 between the 60th and 70th percentile, one between the 75th and 85th percentile, 1 between the 80th and 90th percentile and 1 between the 75th and 95th percentile. Only two of these insurers provided the ultimate confidence level within their range.
- One (1) non-life insurer indicated that they would not disclose the confidence level due to the nature of their business.

These observations are summarised into the following graph to demonstrate the range within the South African non-life insurance market:




What is evident is that a significant portion of South Africa's non-life insurance market provides to the 75th percentile. However, given the number of insurers who do not disclose their final confidence level, it is difficult to get to a more precise view.

The method used to determine the risk adjustment is not always included within the disclosures. Many non-life insurers note that they followed a confidence level approach, calculating the risk adjustment as the value at risk (VaR) at a certain percentile. Other approaches include the use of an internal capital model calibrated to a certain percentile, the use of the Solvency Assessment and Management (SAM) standard formula adjusted to a certain percentile, a cost of capital approach and the use of Bootstrapping techniques.

## Presentation

*Disclosure aggregation:* IFRS 17.96 requires insurers to consider the level of aggregation for which information is disclosed. Sixteen (16) non-life insurers included the insurance contracts opening to closing reconciliations only 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 disaggregated level, i.e. disaggregation was provided in respect of insurance revenue or insurance service expenses based on product lines or other similar categories. The remaining 11 non-life insurers disaggregated their reconciliations into between 2 to 5 bases, such as a split between personal and commercial; property, motor and other; and catastrophe (CAT) and other reinsurance. For insurers who applied multiple measurement models, the reconciliations were disaggregated between measurement models.

*Premium debtors from intermediaries:* the industry remains relatively divided on the classification of premium debtors due from intermediaries, with a split between non-life insurers who disclosed premium receivables from intermediaries as IFRS 9 financial assets and those who disclosed these balances as part of the LRC under IFRS 17. There are, however, a few insurers who have not disclosed their accounting policy choice within their financial statements.

*Claims development:* Seven (7) non-life insurers did not disclose claims development tables in line with the exemption set out under IFRS 17.130. For the 20 non-life insurers who had disclosed claims development tables, the detail of these tables varied significantly across insurers.

## Conclusion

While our observations from 2024 remain as it relates to the disparity in the level of detail and specificity regarding IFRS 17 accounting policies, disclosures and significant judgements, what we have observed is that more consistency is starting to emerge. This is particularly prevalent for insurers with December year-ends, who were able to reassess and improve their financial statement disclosures during their second round of reporting. Not only is disclosure improving over time, but entities are beginning to better understand the results that are emerging. This resulted in various changes in accounting estimates, changes in accounting policies and corrections of errors. This refinement process will likely continue in the foreseeable future, as management teams start to understand the impact of decisions made and anomalies from errors emerge. It has been a long journey, but the industry is slowly starting to settle into IFRS 17.

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# Climate-related risk metrics and disclosures

Climate risk management is evolving rapidly, largely influenced by global regulatory framework developments and investor demands, which has driven the financial services sector to assess and disclose climate-related risks. Even with this hype and focus, South Africa is lagging with the Prudential Authority having only recently released a guidance notice focused on climate risk.

Climate-related metrics, particularly in a South African context, have not been clearly defined by the local regulator, and the application presents challenges as well as opportunities. However, many global climate-risk focussed institutions are working on providing guidance on the approach to set metrics and targets to track climate-related impacts, including suggestions and examples. This article explores the current approaches to climate-related metrics and what South African insurers can consider applying. We start by looking at the global view.

## Climate-related risk metrics: Task Force on Climate-related Financial Disclosures focus

The Task Force on Climate-related Financial Disclosures (TCFD) has been instrumental in shaping the global climate risk reporting landscape. The TCFD framework categorises climate risk into two categories:

**Physical risks**: covering acute risks such as floods, wildfires and chronic-like rising sea-levels and temperatures.

**Transition risks**: the risks associated with a move to a low-carbon economy including policy, legal, technology, market and reputational risks.

The TCFD recommendations on climate-related financial disclosures focus on the key interrelated operations of an organisation, specifically governance, strategy, risk management and metrics and targets[1]. As with all metrics and key indicators, climate-related metrics should inform organisational operations and feedback into business and risk management processes to inform decision-making and strategy.

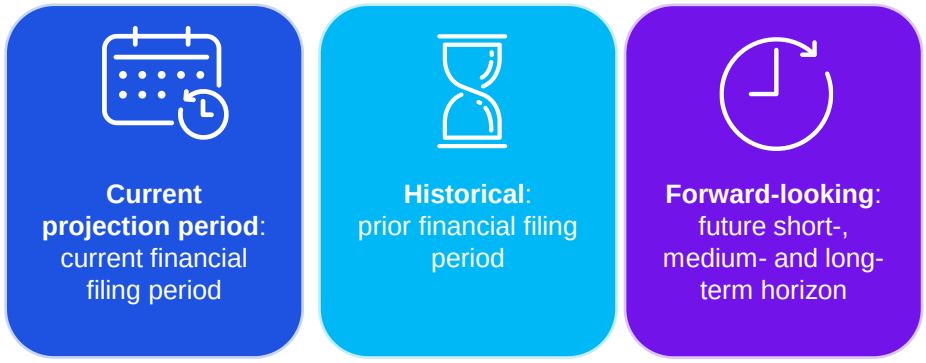
*For details on the relationship between climate-related metrics and other TCFD recommendations, reference can be made to the TCFD's "Climate-related Financial Disclosure, Guidance on Metrics, Targets and Transition Plans"[1].*

Climate-related metrics can assist insurance companies in understanding the potential impacts of climate-related risks and the resultant opportunities, including financial and operational consequences. However, determining the appropriate climate-related metrics to apply is not a straightforward matter. The TCFD suggests characteristics to consider when selecting effective climate-related metrics. These suggestions align with the fundamental principles for effective disclosures and are as follows:

- **Decision-useful**: the metrics should be relevant to the organisation's risks and opportunities and illustrate how these are managed in line with the governance, strategy and risk management processes.
- **Clear and understandable**: there should be clarity in the disclosure of the metrics provided, including any restrictions, limitations and disclaimers and the disclosures should support effective understanding. This provides the necessary context to an organisation's views on climate change goal setting, process management and communication regarding governance, methodologies and basis preparation.
- **Reliable, verifiable and objective**: metrics provided should be supported by internal controls in terms of data verification and assurance and should provide objective disclosure of performance free from bias and value judgement.

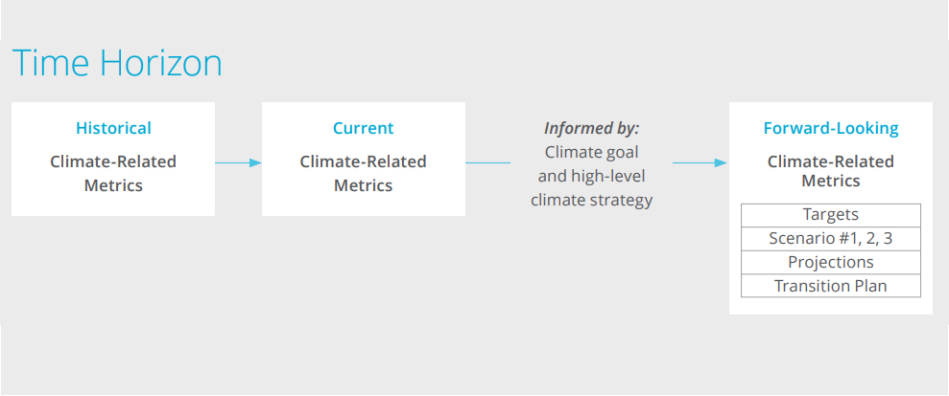
[1] Task Force on Climate-related Financial Disclosure, Guidance on Metrics, Targets and Transition Plans, October 2021 (assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf)

- **Consistent over time**: the relevant time horizons to consider for climate-related metrics are:




Appropriate forward-looking metrics consider a range based on future assumptions and reasonably plausible scenarios and may be set using scenario, trend and sensitivity analysis and simulations. These metrics should also incorporate the organisation's climate-related targets and commitments to support net-zero transitions.

Ideally, the disclosure of climate-related metrics should be consistent year-on-year to allow for comparative analysis and identification of appropriate measurement time horizons. Consideration of the same assumptions and scenarios for each metric over all considered time periods enables effective progress tracking. This principle is illustrated in the figure below, as set out in the TCFD publication.




## The GFANZ's considerations and views

The Glasgow Financial Alliance for Net Zero (GFANZ) also provides insights and guidance into setting climate-related targets and metrics with a focus on these being quantitative and measurable goals for firms' net-zero ambition[2]. The GFANZ highlights the importance of targets being credible, clear, specific and transition-related to measure progress. Clearly communicated and designed targets enable organisations to assess their strategy, actions and results in terms of long-term decarbonisation.

The metrics set out below are potential metrics to consider for assessing climate-related risk and emissions impacts. Actuarial insights will support the further development of these potential metrics through the deployment of risk quantification and modelling techniques. These quantitative metrics relate the recommendations and guidance from the TCFD to measurable business considerations.

The business ratios applied in practice are adapted to measure climate-related impacts.

1. **Carbon footprint and intensity**: this measures the total greenhouse gas (GHG) emissions and emissions per unit of revenue or asset.
2. **Value at Risk (VaR) from climate events**: quantified potential financial losses from climate-related events.
3. **Implied temperature risk (ITR)**: estimate of the global temperature increase implied by a company's emissions trajectory.
4. **GHG protocol scopes 1,2 and 3**: categorisation of emissions by direct operations, energy use and value chain.
5. **Climate Value-at-Risk (CVaR)**: integrates scenario analysis to assess the impact of climate changes on an organisation's asset values.

[2] Glasgow Financial Alliance for Net Zero (GFANZ) Principals interim report for consultation (2022), Recommendations and Guidance Financial Institution Net-Zero Transition Plans (https://assets.bbhub.io/company/sites/63/2022/09/Recommendations-and-Guidance-on-Financial-Institution-Net-zero-Transition-Plans-November-2022.pdf)

The GFANZ also suggests metrics for consideration, including the potential impact the distribution of goods and services will have on transition metrics for financial institutions, depending on their financing strategies and investment portfolios. This is suggested with the understanding that, from a financial perspective, targets may focus on capital allocations towards green, sustainable or transition denoted activities. These types of metrics may include:

- The extent of capital invested in green, transition-aligned activities or climate solution businesses.
- Green asset ratios, i.e. "*the proportion of loans, capital or insurance written on green assets*[3]".
- GHG portfolio emissions reductions as a ratio of changes in investment portfolio composition and the underlying companies.
- Insurance transition targets, i.e. insurance products sold to companies aligned to net-zero transitions.

The GFANZ suggests net-zero transition plan implementation metrics as a means for firms to track progress towards their net-zero strategy. They recommend that a holistic assessment be considered, using both forward- and backward-looking metrics to understand the different aspects of insurers' portfolios and business activities. The GFANZ further includes implementation metrics to assess the progress on the net-zero strategy implementation. These metrics include:

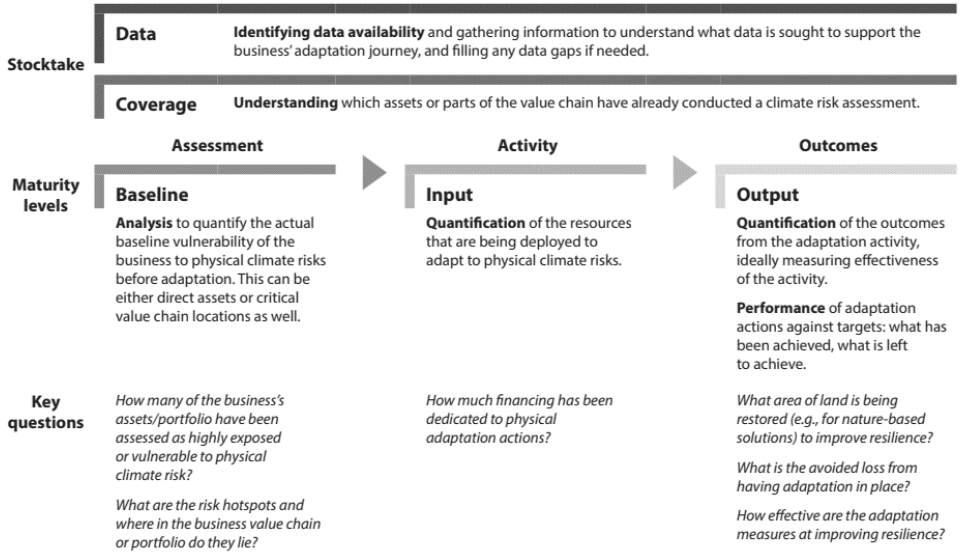
- the number and type of climate-related activities;
- training sessions completed by employees;
- the proportion of climate resolutions voted on;
- the collaborations on real-world climate-related challenges with a wide variety of stakeholders, including peers, NGOs and academia; and
- the internal processes analysing net-zero transitions.

## Metrics considerations by the NGFS

The Network for Greening the Financial System (NGFS) recently published a note[4] to support the application of consistent approaches for integrating transition plans, including defining metrics and targets to support the maturing process. The NGFS details setting metrics and targets through understanding the necessity of a step-by-step approach to implementing and integrating transition plans. They emphasise the importance of effective targets including both a delivery time horizon and interim targets.

The graphic set out below illustrates the NGFS' maturity model.

**Maturity Model for Setting Metrics and Targets**




*For more details on the considerations for setting baseline, input and output metrics and targets, reference can be made to the NGFS' "Adaption and Transition Plans"[4] technical document.*

[3] Financial Institution Net-zero Transition Plans Recommendations and Guidance, June 2022 (https://assets.bbhub.io/company/sites/63/2022/06/GFANZ_Recommendations-and-Guidance-on-Net-zero-Transition-Plans-for-the-Financial-Sector_June2022.pdf)

[4] Network for Greening the Financial System Technical document, Integrating adaption and resilience into transition plans, July 2025 (https://g20sfwg.org/wp-content/uploads/2025/07/SFWG-P2a_Adaptation-and-Transition-Plans-2.pdf)

In line with TCFD's view, the NGFS considers effective metrics and targets based on the following principles, but with a focus on the specific location of the company. These principles include:

**Data**: the availability of required data across the companies in the considered location and/or jurisdiction with necessary coverage.

**Consistency**: the comparability and consistency of metrics and targets among different companies within the specified location, as well as the commonality of the approaches and assumptions used by these companies.

**Appropriateness**: the relevance and appropriateness of targets and metrics in consideration of the size, complexity and nature of the business and risks being addressed.

**Transparency**: the transparency of calculation methodologies, assumptions and underlying detail.

**Continuity**: metrics and targets are set to allow progress to be tracked over time.

**Applicable**: targets and metrics should align with user expectations to be meaningful.

The fully integrated approach shared in the NGFS report highlights that "a multi-faceted pathway approach that integrates quantitative and qualitative indicators can enhance the relevance and transparency of metrics, fostering a more informed decision of adaption activities".

What we noted above are potential metrics for considerations, however, insurers will need to consider metrics and targets that are appropriate given their overall goals, strategy and priorities, as well as to align to industry guidance. This will ensure transparent, relevant and comparable metrics and targets across the industry.

[5] South African National Treasury Draft Green Finance Taxonomy Working Draft (2021), Draft Green Finance Taxonomy (https://www.treasury.gov.za/public%20comments/GreenFinance2021/Draft%20Green%20Finance%20Taxonomy.pdf)

## The South African context

South Africa's alignment with and adoption of global standards, while slow at first, is beginning to accord with the rest of the world. The Prudential Authority and Johannesburg Stock Exchange are now encouraging TCFD-aligned disclosures. The establishment of National Treasury's Green Finance Taxonomy was also a step forward and details the "minimum set of assets, projects and sectors that are eligible to be defined as 'green' in line with international best practice and national priorities[5]".

However, there are a few factors that complicate risk assessment:

**Energy dependence on coal**: South Africa relies on coal-produced power leading to South Africa having one of the highest carbon intensities globally.

**Data availability and quality**: there is a lack of reasonably granular, reliable emissions and climate exposure data in South Africa. Firms also currently have limited infrastructure to collect the necessary data for a full risk picture.

**Model calibration and uncertainty**: current climate risk models are not calibrated for a South African market and demographic. Additionally, the inherent uncertainties in models will need to be clearly communicated and disclosed to ensure transparency.

**Costs and capacity**: smaller firms may not have the resources to implement climate risk metrics, develop models and collect the appropriate data. Upskilling of actuaries and financial professionals in the required climate science and sustainability reporting is also needed.

The GFANZ emphasises that even if availability and quality of data is lacking, firms are encouraged to not delay the process of setting targets that can measure the net-zero transition and ambitions[2] .

Further research is thus required to support firms with designing target frameworks that fully incorporate climate solutions and actively encourage real-world decarbonisation, particularly in a South African context.

## Actuarial involvement

Actuarial expertise can support the development of climate-related metrics. The Institute and Faculty of Actuaries have published guidelines on climate changes, highlighting the climate risk considerations from an actuarial perspective. These guidelines provide support to actuarial professionals in understanding climate change, including modelling the risks over the short-, medium- and long-term[6]. The implications of climate change are noted as “far-reaching, non-linear, correlated and irreversible” with uncertain timing and outcomes. Although severity and timing are uncertain, the occurrence of the financial impact from a combination of physical and transition risks is reasonably certain. This impact, therefore, through the deployment of actuarial expertise, can be quantitatively assessed and metrics and targets set (in line with the above recommendations) to analyse the financial effect on insurers.

## Conclusion

Although metrics and targets are not currently standardised, development is progressing to provide appropriate targets and metrics that are time-based, specifically defined, outcome focused and support broader transition and resilience objectives. Actuaries can play a pivotal role in translating global climate risk metrics into actionable insights for South African firms. By leveraging global best practices and adapting them to local realities, we can foster a resilient, transparent and sustainable financial system.

[6] International Actuarial Association (IAA) Paper (2021), Climate-Related Scenarios Applied to Insurers and Other Financial Institutions (https://actuaries.org/paper/climate-related-scenarios-applied-to-insurers-and-other-financial-institutions/)

# Actuarial support services

| Capabilities | |
|---|---|
| IFRS 17 advisory implementation and support: we can assist in policy and modelling decisions, production and review. | Risk, capital and balance sheet management: we can help you manage your risk frameworks and optimise your balance sheet. This includes optimising capital allocations, while meeting liquidity and profitability requirements. |
| Regulation and compliance support: we provide a range of regulatory and compliance services, from license applications to internal audit functions. | Fintech systems implementation (including cloud migrations) and digitisation: we can assist with software implementation solutions to bring through process efficiencies. |
| Actuarial valuations and financial reporting: we offer a comprehensive range of first-line actuarial services for IFRS 17, embedded value (EV) and Solvency Assessment and Management (SAM) reporting, including automation to unlock efficiency. | Data analysis and pricing: we can help you better understand your product pricing through data analysis and experience investigations. |
| Head of actuarial function (HAF) roles: we can provide HAF services on an individual basis or as an entire function. | Actuarial modelling: we can assist with new model builds or revise existing models to fit your needs. |
| Strategy and transactions: we can support your business planning and own risk and solvency assessment (ORSA) reporting by advising on risk management, valuations and scenario testing. | Independent reviews: we provide independent expert opinions or independent testing of actuarial outcomes. |

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# Capitalising on chaos: How insurers can leverage regulatory pause to rebuild trust

With the plethora of evolution brought about in recent years in the insurance industry, from technology, entry into untapped markets and product innovation, maturity of the regulatory landscape was inevitable. However, the pace and volume of regulatory change shifted the focus of compliance from strategic alignment to administrative fulfilment, rather than fostering trust and long-term relationships with customers. The result? Corroded trust in the very institutions customers are meant to rely on in times of crisis.

The 2025 calendar year to date is what we can consider being as one of the first "business-as-usual" years when it comes to regulatory change. While our regulators have not gone completely quiet, this year marks a pause in regulatory changes that significantly affect core business processes. This presents an opportune time for insurers to refocus efforts on their customer base.

In the next four minutes my intention is to provide you with insight into what the man-on-the-street is thinking about when it comes to insurance and the actions that insurers can take to rebuild and maintain customer loyalty, centering focus once again on customer centricity. After all, customers are the bottom line.

## What does the public know?

It is no secret that insurance products are complicated to understand; from the cover, benefits and value-added products, to risks covered, risks excluded and the rules around claim events. However, as we have seen with any other complicated concept, effective communication can simplify the understanding of these concepts.

In an effort to assess the level of understanding of the general public of basic insurance products, I interviewed close to 150 ordinary South Africans, ranging from 25 to 55 years in age, to weigh in on this. Interviews were conducted through a combination of online forms, social media and in-person interviews.

The result? An unsurprising realisation that many of our ordinary citizens, who represent key target markets, know very little about available product offerings, the type of insurance cover they have taken out, their rights when it comes to said cover and the shared feeling that insurance is a grudge purchase.

It is not all doom and gloom - the older generation has been witness to the regulatory improvements made over time in the industry. This we can attribute to the introduction of the Treating Customers Fairly ("TCF") Act[1] in 2011 (formally integrated into the **Policyholder Protection Rules (PPRs)** in 2017).

As a refresher, under the TCF regime *"regulated entities are expected to demonstrate that they deliver the following six TCF Outcomes to their customers throughout the product life cycle, from product design and promotion, through advice and servicing, to complaints and claims handling:*

- *Customers can be confident they are dealing with firms where TCF is central to the corporate culture*
- *Products & services marketed and sold in the retail market are designed to meet the needs of identified customer groups and are targeted accordingly*
- *Customers are provided with clear information and kept appropriately informed before, during and after point of sale*
- *Where advice is given, it is suitable and takes account of customer circumstance*
- *Products perform as firms have led customers to expect, and service is of an acceptable standard and as they have been led to expect*
- *Customers do not face unreasonable post-sale barriers imposed by firms to change product, switch providers, submit a claim or make a complaint."*

[1] https://www.fsca.co.za/Regulatory%20Frameworks/Pages/Treating-customers-fairly.aspx

Admittedly, the few people we surveyed are a small proportion of the wider industry and its policyholders, boasting a total of approximately 7.4 million[2] insured people in South Africa. What is interesting is that the people who were surveyed have access to social media, smart phones and the wealth of information that comes with it. While we expect the extent of product knowledge to be much lower in the lower LSM markets, we also recognise that the products offered in these markets, for example phone insurance, funeral cover, hospital cash back plans and credit life are much more simplistic in nature. Consequently, the industry could probably still focus on developing engaging yet educational material for the more complex products.

## Communicating your value

> The ask from the general public is simple – *sell us what we understand or make us understand what you sell!*

In my research I asked participants to include one question they would like answered by the industry and the resounding response is **more information**. Now in the age of social media, we know that it is very possible to package complicated information into funny reels, thought provoking story boards and provocative adverts. Currently, the industry is set on communicating its value and differentiators, but little on the intricacies of the products they offer. Now is the time to capitalise on the marketing opportunity as a tool to upskill policyholders on what is possible and to be chosen for clarity over pricing.

In addition, the following three questions were of material interest to surveyed participants:

01 **What is my right as the customer [insured]?**

02 **Why do claims never get paid?**

03 **Why can't I get a portion of my premiums back when I cancel after not claiming for years?**

Several studies state that the average premium penetration rate in South Africa is around 11% of GDP. Assuming a linear correlation between penetration and the number of individuals covered, around **6.8 to 7.4 million South Africans** likely have some form of insurance.

This again highlights the need for insurers to share more information to help customers understand the value of the products they are buying and, more importantly, the risk that they are freeing themselves of by buying a policy in the first place.

## Where there's a will, there's a payout

We now discuss the initiatives that insurers can explore to rebuild and restore customer trust. What is important to recognise is that in the long run the "payout" will not only be for the customer but also for the insurer, as insurers now have a chance to lead with clarity, earn trust and future-proof their relevance in the market.

### Prioritise education over entertainment

Improving consumer education is key to capturing the market. Even though insurance is an important product to have, the benefits are not easily identifiable. As a result, even those who can afford to take out an insurance product, shy away from buying it because they are not aware of or understand the benefits.

Recent trends show that insurers who focus on accessible clarity and digital education tools are seeing enhanced financial inclusion outcomes for policyholders[3]. In the context of an evolving insurance landscape, particularly in South Africa, prioritising product education over entertainment-driven advertising is essential for building consumer trust and closing critical coverage gaps.

Looking at how this can be practically achieved, an example would be for an insurer to implement a "Cover Clarity Corner" in campaigns. Insurers can feature one concise piece of key information about products being marketed that clearly outlines "What's Covered vs. What's Not". Everyday language should be used to empower consumers to make the right purchase and foster long-term trust through transparency.

[2] Several studies state that the average premium penetration rate in South Africa is around 11% of GDP. Assuming a linear correlation between penetration and number of individuals covered, around **6.8 to 7.4 million South Africans** likely have some form of insurance (life, health, property, etc.).

[3] https://uchief.co.za/trends-shaping-financial-inclusion-in-south-africas-insurance-industry/

### Leverage interconnected data platforms

We have seen several players in the South African market implement interconnected data platforms successfully through the use of multiple and consented data sources to curate the most reliable offer and elevate the customer experience. As an enhancement to this, insurers need to consider how to effectively and transparently share the thought process that goes into determining premiums or premium rate increases. Personally, unless I ring my car insurer, I receive an email once a year letting me know that my premiums have increased. The factors going into this process, which can be complex no doubt, are not always shared in a transparent manner.

Apart from making the customer happy, interconnected data platforms assist with closing the data silo gap across underwriting, claims and sales, enabling real-time risk assessment, fraud detection and bespoke pricing models. The KPMG Corporate Treasury News, Edition 154, May 2025, covers how the German banking market is already exploring this concept[4].

Drawing from this article, one can implement a “Transparent Insight Portal”. A secure, customer-accessible dashboard that discloses how a policyholder’s data is used to calculate premiums, detect fraud or customise products, demonstrating transparency and governance and fostering trust in digital underwriting and pricing.

### Inclusion is the business model

Product accessibility in the lower LSM market is often limited to the “cheaper” funeral products. What about the informal taxi industry? According to an article published by Finance Africa, the taxi industry generates around R90 billion[5] in revenue annually – where is the business interruption cover for this industry? The vehicle insurance on paid-off vehicles no longer mandated by banks to be insured - what product can be offered to ensure the asset remains adequately protected? How will Mr Mhayise, who works from 4am to 10pm and doesn’t care for billboards, know that he can take out insurance on his vehicles and what that insurance means for him when his vehicles get burned during a taxi strike? Or gets damaged during floods?

M-Pesa, Africa’s most successful mobile money service and largest fintech platform, has proven that access is the key to growing the pie.

This platform allows users to store, send and receive money using a mobile phone, bypasses the need for traditional banking mechanisms and has made a significant impact[6] on business in the East Africa region. The key lesson here being that easy access allows for higher levels of inclusion of previously inaccessible markets.

Learning from this simplistic approach to providing financial services, the South African insurance market is ripe with opportunity to grow the customer base and industry.

## A new challenge to grow

The time for fine print T’s and C’s is long gone. Customers are no longer swayed by catchy phrases or bright colours; what is of importance to them is being aware of what they are purchasing and that their money will work for them in times of need. The key to success lies in education, transparency and allowing access to information.

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[4] https://kpmg.com/de/en/home/insights/2025/05/integrated-databases.html

[5] https://financeinafrica.com/insights/taxing-minibus-taxis-south-africa/#:~:text=With%20an%20estimated%20annual%20revenue%20of%20%244.74%20billion,contribution%20especially%20as%20it%20concerns%20corporate%20income%20tax.

[6] https://www.the-star.co.ke/news/2024-11-07-how-m-pesa-mobile-data-boosted-safaricoms-half-year-revenue


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# Rethinking risk: the insurance industry's role in nature protection

Nature and biodiversity risks, while generally not as well understood as climate-related risks, are important and relevant risks for insurers. Due to their perceived complexity, insurers may face nature-related risks that are not yet adequately captured in their current risk assessment frameworks or models. This gap can lead to an underestimation of the actual environmental, social and governance (ESG) risk exposure, reducing an insurer's capacity to effectively manage growing nature-related threats - ultimately resulting in a financial risk to the insurer[1].
Understanding this risk is therefore imperative to support the mobilisation of capital away from activities that are harmful to nature and towards those that restore and protect nature.

Martine Botha, Sustainability Senior Manager at KPMG, sat down with Candice Dott, Director of Global Market Engagement at the Taskforce on Nature-related Financial Disclosures (TNFD), to unpack why insurers should start considering nature-related risks as part of their ESG risk frameworks. This article provides background on the TNFD recommendations and guidance as well as practical insights for insurers on how to begin to understand nature-related risks.

## Can you briefly explain what the Taskforce on Nature-related Financial Disclosures (TNFD) is, and why it was established?

"The TNFD is a global, market-led initiative aimed at helping organisations assess, report and act on their nature-related dependencies, impacts, risks and opportunities. Launched to mirror and expand on the success of the Task Force on Climate-Related Financial Disclosures (TCFD), the TNFD supports decision-making that incorporates the four realms of nature: land, freshwater, ocean and the atmosphere. The TNFD enables companies and financial institutions to better integrate nature-related risks into risk management and strategic planning by building on science-based principles and stakeholder engagement, including with Indigenous Peoples and Local Communities and affected stakeholders."

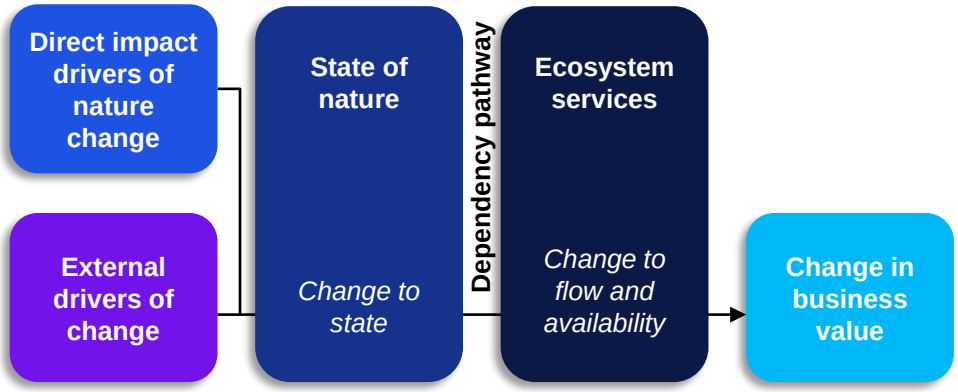
## Why should insurers based in South Africa be concerned about biodiversity loss and nature-related risks?

"South Africa is one of the world's most biodiverse countries, with ecosystem services essential to sectors like agriculture, tourism, mining and water provision. Nature and biodiversity losses can pose material underwriting and investment risks to insurers through their exposure to sector-specific vulnerabilities. Degrading natural systems can increase the frequency of claims, shift underwriting profiles and compromise financial stability. Examples of this include soil degradation which affects crop yields, and flooding risks amplified by mangrove and wetland destruction. All of these are real risks that insurers are already having to consider.

If we unpack this in greater detail, wetlands provide natural flood protection for residential and commercial properties, as well as agricultural land. They function as buffers by absorbing excess rain and surface water, thereafter releasing this excess rain slowly over time. This process helps moderate water flow, lower peak flood levels and reduce rapid runoff, ultimately decreasing flood-related damage. However, when wetlands are degraded due to activities such as land development, farming expansion or pollution, their capacity to manage and store water is compromised. This can lead to more intense flooding after heavy rainfall, resulting in lower agricultural yields and income, higher property damage and greater insured losses. By understanding these nature-related dependencies, insurers can better evaluate how changes in ecosystems may give rise to physical nature-related risks and associated financial impacts."

[1] Murphy, D. (2025) 'Insuring against extreme heat: navigating risks in a warming world', *World Economic Forum*, 17 January. Available at: https://www.weforum.org/stories/2025/01/insuring-extreme-heat-navigating-risks/ (Accessed: 21 July 2025).

**Figure 1: Dependency pathway diagram**




***Source:*** *Rooted in Risk, UNEP FI*[2]

*Nature-related dependencies refer to the environmental assets and ecosystem services that individuals, households or organisations rely on. To fully understand these dependencies, it is important to consider the dependency pathway. For insurance underwriting portfolios, considering the dependency pathway can be especially useful for understanding how ecosystems and nature-based solutions can contribute to reducing physical hazards from natural perils, thereby potentially reducing damages or losses.*[2]

"Another good example which is pertinent to Johannesburg is the extent and prevalence of heat islands. A heat island is defined as an urban area having a higher average temperature than its rural surroundings owing to the greater absorption, retention and generation of heat by its buildings, pavements and human activities. Due to urban expansion, an increase in heat islands has been observed. Extreme heat is becoming an increasingly significant risk for the insurance sector, particularly affecting property, specialty and life and health lines. It heightens the likelihood of power outages and wildfires and can also harm or disrupt transportation, water and energy systems, ultimately leading to a rise in property and specialty insurance claims."

**Quick fact:** As some of the largest asset owners globally, insurers face significant investment risks because of extreme heat. By 2035, extreme heat is projected to cause USD2.4 trillion in annual productivity losses and USD448 billion in annual fixed asset losses for publicly listed companies. Despite this, insurers continue to spend more money on responding to these risks than preventing them. According to the World Economic Forum, despite every dollar spent on risk reduction yielding USD13 in long-term benefits, 88% of disaster funding remains allocated to post-event response[1].

## Increasing global temperatures and biodiversity loss: a human health crisis

A recent Lancet article[3] argues that as the climate warms and ecosystems falter, we are no longer facing a purely environmental crisis, but a full-scale public health emergency**.**

The landmark study synthesises decades of scientific data to show how transgressing the nine planetary boundaries[3], ranging from climate and biodiversity to pollution and freshwater, is already inflicting widespread harm on human health and is likely to drive a growing share of global disease in the coming decades[3].

## How does biodiversity risk differ from climate risk in terms of impact and measurement for insurers?

"Rising global temperatures, extreme weather events and disruption to ecosystems have become common occurrences. Yet climate change is not merely an environmental issue. It is a human issue affecting food scarcity, public health, migration patterns and economic stability, amongst others.

Nature plays a central role in mitigating climate change. Forests, oceans and wetlands act as carbon sinks, absorbing vast quantities of carbon dioxide from the atmosphere, slowing the pace of global warming. Yet when we degrade these ecosystems through deforestation, overfishing or pollution, we not only lose the invaluable services that these ecosystems provide, but these affected ecosystems begin to contribute to the acceleration of climate change.

While climate risk is now widely understood and standardised through metrics like the Greenhouse Gas Protocol, biodiversity risk is more localised, complex and difficult to quantify. Nature-related risks are often non-linear and spatially specific and are unique to different countries and biomes. While carbon emissions can be quantified uniformly across borders, biodiversity is context-specific, reflecting the unique ecological characteristics of each country and region.

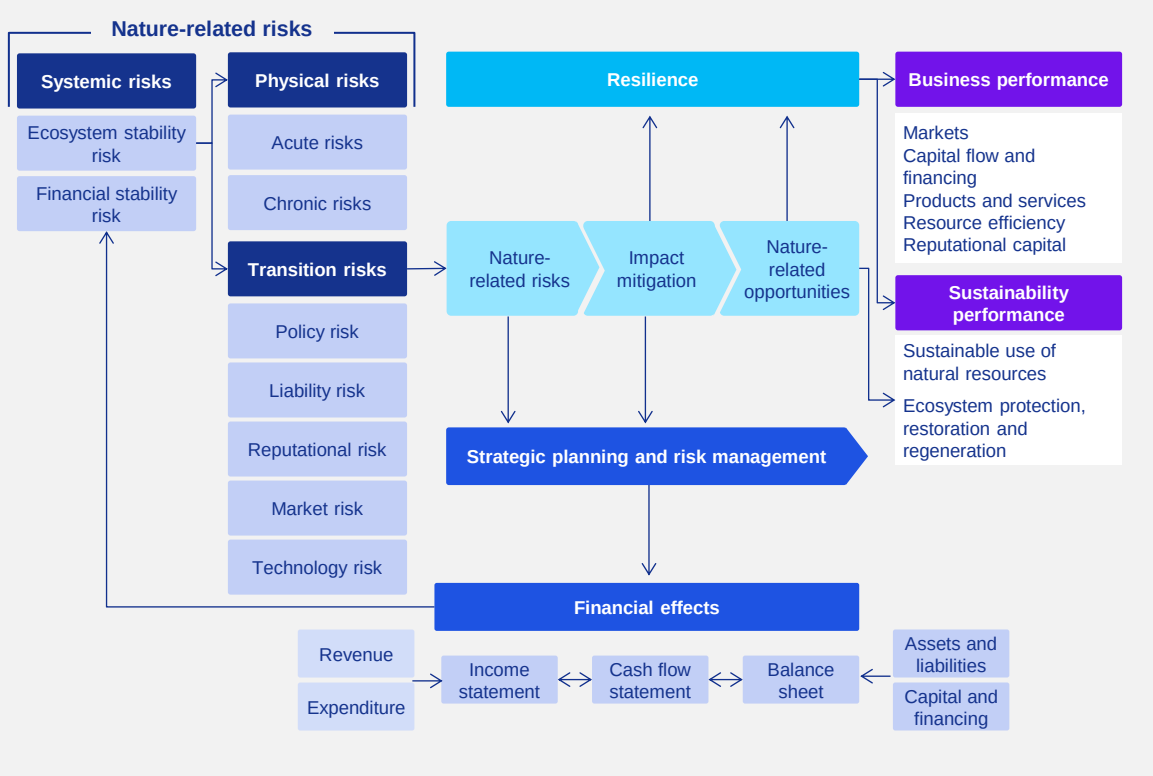
[2] **UNEP FI.** (2024) *Rooted in risk: framing nature-related assessments for insurers*. United Nations Environment Programme Finance Initiative. [online] Available at: https://www.unepfi.org/industries/insurance/rooted-in-risk-framing-nature-related-assessments-for-insurers/ [Accessed 18 Jul. 2025].

[3] **UNEP FI.** (2024) *Rooted in risk: framing nature-related assessments for insurers*. United Nations Environment Programme Finance Initiative. [online] Available at: https://www.unepfi.org/industries/insurance/rooted-in-risk-framing-nature-related-assessments-for-insurers/ [Accessed 18 Jul. 2025].

In order to bridge this gap, the TNFD developed a metrics framework with fourteen core indicators. Five of these indicators relate to the risks to and opportunities for businesses, while nine indicators relate to dependencies and impacts on nature. These indicators are designed for consistency and comparability across sectors and regions.

The indicators also support investor needs and enable third-party assurance, all of which is fundamental in enabling trust and transparency and helping integrate nature into financial decision making."

**Figure 2: Nature-related risks and opportunities and financial effects**




**Source:** TNFD[4]

*This diagram from the TNFD shows how nature-related risks - systemic, physical and transition - can impact an insurer's resilience, strategic and financial outcomes. By identifying these risks and pursuing mitigation, adaptation and nature-positive opportunities, businesses can enhance both sustainability and performance. Ultimately, managing nature-related risks effectively supports long-term business value through improved financial health, risk resilience and environmental stewardship.*

[4] Nature -related risks & opportunities – The TNFD recommendations, Available at: AP3C Introduction to TNFD Recommendations

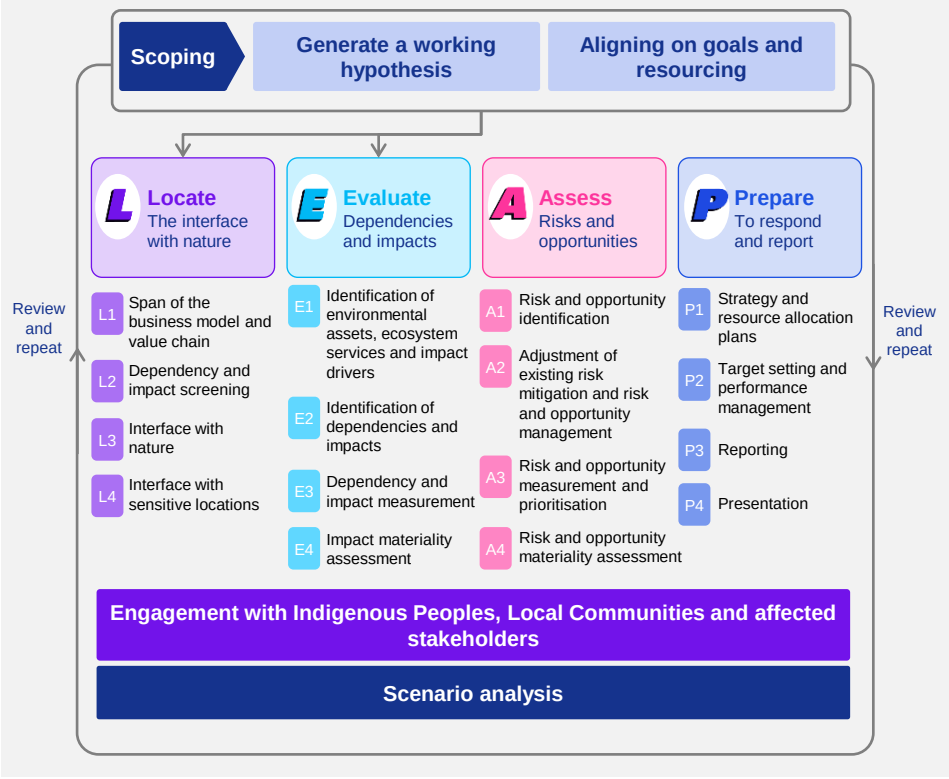
## How can the TNFD help insurers identify, assess and disclose nature-related risks and opportunities?

"The TNFD introduces the LEAP approach - Locate, Evaluate, Assess and Prepare - as a step-by-step methodology to help organisations understand and manage their interface with nature. This includes identifying priority locations, assessing impacts and dependencies and building mitigation strategies. Insurers do not need perfect data to get started; rather, one can begin with existing environmental data and expand from there. With this understanding, organisations can then take steps to mitigate that risk, identify nature-related opportunities and move towards nature-positive outcomes.

The information collected during the LEAP approach can support reporting efforts, as governments, standard setters and regulators are requiring increased nature-related transparency in the same way we have seen climate risk disclosures evolve. Furthermore, we are seeing institutional investors and asset owners expanding their stewardship guidance to include nature, no longer just limited to climate, because of a growing recognition of nature-related issues such as deforestation, water stress and the collapse of pollinators. All issues that will have direct implications for long-term value creation and systemic resilience.

By starting with the LEAP approach, businesses can begin to integrate nature into strategic decision making. The process is not just about environmental stewardship; it can help to identify areas that may require risk management, operational continuity and regulatory compliance. This is especially pertinent to an insurer, where managing risks - including understanding, preventing, reducing, carrying and sharing risk - is its core business. There are also various opportunities that may present through a LEAP approach, for example identifying the need for new products, processes and services, which can in turn lead to new brand and reputational opportunities. Ultimately, a LEAP approach can help future-proof business models in a world where nature is increasingly material to financial performance."

**Figure 3: LEAP approach: an optional approach to help organisations identify and assess nature-related risks and opportunities**




**Source:** Guidance on the identification and assessment of nature-related issues: the LEAP approach – TNFD[5]
LEAP is an integrated approach developed by the TNFD to identify and assess nature-related risks and opportunities. It is designed for use by organisations of all sizes across all sectors and geographies. There are various resources available through the TNFD website for further details on this approach.

## Are there any TNFD adopters or case studies of insurers implementing TNFD-aligned practices?

"Yes, globally, 22 insurers have already adopted the TNFD recommendations, including AXA Climate, which has created detailed use cases around underwriting and portfolio mapping. In Africa, Kenya currently leads in adoption. Notably, Japanese insurers are also setting a strong example, integrating nature considerations into both underwriting and product development."

| Insurer | Initiatives and actions |
|---|---|
| **Allianz Insurance group - Germany** | Allianz conducted a LEAP-aligned assessment across asset classes, including insurance portfolios, to map dependencies, impacts, risks and opportunities on biodiversity. Allianz has also started with implementation plans in respect of a systematic biodiversity strategy, with sector-specific data aggregation and integration into investment decision-making[6]. |
| **AXA and AXA XL Insurance - France** | AXA is on the TNFD Taskforce and is an early TNFD adopter. AXA XL has started mapping nature-related risk heatmaps, geospatial overlays and exploring nature-positive underwriting and products[7]. |
| **MS&AD Insurance Group - Japan** | MS&AD Insurance is on the TNFD Taskforce and is an early TNFD adopter. They also support TNFD adoption via the Japanese consultation group. They provide consulting and tools including the Foundation for Nature and People's Sustainability (FANPS) diagnostic, workshops and a biodiversity risk quantification application. This application assesses short-, medium- and long-term nature risks across operations and value chains using LEAP and provides tailored TNFD-aligned consulting to clients[8]. |

[5] Taskforce on Nature-related Task force on Financial Disclosures (TNFD), 2023. *TNFD in a Box Module 4: The LEAP Approach.* [pdf] Available at: https://tnfd.global/wp-content/uploads/2023/11/TNFD-in-a-Box-Module-4_-The-LEAP-Approach.pdf [Accessed 25 Jul. 2025].

[6] Allianz biodiversity case study – TNFD

[7] AXA, 2025. *Taskforce on Nature-related Financial Disclosures (TNFD).* [online] Available at: https://www.axa.com/en/commitments/tnfd-taskforce-on-nature-related-financial-disclosures [Accessed 25 Jul. 2025].

[8] MS&AD Insurance Group, 2025. *Initiatives for Biodiversity and TNFD.* [online] Available at: https://www.ms-ad-hd.com/en/csr/quality/creature.html [Accessed 25 Jul. 2025].

## What role does data and technology play in enabling insurers to assess and manage nature-related risks effectively?

“Nature-related data is crucial but remains fragmented. The perception in the market that there is a lack of nature-related data is misleading. Pilot testing of the draft TNFD framework revealed that many organisations were surprised by the amount of nature-related data they already had in their organisations. However, such data had typically not been shared across the organisation. Another issue with data is that it is often unstructured, incomplete and does not meet the audit and assurance requirements that business and finance require. Geospatial technologies, satellite imagery, artificial intelligence and supply chain logs are being harnessed to bridge this gap. In addition, the TNFD’s data initiatives include the concept of a nature data public facility (NDPF), helping address key issues like data availability, usability, interoperability, auditability and verification.

Nature and biodiversity data is important for insurers, as it can more accurately paint a picture of the risk landscape. In a recent study done by Allianz, it was found that portfolios most exposed to equities and the agricultural and food services sectors feel the pinch of biodiversity loss most. The study explores how pollination services loss, i.e. the loss of pollinators like birds, bats and insects, could impact crop production and farm yields and therefore the portfolio of an insurer. To counter this, insurers could promote the use of less artificial inputs such as pesticides, improved precision farming techniques and resources and habitat protection for pollinators to thrive (biocontrol and ecological principles)[9]. The key message from this being that these useful insights can be obtained through the effective use of data.”

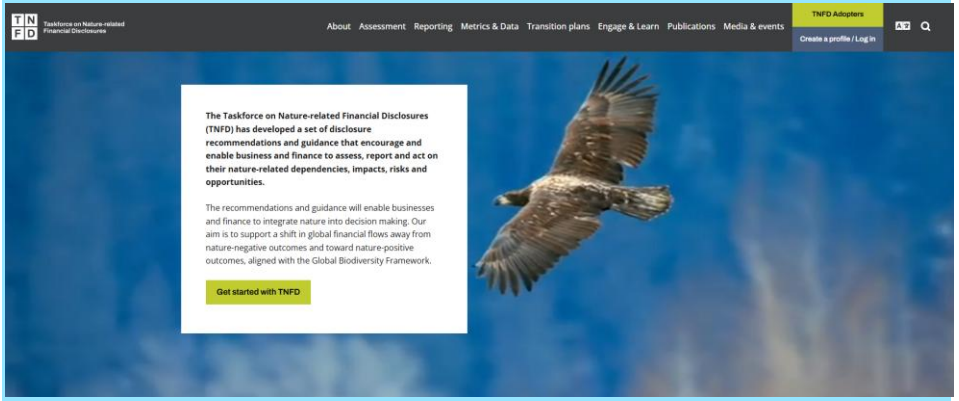
**Practical examples of biodiversity data usage for insurers:**

- A **property insurer** might use **floodplain and wetland location data** to price flood insurance more accurately and identify risks from degraded natural buffers.
- A **life insurer** may evaluate **heat stress zones** and water access to assess long-term mortality trends in certain geographies.
- A **reinsurer** can overlay **species loss or ecosystem service degradation** to evaluate systemic risks in agriculture-heavy portfolios.
- An **underwriter for agribusiness** could assess **soil degradation or pollination service loss** as part of risk profiling.

## What would your recommendations for next steps be for insurers starting out on this journey?

“Begin with awareness and internal capacity-building using the TNFD’s ‘Engage & Learn’ material on the TNFD website. This includes a Learning Lab for individuals and free to use training material and slides on the online Trainer Portal. From there, we recommend that insurers start piloting the LEAP approach on a manageable business segment. There is also much learning to be gained from public case studies and LEAP use cases. Join the TNFD Forum to stay updated. Above all, progress over perfection - getting started is the most important step.”

For more information about how you can start your TNFD journey, visit The Taskforce on Nature-related Financial Disclosures (https://tnfd.global/).




[9] Allianz Trade. (2023). *Biodiversity loss abatement measures: What role for investors and insurers?* Available at: https://www.allianz-trade.com/en_global/news-insights/economic-insights/biodiversity-loss-abatement-measures.html [Accessed 28 Jul. 2025]. [Accessed 28 Jul. 2025].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# Chaos, ethics and insurance: reforming insurance to address volatility

Insurance is a social good. Its purpose is to protect the wellbeing and prosperity of society through market mechanisms, thereby supporting economic and social stability. When it functions as intended, consumers address their need for security and peace of mind (as long as they can afford it), and insurers make a profit (as long as the cost of covering consumers is calculable and manageable). A well-functioning insurance sector also serves the interests of the state, allowing it to allocate public funds in other ways and to position the social safety net optimally.

However, as the frequency and intensity of natural and human disasters increase, and a divided world dishes up ever more geopolitical tension and social unrest, the insurance industry, with all the interests it serves, faces catastrophe. This became clear earlier this year when wildfires ravaged Los Angeles, destroying 17 000 homes and structures, burning 220 km$^2$ of land and causing USD100 billion in damage, much of it uninsured. It was a natural disaster in an area prone to natural disasters, and yet models and forecasts did not predict the severity of the fires, its penetration into suburban areas, or the extent of the damage it would cause. Moreover, insurers had already started limiting or withdrawing cover from this area, due to the costs associated with reinsurance and reconstruction, which, when mitigated through premium increases, made insurance policies unaffordable and/or unprofitable.

Similar challenges of (un)insurability are emerging across the globe, for example in Australia (related to bushfires) and in South Africa (related to flooding, most recently in the Eastern Cape). In its 2025 Financial Stability Review, for instance, the South African Reserve Bank found that uninsurable risks connected to climate change were rising, with implications for banks. It highlighted that "[physical risks of climate change such as damage to property, land and infrastructure translate into financial risks – such as defaults on loans for the banking sector"[1].

By all accounts the frequency and intensity of natural disasters will not abate; instead, such events are likely to increase in number and force.

The teetering state of world politics, combined with the socio-economic challenges in countries like South Africa, also summon the spectre of political risk (or so-called SRCC threats – Strikes, Riots and Civil Commotion).

For the insurance industry, this leaves a couple of scenarios. First, one could maintain the status quo, attempting to mitigate increased risk through an increase in premiums. However, over time consumers would not be able to afford cover, insurers' businesses would shrink and society would lose the benefits of a functioning insurance industry. Second, innovative products could be developed to address the new and unique risks posed by natural and human disasters. One such option is "parametric insurance", a product already being used in cities like Istanbul, Tampa, Tokyo and Mexico City. Parametric insurance "…pays a predefined amount out when a specific type of event reaches a predefined magnitude"[2]. While such products could help in the short-term, it too may become unaffordable as disasters increase.

[1] Cf. Omarjee, L. 2025. "How GDP could shrink if SA does nothing about the climate crisis". News24. Available at: SEE | How GDP could shrink if SA does nothing about the climate crisis | News24 [Accessed: 22 June 2025] (https://www.news24.com/business/climate-future/news/see-how-gdp-could-shrink-if-sa-does-nothing-about-the-climate-crisis-20250619-1000#:~:text=In%20a%20hypothetical%20situation%20where,Financial%20Stability%20Review%20on%20Thursday.).

[2] Cf. Johansmeyer, T. 2025. "The LA Fires Could Change the Insurance Industry" in *Harvard Business Review* (22 January 2025). Available at: https://hbr.org/2025/01/the-la-fires-could-change-the-insurance-industry [Accessed 23 June 2025]

The third option is therefore to combine innovative policies with reform in the insurance industry[3]. By aligning their products with Sustainable Development Goals (SDGs), the insurance industry can address the challenges that threaten it (and society in general) with catastrophe. Practical steps insurance companies could take can be divided into three categories: supporting resilience, incentives and disincentives and private-public collaboration.

### Supporting resilience

Instead of covering the reconstruction costs "like-for-like" after a natural disaster, insurance companies can advocate that resilience be built into structures when they are re-built. For instance, instead of rebuilding a highly flammable structure in an area prone to wildfires, more fire-resistant materials can be used, such as clay tiles, cement and brick.

Insurers can offer lower premiums for individuals and businesses who invest in disaster mitigation measures, for instance, against floods. These can include: the elevation of homes, waterproofing basements and sealing foundations.

### Incentives and disincentives

Insurance companies can help reduce carbon emissions with products that offer lower premiums for the adoption of green technologies. Beyond discounts for climate-friendly behaviour, insurers can also provide risk financing for new technologies, including sustainable agricultural practices[4].

Insurers can contribute towards disincentivising climate-damaging behaviour. This can be achieved by declining to underwrite counterproductive projects, for instance those linked to fossil fuels; and, by diverting their own capital away from carbon-intensive industries.

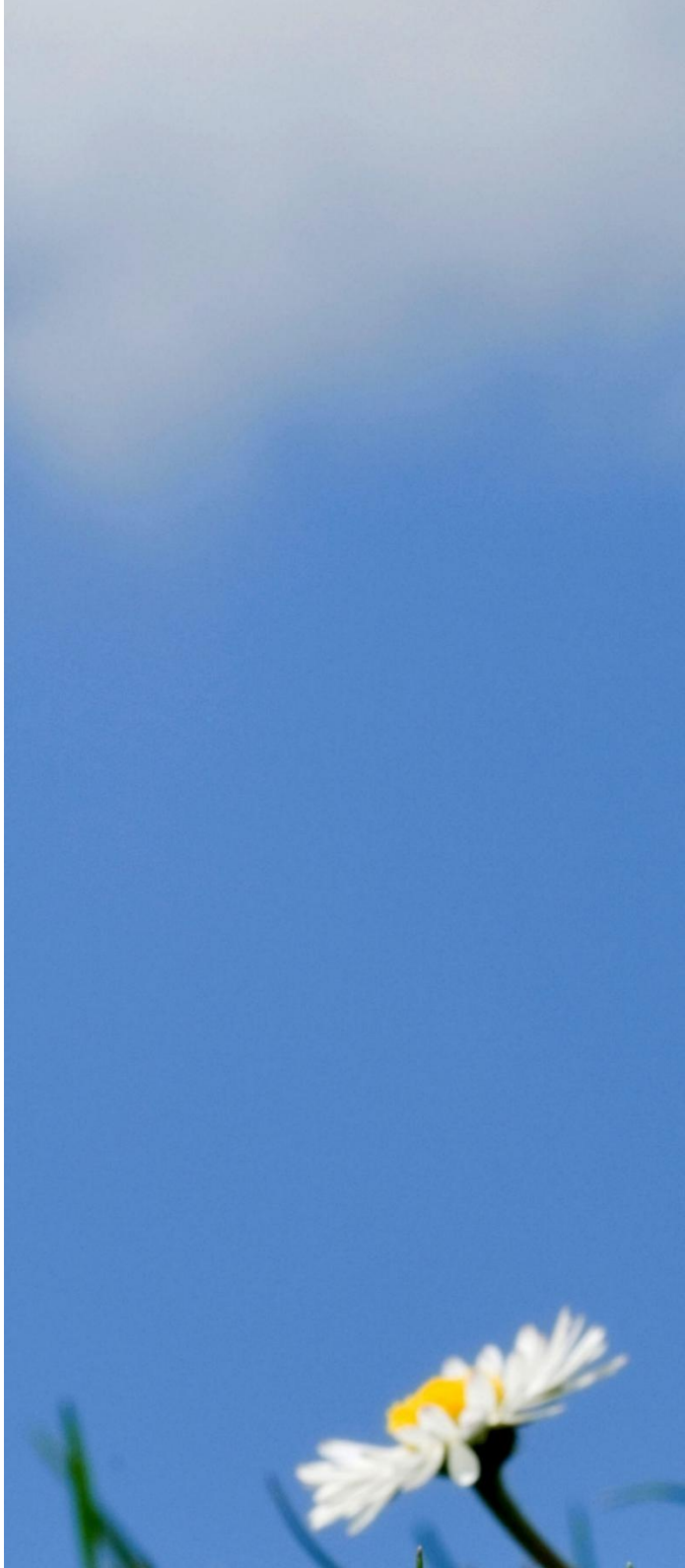
### Private-public collaboration

Insurers can collaborate with government to address natural disasters by sharing risk information (e.g., mapping and predicting natural and human disasters) and helping create awareness among the public.

The ethics of insurance is no longer limited to transparency in policy conditions and treating customers fairly. Continuing to provide insurance on a simple supply-and-demand basis, without regard for the sustainability of this model, could itself be deemed risky, reckless or irresponsible. Reforming insurance so that it can play a different role in nudging its customers and the world towards resilience and sustainability is both enlightened self-interest and ethical business.

[3] This is in line with the recommendations of the Australian Parliamentary Select Committee on "The Impact of Climate Risk on Insurance Premiums and Availability". Available at: Chair's Foreword – Parliament of Australia [Accessed: 23 June 2025] (https://www.news24.com/business/climate-future/news/see-how-gdp-could-shrink-if-sa-does-nothing-about-the-climate-crisis-20250619-1000#:~:text=In%20a%20hypothetical%20situation%20where,Financial%20Stability%20Review%20on%20Thursday).

[4] Cf. The Wharton School. 2021. "Digital Dialogues: Driving Decarbonization through the Insurance Sector". Available at: https://impact.wharton.upenn.edu/engagement/digital-dialogues/driving-decarbonization-through-the-insurance-sector/ [Accessed: 22 August 2025]

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# Climate change: a call for leadership or leading the storm

Since the early 1980s, South Africa experienced 90 major weather-related disasters that resulted in R95 billion in economic losses and directly affected around 22 million South Africans[1]. However, the most alarming statistic is not the scale of past damage, but the glaring protection gap that leaves millions vulnerable to future climate shocks.

With Africa's population recently crossing 1.5 billion and projected to reach 2.5 billion by 2050, the continent faces unprecedented demographic pressures[2]. While rapid population growth brings economic potential and human capital, it also intensifies the very forces driving climate change.

More people results in increased demand for electricity generation, transport and heating, predominantly powered by fossil fuels including oil, coal and natural gas. This demographic shift promises to accelerate greenhouse gas emissions precisely when the continent faces mounting climate vulnerabilities, creating a perfect storm of escalating risks and expanding exposure.

The consequences of climate change have already been felt in South Africa, particularly in the Western Cape. According to the Intergovernmental Panel on Climate Change (IPCC) report, the 2015-2017 Cape Town drought was three times more likely due to human-caused climate change[3].

As extreme weather events intensify and become more frequent, South Africa's insurance industry finds itself at a critical juncture: lead the climate change adaptation conversation or watch both the industry and broader economy buckle under mounting pressure.

## The canary in the climate coal mine

Insurance companies occupy a unique position in South Africa's economic ecosystem. Unlike other industries that react to climate change after the damage is done, insurers are the early warning system: the proverbial "canaries in the coal mine". They see the patterns before they become headlines, the emerging risks before they become catastrophes and the financial implications before they become fiscal crises.

This foresight comes with responsibility. Garth Napier, who serves as the managing director of Old Mutual Insure Limited, recently warned that "climate change poses the most significant threat for South African insurance companies and risks raising premiums and the cost of reinsurance[4]". This was not only an industry observation, but also a call to action for South Africa. The insurance sector's unique advantage makes it not just a stakeholder in climate change adaptation, but a natural leader in driving forward the conversation.

The need for this leadership role became clear with the Cape Town Day Zero crisis and in 2022 when South Africa experienced one of the worst floods in its history. The 2022 KwaZulu-Natal (KZN) floods saw over 400 people lose their lives, over 4 000 homes destroyed, 40 000 people left homeless and 45 000 people temporarily unemployed. The cost of infrastructure and business losses amounted to an estimated USD2 billion.

**2022 KwaZulu-Natal floods**

| over 400 | over 4 000 | 40 000 | 45 000 |
|---|---|---|---|
| lives lost | homes destroyed | left homeless | temporarily unemployed |

The cost associated with responding to Day Zero was also monumental with the drought alone costing the Western Cape government more than R5 billion, reducing the production of deciduous fruit, wine and citrus and contributing to the loss of 25 000 jobs[5].

***When individual disasters shake an entire industry, the message is clear: the status quo is unsustainable.***

1 https://aon.co.za/insights/the-effects-of-climate-change-on-south-africa-s-insurance-industry/
2 https://www.uneca.org/stories/%28blog%29-as-africa%E2%80%99s-population-crosses-1.5-billion%2C-the-demographic-window-is-opening-getting
3 https://www.ipcc.ch/report/ar6/wg2/chapter/chapter-9/ (please download full booklet)
4 https://www.bloomberg.com/news/articles/2024-01-29/climate-change-risks-raising-south-africa-premiums-insurer-says
5 https://www.treasury.gov.za/comm_media/press/2025/Municipal%20DRF%20approaches%20in%20SA_Final%20report-%20WB%20logo%20_%20edited%20v13.pdf?utm_source=chatgpt.com

## The underinsurance crisis: a national security imperative

The extent of underinsurance in the South Africa context is underscored when examining actual market capacity versus climate risk exposure. South Africa's non-life insurance sector, which covers climate-related risks like floods, infrastructure damage and property losses, as at 31 March 2025 managed R223 billion in total assets and wrote R44.3 billion in annual premiums according to the South African Reserve Bank's latest data[6].

Yet historical climate losses have costed the industry far in excess of the amounts noted above and demonstrate how quickly major climate events can overwhelm well-developed insurance markets. This gap is not just reflective of a potential market failure; it is a national vulnerability risk that transforms government into the reluctant insurer of last resort.

According to Swiss Re, South Africa faces a significant natural catastrophe protection gap, with 71% of losses over the past decade uninsured, despite a well-developed insurance sector[7]. Municipalities, which own local assets and manage disaster response, are particularly underinsured due to constrained budgets, limited risk management capacity and poor understanding of risk transfer options[5].

When disasters strike underinsured populations, the financial burden does not simply disappear. Instead, it shifts to government coffers, aid organisations and individual citizens who can least afford to bear it. The result: a "double storm" of increased risk of extreme weather events, combined with inadequate insurance coverage that leaves governments, businesses and citizens exposed to financial devastation.

The human cost of this protection gap is measured not just in immediate disaster response, but in long-term developmental setbacks. Resources that should fund education, healthcare and infrastructure development instead get diverted to disaster recovery. Communities that should be building resilience against future climate impacts instead spend years simply recovering from the last catastrophe.

The South African government, through the Department of Cooperative Governance, established the National Disaster Management Centre (NDMC). The NDMC has two sets of emergency funding: the Provincial Disaster Grant and the Municipal Disaster Grant. Both grants are administered by the NDMC in consultation with National Treasury. Even though the grants are available, based on available information, it is rather onerous for municipalities to access these grants. This results in municipalities rather reallocating or reprioritising budgets when natural disasters occur.

Based on the available disaster risk financing instruments available and utilised, budget reprioritisation is at the top of the list with a 92% uptake rate, followed by utilisation of the response grant at 76%, insurance at only 32% and contingency reserves at 8%[5].

The response grant is funded by the government's contingency reserve. The central contingency reserve is allocated approximately R5 billion annually for unexpected financing needs. However, this reserve is not earmarked for natural disasters and is sometimes used for other budgetary items such as bailouts or to meet the public wage bill. If depleted early in the budget cycle, funds may be unavailable. Once this happens, the government needs to reallocate funds from other grants or wait until the next budget cycle. What is interesting to note is that in the most recent budget announcement earlier in 2025, the contingency reserve budget was reduced from R8 billion to R5 billion[8].

Recent international recognition of this challenge has prompted action at the highest levels. The World Bank is now advising South Africa's National Treasury on developing a comprehensive climate risk strategy[9], acknowledging that the current approach to disaster management is both financially unsustainable and strategically inadequate. This level of attention signals that the insurance gap has evolved from an industry concern to a matter of national economic security.

## Government as the reluctant insurer of last resort

According to the National Disaster Risk Finance (DRF) diagnostic, disaster relief costs amounted to an average of R3.7 billion per year, with 86% of losses uninsured. The annual funding gap is projected to exceed R2.3 billion, compared to the current pre-arranged funding of R1.4 billion[5].

With the extent of shortfall in being able to adequately fund disaster scenarios, government inevitably becomes the default insurer of last resort. This is not a role that any government actively seeks, but it is one that South Africa's various levels of government find themselves in with increasing frequency. Every uninsured flood victim who receives government assistance, every business that gets post-disaster support, every community that relies on state resources for reconstruction, represents a transfer of risk from the private insurance market to public finances.

6 https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-selected-south-african-insurance-sector-data/2025/Selected%20South%20African%20Insurance%20Sector_March_2025.pdf

7 https://www.swissre.com/risk-knowledge/mitigating-climate-risk/natcat-protection-gap-infographic.html?utm_source=chatgpt.com#/country/South%20Africa

8 https://www.ewn.co.za/2025/03/13/national-treasury-reducing-vat-increase-means-govt-will-have-less-money-for-rainy-days

9 https://www.bloomberg.com/news/articles/2024-04-24/climate-change-south-africa-considers-insurance-special-fund

The fiscal implications are profound. Climate change means that extreme weather events are becoming more frequent and severe, turning what was once exceptional government expenditures into predictable budget line items. For a country already grappling with high debt levels and constrained public finances, this shift represents a fundamental threat to fiscal sustainability.

Perhaps more importantly, the government-as-insurer model creates a dependency cycle that undermines long-term resilience. When municipalities know that government support will materialise after disasters, the incentive to invest in climate change adaptation and risk reduction diminishes. This creates a vicious cycle where inadequate preparation leads to greater disaster impacts, which require larger government interventions and reduce incentives for future preparation.

## The innovation imperative

The good news is that South Africa's insurance industry is not standing still in the face of these challenges. Innovative products are emerging that address some of the traditional barriers to climate risk coverage. Parametric insurance, which pays out based on predetermined weather parameters rather than assessed losses, offers faster claims processing and lower administrative costs. This makes coverage more accessible for low-income households and small businesses while reducing the moral hazard associated with traditional indemnity policies. Hollard Insure is at the forefront of integrating parametric solutions into their risk management models. By leveraging scientific data like rainfall volumes or wind speeds, parametric insurance provides faster recovery mechanisms, which are particularly vital for vulnerable regions[10].

Santam is already leading the way, using geocoding, predictive analytics and scenario analysis to better understand risks of extreme weather, which helps in underwriting and setting premiums that better reflect true risk[11].

Microinsurance products are expanding coverage to previously underserved markets, while digital platforms are reducing the cost and complexity of purchasing and maintaining coverage. These innovations represent important steps forward, but they also highlight the need for regulatory frameworks that encourage rather than inhibit product development.

## A call for leadership

The path forward requires insurance companies to embrace their unique position as both risk assessors and risk managers. This means moving beyond traditional reactive approaches to become proactive advocates for climate resilience. It means using their data and analytical capabilities to inform public policy and investment decisions. However, working together with government is what will make a real difference.

This is already evident through Santam's Partnership for Risk and Resilience (P4RR) programme which reflects this commitment. "By working with local municipalities and research bodies like the Council for Scientific and Industrial Research (CSIR), we aim to support the development of climate adaptation plans in vulnerable communities. We also focus on collaborative data-sharing and risk assessments to build predictive capabilities that inform disaster preparedness. This systematic approach emphasises the importance of early warning systems and proactive risk management, improving emergency response and disaster management capabilities within these communities. This partnership-based approach highlights insurance's dual role as a risk manager and an enabler of public safety, financial inclusion, and sustainable development."[12]

What is important is recognising that the insurance gap is not just an industry challenge, but a national crisis that threatens South Africa's economic stability and development prospects. The question is not whether South Africa's insurance industry will play a leading role in climate change adaptation, but whether it will choose to lead proactively or be forced to respond reactively. The former offers the possibility of building a more resilient and prosperous future. The latter guarantees continued vulnerability to the perfect storms that climate change will continue to send our way.

The choice is clear and the time for action is now. South Africa's insurance companies must step up to lead the climate conversation with government, not just for their own sustainability, but for the economic security and well-being of the entire nation.

[10] https://www.businesslive.co.za/fm/fm-fox/2025-03-12-native-parametric-insurance-is-crucial-in-building-climate-resilience/
[11] https://www.dailymaverick.co.za/article/2024-02-29-santam-turns-to-ai-to-help-mitigate-natural-disaster-risk/
[12] https://www.santam.co.za/about-us/media-centre/personal-lines/a-new-era-of-risk-insurance-in-a-changing-climate/

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# Understanding the DEMPE concept: origins, components and purpose in transfer pricing

The globalisation of business has led to increasingly complex cross-border intragroup transactions. This is particularly relevant when it comes to the transfer or use of intangible assets, such as intellectual property (IP) related to goodwill, trademarks, brand recognition, software applications and customer lists. In order to create a balanced approach to determining who should receive the return relating to the transfer or use of the intangible asset, and in response to concerns raised around profit shifting and tax base erosion, the Organisation for Economic Co-operation and Development (OECD) introduced the DEMPE concept. The DEMPE concept is a framework established to ensure that profits from intangible assets are allocated in line with the value they created. Specifically in the insurance industry, intangible asset related charges may be significant and, therefore, relevant for transfer pricing considerations.

This article explores the importance of assessing transfer pricing impacts related to intangible assets, the background to the DEMPE concept, why it has become a cornerstone of modern transfer pricing practices, and what this means for the insurance industry.

## Introduction

Chapter VI of the OECD Guidelines for Multinational Enterprises and Tax Administrations **(OECD Guidelines)**[1] sets out detailed guidance regarding the treatment of IP from a transfer pricing perspective. While the South African Practice Note 7 on Transfer Pricing does not contain any specific IP transfer pricing related rules, the practice note makes reference to the OECD Guidelines. In addition to this, the OECD Transfer Pricing country profile[2] for South Africa confirms that taxpayers should start off by referring to the OECD Guidelines regarding intangible asset transactions to ensure compliance with the arm's length principle.

The DEMPE concept was introduced by the OECD to provide more clarity and circumvent attempts in carrying out undesired Base Erosion and Profit Shifting (**BEPS**) practices.

The DEMPE analysis later emerged as a direct response to the OECD's (first) BEPS project.

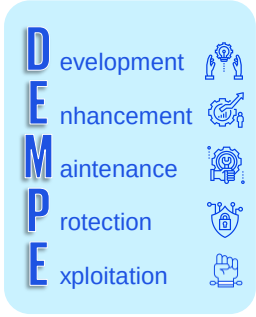
Prior to the introduction of the DEMPE concept, transfer pricing rules often relied on the legal and/or economic ownership of intangible assets to determine the allocation of profits from the use thereof. However, this approach was increasingly seen as insufficient, as it allowed multinational enterprises (**MNEs**) to allocate profits to low-tax jurisdictions where minimal economic activity was being carried out.

The DEMPE framework was developed to address these shortcomings by shifting the focus from legal ownership to the actual economic contributions made by different entities within an MNE group. Guidance with respect to the application of the DEMPE concept is set out in Chapter VI of the OECD Guidelines[1].

## What does the DEMPE concept entail?

The term DEMPE stands for the Development, Enhancement, Maintenance, Protection and Exploitation of intangible assets.

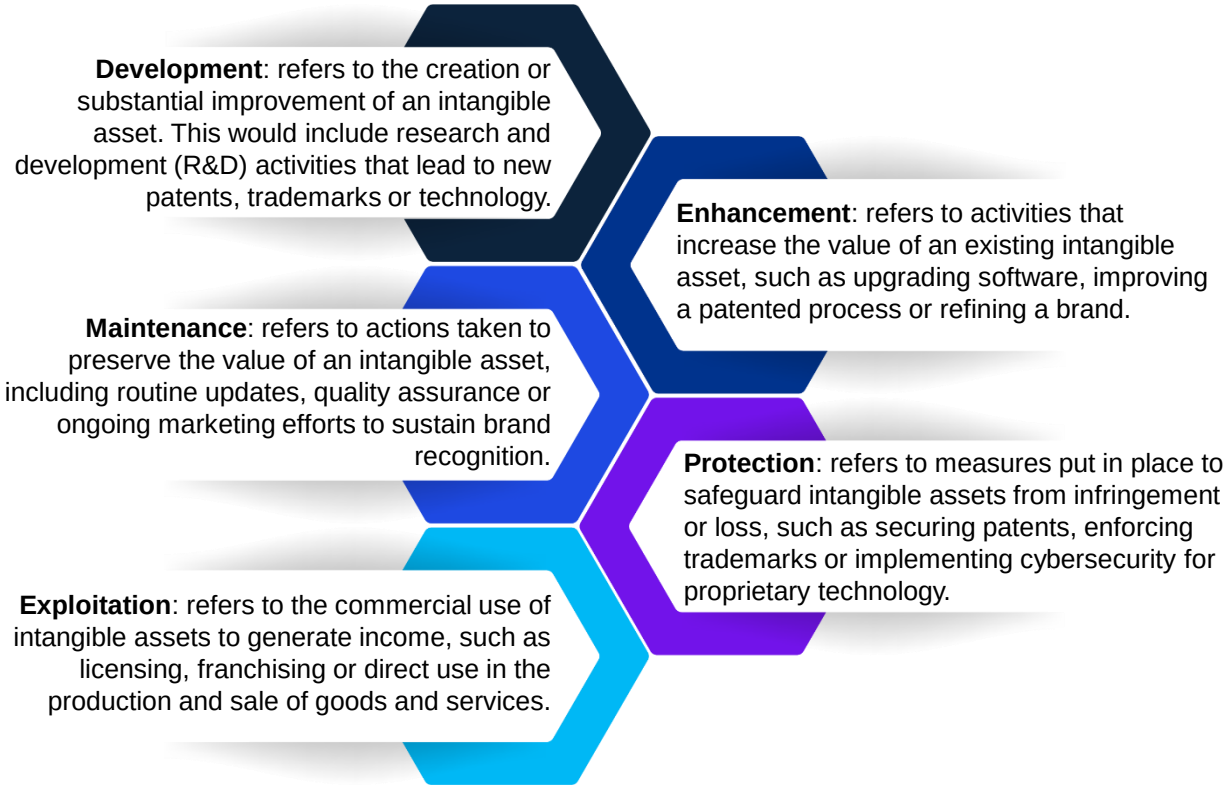
A DEMPE analysis requires a detailed examination of the entities within an MNE group that perform these functions, bear the associated risks and make use of the related intangible asset(s).




[1] As per the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, 2022 (https://www.oecd.org/content/dam/oecd/en/publications/reports/2022/01/oecd-transfer-pricing-guidelines-for-multinational-enterprises-and-tax-administrations-2022_57104b3a/0e655865-en.pdf)

[2] The transfer pricing country profile relates specifically to a country's domestic legislation relating to transfer pricing principles, transfer pricing documentation requirements and administrative compliance requirements. As per the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, 2022.

A brief description of each element is provided below[3]:




A detailed DEMPE analysis requires not only identifying which entity within an MNE group performs these functions, but also assessing the level of control and financial risk assumed by each entity within the MNE group. This would involve a functional analysis, setting out the functions carried out, assets used and risks assumed by each party involved.

## Why was the DEMPE concept developed?

While ownership of an intangible asset is relevant as a critical value driver for many businesses[4], legal ownership is not relevant for transfer pricing purposes. However, what is of importance is understanding which entity or entities perform the relevant DEMPE functions in relation to the intangible asset[5] as this will determine which entity accrues the return.

The primary motivation behind the design and introduction of the DEMPE concept was to combat tax avoidance strategies that could potentially exploit gaps in the international tax system. Before DEMPE, MNEs could shift profits to low-tax jurisdictions by assigning legal ownership of valuable intangible assets to entities in these low-tax jurisdictions, even if little or no substantive activity occurred there. This practice eroded the tax base of those countries where the real economic activity and value creation took place.

By introducing the DEMPE concept, the OECD sought to ensure that profits from intangible assets are allocated to the entities that actually contribute to their value. As indicated above, the analysis requires that returns from intangible asset reflects the real economic activities performed, assets used and risks assumed. If an entity is merely the legal owner of an intangible asset without substantive involvement in DEMPE functions, it should not be entitled to the full residual profits from the intangible asset. Instead, it may only receive a routine return, with the balance allocated to the entities performing the key value-creating functions[6].

This approach promotes fairness and transparency in the international tax system, reducing opportunities for artificial profit shifting and ensuring that tax revenues accrue to jurisdictions where genuine value is created.

[3] As per the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, 2022.
[4] Refer Africa Transfer Pricing Practice Guide, paragraph 9.2.4, 3rd edition 2024.
[5] Refer Africa Transfer Pricing Practice Guide, paragraph 9.2.5, 3rd edition 2024.
[6] OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, 2022, paragraph 6.54

## The relevance to the insurance sector

What does this mean for the insurance industry? For multinational insurance groups, whether headquartered domestically or abroad, the use of data analytics, proprietary IT systems, brand names, logos and trademarks and customer relationship management databases are often essential to business operations and each item may constitute core IP assets. These assets are integral not only to underwriting and claims management, but also to delivering consistent customer experiences across jurisdictions. However, they may be overlooked when determining and incorporating appropriate charges for intergroup services between MNEs. Consequently, the use thereof by group companies may be without compensation, or without appropriate compensation (the former creating a potential transfer pricing risk for South African outbound MNE groups). Ensuring that the value of such IP is properly recognised and compensated for is particularly relevant for insurance groups operating across borders, as transfer pricing and local regulatory requirements may differ significantly between jurisdictions.

The first question that may arise is whether the services are provided to one or more group companies that convey economic value and whether or not the services relate to an intangible asset. This test needs to be broadly assessed as it may not be easy to identify whether the range of services provided are considered valuable. For example, certain regulatory requirements may dictate that head office, directly or indirectly, provides certain regulatory support or confirmation. However, the subsidiary may not regard these activities to be value adding.

In addition, while the focus is not only on the legal owner of the intangible asset, there should also be equal, if not more, focus on who created the value and how and why the value was created. Following on from the DEMPE concept, despite one specific legal entity having ownership of an intangible asset, it needs to be determined if that entity is entitled to the return from the transfer or use of the intangible asset. For example, while the intangible asset may be legally owned by a South African entity, maintenance and enhancement related activities may be provided by another entity, possibly in a different jurisdiction. Thus, the significance of the contribution of the entities carrying out the DEMPE functions must be evaluated.

Furthermore, consideration needs to be given as to whether the charge for the transfer or use of an intangible asset is in compliance with the arm's length principle. This includes assessing whether the transfer or use of an intangible asset should be charged for at all.

For example, there is a risk that a charge is not levied for the use of an intangible asset, or the charge is below what an independent third party would have paid and therefore below arm's length. It is often suggested that a charge is not justified or required on the basis that the intangible asset, for example a brand name, was created and is used in South Africa and the same intangible asset is not provided to subsidiaries abroad. The MNE may be of the view that the subsidiaries create their own local brand and do not rely on the South African intangible asset. Another view is that the South African MNE would not charge a third party for the use of the intangible asset and, therefore, would not charge group companies.

While both views may be supported, we recommend that taxpayers maintain appropriate documentation to support the view taken should the South African Revenue Service (**SARS**) challenge the taxpayer. The burden of proof around whether a transaction complies with the arm's length principle rests with the taxpayer. In practice it will be challenging to prove that not charging for the use of an intangible asset is in compliance with the arm's length principle should supportable documentation not be prepared and maintained. In the case of non-compliance, i.e. where a taxpayer does not charge its cross-border associated enterprise for the transfer or use of an intangible asset, there is a risk of a transfer pricing adjustment, resulting in additional income tax being levied at the current tax rate (or a reduction of an assessed loss), a secondary tax adjustment (in the form of a deemed dividend at 20%), as well as penalties of up to 200% in severe cases, and interest.

However, where an MNE is headquartered abroad, and the intangible asset is licensed to a South Africa based company, there is a risk that the service charge is in excess of what an arm's length charge would be. In this instance, as it relates to the deduction of this expense for the South African entity, the level of any royalty or license fee may be challenged. Accordingly, the taxpayer would need to provide a detailed analysis demonstrating how this fee meets the requirement of an arm's length fee. In addition, from a regulatory perspective, licence fee payments by South African entities to a non-resident recipient would be subject to exchange control approval as well as potential withholding tax.

Given the recent focus by SARS and tax authorities in other African countries on intangible asset transfer pricing treatments, a taxpayer is well advised to carefully consider their approach based on particular circumstances.

## Recent South African case law

Recently, and in line with developments observed in other African countries and across the globe, SARS has significantly intensified its focus on transfer pricing, and in particular IP transfer pricing. This heightened attention is reflected in two recent cases.

In the first case, involving SARS and ABD Limited, SARS contended that the flat royalty rate of 1% charged by ABD Limited to its subsidiaries for the use of its intellectual property was not at arm's length. Although the South African courts ultimately ruled in favour of ABD Limited, the case highlighted the necessity for a comprehensive analysis of the transfer pricing methods applied to intragroup charges. It also underscored the importance for taxpayers to ensure that their transfer pricing documentation is thorough and provides adequate support for the intragroup transactions undertaken.

In a more recent decision delivered in April 2025, in the matter between SARS and SC (Pty) Ltd, SARS audited SC (Pty) Ltd and examined the compensation for trademarks and related intangible assets within the taxpayer's group. SARS concluded that the remuneration for these trademarks and intangible assets was not at arm's length. The non-South African group company, located in Mauritius, owned the trademarks and possessed the associated know-how. However, SARS argued that the actual decisions regarding the group's intangible assets were made by the South African entities, and that the Mauritian company's role was limited to entering into the franchise agreement governing the group's use of the international trademark. The development, enhancement, maintenance, protection and exploitation of the group's trademarks, know-how, and related intangible assets all occurred in South Africa, leading SARS to conclude that the DEMPE analysis conducted was flawed.

### Takeaways

We have observed an increase in SARS transfer pricing queries and audits, as well as across other African and foreign tax authorities. Amounts relating to intangible asset charges are often significant, and taxpayers are urged to ensure that they have robust transfer pricing documents in place to support intergroup intangible asset charges. There is a risk of significant financial implications if the relevant assessment and supporting information is not maintained. The importance of conducting a thorough DEMPE analysis cannot be underestimated in fostering a more equitable international tax environment.

KPMG

# BEPS Pillar Two support services

With a multitude of Base Erosion and Profit Shifting (BEPS) Pillar Two programs already in flight globally, KPMG can support you across all stages of your transition and implementation journey. Set out below is an overview of services we can support your with, which can be specifically tailored to assist with selecting, designing and implementing your future ready Pillar Two solution.

## Impact assessment and planning

- Group structure review
- Entity classification and PAYE tax mapping
- Country-by-Country Reporting (CbCR) process and qualification
- Safe harbour assessment
- Pillar Two impact calculations (high level and deep-dive)
- Scenario modelling
- Subject to tax rule assessment
- Transitional and safe harbour planning
- Long-term business restructuring
- Legal entity rationalisation
- Technical training
- Governance (operating model design and documentation, controls, standard operating procedure development)
- Horizon scanning

## Data readiness

- Data prioritisation and relevance
- Data sourcing
- Data mapping and gap assessment
- Data gap remediation
- Data transformation
- Data collection and ingestion
- Data quality and completeness reviews

## Technology implementation

- Tax technology review and vendor assessments
- Pillar Two technology implementation
- Sourcing reviews
- Supplementary technology support (low code tools and analytics)
- Testing support

## Compliance and reporting

- Supplier sourcing review
- Financial reporting
- Statutory financial statement provisions and disclosure support
- Safe harbour calculations
- Global Anti-Base Erosion (GloBE) Information Return (GIR) calculations, filings and notifications
- Qualified Domestic Minimum Top-up Tax (QDMTT) calculations and filings
- Registrations
- Compliance tracking and management information reporting
- Provisioning process review
- Tax payment support

## Adjacent services

- Financial statement audit assist
- Mergers and acquisitions
- Operational Transfer Pricing
- Legal support
- Policy support
- Controversy and dispute anticipatory assistance
- Revenue authority disputes

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# Third-party risk management

In an increasingly interconnected global business environment, insurers are becoming more reliant on third parties for critical business operations, processes and functions. However, the extent of this reliance can introduce operational resilience concerns and concentration, cybersecurity and several other risks if not managed appropriately. In addition, the complexity of organisational structures and the multiple stakeholders involved in the management of third-party risk remains a key challenge to management teams.

A recent survey conducted by KPMG[1] found that 73% of businesses say that inefficiencies in their third-party risk management program exposed them to reputational risk.

Looking at developments internationally, on 4 December 2023 the Financial Stability Board released a toolkit for improving third-party risk management and oversight. Earlier on in May 2023, the International Association of Insurance Supervisors issued an "Issues Paper on Insurance Sector Operational Resilience", which highlighted IT third-party outsourcing as one of the matters of significant and increasing operational risk.

These documents aim to guide insurers and regulatory bodies in managing third-party risks effectively.

Closer to home, the Prudential Authority identified third-party risk management, including strategic partnerships and binder agreements, as the key focus area for 2025.

Focused engagement on this topic will help insurers assess their practices and formulate strategies to manage these risks, while providing regulators with insights to enhance regulatory and supervisory efforts.

Set out below are best practice market approaches that can be applied by insurers in the development and management of an effective and robust third-party risk management framework:

- **Employ a risk-based approach**
- **Centralise oversight and governance**
- **Leverage technology and automation**
- **Leverage adaptive contractual requirements**
- **Develop effective ongoing monitoring**
- **Create an incident management framework**
- **Create a reporting framework**
- **Provide continuous education and training**
- **Be proactive**

[1] https://assets.kpmg.com/content/dam/kpmgsites/xx/pdf/2022/01/third-party-risk-management-outlook-2022.pdf.coredownload.inline.pdf

**Employ a risk-based approach:** adopting a risk-based approach is paramount to driving efficiency across the third-party risk management lifecycle.

This approach involves focusing efforts on third parties that pose the highest risk to the insurer, based on factors such as data access, service criticality, operational resiliency and regulatory impact. Key factors to be considered in employing such an approach include:

- the prioritisation of third-party portfolios based on risk assessments;
- assessing the processes adopted for conducting due diligence on third parties before engaging with third parties and tailoring these processes based on the risk profile of each third-party;
- understanding the population of services to allow targeted focus on higher risk services;
- applying the use of consistent terminology across the organisation pertaining to third-party relationships to ensure that everyone in the organisation understands the concepts in the same way and promote the consistent identification and management of risks associated with third-party relationships;
- implementing ongoing monitoring mechanisms which incorporates various layers of oversight for effective third-party oversight; and
- updating third-party risk identification processes and assessments at regular intervals to ensure that risk assessments are aligned with current threats and vulnerabilities, thereby enhancing the ability to identify and mitigate potential risks effectively and in a timely manner.

**Centralise oversight and governance:** to respond to an increasingly complex risk environment, insurers are encouraged to utilise a multidisciplinary approach to third-party risk management. This can be achieved by adopting a hub-and-spoke model. The third-party risk management function would function as a hub with a central leadership team responsible for setting policies, standards, the reporting framework and risk appetite. This central hub would be supported by subject matter experts (spokes) from relevant risk domains, such as privacy, cyber, business continuity and disaster recovery, to provide insights and enable execution. This approach not only facilitates comprehensive identification and mitigation of risks but also provides the opportunity to set up individual lines of defence within the hubs and spokes. This approach will enable independent oversight of the third-party risk management function, ensuring consistent risk management and compliance practices across the business, while enabling flexibility to address specific business needs.

**Leverage technology and automation:** adopting specialised third-party risk management software can profoundly enhance the efficiency of routine operations, such as risk assessments and due diligence and streamline monitoring activities. This strategic move allows for the smarter allocation of limited human resources toward more-critical functions such as analysis and decision-making. The use of advanced monitoring technologies that integrate artificial intelligence allows insurers to better detect patterns indicative of potential non-compliance with financial regulations, improve the management of workflow algorithms, data integrity and confidentiality, while also assisting with the implementation of monitoring systems to track performance. This enhances an insurer's ability to early address concerns prior to escalation.

**Leverage adaptive contractual requirements:** embed compliance obligations within contracts and ensure that these requirements include adaptive compliance clauses that automatically update to reflect changes in financial regulation. This approach ensures that third-party services remain in compliance with the evolving regulatory landscape without the need for manual contract revisions, reducing the administrative burden on the organisation and maintaining focus on compliance agility and resilience.

**Develop effective ongoing monitoring:** to ensure that third-party risk is accurately measured, managed and mitigated, insurers need to monitor third-party risk profiles and contract performance on an ongoing basis. Risks assessments should be conducted during the contracting phase and refreshed on a regular basis according to the third-party risk score. Changes to the business environment and the resultant impacts on a third party's management structure and internal controls can expose an insurer to increased risk and liability. The use of automated external data feeds for third-party financial results and negative news can also assist with early risk detection as well as the assessment of risks associated with a third-party beyond the services they are providing.

The overarching goal of ongoing risk and performance monitoring is to create a view of key metrics across all third-party relationships to effectively enable the timely identification, assessment and reporting of third-party risks to leadership and regulators.

**Create an incident management framework:** establish clear protocols for incident reporting, ensuring third parties know how and when to report security breaches or compliance lapses. Incident reporting protocols should be designed to align the nature and severity of risk incidents based on their impact on the insurer and the risk rating of the third-party.

The risk management framework should outline the roles and responsibilities regarding remediation and escalations as it relates to compliance requirements, performance metrics, risk assessments, incident resolution, technological advances and market changes.

Incidents and the remediation actions applied should be well documented to ensure timely resolution and effective root cause analysis. Incident management and effective documentation are especially impactful for compliance breaches affecting financial and data privacy regulations to ensure swift and coordinated remediation efforts.

**Create a reporting framework:** through establishing ongoing monitoring and incident reporting within the third-party risk management framework, insurers can easily outline a clear reporting framework for third-party relationships. Creating this framework also enables analysis of the effectiveness of the overall third-party risk management framework through the metrics measured during ongoing monitoring. For example, reporting on the number of incidents associated with a particular third party or step in a firm's third-party risk management lifecycle can illustrate the effectiveness of current practices, areas of increased risk or outline areas for improvement.

**Provide continuous education and training:** provide ongoing education and training for third-party risk management staff and stakeholders across the firm on emerging risks, regulatory changes and best practices in third-party risk management. However, it is prudent and equally important to extend that training to third parties. For example, we have seen several insurers set up regular key supplier days where topics such as new cybersecurity threats and regulatory compliance updates are discussed with third parties engaged with the organisation.

**Be proactive:** develop a strategic approach to manage key vendor relationships, including regular performance reviews, alignment of business objectives and collaborative risk management efforts. Regular interactions with key third-party partners will allow the insurer adequate time to observe and incorporate improved practices, thereby driving better outcomes for the organisation.

Engaging third parties in regular discussions about regulatory changes and compliance expectations will also foster a culture of shared responsibility for risk management. This approach has led to more effective identification of potential compliance issues before they escalate, saving both the insurer and third-party significant time, costs and resources and reinforcing their commitment to maintaining the highest standards of compliance.

In conclusion, as insurers increasingly rely on third-party relationships for critical operations, managing the associated risks becomes paramount. Effective third-party risk management involves adopting a risk-based approach, centralising oversight and governance, leveraging technology and automation, embedding adaptive contractual requirements and establishing strong monitoring frameworks. Implementing comprehensive incident management protocols and reporting frameworks enhances the ability to swiftly address security breaches and compliance lapses. Additionally, continuous education and proactive strategies in vendor relationship management is essential in ensuring resilience and compliance within the evolving regulatory landscape.

These best practices can help insurers mitigate risks efficiently, fostering robust and secure third-party engagements that safeguard their operational integrity and financial stability.




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# Too risky to insure : pooling as a solution to complement traditional insurance

South Africans are increasingly paying more for less and this holds true for insurance cover. The number of South Africans who are fully protected by insurance cover is reducing due to economic and underwriting pressures. Risks that were once insurable are gradually becoming systemic in nature and less insurable, with some risks becoming uninsurable.

Our understanding of risk is dynamically changing with risk exposures growing larger in severity and more frequent in incidence, which means that risk events are becoming increasingly difficult to predict and complex to analyse.

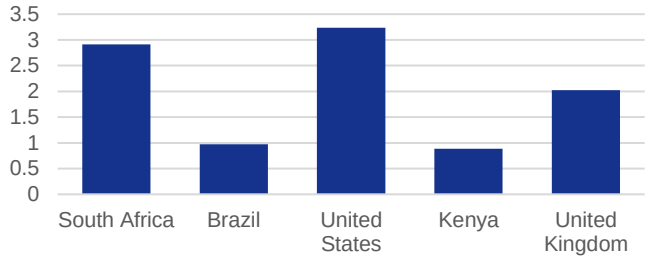
These factors will likely lead to a wider divide in the extent of assets that may be insured. Without deliberate intervention by the insurance industry, we might witness a regression in the ability of and confidence in the industry to serve its purpose.

***So, what can the South African insurance industry do about this?***

## Context is key

It is widely known that South Africa has a high insurance penetration rate relative to global peers. This is typically defined as the ratio of insurance premiums to a country's gross domestic product (GDP)[1]:

**General insurance penetration rates**

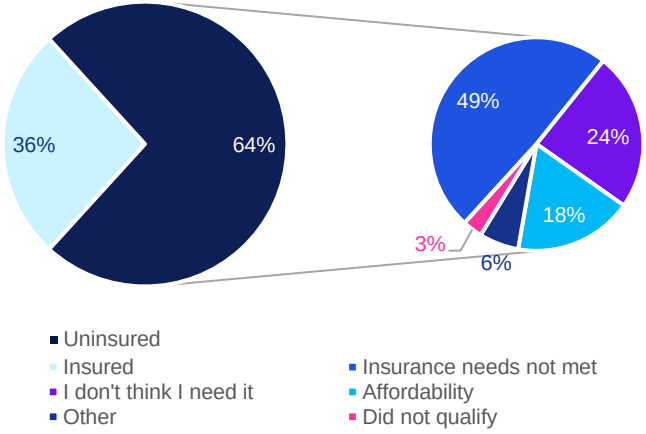



Looking at the table above, at first glance the general insurance penetration rate for the South African insurance market, at just below 3% of GDP, is in close range compared to developed markets like the United States (US) or the United Kingdom (UK).

However, this indicator alone does not tell the full story as the formal corporate sector in South Africa contributes the vast majority of these premiums.

The reality is that a large extent of the South African population is uninsured or underinsured. According to TransUnion's Q2 2024[2] industry poll, 64% of South African homeowners are either underinsured or not insured at all.

**Uninsured homes**




Of those consumers who do not have insurance cover for their homes, 67% said that affordability or the availability of suitable products were the main reasons for not having insurance cover.

The reality of not having insurance cover for your home becomes pronounced when natural disasters occur and communities face widespread disruption. An example of this occurred with the KwaZulu-Natal floods in 2022. This weather event resulted in over 400 deaths, the displacement of more than 40,000 people and R54 billion in damages in aggregate. The total extent of insurance payouts was only R27 billion, i.e. half the total loss was uninsured. This material loss of value, for businesses and individuals, stands in stark contrast to the perception that the South African insurance market is deeply penetrated.

[1] https://data.worldbank.org/

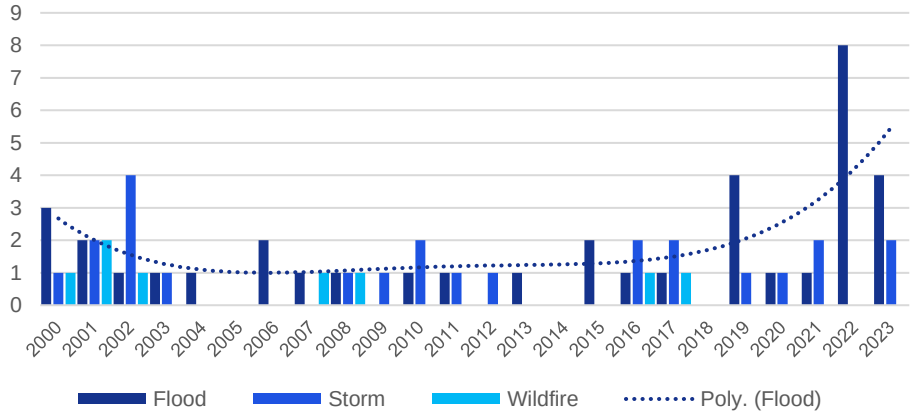
[2] https://www.transunion.co.za/content/dam/transunion/za/business/documents/insurance-trends-h1-2024.pdf

## Multifaceted challenge

Solving for the insurance gap is only going to become more difficult. Across a wider range of risks, South Africans are finding it harder to access cover or afford increasing premiums for the same cover, and in some cases are being priced out of the market entirely. Rising climate-related natural disasters, electricity grid instability and infrastructure failures have resulted in insurers raising premiums and introducing stricter underwriting terms and conditions. Second order effects include an increase in the extent of regulatory and economic capital required to be held, higher reinsurance premiums and a higher return-on-equity demanded from shareholders, further driving up premium costs.

According to the National Research Foundation - South African Environmental Observation Network (NRF – SAEON)[3] there has been an increase in the number of flood-related incidents in South Africa. Up until 1996, no more than one flood-related incident per year was experienced. This increased to an average of four flood-related incidents per year for 2019 and 2023. In 2022, a record number of eight incidents were recorded. It is reasonable to expect this pattern to continue or worsen with the effects of climate change.

**Natural disasters over time in South Africa**




Adding to this challenge is the prolonged extent of underinvestment by the South African government in maintaining and upgrading critical infrastructure. As the Chief Underwriting Officer at Santam, Michael Cheng, noted in a recent Daily Investor article[4], infrastructure failure may not appear among the top global risks, but in South Africa it ranks in the top five.

In fact, 83% of respondents in a recent commercial survey identified poor infrastructure as the leading emerging risk to their business over the next two years. This is largely due to failing roads, inadequate stormwater systems and weak urban planning, all of which significantly amplify the damage caused by extreme weather events.

The 2022 KwaZulu-Natal floods were a clear example, with blocked canals and neglected drainage systems contributing heavily to the destruction. Furthermore, urban and commercial development continues in flood-prone areas like Ladysmith and St Francis Bay, and in dolomitic zones such as Centurion, putting even more properties at risk.

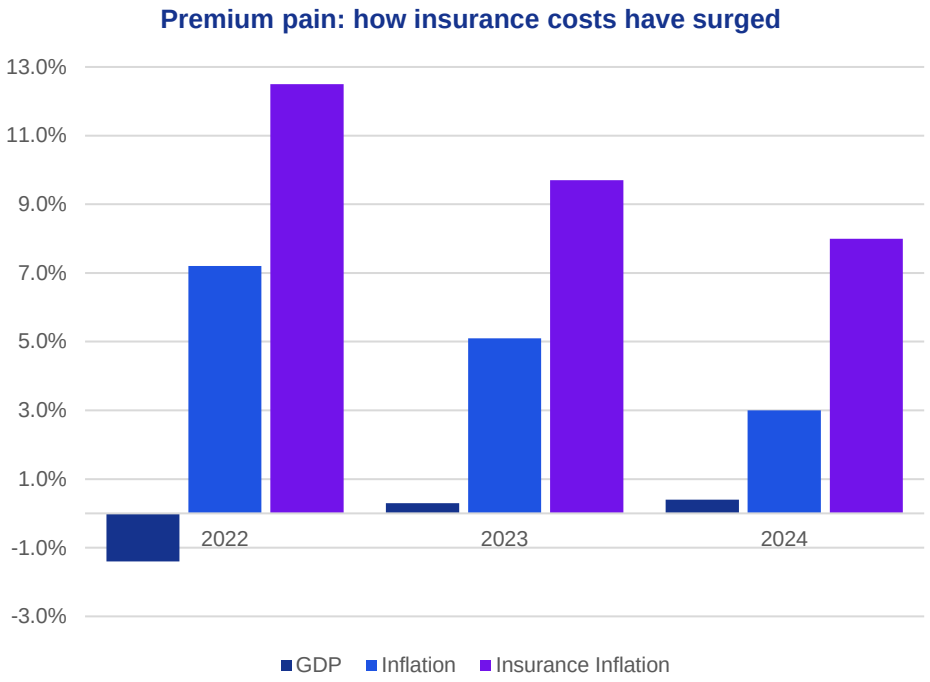
Cheng draws a comparison with the US, where wildfires in Los Angeles spread faster and further due to ageing infrastructure and underfunded emergency services. For both South Africa and the US, it is not just the natural hazard itself but the surrounding built environment that drives up losses. As infrastructure continues to deteriorate and exposure increases, insurers are left with few options - raise premiums, add more exclusions or pull back from high-risk areas entirely. This not only means that insurance cover is harder to access, especially in already vulnerable communities, but it also means that climate-related events are becoming systemic in nature, with the potential to destabilise both the insurance industry and the broader economy.

These challenges are further exacerbated by the high extent of wealth inequality in South Africa. As premiums rise and exclusions become more common, the most vulnerable citizens are left without adequate protection. This results in the insurance industry not being able to fulfil its social and economic role if the most vulnerable in our communities are being pushed out of the market.

Several large insurers have added exclusions for a national grid collapse, meaning damage caused by a full blackout may not be covered at all. Other insurers have tightened underwriting conditions around loadshedding-related claims, often requiring surge protectors or applying higher excesses, making recovery more restrictive for households already under pressure. When cover is provided, it is increasingly expensive.

[3] https://www.nrf.ac.za/wp-content/uploads/2025/06/Weather-related-disasters-in-South-Africa-from-1980-to-2023.pdf
[4] https://dailyinvestor.com/finance/92930/south-africa-heading-towards-a-serious-insurance-disaster/

Included below is a comparison of insurance premium increases for household content against GDP growth and CPI inflation[5]:




In the past three years, home insurance premiums have increased by an average of 10% per year. Compare this with the average GDP growth of 0.3% per year since 2020 and the average rate of inflation of 5% per year across the same period.

While the current response measures put in place by insurers may be seen as necessary to maintain the sustainability and profitability of the industry, there may be an alternative solution worth exploring to overcome these challenges.

[5] https://www.ebnet.co.za/why-your-short-term-insurance-premiums-are-skyrocketing/
https://iol.co.za/business/advice/2025-03-27-essential-tips-for-south-africans-facing-increasing-insurance-premiums/
https://www.clientsure.co.za/understanding-the-rising-costs-of-insurance-in-2024
https://data.worldbank.org/

## Pooling as a potential solution

Several globally recognised alternative models are available for consideration, with these models addressing the incidence of systemic risks and consumer affordability.

One fitting option is pooling arrangements. A pooling arrangement allows a group of insurers, or reinsurers, to come together and share the burden of particularly large, complex or unusual risks. Pooling arrangements are used globally for risk types that traditional markets struggle to cover on their own, like nuclear energy, terrorism and cyber threats. It is also being increasingly used to manage risks from natural disasters. Pooling arrangements help when specialist expertise or high capital requirements make it difficult for any single insurer to provide insurance coverage alone, even with reinsurance market support.

> Pooling itself is not a new concept, but its application in the current context may be.

From the earliest days of community support in South Africa through stokvels and burial societies, to ancient merchant groups in China sharing the risks of lost cargo, the idea of pooling risk has always been central to how people protect themselves from life's uncertainties. The principle is simple: if only one person in a group suffers a loss now and then, the rest of the group can step in to help, knowing that they will receive the same support when it is their turn. Over time, these informal systems were the bedrock on which today's formal insurance industry was built.

There are isolated examples in the South African insurance industry where pooling was used to solve for catastrophe-related risks with government backing. One of the clearest examples was the formation of the South African Special Risks Insurance Association (now known as Sasria SOC Limited or Sasria) in 1979. Following the Soweto uprising in 1976 and the political unrest that ensued, private insurers began withdrawing riot and strike cover. The government stepped in to fill the gap by establishing Sasria, which remains the only insurer in the country offering cover for civil unrest. While it is established as an insurer, its mandatory cover structure shows some overlap into pooling concepts. Its importance was reaffirmed in 2021, when it paid out R32 billion in claims following the riots linked to the arrest of former president Jacob Zuma.

Pooling is also used by traditional insurers to solve for catastrophe-related risks. Research carried out by AXA[6] indicates that there are an estimated 451 pools worldwide, excluding smaller municipal pools from the US:

| Insured peril | Africa | Americas | Asia | Europe | Oceania | Global** | Total |
|---|---|---|---|---|---|---|---|
| Agricultural pool | - | - | - | 2 | - | - | 2 |
| Drought | 17 | 8 | 5 | 1 | - | - | 31 |
| Earthquake | - | 5 | 10 | 1 | 1 | - | 17 |
| Environmental liability | - | - | - | 3 | - | - | 3 |
| Flood | 3 | 8 | 12 | 2 | 1 | - | 26 |
| Motor | - | - | 2 | 2 | - | - | 4 |
| Multi-peril | - | 6 | - | - | - | - | 6 |
| Natural catastrophe | 15 | 31 | 21 | 13 | 1 | 3 | 84 |
| Nuclear | 2 | 7 | 4 | 14 | 1 | - | 28 |
| Other* | 38 | 57 | 60 | 35 | 1 | - | 191 |
| Terrorism | 3 | 2 | 4 | 10 | 1 | - | 20 |
| Wind | - | 28 | 6 | 5 | - | - | 39 |
| Total | 78 | 152 | 124 | 88 | 6 | 3 | 451 |

*Other perils include agricultural insurance, reinsurance, war, energy, medical, aviation, cargo, engineering, oil and gas exploration, micro-insurance, marine, loan guarantee, motor, employers' liability, disaster micro-insurance pools and pools for enterprises involved in hazardous activities.

**Global pools include Global Climate Insurance Pool (initiative put forward by Munich Climate Insurance Initiative (MCII)), Global Index Reinsurance Facility (GIRIF) managed by the World Bank and Global Centre for Disaster Protection funded by the Department for International Development (DFID).

[6] https://axaxl.com/-/media/axaxl/files/pdfs/campaign/reinsurance-outlook/downloads/rebranded-axa-xl-government-pools-report.pdf?sc_lang=en&hash=916BF269442F5335CA94CCBEB1667F03

Historically, the formation of insurance pools and disaster risk financing tools have typically been reactive. They were developed either in response to market failures or catastrophic events that exposed major protection gaps. During and after World War II, aviation war risk pools were created by governments to cover losses related to military conflict, which were considered uninsurable by private insurance markets. Again, governments played a leading role, sometimes directly backing these pools to ensure aviation continuity during periods of heightened geopolitical risk.

After the 9/11 attacks in 2001, terrorism became commercially uninsurable at scale, especially for large commercial property. This led to the formation or expansion of terrorism insurance pools in several countries. Examples include Pool Re in the UK, TRIA (Terrorism Risk Insurance Act) in the US established in 2002 and GAREAT (Gestion de l'Assurance et de la Réassurance des Risques Attentats et Actes de Terrorisme) established in France. These pools were often backed by state guarantees and designed to restore insurance market stability.

Natural catastrophe pools became more common in the late 1990s and 2000s. For example, Turkey established the Turkish Catastrophe Insurance Pool (TCIP) after the 1999 Izmit earthquake.

In parallel, with the rise of public or government-backed pools, the private market and multilateral institutions introduced more innovative tools. Catastrophe bonds emerged in the mid-1990s, allowing countries or insurers to transfer disaster risk to capital markets using pre-agreed parametric triggers. These became increasingly popular after major events like Hurricane Katrina (2005) and the Haiti Earthquake (2010).

Around the world pooling arrangements are being used to manage climate-related disasters and provide quick payouts through parametric insurance. Coverage purchased for immediate disaster response, particularly from the World Bank, is triggered by the scale of natural catastrophe disasters and is generally provided in the form of parametric insurance coverage. The proceeds from claims are used to facilitate catastrophe incident response and recovery efforts. Insurance cover designed with parametric insurance principles is therefore not necessarily indemnity-based (an inherent downside of parametric insurance design) as the payout trigger is not grounded on the actual losses or damage incurred on any one specific insurable event. Rather, payout is based on the occurrence of a specific weather-related peril threshold with specified severity and distribution of the total claim payouts on a specified formulaic basis. Consequently, claim payouts are not based on the actual assessed damage for each receiver of claims proceeds.

The key objective of parametric insurance is immediate payment of funds when it is needed most without complicated or time-consuming claims assessment processes.

Other examples of such insurance pools are:

### Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company (CCRIF SPC)

The CCRIF SPC is a segregated portfolio company registered in the Cayman Islands. It was formed in 2007 following Hurricane Ivan to provide rapid liquidity to Caribbean governments after major disasters. The CCRIF SPC allows each participating government to maintain a separate risk portfolio, insulating members from each other's losses. The CCRIF SPC currently has 23 member countries (nineteen from the Caribbean and four from Central America). It provides parametric insurance against tropical cyclones, earthquakes and excess rainfall, and has expanded into fisheries and crop coverage. As of 2024, the CCRIF SPC made over USD250 million in payouts and retains a capital base supplemented by donor grants and reinsurance. It covers a combined exposure in the billions of USD, offering critical liquidity to small island states post-disaster.

### African Risk Capacity (ARC)

Launched in 2012 as a specialised agency of the African Union, ARC consists of sovereign member states and operates through a financial affiliate, the ARC Insurance Company Limited, a mutual insurer based in Bermuda. ARC provides parametric drought, flood and tropical cyclone cover to African nations, tailored to food security and disaster response. It has 38 African Union member states as signatories, with ten to fifteen countries participating in the insurance pool annually. ARC has paid out more than USD130 million since inception and helps protect over 50 million vulnerable people. Its exposure is managed via internal reserves and reinsurance partnerships with global markets.

These pools allow countries to share risks and access rapid payouts after disasters, strengthening long-term financial resilience in regions highly exposed to natural hazards.

## Can the insurance industry pool by itself?

The immediate thought might be that pooling only works if government takes the lead. This is, however, not always the case.

South Africa already has a private insurance market pooling arrangement: the South African Nuclear Pool (SANP). As the name suggests, the SANP was designed with nuclear insurance needs in mind. This need arose in the early 1970s for the South African Nuclear Energy Corporation (NECSA) as nuclear operator of the Pelindaba nuclear power plant and related nuclear reactors. There was a critical need for government to find financial coverage for nuclear-related liabilities for Pelindaba. At the time, before the enactment of South Africa's nuclear regulatory laws, the underwriting requirement was simply for operators to maintain “adequate security” with no specified coverage limits. Insurance cover was fulfilled exclusively by foreign underwriters and pooling arrangements in the first decade or so.

Over time, with the Koeberg nuclear power plant built in the 1980s (today under Eskom) and with the evolution of nuclear regulatory laws, the need arose for a domestic South African insurance pooling arrangement. The general or non-life insurance industry came together and formed what is today known as SANP. Since formation of the SANP, the British Nuclear Pool (later rebranded as the Nuclear Risk Insurers (NRI)), provided immense support for the establishment of the SANP, with a close relationship maintained over the years. Extensive support from other UK market players, including Lloyds syndicates, continue to be provided to SANP. The SANP has grown and today works as an unincorporated association, basically a group of local insurers that pool together under an agreement (rather than a separate company) to provide cover for these critical facilities. However, its members contribute a small percentage of the overall capacity with the large majority of cover provided by foreign nuclear pools.

SANP is supported by the South African Nuclear Pool Administrators (SANPA). SANPA is a legally incorporated entity and represents SANP members in managing nuclear risk insurance cover on the full value chain. SANPA is therefore a key market player that facilitates coverage requests from nuclear power operators, who reach out through their brokers, and efficiently coordinates transactions and relationships both within SANP and with international insurance pools to satisfy the requirements of the nuclear operator policyholders. This role is particularly vital due to the co-insurance approach used in these insurance placements within pooling arrangements.

Additionally, participants from foreign pools entrust SANPA with some of their administrative duties and to coordinate with SANP. In its administrative capacity, SANPA provides intermediary services crucial to both SANP’s members and foreign pool participants, which includes the collection of premiums and handling of claims. The latter is important to ensure one single party acts on behalf of stakeholders in appointing claims assessors should a claim emerge. SANPA also liaises with lead underwriters and specialist engineers and participates in onsite visits of nuclear power plants, preventing the need for individual insurers having to carry out individual underwriting risk assessments.

What is evident from the above is that SANP and SANPA already provide a workable model for pooling arrangements in South Africa. SANPA is well positioned to provide similar solutions to the South African market should domestic insurers organise themselves to coordinate coverage for other risk types.

The South African Insurance Association (SAIA) also plays an important role as the general insurance industry body. SAIA has been supporting SANPA and SANP in promoting the affairs of the South African nuclear pooling regime since inception, and similarly can play a leading role in helping shape other pooling arrangements by encouraging its members to consider similar alternative market solutions.

However, the SANP and SANPA initiative is South Africa’s only formalised proactive pooling arrangement in place. As an industry, perhaps it is time to come together again to proactively solve for natural disasters and climate change.

## Considerations for making a pool successful

There are many factors that contribute to successful pooling arrangements[7], which we explore below:

### Financial viability and sustainability

Pooling arrangements can be an effective way to provide cover for catastrophe-type risks that are generally uninsurable. However, to remain sustainable, these arrangements need to charge a premium that fairly reflects the underlying risk. This is challenging for emerging risks, where there is little historical claims data, losses are often severe and to an extent unprecedented, and expert judgement from specialist underwriters is critical to ensuring appropriate pricing.

[7] *Source: https://axaxl.com/-/media/axaxl/files/pdfs/campaign/reinsurance-outlook/downloads/rebranded-axa-xl-government-pools-report.pdf?sc_lang=en&hash=916BF269442F5335CA94CCBEB1667F03*

In traditional insurance, this gap is often bridged by adding post-loss surcharges or raising premiums after an event. For pooling arrangements, however, this is not realistic due to the nature of the claims being covered. Take a hurricane, for example, where communities may be displaced and unable to pay premiums in the aftermath. Instead, a more practical approach is to build a diversified funding base. This can include pre-loss premiums, retained earnings, capital reserves, contingent debt, traditional reinsurance, self-insurance funds and financial instruments like derivatives and catastrophe bonds, where each of these factors will assist in ensuring the continued viability and sustainability of the pooling arrangement.

### Local private market collaboration

For pooling arrangements to function effectively and sustainably, collaboration with the private insurance market is essential. Leveraging the operational capabilities of local insurers, particularly for distribution, policy issuance and claims handling ensures pools are rooted in existing infrastructure and can respond quickly after loss events. Using insurers' in-house claims teams allows for scalable and immediate deployment post-disaster without the delays or costs of hiring external adjusters.

Importantly, pools should complement and not compete with the private market by stepping in only where risks are too severe, uninsurable or unaffordable. This partnership approach ensures pools are additive to market capacity and focused on the protection gap. Risk should be appropriately shared: policyholders and ceding companies must retain some exposure to incentivise mitigation measures and ensure the pool is used for extreme loss events. At the same time, pools should transfer risk to the broader private market through tools like reinsurance or catastrophe bonds.

### Enabling legislation through government collaboration

Premium income from low frequency, high severity, single peril and single geographical risks (e.g. nuclear risks) builds up distributable reserves quickly and may appear to be profitable by virtue of nothing happening in the catastrophe market. It is, therefore, important for pools to build up these reserves over long periods of time and in periods where no such catastrophe events occur. As a result, there is a risk that short-term political or regulatory interventions may hinder the ability of the pooling arrangement to effectively achieve this.

It therefore follows that in order to function effectively, pools often require specialist regulatory dispensations that acknowledge their unique risk profile and structure. At the same time, regulators need confidence that, when a major event does occur, all participating insurers will honor their commitments and claims will be paid in full.

There is no specific regulation in place in South Africa which governs pooling arrangements, as is the case in other jurisdictions. This regulatory uncertainty is not conducive to market growth for nuclear risk insurance or the creation of an enabling environment for foreign pools and/or foreign underwriters. The only exception is Lloyds for which there is a regulated regime in South Africa, but they too do not contribute substantially to the underwriting capacity on South African domestic nuclear power plants.

The extent of regulatory uncertainty for foreign market players is an important contributor as to why pooling arrangements in South Africa may not have gained traction. However, the success of the SANP and SANPA model is proof that this shortcoming should not prevent us from working on a solution.

## A call for pooling

Pooling is not a one-size-fits-all solution. It is, however, a critical component to the broader strategy needed to address growing climate risks and widen insurance affordability gaps. With the reduction in risk appetite of private insurance companies over high-risk areas, pooling offers a potential solution to sustain and broaden coverage where traditional insurance models fall short.

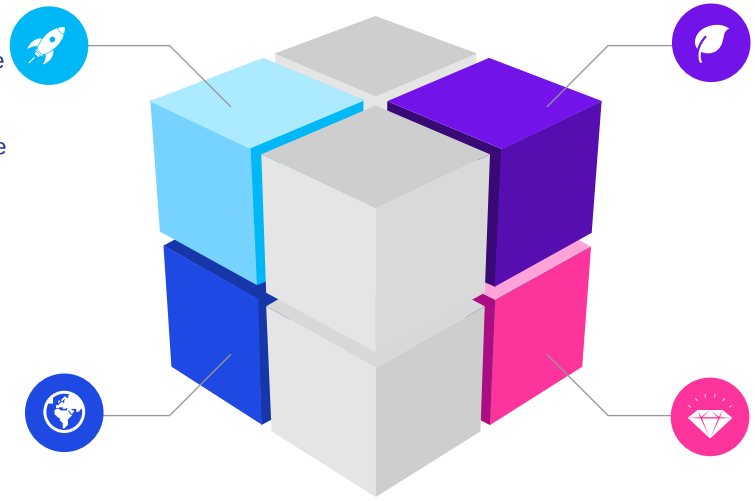
Realising this potential may require greater legal clarity and targeted regulatory reforms to support accelerated participation and coordination. By enabling shared risk, expertise and resources across public and private sectors, both domestically and globally, pooling structures can assist with maintaining essential protection.

The SANP has demonstrated that this model works and is sustainable. What is important is the collaboration of the South African insurance market to explore and implement similar models before the protection gap becomes unmanageable.

# Actuarial evolution

## AI and machine learning

Generative AI and machine learning models are revolutionising the insurance industry and actuarial environment. We can support you in developing cutting-edge solutions to develop more accurate risk models and predictive analytics.



## Cyber and systems risk

Increased digitisation and reliance on global systems means that businesses are facing higher exposure to cyber attacks, malicious actors and third-party outages. Insurers face the same risks, but at the same time are afforded an opportunity to provide cyber insurance solutions. We can support your business in measuring and managing these risks through developing risk dashboards and mitigation approaches, enabling you to take advantage of the opportunities they present.

## ESG risk and reporting

Climate change, geopolitical instability and other ESG risks are forcing insurers to reassess the suitability of their models and the sustainability of their product offerings. We can help you better understand, evaluate and manage these risks by developing climate models, reviewing strategy and advising on appropriate risk mitigation.

## Big data platforming

Data underpins the AI, machine learning and digitisation evolution. Businesses are increasingly viewing data as a key asset. Insurers need to be able to leverage data not only for retrospective analytics, but for prospective predictions. Products utilising customer data to provide personalised solutions offer insurers a competitive advantage. We provide expert advice in managing data across systems, selecting appropriate data platforms and delivering insights using innovative modelling. We can also assist in the automation of actuarial processes.

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# What is the next big thing after IFRS 17?

## Looking back at the IFRS 17 implementation projects

For about five years, many insurance companies were navigating through the technical and actuarial complexities of *IFRS 17 Insurance Contracts* (IFRS 17). The goal of turning *IFRS 4 Insurance Contracts* (IFRS 4) numbers into IFRS 17 results felt like a distant goal. There were many late nights and early mornings, heated debates, data challenges, system crashes and countless differences in opinion between the implementation, finance, actuarial and management teams, and not forgetting the auditors.

Accountants, actuaries and IT specialists found themselves navigating unfamiliar territory, learning to speak each other's language and forging new ways to collaborate effectively. Audit committees challenged the results, with the implementation team often sent back to the drawing board to rework solutions that took months to build. There were moments when the pressure felt relentless, maintaining momentum was a struggle and staying motivated required real effort.

As the effective date drew nearer, tension and stress levels increased, IFRS 17 fatigue crept in, and for all involved parties, the experience resembled that of an exhausted athlete - able to see the finish line, yet finding it distant and hazy.

However, through these challenges, perseverance became the quiet strength that carried the work forward.

Against these odds, insurance companies managed to produce their first set of IFRS 17-compliant results which was (eventually!) signed-off on by the external auditors.

Subsequent to this, one would have thought that the IFRS 17 implementation team would have felt overjoyed and proud about what they managed to achieve. However, this feeling was short-lived with many individuals having felt the IFRS 17 blues. Implementation team members felt adrift, uncertain of their purpose and value in the organisation and on a search to find the next thing to do. Similar to athletes crossing a finish line after months of training and sacrifice, instead of basking in the accomplishment, some athletes experience post-race blues: a dip in mood, motivation, or sense of purpose that arrives just after the medals are packed away[1].

The industry may have underestimated the mental toll that IFRS 17 would have had on their people. Many key IFRS 17 team players left to find other jobs that in many cases did not involve IFRS 17, whereas others moved to different divisions in the organisation where they did not hear "IFRS 17" as much. Throughout the implementation journey, employees had to motivate themselves and after being exposed to acute levels of stress for prolonged periods, they had to recalibrate and remember what a healthy baseline of stress felt like. On the other hand, organisations had to deal with the loss of key staff, creating a significant knowledge gap.

Maintaining a strong pool of IFRS 17 expertise is essential for long-term success and stability. These individuals would have been closely involved in the implementation project and their knowledge and experience would be critical in providing post-implementation support to identify improvements to systems, processes, data management and governance, as well as transferring knowledge and upskilling staff across the organisation.

In researching lessons learnt from IFRS 17 implementation, my expectation would have been to come across tips on how to keep people motivated and retain key staff. Instead, what I came across included "a better link between actuarial and technical teams required", and "improvements could be made on processes and governance", with not much available to address the people element. Insurers should perhaps debrief on the people lessons learnt before moving to the next project.

Now that IFRS 17 implementation has passed, what is the next big thing for insurers?

[1] https://modernathlete.co.za/2025/08/post-race-blues-navigating-the-emotional-dip-after-big-events/

## Environmental, sustainability and governance (ESG)[2] reporting

For many insurance professionals, ESG is considered to be the next big thing after IFRS 17. For insurance organisations, sustainability reporting has become commercially and strategically important, with insurers required to demonstrate how sustainable the organisation is to its clients, customers and other stakeholders. The market is also increasingly requesting further information on sustainability policies and practices.

Getting involved in a project of this nature may be a breath of fresh air after the clinical intricacies that went into IFRS 17 implementation.

However, sustainability reporting also presents its own challenges. Compared to financial reporting, where there are long-established processes and controls in place, this is not the case with non-financial information upon which ESG reporting is based.

From the experience obtained through IFRS 17 implementation projects, there were many lessons learnt that can be applied to ensure successful ESG reporting.

## *IFRS 18 Presentation and Disclosures in Financial Statements*[3] (IFRS 18)

IFRS 18, effective for year-ends commencing on or after 1 January 2027, requires the presentation of a more structured income statement with greater disaggregation of disclosures. For the first time, the standard requires management-defined performance measures to be included as part of the audited financial statements. The new requirements will assist companies to better tell their story and connect their reporting in the financial statements.

Compared to IFRS 17 implementation, the IFRS 18 implementation project is expected to be less demanding for those involved.

## Artificial intelligence (AI)[4] and IFRS 17

To futureproof organisations, AI's role in the IFRS 17 world should be considered. It may be worthwhile investing in generative AI that can play an important role in maintaining compliance with IFRS 17 by streamlining complex tasks, automating processes and providing insights into financial reporting.

AI can provide deeper insights into contract profitability, helping management assess the impact of future cash flows on profitability and solvency. AI can recommend adjustments in insurance product pricing, reinsurance arrangements and risk management strategies based on IFRS 17 requirements.

This will certainly be creating opportunities for insurance organisations to improve their current IFRS 17 processes, governance and reporting. For the insurance professional, this will mean less time being spent on mundane tasks, focussing more efforts on analysing the results produced through AI and providing meaningful feedback to the stakeholders.

## What lies ahead

Many insurers have different views about the success of IFRS 17 implementation projects or the value that IFRS 17 brings to the market. However, one thing is certain: in the history of the insurance industry, IFRS 17 implementation will stand out as a one in two-hundred-year event.

Each individual needs to find their own "next big thing". What is important to recognise is that your worth is not defined solely by accomplishments, but also in your ability to adapt, grow and find meaning beyond any new project in which you may get involved.

[2] https://assets.kpmg.com/content/dam/kpmgsites/xx/pdf/2024/02/esg-in-insurance-report.pdf:
[3] https://assets.kpmg.com/content/dam/kpmgsites/xx/pdf/ifrg/2024/isg-first-impressions-presentation-and-disclosure-ifrs-18.pdf
[4] https://www.linkedin.com/pulse/how-generative-can-help-ifrs-17-implementation-compliance-saurav-goel-h6rlc


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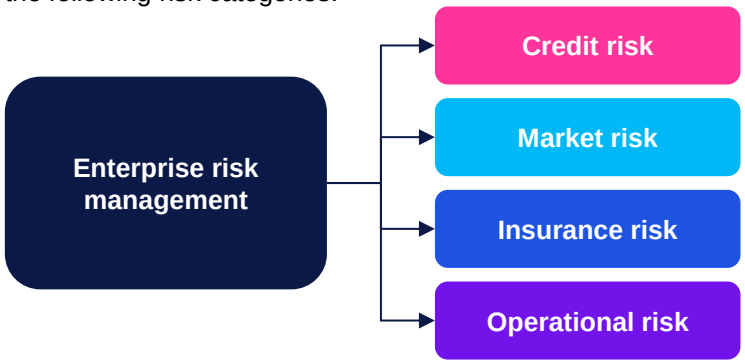
# Enterprise risk management

The insurance industry, like most businesses in South Africa, is exposed to a variety of internal and external forces, ranging from social media scrutiny and cyber-attacks to local and global political developments, amongst others. These internal and external forces, not always within the control of the insurance company, form part of the insurer's enterprise risk management (ERM) universe. Anything that could go wrong for the insurer should be managed under the ERM framework of the entity. ERM is the governance tool employed by an entity to manage these risks. The purpose of an effective ERM framework is to assist insurers with aligning their risk appetite to the strategic objectives of the entity, achieving greater resilience against things that could go wrong.

The ERM framework for an insurer can be categorised into the following risk categories.




**Credit risk** is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Insurers are exposed to credit risk from balances due from reinsurers, cash and cash equivalents and financial investments. This risk is material due to the significance of reinsurance as a material risk mitigation mechanism for many insurers, and financial investments to manage claims payouts and investment returns.

**Market risk** refers to the potential for unexpected changes in market conditions, which can result in losses or lower-than-expected market returns. Premiums received from policyholders are typically invested in financial instruments that match the insurer's expected claims payout profile, in order to earn a return. Market risk is therefore a key risk for insurers in that if not managed appropriately, there is a risk that the insurer may not be able to pay out claims obligations as they become due.

**Insurance risk** is the risk that insurance products are underpriced and that incurred losses are greater than the price that has been charged for said insurance products. It goes without saying that this is a key risk for insurers, underpinning its core operations.

**Credit, market and insurance risk** exposures are easily measurable through a variety of techniques such as expected credit loss models, balance sheet management and actuarial analysis.

The measurement of **operational risk**, however, is more complex.

**Operational risk** refers to all remaining risks, after considering credit, market and insurance risk. Anything that could go wrong at an insurer, other than credit, market and insurance risk, would be classified as operational risk. Think of reputational, legal, competition, people and cyber security risks, to name a few.

Operational risks are generally expected to occur less frequently, however the extent of severity or magnitude can be monumental. For example, an insurer that has been subject to a cyber-attack or reputational damage may be forced to close doors. Given the significance of this risk, it is important for insurers to be able to accurately and effectively measure and manage this risk.

## So how do we currently measure operational risk in South Africa?

The Prudential Standard FSI 4.4[1] sets out the details for calculating the capital requirement for operational risk for insurers using a Standardised Formula. This calculation is based on a simple linear measure applied to an insurer's earned premiums and technical (insurance) provisions and, for linked insurance obligations, assets under management. The formula calculates operational risk as a percentage of premiums or technical provisions. No rationale has been provided as to why the standard applies those particular percentages.

What is important to note with this standardised formula is that it excludes risks arising from strategic decisions and reputational risk. Our view is that these risks form part of operational risk and should be quantified. What is not clear is what is excluded or included under the banner of strategic decisions – how are risks in respect of product innovation, market relevance, restructuring, strategic partnerships, supplier relationships and hiring of key management considered?

In light of the short comings noted above, it is important for insurers to consider mechanisms to measure and manage the complete suite of operational risk exposures.

In order to compare the enterprise-wide risk exposures disclosed by insurance companies in South Africa, we developed a risk taxonomy based on our industry experience.

[1] https://www.resbank.co.za/en/home/publications/prudential-authority/pa-insurance/pa-post-insurance/Draft_Prudential_Standards_-_9_March_2018

## KPMG operational risk taxonomy for South African insurers

| Risk | Description |
|---|---|
| Credit risk ## | The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. |
| Market risk ## | The potential for unexpected changes in market conditions, which can result in losses or lower-than-expected market returns. |
| Liquidity risk ## | The risk of not being able to meet financial obligations as and when they fall due, due to inaccessible and insufficient liquid resources. |
| Insurance and model risk ## | The risk that an insurance product is underpriced, potentially resulting in operating losses for the insurer. |
| Operational risk # | All remaining risks after taking into account credit, market and insurance risk. |
| Reputation risk # | The risk of negative publicity in respect of the insurer, which could potentially hinder the insurer's ability to sell new business or keep existing clients. |
| Legal and regulatory risk # | The risk of financial or other losses as a result of non-compliance with laws, contracts and regulations. |
| People risk # | The risk as a result of human error, poor talent management and succession planning, which could result in the insurer not being able to compete successfully in the market. |
| Technology risk # | The risk of employing redundant technology, which could result in operational inefficiencies and eventually a loss of clients. |
| Cyber risks # | The risk of financial losses as a result of a cyber-attack. |
| Compliance risk # | The risk that the insurer will not comply with its own policies, laws and regulations. This also includes risks that the insurer is not treating customers fairly, which could result in fines and penalties and reputational risks. |
| Fraud (internal and external) # | The risk of financial losses as a result of fraud. |
| Going concern # | The risk that the insurer will not be able to operate as a going concern in the foreseeable future, resulting in a loss of shareholder value. |
| Business continuity # | The risk of disruptions to business operations, including exposure to epidemics, pandemics, strikes and riots. |
| Political risks (local and global) # | The risk of operational disruptions and financial losses as a result of the political environment. |
| Economic and public infrastructure risks # | The risk that the operating environment, due to economic and public infrastructure factors, does not support adequate and sustainable growth of the business. |
| Competition and strategy risk # | The risk of being outcompeted in the market due to not being able to execute the strategy effectively, resulting in a loss of shareholder value. |
| Outsourcing risk # | The risks that third parties will not be able to meet their contractual obligations to service the insurer or its customers. |
| Process risks # | The risk of process failures, resulting in operational losses, loss of customers and potential fraud. |
| External risks # | Crime, theft and malicious damage to property. |
| Financial reporting risks # | The risk of non-compliance with financial reporting standards, leading to inaccurate decision-making. |
| Project risks # | The risk that strategic projects will not be executed as planned, are delayed or will not meet the desired objectives. |
| Climate change # | The risk of increased severity and frequency of natural disasters because of climate change. |

*## Non-operational risks*
*# Operational risk*

Further to the above, we analysed the risks disclosed by certain large listed insurance groups (Sanlam, Discovery, Momentum, Old Mutual, Santam and OUTsurance) based on the frequency of each risk category mentioned in the risk section of the financial statements and integrated reports up to 31 December 2024. While this may not accurately represent the true risk ranking, it provides insight into the risks that insurers are most concerned about. Set out below are the top five risks identified from this exercise:

1 **Competition and strategy**

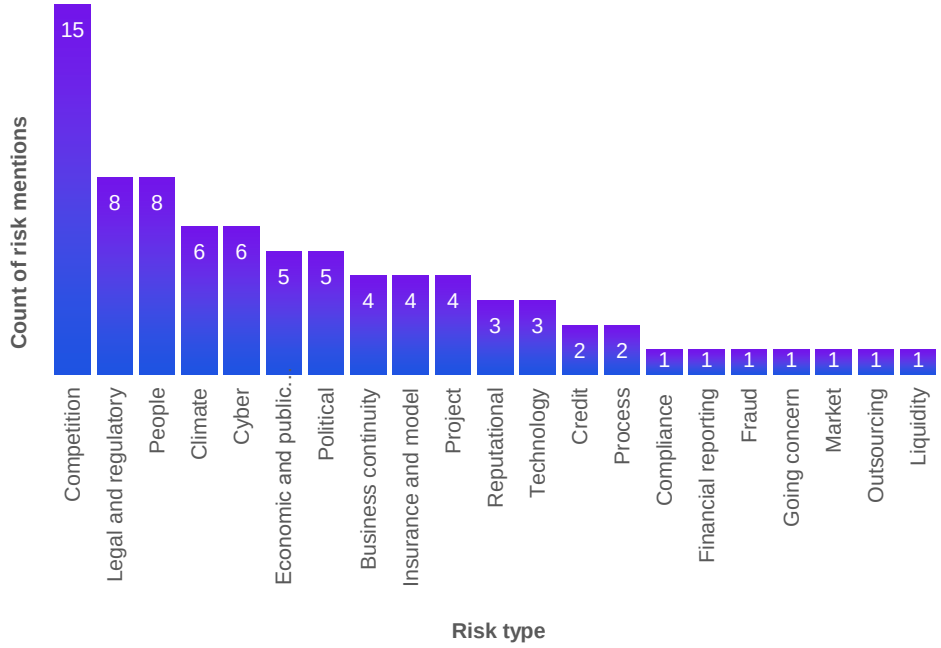
2 **Legal and regulatory**

3 **People**

4 **Climate**

5 **Cyber**

**The number of times the risk is mentioned on the insurers' risk register**




It is not surprising that credit and market risk do not appear in the top five risks, as these risks can be measured with a higher degree of certainty and therefore risk exposures are well understood and managed. In fact, only Momentum included market risk in their top ten risks, while Old Mutual mentioned credit risk among theirs. Of the three measurable non-operational risks, insurance risk is considered to be the most challenging to measure. This is understandable considering the frequency and severity of natural disasters in South Africa in recent years, along with the occurrence of the COVID-19 pandemic. Insurance risk is also closely connected to climate risk, which is also featured in the top ten risks. This is expected as we have started to observe insurers and reinsurers adjusting their pricing models to take into account increased risks related to climate change.

Competition risk refers to the possibility that a company may struggle to compete effectively in the market. It includes the risk of not being able to achieve sustainable growth and remain competitive. This risk is closely tied to the business strategy, where some insurers refer to it as “strategic risk”. Our analysis reveals that many insurers are concerned about competition risk. For example, Old Mutual identifies growth and strategic execution as the second and third most significant risks respectively, with sovereign risk being the highest, but with a lower likelihood of occurrence. Momentum indicated that the risk related to competition and strategy has increased, placing these risks at position two and four of their top five risks respectively, while Old Mutual’s top two risks relate to competition and strategy.

What is also interesting is that non-life insurers appear to be less worried about competition and strategy risks and are more concerned about risks relating to the operating environment such as political, climate change, legal and economic risks.

The operating environment in South Africa has been challenging, characterised by new market entrants, intense competition from Insurtech companies and the rise of new insurance distribution channels. The competitive landscape is vying for the same customers in a country facing high unemployment rates, low GDP growth and a high cost of living. Considering the rising prominence of competition risk, there is room for consideration in including this risk as part of the determination of operational risk as required by the Prudential Standards.

As it relates to legal and regulatory risk, Discovery is the only insurer that identified the National Health Insurance Act (NHI) Act as a top concern. The NHI Act, which was signed into law on 15 May 2024, has a substantial impact on the Discovery Group. This is due to their ownership of Discovery Health, the largest medical scheme administrator in the country, and their significant contribution to the Group's overall results. Although the NHI Act has not yet been implemented, it has created considerable uncertainty for medical schemes and their administrators. This Act could potentially limit private health coverage. However, the near- to long-term consequences are not yet entirely known, given the extent of uncertainty around how the Act will operate and funding mechanisms.

In their 2024 report, OUTsurance expressed concerns regarding the 2022 Employment Equity (EE) Amendment Act, in that their progress and targets for transformation might not be satisfactory. However, the legal, regulatory and compliance risk with this Act remains uncertain due to questions remaining around the practical implementation of the Act and if further refinements or clarifications will be provided by the Government of National Unity.

All six insurers identified concerns related to people and climate risk. They are particularly worried about succession planning, retaining top talent and replacing senior executives, as well as the relocation of skilled workers to developed countries, a phenomenon often referred to as “brain drain”. We have seen unpredictable weather events in the last five years, which created unpredictable claims patterns, especially for the non-life insurance industry. It is no surprise that climate risk is a concern for the industry.

Conduct risk can be linked to the fair treatment of customers. This is particularly relevant in the South African context, where customer vulnerability is exacerbated by factors such as low literacy levels and limited access to information. Conduct risk is also closely aligned to competition and strategic risk, as the successful execution by an insurer of its strategic objectives relies on the appropriate conduct of its people, with talent risk also of relevance in this scenario.

Cyber risk is a significant concern among insurance companies, appearing prominently in their list of top five risks. Insurers are increasingly worried about cyber breaches that could compromise their data and systems, ultimately leading to both operational, reputational and financial losses. Additionally, the sophistication and innovation of cybercrimes are escalating, heightening insurers’ concerns.

Now that we understand the key risks that insurance companies in South Africa are prioritising, we discuss some best practice approaches that can be employed in measuring operational risks.

## Risk testing approaches in an ERM landscape

A robust ERM framework typically involves the following components:

01 **Risk governance and culture**

02 **Risk identification**

03 **Risk measurement and assessment**

04 **Risk monitoring and reporting**

05 **Risk mitigation**

The focus of the rest of this article is to address risk governance and culture and risk measurement and assessment in response to the identified risks noted above.

## Risk governance and culture

An effective ERM framework rests on a foundation of rigorous governance structures and a risk-aware culture. Governance structures determine the policies, responsibilities and oversight mechanisms that ensure risk management is embedded across the organisation. Culture ensures that these mechanisms are implemented effectively in day-to-day operations by encouraging transparency, accountability and proactive risk-taking within defined boundaries.

Effective risk governance connects the board, senior management and operational teams through the establishment of distinct committees, reporting lines and escalation protocols. A positive culture reinforces the organisation’s risk appetite, ensures open debate of risks and aligns decision-making with strategic objectives.

## Risk measurement

### What is risk and how do you measure it?

At its core, risk is the possibility that an unexpected event could occur, something that might disrupt a business's ability to achieve its objectives. This could range from a cyber-attack or power outage, to a sharp drop in the stock market or a failure in internal processes.

In the context of ERM, measuring risk involves assessing both the likelihood of an event occurring and the severity of its potential impact. As outlined earlier, some risks, such as market or credit risk, can often be quantified using models and historical data. Other risks, such as operational or cyber risk, are more difficult to model and often rely on expert judgment, scenario analysis and insights from past events.

As the risk landscape becomes increasingly digital and interconnected, measurement approaches must go beyond financial metrics. Less tangible, but equally critical factors, like system downtime, customer trust, reputational damage and recovery time also need to be considered.

Within this framework, stress testing and scenario analysis play a crucial role, particularly for risks where limited historical data exists, such as emerging or systemic risks. International regulatory frameworks like the Insurance Capital Standard (ICS), Individual Capital Assessment (ICA) and Solvency II recognise these techniques as essential for understanding and managing risk exposures in complex environments.

## Risk measurement models – what are they and where do they fit in?

Risk measurement techniques, such as stress and sensitivity testing and scenario analysis, are only as effective as the underlying models used to quantify them. To apply these techniques, a model is required, often a simplified yet representative view of how risks impact a company's financial position. These are typically financial projection models, and they form the cornerstone of any meaningful risk analysis or testing within an ERM framework.

At their core, these models simulate the financial statements of an insurer, projecting key items such as balance sheets, income statements and capital positions under a range of assumptions.

They allow management to assess how specific adverse scenarios (e.g. a market crash, cyberattacks, or catastrophic events) might impact critical business metrics such as solvency, profitability, liquidity and regulatory capital.

More sophisticated models are modular, integrating multiple sub-models that reflect different dimensions of risk. For example:

- an Economic Scenario Generator (ESG) simulates macroeconomic variables like interest rates, inflation and equity returns which influence investment performance and product liabilities.
- a Catastrophe (CAT) model estimates losses from low-probability, high-severity natural disasters (e.g. a 1-in-200-year hurricane), helping insurers quantify their exposure to climate and geographical concentration risks.
- a reinsurance model projects expected recoveries under different treaty structures and stress conditions, accounting for factors like reinsurer creditworthiness and exhaustion of layers.

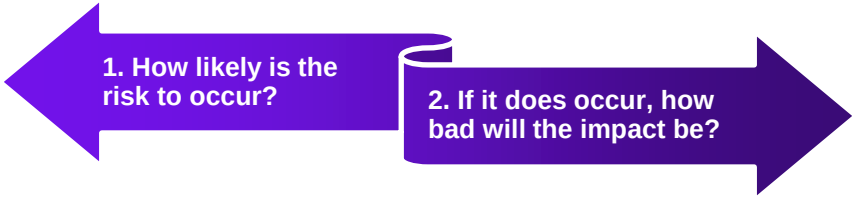
These sub-models must interact dynamically and coherently. Coherence means, for example, that a major natural catastrophe event will likely result in *demand surge inflation,* raising the cost of materials and labor and increasing claim amounts. A robust model would reflect this knock-on effect, as well as the timing and limits of reinsurance recoveries, which may be affected by the financial strain on reinsurers globally after the occurrence of the same catastrophic event.

One example of an integrated approach is the Dynamic Financial Analysis (DFA) model. The DFA model is a forward-looking simulation tool that combines projections of both assets and liabilities under various economic and operational scenarios. It evaluates how different risk drivers evolve over time and interact with each other, such as investment income declining during a market downturn while claims spike due to an operational failure. DFA models typically operate over multi-year time horizons and are used to support strategic decision-making, capital planning, product pricing and Own Risk and Solvency Assessment (ORSA) processes. They can incorporate feedback loops, allow for stochastic (random) inputs and help management understand the full distribution of potential outcomes and not just the expected value. In essence, these models translate abstract risk concepts into quantifiable financial outcomes that decision-makers can act on. They provide the infrastructure upon which stress testing and risk analytics are built.

The remainder of this section will focus on specific risk measurement techniques, such as scenario and sensitivity analysis and reverse stress testing, that rely on such models.

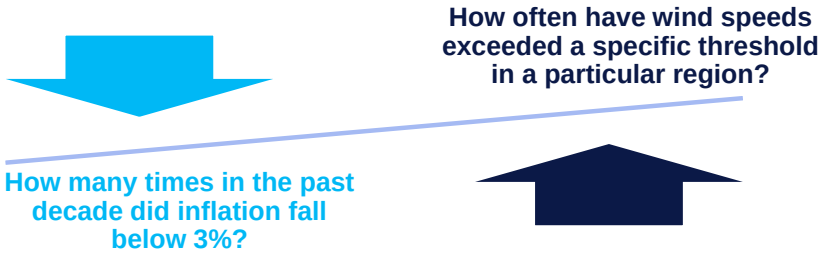
## Risk measurement techniques

When measuring any risk, there are two fundamental questions to be answered:




## Risk incidence rate (how likely is the risk to occur?)

Some risks lend themselves to historical analysis, where sufficient, relevant data exists. For example:




In these cases, statistical methods like frequency distributions, trend analyses and correlations with macroeconomic drivers (like interest rates, oil prices or central bank policy) are used to estimate likelihoods. These methods can be enhanced through tools like ESGs, which simulate a wide range of future market conditions using a combination of historical calibration and forward-looking views.

However, for emerging risks (such as new regulatory frameworks, climate or nature and biodiversity risks) and company-specific risks (like internal fraud, cyber breaches or operational process failures), reliable data or relevant precedents are often not available to the same extent as for traditional risks. These risks require creative and qualitative approaches.

In these cases, organisations typically:

- conduct structured workshops or expert elicitation involving frontline staff, risk managers, actuaries, IT and compliance representatives, as well as experts in a specific field;
- use scenario mapping to identify triggers and early warning indicators; and
- convert these qualitative inputs into incident rates or probability assumptions that can be used in quantitative models.

For example, if a claims fraud detection system is temporarily weakened due to a technology outage, an internal workshop may estimate that undetected fraud could increase the claims ratio by 2–5% based on management experience. This range can then be stress tested in the financial model.

## Risk quantification (if the risk occurs, how bad will the impact be?)

Once we have a sense of the likelihood of a risk occurring, we turn our attention to impact. This is where the risk becomes “real” in financial or operational terms. The goal is to answer: *if this event occurs, what happens to us?*

The severity of impact can be measured using:

- financial outcomes: losses in profit, erosion of capital buffers, cash flow strain, asset write-downs or increased liabilities.
- regulatory metrics: solvency coverage ratios, liquidity ratios and capital adequacy.
- operational metrics: system downtime, claims processing delays, customer churn and reputational damage.

Risk practitioners rely on a suite of risk testing techniques, each suited to different use cases:

- sensitivity testing: focuses on changing a single input at a time (e.g. changing interest rates by ±200bps) to see how sensitive key outputs are to that variable.
- scenario testing: involves simulating multi-variable shocks to reflect complex real-world events. Scenarios can be:

| | | |
|---|---|---|
| *historical* (e.g. the 2008 global financial crisis), | *hypothetical (e.g. a major cyber-attack on a cloud provider), and* | *stylised (e.g. an abrupt 30% drop in equity markets).* |

- reverse stress testing: starts from the point of failure (e.g. breach of solvency capital requirement) and works backward to identify the combination of shocks that would cause it. This technique is especially useful in surfacing hidden vulnerabilities and preparing contingency plans.

These testing methods are applied on top of the organisation's financial or capital models to simulate outcomes and assess resilience.

For operational or emerging risks where models are less mature or data is sparse, expert-led scenario analysis remains the most practical and flexible tool. For example, one might simulate the financial effects of a ransomware attack causing a 10-day system outage, a surge in call center costs, delayed premium collections and increased reputational fallout.

Whether we are using historical data, expert judgment, or simulation models, the two halves of the equation, likelihood and impact, must be tied together into a coherent narrative and quantifiable output. This combination forms the foundation of effective risk testing and supports key decisions around capital planning, mitigation strategies and risk appetite calibration.

The following sections explore these techniques in more detail, along with how they interact with broader risk governance and business strategy.

## Risk-type specific approaches

Enterprise-wide stress testing works best when each risk class is analysed with methods that are tailored to how that risk actually shows up in the organisation. For that reason, we separate the risk universe into four categories:

### A Financial risk (insurance, market, credit, liquidity)

These risks move quickly, have deep data histories and translate directly into capital or liquidity shortfalls. Statistically driven engines such as value-at-risk (VaR), Expected Shortfall (ES) and market-shock scenarios effectively capture these risk dynamics, with treasury and asset-liability matching (ALM) teams already owning the data and managing limits. Managing these risks first establishes the organisation's baseline balance-sheet resilience.

Financial risk sits at the heart of every balance-sheet conversation, so the measurement toolbox is long-established and data-rich. Day-to-day exposures are captured with VaR or where regulators require a more tail-sensitive Expected Shortfall view. Both metrics translate market moves, credit-spread shifts and funding stresses into a single "loss-at-confidence-level" number that portfolio managers and boards can understand.

Model credibility can be maintained through back-testing: each day's profit or loss is compared with the previous day's VaR or ES estimate, with parameters tightened whenever realised losses exceed the model's predictions.

However, even well-behaved VaR models can downplay extreme events and risk teams should layer on a suite of stress tests:

- historical scenarios that replay past shocks (some examples can include the 1998 Asian crisis, the 2008 credit crunch and the 2020 COVID-19 liquidity squeeze) using the firm's current positions.
- hypothetical scenarios that impose bespoke curve twists or credit-spread spikes inspired by today's macro fears (for example, a sudden 300-basis-point jump in short-end rates).
- stylised shocks that knock a single risk factor, for example, equities down 30% or oil up 50% to gauge linear sensitivities.

Collectively, these methods reveal the routine volatility a trading desk must shoulder and the extraordinary shocks that would test solvency or drain liquidity lines, enabling boards to set market-risk limits with clear sight of both ends of the distribution.

Insurance risk is also a core component of financial risk, which includes:

- underwriting risk: deviations from expected claims pay-outs due to mispricing, portfolio shifts or unexpected frequency/severity experience.
- catastrophe risk: exposure to low-frequency, high-severity events such as natural disasters.
- reserving risk: deterioration of claims provisions compared to expectations.
- reinsurance risk: inability to recover from reinsurers due to disputes, counterparty default or exhaustion of limits.

### B Operational risk

Losses here stem from people, processes, systems and third parties and are often low-frequency and high-severity in nature. Since historical data is sparse, the approach shifts to hybrid methods: loss-distribution modelling where data exists, driver-based regressions where indicators explain losses and expert scenario workshops where imagination must fill the gaps. The Association for Savings and Investment South Africa (ASISA) guidelines in respect of taxonomy and near-miss reporting reinforce the need for a quantitative-qualitative blend.

Operational risk is far-reaching: fraud, data errors, process breakdowns, system outages and third-party mishaps seldom follow neat distributions. Where loss data is plentiful, firms will deploy a Loss Distribution Approach (LDA), fitting frequency and severity curves and then shifting them under stress to estimate capital for a 1-in-200-year loss.

When data is thin, risk teams build driver-based regressions linking losses to causal indicators: transaction volumes, staff turnover, change-request counts and macro variables. Due to the wide-spread nature of these risks, blind spots are prevalent. Organisations therefore convene scenario-analysis workshops whereby underwriters, actuaries, IT architects and compliance officers craft "extreme-but-plausible" narratives: a rogue-trader incident that evades controls; a supply-chain collapse that idles claims servicing; a cloud lock-out that freezes policy administration for ten days. Expected incident frequencies and loss severities from those workshops feed directly into capital models.

Continuous-control monitoring closes the feedback loop. Real-time risk indicators such as failed logins, access-override counts, batch-process errors and vendor breaches trigger escalation long before financial losses appear. This blend of data, expert judgement and live key risk indictors (KRI) mirrors the ASISA operational-risk guideline, which emphasises near-miss reporting, root-cause analysis and thresholds that scale to firm complexity.

## C Cyber/Information and Communication Technology (ICT) risk (a focused subset of operational risk)

Technically a subset of operational risk, cyber risk merits stand-alone treatment. The European Insurance and Occupational Pensions Authority's (EIOPA) cyber stress-testing principles highlight how a single ransomware wave or cloud-provider outage can propagate system-wide, creating downtime, restoration costs and regulatory fines that dwarf ordinary operational risk events. Dedicated scenarios, metrics and governance, often led by the chief information security officer (CISO), can prevent cyber exposures from being lost in generic operational averages.

Cyber risk has become material and substantially different in propagation speed and systemic reach. We, therefore, assess this risk separately even though it sits within the broader operational risk taxonomy.

EIOPA's cyber-stress-testing principles frame the risk on two fronts:

- cyber resilience: the firm as a direct target. Stress tests model ransomware waves, cloud-provider outages, data-exfiltration or large-scale denial-of-service attacks. Impact metrics extend beyond cash payouts to system downtime, recovery and forensics spend, regulatory fines and softer hits to reputation and customer trust.
- cyber underwriting exposure: for insurers that sell cyber cover. Here, accumulation scenarios test a single software vulnerability exploited across thousands of policyholders, checking that gross and net (post-reinsurance) losses fit within risk appetite and capital.

Because cyber events leap across borders and vendors, scenarios must reflect service-provider concentration and "demand-surge" effects.

## D Business continuity, resilience and third-party risk

Finally, we test whether the firm can keep delivering its services under systemic stress such as pandemic surges, grid failures or a critical vendor collapse. Reverse stress testing pinpoints single points of failure while continuity planning assesses how quickly alternate sites, staff or suppliers can restore operations. This cross-cutting lens forces the organisation to stitch together insights from the other three buckets into a coherent crisis playbook.

Business continuity risk turns the lens outward to question whether the organisation can keep delivering critical services when systemic shocks hit. Modern continuity programmes now assume pandemics, grid failures, geopolitical sanctions or major dependencies on third parties.

Risk teams first run forward scenarios: how long can policy servicing run on generator power? Can claims triage shift to an alternate site? Then apply reverse stress testing, asking: "What combination of data-center outages, supplier defaults and staff unavailability will breach our capital or liquidity buffers?"

Mapping those dependency chains from the scenarios pinpoints where additional redundancy, vendor diversification or contingency funding is needed. The results feed straight into funding-plan triggers, vendor-resilience clauses and board-approved crisis playbooks.

Grouping risks in this manner achieves the following goals:

It pairs the right measurement method with the relevant risk behavior: statistical engines for market shocks, scenario workshops for operational surprises, specialised tests for cyber contagion and reverse stress tests for end-to-end service failure.

It aligns risks management with organisational ownership: chief financial officer and/or treasury function for financial risk, chief operating office and/or risk function for operational risk, CISO for cyber/ICT risk and the enterprise resilience team for continuity.

It avoids both double counting and blind spots, because boundary events (for example, an operational failure triggering a financial loss) are explicitly tagged and measured in only one place.

It mirrors international regulatory expectations, from Solvency II's separation of market and operational modules, to EIOPA's dedicated cyber guidance and ASISA's operational-risk taxonomy, ensuring that stress tests speak the same language as supervisors and rating agencies.

## Where stress testing sits in ERM

Stress testing is the bridge between model-heavy risk analysis and board-level decision-making. Results flow straight into risk appetite statements, capital and liquidity limits, contingency-funding triggers and recovery/resolution playbooks.

Regulators formalise this link: insurers must evidence capital resilience through the ORSA. By embedding the outputs of multi-risk stress tests into those supervisory processes, insurers will be able to demonstrate that the capital they hold for day-to-day volatility is also sufficient for the "1-in-200-year" shock.

## Implementation roadmap: seven practical steps

Global guidance from Moody's converges on a common cycle that can be applied to any stress testing exercise[2]:

**01** **Define scope and objectives: identify entities, risk types and appetite thresholds the test must address.**

**02** **Select scenario types: blend historical, hypothetical, stylised and reverse stress testing scenarios to capture both known and emerging threats.**

**03** **Select modelling methods: deploy LDA, Monte-Carlo engines, regression models or expert judgement according to the data at hand.**

**04** **Validate, calibrate and quantify: benchmark assumptions, reconcile to recent events and translate shocks into capital, liquidity, profit or loss, downtime, fines and reputational impacts.**

**05** **Report and act: present findings and mitigation options to senior management and/or the board; update limits or controls as required.**

**06** **Monitor and refresh: feed near-misses, key-risk-indicator trends and horizon-scanning insights into the next testing cycle.**

**07** **Document and evidence: maintain clear audit trails for supervisors and internal assurance.**

[2] https://www.moodys.com/web/en/us/insights/banking/stress-testing-best-practices-a-seven-steps-model.html?

These steps turn stress testing from a one-off modelling exercise into a living governance tool, one that continuously aligns capital, appetite and strategy with a rapidly evolving risk landscape.

Set out below is our view on additional forward-looking considerations that can be incorporated by insurers:

Embed insurance risk metrics directly alongside market and credit risk in the capital model, so that volatility from claims, catastrophe events or technical reserves is assessed with equal rigour.

Expand stress testing to integrate underwriting, reserving and reinsurance shocks with market, credit and liquidity stresses to produce a single capital impact view.

Maintain continuous feedback loops from near-miss analysis, claims experience and reinsurance recoveries into model calibration.

Strengthen governance oversight so that the board understands tail dependencies. For example, how a catastrophe event could affect both underwriting losses and market asset values simultaneously.

Use scenario narratives that combine financial, operational and reputational dimensions to test resilience in ways models alone cannot.

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## Comparative summary table

Set out below is a summary of the four risk categories discussed under “Risk-type specific approaches”. It reflects:

(i) the preferred testing methods for each class; and

(ii) the metrics leaders most often track when judging whether risks remains within appetite.

| Risk category | Core testing techniques | Primary metrics and outputs |
|---|---|---|
| **Financial (insurance/ market/ credit/ liquidity)** | • VaR/Expected Shortfall models<br>• Sensitivity runs<br>• Historical and hypothetical stress scenarios | • Potential loss distribution<br>• Capital and liquidity coverage<br>• Limit breaches<br>• Funding gap under stress |
| **Operational** | • Loss-Distribution Approach<br>• Driver-based regressions<br>• Scenario workshops (“extreme-but-plausible”)<br>• Continuous KRI monitoring | • Tail loss (99.5% level)<br>• Frequency-severity curves<br>• Control-gap diagnostics<br>• Near-miss frequencies |
| **Cyber/ICT** | • Cyber-specific scenario analysis (ransomware, cloud outage, data breach, denial-of-service attack)<br>• Accumulation tests for insurers (portfolio clustering) | • Direct cash loss<br>• System-downtime hours<br>• Restoration and forensics spend<br>• Regulatory fines<br>• Reputational impact narrative |
| **Business continuity/ third-party resilience** | • Systemic or external shock scenarios (pandemic, grid failure, geopolitical sanctions)<br>• Reverse stress testing to locate single-points-of-failure | • Service interruption cost<br>• Recovery-time objectives<br>• Vendor dependency heat-map<br>• Contingency-plan readiness |

## Conclusion

We discussed the current ERM landscape for South African insurers, detailing key risk categories, risk measurement techniques and how major insurers perceive and rank these risks. It also emphasises the increasing complexity and importance of non-financial and operational risks.

We recommend that Risk Committees develop a risk appetite framework to communicate and monitor the amount and type of risks it is willing to accept to achieve its strategic objectives. Our view is that to achieve this, the risk appetite framework needs to be underpinned by appropriate risk measurement models that are suitable for the insurer’s unique circumstances and strategic objectives.

As the industry navigates an increasingly complex and dynamic risk landscape, it is important for insurers to evolve their enterprise risk management frameworks beyond traditional financial metrics. With the increased frequency and severity of operational risks, a more holistic, data-informed and scenario-driven approach is required to ensure that insurers are risk resilient.

Through uniting governance and culture with robust quantitative and qualitative techniques, and explicitly integrating insurance risks into measurement frameworks, insurers will be better positioned to withstand shocks, meet regulatory expectations and protect stakeholder value.

# Life insurance industry financial results

## LIFE INSURERS | Statement of Financial Position | R'000

| Accounting year end | Dec-24 | Dec-23 Restated | Jun-24 | Jun-23 Restated | Jun-24 | Jun-23 Restated | Dec-24 | Dec-23 | Dec-24 | Dec-23 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group/Company** | **Absa Life Limited** | | **Assupol Life Limited** | | **AVBOB Mutual Assurance Society** | | **Bryte Life Company Limited** | | **Centriq Life Insurance Company Limited** | |
| Share capital and premium | 24 000 | 24 000 | 490 019 | 490 019 | - | - | 126 744 | 126 744 | 15 000 | 15 000 |
| Retained earnings/(deficit) | 1 737 769 | 1 484 097 | 4 929 630 | 4 489 819 | - | - | (113 893) | (97 032) | 102 329 | 71 755 |
| Other reserves | 63 646 | (84 507) | 295 484 | 296 827 | - | - | (212) | - | - | - |
| Non-controlling interests | - | - | - | - | - | - | - | - | - | - |
| **Total shareholders' funds** | **1 825 415** | **1 423 590** | **5 715 133** | **5 276 665** | **-** | **-** | **12 639** | **29 712** | **117 329** | **86 755** |
| | | | | | | | | | | |
| Insurance contract liabilities | 3 282 525 | 3 298 734 | 1 780 965 | 1 774 980 | 32 329 461 | 28 577 398 | 50 333 | 41 207 | 3 059 006 | 1 770 097 |
| Reinsurance contract liabilities | 433 720 | 396 778 | 15 750 | 16 312 | 1 726 | 1 214 | - | - | 2 447 297 | 2 928 926 |
| Policyholder liabilities under investment contracts (including linked liabilities) | 23 552 651 | 21 247 384 | 5 335 264 | 5 765 361 | 8 775 611 | 8 774 026 | - | - | - | - |
| Preference share liability | - | - | - | - | - | - | 15 000 | 15 000 | - | - |
| Current tax payable | - | - | 10 356 | 7 408 | 160 765 | 8 704 | - | - | - | 202 349 |
| Deferred tax liability | 9 510 | 11 269 | 554 911 | 408 924 | 221 624 | 292 049 | - | - | - | - |
| Other liabilities | 1 222 231 | 910 419 | 803 704 | 745 086 | 1 281 257 | 1 131 023 | 5 140 | 5 004 | 23 674 | 27 346 |
| **Total liabilities** | **28 500 637** | **25 864 584** | **8 500 950** | **8 718 071** | **42 770 444** | **38 784 414** | **70 473** | **61 211** | **5 529 977** | **4 928 718** |
| | | | | | | | | | | |
| **Total investments** | **27 004 120** | **24 438 287** | **9 238 760** | **9 421 779** | **39 687 145** | **36 408 115** | **26 375** | **35 230** | **5 065 347** | **4 045 140** |
| PPE, goodwill and intangible assets, non-current assets classified as held for sale | 604 767 | 451 766 | 548 320 | 472 714 | 789 566 | 296 568 | 50 | 274 | - | - |
| Insurance contract assets | 786 986 | 701 066 | 3 637 405 | 3 404 999 | - | - | - | - | 48 995 | 18 419 |
| Reinsurance contract assets | 358 051 | 412 406 | 233 083 | 203 341 | - | - | 19 440 | 12 958 | 21 380 | 724 430 |
| Cash and cash equivalents | 806 619 | 649 440 | 476 068 | 421 643 | 1 846 828 | 1 665 482 | 35 509 | 39 637 | 244 334 | 116 097 |
| Other assets | 748 754 | 632 771 | 82 447 | 70 260 | 225 281 | 254 439 | 1 604 | 2 611 | 156 742 | 65 002 |
| Current/Deferred tax asset | 16 755 | 2 438 | - | - | 221 624 | 159 810 | 134 | 213 | 110 508 | 46 385 |
| **Total assets** | **30 326 052** | **27 288 174** | **14 216 083** | **13 994 736** | **42 770 444** | **38 784 414** | **83 112** | **90 923** | **5 647 306** | **5 015 473** |
| Total assets/Total liabilities | 106% | 106% | 167% | 161% | 100% | 100% | 118% | 149% | 102% | 102% |
| Increase in shareholders' funds | 28% | | 8% | | - | | (57%) | | 35% | |

## LIFE INSURERS | Statement of Financial Position | R'000

| Accounting year end | Jun-24 | Jun-23 Restated | Jun-24 | Jun-23 Restated | Jun-24 | Jun-23 Restated | Jun-24 | Jun-23 Restated | Dec-24 | Dec-23 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group/Company** | **Discovery Life Limited** | | **Guardrisk Life Limited** | | **Hollard Life Assurance Company Limited** | | **Hollard Specialists Life Limited** | | **Liberty Group Limited** | |
| Share capital and premium | 1 416 000 | 1 416 000 | 70 000 | 70 000 | 20 000 | 20 000 | 94 687 | 94 687 | 229 000 | 189 000 |
| Retained earnings/(deficit) | 30 397 000 | 26 937 000 | 344 193 | 409 185 | 1 684 398 | 1 406 064 | 422 408 | 627 061 | 11 494 000 | 12 303 000 |
| Other reserves | (2 840 000) | (3 905 000) | - | - | - | - | - | - | 196 000 | 196 000 |
| Non-controlling interests | - | - | - | - | - | - | - | - | 4 017 000 | 3 726 000 |
| **Total shareholders' funds** | **28 973 000** | **24 448 000** | **414 193** | **479 185** | **1 704 398** | **1 426 064** | **517 095** | **721 748** | **15 936 000** | **16 414 000** |
| | | | | | | | | | | |
| Insurance contract liabilities | 104 220 000 | 94 185 000 | 1 417 380 | 1 566 189 | 7 791 130 | 7 471 396 | 231 940 | 237 802 | 267 588 000 | 245 207 000 |
| Reinsurance contract liabilities | 125 000 | 567 000 | 9 383 855 | 8 290 844 | 8 126 | 5 897 | 25 689 | 24 726 | 31 000 | - |
| Policyholder liabilities under investment contracts (including linked liabilities) | 25 710 000 | 19 698 000 | 17 326 450 | 15 672 562 | 20 229 842 | 29 470 484 | 453 086 | 443 374 | 167 135 000 | 149 980 000 |
| Preference share liability | - | - | - | - | - | - | - | - | - | - |
| Current tax payable | 115 000 | 38 000 | 146 798 | 222 520 | 28 829 | 32 816 | - | - | 154 000 | 718 000 |
| Deferred tax liability | 7 094 000 | 5 592 000 | - | - | 1 193 507 | 1 368 814 | 96 130 | 130 256 | 2 024 000 | 1 235 000 |
| Other liabilities | 2 869 000 | 3 208 000 | 3 487 857 | 3 554 425 | 1 469 156 | 1 468 443 | 273 487 | 112 795 | 36 608 000 | 39 704 000 |
| **Total liabilities** | **140 133 000** | **123 288 000** | **31 762 340** | **29 306 540** | **30 720 590** | **39 817 850** | **1 080 332** | **948 953** | **473 540 000** | **436 844 000** |
| | | | | | | | | | | |
| **Total investments** | **135 674 000** | **119 045 000** | **24 256 059** | **23 151 599** | **22 886 928** | **31 306 486** | **825 011** | **819 564** | **433 826 000** | **399 123 000** |
| PPE, goodwill and intangible assets, non-current assets classified as held for sale | 135 000 | 96 000 | - | - | 189 586 | 227 230 | - | 6 141 | 32 864 000 | 31 384 000 |
| Insurance contract assets | 22 323 000 | 18 056 000 | 6 039 948 | 4 703 528 | 1 430 855 | 1 892 251 | 461 048 | 558 700 | 1 084 000 | 1 205 000 |
| Reinsurance contract assets | 685 000 | 529 000 | 849 286 | 687 304 | 4 524 041 | 4 645 207 | 95 568 | 104 756 | 4 670 000 | 4 349 000 |
| Cash and cash equivalents | 3 212 000 | 3 315 000 | 473 533 | 841 938 | 1 013 160 | 806 474 | 126 506 | 131 483 | 12 675 000 | 13 019 000 |
| Other assets | 6 083 000 | 5 671 000 | - | - | 514 978 | 438 237 | 53 291 | 24 599 | 4 177 000 | 4 050 000 |
| Current/Deferred tax asset | 994 000 | 1 024 000 | 557 707 | 401 356 | 1 865 440 | 1 928 029 | 36 003 | 25 458 | 180 000 | 128 000 |
| **Total assets** | **169 106 000** | **147 736 000** | **32 176 533** | **29 785 725** | **32 424 988** | **41 243 914** | **1 597 427** | **1 670 701** | **489 476 000** | **453 258 000** |
| Total assets/Total liabilities | 121% | 120% | 101% | 102% | 106% | 104% | 148% | 176% | 103% | 104% |
| Increase in shareholders' funds | 19% | | (14%) | | 20% | | (28%) | | (3%) | |

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## LIFE INSURERS | Statement of Financial Position | R'000

| Accounting year end | Jun-24 | Jun-23 Restated | Dec-24 | Dec-23 | Dec-24 | Dec-23 | Dec-24 | Dec-23 Restated | Jun-24 | Jun-23 Restated |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group/Company** | **Momentum Metropolitan Life Limited** | | **Nedgroup Life Assurance Company Limited** | | **Nedgroup Structured Life Limited** | | **Old Mutual Life Assurance Company (South Africa) Limited** | | **OUTsurance Life Insurance Company Limited** | |
| Share capital and premium | 1 041 000 | 1 041 000 | 55 000 | 55 000 | 26 351 | 26 351 | 6 423 000 | 6 423 000 | 445 002 | 445 002 |
| Retained earnings/(deficit) | 9 212 000 | 8 329 000 | 1 888 239 | 1 996 546 | 97 783 | 87 597 | 16 333 000 | 18 666 000 | 628 747 | 763 778 |
| Other reserves | 9 263 000 | 10 029 000 | - | - | - | - | (21 000) | 15 000 | 5 893 | 3 676 |
| Non-controlling interests | - | - | - | - | - | - | - | - | - | - |
| **Total shareholders' funds** | **19 516 000** | **19 399 000** | **1 943 239** | **2 051 546** | **124 134** | **113 948** | **22 735 000** | **25 104 000** | **1 079 642** | **1 212 456** |
| | | | | | | | | | | |
| Insurance contract liabilities | 138 711 000 | 124 353 000 | 900 223 | 884 848 | - | - | 597 569 000 | 557 618 000 | 646 138 | 525 150 |
| Reinsurance contract liabilities | 33 000 | 36 000 | - | 6 510 | - | - | 3 000 | 34 000 | 2 410 | 4 946 |
| Policyholder liabilities under investment contracts (including linked liabilities) | 380 960 000 | 338 451 000 | 1 607 731 | 2 078 709 | 15 870 346 | 15 359 249 | 250 394 000 | 226 262 000 | 1 737 571 | 1 230 640 |
| Preference share liability | - | - | - | - | - | - | - | - | - | - |
| Current tax payable | 125 000 | 793 000 | - | 29 508 | - | 549 | 172 000 | 191 000 | 10 609 | 1 114 |
| Deferred tax liability | 2 106 000 | 2 263 000 | 107 839 | 79 921 | - | - | 5 185 000 | 3 812 000 | 122 984 | 149 930 |
| Other liabilities | 30 875 000 | 24 824 000 | 199 642 | 222 810 | 3 090 | 2 676 | 60 955 000 | 69 483 000 | 325 779 | 283 150 |
| **Total liabilities** | **552 810 000** | **490 720 000** | **2 815 435** | **3 302 306** | **15 873 436** | **15 362 474** | **914 278 000** | **857 400 000** | **2 845 491** | **2 194 930** |
| | | | | | | | | | | |
| **Total investments** | **541 187 000** | **478 913 000** | **3 902 441** | **4 607 999** | **15 979 628** | **15 460 516** | **883 154 000** | **838 600 000** | **3 413 036** | **2 871 725** |
| PPE, goodwill and intangible assets, non-current assets classified as held for sale | 3 029 000 | 8 074 000 | 142 600 | 152 600 | - | - | 12 710 000 | 7 973 000 | - | - |
| Insurance contract assets | 4 564 000 | 4 214 000 | 87 717 | 44 164 | - | - | 6 118 000 | 4 577 000 | 250 541 | 215 990 |
| Reinsurance contract assets | 5 401 000 | 4 769 000 | 229 331 | 212 403 | - | - | 3 280 000 | 2 742 000 | 111 891 | 86 706 |
| Cash and cash equivalents | 17 382 000 | 13 443 000 | 233 598 | 225 324 | 12 991 | 11 074 | 12 621 000 | 10 727 000 | 118 385 | 184 772 |
| Other assets | 763 000 | 706 000 | 141 405 | 109 612 | 4 810 | 4 832 | 16 578 000 | 14 993 000 | 17 535 | 27 095 |
| Current/Deferred tax asset | - | - | 21 582 | 1 750 | 141 | - | 2 552 000 | 2 892 000 | 13 745 | 21 098 |
| **Total assets** | **572 326 000** | **510 119 000** | **4 758 674** | **5 353 852** | **15 997 570** | **15 476 422** | **937 013 000** | **882 504 000** | **3 925 133** | **3 407 386** |
| Total assets/Total liabilities | 104% | 104% | 169% | 162% | 101% | 101% | 102% | 103% | 138% | 155% |
| Increase in shareholders' funds | 1% | | (5%) | | 9% | | (9%) | | (11%) | |

## LIFE INSURERS | Statement of Financial Position | R'000

| Accounting year end | Dec-24 | Dec-23 Restated |
|---|---|---|
| **Group/Company** | **Sanlam Limited** | |
| Share capital and premium | 10 654 000 | 6 375 000 |
| Retained earnings/(deficit) | 77 779 000 | 71 148 000 |
| Other reserves | 12 528 000 | 11 007 000 |
| Non-controlling interests | 9 194 000 | 8 375 000 |
| **Total shareholders' funds** | **110 155 000** | **96 905 000** |
| | | |
| Insurance contract liabilities | 232 554 000 | 193 374 000 |
| Reinsurance contract liabilities | 5 185 000 | 5 686 000 |
| Policyholder liabilities under investment contracts (including linked liabilities) | 554 955 000 | 488 501 000 |
| Preference share liability | - | - |
| Current tax payable | 3 180 000 | 1 938 000 |
| Deferred tax liability | 8 925 000 | 8 768 000 |
| Other liabilities | 218 590 000 | 201 548 000 |
| **Total liabilities** | **1 023 389 000** | **899 815 000** |
| | | |
| **Total investments** | **1 006 108 000** | **836 398 000** |
| PPE, goodwill and intangible assets, non-current assets classified as held for sale | 21 903 000 | 61 189 000 |
| Insurance contract assets | 13 736 000 | 9 478 000 |
| Reinsurance contract assets | 11 233 000 | 14 530 000 |
| Cash and cash equivalents | 34 602 000 | 27 237 000 |
| Other assets | 43 977 000 | 45 315 000 |
| Current/Deferred tax asset | 1 985 000 | 2 573 000 |
| **Total assets** | **1 133 544 000** | **996 720 000** |
| Total assets/Total liabilities | 111% | 111% |
| Increase in shareholders' funds | 14% | |

# LIFE INSURERS | Statement of Comprehensive Income | R'000

| Accounting year end | Dec-24 | Dec-23 Restated | Jun-24 | Jun-23 Restated | Jun-24 | Jun-23 Restated | Dec-24 | Dec-23 | Dec-24 | Dec-23 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group/Company** | **Absa Life Limited** | | **Assupol Life Limited** | | **AVBOB Mutual Assurance Society** | | **Bryte Life Company Limited** | | **Centriq Life Insurance Company Limited** | |
| Insurance revenue | 4 944 007 | 4 774 879 | 4 878 894 | 4 556 284 | 4 157 415 | 3 716 780 | 105 469 | 118 193 | 8 213 331 | 6 743 072 |
| Insurance service expenses | (3 700 721) | (3 422 899) | (4 036 729) | (3 749 357) | (3 802 088) | (3 383 404) | (114 862) | (101 711) | (4 883 588) | (4 101 844) |
| Net expenses from reinsurance contracts | (106 997) | (145 455) | (58 913) | (19 238) | (806) | (778) | 2 595 | (4 394) | (3 256 238) | (1 920 934) |
| **Insurance service result** | **1 136 289** | **1 206 525** | **783 252** | **787 689** | **354 521** | **332 598** | **(6 798)** | **12 088** | **73 505** | **720 294** |
| Net finance income/(expense) from insurance contracts | (873) | 22 184 | 477 566 | 564 520 | (2 774 143) | (3 238 378) | - | - | (413 997) | 115 294 |
| Net finance income/(expense) from reinsurance contracts | (71 565) | (87 517) | (9 914) | 1 788 | (622) | (1 773) | - | - | (4 037) | (350 962) |
| **Net insurance result** | **1 063 851** | **1 141 192** | **1 250 904** | **1 353 997** | **(2 420 244)** | **(2 907 553)** | **(6 798)** | **12 088** | **(344 529)** | **484 626** |
| **Total net investment income*** | **1 623 642** | **1 857 054** | **869 363** | **731 799** | **3 367 771** | **3 837 992** | **5 939** | **6 984** | **465 272** | **270 368** |
| **Net income before other operating expenses and other income** | **2 687 493** | **2 998 246** | **2 120 267** | **2 085 796** | **947 527** | **930 439** | **(859)** | **19 072** | **120 743** | **754 994** |
| Commission received | - | - | - | - | - | - | - | - | - | - |
| Other unallocated income | - | - | 69 136 | 141 690 | 7 195 | 2 585 | - | - | - | - |
| Service fees from investment contracts | 89 210 | 67 763 | - | - | - | - | - | - | - | - |
| Fair value adjustments/movement in policyholder liabilities under investment contracts | (1 088 861) | (1 448 208) | (366 825) | (323 803) | - | - | - | - | - | - |
| Administration, management and other expenses | (292 951) | (244 313) | (313 218) | (329 021) | (754 542) | (689 512) | (15 823) | (9 157) | (100 792) | (80 488) |
| **Equity-accounted earnings (incl. hyper-inflationary adjustments)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Profit/(Loss) before tax** | **1 394 891** | **1 373 488** | **1 509 360** | **1 574 662** | **200 180** | **243 512** | **(16 682)** | **9 915** | **19 951** | **674 506** |
| Taxation | (446 219) | (428 522) | (471 022) | (350 368) | (200 479) | (244 143) | (79) | - | 64 123 | (621 216) |
| **Profit/(Loss) after tax** | **948 672** | **944 966** | **1 038 338** | **1 224 294** | **(299)** | **(631)** | **(16 761)** | **9 915** | **84 074** | **53 290** |
| **Other comprehensive income** | **133 052** | **122 869** | **-** | **-** | **299** | **631** | **-** | **-** | **-** | **-** |
| **Total comprehensive income for the year** | **1 081 724** | **1 067 835** | **1 038 338** | **1 224 294** | **-** | **-** | **(16 761)** | **9 915** | **84 074** | **53 290** |
| Other transfer to/(from) retained earnings | - | - | (16 173) | (19 356) | - | - | - | - | - | - |
| Other comprehensive income not charged against retained earnings | (133 052) | (122 869) | - | - | - | - | - | - | - | - |
| Ordinary dividends | 695 000 | 703 000 | 582 354 | 531 250 | - | - | 100 | - | 53 500 | 25 000 |
| Allocated to preference shareholders | - | - | - | - | - | - | - | - | - | - |
| Allocated to non-controlling interests | - | - | - | - | - | - | - | - | - | - |
| **Change in retained earnings**** | **253 672** | **241 966** | **439 811** | **673 688** | **-** | **-** | **(16 861)** | **9 915** | **30 574** | **28 290** |
| Net (expenses)/income from reinsurance contracts/insurance contracts result (insurance revenue less insurance service expenses) | 9% | 11% | 7% | 2% | 0% | 0% | 28% | 27% | 98% | 73% |
| Insurance service expenses/insurance revenue | 75% | 72% | 83% | 82% | 91% | 91% | 109% | 86% | 59% | 61% |
| Insurance service result/profit/(loss) before tax | 81% | 88% | 52% | 50% | 177% | 137% | 41% | 122% | 368% | 107% |
| Tax as a % of profit/(loss) before tax | 32% | 31% | 31% | 22% | 100% | 100% | 0% | 0% | (321%) | 92% |
| Comments | Company | | Company | | Society | | Company | | Company | |

* Includes expected credit loss movements on financial instruments.

** 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.

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# LIFE INSURERS | Statement of Comprehensive Income | R'000

| Accounting year end | Jun-24 | Jun-23 Restated | Jun-24 | Jun-23 Restated | Jun-24 | Jun-23 Restated | Jun-24 | Jun-23 Restated | Dec-24 | Dec-23 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group/Company** | **Discovery Life Limited** | | **Guardrisk Life Limited** | | **Hollard Life Assurance Company Limited** | | **Hollard Specialists Life Limited** | | **Liberty Group Limited** | |
| Insurance revenue | 21 630 000 | 20 019 000 | 10 303 321 | 11 240 949 | 7 036 520 | 7 687 462 | 528 700 | 596 534 | 35 864 000 | 31 220 000 |
| Insurance service expenses | (17 906 000) | (16 753 000) | (5 155 164) | (4 827 117) | (6 025 543) | (6 221 580) | (690 947) | (528 458) | (27 094 000) | (23 307 000) |
| Net expenses from reinsurance contracts | (458 000) | (226 000) | (3 895 782) | (4 972 651) | (531 670) | (616 185) | 3 657 | 10 680 | (782 000) | (527 000) |
| **Insurance service result** | **3 266 000** | **3 040 000** | **1 252 375** | **1 441 181** | **479 307** | **849 697** | **(158 590)** | **78 756** | **7 988 000** | **7 386 000** |
| Net finance income/(expense) from insurance contracts | (6 981 000) | (7 366 000) | 476 917 | (262 166) | (258 133) | (180 212) | 72 032 | 29 534 | (31 789 000) | (25 977 000) |
| Net finance income/(expense) from reinsurance contracts | (195 000) | (225 000) | (539 174) | 210 775 | 266 384 | 312 268 | 1 285 | (3 766) | 364 000 | 319 000 |
| **Net insurance result** | **(3 910 000)** | **(4 551 000)** | **1 190 118** | **1 389 790** | **487 558** | **981 753** | **(85 273)** | **104 524** | **(23 437 000)** | **(18 272 000)** |
| **Total net investment income*** | **12 743 000** | **13 115 000** | 1 640 310 | 1 570 065 | **3 244 414** | **2 501 271** | **81 982** | **84 798** | **54 906 000** | **46 839 000** |
| **Net income before other operating expenses and other income** | **8 833 000** | **8 564 000** | **2 830 428** | **2 959 855** | **3 731 972** | **3 483 024** | **(3 291)** | **189 322** | **31 469 000** | **28 567 000** |
| Commission received | - | - | - | - | - | - | - | - | - | - |
| Other unallocated income | 1 504 000 | 1 320 000 | 182 961 | 204 803 | 130 228 | 247 701 | 12 001 | 19 122 | 2 514 000 | 2 203 000 |
| Service fees from investment contracts | - | - | - | - | - | - | - | - | - | - |
| Fair value adjustments/movement in policyholder liabilities under investment contracts | (2 189 000) | (2 593 000) | (1 535 098) | (1 457 302) | (2 467 164) | (1 840 001) | 9 849 | (3 107) | (20 004 000) | (18 091 000) |
| Administration, management and other expenses | (2 029 000) | (1 748 000) | - | (169) | (590 088) | (823 683) | (191 382) | (103 080) | (7 816 000) | (7 758 000) |
| **Equity-accounted earnings (incl. hyper-inflationary adjustments)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Profit/(Loss) before tax** | **6 119 000** | **5 543 000** | **1 478 291** | **1 707 187** | **804 948** | **1 067 041** | **(172 823)** | **102 257** | **6 163 000** | **4 921 000** |
| Taxation | (1 555 000) | (1 475 000) | (1 292 283) | (1 560 731) | (121 580) | (319 449) | 44 671 | (49 112) | (2 622 000) | (2 455 000) |
| **Profit/(Loss) after tax** | **4 564 000** | **4 068 000** | **186 008** | **146 456** | **683 368** | **747 592** | **(128 152)** | **53 145** | **3 541 000** | **2 466 000** |
| **Other comprehensive income** | **1 015 000** | **(3 054 000)** | **-** | **-** | **-** | **-** | **-** | **-** | **8 000** | **61 000** |
| **Total comprehensive income for the year** | **5 579 000** | **1 014 000** | **186 008** | **146 456** | **683 368** | **747 592** | **(128 152)** | **53 145** | **3 549 000** | **2 527 000** |
| Other transfer to/(from) retained earnings | (4 000) | (5 000) | - | - | - | - | - | - | 2 756 000 | 535 000 |
| Other comprehensive income not charged against retained earnings | (1 015 000) | 3 054 000 | - | - | - | - | - | - | (8 000) | (61 000) |
| Ordinary dividends | 1 100 000 | - | 251 000 | 83 000 | 405 034 | 682 945 | 76 500 | 62 251 | 6 604 000 | 3 298 000 |
| Allocated to preference shareholders | - | - | - | - | - | - | - | - | - | - |
| Allocated to non-controlling interests | - | - | - | - | - | - | - | - | 502 000 | 379 000 |
| **Change in retained earnings**** | **3 460 000** | **4 063 000** | **(64 992)** | **63 456** | **278 334** | **64 647** | **(204 652)** | **(9 106)** | **(809 000)** | **(676 000)** |
| Net (expenses)/income from reinsurance contracts/insurance contracts result (insurance revenue less insurance service expenses) | 12% | 7% | 76% | 78% | 53% | 42% | 2% | (16%) | 9% | 7% |
| Insurance service expenses/insurance revenue | 83% | 84% | 50% | 43% | 86% | 81% | 131% | 89% | 76% | 75% |
| Insurance service result/profit/(loss) before tax | 53% | 55% | 85% | 84% | 60% | 80% | 92% | 77% | 130% | 150% |
| Tax as a % of profit/(loss) before tax | 25% | 27% | 87% | 91% | 15% | 30% | 26% | 48% | 43% | 50% |
| Comments | Company | | Company | | Company | | Company | | Group | |

* Includes expected credit loss movements on financial instruments.

** 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 | Jun-24 | Jun-23 Restated | Dec-24 | Dec-23 | Dec-24 | Dec-23 | Dec-24 | Dec-23 | Jun-24 | Jun-23 Restated |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group/Company** | **Momentum Metropolitan Life Limited** | | **Nedgroup Life Assurance Company Limited** | | **Nedgroup Structured Life Limited** | | **Old Mutual Life Assurance Company (South Africa) Limited** | | **OUTsurance Life Insurance Company Limited** | |
| Insurance revenue | 26 067 000 | 24 833 000 | 2 417 461 | 2 335 764 | - | - | 38 595 000 | 37 432 000 | 946 222 | 856 046 |
| Insurance service expenses | (21 373 000) | (21 002 000) | (1 308 994) | (1 280 358) | - | - | (30 103 000) | (28 625 000) | (644 266) | (727 957) |
| Net expenses from reinsurance contracts | (172 000) | 35 000 | (24 744) | (32 053) | - | - | 500 000 | (128 000) | (15 633) | 35 074 |
| **Insurance service result** | **4 522 000** | **3 866 000** | **1 083 723** | **1 023 353** | **-** | **-** | **8 992 000** | **8 679 000** | **286 323** | **163 163** |
| Net finance income/(expense) from insurance contracts | (15 299 000) | (9 935 000) | (27 627) | 14 724 | - | - | (77 165 000) | (62 924 000) | (124 960) | 20 160 |
| Net finance income/(expense) from reinsurance contracts | 465 000 | (136 000) | 8 773 | (898) | - | - | 189 000 | 367 000 | 62 041 | (11 328) |
| **Net insurance result** | **(10 312 000)** | **(6 205 000)** | **1 064 869** | **1 037 179** | **-** | **-** | **(67 984 000)** | **(53 878 000)** | **223 404** | **171 995** |
| **Total net investment income*** | **53 927 000** | **59 639 000** | **480 355** | **489 607** | **11 020** | **9 616** | **111 764 000** | **91 503 000** | **149 011** | **119 100** |
| **Net income before other operating expenses and other income** | **43 615 000** | **53 434 000** | **1 545 224** | **1 526 786** | **11 020** | **9 616** | **43 780 000** | **37 625 000** | **372 415** | **291 095** |
| Commission received | - | - | - | - | - | - | 3 270 000 | 3 040 000 | - | - |
| Other unallocated income | 4 139 000 | 4 142 000 | 13 441 | 33 806 | 20 507 | 25 601 | 2 656 000 | 2 019 000 | 22 521 | 7 323 |
| Service fees from investment contracts | - | - | - | - | 6 560 | 6 558 | - | - | - | - |
| Fair value adjustments/movement in policyholder liabilities under investment contracts | (35 048 000) | (46 220 000) | (153 786) | (23 026) | - | - | (28 892 000) | (23 775 000) | - | - |
| Administration, management and other expenses | (7 039 000) | (6 213 000) | (59 602) | (107 072) | (3 627) | (2 541) | (11 756 000) | (10 427 000) | (111 191) | (100 228) |
| **Equity-accounted earnings (incl. hyper-inflationary adjustments)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Profit/(Loss) before tax** | **5 667 000** | **5 143 000** | **1 345 277** | **1 430 494** | **34 460** | **39 234** | **9 058 000** | **8 482 000** | **283 745** | **198 190** |
| Taxation | (1 978 000) | (2 166 000) | (353 584) | (384 141) | (24 274) | (29 325) | (4 116 000) | (3 862 000) | (73 776) | (56 232) |
| **Profit/(Loss) after tax** | **3 689 000** | **2 977 000** | **991 693** | **1 046 353** | **10 186** | **9 909** | **4 942 000** | **4 620 000** | **209 969** | **141 958** |
| **Other comprehensive income** | **(586 000)** | **935 000** | **-** | **-** | **-** | **-** | **(36 000)** | **49 000** | **(2 105)** | **2 839** |
| **Total comprehensive income for the year** | **3 103 000** | **3 912 000** | **991 693** | **1 046 353** | **10 186** | **9 909** | **4 906 000** | **4 669 000** | **207 864** | **144 797** |
| Other transfer to/(from) retained earnings | 198 000 | 536 000 | - | - | - | - | 371 000 | 68 000 | - | - |
| Other comprehensive income not charged against retained earnings | 557 000 | (941 000) | - | - | - | - | 36 000 | (49 000) | 2 105 | (2 839) |
| Ordinary dividends | 2 975 000 | 3 200 000 | 1 100 000 | 1 550 000 | - | - | 7 646 000 | 3 550 000 | 345 000 | - |
| Allocated to preference shareholders | - | - | - | - | - | - | - | - | - | - |
| Allocated to non-controlling interests | - | - | - | - | - | - | - | - | - | - |
| **Change in retained earnings**** | **883 000** | **307 000** | **(108 307)** | **(503 647)** | **10 186** | **9 909** | **(2 333 000)** | **1 138 000** | **(135 031)** | **141 958** |
| Net (expenses)/income from reinsurance contracts/insurance contracts result (insurance revenue less insurance service expenses) | 4% | (1%) | 2% | 3% | 0% | 0% | (6%) | 1% | 5% | (27%) |
| Insurance service expenses/insurance revenue | 82% | 85% | 54% | 55% | 0% | 0% | 78% | 76% | 68% | 85% |
| Insurance service result/profit/(loss) before tax | 80% | 75% | 81% | 72% | 0% | 0% | 99% | 102% | 101% | 82% |
| Tax as a % of profit/(loss) before tax | 35% | 42% | 26% | 27% | 70% | 75% | 45% | 46% | 26% | 28% |
| Comments | Company | | Company | | Company | | Company | | Company | |

* Includes expected credit loss movements on financial instruments.

** 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.

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## LIFE INSURERS | Statement of Comprehensive Income | R'000

| Accounting year end | Dec-24 | Dec-23 |
|---|---|---|
| **Group/Company** | **Sanlam Limited** | |
| Insurance revenue | 94 462 000 | 112 282 000 |
| Insurance service expenses | (76 338 000) | (90 425 000) |
| Net expenses from reinsurance contracts | (5 014 000) | (10 565 000) |
| **Insurance service result** | **13 110 000** | **11 292 000** |
| Net finance income/(expense) from insurance contracts | (28 980 000) | (15 602 000) |
| Net finance income/(expense) from reinsurance contracts | 138 000 | 192 000 |
| **Net insurance result** | **(15 732 000)** | **(4 118 000)** |
| **Total net investment income*** | **121 688 000** | **105 820 000** |
| **Net income before other operating expenses and other income** | **105 956 000** | **101 702 000** |
| Commission received | - | - |
| Other unallocated income | 23 538 000 | 20 332 000 |
| Service fees from investment contracts | - | - |
| Fair value adjustments/movement in policyholder liabilities under investment contracts | (74 594 000) | (77 662 000) |
| Administration, management and other expenses | (27 836 000) | (22 992 000) |
| **Equity-accounted earnings (incl. hyper-inflationary adjustments)** | **5 715 000** | **3 406 000** |
| **Profit/(Loss) before tax** | **32 779 000** | **24 786 000** |
| Taxation | (7 935 000) | (7 789 000) |
| **Profit/(Loss) after tax** | **24 844 000** | **16 997 000** |
| **Other comprehensive income** | **(3 062 000)** | **(151 000)** |
| **Total comprehensive income for the year** | **21 782 000** | **16 846 000** |
| Other transfer to/(from) retained earnings | (7 293 000) | (4 354 000) |
| Other comprehensive income not charged against retained earnings | 3 062 000 | 151 000 |
| Ordinary dividends | 8 316 000 | 7 420 000 |
| Allocated to preference shareholders | - | - |
| Allocated to non-controlling interests | 2 604 000 | 2 519 000 |
| **Change in retained earnings**** | **6 631 000** | **2 704 000** |
| Net (expenses)/income from reinsurance contracts/insurance contracts result (insurance revenue less insurance service expenses) | 28% | 48% |
| Insurance service expenses/insurance revenue | 81% | 81% |
| Insurance service result/profit/(loss) before tax | 40% | 46% |
| Tax as a % of profit/(loss) before tax | 24% | 31% |
| Comments | Group | |

* Includes expected credit loss movements on financial instruments.
** 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

## NON-LIFE INSURERS | Statement of Financial Position | R'000

| Accounting year end | Dec-24 | Dec-23 | Dec-24 | Dec-23 | Jun-24 | Jun-23 Restated | Dec-24 | Dec-23 | Jun-24 | Jun-23 Restated |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group/Company** | **Absa Insurance Company Limited** | | **Allianz Global Corporate and Specialty South Africa Limited** | | **Auto and General Insurance Company (RF) Limited** | | **Bryte Insurance Company Limited** | | **Budget Insurance Company (RF) Limited** | |
| Share capital and premium | 31 000 | 31 000 | 123 164 | 123 164 | 53 506 | 53 506 | 504 650 | 504 650 | 80 001 | 80 001 |
| Retained earnings/(deficit) | 1 776 685 | 1 607 144 | 123 221 | 90 716 | 629 982 | 609 985 | 2 404 560 | 1 611 014 | 353 616 | 340 691 |
| Other reserves | 20 707 | 11 960 | - | - | - | - | (20 806) | (16 256) | - | - |
| Non-controlling interests | - | - | - | - | - | - | - | - | - | - |
| **Total shareholders' funds** | **1 828 392** | **1 650 104** | **246 385** | **213 880** | **683 488** | **663 491** | **2 888 404** | **2 099 408** | **433 617** | **420 692** |
| | | | | | | | | | | |
| Insurance contract liabilities | 975 030 | 1 063 468 | 1 679 320 | 1 498 760 | 562 642 | 516 287 | 4 407 160 | 5 210 540 | 364 987 | 345 297 |
| Reinsurance contract liabilities | - | - | - | - | 314 020 | 189 567 | - | - | 290 685 | 163 336 |
| Policyholder liabilities under investment contracts | - | - | - | - | - | - | - | - | - | - |
| Preference share liability | - | - | - | - | - | - | 400 000 | 400 000 | - | - |
| Linked liability | - | - | - | - | - | - | - | - | - | - |
| Current tax payable | 74 468 | - | - | - | - | - | - | - | - | - |
| Deferred tax liability | - | 51 859 | - | - | - | - | 128 026 | 49 635 | - | - |
| Other liabilities | 305 315 | 308 419 | 61 973 | 44 419 | 255 246 | 155 642 | 605 870 | 609 678 | 52 889 | 50 203 |
| **Total liabilities** | **1 354 813** | **1 423 746** | **1 741 293** | **1 543 179** | **1 131 908** | **861 496** | **5 541 056** | **6 269 853** | **708 561** | **558 836** |
| | | | | | | | | | | |
| **Total investments** | **2 262 251** | **2 178 847** | **260 455** | **274 195** | **1 275 241** | **1 123 814** | **5 511 020** | **4 509 319** | **794 893** | **695 558** |
| Assets arising from insurance contracts | - | - | - | - | - | - | - | - | - | - |
| PPE, goodwill and intangible assets, non-current assets classified as held for sale | 282 830 | 283 426 | 3 482 | 5 685 | - | - | 180 418 | 261 626 | - | - |
| Insurance contract assets | - | - | - | - | - | - | - | - | - | - |
| Reinsurance contract assets | 48 842 | 63 990 | 1 493 033 | 1 340 931 | 11 956 | 7 108 | 2 008 763 | 2 759 571 | - | 52 |
| Cash and cash equivalents | 449 615 | 395 817 | 140 022 | 96 155 | 414 236 | 295 126 | 532 702 | 693 206 | 305 243 | 238 024 |
| Other assets | 97 427 | 103 567 | 79 957 | 27 628 | 93 365 | 79 644 | 101 162 | 140 404 | 29 074 | 30 549 |
| Income/Deferred tax asset | 42 240 | 48 204 | 10 729 | 12 465 | 20 598 | 19 295 | 95 394 | 5 135 | 12 968 | 15 345 |
| **Total assets** | **3 183 205** | **3 073 850** | **1 987 678** | **1 757 059** | **1 815 396** | **1 524 987** | **8 429 460** | **8 369 261** | **1 142 178** | **979 528** |
| Total assets/Total liabilities | 235% | 216% | 114% | 114% | 160% | 177% | 152% | 133% | 161% | 175% |
| Increase in shareholders' funds | 11% | | 15% | | 3% | | 38% | | 3% | |

## NON-LIFE INSURERS | Statement of Financial Position | R'000

| Accounting year end | Dec-24 | Dec-23 | Dec-24 | Dec-23 | Dec-24 | Dec-23 Restated | Jun-24 | Jun-23 Restated | Mar-24 | Mar-23 Restated |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group/Company** | **Centriq Insurance Company Limited** | | **Chubb Insurance South Africa Limited** | | **Compass Insurance Company Limited** | | **Dial Direct Insurance (RF) Limited** | | **Escap SOC Limited** | |
| Share capital and premium | 55 000 | 55 000 | 115 000 | 115 000 | 114 284 | 114 284 | 20 001 | 20 001 | 379 500 | 379 500 |
| Retained earnings/(deficit) | 750 961 | 590 393 | 219 717 | 205 891 | 401 461 | 330 216 | 197 794 | 233 330 | 16 340 643 | 13 374 207 |
| Other reserves | - | - | 767 | 452 | 6 771 | 205 | - | - | - | - |
| Non-controlling interests | - | - | - | - | - | - | - | - | - | - |
| **Total shareholders' funds** | **805 961** | **645 393** | **335 484** | **321 343** | **522 516** | **444 705** | **217 795** | **253 331** | **16 720 143** | **13 753 707** |
| | | | | | | | | | | |
| Insurance contract liabilities | 14 505 658 | 12 272 638 | 884 641 | 1 166 650 | 1 128 060 | 1 194 616 | 157 544 | 174 373 | 9 833 787 | 10 518 556 |
| Reinsurance contract liabilities | 1 482 839 | 1 246 420 | 977 | - | 10 124 | 712 | 62 929 | 55 664 | - | - |
| Policyholder liabilities under investment contracts | 4 869 923 | 4 452 375 | - | - | - | - | - | - | - | - |
| Preference share liability | - | - | - | - | - | - | - | - | - | - |
| Linked liability | - | - | - | - | - | - | - | - | - | - |
| Current tax payable | - | - | - | - | 439 | - | - | - | 134 358 | 277 460 |
| Deferred tax liability | 154 813 | 468 627 | - | - | 437 | 554 | - | - | 145 079 | 184 038 |
| Other liabilities | 518 822 | 542 219 | 58 081 | 52 933 | 52 402 | 32 832 | 23 697 | 10 517 | 972 | 2 769 |
| **Total liabilities** | **21 532 055** | **18 982 280** | **943 699** | **1 219 583** | **1 191 462** | **1 228 714** | **244 170** | **240 554** | **10 114 196** | **10 982 823** |
| | | | | | | | | | | |
| **Total investments** | **20 379 964** | **16 860 683** | **250 136** | **319 456** | **519 148** | **470 041** | **381 366** | **373 969** | **23 569 484** | **21 702 070** |
| Assets arising from insurance contracts | - | - | - | - | - | - | - | - | - | - |
| PPE, goodwill and intangible assets, non-current assets classified as held for sale | 16 457 | 6 407 | 1 968 | 4 067 | 9 488 | 2 575 | - | - | 29 | 47 |
| Insurance contract assets | 51 091 | 58 110 | - | - | 148 | 5 881 | - | - | - | - |
| Reinsurance contract assets | 672 362 | 1 090 939 | 720 342 | 930 577 | 833 921 | 957 689 | - | 936 | 3 173 021 | 3 000 399 |
| Cash and cash equivalents | 563 852 | 583 920 | 283 247 | 252 715 | 326 425 | 218 601 | 43 770 | 97 869 | 19 244 | 34 013 |
| Other assets | 617 610 | 745 931 | 15 223 | 23 687 | 24 848 | 16 731 | 35 150 | 16 121 | 72 561 | - |
| Income/Deferred tax asset | 36 680 | 281 682 | 8 267 | 10 424 | - | 1 901 | 1 679 | 4 990 | - | - |
| **Total assets** | **22 338 016** | **19 627 673** | **1 279 183** | **1 540 926** | **1 713 978** | **1 673 419** | **461 965** | **493 885** | **26 834 339** | **24 736 530** |
| Total assets/Total liabilities | 104% | 103% | 136% | 126% | 144% | 136% | 189% | 205% | 265% | 225% |
| Increase in shareholders' funds | 25% | | 4% | | 17% | | (14%) | | 22% | |

## NON-LIFE INSURERS | Statement of Financial Position | R'000

| Accounting year end | Dec-24 | Dec-23 | Jun-24 | Jun-23 Restated | Jun-24 | Jun-23 Restated | Jun-24 | Jun-23 Restated | Jun-24 | Jun-23 Restated |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group/Company** | **Exxaro Insurance Company Limited** | | **First For Women Insurance Company (RF) Limited** | | **Guardrisk Insurance Company Limited** | | **The Hollard Insurance Company Limited** | | **Hollard Specialist Insurance Company Limited** | |
| Share capital and premium | 1 102 000 | 812 000 | 82 000 | 82 000 | 324 414 | 324 414 | 1 642 601 | 1 642 601 | 400 503 | 400 503 |
| Retained earnings/(deficit) | 1 458 941 | 1 115 717 | 187 773 | 189 577 | 523 413 | 584 267 | 1 167 913 | 999 714 | (344 901) | (133 259) |
| Other reserves | - | - | - | - | 5 066 | 3 651 | - | 4 012 | - | - |
| Non-controlling interests | - | - | - | - | - | - | - | - | - | - |
| **Total shareholders' funds** | **2 560 941** | **1 927 717** | **269 773** | **271 577** | **852 893** | **912 332** | **2 810 514** | **2 646 327** | **55 602** | **267 244** |
| | | | | | | | | | | |
| Insurance contract liabilities | 307 347 | 267 951 | 224 528 | 188 251 | 11 972 415 | 13 154 236 | 9 220 548 | 8 333 888 | 152 924 | 182 890 |
| Reinsurance contract liabilities | - | - | 101 776 | 71 646 | 4 257 321 | 3 853 867 | 183 289 | 316 951 | 168 809 | 178 270 |
| Policyholder liabilities under investment contracts | - | - | - | - | 6 698 933 | 5 565 604 | - | - | - | - |
| Preference share liability | - | - | - | - | - | - | - | - | - | - |
| Linked liability | - | - | - | - | - | - | - | - | - | - |
| Current tax payable | 12 374 | 4 574 | - | - | - | 81 763 | - | - | - | 6 482 |
| Deferred tax liability | 3 347 | 12 769 | - | - | 504 455 | - | 108 098 | 129 349 | - | - |
| Other liabilities | 33 076 | 3 300 | 38 319 | 36 245 | 751 525 | 1 157 404 | 2 691 524 | 2 104 944 | 103 076 | 105 649 |
| **Total liabilities** | **356 144** | **288 594** | **364 623** | **296 142** | **24 184 649** | **23 812 874** | **12 203 459** | **10 885 132** | **424 809** | **473 291** |
| | | | | | | | | | | |
| **Total investments** | **513 021** | **461 421** | **466 886** | **382 399** | **20 146 168** | **17 975 646** | **9 136 292** | **6 864 942** | **289 845** | **521 116** |
| Assets arising from insurance contracts | - | - | - | - | - | - | - | - | - | - |
| PPE, goodwill and intangible assets, non-current assets classified as held for sale | - | - | - | - | 51 726 | 43 101 | 343 398 | 724 328 | - | 2 959 |
| Insurance contract assets | - | - | - | - | - | - | 115 064 | 137 211 | 20 499 | 22 115 |
| Reinsurance contract assets | 1 482 002 | 1 031 417 | - | - | 2 381 996 | 4 788 623 | 2 696 806 | 3 240 024 | 24 519 | 24 571 |
| Cash and cash equivalents | 920 299 | 715 130 | 135 867 | 159 657 | 1 537 897 | 1 352 545 | 1 768 762 | 1 657 342 | 123 172 | 155 678 |
| Other assets | 1 763 | 8 343 | 19 797 | 14 129 | 444 516 | 478 955 | 911 553 | 832 761 | 18 534 | 11 659 |
| Income/Deferred tax asset | - | - | 11 845 | 11 534 | 475 239 | 86 336 | 42 098 | 74 851 | 3 842 | 2 437 |
| **Total assets** | **2 917 085** | **2 216 311** | **634 396** | **567 719** | **25 037 542** | **24 725 206** | **15 013 973** | **13 531 459** | **480 411** | **740 535** |
| Total assets/Total liabilities | 819% | 768% | 174% | 192% | 104% | 104% | 123% | 124% | 113% | 156% |
| Increase in shareholders' funds | 33% | | (1%) | | (7%) | | 6% | | (79%) | |

## NON-LIFE INSURERS | Statement of Financial Position | R'000

| Accounting year end | Mar-24 | Mar-23 Restated | Jun-24 | Jun-23 Restated | Jun-24 | Jun-23 Restated | Dec-24 | Dec-23 Restated | Jun-24 | Jun-23 Restated |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group/Company** | **Infiniti Insurance Limited** | | **King Price Insurance Company Limited** | | **Lombard Insurance Company Limited** | | **MiWay Insurance Limited** | | **Momentum Insure Company Limited** | |
| Share capital and premium | 187 230 | 187 230 | 940 000 | 890 000 | 229 050 | 189 050 | 250 101 | 250 101 | 2 004 559 | 2 004 559 |
| Retained earnings/(deficit) | 333 356 | 397 955 | (296 422) | (336 943) | 1 061 542 | 878 003 | 222 713 | 93 511 | (291 231) | (477 792) |
| Other reserves | - | - | - | - | - | - | - | - | 8 886 | 6 800 |
| Non-controlling interests | - | - | - | - | - | - | - | - | - | - |
| **Total shareholders' funds** | **520 586** | **585 185** | **643 578** | **553 057** | **1 290 592** | **1 067 053** | **472 814** | **343 612** | **1 722 214** | **1 533 567** |
| | | | | | | | | | | |
| Insurance contract liabilities | 739 952 | 642 071 | 601 567 | 468 861 | 2 390 545 | 3 165 978 | 534 987 | 504 753 | 930 689 | 1 048 855 |
| Reinsurance contract liabilities | - | - | 8 501 | 7 190 | 72 840 | 89 820 | - | - | - | - |
| Policyholder liabilities under investment contracts | - | - | - | - | - | - | - | - | - | - |
| Preference share liability | - | - | - | - | - | - | - | - | - | - |
| Linked liability | - | - | - | - | - | - | - | - | - | - |
| Current tax payable | - | - | - | 2 332 | 122 425 | 4 058 | - | - | 142 | - |
| Deferred tax liability | 66 322 | 59 850 | - | - | - | 23 777 | - | - | - | - |
| Other liabilities | 234 225 | 258 160 | 219 182 | 192 966 | 1 674 120 | 1 332 826 | 361 469 | 329 914 | 253 969 | 246 607 |
| **Total liabilities** | **1 040 499** | **960 081** | **829 250** | **671 349** | **4 259 930** | **4 616 459** | **896 456** | **834 667** | **1 184 800** | **1 295 462** |
| | | | | | | | | | | |
| **Total investments** | **1 021 789** | **1 153 940** | **330 806** | **209 931** | **3 749 695** | **3 062 630** | **474 634** | **357 518** | **2 099 753** | **2 030 255** |
| Assets arising from insurance contracts | - | - | - | - | - | - | - | - | - | - |
| PPE, goodwill and intangible assets, non-current assets classified as held for sale | 4 599 | 1 609 | 348 703 | 268 274 | 40 475 | 47 813 | 191 210 | 216 932 | 174 643 | 188 552 |
| Insurance contract assets | 3 246 | 3 498 | - | - | - | 60 843 | - | - | 30 669 | 28 280 |
| Reinsurance contract assets | 414 665 | 288 590 | 332 359 | 248 543 | 899 393 | 1 673 005 | 363 352 | 366 886 | 256 730 | 232 364 |
| Cash and cash equivalents | 84 305 | 48 838 | 333 547 | 186 431 | 603 931 | 695 992 | 233 248 | 163 792 | 78 060 | 137 117 |
| Other assets | 20 397 | 40 083 | 86 093 | 244 062 | 201 058 | 143 229 | 52 624 | 42 868 | 21 783 | 28 389 |
| Income/Deferred tax asset | 12 084 | 8 708 | 41 320 | 67 165 | 55 970 | - | 54 202 | 30 283 | 245 376 | 184 072 |
| **Total assets** | **1 561 085** | **1 545 266** | **1 472 828** | **1 224 406** | **5 550 522** | **5 683 512** | **1 369 270** | **1 178 279** | **2 907 014** | **2 829 029** |
| Total assets/Total liabilities | 150% | 161% | 178% | 182% | 130% | 123% | 153% | 141% | 245% | 218% |
| Increase in shareholders' funds | (11%) | | 16% | | 21% | | 38% | | 12% | |

## NON-LIFE INSURERS | Statement of Financial Position | R'000

| Accounting year end | Dec-24 | Dec-23 | Dec-24 | Dec-23 Restated | Jun-24 | Jun-23 Restated | Jun-24 | Jun-23 Restated | Dec-24 | Dec-23 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group/Company** | **Nedgroup Insurance Company Limited** | | **Old Mutual Insure Limited** | | **OUTsurance Insurance Company Limited** | | **Renasa Insurance Company Limited** | | **Santam Limited** | |
| Share capital and premium | 5 000 | 5 000 | 2 612 000 | 2 612 000 | 25 000 | 25 000 | 611 407 | 411 407 | 103 000 | 103 000 |
| Retained earnings/(deficit) | 1 446 349 | 1 259 800 | 3 589 000 | 2 715 000 | 3 868 280 | 3 253 251 | (265 691) | (346 338) | 10 689 000 | 8 636 000 |
| Other reserves | - | - | - | - | 68 641 | 26 522 | 21 271 | 22 918 | - | - |
| Non-controlling interests | - | - | - | - | - | - | - | - | - | - |
| **Total shareholders' funds** | **1 451 349** | **1 264 800** | **6 201 000** | **5 327 000** | **3 961 921** | **3 304 773** | **366 987** | **87 987** | **10 792 000** | **8 739 000** |
| | | | | | | | | | | |
| Insurance contract liabilities | 372 561 | 345 964 | 3 865 000 | 3 971 000 | 1 945 242 | 1 919 642 | 545 696 | 520 887 | 16 008 000 | 16 592 000 |
| Reinsurance contract liabilities | - | - | 185 000 | 141 000 | 24 612 | 29 797 | 353 679 | 151 092 | - | - |
| Policyholder liabilities under investment contracts | - | - | - | - | - | - | - | - | - | - |
| Preference share liability | - | - | - | - | - | - | 5 000 | 5 000 | - | - |
| Linked liability | - | - | - | - | - | - | - | - | - | - |
| Current tax payable | 11 387 | - | 124 000 | - | 123 524 | 61 088 | 4 183 | - | 235 000 | - |
| Deferred tax liability | 33 553 | 55 719 | - | - | 344 165 | 248 910 | - | - | 10 000 | 571 000 |
| Other liabilities | 45 143 | 51 762 | 2 458 000 | 2 137 000 | 1 747 780 | 1 562 371 | 146 902 | 73 521 | 5 603 000 | 5 629 000 |
| **Total liabilities** | **462 644** | **453 445** | **6 632 000** | **6 249 000** | **4 185 323** | **3 821 808** | **1 055 460** | **750 500** | **21 856 000** | **22 792 000** |
| | | | | | | | | | | |
| **Total investments** | **1 684 695** | **1 547 030** | **7 143 000** | **6 058 000** | **6 609 158** | **5 676 418** | **56 200** | **59 692** | **21 556 000** | **18 697 000** |
| Assets arising from insurance contracts | - | - | - | - | - | - | - | - | - | - |
| PPE, goodwill and intangible assets, non-current assets classified as held for sale | 5 830 | 5 518 | 844 000 | 861 000 | 659 045 | 640 276 | 11 351 | 6 445 | 659 000 | 911 000 |
| Insurance contract assets | - | - | - | - | - | - | 7 | - | 360 000 | 340 000 |
| Reinsurance contract assets | 77 417 | 57 051 | 2 365 000 | 2 586 000 | 26 706 | 26 306 | 26 701 | 161 515 | 6 206 000 | 8 401 000 |
| Cash and cash equivalents | 137 414 | 79 790 | 1 659 000 | 1 270 000 | 299 169 | 181 733 | 1 234 807 | 477 411 | 2 356 000 | 1 415 000 |
| Other assets | 6 302 | 2 314 | 695 000 | 735 000 | 158 800 | 279 860 | 25 187 | 38 573 | 1 511 000 | 1 591 000 |
| Income/Deferred tax asset | 2 335 | 26 542 | 127 000 | 66 000 | 394 366 | 321 988 | 68 194 | 94 851 | - | 176 000 |
| **Total assets** | **1 913 993** | **1 718 245** | **12 833 000** | **11 576 000** | **8 147 244** | **7 126 581** | **1 422 447** | **838 487** | **32 648 000** | **31 531 000** |
| Total assets/Total liabilities | 414% | 379% | 194% | 185% | 195% | 186% | 135% | 112% | 149% | 138% |
| Increase in shareholders' funds | 15% | | 16% | | 20% | | 317% | | 23% | |

## NON-LIFE INSURERS | Statement of Financial Position | R'000

| Accounting year end | Mar-24 | Mar-23 Restated | Dec-24 | Dec-23 | Feb-24 | Feb-23 Restated |
|---|---|---|---|---|---|---|
| **Group/Company** | **Sasria SOC Limited** | | **Standard Insurance Limited** | | **Western National Insurance Company Limited** | |
| Share capital and premium | 22 000 000 | 22 000 000 | 30 000 | 30 000 | 165 000 | 165 000 |
| Retained earnings/(deficit) | (7 857 459) | (11 190 139) | 2 543 214 | 2 680 674 | 1 194 821 | 1 008 940 |
| Other reserves | - | - | - | 140 | 4 919 | 4 919 |
| Non-controlling interests | - | - | - | - | - | - |
| **Total shareholders' funds** | **14 142 541** | **10 809 861** | **2 573 214** | **2 710 814** | **1 364 740** | **1 178 859** |
| | | | | | | |
| Insurance contract liabilities | 1 980 979 | 3 071 123 | 514 761 | 696 612 | 359 043 | 312 535 |
| Reinsurance contract liabilities | 82 071 | 65 526 | 25 419 | - | 1 698 | 10 718 |
| Policyholder liabilities under investment contracts | - | - | - | - | - | - |
| Preference share liability | - | - | - | - | - | - |
| Linked liability | - | - | - | - | - | - |
| Current tax payable | 28 249 | 19 710 | 13 168 | - | - | - |
| Deferred tax liability | - | - | 6 508 | 24 234 | 4 396 | 1 721 |
| Other liabilities | 219 029 | 105 228 | 154 568 | 123 109 | 59 918 | 61 369 |
| **Total liabilities** | **2 310 328** | **3 261 587** | **714 424** | **843 955** | **425 055** | **386 343** |
| | | | | | | |
| **Total investments** | **8 212 067** | **6 999 525** | **2 268 400** | **2 585 193** | **1 282 288** | **1 080 692** |
| Assets arising from insurance contracts | - | - | - | - | - | - |
| PPE, goodwill and intangible assets, non-current assets classified as held for sale | 75 775 | 67 731 | 288 698 | 162 063 | - | - |
| Insurance contract assets | - | - | 25 103 | 14 520 | 3 | 2 |
| Reinsurance contract assets | 1 147 222 | 1 780 856 | 22 703 | 127 886 | 104 009 | 105 160 |
| Cash and cash equivalents | 5 532 129 | 4 127 328 | 374 544 | 348 685 | 375 156 | 357 426 |
| Other assets | 25 392 | 278 521 | 308 190 | 293 709 | 20 743 | 19 849 |
| Income/Deferred tax asset | 1 460 284 | 817 487 | - | 22 713 | 7 596 | 2 073 |
| **Total assets** | **16 452 869** | **14 071 448** | **3 287 638** | **3 554 769** | **1 789 795** | **1 565 202** |
| Total assets/Total liabilities | 712% | 431% | 460% | 421% | 421% | 405% |
| Increase in shareholders' funds | 31% | | (5%) | | 16% | |

# NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

| Accounting year end | Dec-24 | Dec-23 | Dec-24 | Dec-23 | Jun-24 | Jun-23 Restated | Dec-24 | Dec-23 | Jun-24 | Jun-23 Restated |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group/Company** | **Absa Insurance Company Limited** | | **Allianz Global Corporate and Specialty South Africa Limited** | | **Auto and General Insurance Company (RF) Limited** | | **Bryte Insurance Company Limited** | | **Budget Insurance Company (RF) Limited** | |
| Insurance revenue | 3 987 113 | 3 726 667 | 1 427 599 | 1 375 573 | 3 836 269 | 3 374 963 | 7 142 836 | 6 919 778 | 2 182 729 | 2 020 767 |
| Insurance service expenses | (3 269 231) | (3 189 022) | (1 070 215) | (511 508) | (3 418 626) | (2 998 198) | (4 903 593) | (5 490 575) | (1 917 299) | (1 767 823) |
| Net expenses from reinsurance contracts | (142 549) | (118 024) | (332 945) | (860 530) | (302 591) | (251 470) | (1 655 799) | (1 070 556) | (194 006) | (185 461) |
| **Insurance service result** | **575 333** | **419 621** | **24 439** | **3 535** | **115 052** | **125 295** | **583 444** | **358 647** | **71 424** | **67 484** |
| Net finance income/(expense) from insurance contracts | (3 576) | (458) | (94 452) | (194 893) | (8 907) | (4 876) | (62 285) | (37 787) | (2 988) | (1 438) |
| Net finance income/(expense) from reinsurance contracts | 409 | 263 | 87 913 | 188 098 | - | - | 61 891 | 22 331 | - | - |
| **Net insurance result** | **572 166** | **419 426** | **17 900** | **(3 260)** | **106 145** | **120 419** | **583 050** | **343 191** | **68 436** | **66 046** |
| **Total net investment income*** | **255 518** | **235 896** | **34 399** | **25 297** | **122 591** | **97 559** | **914 396** | **383 921** | **79 288** | **64 878** |
| **Net income before other operating expenses and other income** | **827 684** | **655 322** | **52 299** | **22 037** | **228 736** | **217 978** | **1 497 446** | **727 112** | **147 724** | **130 924** |
| Commission received | 4 380 | 4 473 | - | - | - | - | - | - | - | - |
| Other unallocated income | 63 651 | 49 272 | 10 184 | 12 108 | 269 176 | 249 993 | 3 400 | 3 400 | 3 378 | 4 229 |
| Service fees from investment contracts | - | - | - | - | - | - | - | - | - | - |
| Fair value adjustments on policyholder liabilities under investment contracts | - | - | - | - | - | - | - | - | - | - |
| Administration, management and other expenses | (471 976) | (431 926) | (17 860) | (30 229) | (375 531) | (331 682) | (447 779) | (369 494) | (99 539) | (93 745) |
| **Equity-accounted earnings (incl. hyper-inflationary adjustments)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Profit/(Loss) before tax** | **423 739** | **277 141** | **44 623** | **3 917** | **122 381** | **136 289** | **1 053 067** | **361 018** | **51 564** | **41 408** |
| Taxation | (112 198) | (75 362) | (12 118) | (1 167) | (32 384) | (39 860) | (249 521) | (104 530) | (13 639) | (10 990) |
| **Profit/(Loss) after tax** | **311 541** | **201 779** | **32 505** | **2 750** | **89 997** | **96 429** | **803 546** | **256 488** | **37 925** | **30 418** |
| **Other comprehensive income** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total comprehensive income for the year** | **311 541** | **201 779** | **32 505** | **2 750** | **89 997** | **96 429** | **803 546** | **256 488** | **37 925** | **30 418** |
| Other transfer to/(from) retained earnings | - | - | - | - | - | - | - | - | - | - |
| Other comprehensive income not charged against retained earnings/Other reserve movements | - | - | - | - | - | - | - | - | - | - |
| Ordinary dividends | 142 000 | - | - | - | 70 000 | 65 000 | 10 000 | - | 25 000 | 55 000 |
| Allocated to preference shareholders | - | - | - | - | - | - | - | - | - | - |
| Allocated to non-controlling interests | - | - | - | - | - | - | - | - | - | - |
| **Change in retained earnings**** | **169 541** | **201 779** | **32 505** | **2 750** | **19 997** | **31 429** | **793 546** | **256 488** | **12 925** | **(24 582)** |
| Net expenses from reinsurance contracts/insurance contracts result (insurance revenue less insurance service expenses) | 20% | 22% | 93% | 100% | 72% | 67% | 74% | 75% | 73% | 73% |
| Insurance service expenses/insurance revenue | 82% | 86% | 75% | 37% | 89% | 89% | 69% | 79% | 88% | 87% |
| Insurance service result/profit/(loss) before tax | 136% | 151% | 55% | 90% | 94% | 92% | 55% | 99% | 139% | 163% |
| Tax as a % of profit/(loss) before tax | 26% | 27% | 27% | 30% | 26% | 29% | 24% | 29% | 26% | 27% |
| Comments | Company | | Company | | Company | | Company | | Company | |

* Includes expected credit loss movements on financial instruments.
**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.

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# NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

| Accounting year end | Dec-24 | Dec-23 | Dec-24 | Dec-23 Restated | Dec-24 | Dec-23 | Jun-24 | Jun-23 Restated | Mar-24 | Mar-23 Restated |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group/Company** | **Centriq Insurance Company Limited** | | **Chubb Insurance South Africa Limited** | | **Compass Insurance Company Limited** | | **Dial Direct Insurance (RF) Limited** | | **Escap SOC Limited** | |
| Insurance revenue | 3 786 495 | 3 209 093 | 405 294 | 744 879 | 2 347 032 | 2 119 968 | 724 936 | 772 934 | 5 600 467 | 4 663 897 |
| Insurance service expenses | (2 605 540) | (2 582 253) | (24 503) | (197 571) | (1 777 911) | (1 892 175) | (552 296) | (590 889) | (465 975) | (247 555) |
| Net expenses from reinsurance contracts | (982 677) | (468 965) | (311 693) | (449 490) | (461 692) | (142 243) | (111 134) | (105 488) | (2 549 246) | (2 482 652) |
| **Insurance service result** | **198 278** | **157 875** | **69 098** | **97 818** | **107 429** | **85 550** | **61 506** | **76 557** | **2 585 246** | **1 933 690** |
| Net finance income/(expense) from insurance contracts | (1 127 033) | (770 191) | (106 741) | (92 898) | (11 305) | (49) | (6 144) | (4 055) | (740 599) | (552 471) |
| Net finance income/(expense) from reinsurance contracts | (194 438) | (131 033) | 88 287 | 73 563 | 10 145 | (176) | - | - | 211 534 | 174 934 |
| **Net insurance result** | **(1 123 193)** | **(743 349)** | **50 644** | **78 483** | **106 269** | **85 325** | **55 362** | **72 502** | **2 056 181** | **1 556 153** |
| **Total net investment income*** | **2 242 705** | **1 398 281** | **30 375** | **30 419** | **507 651** | **486 223** | **36 495** | **33 702** | **2 034 054** | **1 286 420** |
| **Net income before other operating expenses and other income** | **1 119 512** | **654 932** | **81 019** | **108 902** | **613 920** | **571 548** | **91 857** | **106 204** | **4 090 235** | **2 842 573** |
| Commission received | - | - | - | - | - | - | - | - | - | - |
| Other unallocated income | 30 326 | 25 332 | 826 | 4 323 | 16 846 | 17 753 | 1 338 | 1 812 | 29 026 | 36 601 |
| Service fees from investment contracts | - | - | - | - | - | - | - | - | - | - |
| Fair value adjustments on policyholder liabilities under investment contracts | (291 672) | (875) | - | - | - | - | - | - | - | - |
| Administration, management and other expenses | (52 564) | (32 047) | (309) | (15 152) | (495 034) | (487 048) | (38 139) | (53 261) | (75 549) | (62 496) |
| **Equity-accounted earnings (incl. hyper-inflationary adjustments)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Profit/(Loss) before tax** | **805 602** | **647 342** | **81 536** | **98 073** | **135 732** | **102 253** | **55 056** | **54 755** | **4 043 712** | **2 816 678** |
| Taxation | (536 034) | (466 884) | (22 210) | (26 639) | (29 487) | (23 185) | (15 592) | (14 556) | (1 077 276) | (703 235) |
| **Profit/(Loss) after tax** | **269 568** | **180 458** | **59 326** | **71 434** | **106 245** | **79 068** | **39 464** | **40 199** | **2 966 436** | **2 113 443** |
| **Other comprehensive income** | **-** | **-** | **-** | **-** | **6 566** | **2 892** | **-** | **-** | **-** | **-** |
| **Total comprehensive income for the year** | **269 568** | **180 458** | **59 326** | **71 434** | **112 811** | **81 960** | **39 464** | **40 199** | **2 966 436** | **2 113 443** |
| Other transfer to/(from) retained earnings | - | - | - | - | (6 566) | (2 892) | - | - | - | - |
| Other comprehensive income not charged against retained earnings/Other reserve movements | - | - | - | - | - | - | - | - | - | - |
| Ordinary dividends | 109 000 | 70 000 | 45 500 | 47 068 | 35 000 | 20 000 | 75 000 | 45 000 | - | - |
| Allocated to preference shareholders | - | - | - | - | - | - | - | - | - | - |
| Allocated to non-controlling interests | - | - | - | - | - | - | - | - | - | - |
| **Change in retained earnings**** | **160 568** | **110 458** | **13 826** | **24 366** | **71 245** | **59 068** | **(35 536)** | **(4 801)** | **2 966 436** | **2 113 443** |
| Net expenses from reinsurance contracts/insurance contracts result (insurance revenue less insurance service expenses) | 83% | 75% | 82% | 82% | 81% | 62% | 64% | 58% | 50% | 56% |
| Insurance service expenses/insurance revenue | 69% | 80% | 6% | 27% | 76% | 89% | 76% | 76% | 8% | 5% |
| Insurance service result/profit/(loss) before tax | 25% | 24% | 85% | 100% | 79% | 84% | 112% | 140% | 64% | 69% |
| Tax as a % of profit/(loss) before tax | 67% | 72% | 27% | 27% | 22% | 23% | 28% | 27% | 27% | 25% |
| Comments | Company | | Company | | Company | | Company | | Company | |

* Includes expected credit loss movements on financial instruments.

**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-24 | Dec-23 | Jun-24 | Jun-23 Restated | Jun-24 | Jun-23 Restated | Jun-24 | Jun-23 Restated | Jun-24 | Jun-23 Restated |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group/Company** | **Exxaro Insurance Company Limited** | | **First For Women Insurance Company (RF) Limited** | | **Guardrisk Insurance Company Limited** | | **The Hollard Insurance Company Limited** | | **Hollard Specialist Insurance Company Limited** | |
| Insurance revenue | 459 628 | 516 859 | 1 111 539 | 1 034 382 | 13 021 978 | 11 748 648 | 16 155 397 | 13 765 250 | 327 946 | 556 590 |
| Insurance service expenses | (50 984) | (62 642) | (937 150) | (842 548) | (8 662 059) | (8 999 558) | (12 444 708) | (10 688 600) | (242 813) | (382 622) |
| Net expenses from reinsurance contracts | (171 364) | (138 395) | (122 035) | (124 433) | (3 603 742) | (2 060 514) | (2 586 410) | (2 272 430) | (61 868) | (135 877) |
| **Insurance service result** | **237 280** | **315 822** | **52 354** | **67 401** | **756 177** | **688 576** | **1 124 279** | **804 220** | **23 265** | **38 091** |
| Net finance income/(expense) from insurance contracts | 643 | 2 070 | (4 828) | (2 614) | (893 115) | (684 095) | (754 204) | (519 116) | (19 463) | (20 217) |
| Net finance income/(expense) from reinsurance contracts | 111 262 | 51 387 | - | - | 91 286 | 133 061 | 312 171 | 196 992 | 7 609 | 7 793 |
| **Net insurance result** | **349 185** | **369 279** | **47 526** | **64 787** | **(45 652)** | **137 542** | **682 246** | **482 096** | **11 411** | **25 667** |
| **Total net investment income*** | **129 258** | **107 599** | **45 694** | **37 552** | **1 364 991** | **887 737** | **863 297** | **696 845** | **29 655** | **61 261** |
| **Net income before other operating expenses and other income** | **478 443** | **476 878** | **93 220** | **102 339** | **1 319 339** | **1 025 279** | **1 545 543** | **1 178 941** | **41 066** | **86 928** |
| Commission received | 1 325 | 1 131 | - | - | - | - | - | - | - | - |
| Other unallocated income | 390 | - | 1 704 | 1 910 | 450 204 | 307 204 | 109 314 | 162 798 | 19 806 | 7 710 |
| Service fees from investment contracts | - | - | - | - | - | - | - | - | - | - |
| Fair value adjustments on policyholder liabilities under investment contracts | - | - | - | - | (534 957) | (193 899) | - | - | - | - |
| Administration, management and other expenses | (10 256) | (20 501) | (56 414) | (52 294) | (258 964) | (260 206) | (1 110 233) | (708 708) | (8 736) | (16 451) |
| **Equity-accounted earnings (incl. hyper-inflationary adjustments)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Profit/(Loss) before tax** | **469 902** | **457 508** | **38 510** | **51 955** | **975 622** | **878 378** | **544 624** | **633 031** | **52 136** | **78 187** |
| Taxation | (126 678) | (122 987) | (10 314) | (13 852) | (591 476) | (574 131) | (65 790) | (143 130) | (33 178) | (45 238) |
| **Profit/(Loss) after tax** | **343 224** | **334 521** | **28 196** | **38 103** | **384 146** | **304 247** | **478 834** | **489 901** | **18 958** | **32 949** |
| **Other comprehensive income** | **-** | **-** | **-** | **-** | **-** | **-** | **(4 012)** | **-** | **-** | **-** |
| **Total comprehensive income for the year** | **343 224** | **334 521** | **28 196** | **38 103** | **384 146** | **304 247** | **474 822** | **489 901** | **18 958** | **32 949** |
| Other transfer to/(from) retained earnings | - | - | - | - | - | - | 4 012 | - | - | - |
| Other comprehensive income not charged against retained earnings/Other reserve movements | - | - | - | - | - | - | - | - | - | - |
| Ordinary dividends | - | - | 30 000 | 35 000 | 445 000 | 165 000 | 310 635 | 455 377 | 230 600 | 70 750 |
| Allocated to preference shareholders | - | - | - | - | - | - | - | - | - | - |
| Allocated to non-controlling interests | - | - | - | - | - | - | - | - | - | - |
| **Change in retained earnings**** | **343 224** | **334 521** | **(1 804)** | **3 103** | **(60 854)** | **139 247** | **168 199** | **34 524** | **(211 642)** | **(37 801)** |
| Net expenses from reinsurance contracts/insurance contracts result (insurance revenue less insurance service expenses) | 42% | 30% | 70% | 65% | 83% | 75% | 70% | 74% | 73% | 78% |
| Insurance service expenses/insurance revenue | 11% | 12% | 84% | 81% | 67% | 77% | 77% | 78% | 74% | 69% |
| Insurance service result/profit/(loss) before tax | 50% | 69% | 136% | 130% | 78% | 78% | 206% | 127% | 45% | 49% |
| Tax as a % of profit/(loss) before tax | 27% | 27% | 27% | 27% | 61% | 65% | 12% | 23% | 64% | 58% |
| Comments | Company | | Company | | Company | | Company | | Company | |

* Includes expected credit loss movements on financial instruments.
**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.

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# NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

| Accounting year end | Mar-24 | Mar-23 Restated | Jun-24 | Jun-23 Restated | Jun-24 | Jun-23 Restated | Dec-24 | Dec-23 | Jun-24 | Jun-23 Restated |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group/Company** | **Infiniti Insurance Limited** | | **King Price Insurance Company Limited** | | **Lombard Insurance Company Limited** | | **MiWay Insurance Limited** | | **Momentum Insure Company Limited** | |
| Insurance revenue | 1 516 963 | 1 412 543 | 3 724 335 | 3 160 891 | 3 325 286 | 2 853 589 | 3 718 563 | 3 391 871 | 3 271 827 | 3 070 473 |
| Insurance service expenses | (1 365 167) | (1 415 910) | (2 968 163) | (2 479 602) | (1 174 306) | (1 703 043) | (3 407 316) | (3 217 479) | (2 953 709) | (3 303 298) |
| Net expenses from reinsurance contracts | (126 099) | 18 425 | (164 244) | (159 161) | (1 450 451) | (681 033) | (90 592) | (149 758) | (69 220) | 162 777 |
| **Insurance service result** | **25 697** | **15 058** | **591 928** | **522 128** | **700 529** | **469 513** | **220 655** | **24 634** | **248 898** | **(70 048)** |
| Net finance income/(expense) from insurance contracts | (1 681) | (254) | - | - | (211 706) | (154 756) | - | - | (4 230) | (2 145) |
| Net finance income/(expense) from reinsurance contracts | - | - | - | - | 211 389 | 133 871 | - | - | - | - |
| **Net insurance result** | **24 016** | **14 804** | **591 928** | **522 128** | **700 212** | **448 628** | **220 655** | **24 634** | **244 668** | **(72 193)** |
| **Total net investment income*** | **19 045** | **177 658** | **37 241** | **21 518** | **355 720** | **252 395** | **51 593** | **42 106** | **234 536** | **115 272** |
| **Net income before other operating expenses and other income** | **43 061** | **192 462** | **629 169** | **543 646** | **1 055 932** | **701 023** | **272 248** | **66 740** | **479 204** | **43 079** |
| Commission received | - | - | - | - | - | - | - | - | - | - |
| Other unallocated income | - | - | 9 427 | 11 212 | 7 893 | 14 884 | 6 815 | 5 931 | 230 514 | 214 122 |
| Service fees from investment contracts | - | - | - | - | - | - | - | - | - | - |
| Fair value adjustments on policyholder liabilities under investment contracts | - | - | - | - | - | - | - | - | - | - |
| Administration, management and other expenses | (21 188) | (39 777) | (511 046) | (468 184) | (791 748) | (508 589) | (26 063) | (23 423) | (578 979) | (541 798) |
| **Equity-accounted earnings (incl. hyper-inflationary adjustments)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Profit/(Loss) before tax** | **21 873** | **152 685** | **127 550** | **86 674** | **272 077** | **207 318** | **253 000** | **49 248** | **130 739** | **(284 597)** |
| Taxation | (6 472) | (25 934) | (35 149) | (25 578) | (88 538) | (61 432) | (67 298) | (13 897) | 55 822 | (26 793) |
| **Profit/(Loss) after tax** | **15 401** | **126 751** | **92 401** | **61 096** | **183 539** | **145 886** | **185 702** | **35 351** | **186 561** | **(311 390)** |
| **Other comprehensive income** | **-** | **-** | **(7 767)** | **17 139** | **-** | **-** | **-** | **-** | **571** | **483** |
| **Total comprehensive income for the year** | **15 401** | **126 751** | **84 634** | **78 235** | **183 539** | **145 886** | **185 702** | **35 351** | **187 132** | **(310 907)** |
| Other transfer to/(from) retained earnings | - | - | - | - | - | - | - | - | (571) | (483) |
| Other comprehensive income not charged against retained earnings/Other reserve movements | - | - | - | - | - | - | - | - | - | - |
| Ordinary dividends | 80 000 | 65 000 | 44 113 | 4 590 | - | - | 56 500 | 105 000 | - | - |
| Allocated to preference shareholders | - | - | - | - | - | - | - | - | - | - |
| Allocated to non-controlling interests | - | - | - | - | - | - | - | - | - | - |
| **Change in retained earnings**** | **(64 599)** | **61 751** | **40 521** | **73 645** | **183 539** | **145 886** | **129 202** | **(69 649)** | **186 561** | **(311 390)** |
| Net expenses from reinsurance contracts/insurance contracts result (insurance revenue less insurance service expenses) | 83% | 547% | 22% | 23% | 67% | 59% | 29% | 86% | 22% | 70% |
| Insurance service expenses/insurance revenue | 90% | 100% | 80% | 78% | 35% | 60% | 92% | 95% | 90% | 108% |
| Insurance service result/profit/(loss) before tax | 117% | 10% | 464% | 602% | 257% | 226% | 87% | 50% | 190% | 25% |
| Tax as a % of profit/(loss) before tax | 30% | 17% | 28% | 30% | 33% | 30% | 27% | 28% | (43%) | (9%) |
| Comments | Company | | Company | | Company | | Company | | Company | |

* Includes expected credit loss movements on financial instruments.
**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-24 | Dec-23 | Dec-24 | Dec-23 Restated | Jun-24 | Jun-23 Restated | Jun-24 | Jun-23 Restated | Dec-24 | Dec-23 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group/Company** | **Nedgroup Insurance Company Limited** | | **Old Mutual Insure Limited** | | **OUTsurance Insurance Company Limited** | | **Renasa Insurance Company Limited** | | **Santam Limited** | |
| Insurance revenue | 1 559 287 | 1 305 203 | 13 473 000 | 12 515 000 | 12 165 382 | 11 097 185 | 2 462 782 | 2 352 885 | 35 469 000 | 33 005 000 |
| Insurance service expenses | (1 399 486) | (1 265 422) | (11 243 000) | (11 548 000) | (8 360 101) | (8 083 697) | (2 239 795) | (2 367 443) | (28 802 000) | (27 185 000) |
| Net expenses from reinsurance contracts | (75 196) | (47 140) | (1 238 000) | (1 168 000) | (180 052) | (152 448) | (159 213) | (123 453) | (3 700 000) | (4 184 000) |
| **Insurance service result** | **84 605** | **(7 359)** | **992 000** | **(201 000)** | **3 625 229** | **2 861 040** | **63 774** | **(138 011)** | **2 967 000** | **1 636 000** |
| Net finance income/(expense) from insurance contracts | (7 839) | 1 646 | (151 000) | (133 000) | (142 325) | (86 279) | (33 429) | (29 115) | (855 000) | (1 489 000) |
| Net finance income/(expense) from reinsurance contracts | - | - | 65 000 | 67 000 | 818 | 2 665 | 26 864 | 26 434 | 337 000 | 636 000 |
| **Net insurance result** | **76 766** | **(5 713)** | **906 000** | **(267 000)** | **3 483 722** | **2 777 426** | **57 209** | **(140 692)** | **2 449 000** | **783 000** |
| **Total net investment income*** | **194 833** | **140 927** | **679 000** | **1 233 000** | **440 388** | **317 523** | **92 068** | **24 861** | **2 978 000** | **3 001 000** |
| **Net income before other operating expenses and other income** | **271 599** | **135 214** | **1 585 000** | **966 000** | **3 924 110** | **3 094 949** | **149 277** | **(115 831)** | **5 427 000** | **3 784 000** |
| Commission received | - | - | - | - | - | - | - | - | - | - |
| Other unallocated income | (3 101) | 3 403 | 49 000 | 48 000 | 37 985 | 39 650 | 15 179 | 19 171 | 114 000 | 595 000 |
| Service fees from investment contracts | - | - | - | - | - | - | - | - | - | - |
| Fair value adjustments on policyholder liabilities under investment contracts | - | - | - | - | - | - | - | - | - | - |
| Administration, management and other expenses | (26 684) | (35 284) | (534 000) | (479 000) | (877 891) | (513 008) | (50 504) | (98 262) | (946 000) | (677 000) |
| **Equity-accounted earnings (incl. hyper-inflationary adjustments)** | **-** | **-** | **1 000** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Profit/(Loss) before tax** | **241 814** | **103 333** | **1 101 000** | **535 000** | **3 084 204** | **2 621 591** | **113 952** | **(194 922)** | **4 595 000** | **3 702 000** |
| Taxation | (55 265) | (23 661) | (230 000) | 71 000 | (873 675) | (737 932) | (33 305) | 49 867 | (897 000) | (579 000) |
| **Profit/(Loss) after tax** | **186 549** | **79 672** | **871 000** | **606 000** | **2 210 529** | **1 883 659** | **80 647** | **(145 055)** | **3 698 000** | **3 123 000** |
| **Other comprehensive income** | **-** | **-** | **3 000** | **(2 000)** | **10 382** | **31 157** | **(1 647)** | **(13 377)** | **-** | **35 000** |
| **Total comprehensive income for the year** | **186 549** | **79 672** | **874 000** | **604 000** | **2 220 911** | **1 914 816** | **79 000** | **(158 432)** | **3 698 000** | **3 158 000** |
| Other transfer to/(from) retained earnings | - | - | - | - | (10 382) | (31 157) | 1 647 | 13 377 | - | (35 000) |
| Other comprehensive income not charged against retained earnings/Other reserve movements | - | - | - | - | - | - | - | - | 9 000 | 39 000 |
| Ordinary dividends | - | - | - | - | 1 595 500 | 1 777 000 | - | - | 1 658 000 | 3 592 000 |
| Allocated to preference shareholders | - | - | - | - | - | - | - | - | - | - |
| Allocated to non-controlling interests | - | - | - | - | - | - | - | - | - | - |
| **Change in retained earnings**** | **186 549** | **79 672** | **874 000** | **604 000** | **615 029** | **106 659** | **80 647** | **(145 055)** | **2 049 000** | **(430 000)** |
| Net expenses from reinsurance contracts/insurance contracts result (insurance revenue less insurance service expenses) | 47% | 118% | 56% | 121% | 5% | 5% | 71% | (848%) | 55% | 72% |
| Insurance service expenses/insurance revenue | 90% | 97% | 83% | 92% | 69% | 73% | 91% | 101% | 81% | 82% |
| Insurance service result/profit/(loss) before tax | 35% | (7%) | 90% | (38%) | 118% | 109% | 56% | 71% | 65% | 44% |
| Tax as a % of profit/(loss) before tax | 23% | 23% | 21% | (13%) | 28% | 28% | 29% | 26% | 20% | 16% |
| Comments | Company | | Company | | Company | | Company | | Company | |

* Includes expected credit loss movements on financial instruments.
**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.

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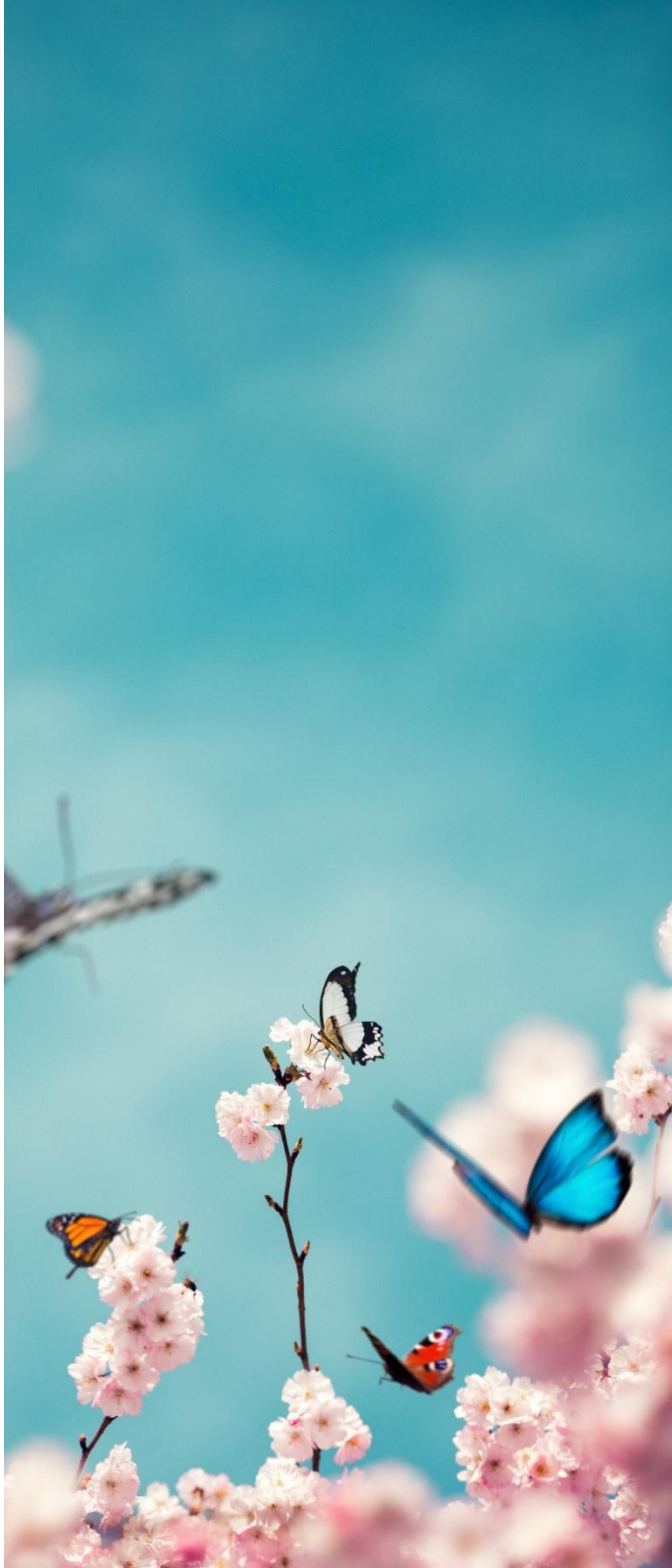
## NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

| Accounting year end | Mar-24 | Mar-23 Restated | Dec-24 | Dec-23 | Feb-24 | Feb-23 Restated |
|---|---|---|---|---|---|---|
| **Group/Company** | **Sasria SOC Limited** | | **Standard Insurance Limited** | | **Western National Insurance Company Limited** | |
| Insurance revenue | 5 251 296 | 4 464 017 | 3 666 342 | 3 466 641 | 2 161 391 | 1 788 650 |
| Insurance service expenses | (1 941 574) | 80 007 | (2 920 468) | (2 916 222) | (1 876 620) | (1 493 427) |
| Net expenses from reinsurance contracts | (1 328 997) | (1 092 140) | (249 873) | (148 987) | (131 110) | (128 155) |
| **Insurance service result** | **1 980 725** | **3 451 884** | **496 001** | **401 432** | **153 661** | **167 068** |
| Net finance income/(expense) from insurance contracts | (113 129) | (368 158) | (45 503) | (39 414) | (22 912) | (12 009) |
| Net finance income/(expense) from reinsurance contracts | 18 044 | 94 403 | 4 093 | 10 545 | 16 141 | 8 944 |
| **Net insurance result** | **1 885 640** | **3 178 129** | **454 591** | **372 563** | **146 890** | **164 003** |
| **Total net investment income*** | **1 023 240** | **693 516** | **260 770** | **257 683** | **121 248** | **91 466** |
| **Net income before other operating expenses and other income** | **2 908 880** | **3 871 645** | **715 361** | **630 246** | **268 138** | **255 469** |
| Commission received | - | - | - | - | - | - |
| Other unallocated income | 754 | 7 690 | 21 036 | 10 224 | 25 915 | 22 153 |
| Service fees from investment contracts | - | - | - | - | - | - |
| Fair value adjustments on policyholder liabilities under investment contracts | - | - | - | - | - | - |
| Administration, management and other expenses | (61 785) | (41 650) | (107 717) | (97 434) | (40 245) | (44 373) |
| **Equity-accounted earnings (incl. hyper-inflationary adjustments)** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Profit/(Loss) before tax** | **2 847 849** | **3 837 685** | **628 680** | **543 036** | **253 808** | **233 249** |
| Taxation | 484 831 | (91 655) | (159 280) | (141 982) | (67 927) | (63 420) |
| **Profit/(Loss) after tax** | **3 332 680** | **3 746 030** | **469 400** | **401 054** | **185 881** | **169 829** |
| **Other comprehensive income** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total comprehensive income for the year** | **3 332 680** | **3 746 030** | **469 400** | **401 054** | **185 881** | **169 829** |
| Other transfer to/(from) retained earnings | - | - | - | - | - | - |
| Other comprehensive income not charged against retained earnings/Other reserve movements | - | - | 140 | - | - | - |
| Ordinary dividends | - | - | 607 000 | - | - | - |
| Allocated to preference shareholders | - | - | - | - | - | - |
| Allocated to non-controlling interests | - | - | - | - | - | - |
| **Change in retained earnings**** | **3 332 680** | **3 746 030** | **(137 460)** | **401 054** | **185 881** | **169 829** |
| Net expenses from reinsurance contracts/insurance contracts result (insurance revenue less insurance service expenses) | 40% | 24% | 34% | 27% | 46% | 43% |
| Insurance service expenses/insurance revenue | 37% | (2%) | 80% | 84% | 87% | 83% |
| Insurance service result/profit/(loss) before tax | 70% | 90% | 79% | 74% | 61% | 72% |
| Tax as a % of profit/(loss) before tax | (17%) | 2% | 25% | 26% | 27% | 27% |
| Comments | Company | | Company | | Company | |

* Includes expected credit loss movements on financial instruments.
**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

## REINSURERS | Statement of Financial Position | R'000

| Accounting year end | Dec-24 | Dec-23 | Dec-24 | Dec-23 Restated | Dec-24 | Dec-23 | Dec-24 | Dec-23 Restated |
|---|---|---|---|---|---|---|---|---|
| **Group/Company** | **African Reinsurance Corporation (South Africa) Limited** | | **Hannover Re South Africa Limited** | | **Munich Reinsurance Company of Africa Limited** | | **SCOR SE (Incorporated in France) - Africa Branch** | |
| Share capital and premium | 80 300 | 80 300 | 1 177 292 | 1 177 292 | 1 344 915 | 1 344 915 | - | - |
| Retained earnings/(deficit) | 1 143 945 | 997 390 | 1 907 606 | 1 581 617 | 3 010 785 | 2 286 987 | (746 656) | (879 410) |
| Other reserves | 51 702 | 51 702 | (447 682) | (403 178) | 136 153 | (30 618) | (192 518) | (85 519) |
| Non-controlling interests | - | - | - | - | - | - | - | - |
| **Total shareholders' funds** | **1 275 947** | **1 129 392** | **2 637 216** | **2 355 731** | **4 491 853** | **3 601 284** | **(939 174)** | **(964 929)** |
| | | | | | | | | |
| Insurance contract liabilities* | 1 900 984 | 1 634 605 | 4 375 601 | 4 239 120 | 16 345 037 | 15 661 638 | 3 488 951 | 3 120 377 |
| Reinsurance contract liabilities** | 43 | 6 | 178 162 | 1 278 443 | 232 104 | 418 837 | 2 029 160 | 2 002 032 |
| Policyholder liabilities under investment contracts | - | - | - | - | 61 378 | 18 871 | - | - |
| Preference share liability | - | - | - | - | - | - | - | - |
| Current tax payable | - | - | - | - | - | - | 12 098 | - |
| Deferred tax liability | 19 874 | 16 382 | - | - | 593 284 | 273 863 | 405 | - |
| Other liabilities | 2 269 931 | 2 351 478 | 572 215 | 452 676 | 776 134 | 656 466 | 344 968 | 247 161 |
| **Total liabilities** | **4 190 832** | **4 002 471** | **5 125 978** | **5 970 239** | **18 007 937** | **17 029 675** | **5 875 582** | **5 369 570** |
| | | | | | | | | |
| **Total investments** | **4 315 970** | **3 805 021** | **3 745 067** | **3 114 991** | **3 310 558** | **3 492 357** | **750 356** | **440 842** |
| Policyholder assets | - | - | - | - | 2 963 761 | 2 028 934 | - | - |
| PPE, goodwill and intangible assets, non-current assets classified as held for sale | 971 | 1 377 | - | - | 126 730 | 21 668 | 10 595 | 22 511 |
| Insurance contract assets* | 45 | 89 693 | 483 815 | 668 856 | 2 069 562 | 2 072 253 | 1 626 751 | 1 439 505 |
| Reinsurance contract assets** | 1 060 133 | 1 124 661 | 2 732 147 | 3 544 396 | 11 310 022 | 10 715 091 | 1 597 000 | 1 457 129 |
| Cash and cash equivalents | 69 872 | 69 115 | 699 390 | 789 672 | 2 248 745 | 1 806 743 | 804 274 | 927 160 |
| Other assets | 6 323 | 15 164 | 55 919 | 96 509 | 426 492 | 415 573 | 147 432 | 117 217 |
| Income/Deferred tax asset | 13 465 | 26 832 | 46 856 | 111 546 | 43 920 | 78 340 | - | 277 |
| **Total assets** | **5 466 779** | **5 131 863** | **7 763 194** | **8 325 970** | **22 499 790** | **20 630 959** | **4 936 408** | **4 404 641** |
| Return on equity | 11% | 8% | 17% | 12% | 20% | 13% | (15%) | 28% |
| Total assets/Total liabilities | 130% | 128% | 151% | 139% | 125% | 121% | 84% | 82% |
| Change in shareholders' funds | 13% | | 12% | | 25% | | (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 Comprehensive Income | R'000

| Accounting year end | Dec-24 | Dec-23 | Dec-24 | Dec-23 Restated | Dec-24 | Dec-23 | Dec-24 | Dec-23 Restated |
|---|---|---|---|---|---|---|---|---|
| **Group/Company** | **African Reinsurance Corporation (South Africa) Limited** | | **Hannover Re South Africa Limited** | | **Munich Reinsurance Company of Africa Limited** | | **SCOR SE (Incorporated in France) - Africa Branch** | |
| Insurance revenue | 2 792 315 | 2 490 270 | 5 593 346 | 5 452 293 | 11 993 560 | 11 166 555 | 1 764 869 | 1 647 374 |
| Insurance service expenses | (2 326 879) | (2 251 013) | (4 489 913) | (4 119 895) | (10 790 245) | (9 948 332) | (1 422 993) | (1 138 031) |
| Net (expenses)/income from reinsurance contracts | (386 696) | (244 984) | (608 915) | (960 104) | (596 032) | (861 264) | (343 318) | (608 119) |
| **Insurance service result** | **78 740** | **(5 727)** | **494 518** | **372 294** | **607 283** | **356 959** | **(1 442)** | **(98 776)** |
| Net finance income/(expense) from insurance contracts | (94 494) | (75 904) | (305 679) | (264 685) | (638 233) | (838 233) | (54 455) | (151 885) |
| Net finance income/(expense) from reinsurance contracts | 71 147 | 61 257 | 224 473 | 198 845 | 523 422 | 650 384 | 28 452 | 21 117 |
| Currency gains/(losses) from insurance/reinsurance finance result | - | - | 6 937 | 3 317 | - | - | - | - |
| **Net insurance result** | **55 393** | **(20 374)** | **420 249** | **309 771** | **492 472** | **169 110** | **(27 445)** | **(229 544)** |
| **Investment income from assets backing insurance contracts** | **-** | **-** | **-** | **-** | **418 616** | **305 809** | **-** | **-** |
| **Total net investment income** | **243 794** | **192 064** | **355 368** | **287 738** | **521 450** | **424 104** | **143 953** | **117 723** |
| **Net income before other operating expenses and other income** | **299 187** | **171 690** | **775 617** | **597 509** | **1 432 538** | **899 023** | **116 508** | **(111 821)** |
| Commission received (non-insurance) | - | - | - | - | - | - | - | - |
| Other unallocated income | 6 856 | 5 806 | 43 876 | 15 206 | 19 209 | 13 084 | 86 447 | 12 774 |
| Service fees from investment contracts | - | - | - | - | - | - | - | - |
| Fair value adjustments on policyholder liabilities under investment contracts | - | - | - | - | - | - | - | - |
| Administration, management and other expenses | (109 994) | (64 822) | (276 134) | (222 126) | (75 727) | (143 968) | (51 661) | (173 840) |
| Equity-accounted earnings | - | - | - | - | - | - | - | - |
| **Profit/(Loss) before tax** | **196 049** | **112 674** | **543 359** | **390 589** | **1 376 020** | **768 139** | **151 294** | **(272 887)** |
| Taxation | (49 494) | (27 667) | (89 370) | (112 032) | (459 426) | (290 085) | (15 023) | - |
| **Profit/(Loss) after tax** | **146 555** | **85 007** | **453 989** | **278 557** | **916 594** | **478 054** | **136 271** | **(272 887)** |
| **Other comprehensive income** | **-** | **-** | **(44 505)** | **(67 918)** | **166 770** | **47 579** | **(2 708)** | **(3 865)** |
| **Total comprehensive income for the year** | **146 555** | **85 007** | **409 484** | **210 639** | **1 083 364** | **525 633** | **133 563** | **(276 752)** |
| Other transfer to/(from) retained earnings | - | - | 44 505 | 67 918 | (166 770) | (47 579) | (809) | (6 694) |
| Other comprehensive income not charged against retained earnings | - | - | - | - | - | - | - | - |
| Ordinary dividends | - | - | 128 000 | 150 000 | 192 796 | 130 000 | - | - |

## REINSURERS | Statement of Comprehensive Income | R'000

| Accounting year end | Dec-24 | Dec-23 | Dec-24 | Dec-23 Restated | Dec-24 | Dec-23 | Dec-24 | Dec-23 Restated |
|---|---|---|---|---|---|---|---|---|
| **Group/Company** | **African Reinsurance Corporation (South Africa) Limited** | | **Hannover Re South Africa Limited** | | **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** | **146 555** | **85 007** | **325 989** | **128 557** | **723 798** | **348 054** | **132 754** | **(283 446)** |
| Net expenses/income from reinsurance contracts/insurance contracts result (insurance revenue less insurance service expenses) | 83% | 102% | 55% | 72% | 50% | 71% | 100% | 119% |
| Insurance service expenses/insurance revenue | 83% | 90% | 80% | 76% | 90% | 89% | 81% | 69% |
| Insurance service result/profit/(loss) before tax | 40% | (5%) | 91% | 95% | 44% | 46% | (1%) | 36% |
| Tax as a % of profit/(loss) before tax | 25% | 25% | 16% | 29% | 33% | 38% | 10% | - |
| Comments | Composite company | | Composite company | | Composite company | | Composite branch | |

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