The power of human

The South African Insurance Industry Survey 2023

Proudly published for 25 years

September 2023

kpmg.co.za

Contents


4 Non-life insurance industry results analysis


16 Life insurance industry results analysis


22 Reinsurance industry results analysis


34 The end of hyper-globalisation – what is next?


40 Insurance pricing and TCF


44 Generative AI in the insurance sector: a revolution in the making


56 Anticipate, adapt and thrive…operational resilience for insurers


64 Using ESG as a framework to drive commercial benefit and opportunity


70 IFRS 17 and third-party cell captive arrangements


78 The Jetson future of insurance


84 What does the future hold for South Africa now that we have been grey-listed?


92 Working from home: the insurance considerations


96 Tax challenges expected from the implementation of IFRS 17


102 How ESG is shaping business decisions and delivering value: A conversation with Sustainability Executives


108 Beyond the screen: a personal account of integrating with a virtual team in the physical office


114 The regulatory and sustainable finance impacts and challenges of the COFI Bill


122 Are we appropriately covered?


130 Income tax amendments for non-life insurers


136 ESG and the battle between compliance and the "S"


142 Addressing socially-conscious stakeholders and tax transparency: a survey of 65 insurance companies


148 Non-life insurance industry financial results


166 Life insurance industry financial results


182 Reinsurance industry financial results

Mark Danckwerts

Partner

Africa insurance leader

Tel: +27 82 710 3261

Email: mark.danckwerts@kpmg.co.za

I was struck by two things whilst reading and editing this edition of our annual South African insurance industry survey, which we have published for 25 consecutive years. Many insurers in this country can be proud of how they stack up with their best-in-class international peers. Much of the information in this survey is about innovation and technology and the social conscience that seems to be brimming over in the insurance industry.

Innovation and technology

South African insurers invented cell insurance and have grown it into the massive industry that it is today. Our analysis of the non-life insurance results on page 4 highlights the very significant growth in this sector with the three biggest cell insurers paying over R1 billion in dividends in 2022.

Whilst the industry did not invent wearables and the Internet of Things (IoT), many South African insurers are mastering the interaction between them and their insurance solutions for risk prevention. One of the key developing themes identified as a growing trend by our international insurance practice is risk prevention. With IoT technology, insurers are rapidly moving into the area of risk prevention in the non-life and life spaces, providing timely advice and alerts to prevent claims or incentivising policyholders' behaviour. Read more about the power of generative AI and various other forms of technology in the insurance industry in our articles on pages 44 and 78.

Social cohesion

Pieter Scholtz, our Africa lead ESG partner, points out in his article on page 136 that the socio-economic construct in South Africa gives our key social considerations a distinctly different flavour. Even though the S in ESG is much more complicated than the E and the G, we already know what the major pitfalls are, because we have been doing this in one form or another for many years already and many local insurers have already adopted a more sustainable approach to their social expenditure by providing beneficiaries with continued business support and financial planning; again putting South African insurers right up there with the rest of the best.

The theme of our survey this year is The Power of Human, reflecting the important role we all play in working harder to make the world a better place. Sometimes we do that by building machines that can do what we do and sometimes we know that all we need to do is smile and be kind. Thank you to all the exceptional KPMG Humans that have contributed to this publication. We invite you to contact any one of us to talk about the industry.

Benjamin Vosloo

Partner
Insurance
Tel: +27 82 710 9640
Email: benjamin.vosloo@kpmg.co.za

Theo Odendaal

Senior Trainee Accountant
Insurance
Tel: +27 63 710 3178
Email: theo.odendaal@kpmg.co.za

Non-life insurance industry results analysis

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

Economic environment

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

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

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

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

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

1 www.statssa.gov.za

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

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

Profitability

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

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

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

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

- Centriq grew its GWP by R2.66 billion (growth rate of 70%). It is reported that Santam Limited's (Santam) alternative risk transfer business, of which Centriq forms a part, garnered significant new mining rehabilitation business and established several new cell arrangements.

- Discovery Insure continues its top-line growth trajectory from the previous financial year and grew its GWP by R0.81 billion (growth rate of 18.5%) of which 13% came from its personal lines book. It appears that this growth came from its existing client base as a result of improved lapse rates. The remaining GWP growth stems from other lines of business, such as Discovery Business Insurance.

- Lombard once again managed to outperform the industry growth rate and grew its GWP by 22.4%, while also improving its market share (approximately 2%) position from the previous year. Lombard is well positioned in the guarantee segment and has a growing presence in other specialist lines and partnership businesses[8].

- M&F Risk Financing experienced GWP growth of 15.16% which resulted in it making its way into the top ten insurers in terms of GWP market share. The growth in GWP was attributable to the establishment of several new cells[9].

- Bryte continued its double-digit growth rate and managed to grow its GWP by 10.1%.

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

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

6 Management and other expenses/net earned premiums

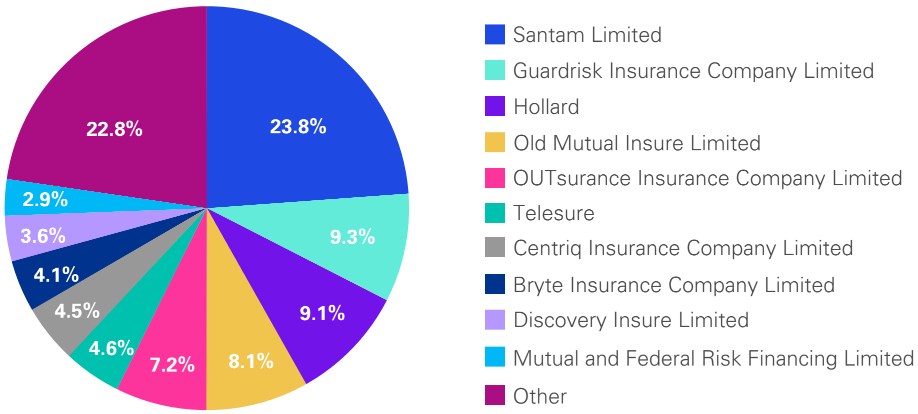
7 https://www.statssa.gov.za/publications/P0141

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

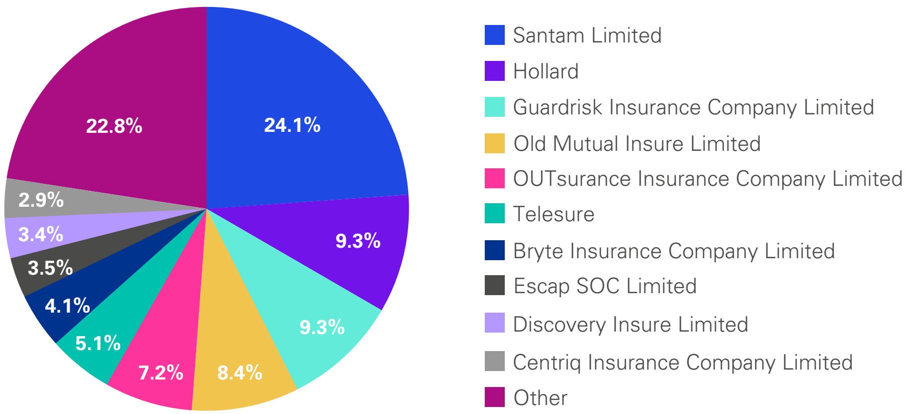
9 https://www.oldmutual.com/v3/assets/blt566c98aeecc1c18b/bltda1c283ad288c9d7/64772ee5546c285cb2aa4f17Integrated_Report_2022.pdf

Market share by GWP

Percentage of market based on GWP - 2022



Percentage of market based on GWP - 2021



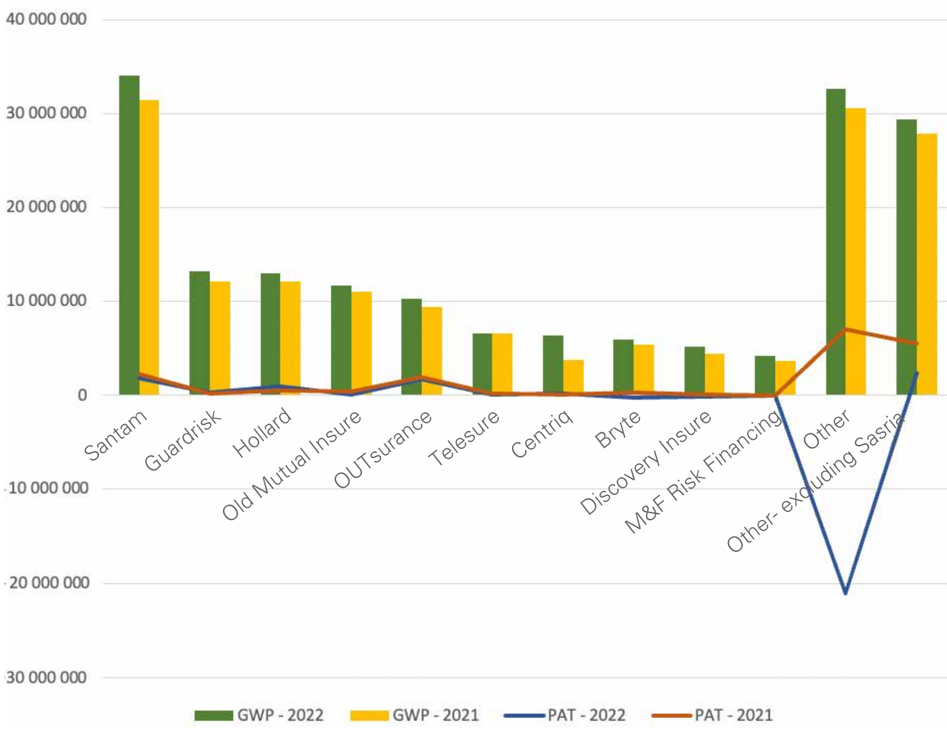
During 2022 the market share of the top ten largest insurance companies, based on GWP, amounted to 77% (2021: 77%) of the total market. Comparing the market share positions of 2022 to that of 2021, the main constituents remained relatively consistent, with the exception of Escap SOC Limited (Escap) losing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

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

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

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

GWP versus PAT
R'000



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

Profit after tax analysis

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

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

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

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

Other (excluding Sasria)

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

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

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

Other key metrics explaining the industry results

Cost of reinsurance

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

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

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

2022	2021
33.70%	32.54%

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

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

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

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

Claims incurred

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment income

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

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

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

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

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

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

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

Corporate activity, new entrants, partnerships, products and innovation

Old Mutual Insure

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

Telesure Investment Holdings

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

Momentum

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

Guardrisk

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

Naked

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

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

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

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

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

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

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

OUTsurance

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

Discovery Insure

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

In closing

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

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

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

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

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

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

Nishen Bikhani

Partner

Insurance

Tel: +27 60 720 4937

Email: nishen.bikhani@kpmg.co.za

Life insurance industry results analysis

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

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

04

Signals of change

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

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

Strategic intent and corporate transactions

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

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

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

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

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

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

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

Robust regulatory capital positions

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

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

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

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

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

Results showing clear signs of recovery in a tumultuous global market

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

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

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

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

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

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

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

Sanlam

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

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

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

Old Mutual

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

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

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

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

Discovery

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

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

Momentum Metropolitan

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

Liberty

Liberty posted profits of R1.2 billion reflecting a post-COVID-19 recovery. Notably, the group also experienced marked growth in premiums from R43 billion to R48 billion over the year. These improved sales, in South Africa, were in portfolios with traditionally higher margins. Persistency in the retail complex risk portfolio improved, with the corporate segment also returning to profitability. Operations in Africa, in particular the health businesses, created a drag on earnings. The group's result was also impacted by reduced returns in Stanlib which reflected the weaker investment market.

Hollard Life

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

Signals of change

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

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

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

References

https://www.oldmutual.com/v3/assets/blt566c98aeecc1c18b/blte0ff448ea108e036/640ffb9097f0fc5dd00d434c/2022_Annual_Results_Presentation.pdf

https://www.oldmutual.com/v3/assets/blt566c98aeecc1c18b/blt415e5f19447a4351/641047b7c9cc3a6e6d680aa6/2022_Annual_Results_Booklet.pdf

https://www.sanlam.com/downloads/presentations-and-roadshows/2022/Sanlam-Investor-Presentation-2022.pdf

https://www.momentummetropolitan.co.za/remote-assets/s3/clt_mmh_s3/static-assets/documents/investor-relations/interim-results/2023/condensed-consolidated-interim-financial-statements.pdf

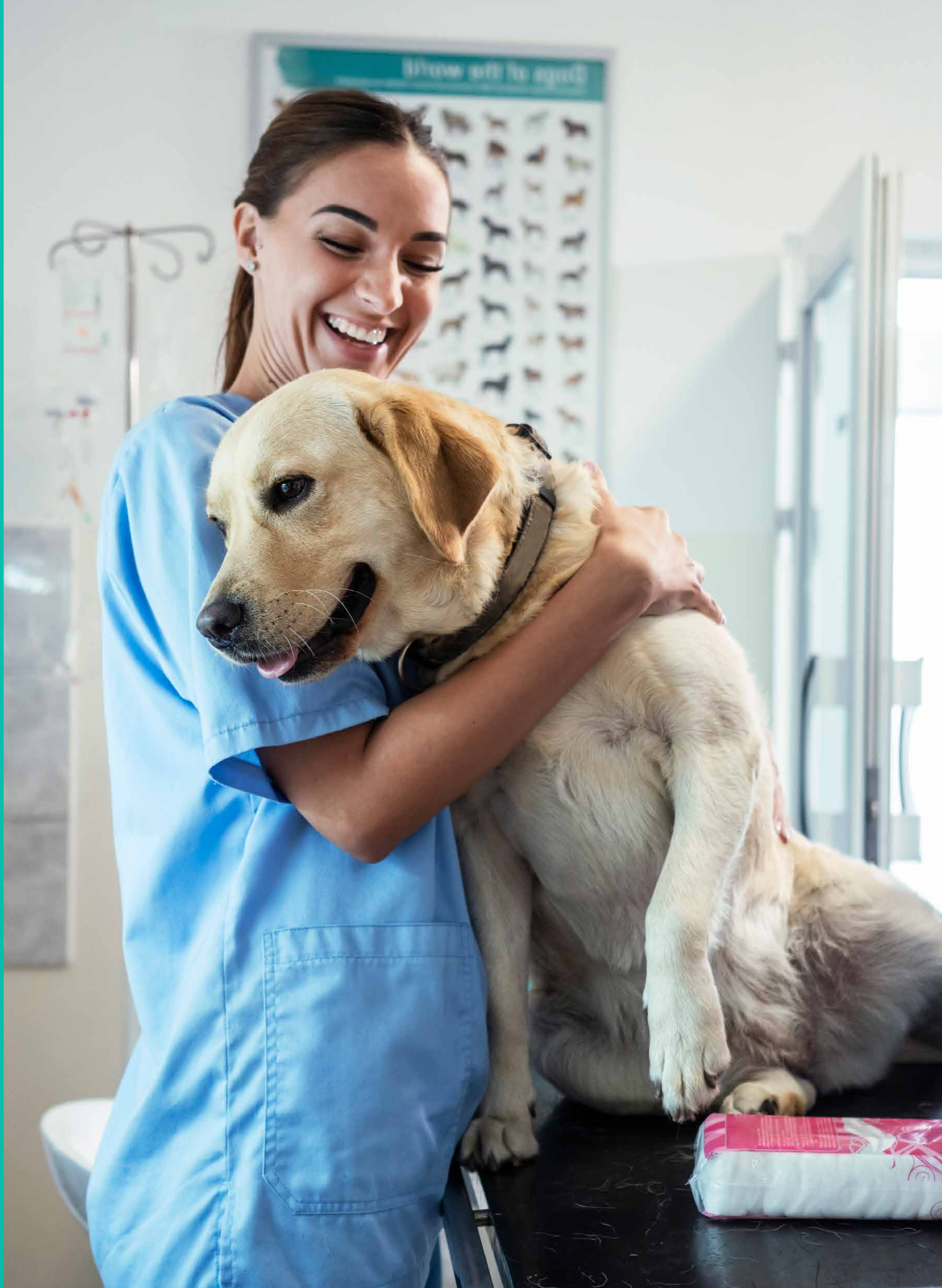
https://www.discovery.co.za/assets/discoverycoza/corporate/investor-relations/2023/results-final.pdf

https://thevault.exchange/?get_group_doc=18/1678341326-SBG2022AnnualResultsPresentation.pdf

https://www.hollard.co.za/binaries/content/assets/hollardcoza/pages/company--overview/annual-reports/hollard-life-assurance-company-2022.pdf

https://www.asisa.org.za/media/otkf1xyy/20230314_life-insurers-remain-well-capitalised-despite-tough-operating-conditions-in-2022.pdf

https://www.swissre.com/institute/research/sigma-research/sigma-2023-03.html



Kashmira Naran

Partner
Insurance
Tel: +27 82 710 7629
Email: kashmira.naran@kpmg.co.za

Reinsurance industry results analysis

According to the AON 2023 Weather, Climate and Catastrophe Insight report[1], the Kwa-Zulu Natal floods experienced in April 2022 were identified as one of the deadliest and costliest flood events on record in South Africa. It is estimated that USD3.6 billion in economic losses and USD1.8 billion in insured losses were experienced and that there were 455 fatalities. This event was also listed in the top ten global human fatality events related to natural catastrophe events for 2022.

The following additional notable flooding events occurred in South Africa as published by AON on its list of 2022 global disasters[2]:

Date(s)	Deaths	Economic loss (USD)
8 Jan – 9 Jan 2022	10	70+ million
15 Jan – 16 Jan 2022	1	105+ million
3 December 2022	14	Unknown
10 Dec – 11 Dec 2022	0	Unknown

The financial results of reinsurers' that participated in this year's survey are largely characterised by the impact of these loss events, and the recovery of mortality levels experienced by the industry following the stabilisation of the life insurance environment that was plagued by the impacts of the COVID-19 pandemic.

The latest insurance sector data published by the South African Reserve Bank indicates that there are nine professional reinsurers in South Africa at December 2022[3].
In this year's survey, we analyse the results of four registered reinsurers, representing approximately 64% of the South African market. These results include three composite reinsurers and one composite branch.

Last year saw a number of changes in the legal structures of South African reinsurers due to the enactment of the Insurance Act in 2018:

- African Reinsurance Corporation (South Africa) Limited (Africa Re) relicenced as a composite reinsurer;
- Hannover Re South Africa Limited (Hannover Re) consolidated its life and non-life operating licences into a single composite reinsurance licence; and
- SCOR SE (Incorporated in France) - Africa Branch (SCOR Africa Branch) commenced business operations as a composite licenced branch.

In addition to the impacts of the Kwa-Zulu Natal floods and other natural catastrophe events that transpired over 2022, the results of the reinsurance industry need to be reflected on against what has transpired over the course of 2022 for the reinsurers' customers – the South African non-life insurance and life insurance industries.

The life insurance industry went from a profit of R17.0 billion in 2021 to a profit of R26.1 billion in 2022. This is reflective of the recovery and stabilisation experienced by life insurers to normalised mortality levels post the COVID-19 pandemic.

The non-life insurance industry went from a profit of R13.1 billion in 2021 to a loss of R16.4 billion in 2022. These results include those of Sasria SOC Limited (Sasria). Sasria's 2022 results were largely characterised by the losses from the April 2021 Kwa-Zulu Natal riots. After excluding the results of Sasria, the non-life industry generated a profit of R7.0 billion in 2022, a decline compared to the profit of R11.6 billion earned in 2021. The impact of the Kwa-Zulu Natal floods, hardening of reinsurance rates and rising inflationary environment are reflected in these results.

1 https://www.aon.com/getmedia/f34ec133-3175-406c-9e0b-25cea768c5cf/20230125-weather-climate-catastrophe-insight.pdf

2 https://www.aon.com/getmedia/f34ec133-3175-406c-9e0b-25cea768c5cf/20230125-weather-climate-catastrophe-insight.pdf

3 https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-selected-south-african-insurance-sector-data/2022/Selected%20South%20African%20insurance%20sector December%202022.pdf

The gross domestic product (GDP) growth rate for 2022 was 2.0%[4], just less than half of the growth experienced in 2021 of 4.9%[5]. According to Stats SA, "Although GDP reached an all-time high in 2022, the economy has only grown by 0.3% from the 2019 pre-pandemic reading of R4.58 trillion; this lags behind the 3.5% rise in the country's population over the same period"[6]. Average consumer inflation was 6.9% in 2022, higher than the average recorded for 2021 of 4.5%[7]. While a slight decrease was observed compared to 2021 at 35.3%[8], the unemployment rate settled at 32.7%[9] in the last quarter of 2022. Coupled with the increased level of pressure on the national power supply (with water supply challenges increasingly being experienced) and the increase in the prime interest rate from 7.25%[10] at the start of the year to 10.5%[11] at the end of 2022, these factors placed immense pressure on the disposable income of consumers and policyholders with cascading impacts on premium renewals, rate increases and lapse rates.

Financial indicators

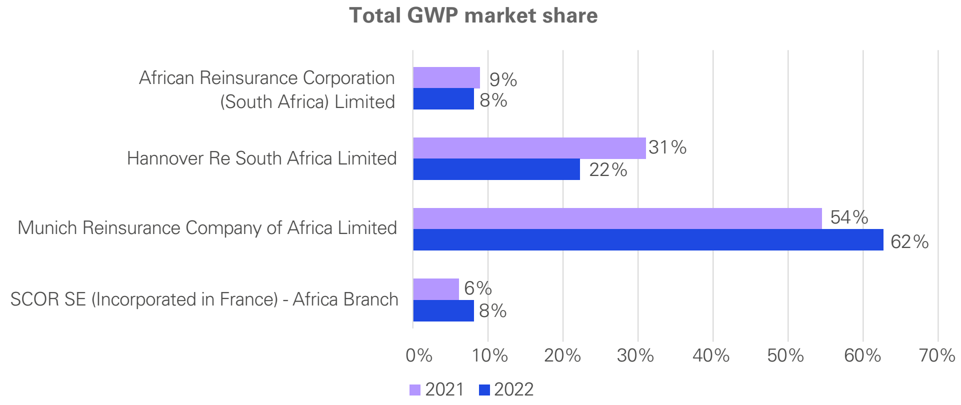
We conducted a series of interviews with various reinsurers to better understand their results and obtain their insights into what the future holds for the South African reinsurance industry.

The 2022 financial year strategy for reinsures was one of growth, recovery and refocus. The continued constrained economic environment, lagging remnants of COVID-19, unreliable power supply and unprecedented and unpredictable levels of natural catastrophes have influenced the 2022 results of reinsurers surveyed.

Growth

Gross written premium (GWP) grew by 18% (2021: 1%) over 2022, a welcome reprieve following a downward trend experienced in the previous three years. The biggest contributors to this increase are the hardening of reinsurance rates, particularly from July 2023 renewals, repricing, organic growth and new business. Following an unstable and unpredictable environment from many fronts over the last few years, the 2022 reinsurers' results are largely reflective of the growth in GWP experienced by life insurers of 4.4% and non-life insurers of 9.7%. In terms of reinsurance premiums incurred by the primary market, the life insurance industry saw an increase of 17% from 2021 with the non-life insurance industry reporting a 14% increase. All reinsurers interviewed have implemented stricter underwriting principles.

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



[4] https://www.statssa.gov.za/?p=16162#:~:text=The%20South%20African%20economy%20grew,trillion%20to%20R4%2C60%20trillion.&text=Although%20GDP%20reached%20an%20all,reading%20of%20R4%2C58%20trillion.

[5] https://www.statssa.gov.za/?p=15214

[6] https://www.statssa.gov.za/?p=16162#:~:text=The%20South%20African%20economy%20grew,trillion%20to%20R4%2C60%20trillion.&text=Although%20GDP%20reached%20an%20all,reading%20of%20R4%2C58%20trillion.

[7] https://www.statssa.gov.za/publications/P0141/P0141December2022.pdf

[8] https://www.reuters.com/world/africa/south-africas-unemployment-rate-hits-new-record-high-q4-2021-2022-03-29/

[9] https://www.statssa.gov.za/?p=16113

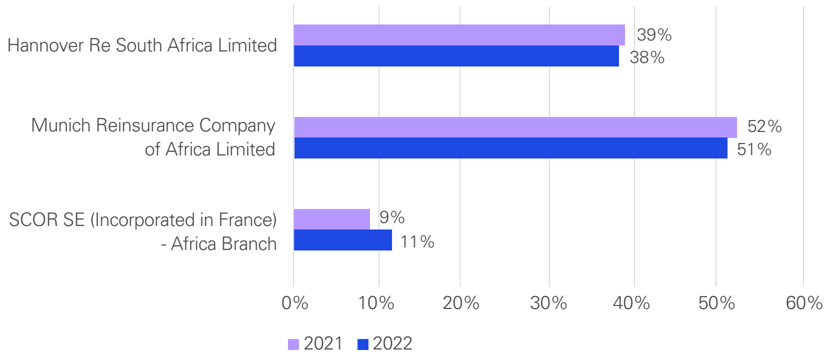
[10] https://www.fnb.co.za/rates/LendingRates.html

[11] https://www.fnb.co.za/rates/LendingRates.html

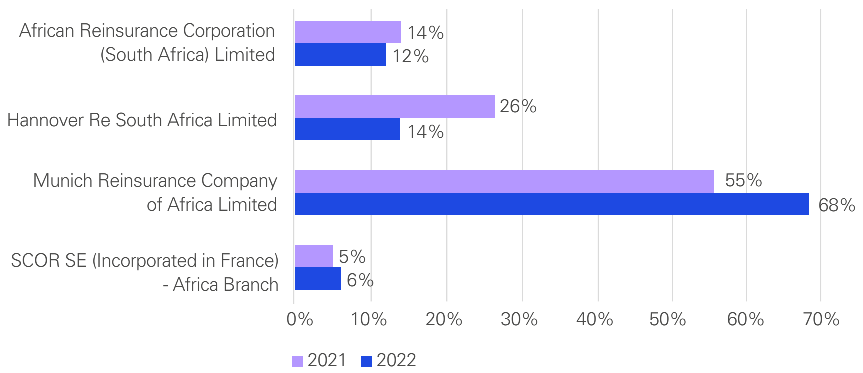
Munich Re and Hannover Re continue to lead the reinsurance market with their combined market share accounting for 84% (2021: 85%) measured by GWP volumes. The market share distribution across reinsurers continues to remain relatively consistent, with marginal movements noted across industry players.

Looking at the split of GWP between the life and non-life reinsurance industry, the comments noted above continue to hold true. We discuss the detailed movements per reinsurer further on in our analysis.

Life GWP market share



Non-life GWP market share



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

Performance indicator	2022	2021
Net commission to net earned premium (net commission ratio)	6%	11%
Management and other expenses to net earned premium (expense ratio)	16%	14%
Net policyholder benefits and entitlements to net earned premium (net loss ratio)	74%	115%
Underwriting loss[12]	R296 million profit	R3 782 million loss

The net commission ratio has almost halved from 2021 to 2022, largely attributable to Hannover Re's and Munich Re's acquisition cost increases being offset by higher reinsurance commission income increases, coupled with the overall increase in net earned premium of 5%.

The slight increase in the expense ratio is expected as business activities for 2022 were substantially back to pre-COVID-19 lockdown levels, coupled with more employees starting to have more of a physical presence in the office on a more frequent basis.

The 2021 financial year for reinsurers was largely plagued by the impacts of the Kwa-Zulu Natal riots and, to a smaller extent, the ongoing impact of COVID-19 and various benign natural catastrophe events. The net loss ratio and underwriting result reflect a vastly different scenario and a recovery in 2022 compared to 2021. This is a commendable result in the context of the Kwa-Zulu Natal floods in April 2022, which have been described as "the most catastrophic natural disaster yet recorded in Kwa-Zulu Natal in collective terms of lives lost, homes and infrastructure damaged or destroyed and economic impact"[13].

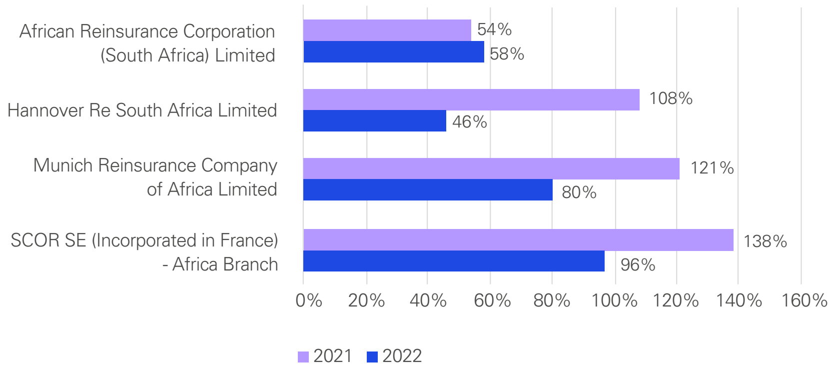
12 Net earned premium + reinsurance commission income – net claims incurred – acquisition costs – management and other expenses

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

It is interesting to note that, except for Munich Re, no other reinsurer declared dividends during the year, consistent with the financial results of 2021 and 2020. It is likely that many reinsurers will continue to take a conservative approach, in the context of the strength of their balance sheets, while the uncertainty around the frequency and severity of natural catastrophe events and the materialisation of the impacts of premium rate increases are yet to be assessed.

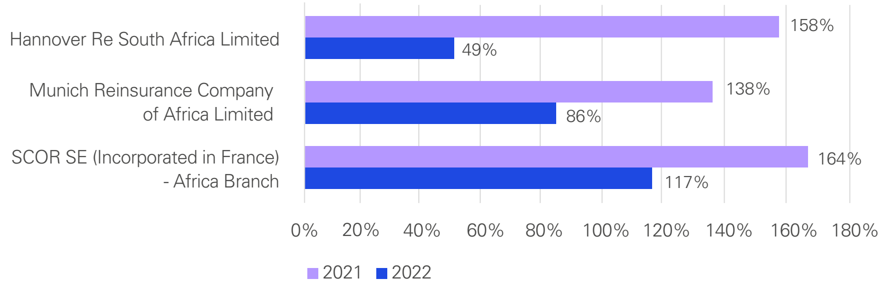
The graph included below illustrates the net loss ratio for each reinsurer. Except for Africa Re, the reinsurers experienced a substantial improvement in their loss ratios.

Net loss ratio

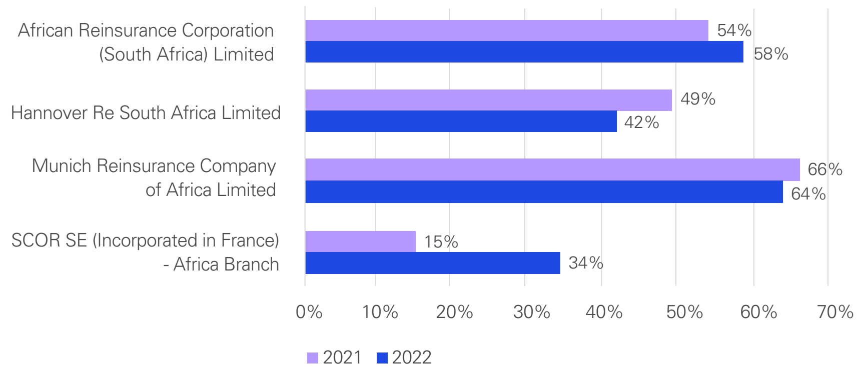


Breaking the results up further, it is clear that reinsurers writing life insurance risks showed the highest level of recovery in their loss experience compared to 2021, compared to reinsurers that wrote non-life insurance risks. This is largely attributable to the gains experienced from lower mortality losses experienced by the life insurance industry, where mortality levels have started to normalise to pre-pandemic levels, offset by the losses experienced from the Kwa-Zulu Natal floods.

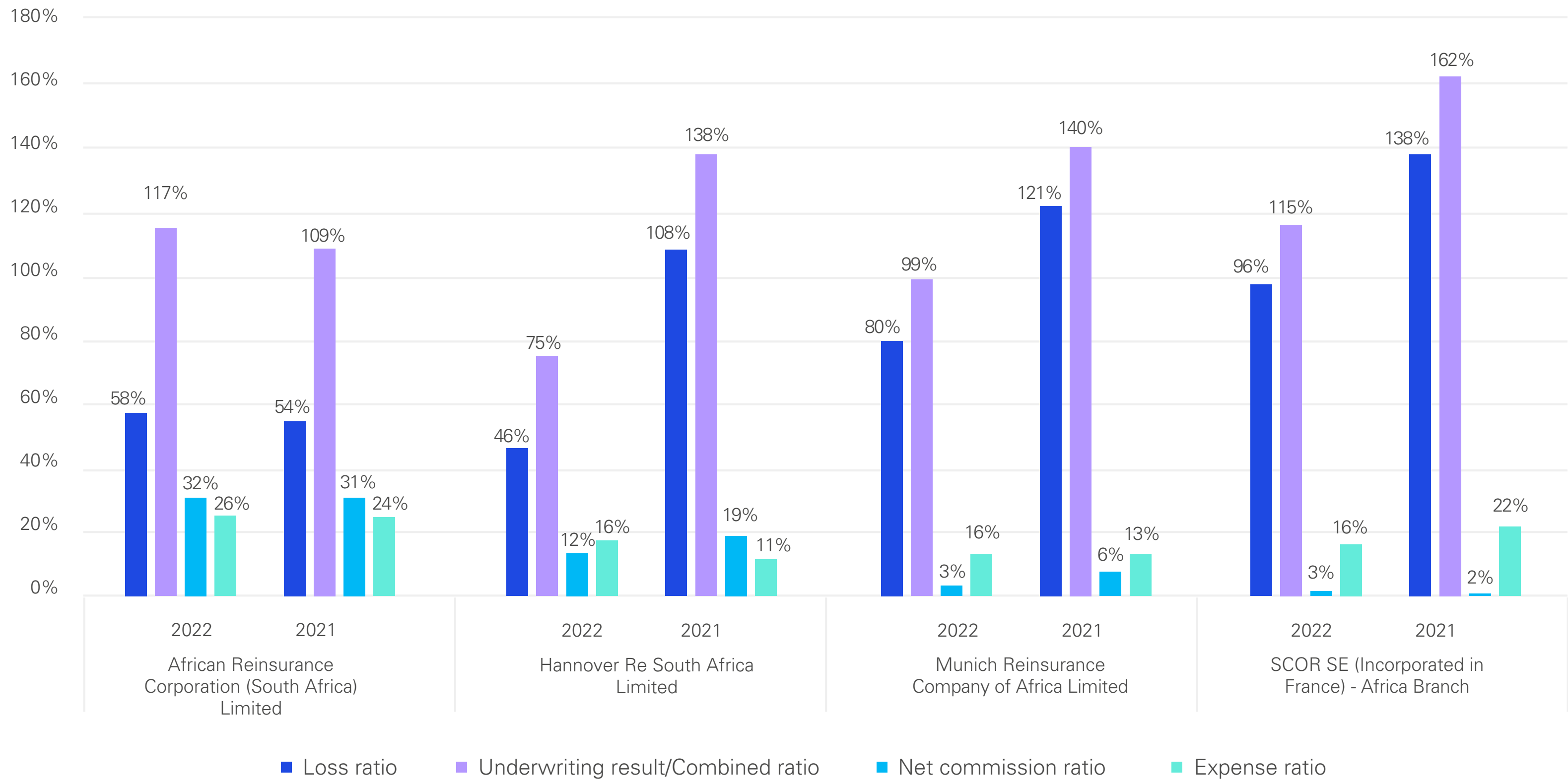
Life loss ratio



Non-life loss ratio



Underwriting performance per reinsurer



Except for Africa Re, all reinsurers experienced an improvement in their underwriting performance compared to 2021. The next section of our report provides deeper analysis into the results of each reinsurer.

Note: where reference is made to the loss ratio throughout this article, this represents the loss ratio net of reinsurance, i.e the net loss ratio.

Africa Re

Historically registered as a non-life reinsurer, Africa Re underwent a relicensing process and in 2022 it was registered as a composite reinsurer. This enables it to write both non-life and life reinsurance business, however no life reinsurance business was written during 2022. The results presented for 2022 therefore only relate to Africa Re's non-life reinsurance business.

During 2022 Africa Re experienced growth in GWP of 8%. This is a vast improvement from the decline in GWP experienced over 2020 and 2021 of 18% and 1% respectively. This is attributable to the impact of the implementation of the reinsurer's turnaround strategy which it embarked on in 2018 that aimed to de-risk and enforce better underwriting discipline in the quality of risks assumed and restructure of its retrocession programme. Other contributing factors are new business acquisitions as well as the start of the hardening of reinsurance rates, offset by the non-renewal of larger books of business.

"Natural catastrophe events are here to stay with us - the only direction that reinsurance rates can go is upwards. For reinsurers to be able to offer sufficient and appropriate capacity to the primary market, reinsurance rates will need to follow suit. We should expect difficult market conditions to continue into the near future."

- Ibrahim Ibisomi (Management Consultant) and Sudadi Senganda (General Manager: Finance and Administration) from Africa Re, reflecting on what the future holds for the primary and reinsurance markets.

Africa Re was significantly exposed to losses from the April 2022 Kwa-Zulu Natal floods, and to a lesser extent, COVID-19 related claims. The increase in the loss ratio from 54% in 2021 to 58% in 2022 was moderated by the impacts of the strategic restructuring of the retrocession programme coupled with the effects of the turnaround strategy.

The increase in the combined ratio is a direct reflection of the increase in the loss, commission and expense ratios. While the increase in the loss ratio of 4% is the largest contributor, the impacts of the commission and expense ratios require further analysis. The increase in the net commission ratio of 2% from 2021 has stabilised when compared to the increase experienced in 2021 of 17%. The higher commission ratio continues to be attributable to solvency relief contracts offered to cedants which attract higher profit commission payments on profitable business, also a consequence of the reinsurer's turnaround strategy.

The increase in the expense ratio from 24% in 2021 to 26% in 2022 is due to the increased extent of business activity in 2022, post the lifting of lockdown restrictions.

While Africa Re experienced the highest underwriting loss of R102 million across all reinsurers surveyed for 2022, it is important to note that it is the only reinsurer exposed only to non-life insurance risks without the benefit of these exposures being offset by the better performing life insurance industry results.

Hannover Re

Effective from 1 January 2021, Hannover Re operates as a compositive reinsurer writing both life and non-life reinsurance risks under one reinsurance licence.

Hannover Re was the only reinsurer of those surveyed that experienced a decline in GWP and net earned premium. Both declined from 2021 by 15% (2021: 23% increase) and 31% (2021: 5% increase) respectively. The decrease in GWP is attributable to the non-life business which experienced a decline of 37% from R4.0 billion in 2021 to R2.5 billion in 2022. A portion of this decrease relates to portfolio transfers in 2021 as a result of the consolidation of the life and non-life operations, as well as the non-renewal of larger books of business. The growth in the life business GWP is organic. While in prior years the mix of life and non-life business was largely stable based on GWP measures, the life business GWP now contributes 60% (2021: 47%) to overall GWP with the non-life business contributing 40% (2021: 53%).

The overall loss ratio showed significant improvement from 108% in 2021 to 46% in 2022. The life business was the largest contributor to this improvement with the loss ratio moving from 158% in 2021 to 49% in 2022. This was largely attributable to normalised mortality levels off the back of the COVID-19 pandemic era, as well as the benefit materialised from restructuring of retrocession agreements. The loss ratio on the non-life business improved by 7% from 49% in 2021 to 42% in 2022, attributable to the strength of protection provided by retrocession cover. This improvement is a commendable feat in the context of the significance of the losses emanating from the Kwa-Zulu Natal floods, albeit to a lower extent than that experienced from the Kwa-Zulu Natal riots, which was more widespread.

The impact of the results set out above culminates in an improvement in the underwriting result from a loss of R1 019 million in 2021 to a profit of R470 million in 2022, with the largest contributor attributable to favourable claims exposure.

Munich Re

Munich Re experienced significant growth in GWP of R4.9 billion when compared to 2021. The non-life book of business contributed 71% (2021: 64%) to total GWP with the remaining 29% (2021: 36%) attributable to the life book of business. GWP from the life business increased by 10% while GWP from the non-life business increased by 52%. This translated into a 17% increase in net earned premium for the period (2021: 9%).

The loss ratio improved from 121% in 2021 to 80% in 2022. The largest contributor to this improvement emanates from the life book of business whereby an improvement of 52% in the loss ratio is observed, from 138% in 2021 to 86% in 2022. The non-life loss ratio improved by 2% from 66% in 2021 to 64% in 2022.

SCOR Africa branch

The 2022 financial year represents the second year of operations of SCOR Africa Branch in South Africa.

Similar to Munich Re, GWP and net earned premium increased sharply by 37% (2021: 8%) and 50% (2021: 42%) respectively. The mix of life and non-life business is largely consistent with 2021 with the life business contributing 50% (2021: 53%) and the non-life business contributing 50% (2021: 47%) to overall GWP. Life GWP increased by 29% (2021: 8%) due to new business and premium rate increases, while non-life premiums increased by 46% (2021: 8%) due to premium rate increases, particularly emanating from the July 2023 renewal period.

Like Hannover Re and Munich Re, the reinsurer's net loss ratio improved from 138% in 2021 to 96% in 2022, the highest loss ratio experienced across all reinsurers surveyed. Dissecting the loss ratio into its components, the life loss ratio showed an improvement from 164% in 2021 to 117% in 2022 and the non-life loss ratio deteriorated from 15% in 2021 to 34%. This experience is consistent with the results observed in respect of Hannover Re and Munich Re whereby the life book of business contributed to an improved total loss ratio and the non-life book having been impacted by the Kwa-Zulu Natal floods increased the ratio.

The improvement in the expense ratio from 22% in 2021 to 16% in 2022 is as a result of a higher once-off increase experienced in 2021.

Consequently, an improvement in the underwriting result was achieved, from a loss of R452 million in 2021 to a loss of R164 million in 2022.

Investment performance

Reinsurers achieved an average return on investments (including cash and cash equivalents) of 6.3% (2021: 6.5%). This is less than the average prime rate of 8.59%[14] (2021: 7.25%[15]) and the average 10-year government bond yield of 10.102%[16] (2021: 9.098%[17]).

However, this performance is commendable in light of an overall decrease in investments and cash and cash equivalents of 2%, to enable reinsurers to fund claims and/or commission payments.

Consistent with 2021, Munich Re was the top performer in terms of investment returns in 2022 at 8.3% (2021: 8.3%). Hannover Re followed closely with 7.7% (2021: 6.9%). Africa Re achieved a return of 5.0% (2021: 5.0%) and SCOR Africa Branch a negative investment return of 2.5% (2021: 1.7%). This is primarily due to interest expenses recognised on funds withheld (opportunity cost of funds withheld by ceding companies to mitigate credit risk for cedants) in excess of investment income earned. Removing the impact of the interest expense, SCOR Africa Branch's investment return is within a similar range as the rest of the reinsurers surveyed at 4.4% for 2022 (2021: 4.7%).

14 https://www.fnb.co.za/rates/LendingRates.html

15 https://www.absa.co.za/indices/prime-rate/

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

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

What the future holds for reinsurance operations

On 7 September 2023 Fitch Ratings released its most recent outlook for the global reinsurance market:

"Fitch Ratings has revised its global reinsurance sector outlook to 'improving' from 'neutral' to reflect the sector's strengthening financial performance into 2024. Near-term price rises are likely to outpace increases in claims costs and we expect underwriting margins to peak next year. Meanwhile, rising reinvestment yields and strong demand for reinsurance should increasingly support earnings. We believe pricing for natural catastrophe risks will better reflect the impact of climate change on claims, particularly as several reinsurers are cutting back on cover for medium-sized natural catastrophe risks, making pricing less competitive.[18]"

Around the same time S&P Global raised the reinsurance sector view to stable from negative due to higher reinsurance rates and increasing investment income, while Moody's kept its outlook for the sector stable[19].

Our discussions with reinsurers indicate that South African (re)insurers are currently faced with the added pressure that comes from the instability brought on by local political uncertainty, infrastructure challenges and potentially contentious foreign relations with Russia. These factors place strain on an already vulnerable and volatile civil sentiment, which increases the risk of another social unrest event.

Reinsurers are currently focussing efforts on finding the right balance between enforcing appropriate underwriting discipline, creating value and return to shareholders and ensuring stability of results. The outlier events of the recent past such as COVID-19, political riots and natural catastrophe events have highlighted the need to closely monitor exposures and treaty wording to achieve the best outcome. This has led to reinsurers considering the provision of alternative reinsurance products in light of increased exposures that primary insurers are taking on.

The view of the market is that sufficient capacity is available to the primary market, on the basis that that this is reflected in pricing structures. As a result, a hardening of reinsurance rates is expected to continue into the near future.

The provision of insurance cover over crytopassets, cryptocurrency, non-fungible tokens and the like is still seen as a high risk area with none of the reinsurers surveyed considering providing reinsurance cover for these risks in the near future. This is being guided by their international parent companies.

The impact of ESG continues to be monitored across the industry. Reinsurers have acknowledged that the availability and quality of data is important to this process to be able to provide the right solutions balanced with appropriate risk exposures.

Reinsurers are continuing to navigate their digitisation journey in various ways and forms such as collaborating with external partnerships and insuretechs, exploring the implementation of artificial intelligence and the use of blockchain technology.

The collective effort of insurers and reinsurers alike over an exceptionally challenging past few years has ensured a sound outcome for policyholders and the common good. While the results of 2022 reflect a strong recovery, the road ahead is expected to be challenging with the advent of new and emerging risks, global and local economic and political turbulence and South African specific challenges. However, as we have observed time and time again, the strength, resilience and trustworthiness of the reinsurance industry continues to provide stability in an everchanging environment.

Please refer to page 182 for the detailed financial results in respect of each reinsurer that participated in the survey.

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

[19] https://www.reuters.com/business/sp-global-raises-reinsurance-sector-view-stable-negative-2023-09-05/

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:

39 Partners

66 Managers

Over **200** professional staff

Top of our game in everything we do

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

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

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

KPMG Insurance in the rest of the world

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

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

For more information please contact:

Mark Danckwerts
Partner
Africa insurance leader
T: +27 82 710 3261
E: mark.danckwerts@kpmg.co.za

Frank Blackmore

Lead Economist
Financial Risk Management
Tel: +27 73 672 6923
Email: frank.blackmore@kpmg.co.za

The end of hyper-globalisation – what is next? The United States-China standoff or peaceful economic co-existence?

Since the nineties, the global economic order was premised on a rules-based system of global integration; given the global dominance of the United States (US) in terms of both political and economic power, the rules were predominantly US-made and favoured deep global economic integration with, as a corollary, the continued expansion of democracy and human rights.

The thinking was not so much that domestic agendas did not matter, but rather that the benevolent forces of global trade and integration would raise all tides sufficiently to take care of domestic economic and social pressures, or that it would create adequate value that winners could compensate losers through domestic redistributive measures. What followed was an era of hyper-globalisation that did indeed create not only winners and losers, but also both domestic and global tensions that did not previously exist.

Hyper-globalisation as a global system of integration and cooperation is over; the notion that prioritising international integration will not come at the expense of domestic social cohesion and inclusion has proven gravely fallacious. The complementarity simply does not exist in the way it was envisaged. The US-led drive towards deep economic integration also did not blunt global conflict or strengthen democracy globally, which has been receding significantly for a number of years according to democracy indices.

What went wrong?

Well, paradoxically, countries that gained the most from participation in global integration seem to be the ones that did not comply with the spirit of liberal internationalisation, of free movement of goods, capital and labour across national borders. China, for instance, intervened quite significantly to promote internal objectives and grew spectacularly, whereas Mexico opened up for free trade and capital flows to its own domestic detriment.

The distributional consequences of hyper-globalisation turned out to take a different path than envisioned. Winners and losers did indeed materialise, as was anticipated, but a compensatory mechanism did not automatically kick in, leading to rising inequality, and declining domestic integration and social cohesion, in the US especially. The middle-class was particularly hard hit, which led to rising nationalism and diminished voter support for policies prioritising liberal internationalisation over domestic cohesion. Political accountability also suffered, with globalisation often presented as an unstoppable, irreversible force that has overpowered domestic imperatives, one which societies wishing to benefit from the potential gains would have to learn to live with.

A significant consequence of the drive towards global integration was China's emergence as a global force, lifting its population out of poverty through extraordinary growth, albeit without democratising or expanding the human rights of its vast citizenry. Rather, prosperity was offered in lieu of these Western rules of political and social organisation. China's growth engine is however stalling and the spoils of the capitalism it has dabbled with may no longer be on offer to satisfy its weary, post-pandemic population. The implications of prolonged lockdowns and the realities of an illiberal existence have taken their toll. Also, even after the one-child policy has been relaxed, the Chinese demographic is emulating the Western trajectory of depopulation, which predicts that the future labour force may make a continuation of current production output, productivity levels and low wages all but impossible. A shrinking youth population changes the demographic dynamic significantly; a young population is associated with consumption-driven (if inflationary) economic growth, whereas a population bulge around middle age means less consumption while saving for retirement takes precedence. In an aging population therefore, growth would have to be investment driven. It is not clear yet what follows when this majority cohort, middle-aged yet still working, reaches retirement and exits the labour force[1].

Transitioning out of hyper-globalisation may proceed along a few possible paths[2]

Harvard economist Dani Rodrik cautions that deglobalisation, that is, a reversal towards autarkic conditions, will besides being unlikely, also be detrimental. It would entail an implosion of world trade and decoupling of global partnerships, both of which forfeit huge potential gains to be had from benign forms of internationalisation.

An alternative scenario may involve a frozen power rivalry between the US and China, each weaponizing their particular geopolitical advantage: the US may assert its economic and political power, while China may flex some military muscle, perhaps by using its weapon systems to disrupt maritime oil flows from the Persian Gulf to North East Asia. Geopolitical expert Peter Zeihan however predicts that such military action may force oil tankers along a longer deep-sea route, out of reach of China's military capabilities, in essence neutralising the threat of the Chinese system[3].

A hardened standoff between the US and China will produce a risky scenario for developing countries that currently rely on relationships with both powers as trading and investment partners; they may be forced to choose sides with detrimental consequences for their domestic development agendas either way.

A third, more likely route may be what Rodrik refers to as a "thinner but healthier" form of globalisation that allows trading partners to maintain primacy of their domestic economic, social and environmental agendas while stopping short of "beggar-thy-neighbour" initiatives. An important facet of the reintegration of domestic economies and rebuilding of the social cohesion previously fractured by large inequalities would be a "good jobs" or "productivist" agenda[4]; that is, domestic policy focusing on creating middle-class jobs through public-private partnerships and cooperation. It is also premised on public-private trust and good governance, as well as public investment in infrastructure, skills development, health and the green energy transition.

Thin globalisation entails an economic coexistence of different systems, each with rules and safeguards and the right to protect their standards but not to export them across national borders. The prevailing narrative underlying the global order then shifts from the hyper-globalisation maxim of "helping ourselves by helping each other", to "helping each other by helping ourselves". In essence, healthy economies have more to offer and to gain from internationalisation than fractured ones.

1 http://www.mdtampin.gov.my/sites/default/files/webform/the-end-of-the-world-is-just-the-beginning-mapping-the-collapse.pdf

2 https://www.youtube.com/watch?v=qy794BqUI08&t=2209s

3 https://www.youtube.com/watch?v=jU0cSrV5qvU

4 https://newforum.org/en/rodrik-and-kukies-in-conversation-how-to-create-good-jobs-in-times-of-war-and-inflation/

What does it mean for the economy and the insurance industry?

There are potentially two paths of impact:

- **In respect of relations between the US and China or China and Taiwan, amongst others:**

  If the relationships between these economies deteriorate as geographies shift away from hyper-globalisation practices, this will cause inflationary stresses globally as conflict and the resulting uncertainty drive up commodity prices and interest rates.

  This will cause the cost of living to rise and consumption and investment expenditure to fall, eventually resulting in lower economic growth prospects. The stress of higher costs of living with elevated interest rates could impact policyholders across most economic LSMs and groups. For the lowest LSMs this could mean lapsing of policies and for middle LSMs we would expect to see the buying down of benefits to reduce premiums. In times of economic stress, retirees are more likely to take a larger portion of their retirement savings upfront to fund living expenses – this reduces the overall investment in underwritten retirement products. Competition on fees related to savings products and more liquid investments will squeeze the already tight margins on investment products underwritten by life insurers. In the non-life insurance industry, history has shown that policyholder behaviour when it comes to no-claims bonuses changes, will result in individuals opting for cash today rather than a promise some time down the line. There is also a strong correlation of claims fraud to economic hardship, with policyholders rationalising unethical practices in light of their own conditions.

  The same outcome would be true for domestic issues if they do not change for the better i.e. a continuation of the deterioration of infrastructure and public services. Increased domestic pressures may result in further sovereign debt downgrades and even higher interest rates to compensate for the higher political and economic risks.

  It is not all doom and gloom. Insurers offering better value for money could benefit from policyholders buying down on benefits. This is a time for the loyalty programmes many insurers have introduced in recent years to shine; the combined bundle of benefits may outweigh an individual concern over premium pricing – if the benefits are articulated clearly. Changes in no-claims bonus behaviours are not necessarily detrimental to insurers who can handle short-term cash flow strain better than policyholders. This is also a time for insurers' "customer-centricity" ambitions to come to the fore, with the short-term cost of targeted interventions potentially outweighing the long-term cost of a lapsed policy. Technology and digitisation provide excellent tools to encourage this interaction and restructuring. The range of options for back-office automation, optimisation and digitisation available now, will also allow the forward-thinking insurer to cut costs and consequently offer better value for money.

- **With respect to South Africa's political movement away from the West:**

  We can speculate or make the assumption that on the global stage South Africa could be perceived to be a higher risk (less democratic, more authoritarian, etc.). This may impact the ability to attract needed foreign direct investment (FDI) flows, resulting in increases in borrowing costs (fewer borrowing options and costly movement of current trade relationships) as well as currency depreciation and inflation.

  These economic consequences would be met by tighter monetary policy, increases in the cost of living and increased policy lapses, diverted premiums and reduced asset values for the insurance industry. The result would be an increase in the cost of insurance for an industry facing problems of adverse selection and moral hazard. This in turn may lead to overpriced insurance services for lower risks making insurance services attractive only for more costly and unfavourable risks.

In conclusion

The trends highlighted in the international sphere are and have been taking place for some time now. However, the uncertainty of the outcome of the South African 2024 general elections is indicative of risks faced by South Africa over the short-term, with a smaller probability of better governance contrasted against a higher probability of a continuation of the status quo.

This year has also seen the population of India surpass that of China signalling the entrance of another powerful protagonist into the global geopolitical arena. Will India come to represent a democratic counterbalance to the might of China or emerge along a yet unseen path of its own choosing? Will it embrace globalisation or focus front and centre on its domestic environment? Only time will tell. What is certain is that the world we live in today will continue to adjust and change and we will need to adapt and change with it to take advantage of opportunities that will present themselves.

Malcolm Jewell

Partner
Head of Actuarial
Tel: +27 82 683 5505
Email: malcolm.jewell@kpmg.co.za

Insurance pricing and TCF

After many years a cold caller catches you in a good mood, so you decide to humour them and get a competitor quote on your motor or household insurance policy. How does it make you feel, when you have been loyally paying your insurance premiums for several years, only to discover that you can get what seems to be an equivalent product at a significantly lower price? Are you elated to be able to save some money going forwards or are you upset about having paid more than you could have for the last few years?

The question of differential or marginal pricing is getting more and more attention by international regulators and I thought it would be interesting to explore the fairness of insurance risk pricing in this article.

The economic theory

For any business getting your pricing right is key with the most obvious trade-off in insurance between sales volumes and profitability:

- If you charge too little, you could take on loss making business that ultimately puts pressure on your solvency, or at best you are leaving money on the table that could be used to expand your team, refine your offerings and grow your business.
- Charge too much, and you might chase potential customers to your competitors. Low sales volumes can also lead to reduced profitability and ultimately puts pressure on your solvency position.

Whether you are a professional responsible for determining your company's pricing strategy or an entrepreneur on the verge of launching a new product or service, it is vital to understand how much your customers are willing to pay. Businesses have a profit incentive to determine consumers' willingness to pay for their products or services.

From an economic perspective the optimal selling strategy to achieve growth in profitability levels would be to charge customers different prices for the same product or service based on what the customer is prepared to pay.

To achieve this, businesses often research their markets to understand the price elasticity of demand associated with different customer groupings based on specified attributes. Whether price discrimination works and for how long the various groups are willing to pay different prices for the same product depends on the relative elasticities of demand in the sub-markets. If targeted customers remain loyal even when prices or premiums are increased, then greater profit margins can be achieved by differentiating prices in that sub-market grouping.

An example of price discrimination that most readers of this article would be familiar with is the dynamic pricing experienced in the airline industry. Consumers buying air tickets several months in advance typically pay less than consumers purchasing at the last minute. When demand for a particular flight is high, airlines raise ticket prices in response. By contrast, when tickets for a flight are not selling well, the airline reduces the prices of available tickets to try to generate sales and increase sales volumes.

With the rugby world cup currently underway there are many who have paid for the right to view the games through their annual premium television subscription services, which often also gives access to numerous other channels. Is this not an example of where marginal pricing could be used by service providers to capture their regular subscriber market but also create a less expensive package that gives access to only the rugby world cup games for the two months of the competition? This would service a need for the part of the market that only wants to watch the rugby world cup but does not want to pay for the other services or cannot afford to pay for the premium services for the full year.

Would consumers not be better off if everyone paid the same price? In many cases, no. Different customer segments have different characteristics and different price points that they are willing to pay. If everything were priced at say the "average cost," people with lower price points could never afford it. Likewise, those with higher price points could hoard it. Fixing static prices can lead to market inefficiencies from both the supply and demand sides. So economic theory seems to support a place for differential pricing.

Are we comfortable with the ethics of differential pricing in the insurance industry?

We all know that tax avoidance is legal while tax evasion is not. In most cases most would agree that it is smart to legally avoid paying more tax than one needs to. On the other hand, tax evasion means concealing information from the tax authorities in an illegal way and we would all agree that is definitely not okay.

It is a little harsh to compare this question regarding the ethics of differential pricing in insurance to the difference between tax evasion versus tax avoidance. However, people would have differing views on whether it is okay or not. As the jury is out, I thought I would ask for a view from ChatGPT:

Same risk, same price

"Is it ethical to charge loyal customers more than new customers when renewing their insurance premiums?"

The response was succinct: *"Ethically, charging loyal customers more than new customers for insurance renewals can be seen as unfair and exploitative. It's generally considered better practice to treat all customers fairly and provide consistent pricing based on risk and coverage. Some argue that loyalty should be rewarded, not penalized. However, the insurance industry has complex pricing models, and it's important to consider the broader context and regulations that might impact pricing decisions"*.

ChatGPT points out that insurers should typically price based on the underlying risk, i.e. the same risk should be charged the same premium. However, ChatGPT goes on to say *"…it's important to consider the broader context and regulations"*.

In South Africa there is currently no locally recognised prudential framework in place regulating differential pricing practices of insurance contracts. Looking further north to Europe and the United Kingdom we have seen regulators becoming more involved in this space. There are two quite different legislative/regulatory developments that we have seen in this space.

Different risk, same price - European Court of Justice

In 2012 the European Court of Justice ruled that it would no longer be considered lawful for insurers to take the gender of their customers into account when setting their insurance premiums. Up until that point, insurers considered gender because, for example, life expectancy or driving risk was shown to differ between males and females. In this case the theory from the European Court of Justice was that taking customers' gender into account contradicted laws on discrimination.

In practice, this ruling drove a change in the premiums affecting the relative price for various types of insurance including motor insurance, life insurance, health insurance and the cost of an annuity. The insurance industry managed this by estimating the take-up of their policies by different genders to estimate the pool of risks being taken on and therefore allow pricing of the underlying risks.

Same risk but different price – Treating Customers Fairly

Treating Customers Fairly initiatives in numerous countries have focused on conduct risk in the financial services industry. Differential pricing needs to be considered in this context - is it fair for insurers to knowingly charge customers who represent the same risk a different premium? Regulators look for firms to proactively ensure that the organisation is treating customers fairly.

In the United Kingdom there have been some developments in the general insurance pricing space, with the Financial Conduct Authority (FCA) releasing relevant reports and policy statements including those listed below.

Relevant FCA reports and policy statements	Release date
MS18/1.3: General insurance pricing practices: Final Report (fca.org.uk) (https://www.fca.org.uk/publication/market-studies/ms18-1-3.pdf)	September 2020
PS21/5: General insurance pricing practices market study: feedback to CP20/19 and final rules (fca.org.uk) (https://www.fca.org.uk/publication/policy/ps21-5.pdf)	May 2021
PS21/11: General insurance pricing practices – Amendments (fca.org.uk) (https://www.fca.org.uk/publication/policy/ps21-11.pdf)	August 2021

I draw attention to an excerpt from the policy statement listed last in the table to the left:

"2.2 Our pricing rules require that where a firm sets a renewal price, this must be no higher than the equivalent new business price (ENBP). Our rules also make it clear that the ENBP must reflect both cash and cash equivalent incentives that are offered to new customers.

2.3 This is to ensure that a firm with an ongoing relationship with a customer – that is involved at renewal cannot price walk by applying a cash or cash equivalent discount for new business which it does not apply to equivalent customers at renewal."

Similarly in Europe the European Insurance and Occupational Pensions Authority (EIOPA) has recently released a supervisory statement on differential pricing practices aimed at eliminating price-setting strategies which lead to the unfair treatment of customers:

EIOPA supervisory statement	Release date
Supervisory statement on differential pricing practices in non-life insurance lines of business (europa.eu) (https://www.eiopa.europa.eu/publications/supervisory-statement-differential-pricing-practices-non-life-insurance-lines-business_en)	March 2023

What do you think – is this a conduct risk that you think should get more regulatory attention? Or is this something we should leave to free markets – is it not fair for insurers to charge customers what they are willing to pay?

Shaheed Petersen

Senior Accountant
Advisory Services
Tel: +27 63 645 4522
Email: shaheed.petersen@kpmg.co.za

Generative artificial intelligence (AI) in the insurance sector: a revolution in the making

The rise of generative AI

Picture this: You are browsing through an insurance website, pondering the myriad of policies available. Suddenly, a chat window pops up, and you are greeted by a virtual assistant. You type in a complex query about a specific clause in a life insurance policy. Within seconds, you receive a detailed, human-like response, simplifying the insurance jargon and even offering a personalised recommendation based on your profile. This is not science fiction; it is the power of generative AI in action.

As the digital age advances, the insurance industry stands on the brink of a revolution. Generative AI, once limited to basic chatbots, has now evolved into sophisticated tools like ChatGPT and Google Bard, reshaping the way insurers interact with clients, assess and process claims, and even formulate and underwrite policies. This article delves deep into this transformative technology, exploring its potential challenges, and what this could indicate for the future of the insurance sector.

Understanding generative AI: neural networks and foundational models

To understand the complexities of generative AI, it is essential to first explore the ideas of neural networks and foundational models. Think of neural networks as similar to the vast network of roads in a bustling city. Just as roads connect various destinations and facilitate the flow of traffic, the human brain has an intricate web of connections where billions of neurons communicate, interpreting and reacting to stimuli. This intricate city-like connectivity in our brain is the inspiration behind neural networks in AI. Instead of neurons, these networks have intersections or junctions, known as nodes. Each node, like a busy intersection, manages the flow of information - receiving, processing and passing it on, directing data much like traffic controllers manage the flow of vehicles based on established rules and patterns.

Now, imagine the vastness of the Library of Alexandria[1], a treasure trove of knowledge. In the digital world, Large Language Models (LLMs) are a subset of foundational models[2] that serve a similar purpose. When presented with a question, an LLM doesn't just consult a single source. It sifts through a multitude of texts, pulling from a vast reservoir of data to construct a coherent and pertinent answer. Models like ChatGPT function as expert librarians, having been trained on enormous datasets, producing responses that mimic human conversation and understanding.

What distinguishes outstanding generative AI? Two pivotal components: a sturdy neural network and an abundance of high-calibre data. The neural network lays the groundwork, forming the intricate system that processes and learns. Yet, even the most advanced network is only as proficient as the data it is trained on. For foundational models, including LLMs, to reach their peak effectiveness, they require access to a diverse range of quality data. This synergy ensures that when you interact with the model, the neural network adeptly steers it, yielding prompt, precise and insightful responses. Together, they represent the peak of generative AI, transforming our relationship with technology.

1 https://en.wikipedia.org/wiki/Library_of_Alexandria

2 A foundation model is a deep learning algorithm that has been pre-trained with extremely large data sets scraped from the public internet. (https://www.techopedia.com/definition/34826/foundation-model)

The surging mainstream appeal of generative AI can be credited to sophisticated foundational models, including LLMs like ChatGPT. In contrast to traditional chatbots that function based on pre-set scripts, foundational models are educated on extensive data, empowering them to produce varied and human-like content. Driving this technological advancement are elements such as enhanced computational capabilities, refined algorithms and the unprecedented volume of accessible data today.

It is crucial to recognize that the expertise of generative AI is not limited to textual realms. Its proficiency spans a wide spectrum of tasks, from translating text descriptions into vibrant visuals to designing lifelike virtual worlds. The capabilities do not end there; generative AI can craft melodious tunes, emulate human voices and even produce operational code for a plethora of programming languages. Such adaptability signifies that its impact is not restricted to one domain. Indeed, considering its diverse applications, generative AI is set to bring about transformative shifts across various sectors. Sectors like healthcare, finance, real estate and even agriculture are poised to witness ground-breaking changes steered by the prowess of generative AI. Consequently, its influence will be deep-rooted and all-encompassing, redefining the functional and strategic contours of many industries in the global market.

Universal use cases: beyond insurance

The application of generative AI spans various sectors, offering transformative solutions that redefine traditional business operations. The following are examples of operational factors which can be revolutionised and automated using generative AI. In our examples, we have disclosed template prompts or instructions to the AI and indicated the type of output which will be generated.

Personalised user experiences: User behaviour and preferences can be analysed to tailor interfaces or product recommendations.

Prompt: "Recommend products for User X who frequently buys eco-friendly items."

Output: A list of sustainable products that align with the user's purchasing history and have received favourable reviews from similar user profiles.

Innovative solutions: Creating new product designs or simulating business scenarios for strategic planning.

Prompt: "Design a sustainable packaging solution for a new line of organic teas."

Output: Detailed design concepts focusing on eco-friendly materials and aesthetics.

Email interpretation and responses: Generative AI can read, interpret and craft appropriate responses to emails, streamlining communication.

Prompt: "Respond to an email inquiring about our company's bulk purchase discounts using a customer-friendly tone."

Output: A polite email detailing the available discounts for bulk purchases and the steps to avail them.

Data analysis: Sifting through vast datasets, offering visual insights and interpretations.

Prompt: "Give me insightful charts for this sales data from January to March."

Output: A set of charts highlighting sales trends, peak sales days and areas needing improvement.

Coding interpretation: For businesses venturing into software development, generative AI can interpret code, identify issues, or even suggest improvements.

Prompt: "Review this Python code and suggest optimisations."

Output: A detailed review of the code with suggestions for enhancing efficiency and fixing potential bugs.

For the successful deployment of these capabilities, enterprises must harness appropriate AI models, robust computational frameworks and industry-relevant data. Transitioning from conventional techniques to AI-centric strategies offers enhanced precision, operational efficiency and the potential for growth in numerous operational categories.

A deep dive: generative AI in insurance

Generative AI emerges as an insurance game-changer, poised to redefine the very fabric of the sector. With its unparalleled ability to analyse vast datasets, craft personalized interactions and automate complex processes, generative AI promises to transform traditional insurance paradigms. The following are examples of how generative AI can actively contribute to the insurance sector:

- **Claims processing:** At the core of claims processing lies the need to assess vast amounts of data, from accident reports to policy details, to determine the validity and value of a claim. Generative AI, trained on historical claims data, can swiftly process and evaluate these claims. Natural Language Processing (NLP) capabilities within generative AI can be employed to automatically parse and interpret written statements or reports, extracting key details and cross-referencing them with policy terms and conditions. This not only accelerates the claims review process but also ensures a higher degree of accuracy, minimizing human error. Furthermore, as the AI system continually learns from each processed claim, it refines its algorithms, leading to progressively improved decision-making over time.

  Real-life example: *Lemonade, a tech-driven insurance company, has implemented AI in its claims processing. Their AI-powered chatbot can handle claims almost instantaneously. In one notable case, Lemonade's AI processed and approved a claim in just three seconds. By analyzing the claim details against the policy and historical data, the AI was able to quickly determine the claim's validity and initiate payment.*

- **Underwriting:** By analysing datasets, AI can identify patterns and risks that humans might overlook, leading to more accurate policy pricing and risk assessment. Generative AI can assist underwriters in ensuring consistent and fair policy decisions. For instance, when faced with a claim, the AI can meticulously search through medical research and historical data to assess the validity of the claim. It can compare the claimant's data to others in similar circumstances to ensure consistent outcomes. If a claim is denied, the AI can reference specific details like past medical history, regular health check-ups and other relevant factors to ensure that similar situations are treated identically. This consistency not only enhances the trust of policyholders but also ensures that the insurer remains compliant with regulatory standards and avoids potential legal challenges. By leveraging generative AI, underwriters can ensure that their decisions are both data-driven and consistent, minimizing biases and errors.

Real-life example: Zurich Insurance has been exploring the use of AI in underwriting. They have developed a tool that uses machine learning to assess the risk associated with individual commercial vehicles. By analyzing a vast array of data points, including vehicle type, usage and historical accident data, the AI can provide a more nuanced risk assessment. This allows Zurich to offer more personalized pricing and coverage options, reflecting the specific risk associated with each vehicle.

- **Fraud prevention**: By analyzing vast datasets of historical claims, generative AI can identify subtle, complex patterns that might elude human investigators or rudimentary algorithms. For instance, it can discern recurring anomalies in claim submissions from specific regions, detect improbable sequences of events, or flag claims that match known fraudulent patterns. This includes the ability to analyze metadata from images submitted as evidence to detect inconsistencies that suggest tampering. Moreover, as fraudsters evolve their tactics, generative AI can continuously learn from new data, adapting in real-time. This dynamic learning capability ensures that detection mechanisms remain a step ahead of malicious actors. By integrating generative AI into the claims processing workflow, insurance companies can enhance their fraud detection rate, reduce false positives and streamline the overall claims verification process.

Real-life example: AXA Switzerland, a leading global insurance company, has been leveraging AI and machine learning to enhance its fraud detection capabilities. They have developed advanced algorithms that analyze vast amounts of claims data to identify potential fraudulent patterns. For instance, the system can flag claims that have unusual billing patterns or that come from providers with a history of suspicious activity. By integrating AI into their fraud detection processes, AXA has been able to significantly reduce fraudulent claims, saving millions of dollars annually. This not only benefits the company's bottom line but also ensures that genuine policyholders are not penalized with higher premiums due to fraudulent activities.

- **Text-to-image generative AI to assist with understanding policy claims:** One of the perennial challenges insurance companies face is ensuring that customers fully grasp the scope and limitations of their policies. Traditional textual policy documents, while comprehensive, can often be dense and challenging to decipher for the average policyholder. Here, text-to-image and other media-generating AI capabilities can revolutionize policy communication. Imagine a customer inquiring about the specifics of their car insurance coverage. Instead of directing them to lengthy policy documents, the AI could generate a visual representation, perhaps an interactive 3D model of a car, highlighting areas covered and those excluded. Damage scenarios could be visually simulated, allowing the customer to see, for instance, what "water damage" or "collision damage" looks like. Similarly, for more abstract concepts, the AI could produce animations or infographics, turning vague terms into tangible visuals. This not only enhances customer understanding but also reduces the likelihood of disputes arising from misinterpretations. In the South African environment, this could assist with tapping into the uninsured market characterised by low levels of literacy. Turning a traditionally complex product into one that can be easily understood by the layman, can increase penetration levels into the local market.

For the future: While there is not a widely recognized real-life example of insurance companies using text-to-image generative AI to elucidate policy claims as of now, the potential is palpable. The rapid advancements in AI technology, especially in the realm of image generation and recognition, make this a feasible next step. Companies like NVIDIA and DeepMind have already showcased AI's ability to generate highly detailed and realistic images from textual descriptions. As technology continues to evolve, it is not far-fetched to envision a future where insurance companies harness this capability to transform complex policy terms into easily digestible visual representations. Such innovations would not only enhance customer understanding but also foster trust, as policyholders can visually grasp the extent and limitations of their coverage.

- **Customer support:** Generative AI, with its profound ability to swiftly process vast data sets, grasp contexts and craft human-like interactions, offers a transformative solution. For instance, when a policyholder seeks updates on the status of a claim, the AI, seamlessly integrated with the company's claims management system, can promptly retrieve and relay the latest information. For intricate queries, the AI can clarify policy nuances, guide customers through troubleshooting, or even simulate relatable scenarios for clarity. What is more, generative AI can cater to a global audience by communicating in multiple languages and adjusting its explanations to suit varied comprehension levels. With so many official languages in the country, South African insurers may benefit significantly if they were able to communicate to policyholders in a language they best understand, reducing misunderstandings and increasing sales levels. By weaving in analogies, it can help ensure that complex insurance concepts become accessible and relatable to everyone. As it continually learns and refines its interactions based on feedback, the AI promises not just accuracy, but also a personalised touch.

  Real-life example: Geico's virtual assistant, "Kate", is an AI-driven chatbot that helps answer customer queries about policies, billing and other insurance-related questions. Kate can provide instant, detailed responses, guiding customers through the complexities of their insurance policies.

- **Marketing:** By analysing datasets such as customer preferences, purchasing behaviours and market trends, generative AI can identify and predict what resonates with potential policyholders. This allows for the creation of highly targeted and personalized marketing campaigns. When promoting life insurance, generative AI can craft emotionally resonant messages tailored to specific demographics. By understanding the varying levels of life stages, aspirations and fears of potential customers, the AI can generate compelling content that strikes a chord.

  Real-life example: Allstate, another major insurer, uses AI to analyze customer data and craft personalized marketing campaigns. By understanding individual customer needs and preferences, Allstate can send targeted offers and promotions, increasing the likelihood of policy renewals and upsells.

- **Customer acquisition, retention and upselling:** In the fiercely competitive insurance landscape, customer acquisition, retention and upselling are pivotal to sustained growth. For customer acquisition, generative AI can analyse market-related datasets to identify potential market segments that are underserved or exhibit patterns indicating a need for insurance. By crafting personalized outreach campaigns based on this analysis, insurers can target prospects with precision, offering tailored policies that resonate with their specific needs. Once customers are onboarded, generative AI can monitor their interactions, feedback, changing life circumstances and changes in competitor offerings to predict when customers might be considering switching providers. By pre-emptively addressing concerns or offering bespoke policy adjustments, insurers can enhance retention. Furthermore, upselling becomes more strategic with generative AI. Instead of blanket promotions, AI can identify which customers are more likely to benefit from additional coverage or a policy amendment, based on their life events, feedback or interaction history. For instance, a customer who recently had a child might be receptive to an upsell on life insurance or education policies. By making upselling deeply personalized and timely, generative AI ensures that it is perceived by the customer as value addition rather than just another sales pitch.

  Real-life example: State Farm utilizes AI to analyze customer behavior and predict when they might be considering switching to a different insurer. By identifying these potential "churn" moments, State Farm can proactively reach out to customers with special offers or policy adjustments to retain their business.

- **Identification of common factors from claimants which were previously unidentified:** Understanding the nuanced factors that influence claim patterns can be a game-changer. Generative AI can delve deep into vast datasets of claimants or customers to unearth previously unidentified commonalities. By analysing historical data, customer interactions and claim details, generative AI can identify subtle patterns or correlations that might escape traditional analytical methods. For instance, it might detect that claimants from a specific geographic region tend to report a particular type of incident during certain months, or that customers within a certain age bracket have specific preferences or concerns that were not previously addressed. These insights, powered by generative AI's pattern recognition, can be invaluable for insurers. This can lead to more accurate risk assessments, tailored policy offerings and proactive customer engagement strategies. Moreover, by continuously learning from new data, generative AI ensures that these insights remain dynamic and evolve with changing customer behaviours and trends, allowing insurance companies to stay ahead of the curve and offer more personalized services.

  Real-life example: *MetLife has been leveraging AI to analyze vast datasets of claimants to identify patterns or commonalities. For instance, they might find that a specific age group in a particular region is more likely to file certain types of claims. This insight allows MetLife to adjust their policies and marketing strategies accordingly.*

The double-edged sword: risks and challenges

The insurance industry is undergoing a transformative phase with the integration of generative AI. This powerful technology promises to revolutionise customer interactions, streamline processes and offer unprecedented insights. However, as with any significant technological shift, the adoption of generative AI brings challenges and considerations. The following section delves into some of the most pressing concerns and considerations for the insurance industry in its journey towards AI-driven operations.

Absence of human connection and overreliance on technology

While generative AI tools offer efficiency and 24/7 availability for customer engagement, their use is not without risks. Relying solely on chatbots for selling insurance can be a precarious endeavour. These automated systems, if not meticulously designed and regularly updated, might miss out on critical questions or misinterpret user input, leading to incorrect policy recommendations. Such oversights can have far-reaching consequences. A policyholder might find themselves inadequately covered during a crisis, leading to financial losses. This, in turn, can result in legal complications and reputation damage for the insurer, with claims of misrepresentation or failure to adequately inform the policyholder. Moreover, the dangers of overreliance on AI for insurance sales become evident when dealing with complex cases or nuanced customer needs. While AI can handle straightforward scenarios, there are instances where human judgment, empathy and experience are irreplaceable. Personalised advice, understanding unique situations and building trust are areas where human agents excel. As the insurance industry continues its digital transformation journey, it is crucial to strike a balance, ensuring that the convenience of AI is complemented by the expertise and personal touch of human interaction.

Potential for information breaches

Recent incidents in the corporate world underscore the risks of using general-purpose generative AI with sensitive information. A notable example is Samsung's decision to ban the use of ChatGPT and other generative AI tools by its staff following a leak of sensitive company information. For insurance entities, such risks are magnified due to the nature of their operations. Insurers handle vast amounts of personal data, from health records to financial details and any inadvertent sharing or generation of this data through AI could lead to severe breaches of confidentiality. Moreover, pricing determinations, a cornerstone of the insurance business model, are based on proprietary algorithms and data sets. If generative AI tools were to inadvertently disclose or misinterpret this information, it could not only lead to competitive disadvantages but also regulatory repercussions. This serves as a stark reminder that while generative AI offers transformative potential, its integration into business processes, especially those handling sensitive data, must be approached with utmost caution.

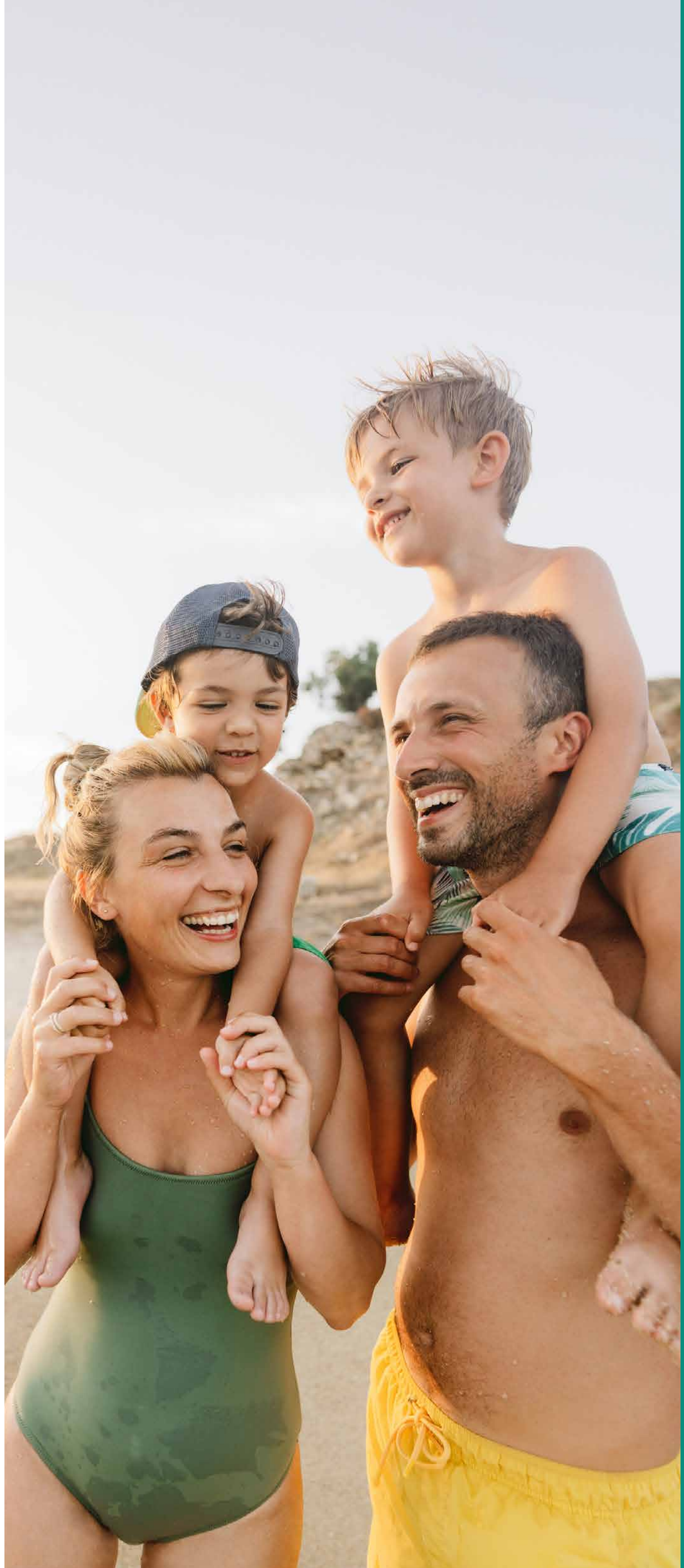
Black box dilemma

While AI can enhance precision and efficiency, it also introduces the "black box" dilemma, where the decision-making process of the AI becomes opaque and difficult to interpret. This lack of transparency can inadvertently lead to the perpetuation of biases. If the data used to train the AI contains inherent biases, the AI might make decisions that are unfairly discriminatory. For instance, if historical data shows a bias against a particular demographic, the AI might continue that bias in its decisions, leading to unfair pricing or coverage determinations for that group. This is particularly concerning for insurance companies, as they could unknowingly adopt and perpetuate these biases, leading to unjust treatment of certain policyholders. The inverse may also be true in that bias is more likely to be perpetuated by a human being than a machine.

Given the stringent transparency regulations imposed on insurers, this obscurity poses a significant risk. Insurers are mandated to be transparent in their policy determinations, ensuring that customers and regulators alike understand the rationale behind pricing, coverage limits and exclusions. Relying on AI models that cannot be easily explained or justified could lead to non-compliance with these transparency requirements. This not only jeopardizes the trust of policyholders but also exposes insurance entities to regulatory scrutiny and potential legal ramifications. As such, while AI offers transformative potential for the insurance industry, its adoption must be approached with a keen awareness of regulatory obligations and the paramount importance of transparency.

Regulatory considerations

The integration of generative AI into the insurance sector is charting new territories and with it comes an evolving regulatory landscape. As regulators grapple with the implications and potential risks of this technology, they are formulating guidelines and standards to ensure consumer protection and industry integrity. Insurers, eager to harness the efficiencies and innovations offered by generative AI, must tread this path with caution. While the allure of AI-driven solutions is undeniable, there is a real risk of investing heavily in technologies that might soon face stringent regulatory restrictions or even prohibitions. Such scenarios could lead to significant sunk costs, where investments in AI infrastructure and training become non-recoverable. Furthermore, non-compliance with emerging regulations could result in hefty penalties, legal challenges and reputational damage. It is imperative for insurers to stay abreast of regulatory developments, engage in industry dialogue and adopt a flexible approach. This ensures that while insurers leverage the benefits of AI, they are also prepared to adapt to any regulatory shifts, safeguarding their investments and maintaining compliance.



The outlook for the insurance industry

The insurance sector, traditionally cautious in embracing technological advancements, now finds itself at a pivotal juncture. Generative AI presents an opportunity to address age-old challenges and elevate operational efficiency. In a fiercely competitive landscape, hesitating to harness this technology could be a strategic misstep. At its core, insurance is about problem-solving and generative AI emerges as a formidable ally in this mission. Pioneers in this space are poised to carve out a competitive advantage, while those who delay may grapple with playing catch-up.

Crafting in-house LLMs tailored for the insurance domain is no small feat. It demands vast data reservoirs, significant computational prowess and deep expertise. The multifaceted nature of insurance, spanning life, motor, business and more, introduces additional intricacies. Each segment carries its distinct nuances, jargon, and customer anticipations. Designing dedicated LLMs for every category is an ambitious undertaking.

In the interim, insurers might find merit in harnessing generic foundational models. While these are not tailored for distinct insurance categories, their utility is substantial. They can streamline administrative functions, address customer inquiries, bolster marketing initiatives and even contribute to initial risk evaluations. As the technology landscape evolves, a gradual pivot towards more niche models is conceivable. However, even the current generic LLMs can catalyse efficiency, curtail expenses and uplift the customer journey.

It is crucial for insurers to refrain from using the fluid regulatory backdrop as a crutch for innovation inertia. The AI regulatory sphere is in flux, but this should not deter insurers from technological evolution. A proactive AI integration strategy, underpinned by ethical and transparent practices, can propel insurers to the vanguard of industry transformation. This not only fortifies their future trajectory but also underscores a progressive mindset that balances customer-centricity with regulatory adherence.

For the visionaries in the insurance realm, the future is filled with potential. Envision a world where policy transparency is the norm, claim processing is expedited and every customer feels genuinely acknowledged and cherished. In this forthcoming era, those who adeptly weave generative AI into their strategic tapestry will redefine industry standards.

Disclaimer: While portions of this article have been enhanced by an AI model, not all text is AI-generated. The core ideas and essence stem from a human author. The organization, grammar and presentation have been refined with the assistance of AI.

References

Adobe. (2023). Experience the future of Photoshop with Generative Fill. [online] Available at: https://helpx.adobe.com/photoshop/using/generative-fill.html [Accessed 7 Aug 2023].

AI Magazine. (2023). Lemonade sets world record with 2-second AI insurance claim. [online] Available at: https://aimagazine.com/articles/lemonade-sets-world-record-with-2-second-ai-insurance-claim [Accessed 7 August 2023].

AltexSoft. (2022). Generative AI Models Explained. [online] Available at: https://www.altexsoft.com/blog/generative-ai/ [Accessed 7 Aug 2023].

arXiv. (2021). Advancements in Text-to-Image Generative Models. [online] Available at: https://arxiv.org/ [Accessed 7 August 2023].

AXA Switzerland. (2021). Customer story: AXA Switzerland - Detecting fraudulent claims in real-time using AI. [online] Insurance Hound. Available at: https://www.insurancehound.co.uk/claims/fraud/customer-story-axa-switzerland-detecting-fraudulent-claims-real-time-using-ai-39879 [Accessed 7 August 2023].

Deloitte Canada. (2023). Generative AI - Financial Services Industry. YouTube. Available at: https://youtu.be/rv6hECykco0 [Accessed 7 August 2023].

DigitalBGA. (2023). How Life Insurance Agents Can Leverage ChatGPT AI. YouTube. Available at: https://youtu.be/w4cevhz4M6w [Accessed 7 August 2023].

Harvard Business Review. (2022). How Generative AI Is Changing Creative Work. [online] Available at: https://hbr.org/2022/11/how-generative-ai-is-changing-creative-work [Accessed 7 Aug 2023].

McKinsey & Company. (2023). Economic potential of generative AI. [online] Available at: https://www.mckinsey.com/capabilities/mckinsey-digital/our-insights/the-economic-potential-of-generative-ai-the-next-productivity-frontier [Accessed 7 Aug 2023].

OpenAI. (2021). Research on Generative AI Models. [online] Available at: https://openai.com/research/ [Accessed 7 August 2023].

Saha, S. and Bhuta, V. (2023). Navigating the Digital Future with Insurance Brokers. InsurTech Story Podcast. Available at: https://open.spotify.com/episode/56sqaDHDzDEeCrxkciB3on?si=AryBk6zFQ7mV6JS1cocK5A [Accessed 7 August 2023].

Saha, S. and Sarkar, A. (2023). The Future of Insurance with OpenAI's Generative AI Models. InsurTech Story Podcast. Available at: https://open.spotify.com/episode/7COjOPHt82FweALiB0Bw4x?si=b3c0f0e4ad004695 [Accessed 7 August 2023].

Saha, S. and Webster, B. (2023). The Importance of Human Element in Underwriting. InsurTech Story Podcast. Available at: https://open.spotify.com/episode/3WeF6ritfL2BjN7eCxApxK?si=W3m3YVPZTr-PYOarP0_7ZA [Accessed 7 August 2023].

Tang, Y., Liao, S., Milletari, F., Goetz, M., Navab, N. & Bai, W. (2023) 'Generative Adversarial Networks for Image-to-Image Translation on Multi-Contrast MR Images - A Comparison of CycleGAN and UNIT', arXiv preprint arXiv:2306.08363. Available at: https://arxiv.org/pdf/2306.08363.pdf [Accessed 7 August 2023].

TechTarget. (Date not specified). What is Generative AI? Everything You Need to Know. [online] Available at: https://www.techtarget.com/searchenterpriseai/definition/generative-AI [Accessed 7 Aug 2023].

The Verge. (2022). The scary truth about AI copyright is nobody knows what will happen. [online] Available at: https://www.theverge.com/23444685/generative-ai-copyright-infringement-legal-fair-use-training-data [Accessed 7 Aug 2023].

The White House. (2023). PCAST Working Group on Generative AI Invites Public Input. [online] Available at: https://www.whitehouse.gov/pcast/briefing-room/2023/05/13/pcast-working-group-on-generative-ai-invites-public-input/ [Accessed 7 Aug


VOLUNTEER
VOLUNTEER
VOLUNTEER

Digital finance transformation

Many insurance company CFOs have recognised the need to evolve operational business processes and the underlying supporting technology infrastructures. This is in response to keeping pace with the high volume of stringent regulatory requirements, maintaining and increasing market share and growing profitability levels. This is where the application of digital transformation in finance can assist with the reorganisation and reshaping of the finance and accounting function - using technology to recreate efficient operating systems and processes without replacing traditional systems.

In the last eighteen months we have assisted two leading South African insurers with implementing their digital finance transformation initiatives. Our service offering is diverse and can be adapted and modularised to meet the specific needs of your organisation:

- Enterprise resource planning (ERP) implementations: implementation of ERP solutions to assist with the automation of key insurance and other business processes.
- Data warehouse implementation: implementation of cloud-based data warehouses, ingesting data from the ERP as well as legacy systems.
- Power BI report development: we are able to identify and implement bespoke reports that are used in the insurance industry for financial and management reporting purposes.
- Testing lead services: we can provide specialists to plan and execute testing phases which include integration, end-to-end and user acceptance testing.
- Cyber security: our cyber specialists can assist your IT and/or cyber teams with the review and implementation of critical cyber controls.
- Disaster recovery: we can assist with designing business continuity and disaster recovery strategies and test the effectiveness of disaster recovery controls and processes.

For more information please contact:

Fritz Dannhauser
Partner
Digital Consulting
T: +27 82 717 6041
E: fritz.dannhauser@kpmg.co.za

Darius Law
Associate Director
Digital Consulting
T: +27 82 718 8463
E: darius.law@kpmg.co.za

Shamit Govind
Partner
Emerging Technology
T: +27 82 719 1389
E: shamit.govind@kpmg.co.za

Luqmaan Essack
Principal Consultant
Emerging Technology
T: +27 60 997 4347
E: luqmaan.essack@kpmg.co.za

Michelle Dubois

Senior Manager
Regulatory Centre of Excellence lead
Tel: +27 60 997 4512
Email: michelle.dubois@kpmg.co.za

Anticipate, adapt and thrive… operational resilience for insurers

What is operational resilience?

Operational resilience is well embedded in the banking sector. The Basel Committee on Banking Supervision (BCBS) defines operational resilience as "the ability of a bank to deliver critical operations during disruption"[1]. They stated further that this ability enables a bank to identify and protect itself from threats and potential failures, respond and adapt to, as well as recover and learn from disruptive events in order to minimise their impact on the delivery of critical operations through disruption.

In a letter to all significant institutions in 2020, the European Central Bank (ECB) commented that supervised entities are expected to review their business continuity plans and consider what actions can be taken to enhance preparedness to minimise the potential adverse effects of the spread of COVID-19. In particular, banks could be challenged on their operational capabilities in affected areas including constraints of key third party outsourced service providers and suppliers to maintain critical processes.

In South Africa the Prudential Authority (PA) released a guidance note in April 2023. This directive requires banks to "consider the adequacy and robustness of the banks' current policies, processes and practices related to operational resilience, against the best practices contained in the BCBS paper on principles for operational resilience".

So where does that leave insurers?

There is currently no formal directive for the non-banking financial sector. However, in Communication 1 of 2023, the PA has specifically drawn insurers into the discussion with the flavour of the year topic, organisational resilience, being applied to both banking and insurance entities. This leaves us in no doubt as to the significance of operational resilience for insurers and clearly outlines the regulator's expectations.

In the flavour of the year, the PA refers to organisational resilience and defines this as the ability of the organisation to absorb and adapt in a changing environment to enable it to deliver on its objectives as well as to survive and prosper.

The shift from business continuity

Is operational resilience simply an evolution of business continuity management? The PA has made it clear that operational resilience is not business continuity on steroids.

The simplest distinction between the two is the fact that business continuity management is a reactive response to an incident, whereas operational resilience is proactive.

[1] Basel Committee on Banking Supervision issued principles for operational resilience and risk in a media release 31 March 2021.

A well thought out operational resilience plan is an assessment of the business environment, allowing the organisation to implement procedures and mitigation strategies across the business ecosystem before the occurrence of a disruptive event.

Operational resilience casts a wider net, taking cognisance of business continuity plans, cyber risk policies, facilities and operations and forces organisations to consider the broader impact of disruption, including the contagion of events. However, at the forefront is the ability of the organisation to deliver to customers in the face of business disruption.

Organisational resilience focuses on the ability of an organisation to continue providing critical services and operations during and after a disruption and is a broader concept that encompasses the ability of an organisation to adapt and thrive in the face of change, uncertainty and disruption. COVID-19 changed the way we look at continuity planning and crisis management and extended this concept further to organisational resilience.

Disruption facing insurers

In order to prepare for disruption, insurers need to critically assess their business operations. In the last few years, the sector has been preoccupied with the effects of the COVID-19 pandemic. The transition to remote working and the consequent risk to health dominated the continuity agenda. Insurers were suddenly faced with a steep increase in claims on certain product lines such as business interruption, retrenchment cover, life cover, funeral cover and income protection. While the immediate financial implications meant that profits took a hit, insurers held fast with reserves enabling most insurers to pay claims as their products had promised. In the meantime, product development teams started to assess which products would remain viable for new business and which would need to be altered or done away with completely.

Some product lines were hit harder than others. After stranded travellers were repatriated, there was a ban on travel which meant a complete shutdown for all travel insurance sales, whilst claims for cancelled trips soared. Distribution models dependant on medical underwriting stagnated as clients were not willing or able to visit labs and doctors for screening. As businesses locked down and retrenchments were announced, customers turned to their credit life policies for assistance in settling debt. At the same time new credit applications were paused as customers faced economic uncertainty and the banks increased lending criteria. Logistically, claims processes became complicated.

Insurers needed to adapt quickly in order to protect their essential business services. Risk management strategies were applied to assess and address pandemic-related risks in addition to using various methods to assess claims, evaluate policies and determine pricing models that were based on a changing risk landscape. Insurers amended processes to expand telephonic underwriting services, enable policyholders to submit documents with electronic signatures or app-based claims. Furthermore, product offerings became more flexible to accommodate customers with many insurers offering premium holidays.

Remote work was essential to ensure insurers could provide ongoing service delivery. This meant that previously office bound employees needed to be provided with laptop computers and cell phones. Investment in connectivity and bandwidth was essential to enable this new world of work. When lockdown eased and certain services could resume, some business areas returned to the premises to work in shifts, reducing the number of people in the office at any one time to an acceptable COVID-19 preventing ratio. Life insurers sent nurses out to clients to conduct basic medical examinations for underwriting and claims assessors used drones and social media to aid in their investigations.

Looking ahead, insurers should prioritise identifying critical services, defining impact tolerances and conducting rigorous scenario-based exercises to determine their readiness in the face of disruptions. A key element to consider is horizon scanning to ensure that risks, threats and opportunities are identified in a timely manner for immediate visibility and corrective action.

The Business Continuity Institute has identified the following factors as part of its risk and threat assessment for the next five years:

Cyber attack and data breach

Non-occupational disease

Climate risk

Technology/telecoms failure

Talent concerns

Climate risk has resurfaced as a key area of focus with recent weather patterns such as the Kwa-Zulu Natal floods and Johannesburg earthquake escalating sustainability concerns. Other threats on the horizon include loss of communications, cyber breaches and prolonged power outages and water supply disruptions. How will your business operate if your communications network goes down because of a flood? Do you need to invest in satellite phones for executive members and key personnel? Are your physical premises secure in the event of civil unrest? Do you have back up power for an extended outage where fuel supplies for generators run dry? Do you have a view of your key employees' succession plan as loss of talent due to emigration and semi-emigration is something that insurers are grappling with. These questions and more are all a critical part of your operational resilience plan.

Survival of the fittest

One of the first steps in ensuring operational resilience is integrating operational resilience into the insurer's strategy. Resilience by design will ensure that there is agility in the strategy to adapt to disruption without compromising the insurer's strategic objectives. It is critical to build awareness around the concept of resilience, integrating this into the culture of the organisation so that it is a constant consideration in decision making. First prize is to embed operational resilience thinking into business as usual where "resilience in everything we do", becomes the mantra.

Assigning responsibility within the organisation is important. The role needs to be one that is of strategic importance with sufficient seniority to give it the focus and attention it requires. Ultimately allocating someone to lead the charge is critical, but that person needs to have the support of the collective. The best way to achieve this is to make sure that the executive is accountable with operational resilience part of their performance measures.

Anticipate, adapt and thrive

The PA's flavour of the year requires organisations to consider some of the pertinent risks facing the sector and to present the organisational strategy to the regulator on the following six areas:

- **Governance and leadership**
  The regulator is looking for insurers to demonstrate how they have defined organisational resilience and adopted this definition to strengthen the culture of the organisation. The flavour of the year clearly advises insurers that they need to present their strategy for operation in the event of disruption as well as clearly articulate the role of oversight and assurance providers in the organisational resilience process.

- **Risk management**
  This requirement focuses on the insurer's risk management process and how the insurer identifies and assesses threats and risks, how the insurer monitors and responds to them and how these are reported and escalated.

- **Mapping of interconnections and interdependencies**
  Once the insurer's critical operations have been identified, the PA requires that they illustrate how these are interconnected and interdependent (both internal and external, local, regional and internationally).

- **Change readiness**
  The regulator would like to see how insurers are embracing agility and a change mindset so that products can be adapted to fit an environment that is constantly changing.

- **Situational awareness**
  In order to meet this requirement, the insurer must evidence how they have a process to test its resilience against various disruptions and how they have learnt from previous crises.

- **Information and communications technology, including cybersecurity**
  The insurer must demonstrate that it has a process and defined framework to protect its information and communications technology and infrastructure and a plan to protect itself against cyber attacks.

Third party dependency and supply chain

In order for insurers to gain comfort that they are resilient in the event of a risk or threat manifesting, they must satisfy themselves that their third-party providers and outsourced suppliers have the same resilience measures in place.

In our discussions with the regulator, it was clear that they are looking to see documented and tested operational resilience plans. For insurance companies these range from the expansion of existing and traditional risk management levers like reinsurance and detailed risk management of outsourced service providers, all the way down to physical remediation plans like where everyone will work if the building burns down or what will happen if the national power grid fails for a week. Implementing these solutions depends on the needs and risks facing each organisation. This in turn is driven by the products insurers sell – life insurance companies have very different concerns to non-life insurers. Life insurers may find their ability to make life-saving claim payments very difficult if the banking system fails; non-life insurers may find it difficult to have vehicles repaired if the repairers they have outsourced arrangements with are unable to work because essential imported panel beating equipment cannot be delivered from Durban harbour to Johannesburg.

> The bottom line is that the pursuit of operational resilience is not local and regulatory, it is strategic and global.

The Business Continuity Institute Operational Resilience Survey 2023 for the Africa Region found that the main reasons that organisations are incorporating operational resilience programmes are because of regulatory requirements and 73% of them wish to align to good practices. The Financial Sector Conduct Authority has expressed that crisis is the new normal, which means that operational resilience is far from a regulatory compliance matter and should rather be viewed as a strategic stepping-stone for insurers to not only survive but thrive.

Operational resilience services

Many South African insurers are in the early phases of establishing and/or strengthening their operational resilience frameworks. The requirement for financial services organisations to rapidly identify and mitigate constantly evolving operational risks is a chance to create a strong framework that is appropriately tested for a range of stresses and is fully integrated into the organisation's risk management procedure.

KPMG can assist you with the following services:

- Gap analysis and assessment of your current operational resilience maturity;
- Conducting critical service identification, resource mapping and defining impact tolerances;
- Design and implementation of operational resilience strategy, policies, framework and governance;
- Scenario testing and resilience assessments;
- Emerging threats assessment; and
- Board training and awareness.

KPMG's specialist team of operational resilience professionals are the proud recipients of the Business Continuity Institute Africa's 2023 "Continuity and Resilience Team of the Year" award.

For more information please contact:

Nashikta Angadh
Partner
Technology Assurance and President BCI Southern Africa Chapter
T: +27 82 719 1368
E: nashikta.angadh@kpmg.co.za

Michelle Dubois
Senior Manager
Regulatory Centre of Excellence lead
T: +27 60 997 4512
E: michelle.dubois@kpmg.co.za

Martine Botha

Senior Manager
Sustainable Finance
Tel: +27 63 792 6567
Email: martine.botha@kpmg.co.za

Using ESG as a framework to drive commercial benefit and opportunity

Shifting population demographics, environmental patterns and emerging regulations are important to consider when creating innovative insurance products that will meet the demands of customers.

By prioritising Environmental, Social, and Governmental (ESG) themes based on their capabilities and aspirations, insurers can create tangible value from the current focus on ESG. This article looks at some of the changes we see across E-Environment, S-Social and G-Governance elements in the South African context, and how insurers can take these factors into account when designing products that are impactful and commercially beneficial.

E-Environment

Anyone living in Gauteng will be familiar with the smog that fills the air on a sunny and calm winters day and the sight of power plants is not unfamiliar to people living anywhere in South Africa. We rely on coal for 65% of our energy supply, on crude oil for 18% and the remaining 17% comes from gas, geothermal, nuclear and renewables and waste[1].

The World Health Organisation claims that exposure to high levels of air pollution can cause a variety of adverse health outcomes, including increased risk of respiratory infections, heart disease and lung cancer[2]. Both short- and long-term exposure to air pollutants have been associated with health impacts. An International Growth Centre (IGC) study indicates that 7.4% of all deaths in South Africa in 2012 were due to chronic exposure to fine particulate matter (PM), costing the country up to 6% of its GDP. The health impacts of emissions from power stations have received particular attention, with Myllyvirta (2014) and Holland (2017) calculating that around 2 239 deaths per year in South Africa are due to particulates from coal-fired power stations[3].

There are various ways the insurance industry can protect its policyholders from the adverse effects of poor air quality. These include:

- **Health insurance:** A study in 2017 found that short-term exposure to fine matter (PM2.5) and Ozone (O_3) was associated with increased health insurance claims related to respiratory diseases, cardiovascular disease and diabetes[4]. Real-time air quality insights can help insurance companies with better underwriting, especially for health insurance plans. Insurers could consider creating parametric insurance products, that provide coverage if the air quality index in a policyholder's area exceeds a certain threshold. This pay-out could help policyholders cover medical expenses related to pollution-related health issues. Parametric cover is an increasingly efficient, affordable and viable option in the market as data and models improve.

1 Mineral Resources and Energy: Republic of South Africa. (2021) South African Energy Sector Reporting. Available att 2021-South-African-Energy-Sector-Report.pdf (https://www.energy.gov.za/files/media/explained/2021-South-African-Energy-Sector-Report.pdf) (Accessed, 31.01.2023)

2 World Health Organisation. (2019) Health Consequences of air pollution on Populations. Available at: Health consequences of air pollution on populations (who.int) (https://www.who.int/news/item/15-11-2019-what-are-health consequences-of-air-pollution-on-populations#:~:text=Exposure%20to%20high%20levels%20of,people%20who%20are%20already%20ill.) (Accessed: 28.07.2023)

3 Altieri, Katye and Keen, Samantha (2015). The Cost of Air Pollution in South Africa. Available at: The cost of air pollution in South Africa | International Growth Centre (theigc.org) (https://www.theigc.org/blogs/cost-air-pollution-south-africa) (Accessed 28.07.2023).

4 deSouza P, Braun D, Parks RM, Schwartz J, Dominici F, Kioumourtzoglou MA. Nationwide Study of Short-term Exposure to Fine Particulate Matter and Cardiovascular Hospitalizations Among Medicaid Enrollees. Epidemiology. 2021 Jan;32(1):6-13. doi: 10.1097/EDE.0000000000001265. PMID: 33009251; PMCID: PMC7896354.

- **Crop and agricultural insurance:** Air pollution effects can manifest visually in plants through "yellowing" - a term that refers to reduced growth, injury, or premature crop death. Yellowing is a sign of nitrogen deficiency, demonstrating how short-lived air pollutants as well as ground-level ozone disrupt crop cycles and development[5]. Agricultural insurance products can be adapted to cover crop losses or damage resulting from adverse air quality conditions, such as pollution-induced yield reductions.

- **Climate risk insurance:** Insurance products can be designed to address climate-related risks, including those arising from poor air quality due to pollution and wildfires. In a South African context, those who still struggle to afford insurance might pay for climate risk cover through an insurance for assets (IFA) scheme. Here, they will be awarded cover in exchange for taking part in disaster risk reduction activities, such as building firebreaks in their communities. If fires are kept under control, they are more likely to be extinguished quickly and less particulate matter will be emitted into the atmosphere.

- **Product innovation:** Insurance programmes that incentivise emission reductions and air quality improvements can indirectly contribute to climate change mitigation efforts. Developing products that encourage cleaner technologies and practices can lead to improved air quality and reduced greenhouse gas emissions. Product innovation in this area is ramping up, with insurers offering cover in areas such as credit line and project finance risk cover for renewable energy products, renewable energy project tax credits as well as traditional renewable energy insurance to name a few. In 2021, The Insurance Task Force (ITF), as part of His Royal Highness The Prince of Wales' Sustainable Markets Initiative (SMI) published the *Sustainable Products and Services Showcase* detailing the wide-ranging insurance products and services that are empowering customers to develop, invest in and scale their sustainability initiatives[6].

Insurers can abate unhealthy CO_2 emissions in their own business operations and by reducing the CO_2 emissions caused by upstream and downstream activities. This is especially relevant for insurers who invest in and underwrite fossil fuel companies.

For example, one UK-based insurer has prepared its transition plan and articulated interim climate goals and targets. It sets out how it pledges to be net zero by 2040:

- In 2021, the insurer stopped underwriting insurance for companies making more than five per cent of their revenue from coal or unconventional fossil fuels, unless they have signed up to science-based targets; and

- The insurer is expected to invest a further £10 billion in assets from auto-enrolment default funds (default funds for clients who do not express an opinion or choice) and other policyholder funds into low carbon strategies[7].

S-Social

South Africa's population is estimated at 60.8 million per the 2022 Mid-Year Population Estimates census, making it the twenty fifth most populous country in the world. According to the census, the country's population has hit a "sweet spot", with a highly favourable age distribution profile: a large youthful and working-age population and proportionally fewer very old citizens and very young children[8].

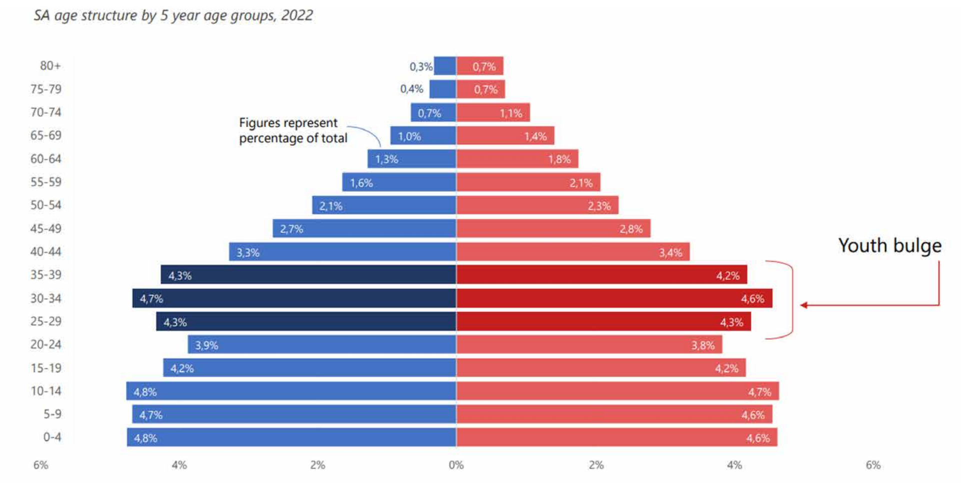
[5] Bishop, Sienna. (2022) The two-way relationship between agriculture and air pollution. Available at: Agriculture and Air Pollution: how are they related? (clarity.io) (https://www.clarity.io/blog/the-two-way-relationship-between-agriculture-and-air-pollution). (Accessed: 31.07.2023)

[6] Sustainable Markets Initiative (2021). Sustainable Markets Initiative: Insurance Task Force. smi-itf_products-and-services-showcase.pdf (storyblok.com) (https://a.storyblok.com/f/109506/x/c0c3181f7e/smi-itf_products-and-services showcase.pdf) (Accessed 10.08.2023).

[7] Aviva (2021). Aviva's Climate Transition Plan: First Release. Available at: 2021-climate-transition-plan (1).pdf https://www aviva.com/sustainability/climate/. (Accessed 08.10.2023)

[8] Statistics South Africa, Republic of South Africa (2022), Stats SA Media Communications – 11 November 2022. Available at: Stats SA Media Communications | Statistics South Africa (https://www.statssa.gov.za/?p=15916) (Accessed 31.07.2023)

South Africa has a youthful population, with a significant youth bulge aged 25-39



Key: red is female, blue is male

Source: Stats SA, Department of Statistics, Republic of South Africa. Mid-year population estimates, (2022) Mid-year population estimates, Available at: Mid Year 2022 _Finalpptx.pptx (live.com) *(https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.statssa.gov.za%2Fpublications%2FP0302%2FMid%2520Year%25202022%2520_Finalpptx.pptx&wdOrigin=BROWSELINK)*

Demographic trends can help to shape insurers' thinking around products and the needs of certain constituencies.

Different generations have unique preferences and expectations when it comes to insurance products and services. Insurance companies are increasingly designing products and marketing strategies that cater to different preferences in the following ways:

- **Affordable premiums:** Young people, especially those starting their careers or still studying, often have limited budgets. Insurers in South Africa are increasingly making use of the relatively new micro-insurance regulations to design less expensive products.

- **Customization and flexibility:** Young consumers appreciate insurance products that can be tailored to their specific needs and life circumstances. Flexible coverage options that allow them to choose what they want to insure and adjust coverage levels as needed are attractive. For example, innovative insurers such as SNACK, a Singaporean insurer, offer micro-insurance and investment policies that customers can stack or stop at any time for financial flexibility. Flexible payment and underwriting mechanisms that are quick to execute via mobile app, for example, can be added to any purchases at the time of the purchase.

- **Digital access and convenience:** Everyone has an aversion to slow, telephonic customer service. With most financial service provider platforms now available through sophisticated but user-friendly apps, insurance companies that offer digital platforms and mobile apps for managing policies, making claims and accessing customer support will be able to achieve competitive advantage.

- **Transparent, simple and clear policies:** Insurers are renown for having complex insurance products with exclusions written in very small font. Complex insurance jargon can be overwhelming. This is particularly salient in South Africa, with the backdrop of a national literacy crisis. It is essential that insurers are transparent and clear – developing the trust their clients have in them and ensuring products that are sold are fit for purpose and easy to understand.

- **Support for emerging risks:** With rapidly changing lifestyles and technologies, people face new risks that may not be adequately covered by traditional insurance products. Insurance offerings that address cybersecurity, digital asset protection and provide gig economy-related coverage, are needed. Many insurers are now integrating products that safeguard crypto currencies, virtual real estate and digital artworks.

- **Incentives and rewards:** Insurance companies that offer rewards for maintaining a good claims history or offer incentives for engaging in healthy or sustainable behaviours (e.g., wellness programmes) can be appealing. Research has demonstrated that younger consumers are more socially conscious and tend to purchase goods and services that resonate with their personal moral standards.

G-Governance

In March 2023, South Africa's Financial Sector Conduct Authority (FSCA) released a statement on sustainable finance and its programme of work[9]. In it, the FSCA outlines some of the market conduct risks that could affect the efficient operation of a sustainable finance market. These include inter alia, a lack of standardised terminology; inaccurate or misleading information; weak or undeveloped understanding of sustainability concepts; and inconsistent, unreliable disclosure and reporting requirements. Risks like these address mis-selling which is a key consideration for the FSCA and the governance around how insurance products are designed and distributed.

Greenwashing is a type of mis-selling and occurs when financial products are marketed as environmentally friendly, but they have little or no tangible positive impact on the environment. For example, a fund might be marketed as a "green" fund, but it may still invest in companies with poor environmental records.

The risks the FSCA outlines is not unlike those in other jurisdictions, where greenwashing has occurred and litigation has ensued. For example, in the USA, the Securities and Exchange Commission (SEC) fined a large bank over greenwashing citing that numerous investments held by certain funds did not have an ESG quality review score at the time of the investment[10].

Insurers should be proactive in mitigating the risk of allegations of misleading statements or greenwashing to avoid enforcement action and complaints, particularly regulatory investigation and censure, civil litigation and the negative financial impacts arising from reputational risk.

To build robust products that are also in-line with these governance factors, insurers can consider the following:

- **Consistency across the business:** Insurers should define clear policies to ensure a consistent approach across the business so that products and investments are consistent with the organisation's overall sustainability agenda and targets; for example, reaching net zero by 2040. These policies should be backed up by data collection, reporting, a clear controls framework and diligent assurance practices. This will ensure that what is reported is correct and reduces the risk of greenwashing.

- **Regulatory compliance:** Several insurers are carefully examining existing features and products that may qualify under product sustainability guidelines. Insurers with products in South Africa, for example, could begin by looking at South Africa's Green Finance Taxonomy. Under 7.8.1 'Non-Life Insurance', the taxonomy sets out several activities/assets that are covered by the taxonomy, which are important elements for climate change adaptation[11]. For example, products that drive climate-positive action, such as offshore wind insurance, may qualify. As South Africa's taxonomy is interoperable with the EU taxonomy, it is likely that products will also be classified as 'green' in other jurisdictions.

- **Data and analytics:** Identify ESG data sources (e.g. ESG ratings and principal adverse impact indicators) and assess their quality and provenance given that these may be the basis of their annual sustainability reports. A centralised, dynamic data and analytics platform can help here. It is also essential that this data can be assured.

Whilst many insurers may be looking at ESG through a risk lens, there are plenty of opportunities that ESG considerations present. Staying abreast of key trends in demographics, the unfolding environmental crisis as well as regulatory considerations, can help insurers stay future focussed and relevant. These ESG-related products and services not only lower the risk for insurers, but also provide opportunities to have a positive impact in the broader community.

[9] Financial Services Conduct authority (2023). FSCA Statement on Sustainable Finance and Program of Work (2023). Available From: Decision-making powers in respect of FSB Budget (fsca.co.za) (https://www.fsca.co.za/Regulatory%20Frameworks Temp/FSCA%20sustainable%20finance%20statement%20Final%20March%202023.pdf). (Accessed 31.07.2023).

[10] U.S Securities and Exhange Commission (2022). PRESS RELEASE: SEC Charges BNY Mellon Investment Adviser for Misstatements and Omissions Concerning ESG Considerations. Available from: SEC.gov | SEC Charges BNY Mellon Investment Adviser for Misstatements and Omissions Concerning ESG Considerations (https://www.sec.gov/news/press-release/2022-86) (Accessed, 28.07.2023)

[11] National Treasury, Republic of South Africa and International Finance Corporation (2022). South African Green Finance Taxonomy: 1st Edition. Available from: SA Green Finance Taxonomy – 1st Edition.pdf (treasury.gov.za) (https://www treasury.gov.za/comm_media/press/2022/SA%20Green%20Finance%20Taxonomy%20-%201st%20Edition.pdf). (Accessed: 31.07.2023)

Esther Pieterse

Partner
Department of Professional Practice
Tel: 27 82 719 5806
Email: esther.pieterse@kpmg.co.za

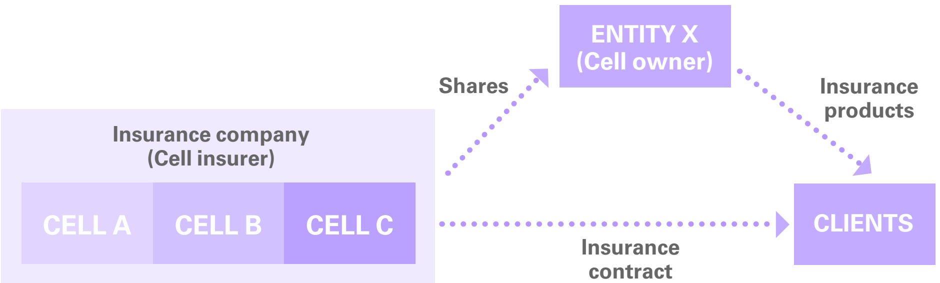
IFRS 17 and third-party cell captive arrangements

Cell captive insurance business is unique to South Africa. Like all other insurance companies, these insurers are required to comply with *IFRS 17 Insurance Contracts* (IFRS 17), which is effective for annual reporting periods beginning on or after 1 January 2023.

How does a typical third-party cell captive arrangement operate?

A registered insurance company (cell insurer) and a corporate entity (entity) enter into a shareholders' agreement. The entity subscribes for shares (ordinary or preference) issued by the cell insurer to "purchase" the cell to become a cell owner. The subscription price of the shares will provide initial capital to the cell. The cell insurer will administer the cell for an administration fee.

A typical third party cell captive arrangement in the South African environment



The cell owner (or a related entity to the cell owner) "sells" insurance policies to its clients, the policyholders, in the form of a complementary product to its current service or product offering. These insurance policies are sold in terms of a binder agreement between the cell owner (or a related entity to the cell owner) and the cell insurer and are underwritten by the cell insurer. The cell insurer is legally responsible for any claims submitted by the cell owner's clients (i.e. policyholders).

The cell owner collects insurance premiums from its clients and pays these premiums to the cell insurer that then allocates these premiums to the cell. Assets purchased with the premiums of the cell owner's clients, are also allocated to the cell, but are legally in the name of the cell insurer. If these assets are insufficient to settle claims received from the cell owner's clients, the cell insurer is required to contribute cash to the cell to meet these obligations. The cell insurer then has the right to require the cell owner to recapitalise the cell, generally through a further subscription of shares.

The cell owner is entitled to excess profits in the cell, i.e. any residual balance remaining in the cell after claims have been paid. During the life of the cell captive arrangement, the cell insurer, at its discretion, may distribute profits in the cell to the cell owner in the form of dividends.

On termination of the cell captive agreement, the cell insurer is required to redeem all the shares held by the cell owner. Generally, it will be at a price based on the net asset value of the cell.

Despite these contractual arrangements between the cell owner and the cell insurer, there is no legal ring-fencing of the funds held in the cell in the case of liquidation of the cell insurer. The current legislative framework regards all the assets and liabilities of third-party cells as part of the assets and liabilities of the cell insurer.

Should the cell be consolidated by the cell owner?

Before we explore the impact of IFRS 17 on cell insurers, we first need to consider whether the cell should be consolidated by the cell owner.

The assets of the cell insurer are required to be used to settle claims received from the cell owner's clients if there are insufficient funds within the cell, as the insurance contract is between the cell insurer and the cell owner's client. In addition, if the cell insurer is liquidated, the assets of the cell will not be protected from the rest of the cell insurer's creditors, including the other cells on the cell insurer's books. Therefore, the cell does not meet the definition of a silo (deemed separate entity) in terms of *IFRS 10 Consolidated Financial Statements* (IFRS 10) because claims from the cell owner's clients are not only paid from the assets of the cell, but potentially from the other assets of the cell insurer. Therefore, the cell will remain part of the cell insurer's financial statements and the cell owner will not consolidate its cell.

We will now discuss the impact of IFRS 17 on cell insurers in a cell captive arrangement.

Accounting treatment of the shareholders' agreement between the cell insurer and the cell owner under IFRS 17

The cell owner is exposed to insurance risk because it is required to recapitalise the cell if there are not enough assets in the cell to settle claims. The insurance contracts issued by the cell insurer generally expose it to significant insurance risk. This significant insurance risk is transferred to the cell owner by way of the shareholders' agreement between the cell insurer and cell owner. This agreement meets the accounting definition of a reinsurance contract, which should be accounted for in terms of IFRS 17. Like any other commercial reinsurance contract, the cell insurer is exposed to the risk of non-performance of the cell owner.

Complexities when applying IFRS 17

The challenge is that the cell insurer has to account for the shareholders' agreement as an in-substance reinsurance contract, even though the shareholders' agreement was not legally drafted to be a reinsurance contract. It is therefore important for the cell insurer to review the relevant clauses set out in the shareholders' agreement to understand the impact of IFRS 17. The cell insurer should consider whether amendments need to be made to any of the clauses contained in the shareholders' agreement, if for example the current clauses have unintended consequences as a result of applying IFRS 17.

The following are key considerations when applying IFRS 17 to the in-substance reinsurance contract:

Contract boundary

IFRS 17 requires an entity to include in the measurement of the reinsurance contract all the future cash flows within the boundary of the contract (IFRS 17.33). As a result, determining the contract boundary of the shareholders' agreement is one of the most important assessments that needs to be made, as this will impact which IFRS 17 measurement model has to be applied to the in-substance reinsurance contract held.

Cash flows are within the contract boundary of a reinsurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the cedant (cell insurer) is compelled to pay amounts to the reinsurer (cell owner) or has a substantive right to receive services from the reinsurer (IFRS 17.34).

A substantive right to receive services from the reinsurer ends when the reinsurer:

- has the practical ability to reassess the risks transferred to it and can set a price or level of benefits for the contract to fully reflect the reassessed risk i.e. the contract can be re-priced; or
- has a substantive right to terminate the coverage.

If the cell owner and the cell insurer both have a unilateral right in the shareholders' agreement to cancel the coverage at any time without penalty, then the cell insurer does not have a substantive right to receive future services related to the additional insurance coverage and does not have any substantive obligation to pay future premiums. For example: The shareholders' agreement contains cancellation clauses allowing either the cell insurer or the cell owner to cancel (without reason) by providing a twelve month notice period. In this case the contract boundary will be twelve months.

However, there are shareholders' agreements in place where the cell owner has the right to redeem shares after a certain period, but the cell insurer does not have the right to cancel the shareholders' agreement or the binder agreement, making the contract boundary open-ended. In order to determine which cash flows should be included for measurement purposes, the cell insurer and the cell owner should evaluate if there are other clauses in the shareholders' or binder agreement that may allow the cell insurer or cell owner to terminate the cession of new business by giving a notice period.

There are also cases where the shareholders' agreement is written like a risk-attaching reinsurance contract. For example, both the cell insurer and cell owner can cancel the shareholders' agreement with a year's notice after all liabilities in respect of third-party insurance policies (issued by the cell insurer) are extinguished. The coverage period of the in-substance reinsurance contract will then be longer than a year. If the underlying insurance contracts (issued to the cell owner's clients) all have a contract boundary of two years, the coverage period of the in-substance reinsurance contract will be three years (two years plus the notice period of one year).

Separation

More than one class of business can be written in a cell, for example funeral and credit life insurance. The question is whether the cell insurer should separate the in-substance reinsurance contract for each type of business and account for them as two contracts.

The lowest unit of account under IFRS 17 is the legal contract. There may be circumstances in which the substance of the contractual rights and obligations included in a single legal contract is that of multiple reinsurance contracts. In these circumstances, an entity should separate the legal contract into the different reinsurance components to reflect the substance of the contractual rights and obligations.

Assessing the substance of a contract and concluding that it differs from its legal form as a single contract involves significant judgement and careful consideration of all the relevant facts and circumstances - i.e. it is not a matter of policy choice. Considerations that might be relevant in the assessment include:

- interdependency between the different risks covered;
- whether components lapse together;
- whether components are and can be sold separately; and
- whether insurance components are bundled together solely for the administrative convenience of the policyholder.

A cell insurer may consider in respect of the in-substance reinsurance contract whether:

- There are interdependencies between the different risks covered in the cell (in our example, funeral and credit life cover) – generally there are not.
- The cell owner and the cell insurer are only able to cancel or terminate the whole shareholders' agreement and not individual components of it, i.e. only credit life or only funeral – that is normally not possible.
- The cell owner issues separate funeral and credit life reinsurance contracts – this is not the case (although the cell owner may sell separate funeral and credit life policies on behalf of the cell insurer).
- The funeral and credit life products are bundled together for administrative convenience – this is generally not the case as the insurance business is written in the cell.

Therefore, separation of the in-substance reinsurance contract into further components is not considered to be appropriate.

Application of the applicable measurement model

Once the contract boundary has been determined and the assessment of the separation of the shareholders' agreement into components has been concluded, an evaluation of the IFRS 17 measurement model is required. The default measurement model in IFRS 17 is referred to as the general measurement model (GMM). A simplified measurement model, the premium allocation approach (PAA), may be applied if certain criteria are met.

We expect that a cell insurer will apply the measurement model to each in-substance reinsurance contract issued by a cell owner and will not group in-substance reinsurance contracts issued by different cell owners in one portfolio. This is because IFRS 17 defines a portfolio as follows:

"A portfolio comprises contracts subject to similar risks and managed together. Contracts within a product line would be expected to have similar risks and hence would be expected to be in the same portfolio if they are managed together" (IFRS 17.14).

Shareholders' agreements with each cell owner are not managed together, although they may be subject to similar risks.

An entity may use the PAA to simplify the measurement of a group of reinsurance contracts held (in this case one in-substance reinsurance contract held), if at the inception of the group:

a) the entity reasonably expects that the PAA would produce a measurement of the asset for remaining coverage for the group that would not differ materially from the one that would be produced applying the GMM; or

b) the coverage period of each contract in the group of reinsurance contracts held (including insurance coverage from all premiums within the contract boundary determined at that date applying paragraph 34) is one year or less (IFRS 17.69).

We have seen many cell insurers argue that an in-substance reinsurance contract with a coverage period of longer than a year meets the requirements of the PAA measurement model. These cell insurers would have performed PAA eligibility testing to prove that the asset or liability for remaining coverage in terms of the PAA and the GMM will not be materially different and therefore application of the PAA measurement model to the in-substance reinsurance contract is appropriate.

If there is a difference in the contract boundary of the underlying insurance contracts issued and the in-substance reinsurance contract held, different measurement models may have to be applied to each contract or set of contracts. For example, the underlying insurance contracts may meet the requirements to apply the PAA, while the in-substance reinsurance contract is accounted for using the GMM.

We have seen that some cell insurers were able to apply the PAA to both the underlying insurance contracts issued and the in-substance reinsurance contract held (based on terms of the respective contracts).

The impact on the cell insurer's financial statements may be very different to the current accounting in terms of *IFRS 4 Insurance Contracts* (IFRS 4). Under IFRS 4, the net impact between accounting for the underlying insurance contracts issued in the cell and the in-substance reinsurance contract held is the fee charged by the cell insurer to the cell owner. The same accounting outcome may not materialise when IFRS 17 is applied.

What should cell insurers do next?

Cell insurers with December year-ends should ensure that they have resolved all complexities and outstanding issues by the end of the year. They may also need to communicate their decisions to cell owners to assist them with IFRS 17 compliance.

Insurance industry training

Our tailor-made insurance training courses are designed to meet the specific needs of your organisation. We offer training on the following topics which include, but are not limited to:

- insurance regulations;
- market conduct;
- solvency reporting;
- financial reporting and IFRS 17;
- ESG regulations and reporting;
- taxation changes; and
- the latest in technology or recent insurance industry developments.

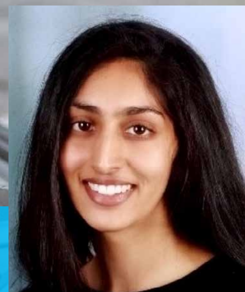
For those members of staff who were not part of the IFRS 17 implementation project, we offer basic entry level eLearning solutions. These eLearning courses explain IFRS 17 in an engaging and high-quality animation form which can assist with upskilling staff members.

Training can be conducted either at our premises or yours. If you would prefer, we are also able to deliver training in a virtual format.

We also offer discounted annual training packages covering our entire suite of training courses, to which your staff are always welcome.

For more information please contact:

Kashmira Naran
Partner
Insurance
T: +27 82 710 7629
E: kashmira.naran@kpmg.co.za



Reyna Morar

Supervisor

Insurance

Tel: +27 67 412 9599

Email: reyna.morar@kpmg.co.za

The Jetson future of insurance

"Meet George Jetson"

George Jetson wakes up in Johannesburg and inevitably first checks Instagram, emails and of course the load shedding schedule for the day (yes, load shedding is still an occurrence in this version of The Jetson future). His meetings are scheduled in Pretoria, so he checks the route on Google Maps.

Without him knowing ... in the background, his insurer is formulating a risk assessment profile:

Assessing the trip, time of the trip, whether load shedding will affect the route, the number of potholes on the road, how many highways will be crossed, how many cars are on the road and whether there is a high rate of accidents on this route.

He is instantly prompted with a notification asking:

"Do you want to insure this trip for an additional R110?"

George Jetson was provided with a real-time quote based on his live data!

While on his way to Pretoria, George pulls up to a traffic light that is not operational (surprise, surprise) and sees that it is clear to proceed. As he starts moving, a taxi driver who has not waited for his turn knocks into George's vehicle. Luckily, George has insured this trip!

A notification from his insurer appears, asking if he has been in an accident. The sensor in his vehicle detected the impact. He selects "Yes" and is prompted to take pictures of the damage to his vehicle due to the accident and uploads these pictures onto the insurer's mobile application. The accident is automatically recorded and after a few questions, his claim is submitted. Thank goodness for artificial intelligence ... making an unfortunate incident quick and easy to conclude.

While this scenario is not quite reflective of what goes on in Orbit City (there definitely aren't any aerocars around in 2023 like in the show), it is a realistic expectation of where the insurance industry is heading.

Introduction

Insurance is a big and old industry not known for innovation, however it is on the cusp of seismic change. There is a significant opportunity for insurance companies to disrupt and reimagine how insurance works and reaches people. InsureTech (short for Insurance Technology) is the confluence of technology and insurance, and it is anticipated that this is where the opportunity lies for the insurance industry.

In this article we will provide insight into the ways that technology is already transforming the insurance industry.

Artificial Intelligence (AI)

History has shown that humans are fascinated with creating a machine that replicates human thinking. That is why AI was created. At first, AI was used to recommend similar Netflix shows based on our previous choices but now we use it for facial recognition to unlock our phones and for cars to drive themselves.

Insurance is fundamentally about the use of reliable and relevant information to predict future eventualities, to make decisions about accepting risk and to inform claim payment decisions. It is clear then that information is golden!

AI, with Machine Learning (ML) algorithms, has the capability to mine and analyse vast amounts of data in a short period of time. It also has decision-making capabilities that contribute to making the end-user experience more efficient and user-friendly in a seamless manner.

Insurance companies have an extensive to-do list from underwriting and policy management, to claims processing and complying with regulations. The mundane and time-consuming tasks can be tackled with AI, more specifically, by a robot.

Robots are dominating the world...they vacuum our floors, mow our lawn, drive our cars, can cook for us and can serve food in restaurants. It is undeniable that they will increasingly become more and more indispensable in our everyday lives.

Robots, such as Chatbots and Robotic Process Automation, can increase productivity, reduce human error and improve quality, which is why many insurers are looking at robots as an option to reduce workloads and optimise operations.

Chatbots

Over the last few years we have seen many insurers enlisting their "virtual assistants" to communicate with policyholders in the form of AI-powered chatbots. AI-powered chatbots can be beneficial in many scenarios; they can provide customer support, collect customer data, handle inquiries, facilitate underwriting and even detect fraudulent claims by comparing thousands of data points in a few seconds and listen for pitch outside of the natural vocal range to detect stress or emotional tension.

Included below are a few initiatives for insurers to consider in implementing this type of technology throughout the business:

- There is a large population of individuals who prefer interacting with a chatbot rather than a real person, particularly with the younger generations. In response to this preference, chatbots are revolutionizing the way in which insurance companies attract, engage, retain and serve varying cohorts of clients based on their individual preferences.
- Accidents by their nature are unpredictable and can occur at any time meaning that the insurance industry is one that provides a 24/7 service requiring customer calls to be attended to immediately. After having gone through a distressing life event, the last thing that a policyholder wants to experience is to be placed on hold or repeat themselves every time their call is transferred. The use of a chatbot can assist with responding to or resolving a client query in an instant.
- There is benefit in improving and simplifying the overall claims process. Customers can inform the chatbot of the nature of the claim and upload images of the damage. The chatbot will then pull up the customer's policy from the insurer's database and immediately initiate the claims filing process. It can also go so far as analysing the facts and circumstances of a claim through a fraud detection algorithm before processing the claims for further consideration and payment.
- Chatbots can eliminate the risk of human error and reduce the number of instances of being told "please resend your information". Chatbots are able to ensure that every query and claim is attended to quickly and sometimes immediately and the customer experience is improved.

- Chatbots can also be used to recommend personalised policy options based on an algorithm of scripted questions being asked of customers. In some instances the chatbot can respond to customers' follow-up questions to provide more clarity and understanding of policy options.

Robotic Process Automation

It goes without saying that insurers have large amounts of data that needs to be analysed to determine appropriate premiums, process claims and to complete monthly financial reporting processes.

Welcome, Robotic Process Automation (RPA) - the use of software robots to handle routine-level tasks. From underwriting and onboarding customers to claims processing, RPA is changing the way in which insurers conduct business by automating data collection, transforming data so that it is uniform and comparable and reveals the key insights. With the use of AI and ML technology, information can be swiftly extracted from documents, collated with other information, analysed to identify errors and patterns and be reported on based on pre-determined templates.

RPA improves the operational efficiency of an insurer and allows it to free up time to focus on more complex matters. Popular culture says that robots will take over the world, but for now, they are helping transform the insurance industry and people's lives for the better.

The Internet of Things (IoT)

The Internet of Things has arrived and is rapidly transforming our everyday lives. Many people already use car and fitness trackers, home assistants, smartphones and watches, and will continue to increase the use of new possible connected devices such as eyewear, home appliances, medical devices and shoes.

Today's devices are already producing fourteen zettabytes of data, with numerical or visual information on people, things and environmental factors. The resulting avalanche of new data created by these devices means better and more reliable data that insurers can utilise to understand their clients more deeply, allowing for the development of new products and distribution channels, more personalised pricing, increasing real-time service delivery and extending the insurer's role to include prediction, prevention and assistance.

A more data-driven adjudication process also reduces the problems created by human bias. Meanwhile, the individuals in the claims department would continue to be responsible for tasks that humans do especially well, such as complex problem solving and process innovation.

In the past, insurers have predominantly played a risk-transfer role, helping clients offload selected risk exposures. With IoT technology, insurers can move into the area of risk prevention: providing timely advice and alerts to prevent claim events from happening in the first place. This could range from relatively small situations - an alert about an autonomously operated machine that is about to fail because of a worn-out motor - to much higher-value insights, such as a build-up of temperature or pressure that suggests a plant explosion or geyser leak is imminent. In short, thanks to the IoT, risk prevention may become another arrow in the insurance quiver.

Conclusion

I grew up watching The Jetsons and their utopian future. In 2023, our houses are not yet in the sky, and we do not have aerocars but we do have our own version of Rosey. So, we can say that we are heading to the future.

The use of technology (more specifically AI) in the insurance industry is still emerging however it is becoming more and more prevalent and the benefits of adopting AI outweigh the risks of not doing so.

Sources

How AI Is Changing The Game In Insurance (forbes.com) (https://www.forbes.com/sites/garydrenik/2022/09/27/how-ai-is-changing-the-game-in-insurance/?sh=1da34da851bf)

How is AI used in business? | Swiss Re (https://www.swissre.com/risk-knowledge/advancing-societal-benefits-digitalisation/how-to-ensure-ai-helps-business.html)

https://www.mckinsey.com/industries/financial-services/our-insights/insurance-2030-the-impact-of-ai-on-the-future-of-insurance

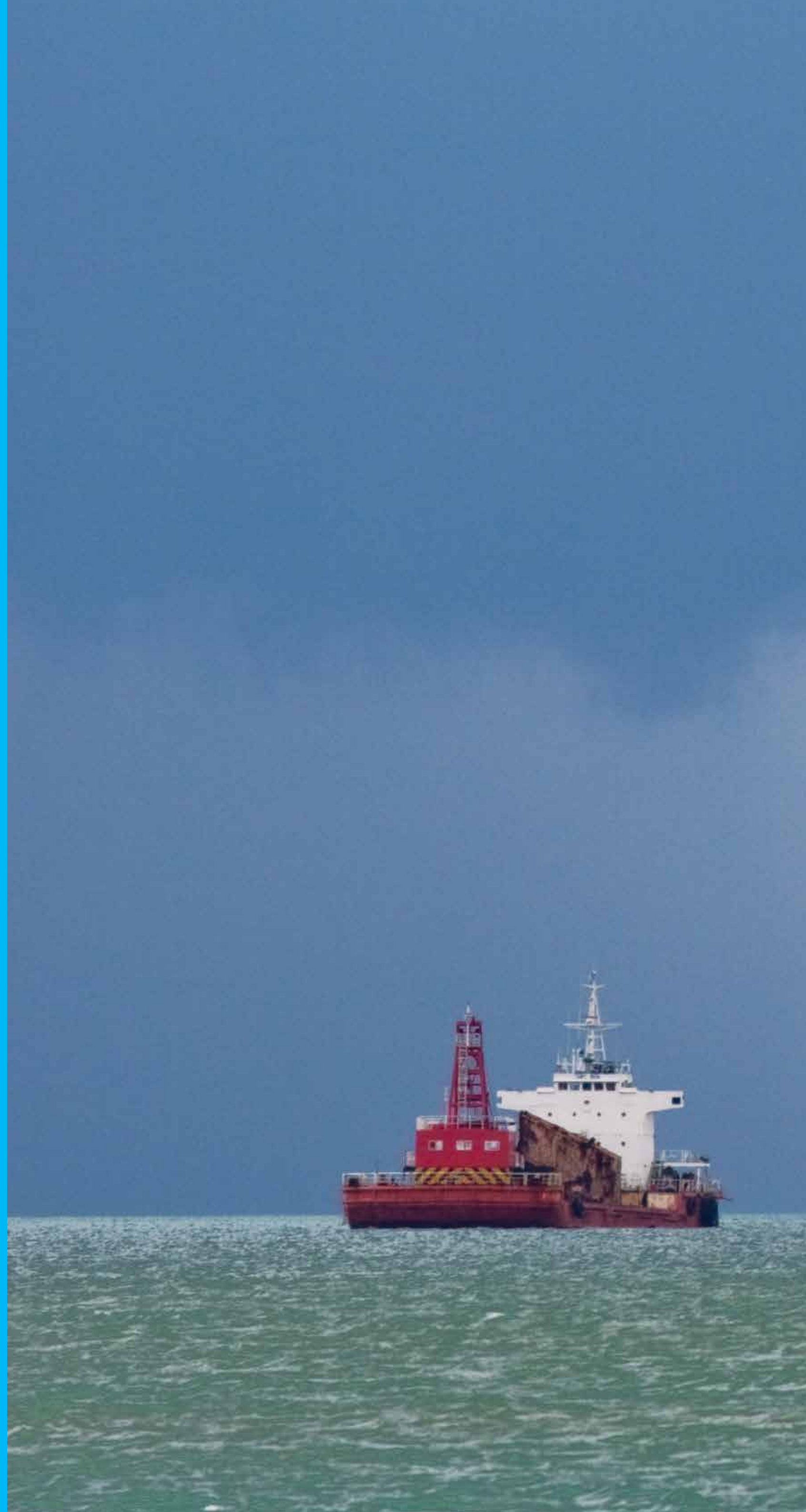
Insurance Industry Future Trends - Board of Innovation (https://www.boardofinnovation.com/blog/trends-that-are-shaping-the-future-of-the-insurance-industry/)

IoT insurance industry opportunities | McKinsey (https://www.mckinsey.com/industries/financial-services/our-insights/digital-ecosystems-for-insurers-opportunities-through-the-internet-of-things)

Is artificial intelligence relevant to insurance? - IBM Blog (https://www.ibm.com/blog/is-artificial-intelligence-relevant-to-insurance/)

The Case for Robotic Process Automation (RPA) in Insurance - IBM Blog (https://www.ibm.com/blog/robotic-process-automation-in-insurance/)

The Future of AI in Insurance: New Business Models and Disruptions (financemagnates.com) (https://www.financemagnates.com/fintech/education-centre/the-future-of-ai-in-insurance-new-business-models-and-disruptions/)



Monica Wu Yu

Manager
Forensics
Tel: +971 44030301
Email: mwuyu1@kpmg.com

What does the future hold for South Africa now that we have been grey-listed?

On 25 February 2023, the long awaited and expected decision was announced: South Africa was included in the list of "jurisdictions under increased monitoring", also commonly known as the Financial Action Task Force (FATF) Grey List. This outcome was predicted in our 2022 annual insurance industry survey.

The FATF is the global money laundering and terrorist financing watchdog that sets international standards, called the **FATF Recommendations**, aimed at preventing illegal activities. The FATF monitors jurisdictions committed to the implementation of such recommendations through ongoing rounds of peer reviews called Mutual Evaluations.

In October 2021 the FATF published the Mutual Evaluation Report on South Africa which showed poor results. In respect of technical compliance, South Africa was only fully compliant with three and largely compliant with seventeen of the forty FATF recommendations, with twenty negative ratings achieved on the remaining recommendations. When it came to effectiveness of compliance, South Africa did not achieve any positive scores in the eleven immediate outcomes. Due to the severity of the deficiencies, South Africa was given one year to remediate them and avoid being included in the Grey List in the FATF Plenary held in February 2023.

Unfortunately, South Africa did not achieve any re-rating since the Mutual Evaluation or the grey-listing, either in February or in June 2023 and there is a lack of visible progress and information, transparency on the action plan.

There are currently eleven African countries on the FATF Grey List. The presence of a large number of countries with systemic deficiencies in their anti-money laundering (AML)/combatting the financing of terrorism (CFT) regime only means additional financial crime risks and challenges for South Africa, which is one of the main financial hubs of the continent.

The other grey-listed African countries are:

- Burkina Faso
- Cameroon
- The Democratic Republic of the Congo
- Mali
- Mozambique
- Nigeria
- Senegal
- South Sudan
- Tanzania
- Uganda

How long will South Africa remain on the Grey List and what are the consequences?

The month before the grey-listing was announced, our discussions with a number of financial institutions revealed that the impact of the potential grey-listing in the capital market was starting to be felt, along with an increase in funding costs. Immediately after the announcement, the Rand depreciated by 1.12% against the US Dollar. Though the continuous depreciation of the Rand is due to many other contributing factors, the grey-listing only adds weight to the existing burden of negative factors on the South African economy. This may be only the beginning of a negative long-term impact of the grey-listing.

Disinvestment and de-risking by international investors and commercial partners is a costly process. Considering that some countries like Mauritius were able to be removed from the Grey List in a relatively short period of time - for example Mauritius took less than three years - investors may take a more passive approach to the grey-listing and observe the progress over remediation actions.

When South Africa was grey-listed, the FATF put in place the following action plan to address the strategic deficiencies:

- demonstrate a sustained increase in outbound mutual legal assistance (MLA) requests that help facilitate money laundering (ML)/terrorist financing (TF) investigations and confiscations of different types of assets in line with risk profiles;
- improve risk-based supervision of designated non-financial business and professions (DNFBPs) and demonstrate that all AML/CFT supervisors apply proportionate and effective sanctions for non-compliance;
- ensure that competent authorities have timely access to accurate and up-to-date beneficial owner (BO) information on legal persons and arrangements and apply sanctions for breaches of violation by legal persons to BO obligations;
- demonstrate a sustained increase in law enforcement agencies' requests for financial intelligence from the Financial Intelligence Centre (FIC) for its ML/TF investigations;
- demonstrate a sustained increase in investigations and prosecutions of serious and complex money laundering and the full range of TF activities in line with its risk profile;
- enhance its identification, seizure and confiscation of proceeds and instrumentalities of a wider range of predicate crimes, in line with risk profiles;
- update TF risk assessment to inform the implementation of a comprehensive national counter financing of terrorism strategy; and
- ensure the effective implementation of targeted financial sanctions and demonstrate an effective mechanism to identify individuals and entities that meet the criteria for domestic designation.

Many actions have been taken since the grey-listing of South Africa. The FIC Act was amended in December 2022 with many enhancements, and the Prudential Authority has imposed actions and reporting duties on banks and insurance companies to strengthen the enforcement of different AML/CFT obligations. However, there is very little information and transparency on the coordinated actions that are being taken by government at the jurisdictional level.

In the latest published FATF Plenary outcome, it was recognised that South Africa had taken steps towards improving its AML/CFT regime during its first cycle of reporting, including improving its criminalisation of terrorist financing, but such improvements have not resulted in any re-rating so far.

If we take Mauritius as an example, by the time it was grey-listed one year after the results of its Mutual Evaluation was published, Mauritius had already reduced its negative technical compliance ratings to seventeen, from the initial 26 negative ratings identified. After the grey-listing took place, Mauritius developed an action plan that was agreed between different supervisory agencies, with clear awareness strategies, outreach sessions and formalised forums to exchange information. The results of such joint efforts and transparency on the action plan led Mauritius to be de-listed from the Grey List in less than three years, ahead of the timeline set by the FATF.

Coming back to South Africa, the lack of transparency on a coordinated action plan is likely to lead to reduced levels of confidence by international investors, commercial partners and counterparties. Unless more progress is made, additional negative economic impacts may be observed in the coming years. These may include:

- an increase in the regulatory burden imposed on both South African entities and their foreign counterparties and economic restrictions from international funders such as the International Monetary Fund (IMF) or World Bank;
- restrictions imposed by individual banks and businesses in doing business with South African entities, leading to a loss of trading and business partners as well as loss of financial flows;
- an increase in the cost of doing business and the cost of capital due to increased compliance requirements and restrictions imposed;
- a decrease in South Africa's ability to remain competitive and in its ability to obtain foreign investment;
- macroeconomic impacts, such as on the exchange rate, interest rate and inflation, and negative effects on economic growth and employment; and
- reputational damage.

Next steps for the South African financial services sector

Regardless of whether South Africa is grey-listed or not, it is obvious that the country faces huge financial and proceed-generating crime risks. At this point, and especially considering the regional risk we are facing as a financial hub in Africa, a number of financial institutions still do not have the right set of risk-based approach measures to identify the financial crime risks they are facing.

South African life insurers that are making progress in this area have:

- **Introduced adequate risk assessment at an institutional and customer level and over third-parties.**
- **Implemented improved oversight by the first and second lines of defence:** this was achieved by ensuring that the role of the compliance and anti-financial crime functions are not limited to regulatory compliance with policies and procedures. It is also important to ensure that these functions have oversight over the implementation of controls and compliance assurance activities.
- **Implemented centralised risk management systems and processes:** a centralised automated system allows for the exchange and centralised processing of risk data. This in turn allows the compliance and risk management functions to have a comprehensive overview of the business-wide risk exposure.
- **Introduced the ability to risk assess clients through a single client view:** this was achieved through the implementation of a centralised know-your-client (KYC) system that assigns unique identifiers to clients. This ensures that the client is assigned the same KYC profile across the organisation and allows for adequate application of due diligence measures to better detect financial crime risks.
- **Implemented automated monitoring of suspicious activities:** these insurance companies have moved away from manual detection processes without having to rely on the subjective judgement of business unit staff. In addition, the implementation and application of a lookback control has proven to be effective in identifying suspicious activities.

Some of the most critical best practices are:

- **Implementation of adequate business-wide risk assessment processes** following a risk-based methodology that quantifies different risks in an empirical and objective manner. It is also important to ensure that adequate risk mitigation measures are implemented in a timely manner to address the identified risks.
- **Enable a better understanding of customer risk** by processing information obtained in a centralised manner, allowing the exchange of KYC information and predicting the activities of the customer based on such information.
- **Better control of third-party risk**, such as banks, brokers, intermediaries and agents, by implementing applicable policies and procedures and performing the necessary controls and assurance activities.
- **Effective ongoing monitoring and enhanced due diligence measures:** ongoing monitoring should be performed based on the risk information of the customer like behaviour patterns and red flag typologies. This should be automated in order to enable better detection and lookback controls.
- **Investment in technology:** for larger insurers with thousands or even millions of customers, proper risk management is only possible through the implementation of technology solutions to automate different processes.
- **Enhancement of training at all levels:** all staff and members of management should receive AML/CFT training when joining as well as regular refresher training during the employment relationship. Functions with additional AML/CFT related duties, such as compliance, risk management, forensic, internal audit, business units and operational units, should receive additional targeted trainings.
- **Reinforcement of risk control functions, with sufficient authority, access and resources:** the second line of defence should not have its role limited to regulatory compliance of policies of procedures, but should be able to exercise effective oversight on the implementation of controls in the first line of defence functions. In order to achieve these objectives effectively, the second line of defence must have sufficient authority.

Conclusion

It is uncertain how long South Africa will stay on the FATF Grey List. All South African companies have a duty to proactively implement effective AML/CFT measures to fight against financial crime and do their part in getting South Africa off the list as quickly as possible.

Competition law eLearning

Competition law training is essential to prevent cartel conduct. The Competition Commission's Information Sharing Guidelines serve as a timely reminder of the importance of regular competition law training for insurance companies' management and staff responsible for trade practices and ongoing Competition Law compliance.

KPMG's Competition Law eLearning comprises of three interactive modules:

Module 1 and 2: Cartel conduct
These cover the basics of what is meant by cartel conduct, the harmful practices that might contribute to cartel conduct and provide exercises and activities to illustrate the practical application of the cartel principles. We also cover competition law risks associated with unlawful information sharing between competitors.

Module 3: Competition Commission methods to obtain information
This module deals with the legal avenues which are available to the Competition Commission to uncover cartel contraventions of the Competition Act.

The course content was written and designed by senior members of the KPMG Competition Law Advisory Practice in South Africa and is aimed at all levels of staff in your organisation.

For more information please contact:

Anton de Bruyn
Director
KPMG Law
T: +27 82 719 0317
E: anton.debruyn@kpmg.co.za

Christelle Smith
eLearning training administrator
KPMG Law
T: +27 60 981 7052
E: christelle.smith@kpmg.co.za

Schalk Engelbrecht

Chief Ethics Officer
Risk Management
Tel: +27 82 713 7656
Email: schalk.engelbrecht@kpmg.co.za

Working from home: the insurance considerations

Introduction: work and home

I once had a colleague who worked long hours, but steadfastly refused to take work home. If there was still work to do, he would stay at the office longer, or drive to the office over the weekend. But out of principle, he would not sully the sanctity of his home with work.

My colleague's clinical separation of home from work appeared prudent – a practice that safeguarded both sanity and family from intrusion and distraction. It also seemed an earnest exercise in that oft-touted but cynically derided ambition called "work-life balance".

Today, in contrast, we increasingly welcome the opportunity to do our work from home. In the aftermath of the COVID-19 pandemic many employees have been sluggish (even stubborn) to return to that foreign place called "work" or "the office". This has led some – most notoriously billionaire Elon Musk – to denounce today's "laptop classes" and their desire to work from home as "immoral". For Musk this reluctance to return to the office is at once an issue of productivity and of morality. In Musk's view the laptop classes are a privileged and coddled few who insist on staying comfortably at home while expecting so many others (factory workers, grocery tellers, delivery people) to remain at work.

But it is not only laptop-workers and billionaires who have shown a keen interest in the work-from-home phenomenon. Insurers are also asking what the impacts of remote working might be and whether the increase in remote working holds new risks that require a change in strategy.

Ethics and insurance

Before the implications of agile, flexible or remote working are discussed, it is useful to consider the relationship between ethics and insurance.

From a *philosophical* or *ethical* point of view, insurance does two things:

- It recognises the vicissitudes of life and tries to safeguard the so-called "Good Life". According to Aristotle, the purpose of living is to flourish. Flourishing does not mean being rich. Instead, it entails friendship, civic engagement, encountering beauty and contemplating ideas. To attain this state of flourishing, however, requires a minimum level of material goods or comfort. Insurance recognises that unfortunate things happen and tries to secure the possibility of a good life even when unfortunate things happen.
- Beyond protecting the possibility of a "Good Life", insurance is also an extension of our care obligations – a response to our desire to leave the ones we love (and/or who are dependent on us for their wellbeing) the same or better off materially if something were to happen to us.

From a *political* point of view, unfortunately, insurance is a failure of social protections - available to a limited section of society who are already relatively protected.

Against this backdrop, there is a suggestion that the new realities of remote working that followed in the wake of the COVID-19 pandemic necessitate new types of insurance to protect a flourishing life.

There are, however, some flaws with this reasoning, specifically with the idea that working from home is new and that it robs people of benefits (or causes more risks).

The history of working from home

While many people suggest that the current remote working trend is new, and that it has given rise to a "new class of employees", this is in fact debatable. Historically speaking, working in a factory or at an office is really the anomaly. It is only since the industrial revolution in the mid-1700s, and because of the concentration of machines in one place, that we started working in factories and offices under the strict hours and discipline of owners and managers[1].

Apart from the historical normality of working from home, the people who are spending more time working from home since COVID-19 are really only joining the millions of industrial homeworkers and digital platform or gig workers who had already been working remotely.

Finally, in hypothesising "a new class of employees" who work at home with little or few benefits, we are conveniently forgetting the *existing* class of workers who have been doing it for generations… *women*. Specifically, women who do unrecognised and unpaid care work.

Working from home is therefore not a novel invention of what Elon Musk calls "the laptop classes".

Working from home: benefits and risks

Having considered the history of "working from home", the next question concerns the benefits and risks of home working. Here it is useful to distinguish between teleworkers, industrial homeworkers and digital platform (or "gig") workers.

The employees who started working from home more frequently in the wake of the pandemic could be called "teleworkers" who use information and communication technology to work remotely. For these agile or flexible teleworkers, working from home does not necessarily come at a cost. Quite the contrary – a 2019 survey found that two thirds of South African employees desire more flexible hours[2].

[1] Tweedie, R. 2023. "Working from home immoral? A lesson in ethics, and history, for Elon Musk" in The Conversation (25 May 2023). Available at: Working from home immoral? A lesson in ethics, and history, for Elon Musk (theconversationcom) (https://theconversation.com/working-from-home-immoral-a-lesson-in-ethics and-history-for-elon-musk-205992)[accessed 19 August 2023]. This article also shows why Musk's argument about the immorality of remote working is flawed.

For these individuals, flexibility and working from home more regularly can contribute to a flourishing life – it means skipping traffic, organising one's routines around family and exercise, increased productivity and improved work-life balance. Flexible teleworkers can also avoid office politics and distractions.

Of course, this type of agile working does not only benefit teleworkers, but also employers. It can translate into: lower resignation rates, talent attraction, an uptake in productivity and employee morale and lower operational costs[3].

For society as a whole, it means a healthier, more "well" workforce, a more productive economy, potentially improved gender equality and lower carbon emissions.

Not all home work involves these benefits, however. Industrial homeworkers and digital platform workers may not experience the same benefits. For them working from home does not necessarily mean more freedom, but more insecurity. The gig economy is precarious. A person might have times of no work and then times of too much work. They might work more than 48 hours a week, or less than 35. The work is also informal, lacking many benefits and covers. Often, a woman who already does unpaid care work at home, attempts to supplement her income with additional industrial home work – resulting in a longer workday[4].

Another class that lacks benefits are the industries that developed around "working from home" during COVID-19. Food couriers, for instance, sometimes do not have insurance cover for accidents, are unaware of their cover, or are afraid to claim cover because they are undocumented and fear losing their jobs or being deported. Sometimes the insurance cover they do enjoy is subject to exclusions like having to be in hospital for 48 hours before accident cover kicks in.

These groups – who are not new, and who are not necessarily tied to home work – are the ones who need insurance cover. For these workers, flourishing – their own and that of their loved ones – is at risk.

How can the insurance industry respond?

In response to both new and long existing trends in home working, the industry can respond in different ways. For the flexible teleworkers it might include the following:

- Creating awareness of where the burden of insurance (for instance, office equipment) lies – with oneself or with one's employer, based on whether one is an entrepreneur or a remote employee;
- Covering cyber risks due to increased risk while working at home; and
- Developing cover for damage or loss of income due to loadshedding (specifically in South Africa).

Regarding industrial homeworkers, gig workers and the delivery class: at present, these workers are potentially invisible to society and to the insurance industry. How can the industry help make them visible and then help protect their flourishing? Here I believe the insurance industry should:

- Work with activist groups to lobby for employee rights, especially for industrial home workers and gig platform workers; and
- Create insurance products for delivery workers of the world that will provide real protection and that does not include unreasonable exclusions.

Additionally, the industry should create awareness and easy ways for migrants, home and gig workers to access and use insurance.

Working from home brings benefits for some and insecurities for others – it has different impacts on the possibility of human flourishing. The insurance industry can respond by adjusting to the realities of flexible teleworkers, but also by specifically addressing the needs of home workers that have thus far been invisible.

[2] DCMN New Work Research: Flexible working hours for all (https://blog.dcmn.com/new-work-survey/)

[3] For more on the benefits of flexible working, see: International Labour Organization. 2022. Working Time and Work-LifeBalance Around the World. Geneva: PRODOC.

[4] For more on different forms of home work, and their associated risks, see: International Labour Organization. 2021. Working from home: From invisibility to decent work. Gen

Yacoob Jaffar

Partner
Corporate Tax
Tel: +27 78 786 2277
Email: yacoob.jaffar@kpmg.co.za

Shaficque Narker

Associate Director
Corporate Tax
Tel: +27 66 101 6774
Email: shaficque.narker@kpmg.co.za

Income tax challenges expected from the implementation of *IFRS 17 Insurance Contracts*

Introduction and background

IFRS 17 Insurance Contracts **(IFRS 17) has been waiting in the wings for several years, with the standard becoming effective for annual reporting periods commencing on or after 1 January 2023. A number of industry bodies were formed to understand what the implementation of IFRS 17 would mean from various perspectives, ranging from accounting and tax to actuarial modelling and regulatory reporting.**

Insurers have been working on determining the impact that the standard would have on taxable income and, ultimately, their tax liability for the 2023 and subsequent financial years. With the Taxation Laws Amendment Act 20 of 2022 (TLAB) having been issued and signed by the President at the end of 2022, the TLAB was regarded as substantively enacted in December 2022.

In the period leading up to the implementation of IFRS 17, various industry groups lobbied to provide commentary that could guide the legislators in their efforts to draw up relevant tax regulations. Despite best efforts to consider all eventualities and permutations (with specific reference to sections 28 and 29A of the Income Tax Act), as one would expect, certain nuances were only identified post implementation date.

We unpack some of our observations of the practical implementation challenges that we have recently encountered.

Life insurance

IFRS 17 impacts the manner in which policyholder assets and liabilities are recognised and measured. This creates nuances that require careful consideration when calculating both current and deferred tax assets and liabilities.

Value of liabilities

Insurers are required to calculate a phasing-in amount for income tax purposes. This phasing-in amount is based on the difference between the "value of liabilities" determined under the previously applied accounting standard *IFRS 4 Insurance Contracts* (IFRS 4), and the "value of liabilities" determined under IFRS 17[1]. The TLAB specifies the formula and the periods that should be used to calculate the phasing-in amount for non-life (section 14(1)(3C)(e)) and life insurers (section 15(1)(d)(15)).

The difference between the "value of liabilities" under the two accounting standards results in either a surplus or deficit that the life insurer has to phase-in to its tax calculation over a period of six years resulting in both current and deferred tax consequences. For example, a deferred tax liability is raised on a phase-in surplus and released to current tax over the phasing-in period.

[1] Section 29A(15) of the Income Tax Act sets out the manner in which the phasing-in amount has to be calculated.

The constituent components that need to be considered in determining the "value of liabilities" under IFRS 4, are different to those under IFRS 17. For example, premium debtors are not explicitly included in the "value of liabilities" under IFRS 17. For life insurers applying the general measurement model (GMM), this is because all expected fulfilment cash flows relating to future coverage will be included in the liability for remaining coverage.

Thus, the impact of these deductions when determining the "value of liabilities" under IFRS 4 compared to "value of liabilities" under IFRS 17 could result in a material surplus or deficit. This would then lead to a material impact on the phasing-in amount, and the consequent tax liability.

In determining the phasing-in amount, it is important for life insurers to carefully consider that premium debtors have been appropriately allocated to insurance (or reinsurance) contract liabilities.

One of the objectives of IFRS 17 is for the consistent application of the standard by all insurers in order for users of financial statements to be able to better compare the performance of different insurers. Equally, it is important that the reasons for adjustments to "value of liabilities" are understood and applied consistently by insurers (and accord with the principles prescribed in section 29A of the Income Tax Act).

Contractual service margin

IFRS 17 requires insurers to account for a contractual service margin; this represents the unearned profit of a group of contracts issued. This contractual service margin is released to profit or loss as the insurer provides insurance and/or investment services, over the coverage period of the contract. If contracts are onerous, no contractual service margin is recognised and instead the expected loss is recognised immediately in profit or loss.

As the measurement principles in IFRS 17 are not applied to a single contract but rather to a group of contracts, life insurers need to assess whether the contractual service margin is taken into account in the correct policyholder fund for purposes of determining the respective tax liability at the end of the financial year. For example, one accounting group of insurance contracts may need to be allocated into more than one policyholder tax fund which brings an additional layer of complexity.

Solvency Assessment and Management (SAM)

With the adoption of the SAM solvency capital regime effective 1 July 2018, life insurers were afforded a six-year phasing-in period for tax purposes. As it related to negative liabilities, additional tax was due by those insurers that adopted the phasing-in approach at the time. Not all life insurers adopted the phasing-in of negative liabilities under this dispensation.

Under IFRS 17, insurers that had not adopted the phasing-in approach under the SAM regime are now forced to zeroise their negative liabilities which were calculated in terms of IFRS 4. Negative liabilities are disclosed as insurance assets, which has a direct impact on the phasing-in calculation. Therefore, life insurers that had adopted the phasing-in methodology under the SAM regime are likely to have a lower phasing-in balance under IFRS 17. The result is therefore that the tax impact on these life insurers is reduced.

Application of assessed loss limitation

Section 20(1) of the Income Tax Act was amended by the TLAB. The impact of the amendment is that companies that would be in a positive taxable income position for the year of assessment ending on or after 31 March 2023, would be restricted from utilising any carried forward assessed loss in excess of 80% of taxable income, subject to certain limitations. Consequently, companies would be required to pay income tax on 20% of their taxable income (despite having an assessed loss that potentially exceeds that taxable income).

It appears that the application of this amendment has created uncertainty in the scenario where a life insurer has an assessed loss in a tax paying policyholder fund. The uncertainty emanates from the application of the assessed loss limitation when determining the taxable income of a policyholder fund that also has a taxable transfer deduction available in a year of assessment. The Income Tax Act provides for the deduction of a transfer of surpluses calculated in the policyholder fund, limited to the taxable income of the policyholder fund, before this deduction.

To the extent that the limitation of an assessed loss and its impact on a taxable transfer deduction are not correctly applied, the assessed loss carried forward in that policyholder fund may be misstated. We illustrate this in a simplified example below for the individual policyholder fund, where the assessed loss is R500,000, taxable income is R224,000 and 20% of taxable income is R48,000:

	Historic position	Alternative 1	Alternative 2
Income	300 000	300 000	300 000
Deduct: Other expenses	80 000	80 000	80 000
Sub Total	**220 000**	**220 000**	**220 000**
Add:			
Taxable capital gain on disposal of assets	4 000	4 000	4 000
Taxable income	224 000	224 000	224 000
Loss limitation before transfer deduction		44 800	
Deduct: (enter as positive amounts)			
Allowable deduction in respect of taxable transfers	14 000	14 000	14 000
Taxable income	210 000	30 800	210 000
Loss limitation after transfer deduction			42 000
Assessed loss brought forward - policyholders' funds	500 000	500 000	500 000
Assessed loss carried forward	**-290 000**	**-320 800**	**-332 000**
Tax rate	30%	30%	30%
NORMAL TAX	**0**	**9 240**	**12 600**

Under Alternative 1, the loss limitation is applied on the taxable income before determining the allowable deduction in respect of taxable transfers. As the example illustrates, the correct application (Alternative 1) results in a larger portion of the assessed loss brought forward being utilised in that particular tax year, resulting in reduced taxable income. While we acknowledge that the example above does not consider all facts and circumstances that may exist, what is important to note is that the correct application of the revised assessed loss limitation has a direct impact on the tax due by a life insurer.

Non-life insurance

Common challenges that non-life insurers have experienced to date include the treatment of the liability for remaining coverage and deferred acquisition costs when determining the phasing-in amount for tax purposes. Again, the challenges stem from the difference in measurement between IFRS 4 and IFRS 17.

Unearned premium provision and premium debtors

The liability for remaining coverage under IFRS 17 may be largely equivalent to the unearned premium provision previously held under IFRS 4, less insurance and reinsurance receivables (including premium debtors) and payables.

Section 28(3)(a) of the Income Tax Act previously provided for the deduction of the unearned premium provision in determining the taxable income of a non-life insurer. The amendments to section 28(3)(a) of the Income Tax Act require careful consideration by insurers as the amended section now merely refers to a deduction "*… equal to the sum of liabilities for incurred claims relating to short-term insurance business in respect of the policies of the insurer, net of amounts recognised in respect of reinsurance contracts for liabilities for incurred claims, which are determined in accordance with IFRS as reported by the insurer to shareholders in the audited annual financial statements ..*".

The challenge arises due to the differences in recognition requirements between the two accounting standards and the changes introduced in section 28 of the Income Tax Act (due to the implementation of IFRS 17). Under IFRS 4, the components that made up the value of liabilities were more easily identifiable on the face of the balance sheet. Under IFRS 17, insurers will need to be more careful to ensure that the various components of the liabilities to be included in taxable income are appropriately identified.

For non-life insurers applying the premium allocation approach (PAA), an asset for remaining coverage will exist where cash has not been received but insurance revenue has been recognised (effectively premium debtors under IFRS 4). In order for the correct adjustment or deduction to be taken into account when determining taxable income, the non-life insurer should be cognisant that an adjustment for insurance and reinsurance receivables and payables, including premium debtors, is required in terms of the amendments to section 28(3C)(c) of the Income Tax Act. The purpose of the amendment is to ensure that tax is being paid on premiums earned.

General observations

Income tax return preparation and submission

The insurance industry had requested in its submissions to National Treasury, that the income tax return (IT14L and ITR14) be amended to allow for additional disclosure that would facilitate sharing of information likely to result in either additional tax or possibly lower tax (in instances where the insurer calculates a deficit as opposed to a surplus on transitioning to IFRS 17) amounts being declared.

A draft IT14L tax return has been released which now appears to provide life insurers with an opportunity to illustrate the impact of the phasing-in calculation as part of its income tax return. Additional disclosures also allow insurers to capture how the limitation of assessed losses is being applied. An updated tax return has not been released for non-life insurers yet.

Conclusion

The implementation of IFRS 17 has introduced areas of uncertainty and complexity, which is to be expected given the significance of this new accounting standard. We recommend that insurers carefully assess how changes in respect of all key components that contribute to the taxable income calculation are taken into account.

At this stage, it is not clear whether further amendments to sections 28 and 29A of the Income Tax Act would be required to comprehensively deal with any unforeseen challenges that have been or are yet to be encountered. Given that various industry bodies have been (successfully) rallying to drive collaboration with National Treasury, we anticipate further discussion and potential changes to remedy these uncertainties.

Martine Botha

Senior Manager
Sustainable Finance
Tel: +27 63 792 6567
Email: martine.botha@kpmg.co.za

How ESG is shaping business decisions and delivering value: A conversation with Sustainability Executives

We know from our regular conversations with clients that ESG has become a board-level priority. Insurers are making the connection between sustainability and optimised business models, and so ESG is becoming increasingly integrated into insurers' value propositions and firm-wide strategies. Operating with sustainable principles tied to core business functions provides strategic advantage – offering a license to operate, an area of competitive advantage as well as attracting investment.

In this article we interviewed a Chief Sustainability Officer, the Head of Investor Relations and ESG, as well as a Chief Legal Officer at three South African insurers, to understand how sustainability has been integrated across their businesses. This information has been distilled into several key themes, to provide insight into some of the common success factors and pain points in implementing ESG initiatives by insurers in South Africa.

Where the Chief Sustainability Officer (CSO) sits will help define their success

For the CSO or equivalent to make an impact, it is imperative that they have the sponsorship of the executive office, such as the Chief Executive Officer, Chief Strategy Officer or equivalent. This level of sponsorship indicates to the business how serious the company is about the integration and uptake of sustainability throughout the business, rather than taking a business line view. This sponsorship can also make key investment and business decisions easier to initiate. Implementing a sustainability framework or ESG performance-linked renumeration may have quicker adoption and buy-in if mandated by the Board and C-suite.

ESG has grown globally as a theme, but domestically it is still catching up

There was a consistent view by those interviewed that South African insurers are on par with global peers when it comes to 'G' (governance) issues. This is largely to do with the action by regulators since 2018 and the uptake of the King IV Code (the Code). The aim of the Code is to provide a practical, principle-based approach to good corporate governance, which also incorporates both global public sentiment and international regulatory change[1].

On the 'E' (environmental) side, insurers have always taken climate risk into consideration when modelling catastrophic weather events. Actuaries at insurers use historical data to estimate the frequency and severity of future weather-related events - information that is then incorporated into premium calculations. What is new however, is the financial disclosures linked to climate risk which many banks and insurers are now grappling with. This is topical given the recent guidance notes from The Prudential Authority.

[1] Beyond Governance (2022) The King IV Code. Available at The King IV Code – Beyond Governance (https://beyondgovernance.com/king-iv-code/). (Accessed on 06.09.2023)

The Prudential Authority released two proposed guidance notes for insurers on this topic in August 2023. The first aims to assist insurers with complying with the requirements outlined in the Governance and Operational Standards for Insurers (GOI). The guidance notice provides guidelines on managing climate related risks, specifically addressing GOI 3 (Risk Management and Internal Controls for Insurers) and GOI 3.1 (Own Risk Solvency Assessment for Insurers) as they apply to climate-related risk. The second proposed guidance note provides guidance to insurers on climate-related disclosures, aligning with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)[2]. The objectives of the proposed guidance note include promoting market discipline, building capacity and capabilities, and providing meaningful information to stakeholders. The guidance covers four key areas: governance, strategy, risk management and metrics and targets. It also encourages insurers to be proactive in managing and disclosing climate related risks and highlights the need for internationally comparable metrics.

Not surprisingly, "S" (social) factors are top of mind for South African insurers, but these are difficult to address as the quantification of social outcomes is complex. With catastrophic weather events becoming more prevalent, many non-life insurers need to make decisions about continuing to underwrite assets that are in high-risk weather zones. Continued pay-outs due to catastrophic weather events can risk the solvency of some insurers. For many people living in flood or fire prone areas however, lack of insurance coverage could severely compromise their ability to generate income. In this way, socio-economic factors need to be played off against environmental factors. Many insurers are increasing the price of premiums and letting the market dictate whether or not people continue to live or do business in certain areas. In some foreign jurisdictions, insurers are leveraging industry-wide efforts to educate policyholders and lawmakers about how to fortify properties against severe weather events.

The South African context is also unique due to additional ESG factors such as loadshedding (which is arguably an environmental, social and governance issue), as well as the increased likelihood of political unrest. For many non-life insurers, the list of policy exclusions is becoming longer to ensure that the insurer is not taking on undue risk in the event of grid failure or riots and looting. Insured losses for the 2021 Kwa-Zulu Natal riots were estimated at R15 billion, a reason why Sasria SOC Limited is required to be adequately capitalised to respond to such events[3].

Leading insurers helping to drive their stakeholders to behave in more sustainable ways through incentivisation schemes

Some insurers have integrated sustainability into their remuneration cycle - this means including ESG metrics in incentive scorecards that meaningfully support the organisation's sustainability strategy. In Old Mutual's Renumeration Report 2022, remuneration varies depending on performance in the areas of customer growth and experience, employee engagement and contribution to investing in a sustainable economy[4]. Many leading financial institutions are now integrating ESG metrics into the performance rating of staff, using this to drive more sustainable behaviours or consider aspects of their portfolios that could be carried out in a more sustainable way.

For insurers serving a certain demographic, many are aware that financial literacy proves an ongoing challenge for their clients. With the backdrop of a national literacy crisis, many clients do not fully understand the financial products they are purchasing.

[2] Prudential Authority (2023) Proposed Guidance Notice-Climate related disclosures for insurers. Available at: Proposed Guidance Notice-Climate related disclosures for insurers (resbank.co.za). (Accessed on 05.09.2023) (https://www.resbank co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-documents-issued-for-consultation/2023 Proposed-Guidance-Notice-Climate-related-disclosures-for-insurershttps://www.resbank.co.za/en/home/publications publication-detail-pages/prudential-authority/pa-documents-issued-for-consultation/2023/Proposed-Guidance-Notice-Climate-related-disclosures-for-insurers)

[3] Sasria Soc Ltd (2021) Parliamentary Committee Presentation 24 August 2021. Available at Unpacking Government's economic rebuilding package (thedtic.gov.za) (http://www.thedtic.gov.za/wp-content/uploads/SASRIA.pdf) (Accessed on 11.09.2023).

[4] Old Mutual (2022) Renumeration Report for the Year End 31 December 2022. Available at Old Mutual Remuneration Report 2022 (https://www.oldmutual.com/v3/assets/blt566c98aeecc1c18b/blt1bd39a1605b9e6a3/64463d4239d7ae499433946e/Remuneration_Report_2022.pdf). (Accessed on 11 September 2023).

A recent study from the Financial Sector Conduct Authority highlighted that 40% of respondents surveyed indicated that their understanding of financial products and services was either neutral or they did not understand the products and services they had purchased[5]. This knowledge asymmetry is one of the reasons that customers can be sold policies that are unsuitable for their needs and can risk being exploited. Some South African insurers are combatting this by providing online education programs to help their clients become more familiar with financial terminology and financial planning. In the case of Old Mutual for example, completion of these online courses can result in incentives for customers, such as reinvesting points earned to qualify for certain products.

Discovery is another insurer looking to influence behaviour change through incentivisation schemes. For example, Discovery's Discovery Insure app tracks their customer's driving, and deducts points based on poor braking, screen time whilst driving or other key metrics. Points accrued through good driving can be used for fuel discounts and other partnerships. Discovery's products, such as their Vitality scheme, demonstrate their belief that customer education is driven through behavioural education. The outcome of these schemes – better driving and better health - are not only good for the customer, but good for Discovery's bottom line. This shared value model transforms a traditional grudge purchase into a driving force for social change.

Regulation – tying it all together

Whilst South Africa now lags behind Europe in terms of ESG reporting, many insurers are cleaning house to ensure that if ESG reporting is mandated, they are ready to report. With the International Sustainability Standards Board's (ISSB) disclosure requirements now released, insurers are checking to see if there are any gaps in their data collection to report against IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*. Whilst the standards will be effective from 1 January 2024, it will be up to the Prudential Authority to decide if this is mandated in South Africa. Some countries will adopt it all, others, like Canada, have indicated they are likely to adopt parts of this regulation. Although daunting, the ISSB has not started from scratch - the standards consolidate and build on existing frameworks, including the TCFD and Sustainability Accounts Standard Board (SASB).

Consistency in how companies report globally - provided by the ISSB standards - is important to support investor decisions as it creates a level playing field for companies seeking investment. It is no coincidence that insurers with foreign investors are ahead of the curve when it comes to reporting. Many insurers are focussing on reporting readiness as a competitive strategy, using data to tell a meaningful story about their ESG focus areas and tying these back to their strategies.

Yet keeping up with, let alone ahead of, regulatory requirements is difficult and expensive. Legacy systems, a lack of a qualified staff, double counting and patchy data are just a few of the issues we've heard about from our clients, both in South Africa and abroad. Challenges around data are compounded for insurers - for example, data in respect of greenhouse gas emissions of the companies that insurers underwrite will need to be validated and reported on under IFRS S2. Many insurers have adopted the mantra 'don't let perfection get in the way of progress' and acknowledge that ESG data collection will likely be a process of trial and error for several years. Once ESG data is audited, clients will be better able to identify their pain points and put processes in place for better data capture and validation.

Whilst the insurers interviewed are at different levels of maturity, all are working towards a business model that integrates ESG. The competitive advantage that can be unlocked from integrating ESG into the business was recognised by those interviewed, who were incorporating ESG into all aspects of the business including strategy, underwriting, reporting and product design. By aligning operations with environmental, social, and governance principles, insurers position themselves as integral partners in safeguarding both financial stability and the well-being of our environment, as well as driving commercial value for their investors.

With thanks to the contributors:

- Wynand Louw, Functional Head: Legal and Compliance, Bryte Insurance Company Limited

- David Danilowitz, Head of Investor Relations and ESG, Discovery Limited

[5] Financial Sector Conduct Authority (2023) Press Release, 3 August 2023: Release of inaugural FSCA Financial Customer Behaviour and Sentiment Study Results. Available at FSCA Press Release - FSCA Retail Financial Customer Behaviour and Sentiment Study results_03 August 2023.pdf (https://www.fsca.co.za/News%20Documents/FSCA%20Press%20Release%20-%20FSCA%20Retail%20Financial%20Customer%20Behaviour%20and%20Sentiment%20Study%20results_03%20August%202023.pdf). (Accessed 3 August 2023).

Transform your workforce with the KPMG ESG Academy

The digital KPMG ESG Academy has answers to key environmental, social and governance (ESG) questions through an up-to-date learning experience designed by KPMG professionals and delivered in collaboration with leading international academic research institutions.

The curriculum is designed for practitioners who want to dive into pressing ESG issues.

The KPMG ESG Academy is accessible through your preferred learning platform:

- KPMG Learning Enablement and Analytics Platform (LEAP)
- Microsoft Teams and Viva Learning
- Your own learning system

Key features

Expert interviews for real-life point of view

Lectures held by leading international professors

Certification of completion from KPMG and the associated academic institutions

Most pressing ESG topics compressed to >10hrs video content

Digital, self-paced and dynamic learning experience

For more information please contact:

Martine Botha
Senior Manager
Sustainable Finance
T: +27 63 792 6567
E: martine.botha@kpmg.co.za

Mohammed Ahmed

Manager
Financial Risk Management: Actuarial
Tel: +27 66 391 2248
Email: mohammed.ahmed@kpmg.co.za

Beyond the screen: a personal account of integrating with my virtual team in the physical office

"You're on mute"

Phrase of the year for 2020.

Number of times "You're on Mute" was used

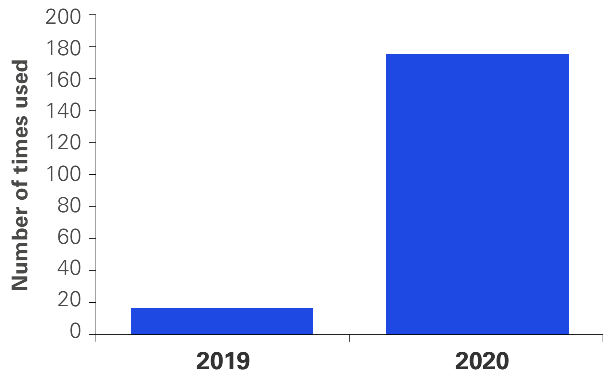


Figure 1: According to an analysis that The New York Times performed, the use of the phrase "You're on mute" increased by 1000% from 2019 to 2020, in a sample of more than 20 000 corporate presentations during the year.

Four years after lockdown, many of us have had to adapt to a rapidly changed work environment. From completely remote, to in-person, to hybrid models, each situation has brought its unique set of challenges but also allowed us to collaborate with familiar faces and strangers across the globe.

Recently, I found myself presented with the intriguing opportunity to work in-person with a team that I had already become accustomed to through a year of remote working. This article is not an attempt to add to the wealth of articles exploring the benefits and drawbacks of in-person versus remote working. Rather, it will focus on sharing some personal insights and lessons I have learnt through this experience.

Setting the scene

I had already become quite familiar with the concept of remote working when I started my stint with this team. One thing that COVID-19 taught us is that almost all white-collar jobs can be done with a laptop, an internet connection and some, in my case not optional, coffee. I would bet that almost all my readers have at some point worked remotely and each person would have their own levels of fondness for it.

When presented with the opportunity to work in-person, I initially agreed with my only expectation being to enhance my relationship with my remote team - and while I'm being honest, perhaps as an excuse to travel a bit. I did not expect it to have any effect on my own working experience and I definitely did not imagine that I would be writing an article about it.

My working period there, while short (only two weeks), coincided with one of the busiest periods during the year. Throughout the two weeks, I tracked my hours diligently, as a good consultant does, and performed minor analyses on them for the purposes of this article. Additionally, I collected data from an equally comparable two-week period of remote working, to allow for consistent comparison in terms of workload and pressure.

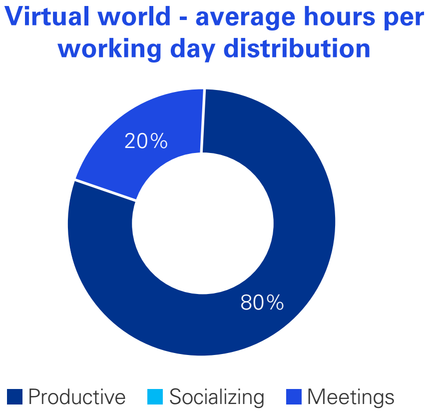
To avoid any judgement from my peers, I split my hours into the following groups:

- Productive hours - hours spent behind my laptop screen;
- Socializing; and
- Time spent in meetings and collaborating with people regarding work.

It is important to note that only hours spent in the office were included and not any post work hangouts. However, the impact of this kind of time spent is touched on when we unpack the differences in "socializing" time in the section below.

We can also safely assume that any time spent behind my screen was in fact spent doing work related tasks and not trying to improve my chess.com rating.

Here are the results:



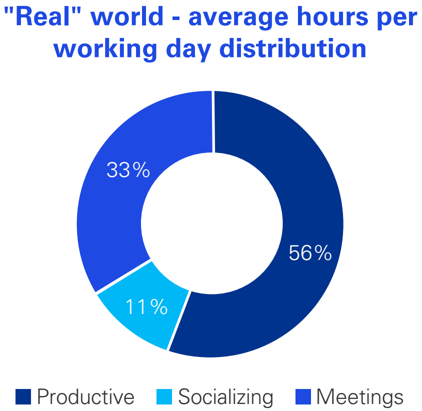


Figure 2: A comparison of the breakdown of the hours in my average working day during my remote working experience (left) versus my in-person working experience (right)

Analysis of productive hours

One of the major noticeable differences is the dominant slice of "productive" hours in the remote working chart. In line with this, but not explicitly shown in this analysis, the volume of my working hours were by my standards at least, quite impressive. I was willing to put in extra hours after work, often without realizing so much time had gone by, especially when working from home was an option.

This is also in line with multiple studies which show that remote workers end up working much longer hours than their in-person counterparts. Owl Labs' 2021 State of Remote Work[1] reported that approximately 55% of workers find themselves working longer hours remotely. If you are a corporate that focuses purely on the bottom line this sounds amazing.

Before we continue further, I need to make an important distinction - even though I have up to this point referred to this time as "productive" time, it actually only refers to screen time. A more accurate analysis would be to state that there was a marked decrease in screen time with in-person working in comparison to remote working. This distinction leads us to the question: Does an increase in time spent behind a screen equate to an increase in productivity? Keep this in mind as we will revisit it once we are done with our analysis.

Analysis of socializing hours

Unsurprisingly, the data to the left shows an increase in time, from 0% to 11%, spent socializing with my teammates in an in-person setting compared to remote work.

Studies have shown that time spent socializing increased camaraderie and the feeling of belonging within a team. Personally, the feeling that my work is seen and matters, increased steadily over the two-week period. This led to an increase in motivation and a willingness to dedicate extra hours towards making sure that my deliverables are of a high quality.

[1] Owl Lab's State of Remote Work 2021 - https://owllabs.com/state-of-remote-work/2021

The post-work hangouts I had mentioned earlier always led to an overall brighter atmosphere in the office the following day. The working day started with a discussion of the prior day's activities, and any inside jokes helped maintain the bright atmosphere even during the lunch time slump.

This time enhanced team spirit. Even if one only focuses on the business aspect, people generally build more meaningful business relationships with those they trust and a good starting point for building trust is talking about things other than work. This can be as trivial as sharing weekend plans, or if you are an Arsenal fan, discussing the appalling performance of your team from the night before.

Analysis of meetings hours

Perhaps the most surprising difference for me was the increase in time spent in meetings. This included any time spent in formal scheduled meetings as well as quick discussions on work-related topics. I felt as though I could learn more effectively in-person in comparison to the various virtual meetings I had been a part of. One reason for this was feeling more comfortable to ask "the stupid questions" in person, as a quick in-person chat felt much less intrusive than setting up a virtual meeting or calling someone over Teams. These quick in-person chats also fed into the increase in time spent discussing work and were incorporated into the analysis as meeting time.

Due to the unintrusive nature of these chats, I also tended to struggle a lot less on my own before asking for help on certain issues - this usually meant a much quicker resolution of issues. It is worth noting that while it is true that some struggle can be "character building", as one of my previous managers and personal mentors referred to it, the law of diminishing returns kicks in after a certain point and it can be more beneficial to just ask for help.

Massachusetts Institute of Technology's (MIT) Human Dynamics Lab did a study[2] which backs these observations and confirmed that people tend to be much more receptive to information in-person. They measured things such as tone of voice and body language, over hundreds of hours of meetings and concluded undoubtedly that in-person communication is more effective. They also show that an increase in interactions with people can speed up completion times for complex projects.

The impact – so what?

Overall, comparing the sample period of my two-week in-person experience, I found myself working slightly longer hours remotely (about 0.7 hours or 42 minutes to be exact) – however, time spent in front of the screen was significantly reduced as a result of either meetings or coffee breaks.

Another major difference that cannot be quantified is a considerable shift in how I viewed things. I felt more responsible for my work in-person, especially if I had to present it to someone standing right next to me. An interesting point to note here is that this feeling seems to have lingered on even after having returned to the remote workplace. Perhaps this happens once you realise someone has an entire body beneath their shoulders. This might be phrased as a joke, but I think it is quite a good analogy. People are much more complex than what you see and perceive through a screen - things like body language and tone tend to get lost even over video. Once you have built up some form of personal relationship with somebody it becomes difficult to forget.

I also felt less mentally and emotionally drained in comparison to my remote working experience and so the prospect of an in-person busy period seems less daunting than a remote one. To summarize, I felt an increase in job satisfaction due to the increased social interaction with my team and subsequent increase in team spirit.

Now I think we can come back to the original question posed, does an increase in time spent behind a screen equate to an increase in productivity? In my case, no. Not only did I manage to have the same output in-person despite the shorter screen time, but I also felt more fulfilled, less drained and like I had learnt more from my colleagues during the period.

[2] MIT Human Dynamics Lab study - https://www.media.mit.edu/publications/mining-face-to-face-interaction networks-using-sociometric-badges-predicting-productivity-in-an-it-configuration-task-december/

There are many research studies that prove that most people would take a pay cut to work for a cause that personally resonates with them, provided their basic needs are taken care of. The Harvard Business Review also wrote an interesting article in which they quantified the impact of increased productivity due to "Highly meaningful work", as an additional $9,078 per worker, per year in the American context[3].

Even if you are a corporate that values the bottom line more than anything else, my advice would be - play the long game and invest in building team spirit, even if this is at the expense of working time. It is a much better deal in the long run than a few extra hours of screen time.

To quote Paul Krugman – "Productivity isn't everything, but in the long run it is almost everything."

The wrap up - lessons learned

As you are reading this, you are most likely to be in the insurance industry, I want to link my findings to some lessons that you can take away.

A big problem facing employers at large insurers is young talent attraction and retention. Even though the industry employs millions of people, it is not viewed among the more glamorous industries that younger people aspire to be part of. According to Gartner[4], this problem is especially evident in the actuarial and analytics roles which is my field of work. They go on to say that a "lack of workplace culture" in the industry is one of the major challenges that needs to be addressed.

This is made worse by the fact that millennials are not shy to move if they are unhappy in comparison to their non-millennial counterparts. A recent Gallup report[5] on the millennial generation reveals that 21% of millennials changed jobs in the past year, that is more than three times the number of non-millennials over the same period. Millennials also show less willingness to stay in their current jobs with only half of millennials voting "strongly agree" when asked if they plan to be working at their current jobs in one year. In other words, half of the millennial work force does not see a future with their current employers. With millennnials projected to make up almost 50% of the workforce by 2025, the industry is forced to re-strategize to hire young talent.

Culture is a deal breaker, and it needs to be an area of focus for employers, if they want happier, more productive employees that stay on for years to come. Each team is different and each person is different. This means that employers need to take a tailored approach. In my case, the move to in-person working helped in achieving a better work culture, but it will not necessarily be the same for everyone.

My experience has helped me make the link between social interactions and an improved work culture. My two takeaways for employers and team leads in the industry can be summarized as follows:

- Encourage honest and transparent communication. This is perhaps the most important and yet most difficult area to implement. There is no one size fits all approach for increased team culture, and companies will need to run regular pulse surveys (and make sure people respond to them, which is a science in itself) and have managers that are open to informal feedback to ensure that any approaches taken are successful. Measuring team spirit is not easy, but some flexible metrics are needed, as the old adage goes: What gets measured, gets done.

- Conduct top-down company policy reviews regularly and be willing to change policies that are not working. Many employers have already introduced company policies aimed at ensuring job satisfaction, but these can quite often be hit or miss. For example, is remote working really as flexible as marketed or do remote workers end up feeling like they have even less work life balance?

[3] Harvard Business Review - https://hbr.org/2018/11/9-out-of-10-people-are-willing-to-earn-less-money-to-do-more-meaningful-work

[4] Gartner report: Gartner report, 16 June 2022, Spiceworks, 10 May 2022

[5] Gallup report: https://www.gallup.com/workplace/238073/millennials-work-live.aspx

Bringing it all together

To conclude, job and employee satisfaction is not simply an idealistic concept, it is an investment into the heart and soul of a business. A stronger team culture will lead to an increased feeling of belonging and can make a job more meaningful, which will lead to reduced turnover rates.

Gone are the days that increased pay alone would result in job satisfaction (to my managers, I would like both). As early as 1974, Studs Terkel equated meaning and pay as motivating factors for American Workers in his introduction to "Working". As such, I feel it is appropriate to end with a quote from his book[6]:

"[Work] is about a search…for daily meaning as well as daily bread, for recognition as well as cash, for astonishment rather than torpor, in short, for a sort of life rather than a Monday through Friday sort of dying."

[6] Studs Terkel, Working: People Talk About What They Do All Day and How They Feel About What They Do (The New Press (February 28, 1997)).

Ben April

Associate Director
ESG, climate and
financial risk management
Tel: +27 79 524 9383
Email: ben.april@kpmg.co.za

The regulatory and sustainable finance impacts and challenges of the Conduct of Financial Institutions (COFI) Bill for insurers

Introduction

As the South African market conduct regulator, the Financial Sector Conduct Authority's (FSCA) ESG-related strategic objective is to promote a transformational role in ensuring that South Africa's financial system best supports the country's sustainability goals. This will be achieved through the introduction of customer protection and market integrity mandates, and greater positive economic, environmental, and social outcomes, including alignment with South Africa's Climate Change National Determined Contributions, the Just Transition Framework and the United Nation's Sustainable Development Goals (SDGs).

The enactment of the COFI Bill (the Bill) will be instrumental in enabling the FSCA to meet its ESG strategic objectives. The ESG and climate-related areas of focus, measures and actions for a developing country such as South Africa, with very high levels of inequality, poverty and youth unemployment, will be different from that of a developed country or region such as the European Union.

The financial services industry in South Africa has seen significant changes to legislation and regulation over the last decade. The COFI Bill, which is the second leg of the Twin Peaks Financial Sector reforms, addresses inappropriate market conduct practices and introduces new ESG conduct requirements. The Bill is also expected to pave the way for a vastly refreshed regulatory landscape for the insurance sector, whilst introducing new ESG conduct risk and disclosure requirements.

The COFI Bill will require financial institutions to provide consumers with information about their services, fees and the risks associated with products they buy while moving away from a 'rules and regulations' based approach (tick box exercise) to a 'principles and outcomes' based approach. The shift from rules-based to principles-based regulation will require ongoing investment of time and resources from industry players.

The South African financial services industry is dominated by a small number of large financial institutions. A conglomerate is a group of companies that conducts material activities in at least one or more of the following regulated industries: banking, securities services and/or insurance. The requirements contained in the Banks Act, Insurance Act and Financial Sector Regulation (FSR) Act provide for the regulation and supervision of financial conglomerates and insurance groups involved in banking and insurance activities, respectively.

What does the COFI Bill mean for insurers and insurance groups?

The COFI Bill will apply to the wider financial services sector including banks, insurers, asset managers, brokers, financial advisors, administrators, pension funds, collective investment schemes, hedge funds, private equity funds, custodians, brokers and rating agencies (credit and ESG). The Bill introduces the following licencing changes:

- Schedule 1 licensed activities include the provision of a financial product, distribution, financial advice, discretionary investment management, administration, fiduciary or custodian service, payment service, debt collection service, financial market activities and corporate advisory services.
- **New licensing requirements for "credit to non-retail" lenders not regulated by the National Credit Act**. This will increase regulatory risk and compliance requirements and costs for insurance groups operating in the "credit to non-retail" lenders market.
- **A new licence category for "corporate advisory services" will apply to investment banking activities, advisory services in relation to M&A activities, arrangement of debt and equity issues, and on- and off-balance sheet financing of transactions, such as guarantees or letters of credit, operating leases, accounts receivable financing, factoring of receivables, invoice discounting, debtor financing, participating in joint ventures and research and development partnerships.** This will increase regulatory risk and compliance requirements and costs for insurance groups operating in the corporate advisory space not currently licensed.

Under COFI there will be new and additional requirements for entities operating in the insurance industry such as:

- **New sustainable finance conduct regulations and standards** for ESG.
- **The FSCA will be provided with the power to effect social transformation on employment equity, procurement, black economic empowerment and issue substantial fines.** Product providers will be scored on their procurement spend and will be negatively impacted when paying commissions to untransformed entities.
- **The introduction of conduct standards that will result in more fair customer outcomes.** This will require insurers to assess the effectiveness of the current control environment and consider the implementation of more robust systems, processes and controls.
- **The introduction of a senior management governance regime** which will hold managers personally accountable.
- The introduction **of new regulations around the outsourcing of premium collection and the governance of outsourcing contracts** in general.
- **More onerous capital requirements** to ensure entities are sufficiently capitalised to cover the current and potential future conduct risks.

How is the FSCA currently implementing the COFI Bill?

The insurance industry will likely face a lengthy implementation period and will have to wait until the second half of 2024 before the COFI transition is fully mapped out and its impact on different sectors of the industry is fully understood.

The COFI framework development is made up of three phases, all of which will be progressed concurrently as depicted below:

Phase 1 High-level design of the regulatory framework	Phase 2 Harmonisation of the regulatory frameworks	Phase 3 Transition to the COFI Bill framework
• Defining the role of regulatory instruments to support the frame-work, for example, conduct standards, and how these instruments are to be grouped, numbered and positioned. • This phase of the framework has been finalised.	• Thematic frameworks were developed in line with the conduct theme. • Expansion of thematic frameworks to include sector-specific requirements. • Targeted consultation on the themed frame-works under this phase will start in the second half of 2023.	• Focus on transitioning existing subordinate legislation into the COFI Bill framework. • The existing financial sector laws impacted have been assessed. • The next step is to determine how the requirements set out above should be transitioned into the new COFI framework. • The Phase 3 work will continue throughout 2023, to have initial formal proposals ready in the first half of 2024.

What is the COFI sustainable finance implementation plan?

In preparation for the implementation of the COFI Bill, the FSCA has established various thematic workstreams, to consider best practices regarding sustainable finance, to promote transparency, support the effective channelling of credit and savings for good, and reduce the risk of green-washing, social-washing and impact-washing.

The FSCA's graphic below illustrates the elements within the sustainable finance regulatory landscape.

Sustainable finance				
Environmental			Social	Governance
Climate change mitigation	Climate change adaption	Biodiversity, resource efficiency and pollution prevention	Gender, health, human rights, equality, SME and heritage	Board oversight, shareholder rights, transparency, disclosure and executive pay etc

The **FSCA Sustainable Finance Work Programme consist of five pillars: taxonomy; disclosure, reporting and assurance; market development; active ownership; and consumer education**. Each pillar is informed and supported by capacity building, research and stakeholder engagement, regulatory and supervisory framework development, and coordination and cooperation with other stakeholders.

Pillar 1	Pillar 2	Pillar 3	Pillar 4	Pillar 5
Taxonomy	Disclosure, reporting and assurance	Market development	Active ownership	Consumer education
Capacity building				
Research and stakeholder engagement				
Regulatory and supervisory framework development				
Coordination and cooperation with other stakeholders				

The National Treasury Green Finance Taxonomy will form the basis for both FSCA and South African Reserve Bank (SARB) disclosure, reporting and assurance requirements. FSCA disclosure requirements will be set at both product and service levels. Assurance providers, including ESG ratings agencies, and ESG data providers will be consulted during the drafting of disclosure requirements. The FSCA will issue a position paper clarifying its stance on International Standards.

During the current implementation of the Sustainable Finance Work Programme, the FSCA will track and monitor insurers' actions in areas such as:

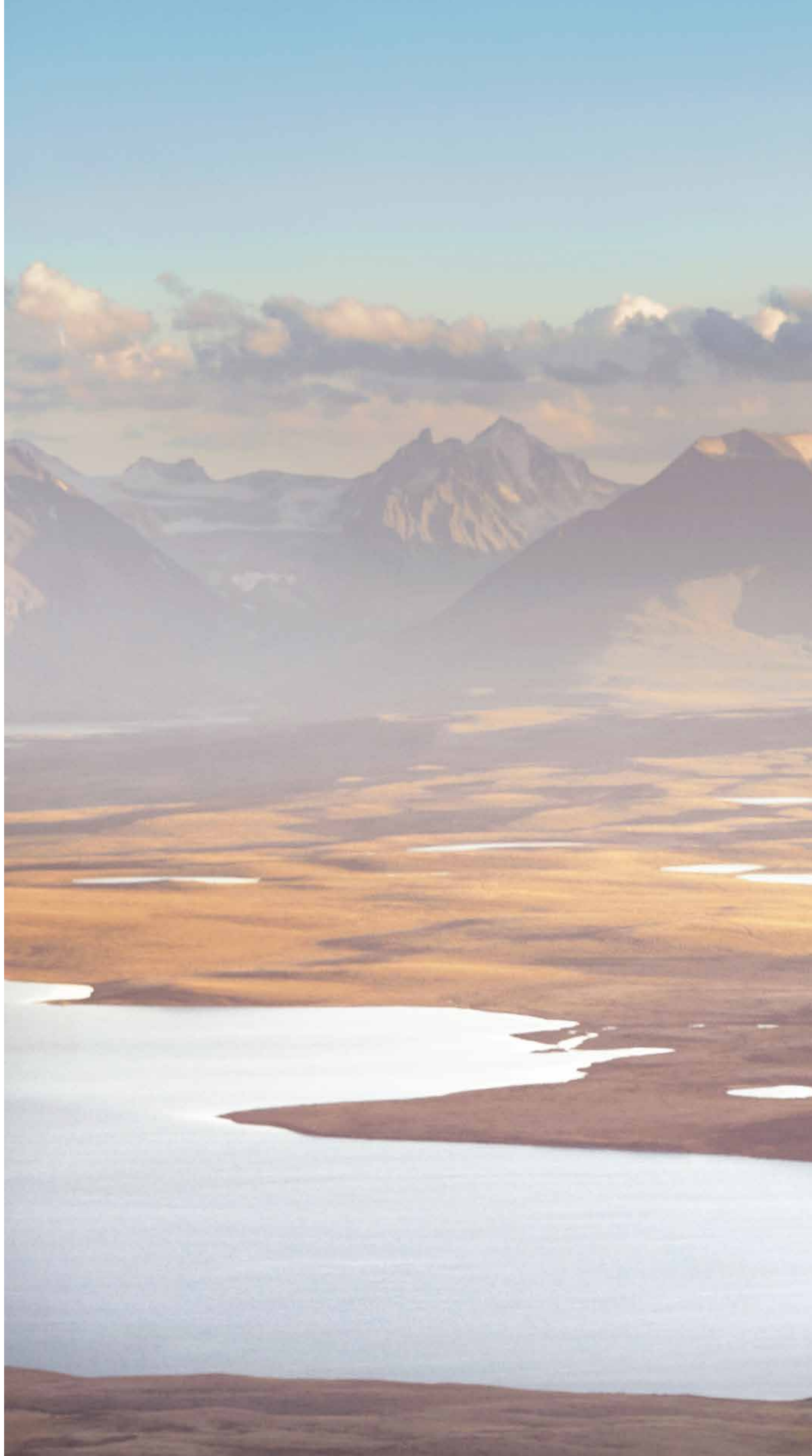
- The ceasing of cover for specific risk types or customer segments;
- Significant premium increases;
- Claims assessments; and
- Benefit exclusions or policy wording changes.

The FSCA will expand its role in promoting active ownership to drive the company’s strategy and actions in the direction of a more sustainable future. Final guidance from the Organisation for Economic Co-operation and Development (OECD) Corporate Governance Committee will be instrumental.

Under Pillar 5, consumer education, the FSCA will empower retail investors and consumers through financial education to assist their decision to support and engage with companies that follow climate change, diversity, equity and inclusion objectives.

Conclusion

National Treasury will continue to drive the COFI Bill to entrench better ESG and customer outcomes in the financial services sector. As the adoption and enactment date of the COFI Bill draws closer, insurers and insurance groups need to work closely with the FSCA, the South African Insurance Association (SAIA) and the Association for Savings and Investment South Africa (ASISA) on the development of the ESG conduct standards and what needs to be actioned based on the transitional arrangements.



Risk technology solutions - enabling your organisation's strategic priorities with advanced analytics and leading technology platforms

Insurance companies are confronting a wave of new challenges. Digital innovations have transformed customer behaviour and expectations, while regulatory changes and a shifting market landscape are impacting revenues.

Managing these strategic priorities requires the use of the right technology. KPMG has partnered with technology vendors that can assist your organisation with the implementation of leading asset and liability management solutions, managing investment and cash positions, financial instruments and financial risks across several asset classes.

Our service offering includes:

- **Platform selection**
  - Strategic review and benchmarking of suitable platforms
  - System selection process management
  - Contract negotiation
- **Implementation planning**
  - Creating and reviewing implementation plans
  - Defining phasing options and roadmaps
  - Cost estimations and budgeting
- **Project scoping**
  - Operating model design
  - Business requirements design
  - Developing data migration approaches
- **Testing**
  - Defining testing strategies
  - Management of test cycles and test governance
- **Change management**
  - Impact assessments of new platforms
  - Transition management
  - Training

For more information please contact:

Auguste Claude-Nguetsop
Partner
Financial Risk Management
T: +27 82 719 2842
E: auguste.claude-nguetsop@kpmg.co.za

Jana Mentz
Associate Director
Financial Risk Management
T: +27 60 997 6335
E: jana.mentz@kpmg.co.za

Derek Vice

Partner
Insurance
Tel: +27 82 711 2519
Email: derek.vice@kpmg.co.za

Are we appropriately covered?

"June the 4th, 1973, was much like any other summer's day in Peterborough, and Ralph Mellish, a file clerk at an insurance company, was on his way to work as usual when — (da dum!) Nothing happened! (dum dum dum) Scarcely able to believe his eyes, Ralph Mellish looked down. But one glance confirmed his suspicions. Behind a bush, on the side of the road, there was no severed arm. No dismembered trunk of a man in his late fifties. No head in a bag. Nothing. Not a sausage." – Monty Python

Poor Ralph Mellish's story turns out to be dull and only worth pursuing because of the absurdly highlighted lack of drama. But why does bad news sell? Why would many people rather complain than be positive? There is no such thing as an "Everything is fine" movie genre but there are many disaster movies – what is up with that? In my opinion this is because the human animal is programmed to scan for disaster. It is an evolutionary advantage to be risk aware (not risk averse). Our ancestors who were not risk aware, are not actually our ancestors, they are the dead end of an evolutionary line that died from snake bites, poison mushrooms or quicksand[1].

With this in mind, I was reflecting on the increasing severity of disasters, the breakdown of trust and the general erosion of morals facing us on a daily basis and was questioning "how much of this is hype?" How bad are things and how much worse can they get? As risk professionals, asking this sort of question is part of our responsibility. So, let us look at the following:

- As pandemics go, where would you put COVID-19: 8 out of 10? 9 out of 10? Think about this before you read on.
- All these hurricanes and storms are worse than before, right?
- Crime is at an all-time high! Murder rates are worse than ever!

Pandemically speaking

The earliest recorded pandemic was in 430 B.C. in Athens during the Peloponnesian War. This plague, suspected to be typhoid fever, went on to kill two thirds of that famous city[2]. The population of the city at the time was approximately 300,000 and so a death toll of 200,000 makes it small in numbers, but proportionately horrendous. Before it reached Athens the pandemic had already ravaged Libya, Ethiopia and Egypt.

We have scientific proof that as early as 450 B.C. people were dying from malaria[3]. I am not saying that people did not die from malaria before 450 B.C. Rather we have substantive proof of death by malaria from the mortal remains of a victim from that period. J. Whitfield, in his *Portrait of a Serial Killer*, suggests that throughout history as many as 50-60 billion people have been killed by malaria. That is about half the humans that have ever lived!

Like malaria, diseases like tuberculosis and hepatitis B and C are not normally included in the "pandemic" bucket as they have generally been systemic for significant periods and are not well tracked for individual outbreaks. This is not to say they are not killers, rather we have normalised to them somehow.

The HIV/AIDS pandemic in contrast was tracked closely. It has killed approximately 40.4 million people[4]. In 2005 the disease killed approximately 2 million people, which as a percentage of the population was 0.03% per annum. That was the peak period after which the annual mortality rate steadily declined.

1 As an aside: our news sources are also completely biased. There is a direct correlation between money and news coverage. A rich man's disaster is a poor man's daily existence.

2 https://www.history.com/topics/middle-ages/pandemics-timeline

3 Whitfield, J. Portrait of a serial killer. Nature (2002). https://doi.org/10.1038/news021001-6

4 https://www.unaids.org/en/resources/fact-sheet

Two of the biggest pandemics in history ran amok during the medieval period. The Plague of Justinian (bubonic plague, between 541-549) killed at least 15 million people, which was approximately 7% of the world's population. The Black Death (also bubonic but between 1346 and 1353) killed at least 75 million people, which accounts for around 17% of the global population. Both killed approximately 30% of the European population at the time[5].

Much more significant for the impacted populations was the impact of the Columbian Exchange. The Columbian Exchange can be defined as "the transfer of plants, animals, and diseases between the Old World of Europe and Africa and the New World of the Americas.[6]" Of particular interest in this context is the spread of various diseases that Europeans had developed immunity to, but which were unknown in the Americas. The decimation of various population groups across the Americas due to diseases, in the century after the arrival of the colonists, varied between 50-95% of these populations[7].

In comparison, at the date of drafting this article, the official COVID-19 death count was 6.9 million[8]. We know that excess mortality experience is significantly higher than the official mortality statistics. A range of excess death statistics have been prepared but two key sources (the Economist and the World Health Organisation) put these numbers around 24.8 million[9]. This is approximately 0.3% of the population.

Obviously, these numbers are not directly comparable. The time over which these events occurred, the estimation uncertainty - all of it adds up to a statistical mumbo-jumbo … but I think on the scale of 1 to 10 of how-bad-the-pandemic-could-have-gotten – it clearly could have been a lot worse.

5 https://en.wikipedia.org/wiki/List_of_epidemics_and_pandemics

6 https://www.worldhistory.org/Columbian_Exchange/

7 https://www.britannica.com/topic/European-exploration/Exploration-of-the-Atlantic-coastlines

8 https://www.worldometers.info/coronavirus/

9 https://ourworldindata.org/excess-mortality-covid

A once in a lifetime event, that might happen a couple of times in your life

Many insurers are now debating whether such pandemics are more frequent than we have previously assumed. Whilst I am not a statistician, I think it is fairly safe to say that COVID-19 was not a 1-in-200 year event. If we merely consider the last two hundred years, the ever-trusty Wikipedia suggests that[10]:

Epidemic/Pandemic	Disease	Death Toll	Years
1846–1860 cholera pandemic	Cholera	1 million+	1846–1860
Third plague pandemic	Bubonic plague	12–15 million	1855–1960
1889–1890 flu pandemic	Influenza (disputed)	1 million	1889-1890
Spanish flu	Influenza A/H1N1	17–100 million	1918–1920
1918–1922 Russia typhus	Typhus	2–3 million	1918–1922
1957–1958 influenza pandemic	Influenza A/H2N2	1–4 million	1957–1958
Hong Kong flu	Influenza A/H3N2	1–4 million	1968–1969
HIV/AIDS epidemic	HIV/AIDS	40.4 million	1981–present
COVID-19 pandemic	COVID-19	24.8 million	2019–present

Reuters, in a fascinating piece called "Bats and the Origins of Outbreaks", explains why it is probable that more diseases will make the leap from one species to another. Unfortunately, this tends to be one way traffic from animals to people. Reuters do a much better job of explaining this risk (with pictures and graphs) so I am not going to rehash their article, but the essence is that "scientists have long suspected that the rate of new infectious diseases could accelerate, especially in developing countries where human and animal interaction is increasing.[11]"

We are therefore forced to face the reality that COVID-19 might not be a once off experience. Response plans (and insurance pricing) need to consider the real possibility of COVID-19 2.0; if they are not already.

10 https://en.wikipedia.org/wiki/List_of_epidemics_and_pandemics - adjusted in the grey cells for more recent information

11 https://www.reuters.com/graphics/HEALTH-CORONAVIRUS/BATS/qzjpqglbxpx/

The internet is a warren of Reality Tunnels[12]

In my article last year, I talked about how hurricanes are getting worse and how the number of severe hurricanes making landfall has increased in the last century. The statistics support that this is true for Africa as well as the Americas. As with so much on the internet, I have subsequently come across a community of professionals who take up the contrary position. It is fascinating how anyone who says anything along the line of, "storms are not getting worse," is immediately labelled a climate denier (or something worse). That said, these "climate deniers" make an interesting point, which is that the cost of hurricane damage and the economics of hurricanes in general needs to be distinguished from the meteorological facts about hurricanes[13]. That is, whilst the cost of storm damage might increase in real terms each year, the underlying economic growth makes this inevitable and not indicative of more severe storms.

On that aspect they are not alone, many sources conclude something like "it's clear that skyrocketing population growth along the coast means storms today are more costly and destructive than 100 years ago, and sea level rise means more dangerous flooding from storm surge.[14]" Again, the words destructive and dangerous talk to the impact on people but not necessarily something inherently different to the storms themselves. The increased cost is not surprising as humanity owns more stuff every year and therefore has more to lose. Still the costs are staggering[15]:

Hurricane	Year	Cost
Katrina	2005	$192.5bn
Harvey	2017	$152.5bn
Ian	2022	$114.0bn
Maria	2017	$109.8bn
Sandy	2012	$84.6bn

The current projections are that as oceans warm, hurricanes will develop more quickly into severe storms[16]. This is the actual cause of concern, more severe storms making landfall is a problem. This was also the case in the medieval period, when "many of these hurricanes were likely more intense than any that have hit the area (Cape Cod, Massachusetts) in recorded history.[17]" A period known as the Medieval Warm Period had significantly higher incidence of severe hurricanes which have subsequently lulled but appear to be on the increase again[18]. Couple this with the increased flooding risk caused by urbanisation (or concretisation) and the picture is not rosy.

For insurers, if you were hoping climate deniers might be right, or that this might just be a phase, the unfortunate thing is that this phase might have been the quiet one. It seems we do not need man-made global warming for hurricanes and storms to get worse (in particular regions, at least). In historically ancient periods (the Pliocene), global warming caused by natural fluctuations resulted in periods of "permanent El Niño conditions and high tropical cyclone activity[19]." For those who do not remember, El Niño is a cyclical weather system which has impacts directly on South Africa. According to the South African Weather Service, "the rainfall forecast indicates above-normal rainfall for most of the country during winter (Jul-Aug-Sep) through to early-spring (Aug-Sep-Oct)..." and "minimum and maximum temperatures are expected to be mostly above-normal countrywide for the forecast period." El Niño results in extreme weather changes in South Africa, ranging from severe drought to unseasonal weather. Just a few headlines about El Niño in South Africa make it obvious that this is not a good thing. "In Southern Africa, El Nino-related droughts had led to massive crop failure. South Africa had a 25% drop in maize and a 23% drop in grain production.[20]" El Niño could pose a threat to South Africa's food security[21].

Bottom line, the weather is not going to become kinder to humans in the foreseeable future and consequently good risk management and insurance have an important role to play in tracking and managing these risks for policyholders.

12 Reality tunnel is a theory that, with a subconscious set of mental filters formed from beliefs and experiences, every individual interprets the same world differently, hence "Truth is in the eye of the beholder". - https://en.wikipedia.org/wiki/Reality_tunnel

13 https://www.forbes.com/sites/rogerpielke/2019/11/15/no-hurricanes-are-not-bigger-stronger-and-more dangerous/?sh=7601d8ce4d9e

14 https://www.statesman.com/story/news/politics/elections/2020/10/14/fact-check-are-there-as-many-hurricanes-today-compared-to-100-years-ago/42752943/

15 Source of data for this graphic: Philbrick, Ian Pasad; Wu, Ashley, (2 December 2022). "Population Growth Is Making Hurricanes More Expensive". The New York Times. Newspaper states data source: NOAA.

16 https://www.pnnl.gov/news-media/powerful-hurricanes-strengthen-faster-now-30-years-ago

17 https://en.wikipedia.org/wiki/Pre-1600_Atlantic_hurricane_seasons

18 https://en.wikipedia.org/wiki/Pre-1600_Atlantic_hurricane_seasons

19 https://news.mit.edu/2010/hurricane-pliocene-0226

20 https://borgenproject.org/the-lasting-effects-of-el-nino/

21 https://ewn.co.za/2023/02/20/el-nino-could-pose-threat-to-sa-s-food-security-agricultural-business-chamber

"Show me the man, and I'll show you the crime.[22]" "He that is without sin among you, let him cast the first stone[23]."

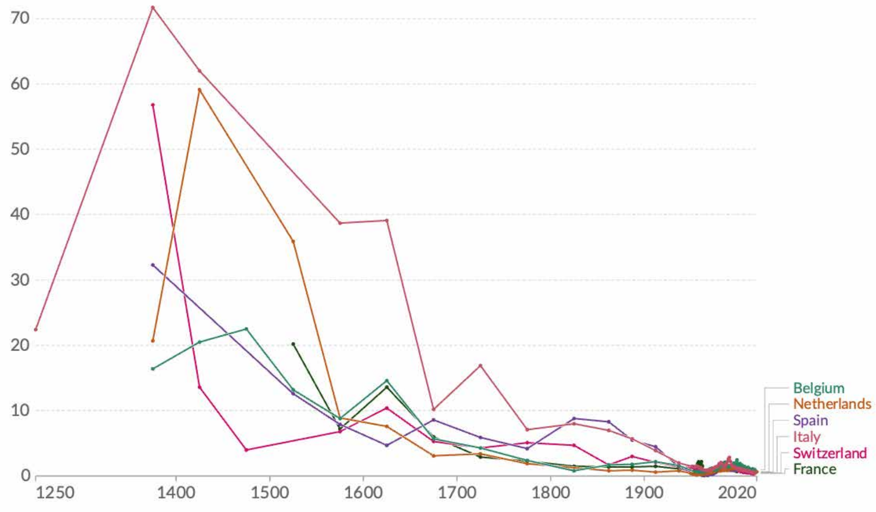
It seems that both Jesus and the head of the USSR secret police could have agreed on one thing, humanity has a dark side. Murder is one of the most reported and statistically reliable crime statistics. Unlike many other crimes which might not be reported, misreported or simply be unreliable, murders are more likely to be reported, recorded and tracked by states[24 25]. It is no surprise that the story of Cain and Abel is a common thread in many faiths[26].

Murder rates are therefore often considered a good barometer of general levels of crime (both violent and non-violent crime). However, it seems that the assumed correlation between murder rates and other crime rates is not necessarily supported. A recent analysis of 31 previous research publications into the link between murder and other crimes suggests that "homicide can function as an indicator of violent crime in general[27]", i.e. whilst there is a level of correlation between murder and other violent and non-violent crimes, there is a higher and more direct level of correlation between murder and other violent crimes. The overall relationship between murder and non-violent crime is nuanced and complex. Specifically for South Africa, the Daily Maverick performed an analysis on our own statistics which showed a strong correlation between murder rates and other non-violent crimes in South Africa[28].

Long-term (as in centuries) data on homicide rates is difficult to come by. Our World in Data provides some interesting statistics on murder rates in Western Europe from as early as the 13th century[29].

Long-term homicide rates across Western Europe

Number of homicides[1] per 100,000 people



Source: Eisner (2014): WHO Mortality Database (2022) OurWorldInData/homicides • CC BY

1. Homicide: The killing of a person by another with intent to cause death or injury

22 Attributed to Lavrentiy Beria the head of Stalin's secret police and a decidedly nasty person.

23 Gospel of John, 8:7

24 van Breen, J.A., Devarakonda, S.K. & Liem, M. Can Homicide Serve as an Indicator of Non-lethal Crime? A Systematic Literature Review. Int Criminol 3, 99–115 (2023). https://doi.org/10.1007/s43576-023-00086-1

25 That said, the definitions do vary and – like all statistics – these need to be read with a healthy level of scepticism.

26 The first recorded murder? Genesis 4:8 – "And Cain talked with Abel his brother: and it came to pass, when they were in the field, that Cain rose up against Abel his brother, and slew him."

27 van Breen, J.A., Devarakonda, S.K. & Liem, M. Can Homicide Serve as an Indicator of Non-lethal Crime? A Systematic Literature Review. Int Criminol 3, 99–115 (2023). https://doi.org/10.1007/s43576-023-00086-1

28 https://www.dailymaverick.co.za/article/2015-10-02-south-africas-mysterious-murder-rate/

29 Bastian Herre, Fiona Spooner and Max Roser (2013) - "Homicides". Published online at OurWorldInData.org. Retrieved from: 'https://ourworldindata.org/homicides' [Online Resource]

Whilst pre-1600 data seems volatile and potentially unreliable, there is a gentle downward trend over the years. Whilst this is optimistic for the species, individual jurisdictions (such as our own) are not necessarily following the same trend.

There appears to be consensus that the mid-20th century showed a period of extremely low homicide rates for the world *in general*, which worsened into the latter part of the century. The US graph below is reflective of many first world country's experience.

Homicide rate across sources, United States

Annual number of deaths from homicide[1] per 100,000 people

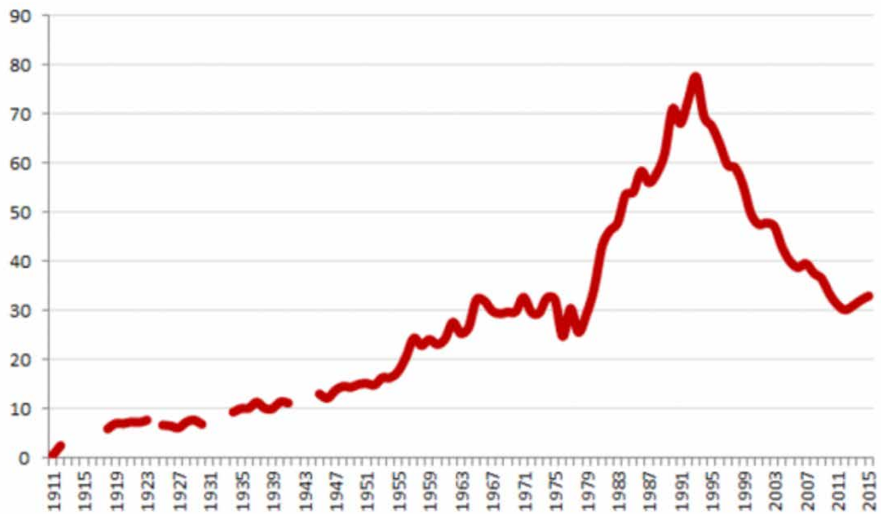
Source: History of Homicide Database, Eisner (2014); IHME (2019); WHO GHE (2020); WHO MD (2022); UNODC (2023)

Note: The number of available sources differs by country or region. OurWorldInData.org/homicides • CC BY

1. Homicide: The killing of a person by another with intent to cause death or injury

These rates are still comparatively low when compared to South Africa. South Africa has had a homicide rate higher than the world average for as far back as we have statistics. Although these statistics from the earlier years are questionable, due to the political structure of policing in the country at the time.

South Africa's recorded murder rate per 100 000, 1911-2015



For clarity, the South African murder rates since 2015 have generally continued to increase from hitting 36.71 (per 100,000) in 2019, dropping drastically in 2020 to 33.96 and the spiking in 2021 to 41.87[30].

What should insurers be taking from these statistics? On the face of it the only reasonable conclusion is that murder rates are as volatile as equity markets, but less exciting. Apart from that, and assuming the correlation between homicide and other crimes, we note that crime rates can vary significantly over a short period of time. Murder rates in the US increased by 100% in the span of ten years. Similarly, South African homicide rates increased by 100% in the ten years from 1980-1990 and decreased by a similarly large margin in the late 90s and early 2000s. Trends in behaviour can vary drastically in very short duration. From a technology perspective we have become used to this, smart phones and the transition to remote working being drastic short-term social changes, but when it comes to the fundamentals of property laws and justice it appears such changes can be equally drastic.

30 https://www.macrotrends.net/countries/ZAF/south-africa/murder-homicide-rate

For entities that price for the long-term this is potentially concerning. The risk landscape relating to crime can be fundamentally different in the next decade and should be treated as such. This is not necessarily always on the downside, theft and crime could equally drastically decrease and the insurer that feeds this into pricing quickly will have a competitive pricing advantage.

How bad are things, and how bad can they get?

The answer is unfortunately a question of perspective. There is good evidence that weather systems, diseases and crime are worse than they were at certain points in the past. Similarly, there is evidence that these same risks are less severe than they could and have been. For insurers this means remaining vigilant and planning, as well as taking policyholders on the journey. There is a good chance we will experience significant variations in storms, droughts, floods, diseases and crime – are we appropriately covered?

Haroon Jogee

Associate Director
Tax Management Services
Tel: +27 66 010 7812
Email: haroon.jogee@kpmg.co.za

Deepti Darji

Associate Director
Tax Management Services
Tel: + 27 82 718 9054
Email: deepti.darji@kpmg.co.za

Vian Strydom

Partner
Tax Management Services
Tel: +27 82 564 9118
Email: vian.strydom@kpmg.co.za

Income tax amendments for non-life insurers

What has happened historically

In the last decade, two significant changes were introduced to the tax legislation for non-life insurance companies:

- **The first was introduced in the 2012 taxation laws amendments which removed the discretion that was held by SARS to make adjustments to the regulatory reserve amounts applied for tax purposes.**
- **The second change was introduced in the 2015 taxation laws amendments in response to the Prudential Authority's implementation of the Solvency Assessment and Management (SAM) framework. Under this amendment SARS required non-life insurance companies to deduct amounts recognised as insurance contract liabilities, in line with those amounts recognised for accounting purposes under *IFRS 4 Insurance Contracts* (IFRS 4).**

Time for change

Following the release of *IFRS 17 Insurance Contracts* (IFRS 17), effective for year ends beginning on or after 1 January 2023, amendments to section 28 of the Income Tax Act (the Act) were enacted in the 2022 Taxation Laws Amendment Act. These amendments are applicable for years of assessment commencing on or after 1 January 2023 and mitigate potential unfavourable tax impacts emanating from the accounting changes as a result of insurers moving from IFRS 4 to IFRS 17. Set out below are the primary reasons for the tax changes:

- Under IFRS 4, salvages and recoveries were not recognised as part of insurance contract liabilities and accordingly was not taxed on the accrual basis, but rather on the receipt basis. With the recent amendment under IFRS 17, salvages and recoveries will be included as part of insurance contract liabilities and will be fully taxable when accrued under the new legislation in the year of transition.
- The recognition and measurement requirements set out under IFRS 17 require certain asset amounts to be offset against insurance contract liabilities relating to the liability for remaining coverage (LRC), for example premium debtors and the deferred acquisition costs asset. Under IFRS 4 these asset balances were presented gross of the insurance contract liability balances.
- The terminology applied in section 28 of the Act will be amended to align with that of IFRS 17.

- In the year of transition to IFRS 17, the use of IFRS 17-determined insurance contract liabilities in the tax computation may have resulted in higher amounts being taxed or lower amounts being deducted than should have been applied, when compared to the IFRS 4-determined insurance contract liabilities applied in previous years.

To counter against the challenges noted above, section 28 provides relief to mitigate the income tax implications emanating from the different methodologies applied between IFRS 4 and IFRS 17. The relief provided is as follows:

Once-off adjustment

Section 28(3C) of the Act allows non-life insurance companies to make a once-off adjustment to their taxable income in the first year of assessment commencing on or after 1 January 2023 as follows:

- Include amounts recoverable on claims incurred at the end of the last year of assessment, on or after 1 January 2022 but before 1 January 2023, which have not been received by the end of that year of assessment;
- Deduct the LRC at the end of the last year of assessment, on or after 1 January 2022 but before 1 January 2023, had IFRS 17 been applied at the end of that year of assessment; and
- Deduct the net amounts of insurance premium or reinsurance premium debtors and reinsurance payables taken into account in determining the LRC as at the end of the last year of assessment, on or after 1 January 2022 but before 1 January 2023, had IFRS 17 been applied at the end of that year of assessment.

Introduction of the phasing-in amount

Section 28(3D) introduces the concept of a 'phasing-in' amount which is to be applied over a period of three years commencing from 1 January 2023. This provision was introduced to address the deduction related to the increase in tax liabilities post the implementation of IFRS 17.

The deduction available under the 'phasing in amount' is calculated as the difference between:

a) The amount deductible for tax purposes under section 28(3) in respect of insurance contract liabilities for the last year of assessment commencing on or after 1 January 2022 but before 1 January 2023; and

b) the amount deductible for tax purposes under section 28(3) in respect of insurance contract liabilities for the last year of assessment commencing on or after 1 January 2022 but before 1 January 2023 had IFRS 17 and the amended section 28(3) been applied at the end of the last year of assessment.

The amount calculated above is reduced for the difference between:

- insurance premium debtors and reinsurance premium debtors; and
- reinsurance premium payable at the end of the last year of assessment commencing on or after 1 January 2022 but before 1 January 2023 had IFRS 17 been applied, other than amounts forming part of the LIC.

The phasing-in amount is thereafter increased by the amount recoverable on claims incurred at the end of the last year of assessment on or after 1 January 2022 but before 1 January 2023 which have not been received by the end of that year of assessment.

In instances where the amount calculated under b) is greater than that calculated under a), the phasing-in amount results in an increase to taxable income as opposed to a deduction.

Recurring deduction in respect of the LIC

Section 28(3) has been amended to incorporate the changes in terminology to align with IFRS 17. It follows that non-life insurers are now able to claim a deduction for liabilities for incurred claims net of amounts related to reinsurance contracts as determined under IFRS 17.

Looking ahead

Reflecting on the changes set out above, the adjustments to be made in the first year of assessment commencing on or after 1 January 2023 are technical and will require careful consideration by management and the board of directors. The accounting in terms of IFRS 17 will need to be understood and will have a significant impact on the tax adjustments to be made.

There may be queries expected from SARS to understand how the once-off adjustment and phasing in amount is determined, due to their technical nature.

Financial managers and tax accountants are encouraged to closely monitor the various accounting adjustments and understand these in light of the income tax amendments in a timely manner. The time and effort involved in achieving the end goal cannot be underestimated.

Tax technology solutions

Meaningful technology-enablement is about making strategic changes moving the tax function up the value chain, so that the tax department becomes a true enabler of value inside the organisation and beyond.

Our tax technology specialists can assist in your transformation journey:

- Data and analytics: implement dashboards with drill down capability to transactional level detail; quantification of results for corrective action; and opportunities for scenario analysis.
- System controls review: review of your current enterprise resource planning (ERP) system tax configuration to identify areas of optimisation. We are also able to assess the overall readiness of your ERP system and data to comply with future requirements such as real-time reporting and e-invoicing.
- Process development and automation: we provide fit-for-purpose vendor sourcing services; assistance with the identification of the right solution and system design to automate tax derivation, tax compliance and tax return processes; development of tax technology policies and procedures; and design of controls and monitoring of key tax processes.
- Process and technology implementation: we are able to assist with the design of efficient processes tailored to your business' operational and compliance requirements; implementation of automated tax processes; optimisation of current processes; and periodic monitoring and review of tax processes and technology implemented to confirm effectiveness and efficiency.
- Automated reconciliations: our technology can be used for faster, easier and better-quality reconciliations required for group reporting and reporting to SARS; and to create visibility to easily identify reconciling items.

These solutions can be applied to all tax types ranging from VAT and PAYE, to transfer pricing, customs and direct taxes.

For more information please contact:

Madelein Van Zyl
Partner
Tax technology and transformation
T: +27 82 718 8810
E: madelein.vanzyl@kpmg.co.za

Pieter Naude
Associate Director
Tax technology and transformation
T: +27 82 718 8787
E: pieter.naude@kpmg.co.za

Pieter Scholtz

Partner
Africa ESG leader
Tel: +27 79 524 9404
Email: pieter.scholtz@kpmg.co.za

ESG and the battle between compliance and the "S"

In 2019 Shell had more Greenhouse Gas (GHG) emissions than the country of Japan – the world's third largest economy in nominal Gross Domestic Product (GDP) terms.

Shell and all its peers in the oil and gas sector are clearly major contributors to GHG emissions – no surprise there. Shell, with an ESG score of AA according to MSCI[1], one of the leading ESG research firms, is just one level away from the best possible ESG score according to MSCI. In fact, Shell has a better ESG score than Tesla (ESG score of A), a company that is developing electric vehicles that will help to reduce global GHG emissions in the transport sector. There clearly are a couple of things to unpack here:

- How can a single company have more GHG emissions than the third largest economy in the world? The answer lies in how GHG emissions are measured. Seventy-eight percent (78%) of Shell's GHG emissions in 2019 came from Scope 3, Category 11: use of sold products. This therefore includes you and me filling our vehicles with petrol and all the you's and me's in Japan. As long as there will be a demand for fuel driven vehicles, planes, electricity generation, etc., Shell will continue its oil and gas operations and its Scope 3, Category 11 emissions will remain a significant contributor to GHG emissions. This does not make Shell, or its industry, a villain. As long as there is a market for oil and gas, it will be illogical and irresponsible for oil and gas companies to not supply the demand.

- How can a company that is a major contributor to GHG emissions have a better ESG score than the company that has global GHG emissions reduction at the core of its value proposition? The answer lies in how ESG ratings are determined. Most ESG rating agencies do not take a company's nominal GHG emissions into account in their scoring, but rather measures a company according to its industry peers' *emissions intensity* and the plans it has in place to reduce its financial risks from an Environmental, Social and Governance perspective. There is much more nuance to this (more than can be covered here), and it differs from rating agency to rating agency, but the core principles seem to hold: to get a good ESG score, you need to do better than your industry peers; have good plans covering the E, S and G; and execute consistently on your plans. It is therefore possible to get a great ESG score without being a 'green' company. It is equally possible to have decarbonisation at the core of your business model, but not have a great ESG rating.

Emissions intensity *refers to the amount of GHGs emitted per unit of output. It is usually measured as grams or kilograms of GHGs emitted per unit of energy produced, product manufactured, or economic activity generated.*

So, how are Shell's GHG emissions and its ESG score relevant to the S in ESG for insurance companies in the South African context? The principles are the same: you can meet all the social metrics in order to get a good ESG score, and you can be a level 1 BBBEE company, without having a sustainable impact on the socio-economy.

South Africa has not moved the dial much, at least not in the right direction, to remove inequality in our society since 1994. We have numerous laws and policies that is supposed to be driving economic transformation, and yet the divide between rich and poor continues to grow[2]. At the same time a large portion of our biggest companies are level 1 or level 2 BBBEE certified. Clearly there is a gap between true positive impact and what we report, or get accredited as, in South Africa.

1 Morgan Stanley Capital International

2 Reference Time Magazine, 13 May 2019

Regardless of the fact that the Global Reporting Initiative (GRI) and International Sustainability Standards Board (ISSB) reporting standards are being embraced more and more in South Africa, ESG legislation seems to be some way off. So, at this stage no need to worry about it? Let us wait for the legislation to be promulgated? That is fine if your investors do not really care about sustainability; your workforce is content to work for a corporate whose sole drive is shareholder value; your clients do not consider your company's sustainability performance when they are deciding which insurer to use; you do not believe the private sector has a role to play in creating a just society; and you do not have children that you want to create a sustainable future for.

However, if you believe that sustainability is more than compliance, then waiting for the promulgation of ESG legislation is not an option.

With the large investments into ESG compliance, initiatives and tools in the developed world, South African insurance companies can benefit. The Environmental and Governance components of ESG in the African context will not differ much from what is measured, monitored and done in the developed world. A lot of the learnings, tools and frameworks could therefore be applied as is in Africa. Where there will be a difference in Africa is on the social element.

Given how different the socio-economic construct is around large companies in Africa when compared with the developed world, the key social considerations for African companies will have a distinctly different flavour. Whilst considerations such as diversity, equity, inclusion, prevention of Gender Based Violence (GBV) and eliminating human rights abuses from your supply chain will be as important as in the developed world, we will have a key additional component: how do we make sure our local communities benefit from our operations on their doorsteps. The great advantage is that there are many past experiences and practices to learn from already. Even though the S is much more complicated than the E and the G, we already know what the major pitfalls are, because we have been doing this in some form or another for many years already. Think of all the billions of Rands that have already been spent through Corporate Social Investment (CSI), Enterprise and Supplier Development (ESD) and social upliftment projects.

Creating long-term social sustainable value is therefore nothing new to us: we have had to deal with it from a social licence to operate perspective and from a legal and policy perspective, for decades. Unfortunately, we still miss the mark too often.

Why is the S so elusive if we have been at it for so long? There are many reasons, and they vary from the obvious to the nuanced. A couple of the more common reasons are:

Intent

If your company's intent is only to be legislatively compliant, reach your localisation targets (BBBEE in the South African context), or maintain your social licence to operate, then it will be almost impossible to achieve sustainable impact through your social expenditure.

To demonstrate why we are seeing so little impact from the social investments we are making, let us consider two of the most common social spending areas: infrastructure and goods.

Infrastructure: This includes things like upgrading or building schools, crèches, clinics, playgrounds or parks, or funding a borehole, soccer pitch or taxi rank. Even though this is easy and will undoubtedly get the support of the local municipality and other relevant government entities, these projects are seldom sustainable because once the infrastructure is there, it needs to be staffed, maintained and serviced. If the local municipality or government entity that will be responsible for staffing the clinic, maintaining the playground, or providing water, electricity and books to the school does not have the means or skills to do so, these projects soon become white elephants. Similarly, if there is no competent entity with the required funding to make sure the borehole equipment such as pumps and motors are maintained and fixed when broken, then these boreholes do not last long.

If a company funds a school, borehole or clinic, did the company meet its CSI spend targets? Probably. Has the company ticked its compliance boxes? Probably. Did the company create sustainable value for the community? Not unless they also made sure that the supporting mechanisms are all in place.

Goods: This includes things like giving computers to schools in need, distributing sanitary pads once off during women's month, distributing food packs, etc. Whilst all these things add some value in the short-term, they generally do not enable long-term social upliftment unless they are continuously repeated or well supported. Taking the examples listed above, let us see what needs to be done to make them sustainable:

- Donating computers to a school in need can only add real value if the school does not have electricity problems, has a well-functioning security system that will prevent theft and someone at the school has the necessary knowledge and training to get the most out of the computers and can convey this to the learners. Can donating computers add long-term value? Of course it can. But only if we also make sure that everything else that is needed for the value to be unlocked, is in place. Merely donating computers is unlikely to have a sustainable impact.

- Once-off donations of usable products such as sanitary pads or food can add significant short-term value, but unless we make sure that the women in need, or the people that are hungry, have a means of sourcing these products going forward (i.e. partnering with non-profits that get wider funding and provide these goods on a continuous basis), we are only soothing our own consciences by once-off donations.

These examples hopefully demonstrate that it is possible to meet our CSI spending targets and achieve some impact through the donation of goods, but if we are serious about sustainability and creating long-term impact, we have to be more invested than merely donating these goods.

Money

Where we do see companies being intent on making a real difference in their communities by channelling their social expenditure into economic diversification and upliftment projects, sustainability is regularly missed because they overestimate the impact that can be created with the funds they have available. Even if you identify the right projects, the right beneficiaries and you bring the project to fruition, it still does not guarantee sustainability. The reality is that most beneficiaries need continued support with business and financial planning. They need training and coaching for many years until they understand their tax, maintenance and managerial duties and have grown their businesses to be financially sustainable and independent from the sponsoring company. To get this right there needs to be money, effort and love put into these businesses after the ribbon has been cut and the boxes have been ticked.

Collaboration

One of the quickest ways to ensure failure is to think you know – sitting in your comfy office, getting a good salary every month – what your target community needs and you do not co-create the projects with them. Another is to merely ask the community leaders what they want and give that to them: what community leaders want and what the communities need are often misaligned. If your intent is to make the S sustainable, then the best way is to follow a co-creation approach where you bridge the gaps between what your communities want and what they actually need.

Some other areas of collaboration where social projects fail from a sustainability perspective are: we do not have the required government departments all aligned; we think we need to do and fund everything on our own instead of collaborating with other companies, funders, financiers or investors; or we do not bring in the right skill-sets onboard: people that have actually set-up Small, Micro and Medium Enterprises (SMMEs) before.

There are many more reasons why our social expenditure, too often, misses the long-term sustainability mark, but this does not have to be the case. Some of the key things that can be done to make the S less elusive are:

- Ensure you understand your target community's context. Do not think you know. There are fool-proof ways to get this right.

- Ensure you bridge the gap between what your host communities want and need. There are many tools that have been developed to assist with this.

- Co-create the projects that you will fund with your host community and the relevant government entities. There are many frameworks to ensure you de-risk this process and achieve alignment.

- Identify the right beneficiaries: entrepreneurial skills are more important than social stature when we develop new businesses in our communities. There are many tools that have been developed to assist with the identification process.

- Collaborate with government to make sure you understand their objectives and constraints.

- Set the projects up in a way that will enable impact funds or other financiers and investors to come on board to scale the impact you catalysed. There are numerous consultants that provide services across both the social and financial sectors that can assist to bridge this gap.

- If you do intend to fund infrastructure projects, ensure the relevant government entities have the capacity to manage, staff, maintain and service the infrastructure. There are many consultants that can assist with these audits and with the subsequent capacitation, if required.

- Ensure the beneficiaries of your social upliftment projects have access to financial, managerial and business strategy support services so that they can diversify their client base and mature their businesses and their own skills to the point where they are not reliant on your company for the long-term sustainability of their business.

We have enough success stories across the continent to know that long-term sustainability of social upliftment projects is achievable. If we do it right, it does not even have to cost more money than we are already spending on it. The S does not have to be elusive.

If Shell can get a higher ESG score than Tesla, then it is certainly possible for any insurance company in South Africa to get a great ESG score while creating a material and sustainable impact. Does it however make sense to only try for compliance when real impact is possible? Not in my mind: we simply have too much to lose if we do not get it right.

In the words of Madiba: "Sometimes it falls upon a generation to be great. You can be that great generation. And of course the task will not be easy. But not to do this, will be a crime against humanity."

Pravir Jeaven

Associate Director
Corporate Tax
Tel: +27 82 717 5003
Email: pravir.jeaven@kpmg.co.za

Addressing socially-conscious stakeholders and tax transparency: a survey of 65 insurance companies

Introduction

The insurance industry in South Africa is facing a variety of disrupters in its operating environment. One of these is the increased level of public scrutiny on companies and the perceived impact that they have on the economy and the citizens of that economy. The views held by stakeholders have an impact on businesses.

The impact that social media has had on countries, current events, companies etc., is something that cannot be discounted due to its massive reach, the ease of creating content and relatively quick consumption. One of the concerns social media has created is the ease of spreading misinformation. With this in mind, the way in which insurers communicate their overall impact on the economy and the community is of utmost importance in order to address socially conscious stakeholders.

Socially conscious stakeholders are stakeholders who prioritise ethical, environmental and social impacts alongside financial returns when making decisions.

Governments generally use taxes to generate funding which they can use to support public services such as health, infrastructure and education. As such, the collection and payment of taxes is key to providing the required funding. As the world becomes more globalised, the perceived risk of multinationals not paying their "fair share" of tax in the right jurisdiction is elevated. In order to eliminate this risk, some companies are considering the voluntary reporting of their tax contributions in terms of a tax transparency report.

The rationale is that transparent tax practices can create a more engaged relationship with stakeholders. It is posited that making stakeholders aware of a company's tax contributions (i.e. corporate income tax, value-added tax and employees' tax) and how these support public services and social welfare initiatives can create a sense of reciprocity. For example, clients may feel that, by choosing a socially responsible insurer, they are, through their premiums, contributing to the well-being of society, which can enhance customer loyalty and advocacy.

This article aims to take a closer look at how insurers can attract, retain and engage socially conscious stakeholders through tax transparency reporting.

Tax transparency

In broad strokes, tax transparency refers to the practice of openly disclosing clear information about a company's tax payments, strategies and overall tax contribution. Simply, by making tax information that is easily accessible and understandable, companies can provide stakeholders with the certainty that their tax practices align with ethical and legal standards.

Tax transparency reporting is not mandated in South Africa. However, there are a number of global reporting frameworks, such as the Global Reporting Initiative, specifically Standard 207[1], that can be followed. Voluntary reporting demonstrates a commitment to openness and ethical conduct, which in turn can enhance a company's reputation and trust.

It is likely that, over time, tax transparency reporting will become mandatory, with several countries already in the planning stages of achieving this. Furthermore, there are ready pieces of legislation that require some form of mandatory reporting, such as Country-by-Country reporting, which requires a company, in certain instances, to disclose the various taxes paid in the various jurisdictions in which it operates.

With this in mind, these frameworks could (and should) be used as a starting point for insurers wanting to report on their tax practices publicly. There is no "one-size-fits-all" approach, and the reporting should be carefully considered to ensure it aligns with the company's strategic focus.

One of the most common concerns about voluntary tax transparency reporting relates to the disclosure of sensitive financial information, or at the least the competitors' ability to "reverse engineer" certain numbers. Accordingly, a balance needs to be struck between being transparent and the protection of sensitive information. Various strategies exist which would mitigate any potential risks, including aggregated reporting (which would maintain a level of confidentiality) and using established standards (such as the voluntary frameworks).

[1] Other standards include B-Team, WEF and UN PRI.

Companies may be reluctant to adopt tax transparency reporting in instances where they pay minimal corporate income tax. What is overlooked in these instances is that corporate income tax is merely a constituent in the overall taxes managed by a company. In this regard, companies may report on other taxes including the management and collection of Value-Added Tax, employees' tax etc. Further, the use of tax incentives may also reduce the taxes paid, but its benefit to the economy and the community as a whole should far exceed the taxes not paid.

Enhancing intra- and inter-organisational relationships via tax transparency

Policyholders

As with many industries, customer trust in the insurance industry is pivotal to business growth. Tax transparency offers another mechanism to do so beyond traditional strategies. While policyholders' trust can hinge on factors such as the affordability of products or the ease of administration, the civic accountability and responsibility of the company should not be overlooked. By being transparent about tax practices, insurers can differentiate themselves from competitors and attract a growing segment of socially conscious consumers who prioritise trust, ethics and social responsibility.

Ultimately, the impact of tax transparency on policyholders' trust is multi-faceted. As transparency becomes embedded in the company culture and ethos, its impact on policyholders will likely strengthen, resulting in, *inter alia*, increased retention and positive word-of-mouth.

Another driving factor for this change is the impact of younger generations, such as millennials, as they amass greater wealth and influence. Their preferences are reshaping the investment landscape, encouraging companies to adopt more sustainable practices and driving insurers to offer a broader range of socially responsible investment options.

Investors

Investors are actively seeking out investment opportunities that promote sustainability, diversity and inclusion, ethical sourcing, support community development, uphold ethical business practices and ensure that all processes along the supply chain comply with the same ethical practices. One only needs to consider the boom in impact investing to see evidence of this or the corollary, the sell-off of companies that engage in exploitative labour practices, for example.

It is important to these investors that their investees are paying their fair share of taxes too and that any supply chains engaged are done so in a sustainable manner. Tax incentives can be used to reduce the costs of implementing socially responsible supply chains.

In conclusion, as environmental and social issues continue to gain prominence on the global stage, individuals and institutions alike recognise the potential for finance to be a force for positive change.

Employees

Employees are increasingly seeking employers who uphold ethical values and positively impact society. Not only can tax transparency improve the company's attractiveness for new prospective employees, but it can also improve its attractiveness for current employees. In the same way that prospective employees would seek out companies that align with their personal values, so too would current employees. Adopting transparent tax practices would send a strong message to potential candidates that a company prioritises accountability and integrity.

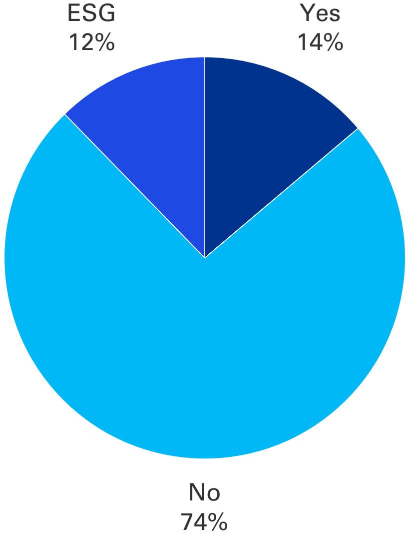
By making employees aware of the company's tax contributions and the positive impact that employees can have on society through their job, tax transparency reporting can foster a shared sense of purpose and pride in working for a socially responsible organisation. Understanding this broader context of their work can foster a greater sense of ownership and responsibility for the company's success.

South African tax transparency

We conducted a high-level survey of 65 insurance companies in South Africa with the aim of identifying how many have voluntarily issued a tax transparency report.

As can be seen in the graph below, and as expected (which is consistent with most industries), 74% (48 organisations) of companies did not provide any tax transparency information - whether in a formal tax transparency report or elsewhere in their reported information. Only 14% (nine organisations) of companies surveyed produced a report dedicated to tax transparency. The remaining 12% (eight organisations) did not produce detailed tax transparency reports but they did reveal their wider ESG contributions in a separate ESG report that was not tax specific.

Tax transparency reporting



We reviewed the nine tax transparency reports to gain insight into the kind of information and the level of detail that is being reported. The key themes in these reports are (i) tax strategy, (ii) tax governance, (iii) tax compliance and risk management, (iv) stakeholder engagement and (v) taxes paid. However, the reports showed vast differences in what was reported even though there is disclosure guidance in respect of voluntary tax reporting in the Global Reporting Initiative 207.

Tax strategy

This section generally considered the strategic priorities of a company as it relates to tax. Of the reviewed tax transparency reports, this segment tended to be quite sparse and would often refer readers to separate documents (such as policy principles or frameworks).

Tax governance

This section generally considered corporate management broadly and, in some cases, provided insight about who the responsibility for tax resides with at the insurer.

Tax compliance and risk management

The compliance and risk management sections included the structures in place to ensure compliance and ranged from internal control systems to internal reporting and whistleblowing hotlines for employees. They also tended to disclose that the company is compliant as at date of publication. While it is useful for the reader to know that these processes exist, it is not necessarily meaningful without insight into whether these processes work effectively. For example, while one tax transparency report indicates that the company has a tax compliance management system which is certified by an external auditor and renewed each year, some reports only refer to a review of tax compliance (with no indication of, inter alia, who reviews the compliance system or how regularly it is reviewed).

Stakeholder engagement

In these sections we saw the identification of stakeholders and the types of engagement that is undertaken with them. This included tax authorities, industry advocacy bodies, policyholders, communities and employees. While some reports clearly indicate the stakeholders and the company's engagement with these stakeholders, some only have references of "discussions with stakeholders" to allow the company to strike a balance between the interests of governments and companies as taxpayers. Some reports do not refer to these engagements at all. Much can be gained from a stakeholder engagement segment.

The amount of taxes paid is not necessarily an accurate reflection of social impact with reference to the fact that companies may utilise incentives or subsidies (thus paying less tax) to create significant social, economic and environmental value. Companies that do not currently report on this may want to consider adding it to their reports in future to provide a more holistic picture of their contributions.

Taxes paid

Some reports provided detail on the amounts paid (for example, how much of the tax paid is in respect of corporate income tax, capital gains tax and dividends tax on behalf of policyholders) while some just provide overall amounts. Some insurers chose to illustrate their contribution to the various categories as set out in the expenditure budget (for example, how much of the company's tax contributions would go towards funding learning and culture, social development, health, economic development, community development, peace and security and other categories). This is a useful feature of the report as it provides the information in a way that directly shows the impact that the company's taxes have on communities.

Missed opportunity

Based on the tax transparency reports we surveyed, there appears to be a missed opportunity whereby the tax transparency reports could be used as an instrument to show the "impact" that an organisation's taxes make to the economy and therefore the link between ESG and tax. For example, the use of tax incentives to help increase the number of employees that a company employs and thereby decrease unemployment in the country, or the extent to which renewable energy incentives are used to increase the amount of investment in renewable energy.

Conclusion

Tax transparency is essential to building trust and credibility among stakeholders. By willingly disclosing tax-related information, companies can showcase their dedication to ethical conduct, corporate responsibility and contributing to the welfare of society. Transparent tax practices can help differentiate insurance providers in a competitive market, attracting socially conscious policyholders, employees and investors who prioritise trust and social impact, driving positive change within the insurance industry and contributing to the broader goal of accountability.

Non-life insurance industry financial results

NON-LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-22	Dec-21	Dec-22	Dec-21	Jun-22	Jun-21	Dec-22	Dec-21	Jun-22	Jun-21
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 share premium	31 000	31 000	123 164	123 164	53 506	53 506	504 650	4 650	80 001	80 001
Retained earnings/(deficit)	1 304 098	1 142 555	99 916	89 911	578 556	537 108	1 228 693	1 496 279	365 273	361 667
Other reserves	6 573	1 187	-	-	-	-	(19 289)	(28 157)	-	-
Total shareholders' funds	**1 341 671**	**1 174 742**	**223 080**	**213 075**	**632 062**	**590 614**	**1 714 054**	**1 472 772**	**445 274**	**441 668**
Gross outstanding claims provision	512 608	459 420	2 002 494	1 512 813	457 129	371 434	5 454 285	4 723 665	277 525	251 694
Gross unearned premium provision	821 732	801 847	453 685	376 099	148 734	142 647	835 732	852 159	42 419	40 624
Reinsurers' share of expected salvages and recoveries	-	1 044	-	-	72 070	52 826	-	-	56 592	47 441
Owing to cell owners	-	-	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	9 323	7 826	120 777	108 037	-	-	78 872	68 625	-	-
Deferred tax liability	-	-	-	-	-	-	-	7 723	-	-
Other liabilities (including lease liabilites)	289 916	441 380	219 496	332 308	631 073	587 985	2 119 677	2 184 963	343 227	301 385
Total liabilities	**1 633 579**	**1 711 517**	**2 796 452**	**2 329 257**	**1 309 006**	**1 154 892**	**8 488 566**	**7 837 135**	**719 763**	**641 144**
Total investments including investments in subsidiaries	**2 158 182**	**2 070 121**	**262 505**	**159 611**	**1 063 391**	**962 587**	**3 846 548**	**3 325 717**	**639 685**	**586 253**
Deferred tax asset, intangible assets, PPE and ROU assets	219 737	163 613	9 865	12 471	27 713	31 174	345 357	171 265	17 581	10 100
Reinsurers' share of outstanding claims provision	25 690	13 977	1 960 681	1 491 295	87 298	75 375	3 571 149	3 246 509	38 009	37 600
Reinsurers' share of unearned premium provision	103 457	78 413	454 976	373 810	-	-	385 840	332 629	-	-
Gross expected salvages and recoveries	56 578	51 873	-	-	96 782	70 918	-	-	80 576	67 145
Deferred aquisition costs	129 538	126 744	76 085	68 896	14 801	14 093	120 003	122 346	21	66
Cash and cash equivalents	128 475	246 697	61 119	140 569	321 890	360 579	682 777	776 749	309 590	300 908
Other assets	153 592	134 820	194 301	295 680	329 193	230 780	1 250 946	1 334 692	79 575	80 740
Total assets	**2 975 250**	**2 886 259**	**3 019 532**	**2 542 332**	**1 941 068**	**1 745 506**	**10 202 620**	**9 309 907**	**1 165 037**	**1 082 812**
International solvency margin	42%	38%	(398 357%)	22 764%	105%	94%	40%	38%	105%	106%
Total assets/Total liabilities	182%	169%	108%	109%	148%	151%	120%	119%	162%	169%
Change in shareholders' funds	14%		5%		7%		16%		1%	

NON-LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-22	Dec-21	Dec-22	Dec-21	Jun-22	Jun-21	Dec-22	Dec-21	Jun-22	Jun-21
Group/Company	**Centriq Insurance Company Limited**		**Chubb Insurance South Africa Limited**		**Clientele General Insurance Limited**		**Compass Insurance Company Limited**		**Dial Direct Insurance (RF) Limited**	
Share capital and share premium	55 000	55 000	115 000	115 000	42 500	42 500	114 284	114 284	20 001	20 001
Retained earnings/(deficit)	513 952	440 813	176 298	165 987	222 480	203 815	252 285	214 076	238 131	229 614
Other reserves	-	-	775	736	4 103	3 950	(3 687)	1 250	-	-
Total shareholders' funds	**568 952**	**495 813**	**292 073**	**281 723**	**269 083**	**250 265**	**362 881**	**329 610**	**258 132**	**249 615**
Gross outstanding claims provision	1 757 194	1 260 428	1 353 715	1 143 203	6 830	5 980	996 752	788 130	88 437	90 534
Gross unearned premium provision	9 535 199	6 091 217	392 040	342 088	2 352	2 524	152 808	133 725	93 737	103 723
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	16 070	15 819
Owing to cell owners	3 883 495	2 461 797	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	113 957	94 362	91 225	73 959	-	-	47 578	40 702	-	-
Deferred tax liability	-	5 809	-	-	-	-	-	-	-	-
Other liabilities (including lease liabilites)	2 141 099	1 392 492	209 409	287 594	119 783	144 466	288 418	260 230	136 280	126 511
Total liabilities	**17 430 944**	**11 306 105**	**2 046 389**	**1 846 844**	**128 965**	**152 970**	**1 485 557**	**1 222 787**	**334 524**	**336 587**
Total investments including investments in subsidiaries	**14 219 606**	**9 211 315**	**350 253**	**332 507**	**203 694**	**238 030**	**581 287**	**528 133**	**400 442**	**387 712**
Deferred tax asset, intangible assets, PPE and ROU assets	11 638	4 987	7 005	3 686	61 865	96 527	14 765	17 712	5 633	6 302
Reinsurers' share of outstanding claims provision	1 258 493	794 670	1 115 235	941 849	-	-	921 261	697 526	14 837	15 205
Reinsurers' share of unearned premium provision	415 625	340 396	313 500	253 436	-	-	147 015	128 858	-	-
Gross expected salvages and recoveries	-	-	-	-	-	-	-	-	22 736	22 368
Deferred aquisition costs	211 960	149 228	57 233	51 242	-	-	44 887	37 950	4	8
Cash and cash equivalents	689 432	462 790	223 029	259 138	128 196	63 757	101 023	78 022	117 862	138 145
Other assets	1 193 142	838 532	272 207	286 709	4 293	4 921	38 199	64 197	31 142	16 462
Total assets	**17 999 896**	**11 801 918**	**2 338 462**	**2 128 567**	**398 048**	**403 235**	**1 848 438**	**1 552 397**	**592 656**	**586 202**
International solvency margin	126%	136%	165%	180%	55%	50%	155%	147%	179%	148%
Total assets/Total liabilities	103%	104%	114%	115%	309%	264%	124%	127%	177%	174%
Change in shareholders' funds	15%		4%		8%		10%		3%	

NON-LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Jun-22	Jun-21	Mar-22	Mar-21 Restated	Dec-22	Dec-21 Restated	Dec-22	Dec-21	Jun-22	Jun-21
Group/Company	**Discovery Insure Limited**		**Escap SOC Limited**		**Exxaro Insurance Company Limited**		**The Federated Employers Mutual Assurance Company (RF) Proprietary Limited**		**First for Women Insurance Company (RF) Limited**	
Share capital and share premium	2 402 000	2 402 000	379 500	379 500	312 000	312 000	-	-	82 000	82 000
Retained earnings/(deficit)	(531 000)	(358 000)	10 789 703	10 357 775	774 694	507 844	4 795 000	4 730 000	186 474	179 451
Other reserves	(68 000)	(48 000)	-	-	-	-	-	-	-	-
Total shareholders' funds	**1 803 000**	**1 996 000**	**11 169 203**	**10 737 275**	**1 086 694**	**819 844**	**4 795 000**	**4 730 000**	**268 474**	**261 451**
Gross outstanding claims provision	673 000	441 000	11 696 524	7 687 371	30 908	27 750	2 745 000	2 982 000	115 728	100 174
Gross unearned premium provision	245 000	203 000	756 524	820 093	287 647	204 531	692 000	615 000	53 309	48 395
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	24 548	20 986
Owing to cell owners	-	-	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	-	-	-	-	15 362	15 988	-	-	-	-
Deferred tax liability	-	-	78 474	50 558	-	-	-	-	-	-
Other liabilities (including lease liabilites)	721 000	505 000	394 745	81 003	105 920	27 770	188 000	63 000	169 384	140 864
Total liabilities	**1 639 000**	**1 149 000**	**12 926 267**	**8 639 025**	**439 837**	**276 039**	**3 625 000**	**3 660 000**	**362 969**	**310 419**
Total investments including investments in subsidiaries	**1 919 000**	**2 243 000**	**19 872 178**	**17 513 202**	**817 502**	**197 997**	**8 231 000**	**8 227 000**	**350 198**	**359 986**
Deferred tax asset, intangible assets, PPE and ROU assets	390 000	369 000	18	52	-	4 477	98 000	93 000	11 712	6 055
Reinsurers' share of outstanding claims provision	14 000	16 000	2 919 928	618 455	5 049	4 335	4 000	4 000	18 937	16 859
Reinsurers' share of unearned premium provision	10 000	6 000	309 952	289 768	232 081	78 958	-	-	-	-
Gross expected salvages and recoveries	-	-	-	-	-	-	-	-	34 667	29 752
Deferred aquisition costs	66 000	64 000	-	-	-	-	-	-	8	20
Cash and cash equivalents	133 000	124 000	95 615	30 030	470 875	809 412	13 000	16 000	182 944	135 397
Other assets	910 000	323 000	897 779	924 793	1 024	704	74 000	50 000	32 977	23 801
Total assets	**3 442 000**	**3 145 000**	**24 095 470**	**19 376 300**	**1 526 531**	**1 095 883**	**8 420 000**	**8 390 000**	**631 443**	**571 870**
International solvency margin	35%	46%	437%	295%	327%	549%	770%	878%	127%	120%
Total assets/Total liabilities	210%	274%	186%	224%	347%	397%	232%	229%	174%	184%
Change in shareholders' funds	(10%)		4%		33%		1%		3%	

NON-LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Jun-22	Jun-21	Jun-22	Jun-21	Jun-22	Jun-21	Sept-22	Sept-21	Mar-22	Mar-21
Group/Company	**Guardrisk Insurance Company Limited**		**The Hollard Insurance Company Limited**		**Hollard Specialist Insurance Company Limited**		**Indequity Specialised Insurance Limited**		**Infiniti Insurance Limited**	
Share capital and share premium	324 414	224 414	1 642 601	1 642 601	400 503	400 503	14 470	14 470	187 230	187 230
Retained earnings/(deficit)	418 673	432 043	1 106 898	1 224 603	(127 088)	(207 429)	18 334	14 562	336 205	432 692
Other reserves	-	-	4 012	4 012	204 484	221 990	-	-	-	-
Total shareholders' funds	**743 087**	**656 457**	**2 753 511**	**2 871 216**	**477 899**	**415 064**	**32 804**	**29 032**	**523 435**	**619 922**
Gross outstanding claims provision	10 142 501	3 030 309	6 445 182	4 304 534	253 274	201 572	4 472	4 252	482 783	559 413
Gross unearned premium provision	6 847 534	5 750 596	2 605 694	2 309 190	143 314	88 533	307	285	266 190	243 761
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	6 984 600	5 952 588	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	182 177	143 190	-	-	-	-	-	-	18 831	19 588
Deferred tax liability	-	-	179 742	172 999	-	-	34	159	37 848	38 520
Other liabilities (including lease liabilites)	1 639 718	1 518 253	3 353 385	3 015 608	115 448	134 107	5 019	2 462	282 744	267 124
Total liabilities	**25 796 530**	**16 394 936**	**12 584 003**	**9 802 331**	**512 036**	**424 212**	**9 832**	**7 158**	**1 088 396**	**1 128 406**
Total investments including investments in subsidiaries	**12 787 428**	**10 680 344**	**4 488 134**	**4 046 261**	**366 701**	**413 509**	**-**	**-**	**1 015 704**	**1 113 501**
Deferred tax asset, intangible assets, PPE and ROU assets	77 080	52 175	540 984	540 948	10 007	18 259	3 653	1 731	1 922	2 367
Reinsurers' share of outstanding claims provision	9 221 830	2 231 621	4 283 453	2 127 646	23 546	24 255	44	39	275 114	328 333
Reinsurers' share of unearned premium provision	1 031 338	646 439	658 232	611 128	5 116	104	-	-	75 948	74 111
Gross expected salvages and recoveries	-	-	-	-	-	-	656	902	-	-
Deferred aquisition costs	163 531	144 483	115 273	115 413	42 114	706	-	-	58 088	54 308
Cash and cash equivalents	1 288 836	2 258 939	2 436 881	2 837 896	441 961	336 956	35 199	31 816	87 665	76 239
Other assets	1 969 574	1 037 392	2 814 557	2 394 255	100 490	45 487	3 084	1 702	97 390	99 469
Total assets	**26 539 617**	**17 051 393**	**15 337 514**	**12 673 547**	**989 935**	**839 276**	**42 636**	**36 190**	**1 611 831**	**1 748 328**
International solvency margin	15%	14%	34%	36%	49%	47%	42%	41%	49%	60%
Total assets/Total liabilities	103%	104%	122%	129%	193%	198%	434%	506%	148%	155%
Change in shareholders' funds	13%		(4%)		15%		13%		(16%)	

NON-LIFE INSURERS | Statement of Financial Position | R'000

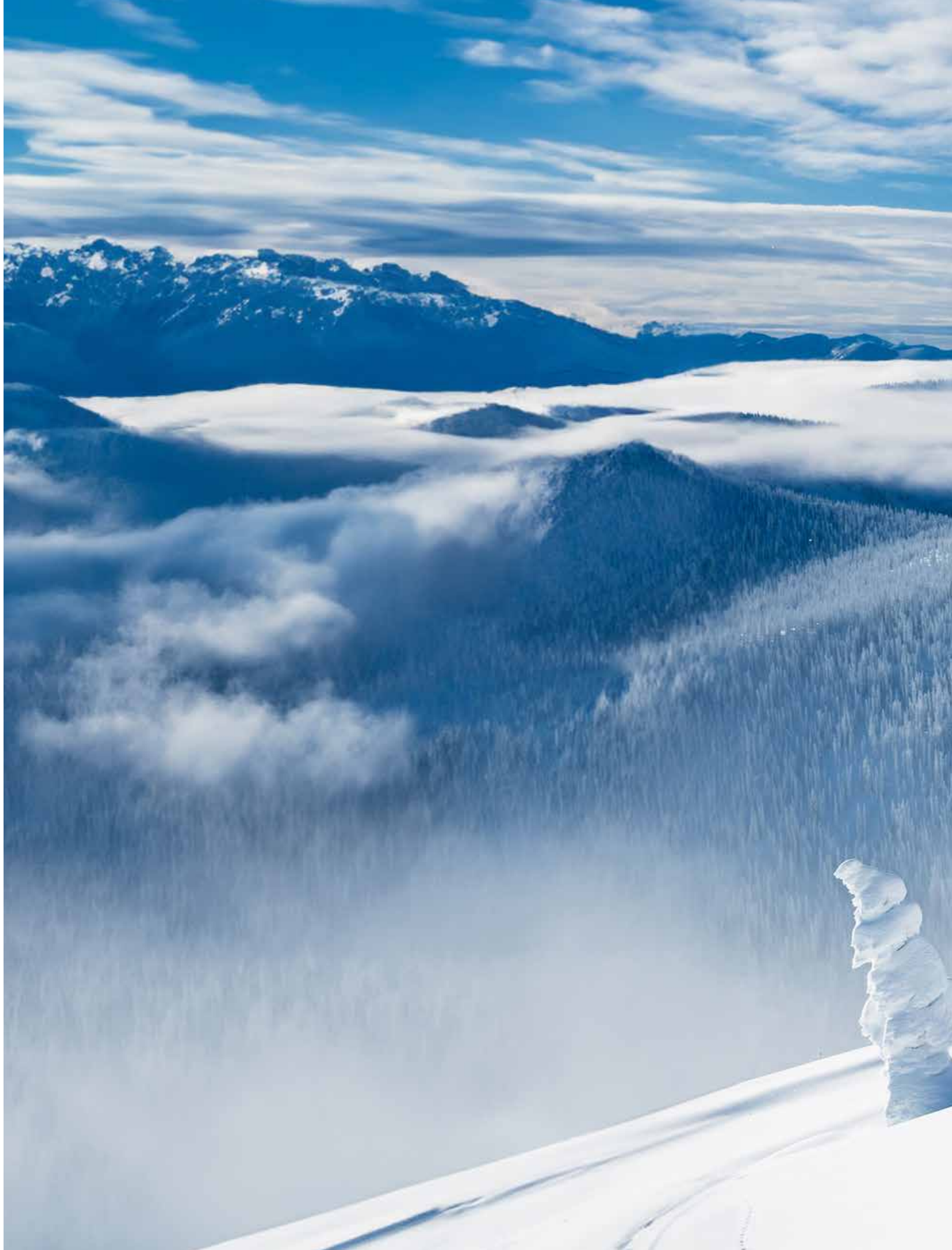
Accounting year end	Jun-22	Jun-21	Dec-22	Dec-21	Jun-22	Jun-21	Dec-22	Dec-21	Dec-22	Dec-21
Group/Company	**Lombard Insurance Company Limited**		**MiWay Insurance Limited**		**Momentum Insure Company Limited**		**Mutual and Federal Risk Financing Limited**		**Nedgroup Insurance Company Limited**	
Share capital and share premium	189 050	189 050	250 101	250 101	863 713	931 628	4 550	4 550	5 000	5 000
Retained earnings/(deficit)	594 801	648 998	163 856	133 452	177 383	165 991	224 776	225 133	1 185 337	1 101 117
Other reserves	-	-	-	-	3 975	23 319	-	-	-	-
Total shareholders' funds	**783 851**	**838 048**	**413 958**	**383 553**	**1 045 071**	**1 120 938**	**229 326**	**229 683**	**1 190 337**	**1 106 117**
Gross outstanding claims provision	2 849 425	1 793 415	179 048	197 215	815 970	532 594	841 538	700 910	149 700	158 188
Gross unearned premium provision	822 196	641 050	158 612	150 794		86 597	437 458	424 788	190 740	242 741
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	-	-	1 070 642	1 030 936	-	-
Deferred reinsurance commission revenue	116 994	82 352	-	-	-	4 310	24 704	20 679	83	-
Deferred tax liability	-	-	-	-	-	-	4 710	5 606	25 775	28 585
Other liabilities (including lease liabilites)	2 259 307	2 119 859	258 012	268 482	302 317	279 488	690 376	518 528	76 683	49 257
Total liabilities	**6 047 922**	**4 636 676**	**595 672**	**616 491**	**1 118 287**	**902 989**	**3 069 428**	**2 701 447**	**442 981**	**478 771**
Total investments including investments in subsidiaries	**2 818 526**	**2 622 218**	**432 657**	**441 808**	**1 344 169**	**824 887**	**1 826 918**	**1 724 922**	**1 454 050**	**1 388 979**
Deferred tax asset, intangible assets, PPE and ROU assets	46 513	63 341	101 481	128 552	155 449	136 908	1 237	2 809	5 190	4 395
Reinsurers' share of outstanding claims provision	2 256 304	1 352 262	151 246	167 040	111 830	176 028	483 167	409 134	51 877	5 002
Reinsurers' share of unearned premium provision	446 809	318 136	134 562	127 958		16 335	86 156	71 369	1 049	-
Gross expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Deferred aquisition costs	121 201	93 063	-	-	34 287	23 921	67 816	66 148	46 684	60 985
Cash and cash equivalents	721 260	659 089	118 681	79 764	93 856	579 010	550 232	361 438	32 173	103 699
Other assets	421 160	366 615	71 003	54 921	423 767	266 838	283 228	295 310	42 295	21 828
Total assets	**6 831 773**	**5 474 724**	**1 009 630**	**1 000 043**	**2 163 358**	**2 023 927**	**3 298 754**	**2 931 130**	**1 633 318**	**1 584 888**
International solvency margin	70%	88%	85%	81%	38%	75%	46%	79%	109%	101%
Total assets/Total liabilities	113%	118%	169%	162%	193%	224%	107%	109%	369%	331%
Change in shareholders' funds	(6%)		8%		(7%)		(0%)		8%	

NON-LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-22	Dec-21	Jun-22	Jun-21	Mar-22	Mar-21	Dec-22	Dec-21	Mar-22	Mar-21
Group/Company	**Old Mutual Insure Limited**		**OUTsurance Insurance Company Limited**		**Safire Insurance Company Limited**		**Santam Limited**		**Sasria SOC Limited**	
Share capital and share premium	2 312 000	1 797 000	25 000	25 000	10 053	10 053	103 000	103 000	-	-
Retained earnings/(deficit)	2 062 000	2 181 000	3 106 721	3 240 038	266 620	250 833	9 051 000	9 567 000	(15 098 628)	8 358 445
Other reserves	-	-	(4 635)	3 065	14 792	15 965	(35 000)	-	22 000 000	-
Total shareholders' funds	**4 374 000**	**3 978 000**	**3 127 086**	**3 268 103**	**291 465**	**276 851**	**9 119 000**	**9 670 000**	**6 901 372**	**8 358 445**
Gross outstanding claims provision	3 496 000	4 058 000	964 934	911 677	235 119	173 329	18 745 000	20 163 000	12 097 737	836 593
Gross unearned premium provision	1 142 000	1 001 000	1 060 035	1 029 719	122 337	113 800	4 910 000	4 535 000	596 429	479 370
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	86 760	80 255	-	-	-	-
Deferred reinsurance commission revenue	156 000	115 000	-	-	6 510	5 281	531 000	475 000	99 374	10 972
Deferred tax liability	-	-	-	-	9 922	12 928	17 000	-	-	59 740
Other liabilities (including lease liabilites)	2 786 000	3 310 000	1 258 247	1 046 678	207 041	252 021	7 836 000	7 039 000	214 170	303 232
Total liabilities	**7 580 000**	**8 484 000**	**3 283 216**	**2 988 074**	**667 689**	**637 614**	**32 039 000**	**32 212 000**	**13 007 710**	**1 689 907**
Total investments including investments in subsidiaries	**4 796 000**	**4 920 000**	**4 946 333**	**5 229 674**	**365 843**	**380 522**	**15 059 000**	**18 427 000**	**37 302**	**6 346 952**
Deferred tax asset, intangible assets, PPE and ROU assets	573 000	587 000	493 478	488 867	48 033	48 571	741 000	842 000	857 778	74 871
Reinsurers' share of outstanding claims provision	1 449 000	2 252 000	142 634	6 407	183 044	119 711	10 166 000	11 926 000	2 588 686	600
Reinsurers' share of unearned premium provision	593 000	526 000	-	-	42 385	37 678	1 893 000	1 910 000	256 451	54 182
Gross expected salvages and recoveries	272 000	252 000	-	-	-	-	-	-	-	-
Deferred aquisition costs	207 000	178 000	-	-	21 342	19 469	831 000	804 000	161 966	129 516
Cash and cash equivalents	1 363 000	738 000	362 514	284 137	31 757	28 603	2 356 000	1 842 000	14 578 781	3 166 600
Other assets	2 701 000	3 009 000	465 343	247 092	266 750	279 911	10 112 000	6 131 000	1 428 118	275 631
Total assets	**11 954 000**	**12 462 000**	**6 410 302**	**6 256 177**	**959 154**	**914 465**	**41 158 000**	**41 882 000**	**19 909 082**	**10 048 352**
International solvency margin	49%	48%	31%	35%	117%	89%	35%	39%	335%	327%
Total assets/Total liabilities	158%	147%	195%	209%	144%	143%	128%	130%	153%	595%
Change in shareholders' funds	10%		(4%)		5%		(6%)		(17%)	

NON-LIFE INSURERS | Statement of Financial Position | R’000

Accounting year end	Dec-22	Dec-21
Group/Company	**Standard Insurance Limited**	
Share capital and share premium	30 000	30 000
Retained earnings/(deficit)	2 242 142	2 069 802
Other reserves	140	140
Total shareholders' funds	**2 272 282**	**2 099 942**
Gross outstanding claims provision	880 081	572 180
Gross unearned premium provision	116 788	93 006
Reinsurers' share of expected salvages and recoveries	-	-
Owing to cell owners	-	-
Deferred reinsurance commission revenue	-	-
Deferred tax liability	-	-
Other liabilities (including lease liabilites)	143 262	150 232
Total liabilities	**1 140 131**	**815 418**
Total investments including investments in subsidiaries	**2 181 210**	**2 075 942**
Deferred tax asset, intangible assets, PPE and ROU assets	56 966	27 930
Reinsurers' share of outstanding claims provision	162 579	46 705
Reinsurers' share of unearned premium provision	-	-
Gross expected salvages and recoveries	59 436	40 609
Deferred aquisition costs	17 130	11 752
Cash and cash equivalents	498 604	465 617
Other assets	436 488	246 805
Total assets	**3 412 413**	**2 915 360**
International solvency margin	76%	73%
Total assets/Total liabilities	299%	358%
Change in shareholders' funds	8%	



NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-22	Dec-21	Dec-22	Dec-21	Jun-22	Jun-21	Dec-22	Dec-21	Jun-22	Jun-21
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**	
Gross premiums written	3 412 290	3 234 477	1 259 969	1 150 603	3 067 547	3 026 629	5 934 026	5 387 853	1 865 294	1 794 578
Net premiums written	3 222 092	3 097 730	(2 317)	479	610 298	626 227	4 244 183	3 872 663	427 579	417 231
Net earned premiums	**3 223 723**	**3 088 454**	**(56)**	**936**	**604 211**	**625 233**	**4 313 857**	**3 861 666**	**425 784**	**418 088**
Total net investment income	**145 092**	**110 329**	**15 216**	**11 497**	**61 739**	**57 928**	**150 323**	**664 078**	**41 047**	**40 281**
Reinsurance commission revenue	13 612	14 816	334 724	285 546	1 026 177	1 011 277	242 100	209 759	640 043	615 334
Other income	52 943	46 806	9 289	9 334	247 336	92 643	3 329	3 200	30 962	26 429
Total income	**3 435 370**	**3 260 405**	**359 173**	**307 313**	**1 939 463**	**1 787 081**	**4 709 609**	**4 738 703**	**1 137 836**	**1 100 132**
Net claims incurred	2 213 428	1 998 990	18 852	6 137	463 548	478 062	3 176 901	2 639 194	330 303	317 423
Acquisition costs	549 716	497 513	138 120	140 466	311 891	291 569	949 386	841 290	46 890	40 780
Cell owners' transactions	-	-	-	-	-	-	-	-	-	-
Management and other expenses	444 835	421 130	185 052	149 373	1 104 723	938 179	930 954	898 890	755 103	695 174
Total expenses	**3 207 979**	**2 917 633**	**342 024**	**295 976**	**1 880 162**	**1 707 810**	**5 057 241**	**4 379 374**	**1 132 296**	**1 053 377**
Net profit/(loss) before taxation	**227 391**	**342 772**	**17 149**	**11 337**	**59 301**	**79 271**	**(347 632)**	**359 329**	**5 540**	**46 755**
Taxation	(65 848)	(102 055)	(7 144)	(807)	(17 853)	(22 174)	90 046	(80 806)	(1 934)	(12 778)
Net profit/(loss) after taxation	**161 544**	**240 718**	**10 005**	**10 530**	**41 448**	**57 097**	**(257 586)**	**278 523**	**3 606**	**33 977**
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**161 544**	**240 718**	**10 005**	**10 530**	**41 448**	**57 097**	**(257 586)**	**278 523**	**3 606**	**33 977**
Transfer to/(from) retained earnings	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Dividends	-	455 000	-	-	-	-	10 000	10 000	-	-
Change in retained earnings	**161 544**	**(214 282)**	**10 005**	**10 530**	**41 448**	**57 097**	**(267 586)**	**268 523**	**3 606**	**33 977**
Net premiums written to gross premiums written	94%	96%	0%	0%	20%	21%	72%	72%	23%	23%
Net claims incurred to net earned premiums	69%	65%	(33 664%)	656%	77%	76%	74%	68%	78%	76%
Management and other expenses to net earned premiums	14%	14%	(330 450%)	15 959%	183%	150%	22%	23%	177%	166%
Combined ratio	99%	94%	(13 036%)	1 114%	141%	111%	112%	108%	116%	105%
Operating ratio	95%	90%	14 136%	(114%)	131%	102%	108%	91%	106%	95%
Return on equity	12%	20%	4%	5%	7%	10%	(15%)	19%	1%	8%

NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-22	Dec-21	Dec-22	Dec-21	Jun-22	Jun-21	Dec-22	Dec-21	Jun-22	Jun-21
Group/Company	**Centriq Insurance Company Limited**		**Chubb Insurance South Africa Limited**		**Clientele General Insurance Limited**		**Compass Insurance Company Limited**		**Dial Direct Insurance (RF) Limited**	
Gross premiums written	6 428 868	3 774 216	889 671	773 779	490 691	498 627	1 934 504	1 801 433	742 735	831 198
Net premiums written	3 612 039	1 103 666	167 334	160 632	490 691	498 627	235 207	228 052	134 555	154 312
Net earned premiums	**452 838**	**363 831**	**177 423**	**156 138**	**490 863**	**498 736**	**234 281**	**224 935**	**144 541**	**168 236**
Total net investment income	**641 222**	**554 058**	**18 454**	**13 210**	**10 362**	**24 817**	**58 323**	**51 328**	**23 974**	**23 946**
Reinsurance commission revenue	417 266	381 237	180 486	165 100	-	-	520 647	530 851	269 927	301 899
Other income	216 405	167 249	7 278	13 455	1 619	1 495	4 030	7 245	37 417	34 832
Total income	**1 727 731**	**1 466 375**	**383 641**	**347 903**	**502 844**	**525 048**	**817 281**	**814 358**	**475 859**	**528 913**
Net claims incurred	610 574	407 783	67 994	89 536	43 597	41 483	62 437	79 845	119 233	132 485
Acquisition costs	417 010	356 024	143 002	125 649	212 770	247 449	596 238	602 744	10 160	11 200
Cell owners' transactions	166 879	235 341	-	-	-	-	-	-	-	-
Management and other expenses	340 855	297 609	68 052	50 551	122 500	124 503	65 368	60 609	334 619	321 901
Total expenses	**1 535 318**	**1 296 757**	**279 048**	**265 736**	**378 867**	**413 435**	**724 043**	**743 197**	**464 012**	**465 586**
Net profit/(loss) before taxation	**192 413**	**169 618**	**104 593**	**82 167**	**123 977**	**111 613**	**93 239**	**71 161**	**11 847**	**63 327**
Taxation	(54 274)	(48 007)	(30 254)	(23 270)	(35 312)	(30 181)	(20 030)	(13 601)	(3 330)	(17 534)
Net profit/(loss) after taxation	**138 139**	**121 611**	**74 339**	**58 897**	**88 665**	**81 432**	**73 208**	**57 560**	**8 517**	**45 793**
Other comprehensive income	-	-	-	-	-	-	(4 937)	(4 420)	-	-
Total comprehensive income for the year	**138 139**	**121 611**	**74 339**	**58 897**	**88 665**	**81 432**	**68 271**	**53 140**	**8 517**	**45 793**
Transfer to/(from) retained earnings	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	4 937	4 420	-	-
Dividends	65 000	14 369	64 028	22 210	70 000	50 000	35 000	30 000	-	-
Change in retained earnings	**73 139**	**107 242**	**10 311**	**36 687**	**18 665**	**31 432**	**38 208**	**27 560**	**8 517**	**45 793**
Net premiums written to gross premiums written	56%	29%	19%	21%	100%	100%	12%	13%	18%	19%
Net claims incurred to net earned premiums	135%	112%	38%	57%	9%	8%	27%	35%	82%	79%
Management and other expenses to net earned premiums	75%	82%	38%	32%	25%	25%	28%	27%	232%	191%
Combined ratio	210%	187%	56%	64%	77%	83%	87%	94%	134%	97%
Operating ratio	68%	35%	45%	56%	75%	78%	62%	72%	118%	83%
Return on equity	24%	25%	25%	21%	33%	33%	20%	17%	3%	18%

NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-22	Jun-21	Mar-22	Mar-21 Restated	Dec-22	Dec-21 Restated	Dec-22	Dec-21	Jun-22	Jun-21
Group/Company	**Discovery Insure Limited**		**Escap SOC Limited**		**Exxaro Insurance Company Limited**		**The Federated Employers Mutual Assurance Company (RF) Proprietary Limited**		**First for Women Insurance Company (RF) Limited**	
Gross premiums written	5 195 000	4 385 000	4 124 859	4 507 398	582 887	413 652	928 000	770 000	958 065	949 289
Net premiums written	4 926 000	4 233 000	2 474 455	3 609 022	419 202	251 466	918 000	760 000	216 111	216 426
Net earned premiums	**4 926 000**	**4 233 000**	**2 558 209**	**3 642 641**	**332 118**	**149 229**	**623 000**	**539 000**	**211 197**	**218 079**
Total net investment income	**132 000**	**136 000**	**997 383**	**1 506 846**	**61 557**	**29 449**	**(67 000)**	**1 139 000**	**23 136**	**23 100**
Reinsurance commission revenue	-	-	323 381	107 979	31 852	41 212	-	-	330 384	327 621
Other income	22 000	18 000	-	-	1 876	1 178	-	-	9 955	11 047
Total income	**5 080 000**	**4 387 000**	**3 878 973**	**5 257 466**	**427 403**	**221 068**	**556 000**	**1 678 000**	**574 672**	**579 847**
Net claims incurred	3 222 000	2 379 000	2 486 848	1 062 481	5 614	14 054	160 000	649 000	145 302	151 238
Acquisition costs	782 000	653 000	-	-	15 090	15 064	-	-	18 984	22 320
Cell owners' transactions	-	-	-	-	-	-	-	-	-	-
Management and other expenses	1 265 000	1 188 000	(6 196)	192 838	33 982	21 587	331 000	213 000	400 131	353 423
Total expenses	**5 269 000**	**4 220 000**	**2 480 652**	**1 255 319**	**54 686**	**50 705**	**491 000**	**862 000**	**564 417**	**526 981**
Net profit/(loss) before taxation	**(189 000)**	**167 000**	**1 398 321**	**4 002 147**	**372 717**	**170 363**	**65 000**	**816 000**	**10 255**	**52 866**
Taxation	46 000	(47 000)	(366 393)	(1 128 870)	(105 867)	(47 701)	-	-	(3 232)	(14 597)
Net profit/(loss) after taxation	**(143 000)**	**120 000**	**1 031 928**	**2 873 277**	**266 850**	**122 662**	**65 000**	**816 000**	**7 023**	**38 269**
Other comprehensive income	2 000	4 000	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**(141 000)**	**124 000**	**1 031 928**	**2 873 277**	**266 850**	**122 662**	**65 000**	**816 000**	**7 023**	**38 269**
Transfer to/(from) retained earnings	-	-	-	137 547	-	-	-	-	-	-
Other comprehensive income	(2 000)	(4 000)	-	-	-	-	-	-	-	-
Dividends	30 000	-	600 000	-	-	-	-	-	-	-
Change in retained earnings	**(173 000)**	**120 000**	**431 928**	**3 010 824**	**266 850**	**122 662**	**65 000**	**816 000**	**7 023**	**38 269**
Net premiums written to gross premiums written	95%	97%	60%	80%	72%	61%	99%	99%	23%	23%
Net claims incurred to net earned premiums	65%	56%	97%	29%	2%	9%	26%	120%	69%	69%
Management and other expenses to net earned premiums	26%	28%	0%	5%	10%	14%	53%	40%	189%	162%
Combined ratio	107%	100%	84%	31%	7%	6%	79%	160%	111%	91%
Operating ratio	104%	96%	45%	(10%)	(12%)	(13%)	90%	(51%)	100%	81%
Return on equity	(8%)	6%	9%	27%	25%	15%	1%	17%	3%	15%

NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-22	Jun-21	Jun-22	Jun-21	Jun-22	Jun-21	Sept-22	Sept-21	Mar-22	Mar-21
Group/Company	**Guardrisk Insurance Company Limited**		**The Hollard Insurance Company Limited**		**Hollard Specialist Insurance Company Limited**		**Indequity Specialised Insurance Limited**		**Infiniti Insurance Limited**	
Gross premiums written	13 250 978	12 091 152	12 047 545	11 311 624	996 518	862 964	79 348	72 683	1 331 607	1 282 953
Net premiums written	5 600 803	5 411 712	8 477 942	8 006 422	979 299	857 383	77 493	70 807	1 079 776	1 027 443
Net earned premiums	**4 850 247**	**4 625 813**	**8 200 161**	**7 983 874**	**979 376**	**887 584**	**77 471**	**70 776**	**1 059 184**	**1 030 413**
Total net investment income	**712 597**	**643 522**	**629 046**	**435 982**	**53 559**	**53 616**	**1 536**	**632**	**25 378**	**153 822**
Reinsurance commission revenue	1 379 362	1 212 026	-	-	-	-	-	-	65 468	68 053
Other income	160 506	117 031	107 045	136 432	20 197	23 689	179	207	-	-
Total income	**7 102 712**	**6 598 392**	**8 936 252**	**8 556 288**	**1 053 132**	**964 889**	**79 186**	**71 615**	**1 150 030**	**1 252 288**
Net claims incurred	1 540 614	1 287 269	4 752 296	4 781 091	535 843	480 225	33 410	29 523	548 747	505 727
Acquisition costs	1 494 906	1 396 454	790 474	728 107	130 276	111 314	5 750	5 239	201 255	196 440
Cell owners' transactions	(37 682)	243 491	-	-	-	-	-	-	-	-
Management and other expenses	3 345 618	3 257 637	2 467 126	2 604 820	120 411	188 717	16 035	11 139	335 116	350 136
Total expenses	**6 343 456**	**6 184 851**	**8 009 896**	**8 114 018**	**786 530**	**780 256**	**55 195**	**45 901**	**1 085 118**	**1 052 303**
Net profit/(loss) before taxation	**759 256**	**413 541**	**926 356**	**442 270**	**266 602**	**184 633**	**23 991**	**25 714**	**64 912**	**199 985**
Taxation	(504 025)	(179 709)	(182 294)	(84 670)	(73 184)	(51 983)	(6 719)	(7 217)	(16 399)	(48 300)
Net profit/(loss) after taxation	**255 231**	**233 832**	**744 062**	**357 600**	**193 418**	**132 650**	**17 272**	**18 497**	**48 513**	**151 685**
Other comprehensive income	-	-	-	-	-	-	-	1 076	-	-
Total comprehensive income for the year	**255 231**	**233 832**	**744 062**	**357 600**	**193 418**	**132 650**	**17 272**	**19 573**	**48 513**	**151 685**
Transfer to/(from) retained earnings	1 399	821	-	-	88 897	90 365	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	(1 076)	-	-
Dividends	270 000	89 300	861 767	291 290	24 180	132 351	13 500	20 120	145 000	45 000
Change in retained earnings	**(13 370)**	**145 353**	**(117 705)**	**66 310**	**80 341**	**(90 066)**	**3 772**	**(1 623)**	**(96 487)**	**106 685**
Net premiums written to gross premiums written	42%	45%	70%	71%	98%	99%	98%	97%	81%	80%
Net claims incurred to net earned premiums	32%	28%	58%	60%	55%	54%	43%	42%	52%	49%
Management and other expenses to net earned premiums	69%	70%	30%	33%	12%	21%	21%	16%	32%	34%
Combined ratio	103%	102%	98%	102%	80%	88%	71%	65%	96%	96%
Operating ratio	88%	88%	90%	96%	75%	82%	69%	64%	94%	81%
Return on equity	34%	36%	27%	12%	40%	32%	53%	64%	9%	24%

NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-22	Jun-21	Dec-22	Dec-21	Jun-22	Jun-21	Dec-22	Dec-21	Dec-22	Dec-21
Group/Company	**Lombard Insurance Company Limited**		**MiWay Insurance Limited**		**Momentum Insure Company Limited**		**Mutual and Federal Risk Financing Limited**		**Nedgroup Insurance Company Limited**	
Gross premiums written	3 232 561	2 641 159	3 250 532	3 170 627	2 848 781	2 791 314	4 188 140	3 636 841	1 143 274	1 110 697
Net premiums written	1 171 432	996 853	485 995	475 320	2 761 034	2 729 184	497 781	290 257	1 041 934	1 036 346
Net earned premiums	**1 118 970**	**951 696**	**484 371**	**474 024**	**2 739 415**	**1 492 753**	**499 898**	**291 641**	**1 094 983**	**1 090 763**
Total net investment income	**145 916**	**145 981**	**28 223**	**24 959**	**72 919**	**63 528**	**63 477**	**109 903**	**91 142**	**120 814**
Reinsurance commission revenue	592 912	556 136	965 207	923 472	13 850	528 748	542 913	578 082	2 973	1 052
Other income	22 296	16 782	3 388	310	2 842	1 773	118 094	96 824	5 769	27 353
Total income	**1 880 094**	**1 670 595**	**1 481 189**	**1 422 765**	**2 829 026**	**2 086 802**	**1 224 382**	**1 076 450**	**1 194 867**	**1 239 982**
Net claims incurred	468 960	294 602	257 090	291 145	1 917 067	926 277	(127 944)	(88 329)	558 234	525 559
Acquisition costs	745 569	617 205	-	-	283 674	232 263	681 555	603 696	206 956	200 765
Cell owners' transactions	-	-	-	-	-	-	-	-	-	-
Management and other expenses	587 768	652 033	1 045 622	953 980	734 411	678 253	670 517	548 395	316 646	276 104
Total expenses	**1 802 297**	**1 563 840**	**1 302 712**	**1 245 125**	**2 935 152**	**1 836 793**	**1 224 128**	**1 063 762**	**1 081 836**	**1 002 428**
Net profit/(loss) before taxation	**77 797**	**106 755**	**178 477**	**177 639**	**(106 126)**	**250 009**	**254**	**12 688**	**113 031**	**237 554**
Taxation	(26 994)	(34 669)	(48 072)	(47 575)	26 744	(70 669)	(611)	(3 552)	(28 811)	(59 986)
Net profit/(loss) after taxation	**50 803**	**72 086**	**130 405**	**130 064**	**(79 382)**	**179 340**	**(357)**	**9 136**	**84 220**	**177 568**
Other comprehensive income	-	-	-	-	916	758	-	-	-	-
Total comprehensive income for the year	**50 803**	**72 086**	**130 405**	**130 064**	**(78 466)**	**180 098**	**(357)**	**9 136**	**84 220**	**177 568**
Transfer to/(from) retained earnings	-	-	-	-	(502 840)	(395)	-	-	-	-
Other comprehensive income	-	-	-	-	(916)	-	-	-	-	-
Dividends	105 000	-	100 000	170 000	-	140 000	-	-	-	-
Change in retained earnings	**(54 197)**	**72 086**	**30 405**	**(39 936)**	**423 458**	**40 493**	**(357)**	**9 136**	**84 220**	**177 568**
Net premiums written to gross premiums written	36%	38%	15%	15%	97%	98%	12%	8%	91%	93%
Net claims incurred to net earned premiums	42%	31%	53%	61%	70%	62%	(26%)	(30%)	51%	48%
Management and other expenses to net earned premiums	53%	69%	216%	201%	27%	45%	134%	188%	29%	25%
Combined ratio	108%	106%	70%	68%	107%	88%	136%	167%	99%	92%
Operating ratio	95%	91%	64%	63%	104%	83%	124%	129%	90%	81%
Return on equity	6%	9%	32%	34%	(8%)	16%	0%	4%	7%	16%

NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-22	Dec-21	Jun-22	Jun-21	Mar-22	Mar-21	Dec-22	Dec-21	Mar-22	Mar-21
Group/Company	**Old Mutual Insure Limited**		**OUTsurance Insurance Company Limited**		**Safire Insurance Company Limited**		**Santam Limited**		**Sasria SOC Limited**	
Gross premiums written	11 657 000	11 031 000	10 252 807	9 407 445	668 649	589 297	34 067 000	31 502 000	3 152 458	2 785 825
Net premiums written	8 958 000	8 228 000	10 012 418	9 271 911	247 296	313 808	26 456 000	24 709 000	1 977 071	2 559 965
Net earned premiums	**8 884 000**	**8 273 000**	**9 993 859**	**9 258 878**	**248 755**	**312 552**	**26 002 000**	**24 663 000**	**2 062 281**	**2 554 849**
Total net investment income	**321 000**	**519 000**	**444 853**	**512 011**	**34 986**	**33 791**	**1 471 000**	**1 551 000**	**323 623**	**805 924**
Reinsurance commission revenue	846 000	707 000	-	-	135 475	92 226	1 640 000	1 491 000	314 302	37 179
Other income	-	-	-	-	3 507	4 044	115 000	89 000	17 846	253
Total income	**10 051 000**	**9 499 000**	**10 438 712**	**9 770 889**	**422 723**	**442 613**	**29 228 000**	**27 794 000**	**2 718 052**	**3 398 205**
Net claims incurred	5 869 000	5 158 000	5 300 392	4 622 979	128 212	143 349	16 870 000	15 282 000	25 889 869	351 718
Acquisition costs	2 015 000	1 949 000	32 886	28 739	139 080	122 728	6 167 000	5 758 000	445 778	408 429
Cell owners' transactions	-	-	-	-	(9 935)	52	-	-	-	-
Management and other expenses	2 088 000	1 940 000	2 668 721	2 432 230	115 507	105 290	3 893 000	3 738 000	676 448	596 923
Total expenses	**9 972 000**	**9 047 000**	**8 001 999**	**7 083 948**	**372 864**	**371 419**	**26 930 000**	**24 778 000**	**27 012 095**	**1 357 070**
Net profit/(loss) before taxation	**79 000**	**452 000**	**2 436 713**	**2 686 941**	**49 859**	**71 194**	**2 298 000**	**3 016 000**	**(24 294 043)**	**2 041 135**
Taxation	5 000	(68 000)	(694 280)	(751 198)	(9 404)	(18 440)	(468 000)	(739 000)	836 970	(538 574)
Net profit/(loss) after taxation	**84 000**	**384 000**	**1 742 433**	**1 935 743**	**40 455**	**52 754**	**1 830 000**	**2 277 000**	**(23 457 073)**	**1 502 561**
Other comprehensive income	(3 000)	35 000	(7 700)	679	-	-	-	-	-	-
Total comprehensive income for the year	**81 000**	**419 000**	**1 734 733**	**1 936 422**	**40 455**	**52 754**	**1 830 000**	**2 277 000**	**(23 457 073)**	**1 502 561**
Transfer to/(from) retained earnings	-	-	-	-	(6 277)	(83)	(16 000)	(8 000)	-	-
Other comprehensive income	-	-	7 700	(679)	-	-	-	-	-	-
Dividends	200 000	-	1 875 750	1 848 831	30 945	10 033	2 362 000	497 000	-	102 325
Change in retained earnings	**(119 000)**	**419 000**	**(133 317)**	**86 912**	**15 787**	**42 804**	**(516 000)**	**1 788 000**	**(23 457 073)**	**1 400 236**
Net premiums written to gross premiums written	77%	75%	98%	99%	37%	53%	78%	78%	63%	92%
Net claims incurred to net earned premiums	66%	62%	53%	50%	52%	46%	65%	62%	1 255%	14%
Management and other expenses to net earned premiums	24%	23%	27%	26%	46%	34%	15%	15%	33%	23%
Combined ratio	103%	101%	80%	77%	99%	89%	97%	94%	1 295%	52%
Operating ratio	99%	95%	76%	71%	85%	78%	92%	88%	1 279%	20%
Return on equity	2%	10%	56%	59%	14%	19%	20%	24%	(340%)	18%

NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-22	Dec-21
Group/Company	**Standard Insurance Limited**	
Gross premiums written	3 257 706	3 028 393
Net premiums written	3 042 149	2 904 553
Net earned premiums	**3 000 595**	**2 873 237**
Total net investment income	**134 056**	**149 075**
Reinsurance commission revenue	8 883	7 148
Other income	-	-
Total income	**3 143 534**	**3 029 460**
Net claims incurred	1 656 122	1 358 080
Acquisition costs	553 188	502 033
Cell owners' transactions	-	-
Management and other expenses	485 485	455 061
Total expenses	**2 694 795**	**2 315 174**
Net profit/(loss) before taxation	**448 739**	**714 286**
Taxation	(126 399)	(193 974)
Net profit/(loss) after taxation	**322 340**	**520 312**
Other comprehensive income	-	-
Total comprehensive income for the year	**322 340**	**520 312**
Transfer to/(from) retained earnings	-	-
Other comprehensive income	-	-
Dividends	150 000	586 000
Change in retained earnings	**172 340**	**(65 688)**
Net premiums written to gross premiums written	93%	96%
Net claims incurred to net earned premiums	55%	47%
Management and other expenses to net earned premiums	16%	16%
Combined ratio	90%	80%
Operating ratio	85%	75%
Return on equity	14%	25%

Life insurance industry financial results

LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Jun-22	Jun-21	Dec-22	Dec-21	Jun-22	Jun-21	Jun-22	Jun-21 Restated	Dec-22	Dec-21
Group/Company	**1Life Insurance (RF) Limited**		**Absa Life Limited**		**Assupol Life Limited**		**AVBOB Mutual Assurance Society**		**Bryte Life Company Limited**	
Classification	*Traditional*		*Traditional*		*Traditional*		*Society*		*Traditional*	
Share capital and premium	398 000	398 000	24 000	24 000	490 019	490 019	-	-	126 744	106 744
Retained earnings/(deficit)	1 154 669	1 079 377	1 481 628	779 516	4 247 910	3 812 076	6 231 944	6 229 444	(106 947)	(93 343)
Other reserves	-	-	8 352	5 398	290 378	273 705	-	-	(65)	(85)
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
Total shareholders' funds	**1 552 669**	**1 477 377**	**1 513 980**	**808 914**	**5 028 307**	**4 575 800**	**6 231 944**	**6 229 444**	**19 732**	**13 316**
Policyholder liabilities under insurance and reinsurance contracts and contracts with DPFs	476 900	535 708	1 792 588	2 483 423	-	-	18 354 573	16 020 837	68 394	96 812
Policyholder liabilities under investment contracts	2 556 817	2 447 601	19 998 937	21 185 126	4 121 547	3 920 585	-	-	-	-
Preference share liability	-	-	-	-	-	-	-	-	15 000	15 000
Linked liability	-	-	-	-	-	-	-	-	-	-
Reinsurance contract liability	-	-	-	-	-	-	-	-	-	-
Cell owners' interest	-	-	161 238	104 648	-	-	-	-	-	-
Current tax payable	-	1 066	-	-	22 261	-	7 336	2 553	35	-
Deferred tax liability	258 519	284 271	142 529	131 175	701 129	797 888	89 682	194 671	-	-
Other liabilities	155 683	161 618	1 266 772	653 348	1 120 060	973 194	10 100 098	5 652 223	11 797	8 891
Total liabilities	**3 447 919**	**3 430 264**	**23 362 064**	**24 557 720**	**5 964 997**	**5 691 667**	**28 551 689**	**21 870 284**	**95 226**	**120 703**
Total investments	**2 972 339**	**3 084 690**	**23 828 977**	**24 354 626**	**7 354 311**	**6 707 940**	**31 281 545**	**24 589 367**	**33 001**	**26 335**
Assets arising from insurance contracts	1 436 297	1 340 409	-	-	2 567 083	2 596 285	-	-	-	-
PPE, goodwill and intangible assets, non-current assets classified as held for sale	-	-	122 741	51 821	412 934	335 619	318 037	312 792	1 245	876
Reinsurers' share of policyholder liabilities	357 148	300 062	105 679	178 843	66 302	100 592	17 971	23 860	18 178	27 572
Deferred acquisition costs	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	215 252	123 147	413 587	365 230	379 480	326 103	2 257 067	2 406 692	51 172	63 567
Other assets	18 509	59 333	397 055	271 210	213 194	198 405	909 013	767 017	11 362	15 471
Income/Deferred tax asset	1 043	-	8 005	144 904	-	2 523	-	-	-	198
Deposits held with cell option	-	-	-	-	-	-	-	-	-	-
Total assets	**5 000 588**	**4 907 641**	**24 876 044**	**25 366 634**	**10 993 304**	**10 267 467**	**34 783 633**	**28 099 728**	**114 958**	**134 019**
Total assets/Total liabilities	145%	143%	106%	103%	184%	180%	122%	128%	121%	111%
Increase in shareholders' funds	5%		87%		10%		0%		48%	

LIFE INSURERS | Statement of Financial Position | R'000

Accounting Year end	Dec-22	Dec-21	Jun-22	Jun-21	Jun-22	Jun-21 Restated	Jun-22	Jun-21	Jun-22	Jun-21 Restated
Group /Company	**Centriq Life Insurance Company Limited**		**Clientele Life Assurance Company Limited**		**Guardrisk Life Limited**		**Hollard Life Assurance Company**		**Hollard Specialist Life Limited**	
Classification	*Cell captive*		*Traditional*		*Cell captive*		*Traditional*		*Traditional*	
Share capital and premium	15 000	15 000	4 853	4 853	70 000	70 000	20 000	20 000	94 687	94 687
Retained earnings/(deficit)	44 603	24 492	701 752	692 434	343 087	307 040	1 112 804	1 327 568	787 140	826 232
Other reserves	-	-	20 788	19 318	-	-	-	-	-	-
Non-controlling interests	-	-	-	-	-	-	-	-	20 623	20 901
Total shareholders' funds	**59 603**	**39 492**	**727 393**	**716 605**	**413 087**	**377 040**	**1 132 804**	**1 347 568**	**902 450**	**941 820**
Policyholder liabilities under insurance and reinsurance contracts and contracts with DPFs	232 917	174 754	792 742	841 961	-	-	3 010 824	2 595 812	-	(96 686)
Policyholder liabilities under investment contracts	-	-	8 057 062	7 325 437	12 143 752	9 636 076	27 334 168	25 852 351	-	104 460
Preference share liability	-	-	-	-	-	-	-	-	-	-
Linked liability	-	-	-	-	-	-	-	-	-	-
Reinsurance contract liability	55 556	89 485	-	-	2 013 160	1 915 941	267 835	172 287	-	2 812
Cell owners' interest	1 498 089	656 514	-	-	4 126 870	4 431 518	-	-	-	-
Current tax payable	14 352	5 097	18 284	8 545	150 120	118 696	-	-	-	-
Deferred tax liability	-	367	-	-	-	-	1 408 029	942 825	154 607	144 627
Other liabilities	415 887	303 539	474 833	547 436	437 051	330 972	1 696 506	1 989 662	101 882	141 377
Total liabilities	**2 216 801**	**1 229 756**	**9 342 921**	**8 723 379**	**18 870 953**	**16 433 203**	**33 717 362**	**31 552 937**	**256 489**	**296 590**
Total investments	**1 928 443**	**869 536**	**9 063 599**	**8 263 450**	**16 567 869**	**14 124 074**	**27 206 556**	**26 742 472**	**580 238**	**661 607**
Assets arising from insurance contracts	-	-	-	-	155 601	162 383	-	-	72 267	-
PPE, goodwill and intangible assets, non-current assets classified as held for sale	-	-	182 354	285 317	-	16	293 198	351 095	100	1 764
Reinsurers' share of policyholder liabilities	35 787	17 832	84 178	91 128	884 950	686 600	1 841 709	952 098	118 894	127 459
Deferred acquisition costs	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	103 839	212 591	347 621	378 618	518 989	881 235	2 523 627	2 143 841	362 195	389 953
Other assets	151 083	79 804	321 747	292 991	742 056	559 983	729 104	697 539	18 327	41 335
Income/Deferred tax asset	1 696	-	70 815	128 480	414 575	395 952	2 255 972	2 013 460	6 918	16 292
Deposits held with cell option	55 556	89 485	-	-	-	-	-	-	-	-
Total assets	**2 276 404**	**1 269 248**	**10 070 314**	**9 439 984**	**19 284 040**	**16 810 243**	**34 850 166**	**32 900 505**	**1 158 939**	**1 238 410**
Total assets/Total liabilities	103%	103%	108%	108%	102%	102%	103%	104%	452%	418%
Increase in shareholders' funds	51%		2%		10%		(16%)		(4%)	

LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-22	Dec-21	Jun-22	Jun-21 Restated	Dec-22	Dec-21 Restated	Dec-22	Dec-21	Dec-22	Dec-21
Group/Company	**Liberty Group Limited**		**Momentum Metropolitan Life Limited**		**Nedgroup Life Assurance Company Limited**		**Nedgroup Structured Life Limited**		**Old Mutual Life Assurance Company (South Africa) Limited**	
Classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Traditional*	
Share capital and premium	189 000	141 000	1 041 000	1 041 000	55 000	55 000	26 351	26 351	6 423 000	6 423 000
Retained earnings/(deficit)	14 526 000	15 398 000	9 121 000	5 104 000	2 301 071	2 089 638	77 688	71 355	25 041 000	26 966 000
Other reserves	371 000	499 000	4 191 000	5 339 000	-	-	-	-	(144 000)	(311 000)
Non-controlling interests	6 235 000	6 335 000	-	-	-	-	-	-	-	-
Total shareholders' funds	**21 321 000**	**22 373 000**	**14 353 000**	**11 484 000**	**2 356 071**	**2 144 638**	**104 039**	**97 706**	**31 320 000**	**33 078 000**
Policyholder liabilities under insurance and reinsurance contracts and contracts with DPFs	234 695 000	237 478 000	115 797 000	133 057 000	1 336 021	1 846 577	-	-	336 180 000	355 214 000
Policyholder liabilities under investment contracts	119 557 000	120 822 000	290 726 000	270 558 000	2 564 033	4 154 587	13 988 054	13 738 753	364 811 000	376 396 000
Preference share liability	-	-	-	-	-	-	-	-	-	-
Linked liability	-	-	-	-	-	-	-	-	-	-
Reinsurance contract liability	262 000	205 000	-	-	-	-	-	-	-	-
Cell owners' interest	-	-	-	-	-	-	-	-	-	-
Current tax payable	681 000	688 000	50 000	-	11 042	1 390	-	-	434 000	310 000
Deferred tax liability	1 331 000	1 936 000	1 051 000	999 000	27 003	30 150	-	-	2 046 000	5 385 000
Other liabilities	47 750 000	46 893 000	26 941 000	26 713 000	116 813	127 316	2 347	1 982	70 097 000	57 276 000
Total liabilities	**404 276 000**	**408 022 000**	**434 565 000**	**431 327 000**	**4 054 912**	**6 160 020**	**13 990 401**	**13 740 735**	**773 568 000**	**794 581 000**
Total investments	**365 840 000**	**378 511 000**	**426 078 000**	**414 798 000**	**5 751 467**	**7 607 023**	**14 083 596**	**13 821 168**	**772 305 000**	**789 997 000**
Assets arising from insurance contracts	2 974 000	2 868 000	-	-	-	-	-	-	-	-
PPE, goodwill and intangible assets, non-current assets classified as held for sale	30 735 000	31 354 000	3 258 000	4 361 000	210 600	214 462	-	-	7 260 000	7 513 000
Reinsurers' share of policyholder liabilities	2 603 000	2 921 000	3 013 000	2 312 000	152 982	225 698	-	-	2 986 000	3 704 000
Deferred acquisition costs	708 000	751 000	-	-	-	-	-	-	1 138 000	1 214 000
Cash and cash equivalents	18 200 000	9 138 000	12 386 000	16 864 000	138 283	92 449	1 737	8 786	6 681 000	6 700 000
Other assets	4 415 000	4 788 000	4 183 000	4 140 000	152 651	165 026	5 358	6 547	13 969 000	17 446 000
Income/Deferred tax asset	122 000	64 000	-	336 000	5 000	-	3 749	1 940	549 000	1 085 000
Deposits held with cell option	-	-	-	-	-	-	-	-	-	-
Total assets	**425 597 000**	**430 395 000**	**448 918 000**	**442 811 000**	**6 410 983**	**8 304 658**	**14 094 440**	**13 838 441**	**804 888 000**	**827 659 000**
Total assets/Total liabilities	105%	105%	103%	103%	158%	135%	101%	101%	104%	104%
Increase in shareholders' funds	(5%)		25%		10%		6%		(5%)	

LIFE INSURERS | Statement of Financial Position | R'000

Accounting Year end	Jun-22	Jun-21	Dec-22	Dec-21
Group /Company	**OUTsurance Life Insurance Company Limited**		**Sanlam Limited**	
Classification	*Traditional*		*Traditional*	
Share capital and premium	445 002	445 002	9 896 000	11 113 000
Retained earnings/(deficit)	301 912	201 978	56 478 000	52 188 000
Other reserves	837	787	5 159 000	6 078 000
Non-controlling interests	-	-	13 409 000	13 517 000
Total shareholders' funds	**747 751**	**647 767**	**84 942 000**	**82 896 000**
Policyholder liabilities under insurance and reinsurance contracts and contracts with DPFs	828 182	843 448	191 025 000	244 217 000
Policyholder liabilities under investment contracts	64 053	37 181		
Preference share liability	-	-	456 738 000	454 538 000
Linked liability	-	-	-	-
Reinsurance contract liability	-	-	-	-
Cell owners' interest	-	-	7 123 000	4 900 000
Current tax payable	30 438	-	1 844 000	2 556 000
Deferred tax liability	23 263	29 689	2 185 000	7 311 000
Other liabilities	101 239	90 925	262 729 000	259 760 000
Total liabilities	**1 047 175**	**1 001 243**	**921 644 000**	**973 282 000**
Total investments	**1 414 715**	**1 266 949**	**787 100 000**	**834 287 000**
Assets arising from insurance contracts	-	-	15 548 000	24 243 000
PPE, goodwill and intangible assets, non-current assets classified as held for sale	-	-	127 498 000	104 356 000
Reinsurers' share of policyholder liabilities	158 977	177 199	2 469 000	2 188 000
Deferred acquisition costs	-	-	2 984 000	3 225 000
Cash and cash equivalents	175 495	148 800	23 557 000	27 701 000
Other assets	25 599	15 673	45 256 000	55 806 000
Income/Deferred tax asset	20 140	40 389	2 174 000	4 372 000
Deposits held with cell option	-	-	-	-
Total assets	**1 794 926**	**1 649 010**	**1 006 586 000**	**1 056 178 000**
Total assets/Total liabilities	171%	165%	109%	109%
Increase in shareholders' funds	15%		2%	

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-22	Jun-21	Dec-22	Dec-21	Jun-22	Jun-21	Jun-22	Jun-21 Restated	Dec-22	Dec-21
Group/Company	**1Life Insurance (RF) Limited**		**Absa Life Limited**		**Assupol Life Limited**		**AVBOB Mutual Assurance Society**		**Bryte Life Company Limited**	
Classification	*Traditional*		*Traditional*		*Traditional*		*Society*		*Traditional*	
Recurring premiums	1 514 612	1 498 061	5 013 637	4 624 178						
Single premiums	-	-	-	-	4 714 047	4 359 112	5 739 498	5 194 984	130 120	162 539
Other premiums	-	-	-	-						
Reinsurance premiums	(160 761)	(159 334)	(885 938)	(815 666)	(178 012)	(145 113)	(1 956)	(1 957)	(18 540)	(25 179)
Net premium income	**1 353 851**	**1 338 727**	**4 127 699**	**3 808 512**	**4 536 035**	**4 213 999**	**5 737 542**	**5 193 027**	**111 580**	**137 360**
Service fees from investment contracts	**-**	**-**	**101 033**	**50 680**	**81 833**	**63 333**	**-**	**-**	**-**	**-**
Total net investment income	**25 417**	**43 693**	**(1 076 402)**	**2 035 588**	**292 380**	**709 111**	**1 690 333**	**3 700 172**	**3 093**	**3 133**
Commission received	-	-	-	-	3 895	74	-	-	-	-
Other unallocated income	18 305	11 467	-	-	1 634	611	-	-	-	-
Total income	**1 397 573**	**1 393 887**	**3 152 330**	**5 894 780**	**4 915 777**	**4 987 128**	**7 427 875**	**8 893 199**	**114 673**	**140 493**
Death/disability benefits			1 765 346	2 960 090	1 055 479	1 172 522	2 074 264	2 069 766		
Maturity benefits			76 866	74 917	356 900	200 018	941	1 301		
Annuity benefits	860 089	754 132	-	-	41 890	31 797	-	-	109 660	212 103
Surrender benefits			113 538	112 467	22 319	23 861	255 608	293 120		
Withdrawals and other benefits			55 727	118 170	542 377	588 180	354 416	318 690		
Reinsurance recoveries	(228 451)	(187 765)	(393 352)	(656 755)	(192 990)	(261 272)	(1 378)	(613)	(21 218)	(47 346)
Net policyholder benefits under insurance contracts	**631 638**	**566 367**	**1 618 125**	**2 608 889**	**1 825 975**	**1 755 106**	**2 683 851**	**2 682 264**	**88 442**	**164 757**
Change in cell owners' liability	-	-	(66 937)	(39 985)	-	-	-	-	-	-
Change in assets arising from insurance contracts	(165 045)	105 785	-	-	-	-	-	-	-	-
Change in policyholder liabilities under insurance contracts	(46 737)	159 560	(309 685)	356 669	63 491	279 036	2 303 696	3 669 695	(19 024)	(23 405)
Fair value adjustments on policyholder liabilities under investment contracts	7 579	-	(1 231 743)	1 662 622	116 412	322 265	-	-	-	-
Acquisition costs	203 847	183 313	717 980	676 519	859 099	888 404	887 902	867 241	8 311	14 271
Administration, management and other expenses	710 960	647 447	743 993	667 165	1 271 762	1 210 471	1 432 109	1 377 133	50 548	39 903
Total expenses	**1 342 242**	**1 662 472**	**1 471 733**	**5 931 879**	**4 136 739**	**4 455 282**	**7 307 558**	**8 596 333**	**128 277**	**195 526**
Equity-accounted earnings (incl. hyper-inflationary adjustments)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit/(Loss) before tax	**55 331**	**(268 585)**	**1 680 597**	**(37 099)**	**779 038**	**531 846**	**120 317**	**296 866**	**(13 604)**	**(55 033)**

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-22	Jun-21	Dec-22	Dec-21	Jun-22	Jun-21	Jun-22	Jun-21 Restated	Dec-22	Dec-21
Group/Company	**1Life Insurance (RF) Limited**		**Absa Life Limited**		**Assupol Life Limited**		**AVBOB Mutual Assurance Society**		**Bryte Life Company Limited**	
Tax	19 961	61 953	(528 485)	(94 861)	(156 653)	(171 116)	(117 735)	(260 454)	-	145
Profit/(Loss) after tax	**75 292**	**(206 632)**	**1 152 112**	**(131 960)**	**622 385**	**360 730**	**2 582**	**36 412**	**(13 604)**	**(54 888)**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**(82)**	**173**	**-**	**-**
Total comprehensive income for the year	**75 292**	**(206 632)**	**1 152 112**	**(131 960)**	**622 385**	**360 730**	**2 500**	**36 585**	**(13 604)**	**(54 888)**
Other transfers to/(from) retained income	-	-	-	-	-	-	-	-	-	-
Other comprehensive income not charged against retained earnings	-	-	-	-	-	-	-	-	-	-
Ordinary dividends	-	-	450 000	182 000	186 551	232 208	-	-	-	-
Allocated to preference shareholders	-	-	-	-	-	-	-	-	-	-
Allocated to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Change in retained earnings	**75 292**	**(206 632)**	**702 112**	**(313 960)**	**435 834**	**128 522**	**2 500**	**36 585**	**(13 604)**	**(54 888)**
Management expenses to net premium income and service fees from investment contracts	53%	48%	18%	17%	28%	28%	25%	27%	45%	29%
Tax as a % of NIBT	(36%)	23%	31%	(256%)	20%	32%	98%	88%	0%	0%
Comments	Company		Company		Company		Society		Company	

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-22	Dec-21	Jun-22	Jun-21	Jun-22	Jun-21 Restated	Jun-22	Jun-21	Jun-22	Jun-21 Restated
Group/Company	**Centriq Life Insurance Company Limited**		**Clientele Life Assurance Company Limited**		**Guardrisk Life Limited**		**Hollard Life Assurance Company**		**Hollard Specialist Life Limited**	
Classification	*Cell captive*		*Traditional*		*Cell captive*		*Traditional*		*Traditional*	
Recurring premiums			1 868 092	1 800 064	9 148 875	8 058 497	6 834 229	6 694 178	635 241	657 292
Single premiums	5 840 169	4 175 425	-	-	68 189	-	-	-	-	-
Other premiums			-	-	-	-	178 878	161 238	45 826	43 244
Reinsurance premiums	(5 703 451)	(4 089 047)	(168 583)	(127 960)	(7 669 902)	(6 902 306)	(1 718 394)	(1 541 920)	(2 723)	(3 020)
Net premium income	**136 718**	**86 378**	**1 699 509**	**1 672 104**	**1 547 162**	**1 156 191**	**5 294 713**	**5 313 496**	**678 344**	**697 516**
Service fees from investment contracts	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total net investment income	**84 764**	**42 463**	**259 399**	**490 194**	**457 795**	**1 032 257**	**176 326**	**333 082**	**50 440**	**87 840**
Commission received	199 680	160 160	-	-	48 327	43 136	-	-	-	-
Other unallocated income	-	-	130 735	143 502	-	-	237 256	211 780	11 596	13 683
Total income	**421 162**	**289 001**	**2 089 643**	**2 305 800**	**2 053 284**	**2 231 584**	**5 708 295**	**5 858 358**	**740 380**	**799 039**
Death/disability benefits			320 247	284 396			4 861 618	5 127 294	23 245	28 408
Maturity benefits			-	-			1 527	849	226	84
Annuity benefits	2 625 043	2 156 735	-	-	3 187 313	3 558 932	1 265	1 442	-	-
Surrender benefits			244 282	242 422			14 178	16 570	-	-
Withdrawals and other benefits			46 030	24 031			71 814	63 886	296 691	333 533
Reinsurance recoveries	(2 580 269)	(2 126 544)	(193 695)	(171 721)	(3 168 975)	(3 543 062)	(2 159 923)	(1 982 948)	(21 288)	(24 477)
Net policyholder benefits under insurance contracts	**44 774**	**30 191**	**416 864**	**379 128**	**18 338**	**15 870**	**2 790 479**	**3 227 093**	**298 874**	**337 548**
Change in cell owners' liability	66 511	31 171	-	-	261 651	305 553	-	-	-	-
Change in assets arising from insurance contracts	-	-	6 950	(52 390)	(742 738)	(411 141)	-	-	-	-
Change in policyholder liabilities under insurance contracts	145	(2 368)	(49 219)	108 858	9 243	(229 970)	260 592	521 303	(45 659)	88 030
Fair value adjustments on policyholder liabilities under investment contracts	-	-	171 807	319 600	163 120	676 025	-	-	3 498	10 831
Acquisition costs	149 514	123 154	831 006	911 191	1 991 024	1 567 885	462 392	475 427	61 535	59 355
Administration, management and other expenses	111 367	72 840	223 900	221 516	189 217	165 257	1 894 704	2 063 918	203 145	218 768
Total expenses	**372 311**	**254 988**	**1 601 308**	**1 887 903**	**1 889 855**	**2 089 479**	**5 408 167**	**6 287 741**	**521 393**	**714 532**
Equity-accounted earnings (incl. hyper-inflationary adjustments)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit/(Loss) before tax	**48 851**	**34 013**	**488 335**	**417 897**	**163 429**	**142 105**	**300 128**	**(429 383)**	**218 987**	**84 507**

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-22	Dec-21	Jun-22	Jun-21	Jun-22	Jun-21 Restated	Jun-22	Jun-21	Jun-22	Jun-21 Restated
Group/Company	**Centriq Life Insurance Company Limited**		**Clientele Life Assurance Company Limited**		**Guardrisk Life Limited**		**Hollard Life Assurance Company**		**Hollard Specialist Life Limited**	
Tax	(13 740)	(9 524)	(180 164)	(150 425)	(47 382)	(33 580)	(240 155)	751 746	(55 465)	(22 516)
Profit/(Loss) after tax	**35 111**	**24 489**	**308 171**	**267 472**	**116 047**	**108 525**	**59 973**	**322 363**	**163 522**	**61 991**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the year	**35 111**	**24 489**	**308 171**	**267 472**	**116 047**	**108 525**	**59 973**	**322 363**	**163 522**	**61 991**
Other transfers to/(from) retained income	-	-	-	-	-	-	-	-	-	(13 160)
Other comprehensive income not charged against retained earnings	-	-	-	-	-	-	-	-	-	-
Ordinary dividends	15 000	18 082	298 853	268 556	80 000	71 500	274 737	470 085	194 429	29 850
Allocated to preference shareholders	-	-	-	-	-	-	-	-	-	-
Allocated to non-controlling interests	-	-	-	-	-	-	-	-	(8 185)	(1 363)
Change in retained earnings	**20 111**	**6 407**	**9 318**	**(1 084)**	**36 047**	**37 025**	**(214 764)**	**(147 722)**	**(39 092)**	**17 618**
Management expenses to net premium income and service fees from investment contracts	81%	84%	13%	13%	12%	14%	36%	39%	30%	31%
Tax as a % of NIBT	28%	28%	37%	36%	29%	24%	80%	175%	25%	27%
Comments	Company		Company		Company		Company		Company	

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-22	Dec-21	Jun-22	Jun-21 Restated	Dec-22	Dec-21 Restated	Dec-22	Dec-21	Dec-22	Dec-21
Group/Company	**Liberty Group Limited**		**Momentum Metropolitan Life Limited**		**Nedgroup Life Assurance Company Limited**		**Nedgroup Structured Life Limited**		**Old Mutual Life Assurance Company (South Africa) Limited**	
Classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Traditional*	
Recurring premiums							-	-		
Single premiums	48 485 000	43 801 000	27 429 000	27 328 000	2 415 340	2 382 844	-	-	54 313 000	55 953 000
Other premiums							-	-		
Reinsurance premiums	(1 992 000)	(1 847 000)	(3 251 000)	(2 800 000)	(104 323)	(92 893)	-	-	(2 797 000)	(2 910 000)
Net premium income	**46 493 000**	**41 954 000**	**24 178 000**	**24 528 000**	**2 311 017**	**2 289 951**	**-**	**-**	**51 516 000**	**53 043 000**
Service fees from investment contracts	**1 675 000**	**1 624 000**	**3 358 000**	**2 991 000**	**-**	**-**	**6 178**	**6 040**	**4 703 000**	**4 721 000**
Total net investment income	**9 565 000**	**57 311 000**	**16 408 000**	**52 626 000**	**248 902**	**450 909**	**5 755**	**4 145**	**(1 933 000)**	**119 925 000**
Commission received	-	-	-	-	-	-	-	-	-	-
Other unallocated income	-	-	531 000	528 000	33 322	24 269	(2 544)	78 548	2 236 000	2 457 000
Total income	**57 733 000**	**100 889 000**	**44 475 000**	**80 673 000**	**2 593 241**	**2 765 129**	**9 389**	**88 733**	**56 522 000**	**180 146 000**
Death/disability benefits			15 053 000	14 790 000	746 460	1 067 983	-	-		
Maturity benefits			4 020 000	4 535 000	-	362	-	-		
Annuity benefits	41 750 000	46 367 000	5 266 000	4 843 000	341	1 997	-	-	45 917 000	107 983 000
Surrender benefits			2 042 000	2 749 000	18 076	43 517	-	-		
Withdrawals and other benefits							-	-		
Reinsurance recoveries	(1 885 000)	(2 987 000)	(4 682 000)	(3 920 000)	(150 916)	(135 848)	-	-	(3 007 000)	(5 581 000)
Net policyholder benefits under insurance contracts	**39 865 000**	**43 380 000**	**22 101 000**	**24 666 000**	**613 961**	**978 011**	**-**	**-**	**42 910 000**	**102 402 000**
Change in cell owners' liability	-	-	-	-	-	-	-	-	-	-
Change in assets arising from insurance contracts	(106 000)	2 182 000	-	-	-	-	-	-	-	-
Change in policyholder liabilities under insurance contracts	(2 409 000)	20 549 000	(3 494 000)	12 672 000	(294 925)	(64 627)	-	-	-	-
Fair value adjustments on policyholder liabilities under investment contracts	555 000	17 307 000	9 022 000	32 475 000	179 616	112 238	-	-	(7 716 000)	52 339 000
Acquisition costs	3 896 000	3 811 000	3 755 000	3 470 000	154 171	149 442	-	-	5 818 000	5 574 000
Administration, management and other expenses	13 515 000	11 856 000	6 504 000	6 320 000	464 373	431 914	2 898	2 887	12 914 000	12 553 000
Total expenses	**55 316 000**	**99 085 000**	**37 888 000**	**79 603 000**	**1 117 196**	**1 606 978**	**2 898**	**2 887**	**53 926 000**	**172 868 000**
Equity-accounted earnings (incl. hyper-inflationary adjustments)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit/(Loss) before tax	**2 417 000**	**1 804 000**	**6 587 000**	**1 070 000**	**1 476 045**	**1 158 151**	**6 491**	**85 846**	**2 596 000**	**7 278 000**

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-22	Dec-21	Jun-22	Jun-21 Restated	Dec-22	Dec-21 Restated	Dec-22	Dec-21	Dec-22	Dec-21
Group/Company	**Liberty Group Limited**		**Momentum Metropolitan Life Limited**		**Nedgroup Life Assurance Company Limited**		**Nedgroup Structured Life Limited**		**Old Mutual Life Assurance Company (South Africa) Limited**	
Tax	(1 208 000)	(1 840 000)	(1 888 000)	(783 000)	(414 612)	(314 084)	(158)	(80 489)	608 000	(3 537 000)
Profit/(Loss) after tax	**1 209 000**	**(36 000)**	**4 699 000**	**287 000**	**1 061 433**	**844 067**	**6 333**	**5 357**	**3 204 000**	**3 741 000**
Other comprehensive income	**(7 000)**	**(88 000)**	**(1 134 000)**	**(596 000)**	**-**	**-**	**-**	**-**	**(144 000)**	**203 000**
Total comprehensive income for the year	**1 202 000**	**(124 000)**	**3 565 000**	**(309 000)**	**1 061 433**	**844 067**	**6 333**	**5 357**	**3 060 000**	**3 944 000**
Other transfers to/(from) retained income	(1 807 000)	156 000	44 000	(349 000)	-	-	-	-	485 000	161 000
Other comprehensive income not charged against retained earnings	-	-	1 108 000	506 000	-	-	-	-	10 000	(225 000)
Ordinary dividends	-	-	700 000	1 030 000	850 000	350 000	-	-	5 480 000	4 535 000
Allocated to preference shareholders	-	-	-	-	-	-	-	-	-	-
Allocated to non-controlling interests	267 000	342 000	-	-	-	-	-	-	-	-
Change in retained earnings	**(872 000)**	**(310 000)**	**4 017 000**	**(1 182 000)**	**211 433**	**494 067**	**6 333**	**5 357**	**(1 925 000)**	**(655 000)**
Management expenses to net premium income and service fees from investment contracts	28%	27%	24%	23%	20%	19%	47%	48%	23%	22%
Tax as a % of NIBT	50%	102%	29%	73%	28%	27%	2%	94%	(23%)	49%
Comments	Group		Company		Company		Company		Company	

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-22	Jun-21	Dec-22	Dec-21
Group/Company	**OUTsurance Life Insurance Company Limited**		**Sanlam Limited**	
Classification	*Traditional*		*Traditional*	
Recurring premiums				
Single premiums	797 910	649 861	112 168 000	107 571 000
Other premiums				
Reinsurance premiums	(93 975)	(64 556)	(23 871 000)	(20 081 000)
Net premium income	**703 935**	**585 305**	**88 297 000**	**87 490 000**
Service fees from investment contracts	**240**	**171**	**7 896 000**	**9 316 000**
Total net investment income	**56 978**	**213 235**	**17 129 000**	**115 509 000**
Commission received	-	-	3 252 000	2 815 000
Other unallocated income	-	-	-	-
Total income	**761 153**	**798 711**	**116 574 000**	**215 130 000**
Death/disability benefits	393 610	295 016		
Maturity benefits	-	-		
Annuity benefits	-	-	40 058 000	41 048 000
Surrender benefits	-	-		
Withdrawals and other benefits	17 788	9 228		
Reinsurance recoveries	(164 328)	(102 414)	(16 538 000)	(19 563 000)
Net policyholder benefits under insurance contracts	**247 070**	**201 830**	**23 520 000**	**21 485 000**
Change in cell owners' liability	-	-	3 952 000	15 768 000
Change in assets arising from insurance contracts	-	-	-	-
Change in policyholder liabilities under insurance contracts	3 086	249 222	22 393 000	44 340 000
Fair value adjustments on policyholder liabilities under investment contracts	-	-	6 747 000	73 767 000
Acquisition costs	(23)	(95)	15 897 000	14 724 000
Administration, management and other expenses	371 549	323 321	30 184 000	29 784 000
Total expenses	**621 682**	**774 278**	**102 693 000**	**199 868 000**
Equity-accounted earnings (incl. hyper-inflationary adjustments)	**-**	**-**	**3 136 000**	**2 240 000**
Profit/(Loss) before tax	**139 471**	**24 433**	**17 017 000**	**17 502 000**

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-22	Jun-21	Dec-22	Dec-21
Group/Company	**OUTsurance Life Insurance Company Limited**		**Sanlam Limited**	
Tax	(39 537)	(4 815)	(3 736 000)	(6 152 000)
Profit/(Loss) after tax	**99 934**	**19 618**	**13 281 000**	**11 350 000**
Other comprehensive income	**50**	**984**	**(2 786 000)**	**2 018 000**
Total comprehensive income for the year	**99 984**	**20 602**	**10 495 000**	**13 368 000**
Other transfers to/(from) retained income	-	-	(423 000)	(148 000)
Other comprehensive income not charged against retained earnings	(50)	(984)	1 177 000	(3 977 000)
Ordinary dividends	-	-	6 959 000	6 233 000
Allocated to preference shareholders	-	-	-	-
Allocated to non-controlling interests	-	-	-	-
Change in retained earnings	**99 934**	**19 618**	**4 290 000**	**3 010 000**
Management expenses to net premium income and service fees from investment contracts	53%	55%	31%	31%
Tax as a % of NIBT	28%	20%	22%	35%
Comments	Company		Group	

Reinsurance industry financial results

REINSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-22	Dec-21	Dec-22	Dec-21
Company/Branch	**African Reinsurance Corporation (South Africa) Limited**		**Hannover Re South Africa Limited**	
Share capital and share premium	80 300	80 300	1 177 292	1 177 292
Retained earnings/(deficit)	897 482	850 630	1 024 532	469 298
Other reserves	51 702	51 702	(44 468)	14 340
Total shareholders' funds	**1 029 484**	**982 632**	**2 157 356**	**1 660 930**
Gross outstanding claims provision	1 497 222	1 380 067	4 821 175	6 394 379
Gross unearned premium provision	220 431	169 775	447 614	488 742
Provision for profit commission	-	-	427 895	428 976
Policyholder liabilities under insurance contracts	-	-	3 563 228	3 210 589
Liabilities in respect of investment contracts	-	-	-	-
Deferred reinsurance commission revenue	42 175	36 940	129 858	125 355
Deferred tax liabilities/(assets)	7 537	11 050	(165 641)	(356 284)
Funds withheld	2 064 153	1 865 551	349 795	320 230
Other liabilities	265 669	229 791	1 357 753	1 982 044
Total liabilities	**4 097 187**	**3 693 174**	**10 931 677**	**12 594 031**
Total investments	**3 272 517**	**3 084 056**	**3 527 236**	**3 877 942**
Funds withheld	69 605	63 254	532 341	516 643
PPE, intangible assets and ROU assets	812	769	49 080	47 475
Retrocessionaires' share of outstanding claims provision	1 194 891	1 087 150	3 509 684	4 590 328
Retrocessionaires' share of unearned premium provision	157 788	123 127	393 554	383 083
Retrocessionaires' share of profit commission	-	-	339 796	259 999
Retrocessionaires' share of liabilities under life insurance contracts	-	-	2 794 796	1 858 754
Deferred acquisition costs	54 224	44 499	304 742	337 644
Cash and cash equivalents	15 255	47 640	274 089	306 961
Other assets	361 579	225 311	1 363 715	2 076 132
Total assets	**5 126 671**	**4 675 806**	**13 089 033**	**14 254 961**
Return on equity	5%	8%	26%	(23%)
Total assets/Total liabilities	125%	127%	120%	113%
Change in shareholders' funds	5%		30%	

REINSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-22	Dec-21	Dec-22	Dec-21
Company/Branch	**Munich Reinsurance Company of Africa Limited**		**SCOR SE (Incorporated in France) - Africa Branch**	
Share capital and share premium	1 344 915	544 915	-	-
Retained earnings/(deficit)	693 385	1 132 890	(655 319)	(463 440)
Other reserves	(181 009)	(26 782)	(2 739)	1 673
Total shareholders' funds	**1 857 291**	**1 651 023**	**(658 058)**	**(461 767)**
Gross outstanding claims provision	11 119 609	9 141 615	2 617 146	2 663 259
Gross unearned premium provision	3 890 646	3 001 803	305 302	256 879
Provision for profit commission	17 911	(100 450)	-	-
Policyholder liabilities under insurance contracts	2 863 870	3 556 878	823 391	745 520
Liabilities in respect of investment contracts	-	-	-	-
Deferred reinsurance commission revenue	1 793 505	1 294 808	91 876	88 114
Deferred tax liabilities/(assets)	(293 851)	(257 031)	(1 316)	(559)
Funds withheld	24 791	5 959	2 066 327	1 686 081
Other liabilities	4 637 686	2 973 924	849 155	1 708 171
Total liabilities	**24 054 167**	**19 617 506**	**6 751 881**	**7 147 465**
Total investments	**3 648 014**	**3 837 447**	**233 182**	**133 201**
Funds withheld	693 854	600 228	-	-
PPE, intangible assets and ROU assets	97 615	42 592	338 558	380 875
Retrocessionaires' share of outstanding claims provision	8 383 605	6 203 029	1 755 248	1 955 687
Retrocessionaires' share of unearned premium provision	3 632 285	2 756 025	216 164	185 304
Retrocessionaires' share of profit commission	14 839	(79 498)	-	-
Retrocessionaires' share of liabilities under life insurance contracts	6 175	6 236	231 330	285 483
Deferred acquisition costs	4 153 801	3 637 578	199 716	190 791
Cash and cash equivalents	829 015	1 106 693	898 195	545 742
Other assets	4 452 255	3 158 199	2 221 430	3 008 615
Total assets	**25 911 458**	**21 268 529**	**6 093 823**	**6 685 698**
Return on equity	19%	(85%)	29%	100%
Total assets/Total liabilities	108%	108%	90%	94%
Change in shareholders' funds	12%		43%	

KPMG

REINSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-22	Dec-21	Dec-22	Dec-21
Company/Branch	**African Reinsurance Corporation (South Africa) Limited**		**Hannover Re South Africa Limited**	
Gross premiums written	2 294 520	2 119 057	6 415 257	7 579 185
Net premiums written	621 013	584 652	1 792 491	2 776 152
Earned premiums	**605 018**	**584 222**	**1 842 458**	**2 688 254**
Total net investment income	165 292	157 675	293 824	287 381
Reinsurance commission revenue	596 093	600 671	958 613	815 049
Other income	333	55	4 445	-
Total income	**1 366 736**	**1 342 623**	**3 099 340**	**3 790 684**
Policyholder benefits and entitlements	353 560	316 937	842 539	2 903 594
Acquisition expense	792 072	779 053	1 185 610	1 323 841
Management and other expenses	157 754	139 935	303 290	295 314
Total expenses	**1 303 386**	**1 235 925**	**2 331 439**	**4 522 749**
Net profit/(loss) before tax	**63 350**	**106 698**	**767 901**	**(732 065)**
Tax	(16 498)	(25 062)	(212 667)	358 143
Net profit/(loss) after tax	**46 852**	**81 636**	**555 234**	**(373 922)**
Other comprehensive income	-	-	(58 808)	(9 476)
Total comprehensive income for the year	**46 852**	**81 636**	**496 426**	**(383 398)**
Minority shareholders' interest	-	-	-	-
Transfer to/(from) retained earnings	-	-	58 808	9 476
Dividends	-	-	-	-
Change in retained earnings	**46 852**	**81 636**	**555 234**	**(373 922)**
Net premiums written to gross premiums written	27%	28%	28%	37%
Policyholder benefits and entitlements to earned premiums	58%	54%	46%	108%
Management and other expenses to earned premiums	26%	24%	16%	11%
Comments	Composite company		Composite company	

REINSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-22	Dec-21	Dec-22	Dec-21
Company/Branch	**Munich Reinsurance Company of Africa Limited**		**SCOR SE (Incorporated in France) - Africa Branch**	
Gross premiums written	18 038 696	13 173 780	2 187 918	1 597 902
Net premiums written	6 609 741	5 607 535	1 120 626	806 135
Earned premiums	**6 593 217**	**5 612 596**	**1 103 216**	**733 607**
Total net investment income	371 223	408 287	(27 741)	(11 204)
Reinsurance commission revenue	3 454 244	2 539 605	183 357	96 419
Other income	-	17 667	-	-
Total income	**10 418 684**	**8 578 155**	**1 258 832**	**818 822**
Policyholder benefits and entitlements	5 292 316	6 782 415	1 064 594	1 015 865
Acquisition expense	3 640 388	2 886 954	212 058	107 634
Management and other expenses	1 022 148	741 625	174 071	158 763
Total expenses	**9 954 852**	**10 410 994**	**1 450 723**	**1 282 262**
Net profit/(loss) before tax	**463 832**	**(1 832 839)**	**(191 891)**	**(463 440)**
Tax	(103 337)	421 773	-	-
Net profit/(loss) after tax	**360 495**	**(1 411 066)**	**(191 891)**	**(463 440)**
Other comprehensive income	(154 227)	33 408	(2 852)	(1 937)
Total comprehensive income for the year	**206 268**	**(1 377 658)**	**(194 743)**	**(465 377)**
Minority shareholders' interest	-	-	-	-
Transfer to/(from) retained earnings	154 227	(33 408)	2 864	1 937
Dividends	800 000	408 000	-	-
Change in retained earnings	**(439 505)**	**(1 819 066)**	**(191 879)**	**(463 440)**
Net premiums written to gross premiums written	37%	43%	51%	50%
Policyholder benefits and entitlements to earned premiums	80%	121%	96%	138%
Management and other expenses to earned premiums	16%	13%	16%	22%
Comments	Composite company		Composite branch	

Editorial team

Mark Danckwerts
Partner
Africa insurance leader
Tel: +27 82 710 3261
Email: mark.danckwerts@kpmg.co.za

Kashmira Naran
Partner
Insurance
Tel: +27 82 710 7629
Email: kashmira.naran@kpmg.co.za

Sinqobile Hlatshwayo
Senior Manager
Insurance
Tel: +27 79 617 5574
Email: sinqobile.hlatshwayo@kpmg.co.za

Arthi Jimmy
Executive Assistant
Financial Services
Tel: +27 79 502 5234
Email: arthi.jimmy@kpmg.co.za