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Reinsurance industry results

We are pleased to present and provide our observations on the financial results of the South African reinsurance industry for the 2019 financial year.

The results of the reinsurance industry need to be reflected on against the backdrop of the underlying South African non-life insurance and life insurance industry results as set out in this publication. In summary, the South African economy reflected the lowest economic growth in more than ten years during 2019. For life insurers, 2019 was a year of recovery where the industry experienced increased growth in new business and new business margins. Many life insurers used this as an opportunity to reflect on and re-evaluate their risk management processes and strategies and to re-assess the operational efficiency of internal processes in the interest of achieving future cost savings. From the perspective of the non-life insurance industry, 2019 was marked with weather related catastrophe losses (floods, hailstorms and tornados), fire related losses and higher attritional losses related to trade credit loss events. Following political unrest events in South Africa over the course of 2019, Sasria SOC Limited experienced a higher than normal influx in claims resulting in the specialist insurer recording its first ever loss since its establishment.

Financial indicators

Our performance analysis is based on locally registered professional reinsurers participating in this survey; reflecting approximately 95% of the reinsurance market share in terms of gross written premium (GWP). We noted in KPMG's survey of the 2018 results the expectation that the level of competition may increase due to foreign reinsurers being able to operate branches under the new Insurance Act, effective from 1 July 2018. Similar to what we noted in 2018, the impact of this has not yet been fully observed with little to no movement observed in this market over the course of 2019. The impact of the Covid-19 pandemic may further influence this decision-making process in that this remains an area of significant uncertainty as the full impact of the pandemic is yet to be fully observed, understood and unpacked.

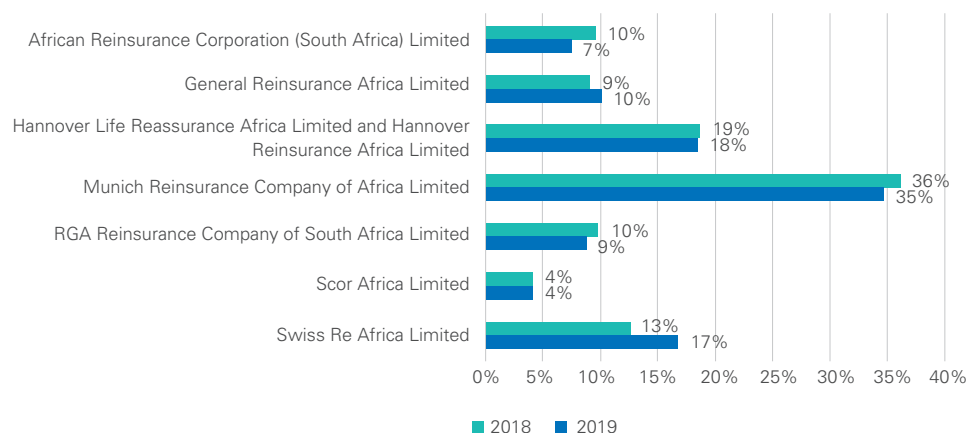
Growth

In the context of continued repressed local and global economic growth, local reinsurers continued to achieve respectable growth levels, albeit not at the same levels as that achieved in prior years. Gross written premium (GWP) improved in the 2019 financial year when compared to the 2018 financial year, by 14% (2018: 20%). Investment income growth has improved significantly from the 2% observed in 2018 to 23% in 2019; the significant contributing factors being an improvement in investment markets and the fact that reinsurers' investment portfolios tend to be weighted more towards low risk, low volatility investments.

Performance

Despite the industry experiencing a lower number of and less severe claims during 2018, reinsurance premiums increased by 14% in 2019, which indicates a hardening of premium rates and/or an increase in reinsurance coverage in anticipation of weather-related claims. The 2019 financial year for South African reinsurers was not marked by exposure to weather-related natural catastrophe events, the losses of which featured prominently on the financial results of the reinsurance industry for the last few years. The underwriting performance of the reinsurance industry is significantly different to what was experienced by some non-life insurers during the 2019 financial year as a result of weather-related losses, fire related losses and trade credit losses. The severity of these losses was carried primarily by the non-life insurance market whereby participants reported that losses from catastrophe events did not reach reinsurance cover limits. Whether a similar trend in weather-related claims might be expected for 2020 and beyond, remains to be seen. Coupled with the impact of the Covid-19 pandemic which is yet to be fully understood and observed, it is highly likely that a hardening of premium rates will continue into 2020 due to the anticipation of increased losses arising from business interruption claims, business failures, loss of employment, death and increased health-related claims.

Illustrated below is the share of the reinsurance market by GWP, as reported in the audited financial statements of the reinsurers participating in this survey.



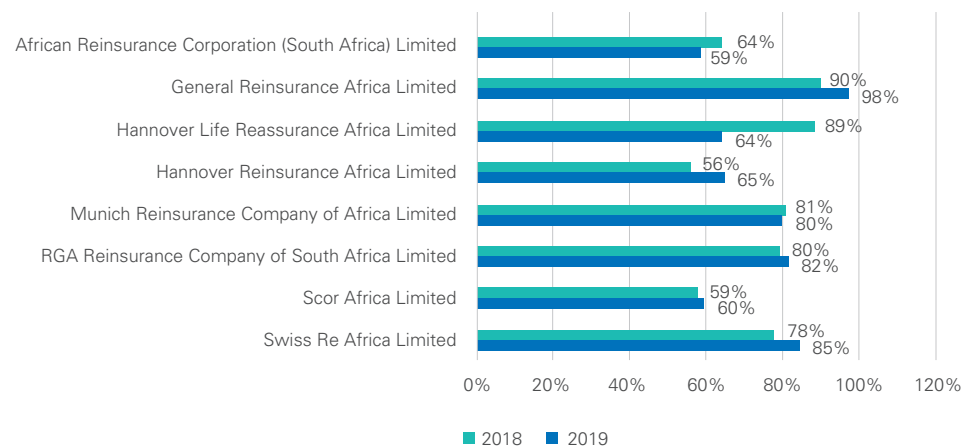
Munich Reinsurance Company of Africa Limited and Hannover Reinsurance Group continue to dominate the local life and non-life reinsurance industries. Their combined market share accounts for 53% (2018: 55%) measured by GWP volumes. The market share distribution across reinsurers continues to remain relatively consistent moving from 2018 and 2019, with only marginal movements noted across industry players.

Other key performance indicators based on the results of reinsurers participating in the 2019 KPMG survey is as follows:

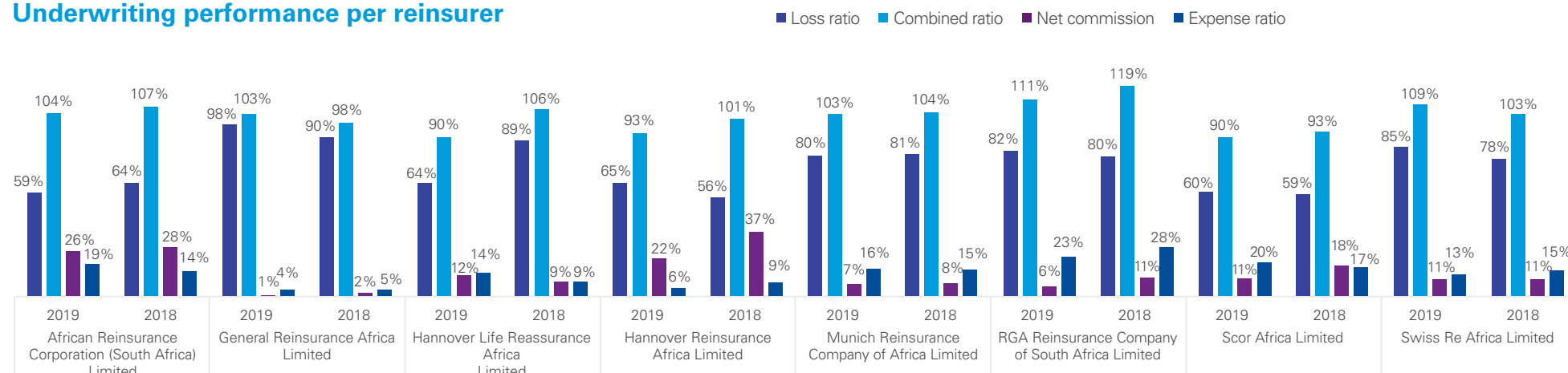
Performance indicator	2019	2018
Management and other expenses to earned premium	13%	13%
Policyholder benefits and entitlements to earned premium	80%	79%
Net commission to earned premium	10%	11%
Underwriting loss	R427 million	R551 million

Three of the eight reinsurers participating in this survey experienced an underwriting profit for 2019. One reinsurer’s underwriting result deteriorated from an underwriting profit in 2018 to an underwriting loss in 2019. The remaining reinsurers continued to experience underwriting losses, a result that has not changed from as far back as 2017. It is evident that the impacts of past catastrophe losses and the weakening economic environment are still being felt in the 2019 financial results of reinsurers.

The graph included below illustrates the loss ratios across reinsurers. The movement in loss ratios from 2018 to 2019 is a mixed bag of performance across reinsurers with some reinsurers showing improved loss ratio results and other reinsurers showing declining loss ratios. The overall loss ratio for reinsurers participating in this survey declined marginally from 79% in 2018 to 80% in 2019. This marginal decrease is reflective of the fact that even though the reinsurance industry was not as severely exposed to weather-related catastrophe losses in 2019, attritional losses have eaten away at any savings that might have been achieved by reinsurers from the lack of exposure to weather-related catastrophe losses.



Underwriting performance per reinsurer



Munich Re

Munich Re continued to experience an underwriting loss for 2019, with the loss result having improved marginally from R188 million in 2018 to R161 million in 2019. The increase in GWP of 9% (2018: 31%) represents a normalised movement compared to the higher base in the prior year that related to new key strategic alliances. The loss ratio and combined ratios have remained flat as a result of limited exposure to catastrophe losses in 2019.

Hannover Re and Hannover Life

Hannover Re and Hannover Life are two of the three reinsurers that experienced an underwriting profit during 2019.

Hannover Re

GWP increased by 20% (2018: 10%) while net earned premiums increased by 45%

(2018: 62%) due to a larger portion of unearned premiums written in prior years being earned in 2019. The loss ratio deteriorated from 56% in 2018 to 65% in 2019 largely due to attritional loss experience, while the combined ratio of 93% (2018: 101%) improved due to a lower management expenses and lower net commission incurred.

Hannover Life

Hannover Life experienced GWP growth of 6% (2018: 8%) during 2019. The large decrease in net earned premium of 36% is due to a larger amount of gross premium written in 2019 which relates to future financial reporting periods. The loss ratio has improved from 89% in 2018 to 64% in 2019, largely due to limited exposure to catastrophe losses in 2019. While the net commission ratio of 12% (2018: 9%) and expense ratio of 14% (2018: 9%) have deteriorated, the improvement in the loss ratio has contributed to the overall improvement in the combined ratio of 90% (2018: 106%).

African Re

African Re's GWP and net earned premium decreased by 12% and 13% respectively from 2018 to 2019, one of the only reinsurers to have experienced a decline in these line items. The primary reason for the decrease is due to deliberate and strategic initiatives implemented by the reinsurer. African Re's loss ratio showed improvement from 64% reported in 2018 to 59% reported in 2019, largely as a result of the downstream impact of the implementation of the reinsurer's strategic initiatives. While the net commission ratio of 26% (2018: 28%) has improved marginally and the expense ratio of 19% (2018: 14%) has deteriorated, the improvement in the loss ratio has contributed to the overall improvement in the combined ratio of 104% (2018: 107%).

Swiss Re

Swiss Re experienced the highest premium growth rate of 51% across all reinsurers participating in the 2019 KPMG survey, from R3.8 billion reported in 2018 to R5.8 billion in 2019. This translated into an increase in net earned premium of 37% from R2.9 billion in 2018 to R4.7 billion in 2019. The increase in the combined ratio from 103% in 2018 to 109% in 2019 can be largely attributable to the increase in loss ratio from 78% in 2018 to 85% in 2019.

Investment performance

Reinsurers achieved an average return on investments (including cash and cash equivalents) of 7.1% (2018: 6.1%) compared to an average prime rate of 10.16%¹ and the average 10-year government bond yield of 8.434%².

RGA was the top performer in terms of investment returns in 2019 with 8.3% (2018: 7.6%). Swiss Re and Munich Re followed closely with 8.0% (2018: 7.2%) and 7.8% (2017: 7.8%) respectively, including cash and cash equivalents. All other reinsurers surveyed earned an average investment return of 6.4% (2018:

5.0%). Investment income in total has increased by 23% (2018: 2.0%) year on year. Investment performance was reflective of the stronger investment market performance in South Africa over the course of 2019 as well as due to reinsurers' investment portfolios weighted more towards low risk, low volatility investments.

What the future holds for reinsurance operations

The 2019 financial year was the year that broke the trend of consecutive natural catastrophe loss events that plagued the reinsurance industry over the past few years. The reinsurance industry is still cautious that improved claims conditions could be temporary in nature – industry players have questioned whether and, more recently, have resigned themselves to the fact that this has become the “new normal”. While the severity of these losses decreased in 2019 and 2018 when compared to 2017, coupled with the presence of the unknown short- and long-term future impacts of the Covid-19 pandemic, reinsurers and insurers alike would be hesitant to take their foot off the proverbial peddle.

According to S&P Global Ratings, “the global reinsurance sector is facing historically unusual times where a single event is materially disrupting both the asset and liability side of their businesses. There are not many places that provide respite. Therefore, we believe fundamental, disciplined underwriting and risk pricing, tighter terms and conditions with clear exclusions, and overall proper risk management are key if reinsurers are to defend their competitive position and preserve earnings and capital strength.”

The reinsurance industry is the backbone of the insurance industry and has assisted in weathering the storm of many an unfavourable event. Its unwavering support and contribution to the insurance industry in this time of uncertainty and instability will ensure the sustained resilience of insurers to serve the public interest.

¹ <https://www.absa.co.za/indices/prime-rate/>

² <https://za.investing.com/rates-bonds/south-africa-10-year-bond-yield-historical-data>



REINSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-19	Dec-18	Dec-19	Dec-18	Dec-19	Dec-18	Dec-19	Dec-18
Group/Company	African Reinsurance Corporation (South Africa) Limited		General Reinsurance Africa Limited		Hannover Life Reassurance Africa Limited		Hannover Reinsurance Africa Limited	
Share capital and share premium	80 300	80 300	4 000	4 000	162 500	112 500	72 778	72 778
Retained earnings/(deficit)	684 310	604 911	2 141 477	1 886 991	707 655	469 793	591 293	486 411
Reserves	51 702	51 702	28 778	(15 471)	(5 751)	(16 542)	366 834	312 456
Total shareholders' funds	816 312	736 913	2 174 255	1 875 520	864 404	565 751	1 030 905	871 645
Gross outstanding claims	1 410 388	1 465 121	2 431 804	1 747 811	416 171	422 756	1 841 950	1 719 291
Gross unearned premium reserve	160 351	199 174	301 192	226 464	13 480	13 085	494 214	546 300
Provision for profit commission	-	-	-	-	363 103	294 202	440 953	567 163
Policyholder liabilities under insurance contracts	-	-	2 604 277	2 488 069	3 933 943	3 447 866	-	-
Liabilities in respect of investment contracts	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	38 760	41 518	-	-	25 066	28 930	115 437	106 408
Deferred tax liabilities / (assets)	2 502	3 145	19 031	(15 719)	(10 309)	(10 806)	(20 452)	(10 699)
Funds withheld	1 553 433	1 729 481	709	862	9 002	37 055	406 881	394 961
Other liabilities (including lease liabilities)	127 123	193 242	634 840	446 765	726 383	585 459	514 161	662 055
Total liabilities	3 292 557	3 631 681	5 991 853	4 894 252	5 476 839	4 818 547	3 793 143	3 985 479
Total investments	2 441 914	2 408 616	6 384 507	5 497 672	2 619 845	2 782 058	1 539 981	1 582 862
Funds withheld	19 585	3 397	-	-	122 036	149 506	505 059	498 536
PPE, intangible assets and ROU assets	2 120	2 717	14 133	3 747	-	-	26 937	14 714
Retrocessionaires' share of outstanding claims	1 061 680	1 104 296	363 035	229 576	205 250	219 731	1 040 508	965 038
Retrocessionaires' share of unearned premium reserve	111 341	135 154	78 115	28 101	-	-	386 090	302 294
Retrocessionaires' share of profit commissions	-	-	-	-	350	54 045	388 026	290 204
Retrocessionaires' share of liabilities under life insurance contracts	-	-	-	-	2 374 470	1 032 846	-	-
Deferred acquisition cost	44 036	53 812	-	-	136 582	177 889	141 799	143 919
Cash and cash equivalents	12 861	6 984	318 028	366 507	244 497	206 547	170 504	206 220
Other assets	415 332	653 618	1 008 290	644 169	638 213	761 676	625 144	853 337
Total assets	4 108 869	4 368 594	8 166 108	6 769 772	6 341 243	5 384 298	4 824 048	4 857 124
Return on equity	10%	(4%)	12%	18%	28%	7%	20%	9%
Total assets / total liabilities	125%	120%	136%	138%	116%	112%	127%	122%
Change in shareholders' funds	11%		16%		53%		18%	

REINSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-19	Dec-18	Dec-19	Dec-18	Dec-19	Dec-18	Dec-19	Dec-18
Group/Company	Munich Reinsurance Company of Africa Limited		RGA Reinsurance Company of South Africa Limited		Scor Africa Limited		Swiss Re Africa Limited	
Share capital and share premium	194 915	194 915	951 982	951 982	344 700	344 700	2 000	2 000
Retained earnings/(deficit)	2 864 683	2 842 291	353 564	218 058	70 124	(8 880)	726 386	731 612
Reserves	83 100	147 622	33 817	20 437	5 096	3 229	615	615
Total shareholders' funds	3 142 698	3 184 828	1 339 363	1 190 477	419 920	339 049	729 001	734 227
Gross outstanding claims	7 448 010	6 656 999	1 284 762	1 006 107	1 036 116	1 105 402	3 494 592	2 253 801
Gross unearned premium reserve	2 201 810	1 891 811	-	-	286 565	320 074	1 067 395	618 527
Provision for profit commission	134 557	13 586	-	-	-	-	63 271	147 161
Policyholder liabilities under insurance contracts	2 494 615	2 211 418	2 139 422	1 826 154	270 771	143 842	2 268 355	2 332 197
Liabilities in respect of investment contracts	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	461 028	460 770	-	-	73 243	82 175	153 983	99 883
Deferred tax liabilities / (assets)	197 862	177 023	(1 540)	(728)	(27 242)	(28 774)	(11 757)	4 744
Funds withheld	22 942	44 081	-	-	648 223	1 002 489	-	-
Other liabilities (including lease liabilities)	3 110 698	2 795 602	96 096	65 681	1 232 803	545 233	1 021 885	670 098
Total liabilities	16 071 522	14 251 290	3 518 740	2 897 214	3 520 479	3 170 441	8 057 724	6 126 411
Total investments	5 186 314	5 207 385	2 116 644	2 010 441	1 294 495	1 284 624	4 259 608	3 804 449
Funds withheld	13 002	43 071	-	-	-	-	-	-
PPE, intangible assets and ROU assets	2 197 646	2 057 035	67 646	16 313	11 754	4 526	18 458	15 633
Retrocessionaires' share of outstanding claims	4 668 306	3 998 972	-	-	901 221	891 909	808 970	156 611
Retrocessionaires' share of unearned premium reserve	1 933 604	1 638 953	-	-	184 515	212 936	560 887	366 215
Retrocessionaires' share of profit commissions	108 124	11 220	-	-	-	-	-	-
Retrocessionaires' share of liabilities under life insurance contracts	146	26 372	1 527 426	1 262 372	166 923	95 003	-	32 000
Deferred acquisition cost	504 944	512 054	-	-	141 695	133 108	248 037	117 036
Cash and cash equivalents	815 041	546 619	110 050	223 358	507 824	220 624	191 139	221 403
Other assets	3 787 093	3 394 437	1 036 337	575 207	731 972	666 760	2 699 626	2 147 291
Total assets	19 214 220	17 436 118	4 858 103	4 087 691	3 940 399	3 509 490	8 786 725	6 860 638
Return on equity	8%	5%	10%	9%	19%	14%	(1%)	17%
Total assets / total liabilities	120%	122%	138%	141%	112%	111%	109%	112%
Change in shareholders' funds	(1%)		13%		24%		(1%)	

REINSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-19	Dec-18	Dec-19	Dec-18	Dec-19	Dec-18	Dec-19	Dec-18
Group/Company	African Reinsurance Corporation (South Africa) Limited		General Reinsurance Africa Limited		Hannover Life Reassurance Africa Limited		Hannover Reinsurance Africa Limited	
Gross premiums written	2 580 722	2 933 664	3 502 606	2 766 793	3 054 358	2 889 907	3 333 126	2 785 801
Net premiums written	717 652	839 567	3 117 623	2 613 734	1 293 093	2 005 787	1 523 225	903 338
Earned premiums	732 660	838 736	3 093 234	2 597 146	1 291 574	2 005 610	1 659 313	1 147 636
Total net investment income	134 820	20 704	453 566	385 399	207 493	158 289	130 648	114 567
Reinsurance commission revenue	826 067	770 295	94 659	35 686	94 781	109 669	687 471	694 457
Other income	350	-	25 890	98	-	-	8 557	(12 946)
Total income	1 693 897	1 629 735	3 667 349	3 018 329	1 593 848	2 273 568	2 485 990	1 943 714
Policyholder benefits and entitlements	429 997	540 602	3 022 072	2 341 884	829 847	1 775 738	1 081 933	641 636
Acquisition expense	1 018 245	1 007 887	114 296	98 356	252 804	286 215	1 045 829	1 113 961
Management and other expenses	138 755	120 744	130 948	133 593	178 983	170 939	96 538	99 014
Total expenses	1 586 997	1 669 233	3 267 316	2 573 833	1 261 634	2 232 892	2 224 299	1 854 612
Net profit/(loss) before tax	106 900	(39 498)	400 033	444 496	332 214	40 676	261 691	89 102
Tax	27 501	(10 625)	145 547	113 294	94 353	3 174	58 153	13 468
Net profit/(loss) after tax	79 399	(28 873)	254 486	331 202	237 861	37 502	203 537	75 634
Other comprehensive income	-	-	44 247	11 838	10 791	(6 075)	54 378	121 492
Total comprehensive income for the year	79 399	(28 873)	298 733	343 040	248 652	31 427	257 915	197 126
Minority shareholders' interest	-	-	-	-	-	-	-	-
Transfer to/(from) retained earnings	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	100 000	90 000
Change in retained earnings	79 399	(28 873)	254 486	331 202	237 861	37 502	103 537	(14 366)
Net premium to gross premium	28%	29%	89%	94%	42%	69%	46%	32%
Policyholder benefits and entitlements to earned premium	59%	64%	98%	90%	64%	89%	65%	56%
Management and other expenses to earned premium	19%	14%	4%	5%	14%	9%	6%	9%
Comments	Company		Composite company		Company		Company	

REINSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-19	Dec-18	Dec-19	Dec-18	Dec-19	Dec-18	Dec-19	Dec-18
Group/Company	Munich Reinsurance Company of Africa Limited		RGA Reinsurance Company of South Africa Limited		Scor Africa Limited		Swiss Re Africa Limited	
Gross premiums written	11 990 504	11 020 565	3 048 732	2 992 144	1 284 761	1 259 699	5 806 979	3 836 294
Net premiums written	4 992 065	4 612 375	936 593	846 924	428 931	446 713	4 254 873	3 086 005
Earned premiums	4 978 315	4 560 710	929 053	841 547	430 466	445 159	4 017 519	2 941 767
Total net investment income	467 865	447 210	185 506	169 444	62 414	42 958	356 564	288 140
Reinsurance commission revenue	2 173 690	1 824 187	101 915	132 711	191 121	200 360	-	-
Other income	-	-	125 684	106 802	2 862	(2 969)	-	-
Total income	7 619 870	6 832 107	1 342 158	1 250 504	686 863	685 508	4 374 083	3 229 907
Policyholder benefits and entitlements	3 976 642	3 679 655	762 124	669 594	256 816	260 636	3 408 555	2 287 735
Acquisition expense	2 541 467	2 190 482	160 433	224 662	237 637	279 078	430 796	308 981
Management and other expenses	794 626	702 723	210 588	238 653	85 694	76 335	522 930	447 321
Total expenses	7 312 735	6 572 860	1 133 145	1 132 909	580 147	616 049	4 362 281	3 044 037
Net profit/(loss) before tax	307 135	259 247	209 013	117 595	106 716	69 459	11 802	185 870
Tax	57 904	110 208	68 507	13 413	27 168	22 233	19 071	58 785
Net profit/(loss) after tax	249 231	149 039	140 506	104 182	79 548	47 226	(7 269)	127 085
Other comprehensive income	(91 361)	(1 444)	11 054	(10 346)	3 233	7 242	2 043	1 477
Total comprehensive income for the year	157 870	147 595	151 560	93 836	82 781	54 468	(5 226)	128 562
Minority shareholders' interest	-	-	-	-	-	-	-	-
Transfer to/(from) retained earnings	(26 839)	14 575	-	-	(544)	-	-	-
Dividends	200 000	-	5 000	-	-	-	-	-
Change in retained earnings	22 392	163 614	135 506	104 182	79 004	47 226	(7 269)	127 085
Net premium to gross premium	42%	42%	31%	28%	33%	35%	73%	80%
Policyholder benefits and entitlements to earned premium	80%	81%	82%	80%	60%	59%	85%	78%
Management and other expenses to earned premium	16%	15%	23%	28%	20%	17%	13%	15%
Comments	Composite company		Company		Composite company		Composite company	