Resilience

The South African Insurance Industry Survey 2020

Financial Services

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Mark Danckwerts

Partner
Head of Insurance:
KPMG in South Africa
Tel: +27 82 710 3261
Email: mark.danckwerts@kpmg.co.za

Everyone experiences defining moments in their lives. This year, in some way, we all have that moment in common although it hasn't meant quite the same thing for each of us. No matter how each of us experienced 2020, we are not likely to forget it; ever. I'm sure you're thinking I'm going to set out all the bad things that happened to us; the whole wide world; due to Covid-19 and then I'm going to say that insurers saved the day. If that's what you're thinking, you're half right - rather I'm going to be positive and not say that you'd be half wrong.

I am going to say that the insurers have done a sterling job of living up to what they are supposed to do, without fleshing out mortality statistics and what happened to the economy; the articles in this publication do a great job of that. In my opinion, insurance companies in South Africa have shown what they're made of. Are you aware of another industry that reduced its prices when times got tough or that let its customers take now and pay later? I'm not aware of many other industries that helped its customers keep their businesses open when it was not legally bound to do so. Many life insurers took special measures to contact all of their high-risk customers and those over a certain age and offered them precautionary health checks and assessments at no cost. Neither my grocery store, nor my butcher, nor my baker, nor my candlestick maker did any of these things.

I apologise; I'm becoming negative. Lots of other good things happened. The earth breathed a little better as we produced less and consumed less. Maybe 2021 will be a good year for bad weather. Some little boys and girls got to spend lots more quality time with their mums and dads. Most of us got to sleep an hour or two more, now and again. Lockdown reminded us of how much we didn't like to exercise until we couldn't anymore. These things are all good for us and good for insurers – a healthier planet means fewer weather catastrophes; tick. More sleep means healthier people; tick.

I know that Covid-19 has been the worst year many people can recall and many people lost their lives and their livelihoods. But there must be a lesson for humanity in this somewhere.

It is with great pride that we release another survey of the financial results of thirty-three non-life insurers, eighteen life insurers and eight reinsurers. The survey covers the published results from the 2019 financial year, results that were generated prior to the outbreak of the Covid-19 pandemic. I hope that you will enjoy reading this survey and the articles written by the extraordinary people in our insurance practice.

Nisha Bhana

Manager
Insurance
Tel: +27 82 576 3735
Email: nisha.bhana@kpmg.co.za

Operational impact of the coronavirus on the insurance industry

The world was recently hit by a global public health pandemic - Covid-19. This crisis is taking its toll on the world by severe on-going disruptions to the human health, lifestyle, business, economy, society, government and technology. But how is the deadly virus impacting the operations of the insurance industry?

Employees and distribution channels

In order to minimise the impact on operations, it is of utmost importance for insurers to ensure that the health and safety of their employees and distribution channels, consisting of agents and brokers, is protected. Therefore, the adoption of the "work from home" strategy had to be rapidly absorbed and implemented by insurers in order to maintain social distancing.

The challenge with this is that employees are required to be well-equipped in terms of having the necessary IT tools, internet connectivity and application platforms for various types of internal and external communication. A further challenge for insurers is to respond to the increased risk of protecting the confidentiality of business information. In order to mitigate this risk, it is essential to have a forensics and IT team work closely in developing and implementing strict remote connectivity protocols and monitoring these controls for any unexpected or unusual activity. Employees and distribution channels should also be provided with training and continuous communication on remaining vigilant for any cyber anomalies.

Distribution channels may require additional attention from insurers to continue operations if they lack the necessary digital capabilities in order to connect with clients. The insurance industry is one of many sectors where client service is essential. Therefore, clients need to be provided with all the relevant information in order to make a purchase. Conducting meetings over video facilities, access to simplified online services and innovative information sharing facilities are some of the digital tools that addresses some of the difficulties agents and brokers face in remaining connected to clients. Due to the financial constraints experienced by cash-strapped consumers, there has been a significant decline in new business. This in turn affects the commission and service fees earned by these distribution channels as these fees are dependent on the insurance products sold. Nevertheless, major insurance industry players are compensating their brokers and agents with ex-gratia payments during this difficult time even when there is limited, or no new business written. This move is critical in the long run as insurers understand the importance of the role these stakeholders play in the insurance business.

Clients and products

It cannot be emphasised enough that insurers must apply the principles of treating customers fairly and the Market Conduct requirements more now than ever before as they implement new business plans and processes to communicate with their clients. Some insurers have gone beyond what's required in terms of treating customers fairly and taken significant steps to reduce policy lapses. Actions include reducing premiums, aligning the premium amount payable to the use of the insured item, cash back premiums and providing more flexibility in grace periods for premium payments. It can be argued that such a pandemic has also created an opportunity for insurers to innovate and

enhance current product offerings and, rethink future product offerings to cater for these unique situations. The aim is for insurers to understand the current needs of their clients and strive to align their business strategies to the current situation as it evolves.

Innovation

The Covid-19 crisis has brought about a number of changes that businesses have been forced to adopt and in doing so, the technological shortcomings in the insurance industry have been highlighted. Those insurers that have the necessary digital capabilities and are exploring other technological enhancements and transformations, are able to operate with minimal disruption; seamlessly staying connected with customers and employees. However, difficulties are being experienced by those that have not embraced continuous innovative development. The insurance industry is highly competitive – to stay relevant, insurers must embrace digitalisation to ensure they can continue to serve their customers' needs in an efficient and simplified manner and grow the customer base to achieve economies of scale in an environment of increasing costs.

Financial and strategic planning

Insurers must maintain their solvency, capital and liquidity above the minimum required levels. Striving to meet this requirement during the uncertain times we are living in may prove to be challenging as we experience the impact of the deteriorating economy. To date, South Africa's repo rate has declined by 250 basis points, with possible additional rate cuts expected for the months to come. The unemployment rate has sharply increased, and the South African Reserve Bank's Treasury has predicted that this rate could surpass 50% leaving more than seven million people in the country unemployed. Furthermore, the country was downgraded to BB+ which is commonly referred to as "non-investment grade speculative" or "junk status". As a result, a number of foreign investors have disinvested in South African companies and some local investors are following the same route. Insurers can go a long way towards addressing their liquidity and solvency challenges by developing strategic and bespoke cash management plans which are closely monitored once implemented, creating a robust forecasting process which includes all parts of the business, performing stress testing and scenario analysis on business results and continuously evaluating alternative markets.

Going forward

The type of life we live now is different from that which we lived a decade or even a few months ago. It is critical for insurers to embrace change and adapt to an ever-evolving environment. This requires creative thinking and more importantly access to the kind of talent that can turn ideas into actions. Focusing on whatever is required to ensure resilience and adapting to more flexible ways will result in a transformed insurance industry for the future. Moreover, all insurers should remain transparent and well-connected to their customers, employees, distribution channels, external stakeholders and society in order to ensure continued trust and support in such unprecedented times.

KPMG's insurance practice

We operate a specialist insurance unit fully supported by external and internal auditors, accountants, tax and IT specialists, actuaries, lawyers and other regulatory professionals.

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

19 Partners and Associate Directors

42 Managers

Over 100 professional staff

Top of our game in everything we do

There is an active global insurance secondment programme for our staff.

Our staff attend more than 10 insurance industry training courses and they present another 16 courses to clients, certified by the IISA (Insurance Institute of South Africa).

Our partners are members of global and local professional committees and industry forums, covering IFRS 17 and other accounting matters, 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 to give you the best help 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
Head of Insurance:
KPMG in South Africa
T: +27 82 710 3261
E: mark.danckwerts@kpmg.co.za

Specialist expertise

Mark Danckwerts
Partner
National insurance practice and market conduct leader
Tel: +27 82 710 3261
Email: mark.danckwerts@kpmg.co.za

Melanie Miller
Partner
Insurance information technology
Tel: +27 82 717 0195
Email: melanie.miller@kpmg.co.za

Vian Strydom
Partner
Insurance income tax
Tel: +27 82 564 9118
Email: vian.strydom@kpmg.co.za

Ross Chourres
Partner
Tel: +27 66 486 7807
Email: ross.chourres@kpmg.co.za

Thomas Gouws
Partner
Combined assurance and risk management
Tel: +27 82 718 8432
Email: thomas.gouws@kpmg.co.za

Allison Andrews
Associate Director
Insurance internal audit
Tel: +27 82 717 1559
Email: allison.andrews@kpmg.co.za

Andre Meyburgh
Partner
Insurance VAT
Tel: +27 82 851 6587
Email: andre.meyburgh@kpmg.co.za

Fritz Dannhauser
Partner
Insurance finance transformation
Tel: +27 82 717 6041
Email: fritz.dannhauser@kpmg.co.za

Peter Withey
Associate Director
Life insurance actuarial specialist
Tel: +27 82 719 1654
Email: peter.withey@kpmg.co.za

Irma Fourie
Partner
Insurance internal audit
Tel: +27 83 419 8983
Email: irma.fourie@kpmg.co.za

Derek Vice
Partner
Reporting under the Insurance Act (SAM) and life insurance
Tel: +27 82 711 2519
Email: derek.vice@kpmg.co.za

Shamit Govind
Partner
Insuretech
Tel: +27 82 719 1389
Email: shamit.govind@kpmg.co.za

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

Kashmira Naran
Associate Director
Insurance training
Tel: +27 82 710 7629
Email: kashmira.naran@kpmg.co.za

Gustav Von Bratt
Associate Director
Regulatory compliance
Tel: +27 82 718 8599
Email: gustav.vonbratt@kpmg.co.za

Nishen Bikhani
Partner
IFRS 17 implementation specialist
Tel: +27 60 720 4937
Email: nishen.bikhani@kpmg.co.za

Sharmlin Moodley
Partner
Insurance general advisory
Tel: +27 60 992 4789
Email: sharmlin.moodley@kpmg.co.za

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

Benjamin Vosloo
Associate Director
Insurance market conduct, binder regulations and outsourcing
Tel: +27 82 710 9640
Email: benjamin.vosloo@kpmg.co.za

Liesl Slabbert
Associate Director
Robotics and automation
Tel: +27 82 718 2872
Email: liesl.slabbert@kpmg.co.za

Jaco Van Staden
Associate Director
Life insurance actuarial specialist
Tel: +27 66 398 7023
Email: jaco.vanstaden@kpmg.co.za

Yacoob Jaffar
Partner
Insurance income tax
Tel: +27 78 786 2277
Email: yacoob.jaffar@kpmg.co.za

Murray Raisbeck
Partner
Insuretech
Tel: +27 66 479 3187
Email: murray.raisbeck@kpmg.co.za

Ulrich De Prins
Partner
Market risk
Tel: +27 60 976 7706
Email: ulrich.deprins@kpmg.co.za

Finn Elliot
Associate Director
Market conduct specialist
Tel: +27 79 039 9367
Email: finn.elliot@kpmg.co.za

Annette Steyn
Associate Director
Tel: +27 82 718 8679
Email: annette.steyn@kpmg.co.za

Pranesh Kara
Associate Director
Insuretech aggregation solutions, Cloud IoT and blockchain
Tel: +27 82 719 1402
Email: pranesh.kara@kpmg.co.za

Andre Cloete
Non-life insurance actuarial specialist
Tel: +27 11 647 7111
Email: andre.cloete@kpmg.co.za

Esther Pieterse
Associate Director
IFRS 17 technical accounting
Tel: +27 82 719 5806
Email: esther.pieterse@kpmg.co.za

Alex Kuhnast
Associate Director
Life insurance actuarial specialist
T: +27 60 970 1341
E: alex.kuhnast@kpmg.co.za

KPMG

Malcolm Jewell

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

Joana Abrahams

Senior Manager
Actuarial Practice
DRA Accredited
Tel: +27 82 450 1344
Email: joana.abrahams@kpmg.co.za

Is your strategy informed by the reality of risk networks?

We live in a **VUCA world!** VUCA is an acronym for volatility, uncertainty, complexity and ambiguity characterising the current business environment and the world we live in.

Risk implies uncertainty and we know that risks do not occur in isolation. Increasingly risks are occurring together or in short succession of each other, often with greater impact than the sum of the parts. Why is this?

We know the world has changed significantly over the last few decades. There are more global trade links than ever before and the rapid pace of technological advancement has resulted in a world with highly inter-connected risks, unlike anything we have seen historically.

The current Covid-19 pandemic has unfortunately shown us the potential impact of the domino effect of inter-connected risks being triggered. We are simultaneously experiencing depressed market prices, high levels of market volatility, interest rate cuts, Rand weakness, supply chain interruptions, the need to rapidly adapt to a new way of work, cyber-attacks on the rise, rising unemployment, depressed economic conditions; with many lives and livelihoods being severely affected.

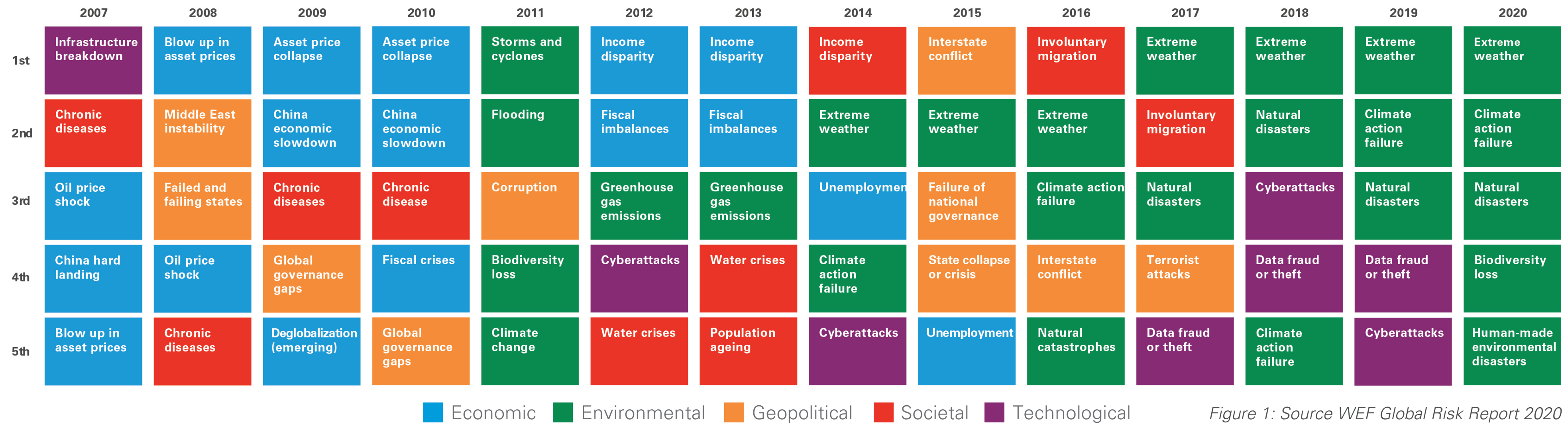
It is safe to say that the world was not as prepared as it should have been for this pandemic, with most governments, businesses and individuals being caught by surprise and insufficiently prepared.

Ever changing, chaotic risk landscape

Prior to this current global pandemic, in the recent past we have experienced severe interruptions to the energy supply in South Africa, the "worst drought in one hundred years" in Gauteng, two years later severe water supply shortages in the Western Cape, under-water internet cables being severed and cyber-attacks on the rise locally and globally.

The below is an extract from the **World Economic Forum Global Risk Report 2020**, showing a view of how the top five risks by likelihood and severity have evolved over the past 14 years:

Top 5 Global Risks in Terms of Likelihood



	2007	2008	2009	2010	2011	2012	2013
1st	Infrastructure breakdown	Blow up in asset prices	Asset price collapse	Asset price collapse	Storms and cyclones	Income disparity	Income disparity
2nd	Chronic diseases	Middle East instability	China economic slowdown	China economic slowdown	Flooding	Fiscal imbalances	Fiscal imbalances
3rd	Oil price shock	Failed and failing states	Chronic diseases	Chronic disease	Corruption	Greenhouse gas emissions	Greenhouse gas emissions
4th	China hard landing	Oil price shock	Global governance gaps	Fiscal crises	Biodiversity loss	Cyberattacks	Water crises
5th	Blow up in asset prices	Chronic diseases	Deglobalization (emerging)	Global governance gaps	Climate change	Water crises	Population ageing

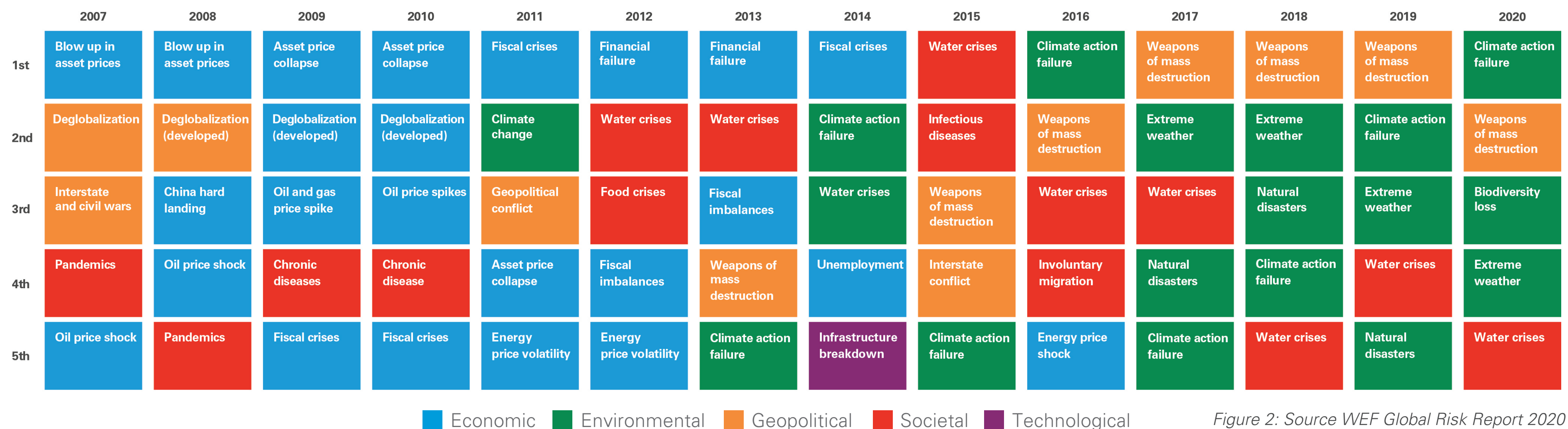
	2014	2015	2016	2017	2018	2019	2020
1st	Income disparity	Interstate conflict	Involuntary migration	Extreme weather	Extreme weather	Extreme weather	Extreme weather
2nd	Extreme weather	Extreme weather	Extreme weather	Involuntary migration	Natural disasters	Climate action failure	Climate action failure
3rd	Unemploymen	Failure of national governance	Climate action failure	Natural disasters	Cyberattacks	Natural disasters	Natural disasters
4th	Climate action failure	State collapse or crisis	Interstate conflict	Terrorist attacks	Data fraud or theft	Data fraud or theft	Biodiversity loss
5th	Cyberattacks	Unemployment	Natural catastrophes	Data fraud or theft	Climate action failure	Cyberattacks	Human-made environmental disasters

Economic Environmental Geopolitical Societal Technological

Figure 1: Source WEF Global Risk Report 2020

In 2020, environmental risks dominate the top five risks by likelihood. In terms of severity, three of the top five risks were also identified to be environmental in nature.

Top 5 Global Risks in Terms of Impact



	2007	2008	2009	2010	2011	2012	2013
1st	Blow up in asset prices	Blow up in asset prices	Asset price collapse	Asset price collapse	Fiscal crises	Financial failure	Financial failure
2nd	Deglobalization	Deglobalization (developed)	Deglobalization (developed)	Deglobalization (developed)	Climate change	Water crises	Water crises
3rd	Interstate and civil wars	China hard landing	Oil and gas price spike	Oil price spikes	Geopolitical conflict	Food crises	Fiscal imbalances
4th	Pandemics	Oil price shock	Chronic diseases	Chronic disease	Asset price collapse	Fiscal imbalances	Weapons of mass destruction
5th	Oil price shock	Pandemics	Fiscal crises	Fiscal crises	Energy price volatility	Energy price volatility	Climate action failure

	2014	2015	2016	2017	2018	2019	2020
1st	Fiscal crises	Water crises	Climate action failure	Weapons of mass destruction	Weapons of mass destruction	Weapons of mass destruction	Climate action failure
2nd	Climate action failure	Infectious diseases	Weapons of mass destruction	Extreme weather	Extreme weather	Climate action failure	Weapons of mass destruction
3rd	Water crises	Weapons of mass destruction	Water crises	Water crises	Natural disasters	Extreme weather	Biodiversity loss
4th	Unemployment	Interstate conflict	Involuntary migration	Natural disasters	Climate action failure	Water crises	Extreme weather
5th	Infrastructure breakdown	Climate action failure	Energy price shock	Climate action failure	Water crises	Natural disasters	Water crises

Economic Environmental Geopolitical Societal Technological

Figure 2: Source WEF Global Risk Report 2020

Evidently the risk landscape is changing rapidly and severe risks also seem to be manifesting more often.

We know that since the introduction of fiat currencies, decoupled from gold reserves and backed only by a government's promise to pay, money supply and global trade have increased significantly. Figure 3 below shows that correspondingly more financial disasters have occurred more often.

Economic and finance failings post 1970

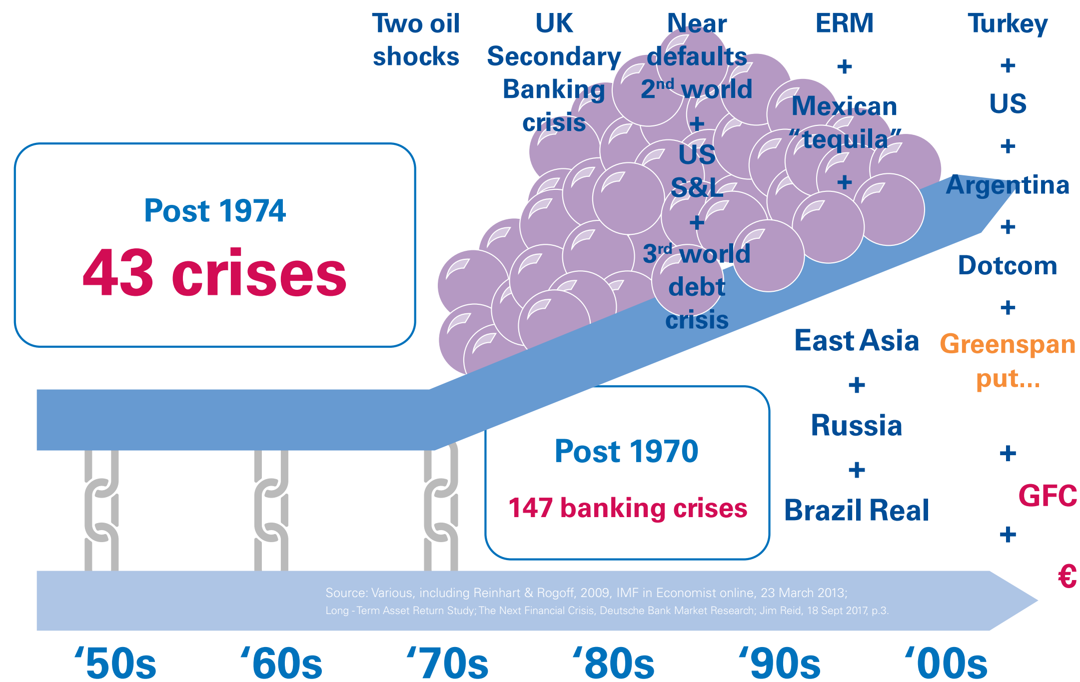


Figure 3: Crises occur more frequently post the introduction of fiat currencies

The recent global financial crisis of 2008 tested the validity of capital models within banks and required intervention by governments and reserve banks to stabilise the system on a scale never seen before. Similarly, the current Covid-19 pandemic has resulted in global economic shutdown unlike anything seen before and has once again triggered a massive global monetary response by reserve banks.

Traditional risk management practices

Risk managers are tasked with identifying and assessing risks and to then implement measures to limit risk exposures to acceptable levels, thus supporting the achievement of strategic objectives.

Traditionally risks are evaluated by using the two dimensions: likelihood (or probability) and impact (or severity) – depending on whether qualitative or quantitative risk methods are followed. Different approaches currently exist to combine these two dimensions to enable risk prioritisation, management and reporting efforts. Principal risks are often managed and reported in silos.

There is limited consideration currently given to systemic transverse risks (risks that might trigger multiple risk types simultaneously from insurance risk to market risk, credit risk and operational risk). For example, climate risk, which is right in the centre of Figure 4 on the right shows how strongly it is connected with many other global risks.

By properly identifying the most influential risks in its network and prioritising its focus on these, an organisation is able to turn risk management into an opportunity for competitive advantage, most evident in times of stress.

A consistent understanding across the organisation of how each key risk, if manifested, may trigger a series of events or other risks is limited if a siloed two-dimensional (likelihood and severity) approach is followed. This limits the ability to understand and manage the true risk landscape as a collective rather than in silos and usually leads to severely under-estimating the potential impact of risk events.

It seems to be clear that treating risks as if they were islands is no longer appropriate. New tools and approaches to risk management are required.

The Global Risks Interconnections Map 2020

How are global risks interconnected?

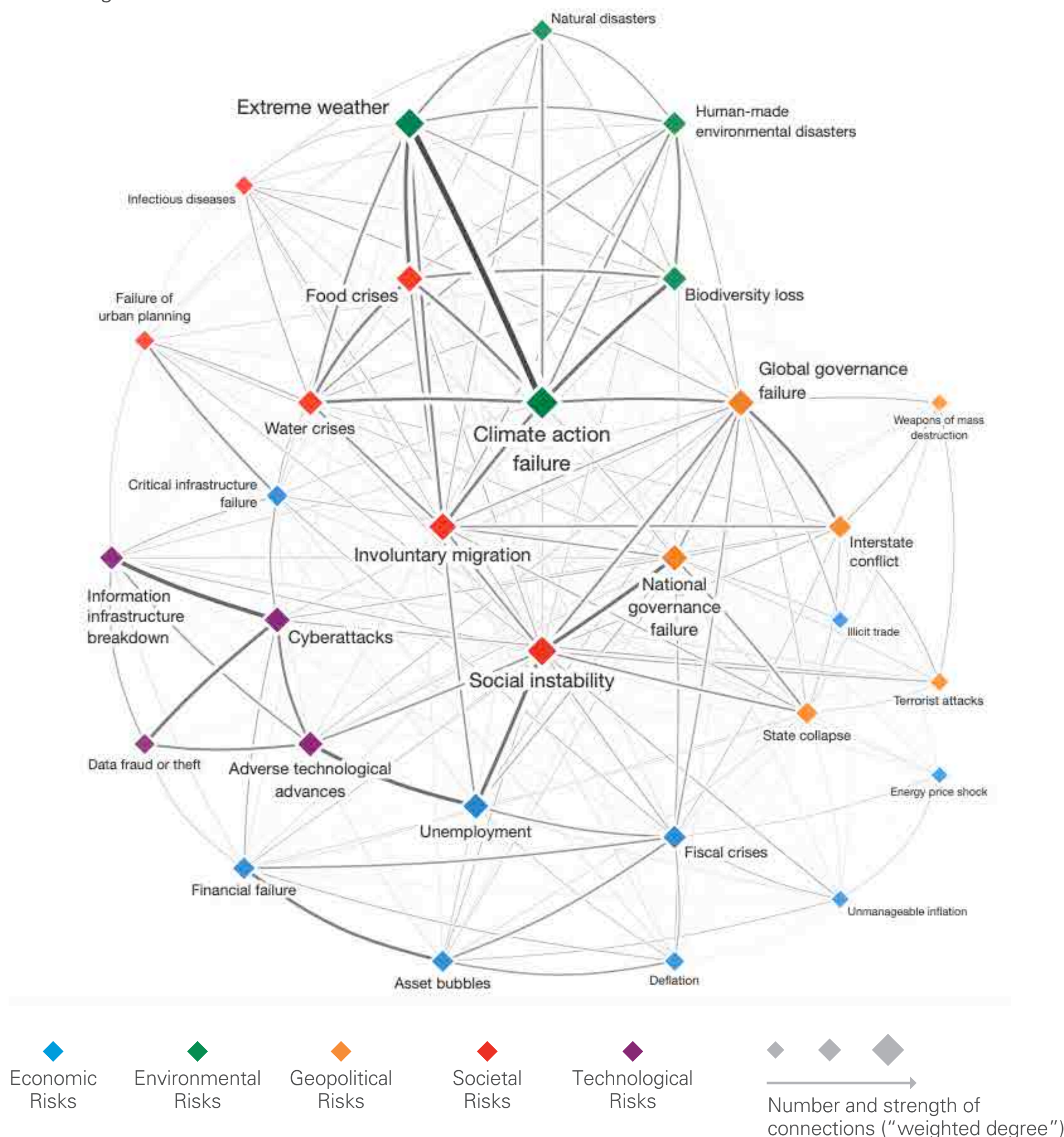


Figure 4: Source World Economic Forum Global Risks Perception Survey 2019-2020 (link to WEF website)

It’s time to connect the dots

Importance of risk velocity:

To enhance the current two-dimensional view of risk (likelihood and severity), firms should attempt to better understand risk velocity (i.e. time to impact, should a risk manifest). Where velocity is high, time to impact is short; for example, this is typical of a cyber-attack. For such risks it is imperative that companies develop appropriate response plans so that these can be actioned immediately when needed. Where velocity is low, time to impact is prolonged with incremental changes adding up over time; for example, environmental risks. For such risks, trend analysis becomes more important and monitoring changes in key risk indicators over longer periods may be more appropriate for these risks.

Importance of understanding the risk network:

The Office of the Superintendent of Financial Institutions (“OSFI”) published guidelines for the ORSA in December 2017 (OSFI Website). Within this publication OSFI expressed the expectation that due consideration should be given to network effects: “*The ORSA should give proper consideration to non-material risks that when combined with other non-material risks, become material.*”

The traditional view is useful for identifying low probability and high severity risks.

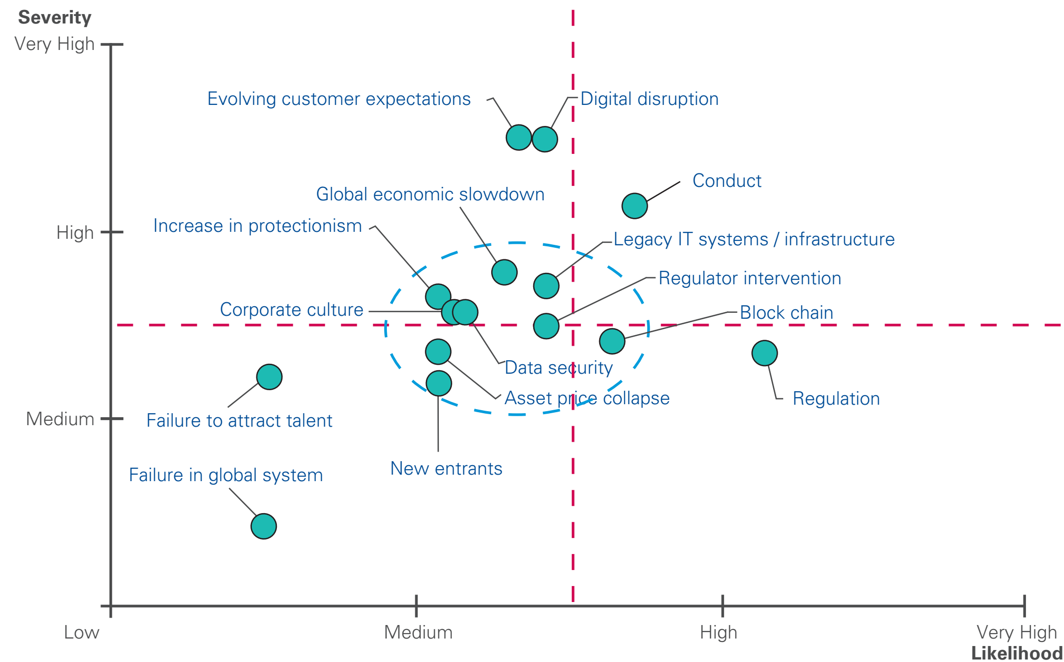
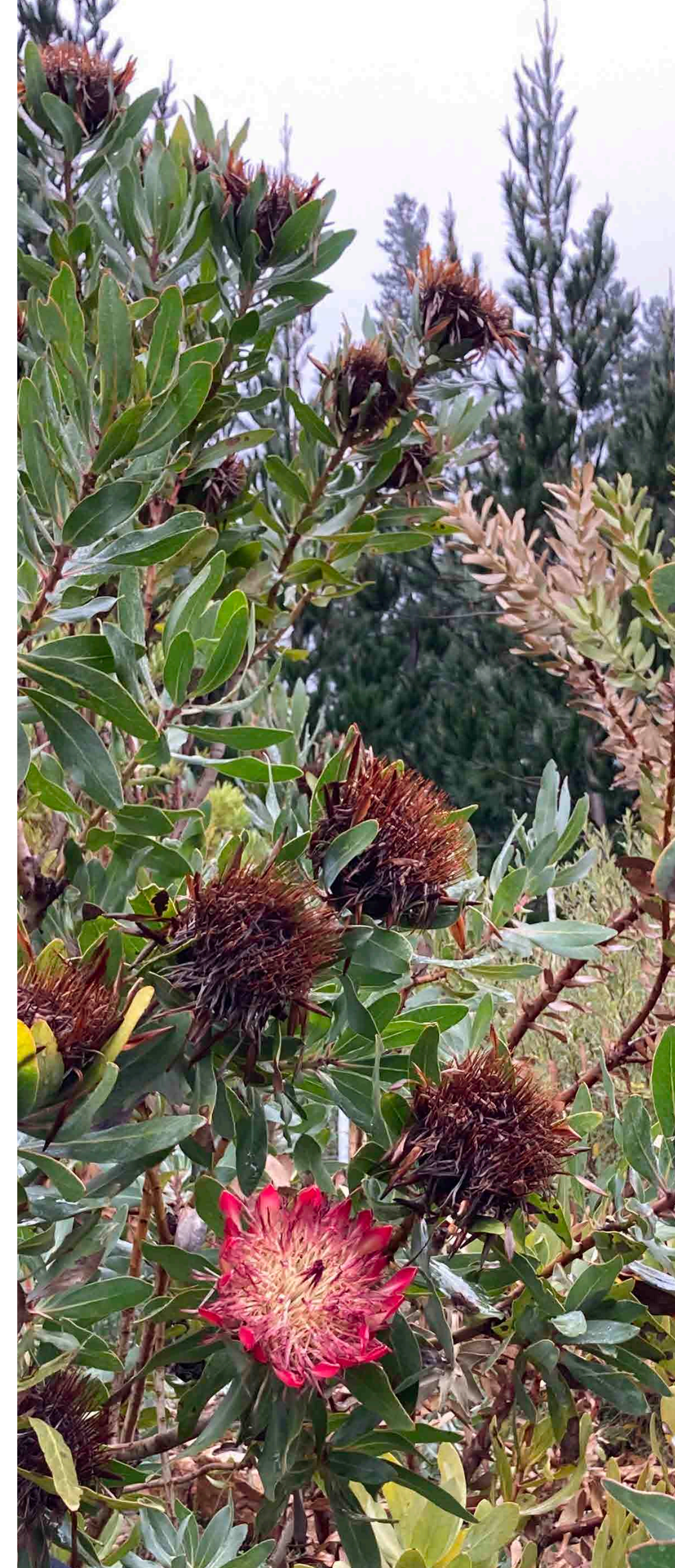


Figure 5: Traditional Risk Management View



In the traditional view, many of the risks are centre of the picture with either severity or likelihood being rated as medium. But how do these risks interact and combine with either low rated risks or amongst themselves? Figure 6 shows one possibility of how these risks may interact and influence one another.

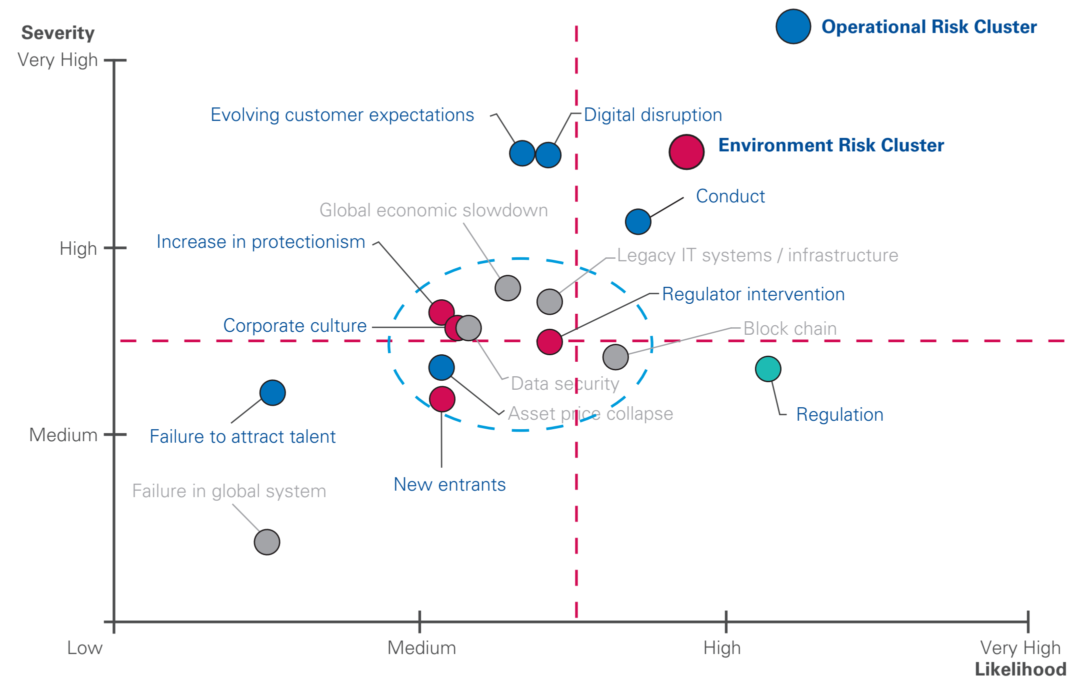


Figure 6: Example of how this historical isolated risk mappings change when we consider risk clusters

A risk cluster contains three or more risks (four in this hypothetical example) that can be expected to manifest together or in short succession.

For example (based on Figure 6), using new approaches in risk assessment one would be able to identify The Environmental Risk Cluster (red cluster in Figure 6) as being the combination of the New entrants, Corporate culture, Increase in protectionism and Regulator intervention risks. In this example the combined effect of these risks is more severe than Conduct risk, which prior to this would have been considered the most severe risk (being the only risk in the top right-hand quadrant).

By understanding the inter-connectivity of risks within your risk network, you can better prioritise attention to areas that require focus and target your investment to areas that are likely to return the most value.

It's time that we understand the exponential nature of inter-connected risks

Solely relying on traditional risk assessment methods may impede an organisation's ability to plan appropriately and quickly respond to risks with high velocity (for example reputational risk associated with a social media storm).

In addition, material risk clusters formed through combinations of one or more risks that in isolation are assessed as not being material, when viewed through a traditional two-dimensional risk lens, may lead to organisations missing their key risks and opportunities altogether.

From a governance perspective it is critical to try to capture these additional dimensions within your organisation's risk management framework to enable:

- a more complete and realistic understanding of the risk universe, enabling better risk management of linked risks, which individually might not seem material, but when triggered in combination result in potentially disastrous effects;
- the ability to identify which risks in the network are most vulnerable (i.e. more likely to be trigerred subsequent to another risk manifesting);
- the ability to identify which risks in the network are most influential (i.e. those risks that, if managed, will have the most flow on effect onto the rest of the network);
- the ability to know which risks the executive team should focus on and which risks can be delegated;
- strategic focus on areas that should result in competitive advantage; and
- more efficient spend of the available risk management and assurance budget together with a more targeted focus on the most vulnerable risks.

KPMG has spent over a decade researching how organisations can add these dimensions to their risk management framework. We call the methodology Dynamic Risk Assessment ('DRA'). We have assisted numerous organisations to enhance existing risk management frameworks and to move from a risk management compliance mindset to a value-add and opportunity focused one.

Additional Resources:

If you are interested in seeing how DRA has been applied, the KPMG Global DRA Lead, Dr Andries Terblanche, addressed the World Economic Forum in January 2020 to demonstrate DRA in the Agriculture and Food sector (refer to publication "WBCSD An enhanced assessment of risks impacting the Food and Agriculture sector" downloadable (using a current browser) from the WBCSD website).

Locally, KPMG South Africa, led by Dr Kerry Jenkins supported Business for South Africa in conducting a DRA assessment for the South African government on the impact of Covid-19 response. Refer to publication "B4SA COVID-19 Risk Findings report" downloadable from the BUSINESS FOR SA website.

> "My barn having burned down, I can now see the moon."
>
> - Mizuta Masahide
> (17th century Japanese poet and samurai)

KPMG

The Power of Networks

… and how to pre-empt their effects

We know that risks do not occur in isolation, and interconnectivity is an important consideration in getting a realistic understanding of your risk landscape. The effect of this is often most evident in stressed scenarios, as the current Covid-19 pandemic is unfortunately showing us.

The world is learning that the benefits to our inter-connected world (which has brought us international trade, communications and mobility) can be turned against humanity with a COVID-19 virus that uses our very same networks to ill effect.

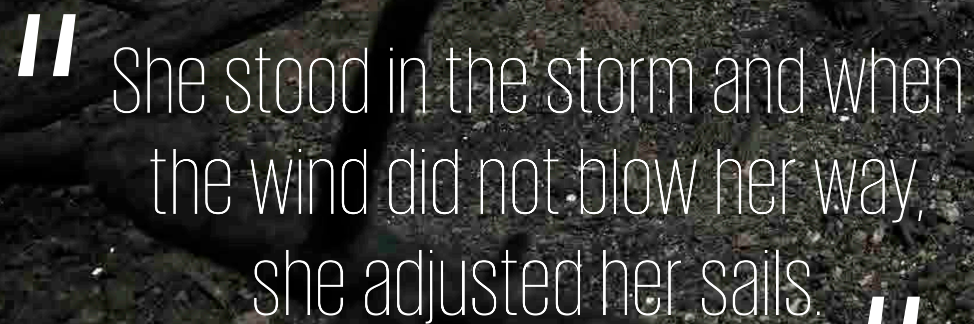
KPMG uses our proprietary and scientific Dynamic Risk Assessment ('DRA') methodology and application to assist our clients in better understanding their own risk networks and potential consequences (in terms of aggregated impacts and velocity) and enabling improved prioritisation and focus covering key areas of the business, for example:

- Strategy
- Enterprise Risk Management
- Assurance
- Reporting
- Supply chains
- Project management
- Relevant external factors such as adjustments to climate

For more information please contact:

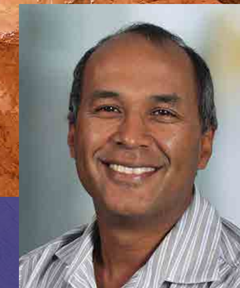
Malcolm Jewell
Partner
Actuarial Practice
T: +27 82 683 5505
E: malcolm.jewell@kpmg.co.za

Joana Abrahams
Senior Manager
Actuarial Practice
T: +27 82 450 1344
E: joana.abrahams@kpmg.co.za


"She stood in the storm and when
the wind did not blow her way,
she adjusted her sails."
- Elizabeth Edwards

Melanie Miller

Partner
Technology assurance
Tel: +27 82 717 0195
Email: melanie.miller@kpmg.co.za



Terence Singh

Senior Manager
Emerging technology
Tel: +27 60 997 7339
Email: terence.singh@kpmg.co.za

How will the evolution of smart cities impact the insurance industry?

The future is often nearer than you think. Sometimes it takes a single trigger to accelerate change on an unforeseen scale.

The societal and work restriction brought about by Covid-19 has shown that incremental business models can be boosted by a single crisis: take, for example, online shopping. In the USA, market share of online shopping has been growing at 1% a year. Due to the national lockdown, that number ballooned from 18% to 28% - that's a decade's growth in 2 months. Post the lockdown, this figure will almost certainly drop but it is expected that it will settle at a level that represents at least a few years' worth of growth due to newer adoptions and understanding the value proposition of a new buying channel.

The promise of smart cities has captured the imagination of futurists for decades – however, it has yet to see fruition in its envisaged form – but the explosion of emerging technologies in the recent past shows that it will be an evolution rather than a sudden transformation. The consequence of this is that the smart city concept will not be restricted to only developed countries – but that it will find solutions in emerging economies as well, albeit for different purposes e.g. the technologies that enable smart parking in Dubai will find application in preventing crime in Johannesburg. This will impact the ancillary industries, like insurance – both in a negative and positive way. Anticipating these changes and positioning for it will be key for insurers going forward.

What is a smart city?

A smart city is one that collects large amounts of data using the internet of things (IoT) from a wide variety of sources through the connected network of hardware, software, sensors, devices and human input (e.g. social media) to deliver an efficient service system – ultimately for the benefit of its residents. These systems include public and private transport, waste management, environmental monitoring etc. As an example, it will make use of transport related information like traffic data and combine this with other types of data, like weather conditions, to predict urban traffic flow with enhanced accuracy.

How will smart cities evolve in emerging markets?

Smart cities are underpinned by technology – its availability, access and cost. Allied to this is the concept of collaboration between multiple service providers to leverage collective data. Wi-Fi and mobile technology are critical enablers. Emerging markets are hampered by a dearth of these enabling factors – but this does not imply that smart city benefits are not attainable, rather they will evolve over time. Indeed, for certain countries, there are potential drivers that may even accelerate this. These include:

- Rapid urbanisation with younger populations and a different set of societal needs;
- no legacy systems like old transport infrastructure; and
- increasing mobile connectivity.

Local considerations will dictate the pace of evolution

Take South Africa for example, the public transport system is limited, and private owned minibus taxis are the de facto public service transport system, yet it is largely unregulated. Any smart city solution would have to consult with this important stakeholder group. Many informal settlements within the city limits, where a significant amount of the population resides experience poor basic service delivery. There is also the existing tension between providing for basic needs vs digital enablement. Therein lies a significant opportunity for innovators to use the latter to enable the former.

What will the evolution to a South African smart city look like?

It will be challenging to manage the full-scale digital transformation of a South African city – therefore it will be gradual and, unfortunately, siloed. We expect that innovative companies will focus on specific solutions and aggregators will develop solutions on the back of those. For example, different companies may install cameras to reduce crime in different parts of the city, yet an aggregator may use the camera feeds from all these providers to determine traffic patterns to suggest route optimisations to individual drivers.

These are several specific use cases for smart city technologies that are immediately implementable or are already in progress:

- Visual monitoring – street, building, pedestrian and vehicle-based camera systems;
- Environmental monitoring – air quality, noise;
- Ride hailing/ride sharing – already offered by Uber, Lyft;
- Route optimisation – apps like Waze; and
- IoT sensors – water leaks, lighting malfunctions.

Some of these could already lend themselves to aggregation: e.g. use of existing camera feeds determine traffic patterns, parking availability, potholes, water leaks, illegal waste dumping etc.

Considering that network devices are set to increase to more than 50 billion devices by 2025 [1] , many of which are equipped with a plethora of sensors from GPS, accelerometers, pedometers, proximity sensors and gyroscopes, the volumes and value of data being generated by these devices, linked to specific, recognisable individuals (thanks to the RICA Act) are ripe for aggregation and use in providing enhanced insurance products.

Up until now, insurers have mainly used IoT capabilities to aid interactions with customers and simplify or accelerate underwriting and claims processing. Auto insurers, for example, have historically relied on indirect indicators, such as the age, address, and creditworthiness of a driver, when setting premiums. Now, data on driver behaviour, such as how fast the vehicle is driven and how often it is driven at night, are available, resulting in some insurers adjusting premiums based on behaviour. Insurers are also using feeds from wearable devices to encourage improved wellness behaviour, or geyser monitoring systems to initiate auto maintenance prior to a burst.

This enhanced customer view allows for direct customer interaction and specific insurance cross-selling of products, based on an individual's behaviour. If an insurer detects a customer in the vicinity of an airport, they may offer instant travel or flight cancellation insurance.

Soon, we expect to see auto dispatch of emergency services after an accident. Another area that will benefit greatly from the use of technology is insurance fraud. Insurance fraud continues to be a significant issue that insurers are dealing with.

The use of technology, especially IoT sensor data, can help in recognising fraudulent claims. One example is reconstructive analysis of accidents based on pictures taken at the accident combined with telematic information (e.g. speed, driver corrective action) correlated with the actual extent of damage to a vehicle. This can prevent "padding" of claims by excluding prior damages that could not be attributed to the current incident. This analysis would also help attribute the extent of contributory negligence of the drivers involved.

It is quite clear that the many applications for smart city technologies are already present and will be implemented soon.

What will the new risks be?

Of course, with every change in technology, there is a set of new risks.

Cyber-risk will undoubtedly increase as more people, places, and things become connected and generate data. Hacking of an integrated smart city system can be catastrophic. Imagine a hacker changing the timing of traffic lights. Different kinds of infrastructure risks may arise due to malfunctioning software.

[1] Source: Markus Löffler, Christopher Mokwa, Björn Münstermann and Anand Rao, "Partnerships, scale and speed: The hallmarks of a successful IoT strategy", March 2017, McKinsey.com

Theft and damage to physical and digital infrastructure is an ever-present risk, particularly since much of this type of infrastructure can be repurposed. Privacy concerns will also come to the fore, given the ability of companies or the State to track every citizen's movement and activity.

What are the implications for insurers?

The most recognisable development in smart city technology is arguably the technology introduced by ride hailing companies, which are now developing additional solutions like food and parcel delivery. Combined with working from home toted to become the new "normal", this has the immediate outcome of reducing the amount of private distance travelled. Bringing in new insurance models, the following scenario becomes realistic:

Most insurance products currently offered are time based (i.e. monthly premiums) rather than usage based – this represents an opportunity for clients to start balancing the benefits of both types of insurances for each of their assets. Clients will obviously see the arbitrage opportunity of insuring low usage items via usage-based insurance and time based for high usage assets. Time-based insurers may lose the client premium completely if they do not offer usage-based products too.

The rise in ride hailing services has led to another well-known trend - lower vehicle ownership, less distance travelled, fewer accidents and lower severity of accidents. Each of these presents either an opportunity or a threat to insurers. Lower ownership means fewer insurable assets while fewer accidents means lower pay-outs. The balance between these factors will mean a relook at existing risk models and an increase in the extent to which insurance products are personalised. Route optimisation may lead to other intangible benefits like less time on the road, higher quality of life, better air quality and less congestion.

Service delivery is an obvious beneficiary of smart city technology, e.g. cameras that detect water leaks, fires, accidents and immediately contact emergency centres while managing traffic light timings to ensure the fastest route for emergency response vehicles.

Remote working is also a key feature of smart cities. Although this was gradually trending in the workplace, the Covid-19 pandemic has accelerated it. We expect that many employers will shift towards remote working as a permanent feature for many of their staff – again leading to less traffic, less inclination towards multiple car ownership, use of ride hailing services and an increase in usage based or demand adjusted insurance.

Many of the digital trends point towards fewer vehicles and pedestrians on the road and therefore have an expected correlation on safety and crime. Coupled with connected cameras and vehicle tracking one can envisage fewer muggings and fewer instances of car hijacking and petty theft and more successful arrests.

Given the proliferation of technologies, the breadth of application is limited only by imagination and emerging market economies have the potential to solve several problems simultaneously by leveraging these technologies.

Insurers will also face business dilemmas due to a rise in cyber-risk, including the potential for hackers to take control of infrastructure and the challenge of keeping personal data protected. Insurers need mechanisms for ascribing blame when autonomous systems fail.

Risks will also potentially grow in magnitude, i.e. there may be a decreased frequency of insurable events but an increased severity of accidents (mega-events). An example is of a power failure which then renders most of the smart systems inoperable i.e. an over-dependence on automated technology which may cause more, rather than fewer accidents.

Conclusion

Clearly insurers need to be aware of the smart city trend and track the developments and opportunities both in technology and customer behaviour. There is an opportunity for insurers to develop new products, improve their risk models and understand risks at a more granular level. Smart cities are pushing the connected world agenda even further and insurers must start developing competencies in emerging technologies and their implications – this will have a far reaching and permanent effect on the insurance industry.

> "Enthusiasm is common. Endurance is rare."
>
> \- Angela Duckworth

KPMG Intelligent Underwriting Engine

The insurance industry is inundated with data from a variety of sources and providers. With the introduction of new and varied data sources, underwriters are challenged to collect and combine the right mix of available data and strategically and appropriately apply it to risk assessment, customer experience and policy turnaround time.

The role of the underwriter of the future will be that of a "collaborator" of the end-to-end process, who completes policy decisions quickly, accurately and in a more cost-effective manner.

KPMG's Intelligent Underwriting Engine is an Azure-based solution that gathers and aggregates data from external sources and applies cognitive capabilities to infer from data meaningful signals and "cause and effect" indicators of risk. This allows for a customer-focused operating model and helps underwriters understand and act promptly on emerging trends, identify operational issues or opportunities in real time and price risks more accurately.

For more information please contact:

Ulrich De Prins
Partner
Financial Risk Management
T: +27 60 976 7706
E: ulrich.deprins@kpmg.co.za

Nikki Pennel

Associate Director
Legal
Tel: +27 82 719 5916
Email: nikki.pennel@kpmg.co.za

Beulah Simpson

Manager
Legal
Tel: +27 60 602 3066
Email: beulah.simpson@kpmg.co.za

The Protection of Personal Information Act is effective?!

It's been a long time coming…

Since April 2014, when parts of the Protection of Personal Information Act ("POPIA") became effective, many insurers have been eager to know when they would need to comply with POPIA. In other words, when would the substantive provisions regulating the processing of personal information come into effect?

One year turned to two, then three and then before we knew it six years passed without the announcement of an effective date for the majority of the substantive provisions of POPIA. This has resulted in many firms becoming complacent in their privacy journey asking us, tongue-in-cheek,

"Will POPIA become effective in our lifetime?"

Even firms that initially took a proactive approach to privacy compliance, by performing privacy maturity assessments or gap analyses, have put their privacy remediation plans on hold while awaiting an effective date.

If you sneezed you may have missed it…

Then, in the middle of a pandemic, when many businesses were struggling to keep up-to-date with the ever changing Covid-19 regulations and directives, and rapidly implementing remote-working technology in response to the nationwide lockdown, new life was breathed into POPIA.

On 22 June 2020, while you were considering the validity of business interruption claims, event cancellation claims, processing numerous credit life insurance claims and monitoring the volatile financial markets, it was proclaimed that the substantive provisions of POPIA (sections 2 to 38; sections 55 to 109; section 111; and section 114 (1), (2) and (3)) shall commence on 1 July 2020.

While some firms may consider the timing of POPIA inconvenient, data subjects may be comforted that their very sensitive personal information will be processed at a time that POPIA is given credence by the President.

What does this mean for insurers?

Simply put, insurers have one year from 1 July 2020 to become fully compliant with POPIA. From our experience with numerous insurers this is no small feat and, in our view, the insurance industry will be one of the industries that will have the biggest challenge complying with POPIA. However, there are some fundamental steps that insurers can, and should, take to prepare themselves and lessons that can be learnt from other jurisdictions, like Europe, where firms are well underway in their privacy compliance journeys.

Some pitfalls we have seen…

Over the years, we have performed numerous privacy readiness assessments and have the benefit of seeing some of the most common pitfalls experienced by our clients in South Africa, which include insurers, as well as by our colleagues supporting the General Data Protection Regulation ("GDPR") compliance.
We highlight five of the often-overlooked pitfalls we have seen in our experience and give some tips on how they can be avoided.

KPMG

1. Failing to identify the risk when using a third party to process personal information

Insurers are known to rely on various third parties in marketing their products and providing services to policyholders, including amongst others, UMAs, brokers, and service providers such as claims assessors and panel beaters. These third parties often process the personal information of insurers' policyholders, and privacy roles and responsibilities can easily be blurred. Particularly between insurers and brokers, as brokers are primarily responsible for maintaining the contact with the policyholder. One of the challenges this poses is clarifying which party will be considered the "responsible party" (i.e. the entity which determines the purpose of and means for processing personal information) and which entity will be considered the "operator" (i.e. the entity which processes personal information for a responsible party in terms of a contract or mandate, without coming under the direct authority of that party). There is also the possibility that both the insurer and broker will be considered responsible parties which will bring its own complexities. Accordingly, insurers will need to scrutinise their relationships with third parties to determine what each of their privacy roles and responsibilities are.

There may also be an expectation by insurers that the same level of privacy controls will be applied by a third-party operator (for example a panel beater) as those applied by the insurer. However, ultimately, the responsibility for any data breach at the instance of the third-party operator remains with the insurer as the responsible party. POPIA places certain contractual obligations on insurers with regards to the management of its third-party operators. These obligations will extend to the vetting and monitoring of third-party operators from a POPIA perspective.

2. Firms underestimate data subject access requests

Many firms have completely underestimated the privacy risks and administrative burden associated with data subject participation and insurers are no exception. The numerous rights of data subjects are summarised in section 5 of POPIA and require, *inter alia*, that insurers notify the data subject when collecting personal information or when there has been a data breach, appropriately and timeously responding to data subject access requests as well as requests for the correction or destruction of personal information. This requires insurers to take decisive action.

In our experience, many insurers manage their data subject access requests on an *ad hoc* basis, with no centralised or formalised process to ensure that they can respond fully, timeously or appropriately to a request. Bearing in mind that information is very likely to be widely dispersed across an insurer's business and, in certain instances, may be housed only at a third party, we are of the view that the requirements relating to data subject access requests could create the largest administrative burden on insurers who do not have a clearly defined process in place.

3. Firms underestimate the extent of employees' personal information on record

POPIA does not only cover the data of policyholders. It is inevitable in the employer-employee relationship, that an insurer will process the personal information of its employees. The Covid-19 pandemic means that even more sensitive personal information is being processed by insurers than usual. Almost all collection, use or storage of personal information will fall within the scope of POPIA and employees will be afforded the same rights to lawful processing as other categories of data subjects.

POPIA applies to the collection and use of personal information of prospective employees, current employees and past employees. Personal information is defined broadly and includes biometric information, online identifiers as well as correspondence sent by a person that is of a private or confidential nature. This means that POPIA will affect activities that many employers routinely implement as part of its business such as the monitoring of employees' email, internet access, location data and the video surveillance of employees in the employment context. This is not to say that such monitoring must immediately cease; we recognise that there is often a lawful justification for such processing. Accordingly, employers must identify that lawful justification and be transparent with employees regarding the employers' monitoring activities.

Insurers must apply ALL principles of POPIA when processing personal information of employees without exception. This means, *inter alia*, that the personal information being processed must be relevant, adequate and not excessive having regard to the purpose for which it is processed, the employee must be notified of the purposes of collection and processing of personal information, and the employer must consider each employees' right to access, modification and erasure in light of POPIA requirements. It also means that there must be a lawful justification for the processing of personal information. We are aware that many firms consider 'consent' to be the silver bullet however, employees' consent may not be sufficient or appropriate under POPIA. In our view, 'consent' can be the Achilles' heel of a firm if it has not been legitimately obtained and the employer has no intention of respecting a request to cease processing once consent is withdrawn. There is also a strong argument that due to the disproportionate bargaining power between the average employee and employer, consent can seldomly be given freely by an employee.

4. Policies, procedures and controls are not enough

While all insurers should design and implement policies and procedures to ensure that their processing activities are POPIA-compliant and satisfactorily cater for privacy rights and obligations, policies and procedures alone will not be sufficient.

For example, while many insurers may have detailed retention and destruction policies giving effect to the retention requirements of POPIA, employees responsible for applying these policies often find it challenging to 'let go' of documents in terms of those policies as they fear the contents will be useful to them in the future. Further, employees are often unaware of whether and how they can lawfully retain certain information once the maximum retention period of a document has been reached (e.g. by de-'de-identifying' the data subject in the manner contemplated in terms of POPIA).

While there are technology solutions that can certainly support insurers in implementing POPIA policies and procedures, including electronic record management systems, compliance can never be achieved if employees are unaware of, or don't understand, their individual privacy obligations.

For privacy to become embedded within your business, employee training and awareness must occur regularly (it cannot be an once-off event). Insurers must consider how best to maintain privacy awareness and develop ongoing privacy awareness campaigns to encourage a culture of privacy protection. In our view, privacy training and awareness needs to be given as much thought and effort as insurers put into product training or Market Conduct.

5. Non-existent or poor privacy governance structure

Last, but by no means least, we note that while insurance companies generally have good governance structures, too often we find that there isn't a clear privacy governance structure and/or that roles and responsibility for privacy have not been assigned to employees within the insurer.

A strong privacy governance structure is essential to comply with POPIA. After all, the first condition of POPIA is "accountability" (as set out in section 8 of POPIA) and requires that insurers ensure that all eight conditions of POPIA are complied with and that *"all measures that give effect to such conditions are complied with at the time of the determination of the purpose and means of the processing and during the processing itself"*.

In order to satisfy this condition, insurers need to ensure that each business area and each employee within that business area takes accountability and that personal information is processed lawfully in terms of the conditions of POPIA.

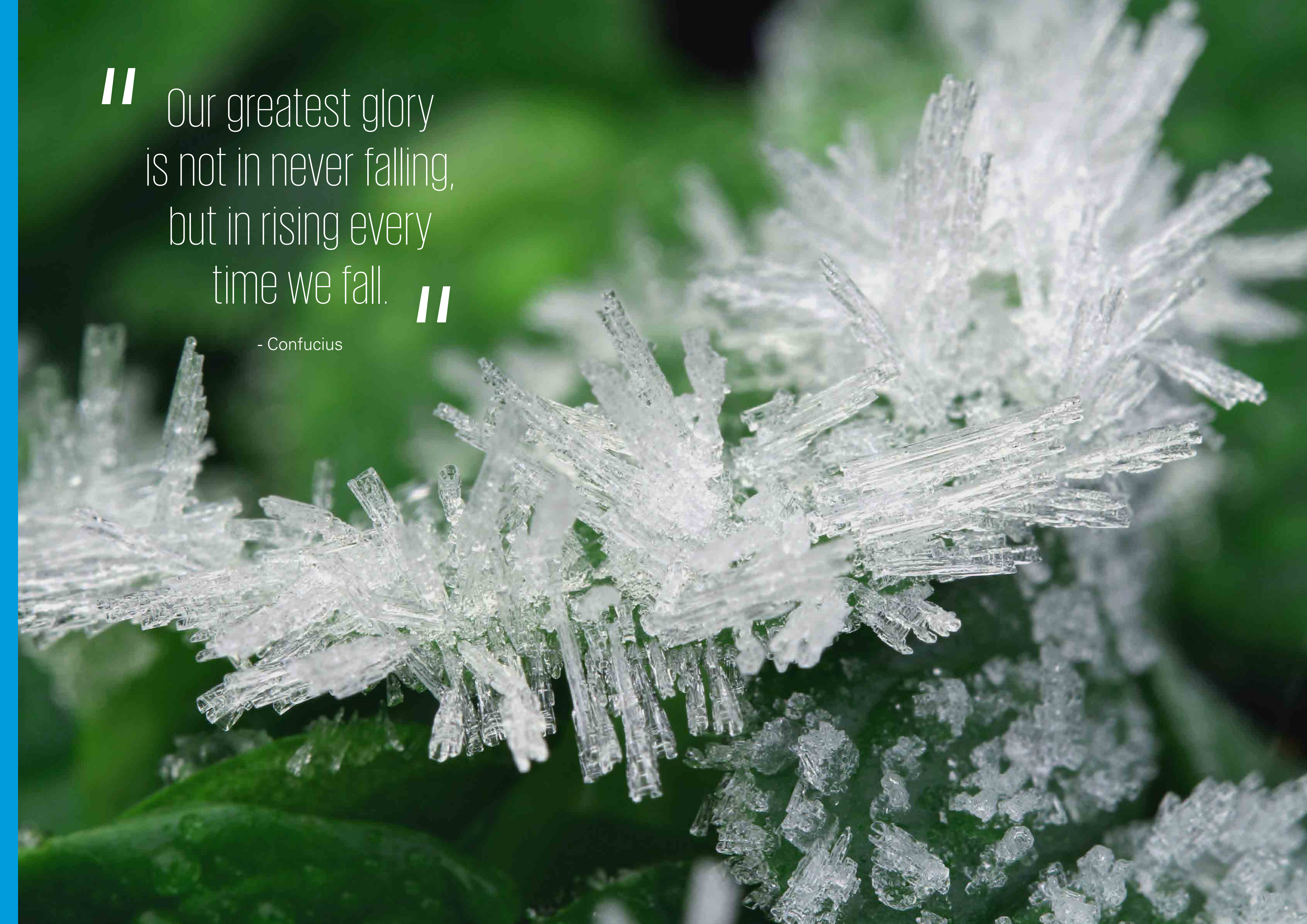
Insurers, like other firms, will need to assess whether they can reasonably adapt their current governance structures to effectively deal with privacy-related matters. For many insurers, a separate privacy governance structure may be more appropriate since insurers often process large volumes of very sensitive personal information (including health information). The governance structure must include the appointment of an Information Officer and/or deputy Information Officers. By default, the role of Information Officer falls to the head of the insurer.

It is also recommended that the Information Officer is supported by a competent team including members of senior management to demonstrate their commitment to compliance with POPIA and to give effect to the conditions of lawful processing within the business. It is also important that roles and responsibilities filter down the chain of command and that each employee within the insurer understands their privacy obligations.

Ultimately, the privacy governance structure must be one that is appropriate having regard to the insurer's business and must be effective for identifying, assessing, monitoring and reporting on privacy related risks and breaches through the governance structures.

There's no time to delay …

A year is fleeting, particularly if one is only beginning to consider how the requirements of POPIA will impact your business. No insurer's privacy journey will be identical and no insurer can afford to remain complacent. This does require a good understanding of the personal information processed throughout your business and a deep awareness of where the critical gaps exist with regards to your firm's ability to comply with POPIA. To those insurers that have already performed a POPIA or privacy maturity assessment, the time is now to consider whether it remains accurate and complete. In both cases, it will be important to ensure privacy is firmly on your firm's agenda for 2020 not only to comply with POPIA but to comply with other regulatory imperatives (including the PPR and Market Conduct).


"Our greatest glory
is not in never falling,
but in rising every
time we fall."
- Confucius

The Protection of Personal Information Act is effective

Please engage with us to learn more about some of the common privacy challenges as you navigate your privacy journey:

- Non-existent or poor privacy governance structure?
- Failing to identify the risk when using a third party to process personal information?
- Stale data – purge or keep?
- Underestimating data subject access requests?

No organisation's privacy journey will be identical, and no organisation can afford to remain complacent.

For more information please contact:

Nikki Pennel
Associate Director
Legal
T: +27 82 719 5916
E: nikki.pennel@kpmg.co.za

Beulah Simpson
Manager
Legal
T: +27 60 602 3066
E: beulah.simpson@kpmg.co.za

Schalk Engelbrecht

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

Ethics in pursuit of Resilience

If you're seeing the word "resilience" more often today, it's because we (people) feel ourselves increasingly threatened and vulnerable.

This sense of foreboding is not exclusively Coronavirus-related. Even before the Covid-19 pandemic, "resilience" had become a vogue term for academics and management consultants alike; environmentalists use it when they explain how human recklessness is exceeding the planet's ability to adapt; psychiatrists describe it as a vital attribute for nurses constantly faced with grating life-and-death realities; and management consultants warn of its importance for businesses and public utilities in an age of technological disruption and black swans.

Insurance *as* resilience

Of course, feelings of vulnerability and threat amplify the desire for security and insurance. Insurance is a resilience mechanism. If resilience is the ability to "bounce back" from distress and misfortune, it follows that insurance would assist in this process. Insurers take a pro-active stance against hazardous (im)probability.

They do this in two ways:

- First, by strengthening specific forms of resilience among their customers. Some health insurers, for instance, reward healthy (read: more resilient) living; and even non-life insurers nudge customers towards burglar bars, trackers and sensors on geysers.
- But when insurers cannot proactively minimise the risk (of crises, distress or sudden shocks) to their customers, a second strategy is employed. In these cases insurance forms part of the protective arsenal that allows a person or business to return to a state of wellbeing or functioning after disruption.

Resilience *in* insurance

There are several aspects to the science of resilience. For my part, I would emphasise the role of ethics in the pursuit of resilience.

The Covid-19 pandemic provides some anecdotal evidence for the role that ethics plays in resilience. Those who direct their attention to the needs of others seem less likely to be overwhelmed by panic and fear – the volunteers who distribute food parcels; the orchestras who manage to perform symphonies from seclusion and over zoom, to bring joy to others; the children who have adopted isolated retirees in old-age homes, and visit them online on a weekly basis.

While perhaps anecdotal, these examples find support in studies that associate resilience with prosocial behaviour (altruism) and a moral compass[1]. In other words, "helping others" (or what's called "altruism born from suffering") has been found to promote growth, resilience, and recovery from trauma. Moreover, among resilient individuals, researchers commonly find an "internal belief system guiding values and ethics"[2]. This internal ethical system, or "moral compass" provides purpose that predicts resilience.

Corporate resilience

The ethics-related contributors to individual resilience also apply to organisational or corporate resilience. The company that has an established and embedded set of values, and that focuses on helping clients, employees, suppliers and society, may prove more resilient.

This idea is supported by research. In a study of the social and financial performance of listed companies in Spain, researchers concluded that "the social is profitable and that the profitable is social, thereby originating a positive feedback virtuous circle"[3]. Another study found that a company's social performance is negatively correlated to systemic risk[4] – prosocial companies therefore lower their risk.

[1] Wu, G., Feder, A., Cohen, H., Kim, J.J, Calderon, S., Charney, D.S., & A.A. Mathé. 2013. "Understanding Resilience" in Frontiers in Behavioral Neuroscience 7(10). Available online: https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3573269/ [Accessed 30 June 2020]

[2] ibid

[3] Rodriguez-Fernandez, M. 2016. "Social responsibility and financial performance: The role of good corporate governance" in Business Research Quarterly 19(2), pp. 137 – 151

[4] Kim, J.W. 2010. "Assessing the long-term financial performance of ethical companies" in Journal of Targeting Measurement and Analysis for Marketing 18(3-4):199-208

There can be many reasons for these findings. When the purpose and values of a company resonate with employees, they are more committed and productive, even in times of crisis. A company that takes an interest in the wellbeing of those it impacts, is also more likely to earn the loyalty of its customers and suppliers.
Put differently, when the relationship between a company and its people is *meaningful* rather than *contractual*, challenges can cause a company to fortify rather than flake.

Conclusion: Are there moral responsibilities in a crisis?

One would expect in times of crisis that all bets are off, morally speaking. When survival is threatened, it's everyone for themselves.
A better understanding of resilience suggests the opposite, however, and demonstrates how strong values combined with an outward focus are better predictors of survival than ruthless self-regard.
Of course waiting for a crisis to start working on ethics won't do. It is better to think of resilience as a property of systems or communities, rather than individuals.
Resilience is relational. What makes a company resilient are the "good" relationships that constitute it at the time misfortune strikes. These relationships are the product of ethical interactions over time.
In short, if you value resilience, start building strong ethical relationships now, and maintain them in crisis.

"No one escapes pain, fear, and suffering.
Yet from pain can come wisdom,
from fear can come courage,
from suffering can come strength -
if we have the virtue of resilience."

- Eric Greitens, Resilience

The financial risk of non-compliance with the provisions of the VAT Act can be substantial for insurers. This risk increases the more the business is intermediated, since intermediaries often operate different systems with limited visibility of the VAT treatment followed and documentation retained by the various parties.

Our cumulative experience of over 45 years in the insurance industry enables us to provide tailor-made VAT services to all parties in the industry, including life and non-life insurers, reinsurers, cell captives, brokers and UMAs. These services include:

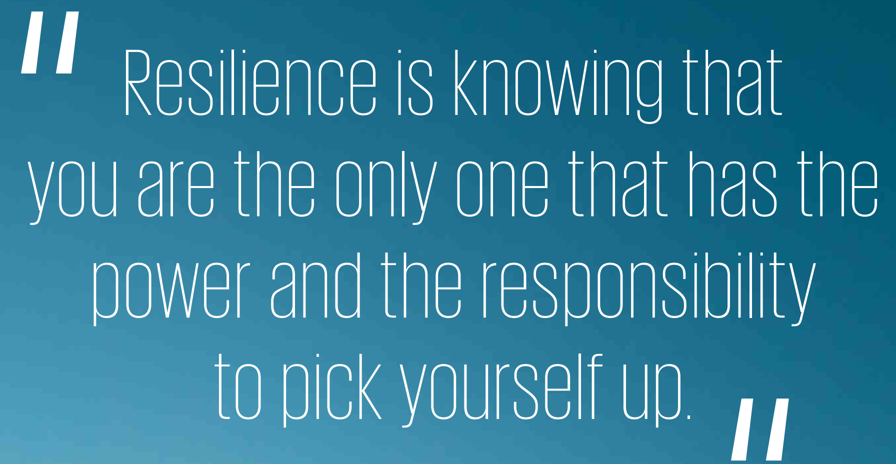
- VAT documentary and compliance reviews
- Apportionment reviews and ruling requests for alternative methods
- Advice on imported services exposures
- VAT consulting on insurance related transactions
- SARS dispute resolution
- Training on all insurance VAT aspects

For more information please contact:

Andre Meyburgh
Partner
Indirect Tax
T: +27 82 851 6587
E: andre.meyburgh@kpmg.co.za

Anzuette Bezuidenhout
Associate Director
Indirect Tax
T: +27 82 716 2690
E: anzuette.bezuidenhout@kpmg.co.za

Martin Delport
Associate Director
Indirect Tax
T: +27 82 719 1948
E: martin.delport@kpmg.co.za


"Resilience is knowing that
you are the only one that has the
power and the responsibility
to pick yourself up."
- Mary Holloway

Michelle Dubois

Senior Manager

Regulatory Centre of Excellence

Tel: +27 60 997 4512

Email: michelle.dubois@kpmg.co.za

Beulah Simpson

Manager

Legal

Tel: +27 60 602 3066

Email: beulah.simpson@kpmg.co.za

Market Conduct in the insurance industry

The primary objective of the new Conduct regulatory framework is the promotion of the fair treatment and protection of customers by financial institutions.

While some firms like to believe that Conduct will only become effective on the promulgation of the Conduct of Financial Institutions Bill ("COFI Bill"), in our view Conduct is already effective in sector specific legislations (for example in the Policyholder Protection Rules in the insurance industry). Our clients tell us that they have made good strides in embedding Conduct risk into their risk structures but that there is much work still to be done.

In this context, KPMG's Market Conduct practice conducted a detailed survey in which four banks, fourteen insurers and ten asset managers participated. The survey provides insight into the South African financial services industry's progress in embedding Conduct within their businesses.

Insurers have a bit of a bad reputation

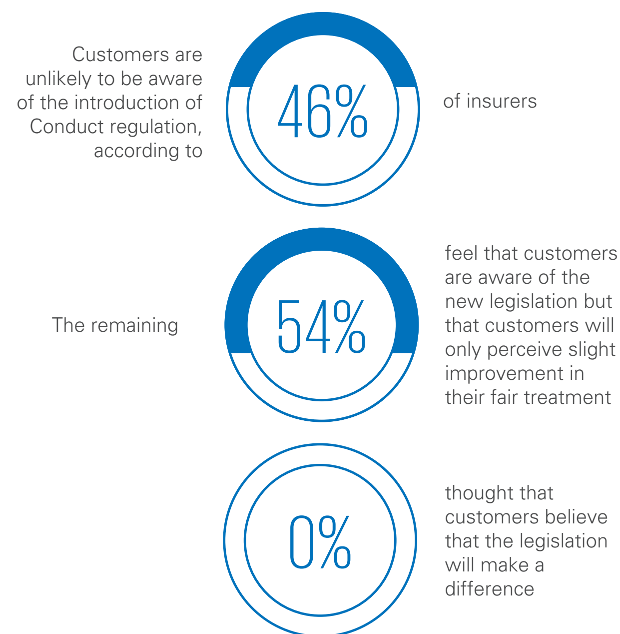
We asked participants what their perception of public trust is in the banking, insurance and investment management sectors (all 28 participating firms were asked to rank all three financial institutions out of 5, with 1 being no trust and 5 being complete trust).

The insurance sector was perceived to be the least trusted sector by participants and obtained an average ranking of 2.7 out of 5. Participants cited reasons ranging from negative Ombud reports to incidents relating to the non-payment of claims and claims not being settled on time. Arguably, an insurer is more likely than a bank to interact with a customer after a traumatic event in the policyholder's life, which may lead to the increased negative sentiment. This in itself creates opportunities for insurers to improve that interaction and make sure that there are no surprises for the customer at this point in the fulfilment process.

This perception of customer trust is probably not surprising to insurers with majority of insurers also believing that they would rank the least trustworthy in comparison to banks and asset managers.

We questioned whether the introduction of conduct-specific legislation (i.e. the COFI Bill) could come to participants' rescue by improving customer perception of their treatment. Forty six percent of insurers believe that customers are unlikely to be aware of the introduction of Conduct regulation while the majority of insurers believe that even if customers are aware of the new legislation they would likely only perceive a slight improvement in the fairness with which they are treated.

Will Conduct regulations improve customer perception?



Accordingly, the insurance sector will need to take some proactive steps to improve customer trust. Perhaps a good place to start is considering whether insurers are nurturing a culture of good conduct in their organisations particularly since culture is globally recognised as the root cause of continued misconduct.

In our experience, most firms do not set out to treat customers unfairly

Rather it is the confluence of factors in an increasingly complex business environment, including intermediaries, third parties and “hand-offs” in a firm and the inability to identify that the combination of these inadvertently leads to misconduct. It is for this reason that the Financial Sector Conduct Authority (“FSCA”) is implementing targeted legislation that forces firms to consider all aspects of their business model.

Eighty six percent of the insurers who participated in our survey, told us that elements of their firm’s culture have either unintentionally or intentionally contributed towards instances of misconduct.

Interestingly, twenty nine percent of the insurance participants told us that they have continued to sell products or deliver services despite having identified that at an industry level these products and services result in the unfair treatment of customers, believing that it would be unfair on their firm to lose the business while everyone else in the industry continues to profit from it.

It is encouraging to see that up to fifty seven percent of insurance participants have redesigned their products, services or practices where they have identified Conduct issues and forty three percent have discontinued them. However, it also suggests that Conduct considerations were not effectively considered at design stage. COFI will require that insurers and other financial institutions ensure that all products and services are designed and offered with due regard to the interests of the customer.

Individual accountability is now a global concept and is becoming a regulatory focus area around the world

Individual accountability is now a global concept and is becoming a regulatory focus area around the world to ensure that senior managers take responsibility for their actions and are held to account for their failures to act and the poor behaviour which results in Conduct failures.

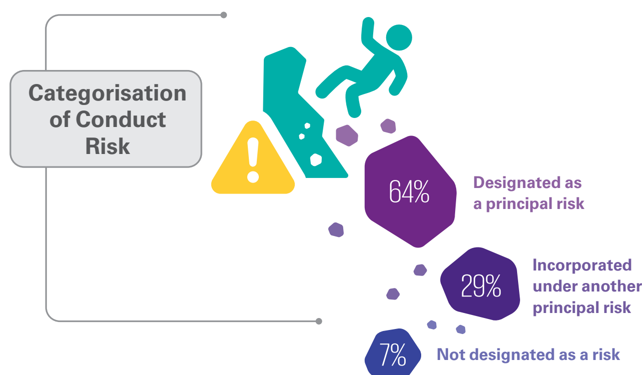
Many countries beyond the UK are introducing measures to enforce the individual accountability of senior managers and these measures are broadly similar to the UK’s Senior Manager regime although details vary across countries. We don’t have certainty on whether or not an individual accountability regime will be introduced in South Africa. However, it would be remiss to ignore the regulatory tone and direction being taken by financial regulators both globally and locally. All of the insurance participants unanimously agreed that there is value in the FSCA implementing an accountability regime similar to the UK’s Senior Managers Regime.

What surprised us… is that very few firms make use of different incentive models to drive behaviours. At an executive level across the financial services industry, only thirty-nine percent of employees’ remuneration is affected by Conduct outcomes. In our view, incentives and disincentives play a significant role in influencing behaviours and driving accountability without a formal accountability regime. Inappropriate remuneration and incentive schemes wholly driven by quantitative and financial targets can unintentionally result in instances of misconduct. Employees may question the importance of ‘treating customers fairly’ in an organisation where employee performance is wholly measured against quantitative/financial targets of the firm. Similarly, employees who are found to participate in instances of misconduct should be penalised (for example by applying claw-backs, bonus reductions or termination of employment). Setting appropriate Conduct KPIs and linking this to remuneration will go a long way in holding employees accountable in the absence of an accountability regime.

How are insurance participants managing Conduct risk?

In excess of one third of insurance participants have not designated responsibility for managing Conduct risk to an individual within their business. While all business functions and all employees have a role to play in managing Conduct risk, in our view it is most effective when driven by an individual incentivised appropriately to ensure the objectives are achieved.

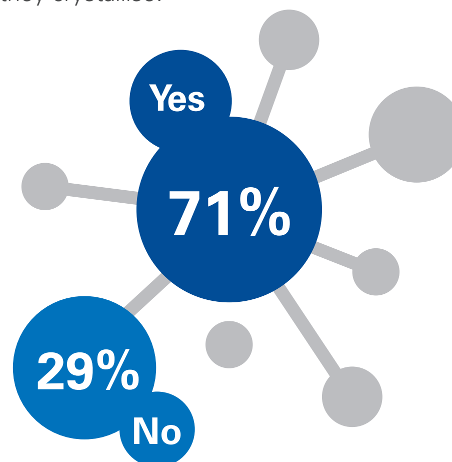
Thirty six percent of insurance participants have not yet performed a complete assessment of the impact of Conduct on their businesses and do not have a formal and documented Conduct risk identification and assessment process in place.



Sixty four percent of insurance participants have designated Conduct risk as a separate principle risk instead of incorporating it under another principle risk. One of the fourteen insurance participants has not designated Conduct as a risk within its firm.

There is no hard and fast rule on whether Conduct should be categorised as a principle risk or be a sub-category of another principle risk, however, it should be formally designated as a risk and should be assessed, monitored and reported on in the same way as other risks.

Data and analytics can be harnessed by organisations to effectively manage conduct risks by, for example monitoring conduct risks and even predicting and then mitigating conduct risks (such as mis-selling situations). More mature organisations are using data and analytics techniques to develop new products, identify new markets, improve customer experience and predict poor outcomes by monitoring trends pointing towards an undesired outcome. The FSCA is adamant that advanced data analysis is an important approach for large organisations to measure their Conduct risks and to identify trends and relationships that require investigation before they manifest in actual unfair treatment. Global benchmarking shows that large insurers have up to eighty conduct metrics that are measured on a monthly basis. This is not something that can be achieved without harnessing data and analytics. Insurers should consider investing in data and analytics systems which analyse more than just complaints metrics to enable them to identify, investigate and manage Conduct risks before they crystallise.



Seventy one percent of the insurance participants in our survey stated that they make use of data and analytics in one form or another to assist them in managing their conduct risk.

All but one of these participants agree that they believe they could be making more efficient and effective use of data and analysis tools and/or data and would like to have better quality Conduct specific data at their disposal.

So what concerns insurers the most about complying with Conduct?

Insurance participants have told us that they believe that they have received more intense regulatory and supervisory scrutiny over a longer period than other sectors, and they point to the new insurance laws, regulations, the Policyholder Protection Rules and FAIS Codes of Conduct.

Generally our survey shows that insurance participants are the most concerned with their ability to evidence a culture of fairness within their firms. Indirectly, acceptable scores in firms' Conduct KPIs provide evidence that culture is appropriate but we do want to challenge firms on the adequacy of their KPIs. It is possible that firms have not done enough to identify the bespoke Conduct risks that their products and processes expose them to; something that can only be done by a bottom-up analysis of every product and every process that touches the customer. The other way of evidencing an appropriate culture is through doing things like culture audits which are not as fluffy as one might expect and which do yield tangible evidence.

The second item that concerns firms most is when the fair treatment of customers is not within their control - yes, there’s no doubt that it’s harder to ensure that third parties are treating customers fairly – and this can span from whether intermediaries are giving proper advice or the plumber an insurer sent to the policyholders’ house is qualified. But it can be done; again through the identification and measurement of Conduct KPIs and a framework for identifying the risks that emanate from the third party arrangement.

We are seeing the dawn of a new era of financial regulation in South Africa. Ready or not, here comes Conduct.

The theory of Conduct is one thing, but its implementation by financial institutions, its regulation and supervision by the FSCA is something entirely different. KPMG's Market Conduct practice embarked on a survey of 4 banks, 14 insurers and 10 asset managers. Please access our publication to understand the financial services industry's views on its regulatory readiness, the effectiveness of different governance structures, where the TCF risks really are and other controversial matters such as holding senior employees personally accountable.

Click here to access our KPMG Market Conduct survey results for 2020.

For more information please contact:

Mark Danckwerts
Partner
Head of Market Conduct Practice
T: +27 82 710 3261
E: mark.danckwerts@kpmg.co.za

Finn Elliot
Associate Director
Market Conduct specialist
T: +27 79 039 9367
E: finn.elliot@kpmg.co.za

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

Beulah Simpson
Manager
Legal
T: +27 60 602 3066
E: beulah.simpson@kpmg.co.za

Gerben Draaijer

Senior Consultant
Actuarial Practice
Tel: +27 66 307 1017
Email: gerben.draaijer@kpmg.co.za

Africa - Strength in diversity

We have performed a benchmarking survey of the 2019 financial results of twelve non-life insurers in African territories - five in Kenya, five in Nigeria, one in Zimbabwe and one in Ghana.

This survey is a follow on from a survey[1] performed for the 2018 financial year. Our article provides an overview of the general profitability ratios observed for these twelve insurers as well as some insights into the split of premium volumes by class of business for Kenya and Nigeria.

Profitability and opportunity

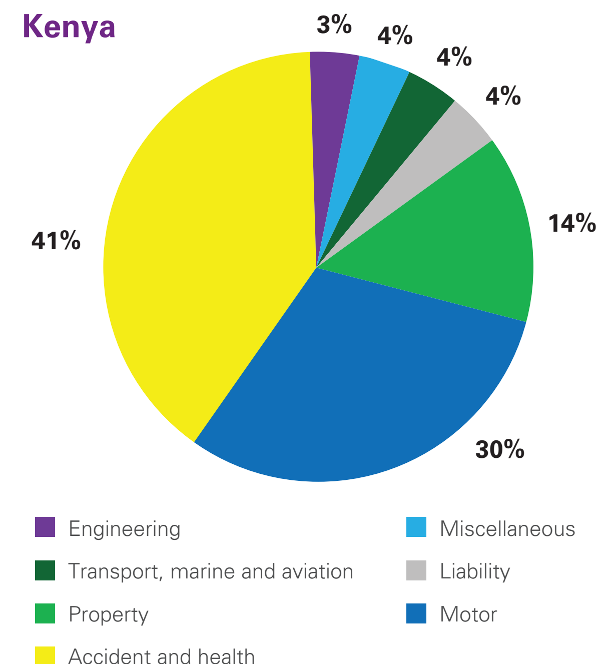
The average loss ratio of the twelve companies was 41% while the average combined ratio was 79%. This implies an average expense ratio of 38%, reflecting a 14% improvement on the 52% we observed in our prior year survey. The spreading of fixed costs could be a key contributor to this improvement as most of the insurers surveyed experienced real growth in premium volumes during 2019. However, the expense ratio of 38% remains relatively high compared to the average ratio of 26% in the South African market during 2018.

Considering the above, the African insurance market could be ripe for established companies to enter. There is an opportunity to leverage existing know-how and ability to achieve more efficient outcomes to reap the rewards. In addition, expanding operations into Africa could present an excellent opportunity for insurers in developed markets to diversify their earnings. In light of the worldwide uncertainty around the post Covid-19 economy, a more diversified portfolio could prove invaluable. However, expansion into new territories presents its own risks and challenges and there are many potential pitfalls along the way. As such, companies are always advised to carry out proper due diligence if considering this path and also to engage with locals who are better placed to understand the cultural influences on the local insurance markets.

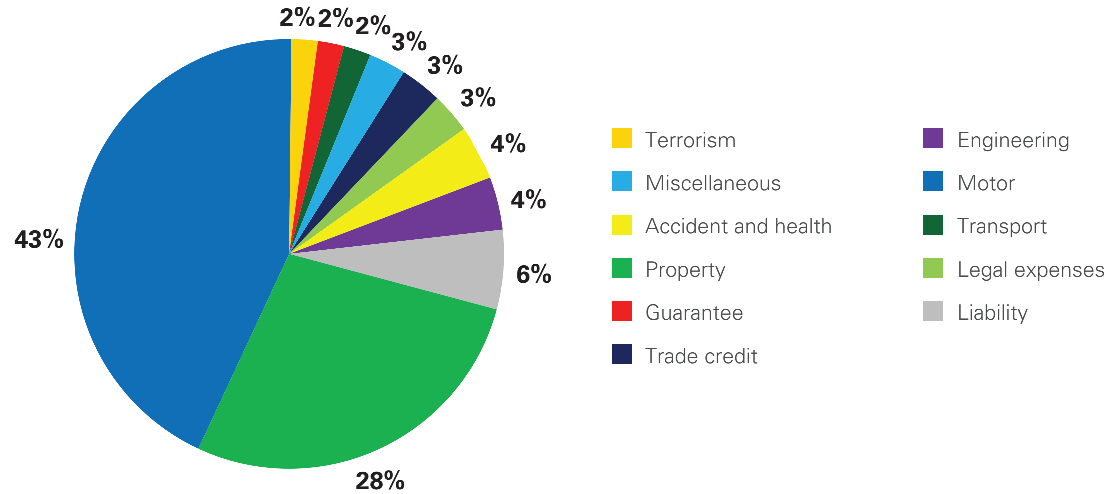
Premium volumes in Kenya

Based on our survey, accident and health insurance appears to be the most prominent class of business in Kenya, accounting for 41% of written premiums. By comparison, accident and health insurance accounts for only 4% of business written by non-life insurers in South Africa. The relatively high volumes seen for this class in Kenya can likely be attributed to the differences in the medical cost funding models between the two countries. Unlike South Africa, Kenya doesn't have a private medical aid industry. Instead, private non-life insurers play a key role in providing cover that supplements the benefits provided by Kenya's National Hospital Insurance fund.

Apart from the key difference noted above, the split of business volumes by class appears to be fairly similar in South Africa and Kenya. In South Africa, the three biggest classes of business in descending order are Motor, Property and Liability. Based on our survey, these three classes are respectively the second, third and fourth largest in Kenya as well. The below graphs show the split in premium volumes by class for the Kenyan insurers in our survey compared to the South African market.



[1] This survey can be accessed using the following link: https:/home.kpmg/content/dam/kpmg/za/pdf/south-africaninsurance-survey-2019.pdf



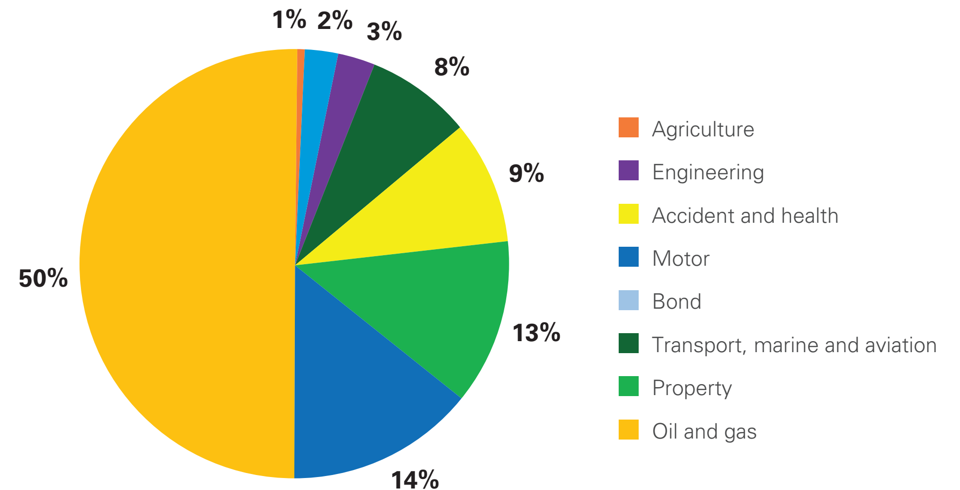
" Do not judge me by my success, judge me by how many times I fell down and got back up again. "

- Nelson Mandela

Nigeria – a land of risk and opportunity

Based on our survey, the Nigerian non-life insurance industry is dominated by oil and gas insurance. 50% of the premiums of those insurers in our survey is related to this class of business, while motor and property insurance only accounted for 27% of premiums. These splits are consistent with the 2017 Nigerian insurance statistics published by the Nigerian regulator which suggested that oil and gas is comfortably the largest line of business.

This is very different from what we see in the South African industry, where motor and property insurance accounts for 71% of premiums. The graph on the right show the split of premiums for the Nigerian companies in our survey.



The risks

During the start of 2020, the oil price plummeted and exhibited high levels of volatility. From an economic perspective this highlights the risk associated with too much exposure to individual sectors. As economies are being challenged by demand and supply shocks linked to Covid-19, Nigeria faces this additional challenge of heavy economic reliance on oil revenues. According to statistics on OPEC's website, the oil industry accounts for around 10% of Nigeria's GDP and 86% of its exports.

From an insurance point of view, it also highlights the risk of over-exposure to a single industry. It is unclear what the short-term impact will be, but in the longer term, premiums will likely follow the quantum of oil-generated revenues. This could reduce insurers' ability to spread fixed costs, placing pressure on expense ratios that are already on the high side.

The opportunities

As noted earlier, motor and property insurance accounts for a relatively small proportion of the Nigerian insurance market. This could be partly explained by the low level of non-life insurance penetration (non-life insurance premiums as a percentage of GDP). According to a paper presented at the 2018 Annual Convention of the Actuarial Society of South Africa, non-life insurance penetration in Nigeria is around 0.2%. By comparison, the average rate in Africa is around 1% while South Africa is sitting just below the 3% mark.

This suggests that a significant opportunity continues to exist for growth in the Nigerian insurance industry, for example within the personal lines motor and property space. Changing cultures, getting the population to buy-in to the benefits of insurance and developing a more mature insurance market will take time. For those who figure out how to do this, there is a great opportunity for growth. These winners will be able to establish larger and more diversified insurance portfolios. It will also be very interesting to see how these potential "winnings" are going to be split between existing players and new entrants looking for a foothold in Africa.

Derek Vice

Partner

Insurance

Tel: +27 82 711 2519

Email: derek.vice@kpmg.co.za

Pear shaped

Much of this article focuses on technology. I am a big fan of technology. I think that, on balance, technology has made our lives better.

That said, things can go wrong. The challenge with technology is that it goes wrong in new, unexpected and sometimes catastrophic ways. I do not profess to be a tech guru. However, I read enough apocalyptic and post-apocalyptic literature to have a healthy scepticism about the future. As an auditor, I am in the job of risk management. The insurance industry itself is a risk management tool. So, pondering just how things can go wrong is part of my job description. With that in mind, this article explores some of the current and future events that could cause a serious downer… and which could create opportunities, and challenges, for insurers.

Designer babies

Big M is a beautiful male specimen, unfortunately he is as dumb as an ox.

Selective manipulation of genetic traits is a very old practice. Animal husbandry has, for millennia, been used to breed certain traits in animals. These traits can be for practical reasons or for cosmetic reasons. The fact that a chihuahua is related to a wolf is testament to the effectiveness of this over time. Similarly, the relative placidity of cows compared to buffalos speaks volumes for the ability to impact behavioural traits. With the significant advances in genetics, it is only a matter of time before it becomes plausible and even potentially common place to design your baby. As of 2019 "only one instance of this is known to have occurred… where Chinese twins Lulu and Nana were edited as embryos.[1]"

The upside is amazing. Genetic illnesses like down syndrome, cystic fibrosis or sickle cell anaemia could be eliminated. The downside is the subject of endless science fiction speculation. What is obvious from thoroughbred animals is that being picky and choosy about specific characteristics can have unintended side effects: bull dogs are notoriously unhealthy; staffies have bad hips and poor skin; and gorgeous male specimens might turn out to be as dumb as an ox.

What could this mean for insurers? In the near term, medical cover to remove unwanted genetic traits in a foetus or small child is already possible. Two recent gene therapies have been FDA approved, which potentially treat and/or eliminate specific genetic illnesses[2]. These treatments cost $2.1 million and $425,000 respectively[3]. In South Africa, much of this cost might be borne by medical schemes (and therefore become their problem). However, with the hefty price tag attached to these treatments, they might be excluded from medical cover in the future. In this case, or for those without medical aid, medical insurance could step in. This product could pay out a lump sum amount on the identification or confirmation that a child or foetus has a treatable genetic illness.

In the long term - a very long tail on liability claims related to genetic manipulation is the most obvious outcome. It is quite likely that the unintended consequences of genetic manipulation could take years or decades to manifest. But once it does, this could be another silicosis class action, if we are lucky, and if we are unlucky, we might find our descendants are all sterile like mules.

Genetically modified (GM) foods and water supply

When the babies first appeared, they seemed quite normal. It took thirteen years before their voracious appetites and inability to lose weight was linked to the GM chicken their parents had been eating for years. The important questions that arose were: who is liable for this unintended consequence? The restaurant? The farmer? The GM crop scientists? In the blame culture of the 21st century someone would have to pay!

[1] https://en.wikipedia.org/wiki/Designer_baby

[2] Technically, this is probably not "designing" your baby as it is usually applied subsequent to conception.

[3] https://www.insurancejournal.com/news/national/2019/09/13/539591.htm

By 2050 it is expected that we will have a world population of 10 billion people[4]. That is a lot of mouths to feed. Some scientists believe that the planet's current carrying capacity for population tops out around 10 billion. And this assumes we all become vegetarians[5], which is not going to happen in South Africa (or Texas (or 90% of the world[6])). The logical solution would be to stop breeding, but that appears to be an inalienable right (like the right to eat meat). Equally concerning is the water needs of 10 billion people. We are struggling to meet the water needs of the current 7.5 billion, so a 33% increase is going to cause some serious problems.

Water supply has been on the agenda for a while. The recent Cape Town droughts have highlighted the issue in South Africa. The water supply issue is likely to get worse as we continue to indulge our rights for all things. Insuring water supply seems like an interesting concept. If we think of the water supply risk like any other risk, we could use this thinking to help smooth the supply over time. In effect I could pass on a few of my extra litres of water, which I have available right now, to a pool[7]. This pool would distribute this water to those in need. In a few years, when a drought strikes Gauteng, we would call on the pool to assist. Interesting… but until water becomes commoditised this would be practically impossible. And even then, this would only ensure water supply for the rich.

Having experienced water supply problems, both on a micro-scale (from local municipal water failures) and on a macro-scale (in Cape Town from a regional drought), I would consider insurance to guarantee my water supply at a minimum operational level. The municipality drops me, and my service provider steps in with a guaranteed water supply per day until supply is restored. The extent of that guarantee – ten litres, twenty, thirty or fifty – could vary.

There are various solutions to the food supply issue. One such solution is increasing manipulation of the genetics of our food sources. GM food is big business. More resilient crops, higher yields and fat calves that grow into big cows quickly – these are all lucrative proposals (and existing realities). Ask the internet if GM food is dangerous and a thousand sponsored articles will try to convince you it is not, and a thousand Facebook cults will try to convince you that it is. I do not know the answer. For the purposes of this article, I do not care. The fact that there is a chance, creates a risk. And a risk creates an opportunity.

GM food regulation exists, but as we are hardly a generation down the line from its first inception[8], the downstream impact of genetic manipulation is unknown. So how bad could this get? What could we be exposing ourselves to? A generation of children, who exhibit the battery-farm-chicken need to consume and put on weight, whilst growing exponentially; sounds bad. A massive class action would follow, and the big business would become a big liability. Personally though, I think creating a meaningful causal link to GM food is unlikely to be plausible until our understanding of GM is much more advanced. However, existing liability cases are common. These cases focus on matters of disclosure rather than health. They also focus on the business impact on the supply chain of such failed disclosures[9].

Replaceable parts

I was merrily driving to visit my aunt when the world went black. Although I tried to brake and pull over, it was in that moment of blackness that I hit the other car. Since then my vision has returned, but everything is upside down. These ocular implants are amazing, but at times they drive me crazy!

There has been some amazing development in prosthetics and other replaceable parts in the last decade. Second Sight, for example, is a company that sells artificial retinas which assist people suffering from a rare disease called retinitis pigmentosa[10]. Cochlear (ear) and ocular (eye) implants have become increasingly advanced. It is not implausible that within the next few years a greater portion of the population, especially (but not exclusively) the elderly population will be using replaceable parts – manufactured or grown in a lab. Currently implants are not uncommon and already we have various technologies (such as the pacemaker). It is not a question of if replaceable parts will become common place, but when and how quickly. Furthermore, there are questions of functionality, from cosmetic replacements to fully functional replacements. Regarding vision, for example, most prosthetic eyes are cosmetic at present – but significant breakthroughs have recently seen partial sight "restored to six blind people through an implant

[4] https://en.wikipedia.org/wiki/Projections_of_population_growth

[5] https://www.livescience.com/16493-people-planet-earth-support.html

[6] https://dealsonhealth.net/blog/vegetarian-statistics/ and https://wtvox.com/sustainable-living/2019-the-world-of-vegan-but-how-many-vegans-are-in-the-world/ both suggest that vegetarians are approximately 8% of the world population.

[7] No pun intended

[8] For clarity, I mean genetic manipulation in a lab, as mentioned above we have been indirectly manipulating genes since our earliest days through animal husbandry.

[9] The Syngenta case is a good example of this: https://www.producer.com/daily/syngenta-agrees-to-settle-gmo-corn-litigation/

[10] https://www.technologyreview.com/2020/02/06/844908/a-new-implant-for-blind-people-jacks-directly-into-the-brain/

which transmits video images from a camera directly to the brain[11]." And sitting somewhere in the middle are glasses and contact lenses, which are the baby steps toward full blown replacements.

For insurers this could represent a new asset class to insure. Prosthetics are not cheap – the Jordan Thomas Foundation suggest that "for an eight-year old child with limb loss who needs to replace their prosthetic limb every two years until age 18" this could cost between $21,000 and $300,000. With our current life expectancy of approximately 70 years and up to 85 years in a country like Japan[12], the proportion of the population living with prosthetics is likely to continue to increase. It is not implausible that your single largest asset in the shared economy of the future will not be your home (which you rent) or your car (which you also rent), but your artificial eyes, hips, ears and nose.

To the extent that these are commonplace in the next few decades this will also impact factors like morbidity and longevity. An obvious benefit is being able to return to work following an accident because of prosthetics. This would result in reduced morbidity costs for insurers. It is also easy to imagine insurers partnering with these replaceable parts vendors to assist in getting people back to work for both the moral reasons as well as the potential impact on the bottom line. Less direct impacts include quality of life, functionality and experience in old age, which, all things being equal, would probably reduce mortality rates. The impact on life insurance will be significant.

And lastly, to the extent that these implants lead to accidents or fail catastrophically – this could increase corporate liability. If a million people's connected eyes rebooted simultaneously, the impact could be horrendous.

Nanotech

"By 2100, our destiny is to become like the gods we once worshipped and feared. But our tools will not be magic wands and potions but the science of computers, nanotechnology, artificial intelligence, biotechnology, and most of all, quantum theory."
Michio Kaku[13]

Unfortunately, quantum theory is beyond my simple brain's comprehension, but nanotechnology makes sense to me. *Nanotechnology is the idea that we can create devices and machines all the way down to the nanometer scale, which is a billionth of a meter, about half the width of a human DNA molecule.*"[14] The idea of building small has big applications. The ability to construct materials at the nanoscale could lead to lighter, more durable and self-repairing materials. Micro-sensors have endless medical, security and criminal applications. Small machines (nanobots) travelling through our blood stream eating up cholesterol and cancers would revolutionise medicine and significantly extend human life[15].
That is all roses, until those nanobots start eating your lung tissue leading to internal haemorrhaging and death or inhaled nanofibers pass straight through the blood brain barrier[16] and into your neural system leading to neural damage. The worst case, from a science fiction point of view, is self-replicating nanobots that go viral and consume everything. This is an industry that is currently unregulated and so the potential for risky outcomes is significant. Liability is the most obvious insurance risk.

However, nanobots create some great opportunities for better medical underwriting through much more detailed risk assessment (i.e. underwriting being performed by the little machines in your blood). As mentioned above these nanobots could also be used to consume cholesterol or identify cancers, with a consequent increase in longevity. This could also take wearable devices and telematics to the next (and much smaller) level, by promoting these nanobots to reduce premiums.

Better, stronger and more durable nanomaterials could both increase claims costs (as they will be expensive), but also reduce mortality and morbidity as a result of accidents. One nanomaterial concept that is particularly exciting is the self-repairing nanomaterial that would auto correct to its original shape reducing the need for dent and scratch repair in damaged vehicles.

The biggest risk of nanotechnology is that we do indeed become like the gods we once worshipped and feared. It is obvious that we are not morally mature enough as a species to be gods… and most of those gods were petty, egotistical maniacs anyway.

[11] https://www.independent.co.uk/news/science/blindness-cure-brain-implant-vision-camera-technology experiment-a9003386.html
[12] https://www.cbsnews.com/pictures/who-lives-longest-cias-top-20-nations-for-life-expectancy/22/
[13] https://www.azquotes.com/quotes/topics/nanotechnology.html
[14] This guy just explained it so much better than I ever could: Paul Mceun on https://www.azquotes.com quotes/topics/nanotechnology.html
[15] given that 31.8% of deaths are from cardiovascular diseases and 17.08% from cancer – see my irreverent article from last year on death – correlates with death and other morbid statistics
[16] Some people believe nanoparticles could pass through the blood brain barrier, which seems plausible given their size. https://www.ohsrep.org.au/nanotechnology_-_a_new_hazard

Wayward drones

Commercial drones can travel at up to 100 mph and deliver goods under 2.3 kg… and… potentially each trip could occur at a low cost of $1 per shipment.[17]

The idea of drones zipping around delivering things in minutes of them being ordered online is awesome. It is also around the corner. Major players like Amazon and UPS are investing heavily in this market. Currently the bikes and delivery vehicles used by these companies are insured. In a few years these assets might well be replaced by drones, which themselves would require insurance. Goods in transit will take on a new meaning with shorter delivery times and multiple varied deliveries in one day. From a R100 second-hand paper back to a R73,000 Glenfiddich 26-year-old case of whiskey - the need for journey specific intelligent insurance is clear. Furthermore, the surveillance data from these drones could be fed back into the smart city information systems to help manage congestion or reduce crime. Refer to our article: How will the evolution of smart cities impact the insurance industry?

However, in an unregulated market this could quickly lead to crashes in people's homes and into people, air crashes (with other devices or aeroplanes) and air traffic interference. Worse still, the possibility that whilst flying around these devices are monitoring your homes and houses, life activities and state of security. We've seen recently how states can quickly turn on companies accused of spying for foreign powers (Huawei 5G[18] sanctions, TikTok pressure in the US[19] etc.) so it is also not implausible that this drone industry could be culled overnight by state actors. Also, minor glitches in the delivery cue could see alcohol dropped in the lap of an alcoholic, a book on dating delivered to a happy housewife and adult content dropped off for the kids.

Space exploration

"What have you planned for the honeymoon?"
"I'm taking the Mrs to Mars – she is such an off-world junkie."

In the three months prior to writing this article, three separate nations launched missions to Mars: the Chinese Tianwen-1 (lander, orbiter and rover); the United Arab Emirates Hope orbiter; and the USA's Mars Perseverance rover[20]. Add to this the ongoing successes of SpaceX. SpaceX is a privately-owned enterprise that has taken astronauts to the International Space Station[21], aims to launch space tourism in 2021[22] and has, as one of its strategic goals, "to revolutionize space transportation, with the ultimate goal of making life multiplanetary."

In this context, the new frontier is opening up. It is likely that before 2050 there will be permanent establishments on the moon or Mars. Furthermore, space tourism will become a new market for the new rich. Whilst concentrated to a niche market and governments at this point, it is likely that privatisation of ownership and consumption will occur in the next few decades. For insurers this creates some expensive property risks to be covered. And the travel insurance options would be quite significant (and expensive). Not to mention business interruption risks.

To give some context, the cost of launching a small satellite (446 kgs being small for a satellite) into a low orbit is approximately $13.5 million. This scales quickly to hundreds of millions to launch individuals and heavy equipment[23]. In 2018 the rocket insurance industry collected $450 million in premium but paid $600 million in claims[24]. Not a great claims experience. That said, all insurance must start somewhere. As the rate and frequency of launches increases, so the statistics and risk criteria will become better understood to allow for more realistic underwriting. Whilst scary, volatile and hard to predict, to be honest, I would be more scared of dealing with the disappointed married couple whose honeymoon to Mars has just been cancelled.

Business interrupted

Sorry I couldn't make the call. My signal dropped.

In a brave new world of remote working and cloud computing, continuity of access to meaningful connectivity is essential. Unfortunately, various factors, notably corruption, cable theft, storms and floods like to get in the way. Combine this with cyber security issues, cyber terrorism and more storms and floods as the climate changes; and the remote working dream can become a remote working nightmare. Whilst businesses have adapted in the short-term to the Covid-19 strain of working from home, many sources indicate that working from home increases cyber-

[17] https://www.businessinsider.com/amazon-and-ups-are-betting-big-on-drone-delivery-2018-3?IR=T
[18] https://www.ndtv.com/world-news/us-expands-sanctions-adds-38-affiliates-of-chinas-huawei-to-entity list-2280907
[19] https://www.forbes.com/sites/bobbyowsinski/2020/07/08/tiktok-depend-on-social-networks/#5ff4d7921ad6
[20] China's successful launch of Mars mission seals global era in deep-space exploration https://www.nature com/articles/d41586-020-02187-7
[21] https://www.theverge.com/21354742/nasa-spacex-crew-dragon-bob-behnken-doug-hurley-return
[22] https://www.space.com/spacex-demo-2-success-space-tourism.html
[23] https://science.howstuffworks.com/satellite10.htm
[24] https://observer.com/2019/09/space-insurance-rocket-satellite-industry-analysis/

risk significantly[25]. Add to that the joys of power interruption, cell phone towers going down (literally or figuratively) and increased extreme weather and we have an insurance proposition. Remote working business interruption insurance. This could be in the form of temporary solutions to recurring problems, such as mobile Wi-Fi delivery. Much like car hire, the offering of a remote working solution on the happening of a remote working event, could be useful especially with the distributed home-work force of the future.

Big Bad Data

Step aside Avengers, Big Data is here. Big Data will save the world.

Not surprisingly, I searched "big data will save the world" and google returned thousands of articles many of which literally claim that big data can save the world:

- *How big data can help save the world*
- *How big data will save the world*
- *How big data can help save the earth*
- *10 big data & AI projects that could save our planet*

Whilst I am a big fan of big data, I do think there is, perhaps, a bit of poetic licence applied in these titles. I am also aware that for every Superman there must be a Lex Luthor, for every Spiderman a Green Goblin and for the Avenger, an Ultron.[26] Who is protecting us from poor decisions based on Big Bad Data?

Most worrying for me is how Big Data could leverage the echo-chamber that is social media to make what was a trend a reality. GPS data indicates that traffic is piling up at an intersection. We respond by sending drones and tow trucks and ambulances that add to the traffic and make what was simply a drunk man stumbling across the street into a genuine traffic mess. An unpresidential person decides to run for president. A bunch of his less astute friends start tweeting about this and "liking" it. A clever media algorithm picks up this new trend and to get ahead recommends an article. This article feeds into the other media houses algorithms and the snowball starts. You know where this ends right…

For insurers the impacts are various: poor pricing decisions based on poor data are as old as the industry; operational decisions based on random anomalies could waste hours of time and effort; reactive deployment of resources based on tentative data could waste huge amounts of resources.

My biggest concern with big data is our tendency to confuse correlation for causation and impose our wants on trends. Let's just be sure we are inviting the hero into the office rather than the villain.

Conclusion

The future looks bright and scary, like an atomic explosion. As always advancement comes with risks. The management of these risks through insurance appears to be a necessity for the foreseeable future. Insurers might need to adapt models and methods of delivery and form strategic partnerships to manage this uncertain future, but there is downside and that downside needs to be appropriately insured if we are to weather the storm of the coming century.

[25] https://www.entrepreneur.com/article/348346

[26] Random comics all over the place and on my kids' t-shirts

Insuretech

Insurers are now embracing the benefits of emerging technologies to engage with customers, design appropriate products as well as provide superior customer service. This has been accelerated with the realisation that most insurtechs are not direct competitors and, indeed, are technology providers with cutting edge solutions that enable the twin aims of lower costs and better service.

KPMG's Matchi platform enables insurers to navigate the universe of insurtechs who can solve business problems either by identifying best of class technology providers or developing bespoke solutions.

In our database of in excess of 7 500 technology solutions, we have curated solution providers that enable insurers to improve their offerings in several ways:

- Automation: 350 innovators that can assist with improved processes like document workflows to call centre automation;
- Internet of Things: 108 tech companies that can collect data from sensors to enable quicker detection of fraudulent claims;
- Cloud: 936 cloud-based providers that enable solutions without on-premise systems; and
- Data analytics: 762 technology providers that are able to analyse data for fraud detection to call centre voice analysis of complaints.

For more information please contact:

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

Freda Gray
Senior Manager
Emerging Technology
T: +27 60 997 7175
E: freda.gray@kpmg.co.za

Esther Pieterse

Associate Director
Technical insurance accounting
Tel: +27 82 719 5806
Email: esther.pieterse@kpmg.co.za

The IFRS 17 voyage in 2020 ...

"Man cannot discover new oceans unless he has the courage to lose sight of the shore" - André Gide (1869-1951).

Bartolomeu Dias, a Portuguese explorer, lived four centuries before André Gide and must have used a similar quote when he discovered Africa - perhaps it was: "Man cannot discover Africa, unless he has the courage and does not lose sight of the south-easterly winds."

In 1488, Bartolomeu Dias (1450-1500) became the first European mariner to round the southern tip of Africa, opening the way for a sea route from Europe to Asia. Dias' ships rounded the Cape of Good Hope and then sailed around Africa's southernmost point, Cabo das Agulhas, to enter the waters of the Indian Ocean. In early January 1488, as Dias' two ships sailed off the coast of South Africa, storms blew them away from the coast. It is believed that Dias ordered a turn to the south of about 28 degrees, probably because he had prior knowledge of south-easterly winds that would take him around the tip of Africa. This kept his ships from being dashed on the notoriously rocky shoreline. The crew spotted landfall on February 3, 1488, about 300 miles east of present-day Cape of Good Hope[1].

What do Bartolomeu Dias living in the 15th century and today's insurers living in the 21st century have in common?

Insurers are also taking on an adventurous journey which will hopefully bring them to their destination before 2023. Although insurers do not have to deal with south-easterly winds, they have to deal with the challenges of an IFRS 17 implementation and also the amendments to IFRS 17 that were published in June this year.

We would like to help insurers determine whether they have taken the right degree of turn in their IFRS 17 programme to deal with the key amendments.

Policyholder taxes

In South Africa the trustee principle is applied when taxing policyholder income that is accounted for in the applicable policyholder fund of a life insurer. Insurers are deemed to hold and administer certain assets on behalf of various categories of policyholders while the balance of the assets represent shareholders' equity.

IFRS 17.B66(f) was amended to state that fulfilment cash flows do not include income tax payments and receipts:

- which the insurer does not pay or receive in a fiduciary capacity to meet tax obligations incurred by the policyholder; or
- that are not specifically chargeable to the policyholder under the terms of the contract.

Based on the amended IFRS 17.B124, the amounts chargeable to policyholders are included in insurance revenue.

How does this impact South African life insurers?

South African insurers are currently exploring whether income tax payments and receipts are specifically chargeable to the policyholders and whether this ability to charge is reflected in the terms of the contract. Generally, a policyholder is charged for income tax on products where the policyholder receives an investment return based on underlying assets.

The question is whether it solves the concern of insurers that the contractual service margin (CSM) would be overstated if the tax cash outflows are not included in fulfilment cash flows of an insurance contract. Perhaps it is not solving the problem to the extent insurers were hoping.

We will illustrate it by way of an example.

Example

The expected policyholders' share of the investment return earned on underlying items is R1 000. The policyholder tax rate is 28%. Charges of R280 will be specifically charged to the policyholders in respect of this investment return.

[1] https://www.history.com/topics/exploration/bartolomeu-dias

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The company also has R300 of expenses and obtains tax relief of R84. This tax relief is not credited to the policyholders. The payment to the Receiver of Revenue is for the net amount of R196 (R280 – R84).

Which amounts are included in fulfilment cash flows?

Should R280 or the R196 be included in the fulfilment cash flows?

Staff Paper AP2F discussed at the February 2020 International Accounting Standards Board ("IASB") meeting noted that by accepting a charge that is specifically charged to the policyholder under the terms of the contract, the policyholder bears all the risks associated with those costs, and the entity none. No profit would arise for the entity because cash outflows (income tax payments to the tax authority) would always result in equal cash inflows (reimbursement of income tax charged to a policyholder).

Based on the above it seems that R280 should be included in the fulfilment cash flows, i.e. equal to the amount specifically chargeable to the policyholder. The tax relief of R84 is not passed on to the policyholders and will be reflected in the income tax line item in the income statement of the insurer.

What is included in revenue?

The insurer should recognise insurance revenue for the consideration paid by the policyholder for such income tax amounts (i.e. R280) when the insurer recognises in profit or loss the income tax amounts.

Is a turn required in the IFRS 17 programme?

✓	Systems have to be geared to deal with the amounts charged to policyholders as inflows and tax payable by the insurer as outflows.
✓	Stakeholders have to be educated that the insurance revenue includes the amounts charged to policyholders. However, the tax paid/payable to the insurer is reflected in the income tax line of the statement of profit or loss and not as an insurance service expense. This will inflate the insurance service result by the amount charged by the policyholders.

[2] IFRS 17.B137

Interim reporting

The amended IFRS 17 requires an entity that prepares interim financial statements applying IAS 34 *Interim Financial Reporting,* to make an accounting policy choice as to whether to change the treatment of accounting estimates made in previous interim financial statements when applying IFRS 17 in subsequent interim financial statements and in the annual reporting period. The entity has to elect either to:

- change accounting estimates in subsequent interim periods (year-to-date approach); or
- not to change accounting estimates in subsequent interim periods (period-to-period approach).

The entity has to apply its choice of accounting policy to all groups of insurance contracts it issues and groups of reinsurance contracts it holds[2].

Example

- Entity A and B both issue quarterly financial statements. Entity C only issues annual financial statements. Entity A chooses to apply period-to period measurement, Entity B chooses to apply year-to-date measurement.
- Each entity has an opening CSM of R50 and expects even release over a 2-year period (i.e. 8 quarters).
- In Q4 the entities expect an additional R30 of claims to be incurred in year 2 and so adjust the CSM accordingly.

The table below shows the impact of the different accounting approaches (all amounts are in Rands):

CSM recognised in profit or loss	Q1	Q2	Q3	Q4	Year 1	Remaining CSM
Entity A – period-to-period	6.25[1]	6.25	6.25	0.25[2]	19[3]	1[4]
Entity B – year-to-date	6.25	6.25	6.25	(8.75)[5]	10[6]	10
Entity C – annual reporting only					10[7]	10

1	50 / 8 quarters
2	(50 – (3 quarters x 6.25) – 30) / 5 quarters
3	(3 quarters x 6.25) + 0.25
4	50 – (3 quarters x 6.25) – 30 – 0.25
5	(50 – 30)/2 years - (3 quarters x 6.25)
6	50 – 30 - (3 quarters x 6.25) + 8.75
7	(50 – 30)/2 years

From the above it is evident that the results of entity A and B are significantly different. Entity A treats each quarterly period as a separate reporting period and does not do a "true-up" of the CSM at the end of the year. Entity B applies the year-to-date approach and therefore has the same CSM at the end of the year as Entity C that only does annual reporting.

Is a turn required in the IFRS 17 programme?

✓

Accounting policy choice required

- *Entities electing to change accounting estimates (year-to-date approach)*
  The system should be able to account for changes in accounting estimates. A true-up adjustment may be required in subsequent interim periods and the annual reporting period.
- *Entities electing not to change accounting estimates (period-to-period approach)*
  Potential difficulties may arise in explaining results in the current period. In the case of significant changes in assumptions, additional disclosures for subsequent interim periods may be required under IAS 34.

✓

What about a group of companies?

IAS 34 applies to entities that are required or elect to publish an interim financial report in terms of IFRS[3].

If a listed holding company elects a period-to-period approach, it is able to do this as it is presenting interim financial reports in terms of IAS 34.

However, the subsidiaries of the holding company that are not listed and that do not elect to do interim financial statements, will be required to do year-to-date reporting. This would mean that on consolidation, pro-forma adjustments will be required to the subsidiaries' financial information to align it with the accounting policy applied in the consolidated financial statements of the holding company.

To avoid this, it may be more appropriate for the holding company to also elect year-to-date reporting.

Insurance acquisition cash flows

An entity should recognise, based on the amended IFRS 17, an asset for any insurance acquisition cash flows relating to a group of existing or future insurance contracts that it pays or incurs a liability to pay before the group is recognised. These assets and liabilities are derecognised when the group of insurance contracts to which the cash flows are allocated is recognised, as part of determining the CSM on initial recognition.

For contracts to which the premium allocation approach is applied, the asset or liability is included in the liability for remaining coverage of the related group of contracts. However, an entity is not required to recognise an asset if it applies the premium allocation approach and chooses to expense the insurance acquisition cash flows for contracts with a coverage period of one year or less.

An entity applies a systematic and rational method to include insurance acquisition cash flows in the measurement of groups:

- if they are directly attributable to a group[4] of contracts, then it allocates them to that group and to the groups that will include insurance contracts that are expected to arise from renewals of the insurance contracts in that group; and
- if they are directly attributable to a portfolio[5] of contracts, but not to a group of contracts or individual contracts, then it allocates them to existing and future groups within that portfolio.

3 IAS 34.1

4 A set of insurance contracts resulting from the division of a portfolio of insurance contracts into, at a minimum, contracts issued within a period of no longer than one year and that, at initial recognition:
(a) are onerous, if any;
(b) have no significant possibility of becoming onerous subsequently, if any; or
(c) do not fall into either (a) or (b), if any.

5 Portfolio is insurance contracts subject to similar risks and managed together

At each reporting date, an entity revises the amounts of insurance acquisition cash flows allocated to groups of insurance contracts to reflect any changes in assumptions that determine the inputs to the method of allocation used.

An entity does not change the amounts allocated to a group of insurance contracts once all contracts have been added to the group. An entity might add insurance contracts to a group of insurance contracts across more than one reporting period. In those circumstances, an entity shall derecognise the portion of an asset for insurance acquisition cash flows that relates to insurance contracts added to the group in that period and continue to recognise an asset for insurance acquisition cash flows to the extent that the asset relates to insurance contracts expected to be added to the group in a future reporting period.

Example

	Year 1 Group 1 – initial contracts	**Year 2** Group 2 – expected renewals	**Year 3** Group 3 – expected renewals	**Total**
Asset at the beginning of year 1	R20	R7	R3	**R30**

Previously the entity would have recognised the R30 as part the group of initial contracts which could have made the group onerous.

In Year 1, the entity derecognises the asset of R20 and includes the cash flows in the measurement of Group 1. At the end of Year 1, the entity changes the renewal assumptions for the remaining years and so reallocates the assets to reflect this. Therefore, at the end of Year 1, the carrying amount of the insurance acquisition cash flows, based on the revised renewal assumptions, is:

	Year 1 Group 1 – initial contracts	**Year 2** Group 2 – expected renewals	**Year 3** Group 3 – expected renewals	**Total**
Asset at the beginning of year 2 (end of year 1)		R5	R5	**R10**

The entity estimates the following cash flows (based on current information available):

Expected net cash inflows	**Year 2: Group 2** **R**	**Year 3: Group 3** **R**
Expected renewals	5	4
Other than renewals	3	3
Total expected net cash inflows	**8**	**7**

At each reporting date (in this case at the end of year 1), if facts and circumstances indicate that an asset arising from insurance acquisition cash flows may be impaired, then an entity should do an impairment test.

First impairment test (group level impairment test): The entity recognises an impairment loss so that the carrying amount of each asset does not exceed the expected net cash inflow for the related group.

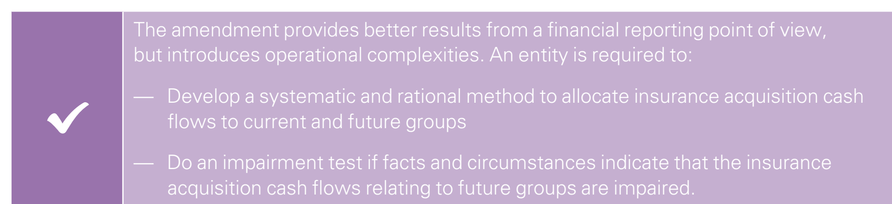
First impairment test	**Year 2: Group 2**	**Year 3: Group 3**
Asset	5	5
Total expected net cash inflows	8	7
Impairment	-	-

Second impairment test: If the asset relates to groups that are expected to arise from renewals of insurance contracts in a group, the entity recognises an impairment loss to the extent that:

- it expects the asset recognised for insurance acquisition cash flows to exceed the net cash inflow for the expected renewals; and
- the excess has not already been recognised as an impairment loss under the first impairment test.

Second impairment test specific to expected renewals	Year 2: Group 2 R	Year 3: Group 3 R	Total R
Amount of insurance acquisition cash flows allocated to expected renewals	5	5	10
Expected new cash inflows for expected renewals	5	4	9
Impairment	-	**(1)**	**(1)**

Is a turn required in the IFRS 17 programme?



The amendment provides better results from a financial reporting point of view, but introduces operational complexities. An entity is required to:

- Develop a systematic and rational method to allocate insurance acquisition cash flows to current and future groups
- Do an impairment test if facts and circumstances indicate that the insurance acquisition cash flows relating to future groups are impaired.

Reinsurance contracts covering onerous contracts

In terms of the amendment to IFRS 17, an insurer is required to recognise losses on underlying insurance contracts on initial recognition. At the same time a gain is recognised in profit or loss on reinsurance contracts held.

This applies when reinsurance contracts are entered into before or at the same time as the onerous underlying contracts are issued and also applies to all types of reinsurance contracts.

An entity shall determine the adjustment to the CSM of a group of reinsurance contracts held and the resulting income by multiplying:

- the loss recognised on the underlying insurance contracts; and
- the percentage of claims on the underlying insurance contracts the entity expects to recover from the group of reinsurance contracts held.

Example

Insurance contracts issued	R	Reinsurance contracts held	R
Premiums	100	Reinsurance premiums	(125)
Claims	(150)	Claim recoveries (80%)	120
Loss (recognised on day 1)	(50)	Net cost	(5)

The amendment applies to reinsurance contracts entered into before or at the same time as the underlying insurance contracts.

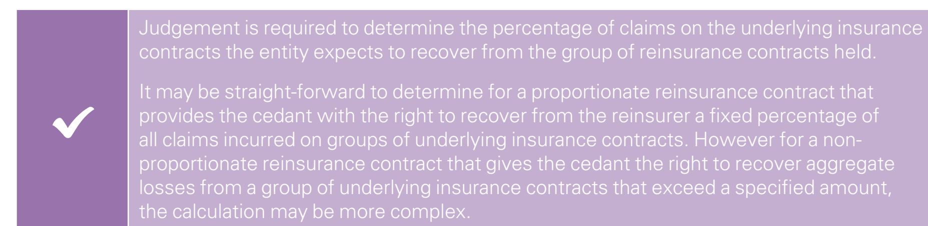
Reinsurance contracts held: How net cost is recognised	Recognised on day 1	Recognised over time	Total
Before amendment	-	(5)	(5)
After amendment	40	(45)[1]	(5)

[1] - 5 - 40

After the amendment the loss of R50 on the onerous contracts are treated as an early recognition of a portion of the claims of R150.

The loss recovery of R40 (loss of R50 x 80% reinsurance cover) is treated as an early recognition of claim recoveries from the reinsurance contracts.

Is a turn required in the IFRS 17 programme?



Judgement is required to determine the percentage of claims on the underlying insurance contracts the entity expects to recover from the group of reinsurance contracts held.

It may be straight-forward to determine for a proportionate reinsurance contract that provides the cedant with the right to recover from the reinsurer a fixed percentage of all claims incurred on groups of underlying insurance contracts. However for a non-proportionate reinsurance contract that gives the cedant the right to recover aggregate losses from a group of underlying insurance contracts that exceed a specified amount, the calculation may be more complex.

How to continue the IFRS 17 voyage in 2020?

Bartolomeu Dias needed courage to discover Africa. Insurers in the 21st century also need courage to make a success of the IFRS 17 programme and to meet the deadline which is for year-ends commencing on or after 1 January 2023.

KPMG IFRS 17 accelerators

E-learning

Our eLearning solution consists of 11 modules, explaining IFRS 17 in an engaging and high-quality animation form.

The eLearning solution can be hosted on your learning management system or through KPMG.

IFRS 17 testing application

KPMG's suite of IFRS 17 accelerators includes a tool that is designed to calculate the Contractual Service Margin (CSM).

The tool can be used to generate the CSM for financial reporting purposes or as a second analysis to support existing CSM calculations.

For more information please contact:

Esther Pieterse
Associate Director
Insurance Technical Accounting
T: +27 82 719 5806
E: esther.pieterse@kpmg.co.za

Jaco van Staden
Associate Director
Actuarial
T: +27 66 398 7023
E: jaco.vanstaden@kpmg.co.za

Nishen Bikhani
Partner
Insurance
T: +27 60 720 4937
E: nishen.bikhani@kpmg.co.za

Alex Kuhnast

Associate Director
Life insurance actuarial specialist
Tel: +27 60 970 1341
Email: alex.kuhnast@kpmg.co.za

Is the funeral insurance market in South Africa primed for disruption?

Funeral insurance is the most popular insurance cover in South Africa as per the December 2019 ASISA Life statistics.

The high number of funeral insurance related complaints recorded by the Long-Term Insurance and FAIS Ombudsmen as well as comparatively high premium rates, low claim ratios and high expense ratios indicate that the industry is potentially ripe for disruption.

The banking sector in South Africa has seen significant innovation over time, most notably with the entry of Capitec Bank, and more recently with a number of new entrants who have been gaining traction. However, similar innovative success has not been observed in the insurance sector.

There have been numerous attempts to capitalise on the perceived shortcomings in the industry, but as yet, there is still very little disruption of the traditional players. Success in the formalised sector of the market is predominantly driven through distribution and the ability to source and close a sale. It is apparent that there should be ample potential for innovation to drive success in this market, but what are the challenges and why have new entrants failed to gain the desired scale?

Some areas of inefficiency within the market that could be addressed by innovation

Price of funeral policies: the ultimate price/premium paid by policyholders is relatively high when compared to the prices per cover level offered for other forms of life insurance. This can be attributed partly to the lack of up-front medical underwriting and individual risk assessment, but given the relatively low claim pay-out ratios, the mortality risk often does not account for the bulk of the premium cost. Expenses (including distribution related marketing, commission and face-to-face selling related costs) commonly make up a large proportion of the ultimate premium paid. Where an intermediary is involved, these layers of costs often outstrip the cost of underlying risk cover significantly. It is also widely accepted that advisors (even where indicated as independent) often sell policies influenced by the amount of commission they receive, as opposed to true underlying customer need. This leads to the next observation.

Addressing the needs of policyholders: the reality in South Africa is that many policyholders do not possess a strong understanding of financial and insurance industry terminology. Thus, even for what should be relatively simple products, many customers struggle to fully understand the terms and conditions of these policies. This is reflected in the high number of funeral insurance related complaints. The continued relevance of traditional burial societies[1] can further indicate that there is still somewhat of a mismatch between products offered in the market and underlying client needs. Product and documentation complexity, as well as insufficient transparency lead to lowered levels of trust between providers and customers.

Time-consuming and frustrating processes: a commonly recognised pain-point in the insurance sector customer experience, is the sub-optimal processes.

These are often encountered at:

- the initial sales stage,
- policy revision or alteration stage, and
- the claim submission stage.

[1] As evidenced by FinScope South Africa 2016 and FinScope South Africa Consumer 2018 Results Factsheet

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Even in the relatively simplified funeral insurance space, where the claim events should be straight forward to verify, the processes still often take undue time and require numerous interactions between policyholders, beneficiaries and other involved parties. The beneficiaries' frustrating experience of the claims process and poor understanding of associated claims assessment outcomes lead to many of the complaints lodged.

Lack of automation: a large factor contributing to relatively higher expenses and poorer customer experiences in comparison to other life insurance products, is often the heavy reliance still placed on manual and paper processes feeding into outdated legacy systems. Manual processes hinder scalability and contribute to poor quality and limited data. This in turn limits the ability of the insurer to use the data to analyse and understand the features of their portfolio. Lack of automation often contributes to high per policy expenses and dampens the potential for increased scale to further reduce per policy expenses. Direct expenses incurred in premium collection, policy document distribution, claims notification and verification are elevated. The lack of automation also results in increases in other operational expenses such as market research and advertising, labour related costs and physical materials.

Lack of automation can result in increased vulnerability to fraudulent claims practices through a reduced ability to spot irregular or suspicious activity or implement effective controls on a large book of business.

Lack of level playing field and high compliance costs: due to the historic prevalence of undesirable industry practices, compliance requirements have been increased and strengthened over time. Some of these industry practices are described later in this article.

The cost of compliance also often increases as incremental manual processes are bolted onto existing processes in order to address identified compliance inadequacies.

Much of the wider funeral insurance market in South Africa still operates outside of the regulated insurer space via burial societies and illegal providers of insurance policies[2]. These high compliance costs are only carried by regulated parties, placing an additional cost burden on them in comparison to those operating outside of the regulations.

Even within the regulated space, there is, however a disparity in the levels of adherence (and costs) applied by market participants. Without strict and punitive enforcement of the regulations, the high additional costs associated with compliance will remain a barrier to wider adoption of these requirements and continue to result in an unlevel playing field and continued market abuses that resulted in their implementation in the first place.

Potential ways to address these inefficiencies

All the aforementioned areas present opportunities for funeral insurance providers to gain potential advantage over competitors. In an attempt to address some of these inefficiencies, we have seen some innovation and evolution within the market, much of which is driven by digitalisation and automation.

New entrants have the advantage of not being tied to legacy systems and benefit from new and improved

[2] - The nature of informality in the South African funeral services market – implications for policymakers and regulators, Cenfri, June 2013
- Cutting corners at a most vulnerable time, Prepared for FinMark Trust by Cenfri, March 2016.
FinScope SA 2018 Fact Sheet, Fin Mark Trust, Jan 2019, [http://finmark.org.za/wp-content/uploads/2019/01/FMT_Fsc_Leavebehind_CB4.pdf]

technology whilst designing their processes, allowing for more and higher quality data collection, often with reduced collection effort. By employing a range of technological solutions some insurers and intermediaries have been able to reduce the expense loadings associated with their products and thus offer more competitive premiums. There is an opportunity to employ new technologies to facilitate an improved client experience at multiple touch points.

- **Marketing:** by making use of a more thorough dataset to better understand the specific needs of potential customers, marketing messages can be better tailored and delivered to specific target groups at lower costs.
- **Distribution and policy administration:** those who adopt updated distribution and sales technology will potentially have flexibility to change offerings quickly, have the ability to write and attribute policies in real time including immediate issuing of policy certification and be able to gamify and engage sales agents or even policyholders.

  Premium collection and deposits can be facilitated more cost-effectively and compliantly, whilst also reducing claims fraud and theft of cash in comparison to lower tech alternatives. Policy alterations can be more easily facilitated through live technology with direct ties into the insurer's administration system.

  Digital distribution methods seem an obvious solution to reduce the distribution costs associated with the current highly intermediated and in-person distribution. These could be a means to reduce fraud, compliance and conduct risks. The traditional funeral insurance target market, however, generally remains apprehensive to adopt such channels and take-up tends to remain low. This is particularly the case where the insurance providers have not strongly associated themselves with an established brand with strong existing trust relationships. Mobile network operators have often been targeted by insurers as the ideal partner. Some success has been achieved through such ventures internationally (e.g. via Tigo in Ghana, Tanzania and Senegal and Telenor in Pakistan), but to date providers have not been able to replicate this with good returns locally.
- **Claims administration:** in the case of funeral insurance, the claim event is easily defined. As such, one would expect the claims process to flow smoothly and quickly. An automatic claim process where the policyholder or beneficiary does not need to initiate their claim, but the claim is automatically triggered upon the occurrence of the insured event seems well within our reach. Such a step would result in improved trust of the insurance industry and should enhance the brand of any provider that could offer this. The improvement in the claim submission experience would be significant if nearly instantaneous claim pay-out could be achieved and the negative experience of obtaining and submitting claim documentation whilst in a traumatised state of grief could be avoided.

  Some examples of proactive claims processes have already started to be seen in the South African market facilitated through links to Department of Home Affairs databases. Unfortunately, mass adoption by providers of such solutions or alternatives has been slow.
- **Proactive claims reduction methods:** South Africa, for example through Discovery and its Vitality programme, is widely recognised as being a ground breaker in the implementation of behaviour changing shared value rewards programmes, which are proactive in reducing insurance claim events.

  The principles underpinning such approaches could potentially also be applied to the funeral insurance sector, albeit in a simplified manner. There is potentially scope to drive wider societal benefits and enhance industry trust whilst also potentially reducing claims statistics. As yet, however, such principles have not been successfully and broadly extended into the lower income funeral insurance market.

  Simple interventions and rewards for positive behaviour, targeting a reduction in loss of life related to a variety of underlying claim causes such as non-compliance to drug protocols, protection from extreme weather or fire exposure, water safety, etc. would benefit society, enhance industry trust and reduce claims costs.
- **Product design:** many providers have sought ways of redesigning their products to better suit their clients' needs or encourage certain improved payment behaviours. A range of additional rider or ancillary benefits are made available to policyholders to bridge the gaps between the services offered by more traditional burial societies and the local community. Such services include elective premium holidays, cash back or survival benefits. At the claims stage these might include; delivery of livestock, grocery vouchers, tombstone and unveiling benefits or pay-outs, transportation of the deceased and transportation of family members.

Many of these digitally driven solutions may however rely on the target market being actively engaged in or trusting of newer digital technologies via an affordable platform. Admittedly this is not always the case, especially amongst older policyholders, who still account for a sizeable proportion of the market.

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Compliance, consumer trust and addressing market abuses

Many of the above-mentioned innovations would not only address customer needs or reduce provider expenses but would also address the requirements of many of the newer or impending compliance regulations.

There is evidence suggesting that compliance risks and market abuses tend to increase as the service provision becomes increasingly removed from the responsible insurer. Within the regulated space, some of the compliance breaches observed in the intermediated (including funeral parlours, external call centres, retailers and administrators acting in their capacity as juristic representatives or white label Financial Service Providers) space include:

- Lack of disclosure to policyholders of (sometimes excessive) commissions paid to intermediaries, or in many cases added to the premium by the intermediary themselves
- Lack of transparency regarding the ultimate underwriter on white labelled policies
- Transferring or changing of underwriting by the intermediary without policyholder consultation (often driven by favourable commission terms even on existing business) and sometimes to the detriment of the policyholders via poorer policy terms
- Premiums collected not paid directly (or at all) into the account of the insurer or Financial Service Provider
- Part of the intermediary's policy book or even portions of cover amounts not being underwritten by a registered insurer (i.e. self-insured)
- Not offering or paying out a cash benefit (or only part payment), for example where the beneficiary elects another funeral parlour to perform the burial
- Not having all policyholders' or insured lives' details on record, including policyholders' contact details (sometimes withheld by the intermediary)
- Not issuing compliant and updated policy certificates
- Inadequate pricing disciplines, inadequate control over intermediated product designs and insufficient insurer oversight of underlying products sold by intermediaries
- Attempts by intermediaries and agents to block and influence policyholders wishing to transfer their policy to another intermediary or underwriter

Gaining consumer trust

Even though we have seen attempts to be innovative and improve processes, the funeral insurance industry largely remains slow to change and prone to complaints and policyholder abuse. Where innovations have been employed to improve the client experience and offer a significantly cheaper price, many have still failed to gain strong traction and scale.

A funeral insurance policy is a trust-based product, a promise of a specified amount of future financial support paid out only after death, often of the original purchaser. South African society has grown wary of the practices promulgated by some unregulated providers, intermediaries and their perception of corporate "giants". The level of trust required for a consumer to place their money with a previously unheard of, and in the case of a digital sale, faceless provider has to date proved a barrier.

Trust is enhanced through the offering of:

- **Simplicity:** products that do not contain unnecessary features, complex terms and conditions, processes or jargon. Products and processes that meet a purpose in the simplest and most direct manner will score higher in terms of trust.
- **Transparency:** with regard to products and clear communications. Information allows for informed decisions and awareness, reducing potential disappointment.
- **Choice:** personalised offerings that enhance the feeling of the policyholder being in control and free to choose what they wish, communicate how they wish, pay how they wish etc. The more control policyholders have, the more they are likely to trust the provider.

The South African funeral insurance sector appears ripe for disruption due to the lack of cheaper and well-serviced offerings offered by a trusted provider. The innovative provider that succeeds in achieving higher and widespread consumer trust and efficient and effective distribution will likely achieve rapid scale and a prominent position in the market.

"That which does not kill us makes us stronger."
- Friedrich Nietzsche

Mohammed Ahmed

Consultant
Actuarial Practice
Tel: +27 66 391 2248
Email: mohammed.ahmed@kpmg.co.za

Larize Faber

Consultant
Actuarial Practice
Tel: +27 71 475 9289
Email: larize.faber@kpmg.co.za

Joana Abrahams

Senior Manager
Actuarial Practice
Tel: +27 82 450 1344
Email: joana.abrahams@kpmg.co.za

Testing an insurer's resilience using stress and scenario tests – a KPMG SA survey of 39 insurance entities from 2015 to 2020

A global pandemic, a plummet in the equity market and national policy changes are all factors beyond our control and which easily stir a perfect storm. Whilst the effects of this storm are far reaching, it's a poignant reminder that we're all in the same ocean but not everyone is in the same boat.

This is a metaphor that has spread rapidly during the current outbreak and is always relevant to the insurance industry. Stress and scenario testing are much like performing checks to ensure that your boat is seaworthy under extreme weather conditions and that all safety equipment is in good working condition in case a storm hits.

Within the sample we considered, only three of the sixteen ORSA reports that included scenario tests, included a pandemic scenario. The others considered the impact on mortality/morbidity alone or alongside market risk. None of these scenarios considered the far-reaching effect of cross-sectional risks that we are currently observing in the current Covid-19 pandemic: share prices decreased and volatility increased, interest rates reduced, mortality rates increased, higher claims levels for certain non-life insurance policies, increased phishing attacks, domestic currency weakness and higher forex volatility, operational challenges, lower new business volumes and payment holiday. Given that the companies did not consider all these risks occurring simultaneously, it is likely that the impact of pandemic type scenarios was significantly under-estimated. A pandemic might not make the business model unviable, but we have seen how severely it can rock the boat and truly test a business' resilience.

Shifting regulatory expectations

Prior to 1 July 2018, the Regulator prescribed a set of single factor stress tests and defined scenarios, including assumptions, for market risk and single factor stress tests for insurance risk, the results of which were to be provided within the annual regulatory return submissions. For most non-life insurers, reinsurance default presented the most severe outcomes and life insurers were generally most adversely impacted by the defined market risk scenarios.

New stress and scenario testing requirements were introduced by the new legislation (Insurance Act 18 of 2017 and supporting Prudential Standards) on 1 July 2018. The onus is now on insurance firms and board members to design an appropriate range of stress and scenario tests that reflect the risk profile of the business and test resilience of the insurer under severe but plausible circumstances.

KPMG

Observations from our benchmark

We considered a sample of nineteen ORSA reports, covering a total of 39 insurance entities from 2015 to 2020, across life and non-life licences as well as groups. We highlight below key observations from our analysis of this sample across a range of themes.

There were no consistent definitions, across the ORSA reports, of what constitutes a sensitivity test, a stress test, a scenario test and a reverse stress test. For the purposes of this article, we defined these, and our definitions are included in the Additional resources section at the end of the article.

Governance

The following prudential standards outline key regulatory expectations for stress tests, scenario tests and reverse stress tests:

- **GOI 3: Risk Management and Internal Controls**
- **GOI 3.1: ORSA**
- **GOG 1: Governance and Operational Standards for Groups**

All the above standards indicate that the ultimate responsibility for ensuring appropriate design and calibration of these tests rests with the Board. These standards state that the Board should ensure alignment to risk profile and that the resilience of the firm is tested across a range of scenarios. Globally, regulators have shown interest in seeing a range of stress and scenario test severities being considered. For example, ranging from 1 in 10-year scenarios, 1 in 20, 1 in 50 to 1 in 200-year scenarios as well as reverse stress tests. Very few insurers in our sample have attempted to assign a probability to the selected stress and scenario tests, even though this is suggested good practice internationally.

International guidance also suggests that a mix of skills is required to design a good range of business-appropriate stress tests. Such mix could include internal and where appropriate external skills (for example input from cyber security experts might be sought when designing cyber-related stress or scenarios). Internal skills that might be relevant would typically include actuarial, underwriting, sales, finance, risk management and subject matter experts from other functions within the organisation.

Locally, we tend to see insurers using finance, actuarial and risk divisions in the brainstorming phase of designing stress tests. Whilst the Board is responsible for the stress and scenario tests, for many insurers board members tend to only be involved at the end of the process as part of approving the annual ORSA report. There was not much evidence of local insurers involving subject matter experts from outside the organisation or other in-house divisions such as underwriting, product and distribution, claims or investment.

A good mix of stress and scenario tests

It was interesting to see that on average the local ORSA reports included six stress tests, five scenario tests and two reverse stress tests. For stress tests there was a clear preference for quantification methods whilst we saw 15% of all scenario tests being approached qualitatively. Quantification of impact on the Solvency Capital Requirement (SCR) and related risk appetite limits was a key feature of all ORSA reports. More mature reports also quantified impact relative to other quantitative measures such as liquidity position, profit before or after tax, return on equity or other earnings measures.

Taking a deeper look into the qualitative tests (see Figure 1), we note that most scenarios considered operational risks which are generally more difficult to quantify. Other risks considered in a qualitative way included reputational risk, fraud risk and cyber risk. We also observed that very few ORSA reports designed stress or scenario tests that specifically related to strategic risks or identified emerging risks.

Figure 1: Pie chart illustrating the types of risks considered in qualitative tests

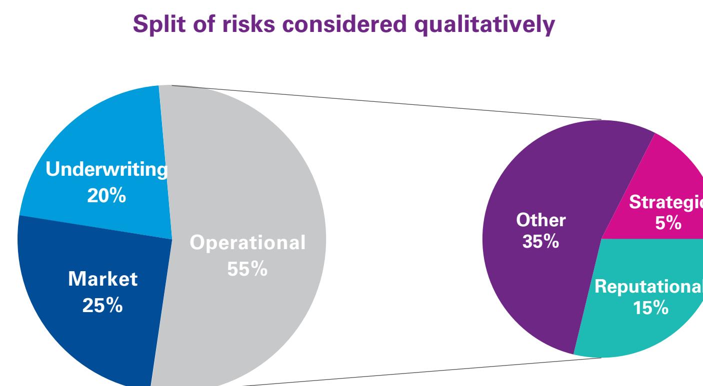
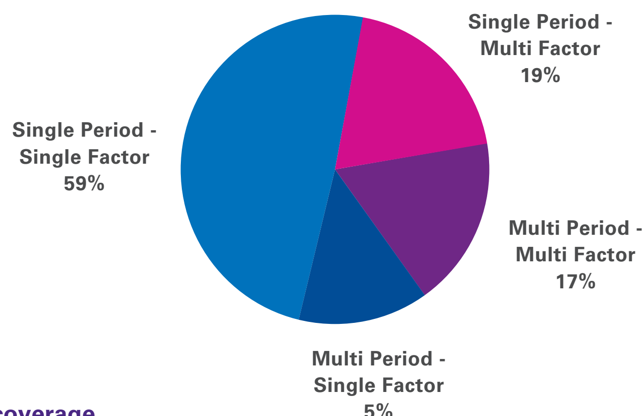


Figure 2 shows that majority of the tests within the ORSA reports included Single Period – Single Factor tests. A lower preference is shown for developing scenario tests i.e. using a Multi Factor – Single Period or Multi Factor – Multi Period, approach. Whilst this does introduce complexity in modelling, significant value is gained in understanding the potential impact of for example, how different risks can combine under stressed scenarios or knock-on effects of specific scenarios; as we all know that "when it rains it pours". Through the developing process of these scenarios, other potential risks and impacts might also be identified.

Figure 2: Pie chart illustrating the mix of types of tests considered within the ORSA reports



Risk coverage

We were interested to understand whether there is a clear preference for testing certain types of risks across life, non-life and composite insurers, for stress, scenario and reverse stress tests.

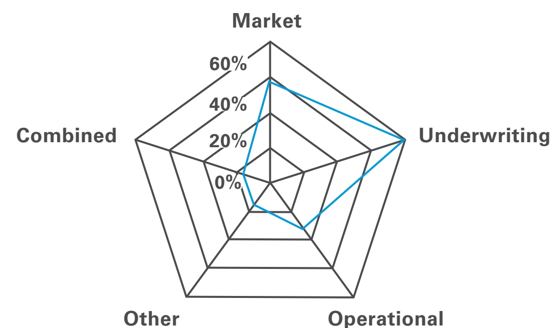
Group entities (those that were an amalgamation of multiple companies) were divided into the three groups as follows: if the group consisted exclusively of life insurers, it was categorized as a life company, similarly for non-life groups. If the group consisted of both life and non-life insurers, it was then categorized as a composite insurer. It then follows that for the purpose of this article, an ORSA report for a composite insurer, is a group ORSA report.

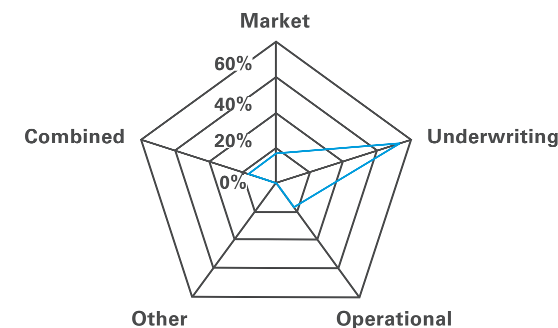
After dividing all nineteen ORSA reports, the three groups contained:

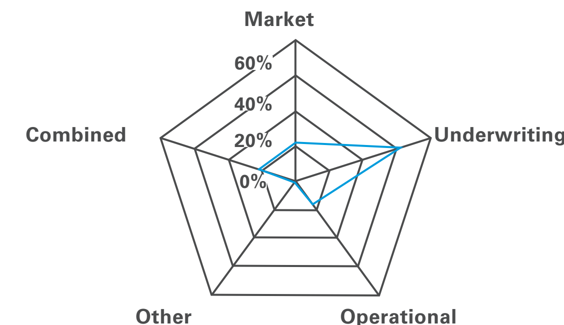
- Six non-life reports; made up of four solo, and two group reports.
- Five life reports; made up of two solo, and three group reports.
- Eight composite reports, all groups.

Underwriting risk was the most prominent risk considered across the ORSA reports. It was interesting to see that non-life insurance entities had a slightly higher preference for market risk with 22% of total risks performed being market risk focussed; compared to life insurance entities, with 16% of all tests performed, being market risk focussed. (refer to spider diagrams in Figure 3 for detailed splits).

Figure 3: Graph showing the number of stress, scenario and reverse tests performed per risk type for the type of insurance companies







We also noted most companies' selected stress, scenario and reverse stress tests only partially aligned to their major key risks identified within their ORSA report.

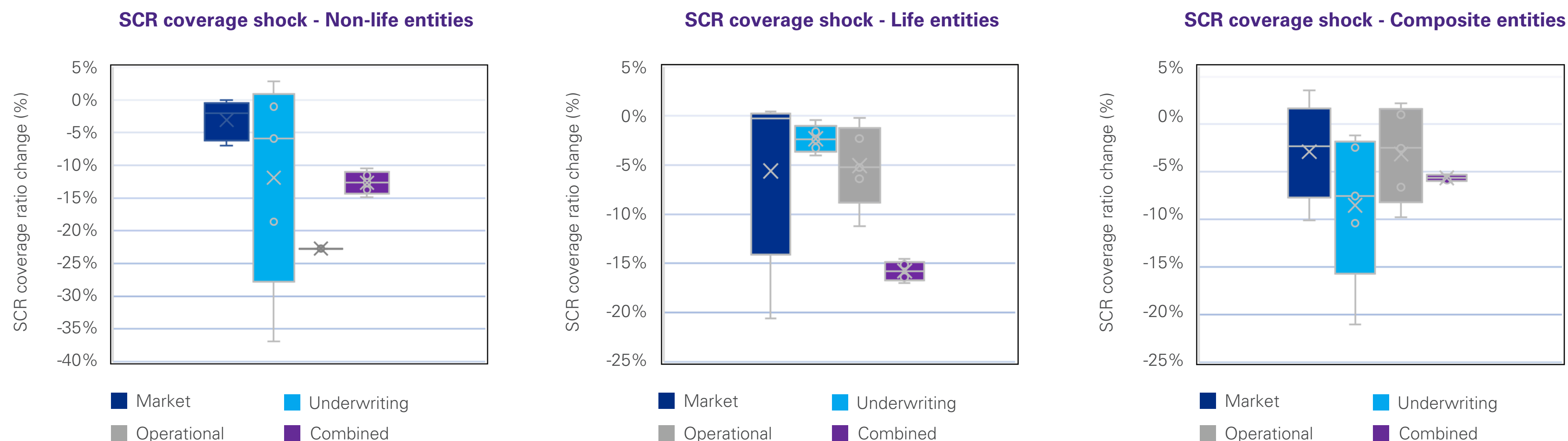
Impact chosen Stress and Scenario Tests (SST) and Reverse Stress Tests (RST)

Stress and scenario tests

We considered how severe the impact of the selected shocks were by calculating the percentage change from the base SCR coverage ratio to the resultant SCR coverage ratio, given the stress or scenario test. Life insurers, non-life insurers and composite insurers were analysed individually, with the results for each cluster presented below. This allowed for risk factors which caused the most severe effects on each type of insurer's SCR coverage ratio to be identified. From our analysis we noticed that a non-life entity and a composite entity are seen as more susceptible to an underwriting factor shock whereas a life entity is seen to be more susceptible to market risk shocks.

In South Africa we have seen the domino effect of a plunge in economic activity, leading to lowering of the repo rate by the reserve bank. If companies are not well matched this will result in shifts in the Balance of Own Funds and the SCR of insurers. Below we show severities of various shocks modelled, depicted by the average change in the SCR cover ratio for each shock factor across all the companies considered.

Figure 4: Box and whisker plots of change in SCR coverage ratio across stress and scenario tests for non-life, life and composite entities

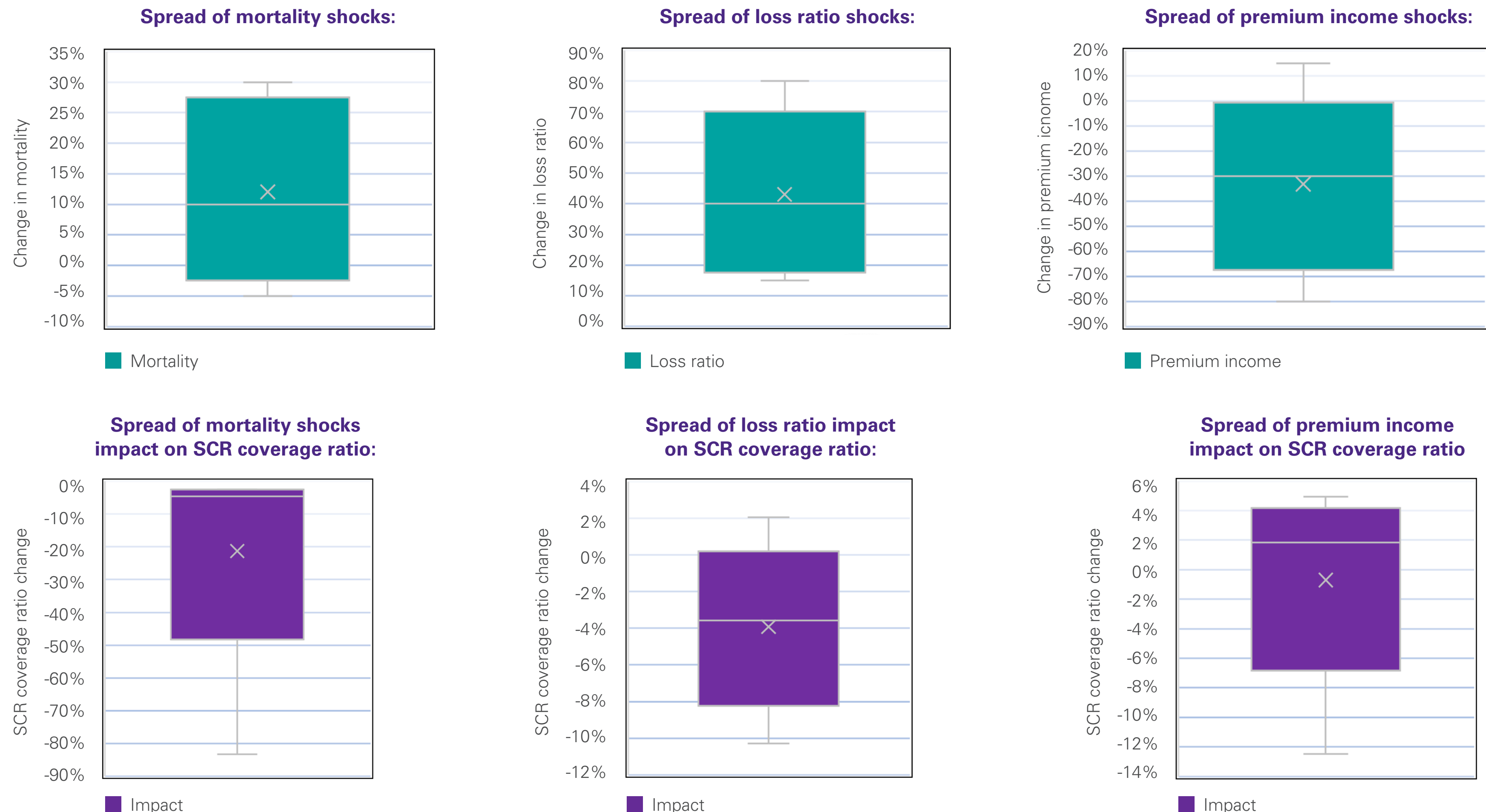


After having identified which factors to consider, an appropriate magnitude with which to shock the factors needs to be decided on. Figure 5 and Figure 6 on the next page show that stress tests were not necessarily only negative shocks, as some insurers explored the upside as well. Looking at the upside might aid understanding of the entity's overall potential outcomes, albeit of less interest to the regulator. We also delve a bit deeper into the specific factors shocked for the different risk types, and the magnitude of these shocks. The charts on the next page compare the shocks for the most common factors as well as the changes in the SCR coverage ratio.

Figure 5 Box and whisker plots of the severity of interest rate shocks and market value of equity shocks and their nominal impact on the SCR coverage ratio

While the effects of interest rate changes on SCR coverage were generally explored for both increases and decreases, market values of equities were only assumed to decrease across the sample considered. Market values of equities were also shocked more severely, and as a result they had more severe effects on the SCR coverage ratio as well.

Figure 6: Box and whisker plots of the severity of premium income, mortality and loss ratio shocks, as well as the corresponding nominal change in SCR coverage ratio



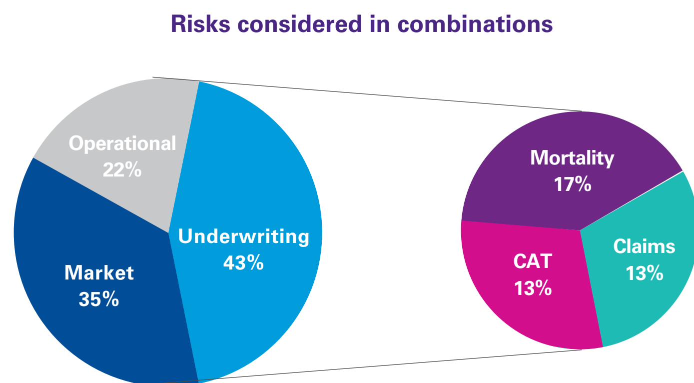
Two important points here are the fact that the shocks applied for loss ratios and premium income are much more severe than that of market factors, but the impact on SCR is not significantly larger. In addition, mortality was stressed for different lines of business in negative ways only. For example, when mortality was assumed to improve, the effect on annuity products only was documented.

Reverse stress tests

The reverse stress tests, as expected, had a higher decrease in the SCR coverage ratio on average than stress tests. The expected shocks and changes in SCR were larger, with a maximum average change in SCR coverage of -230%, compared to a maximum average change of -83% across stress and scenario tests. As would be expected, the preference for reverse stress tests was that they were based on a combination of factors as opposed to single factors. Over half of all reverse stress tests performed were multi-factor. More detail on risk combinations used is given in figure 7 below.

Figure 7: Graph illustrating the different risks considered within the Combined Risk category for reverse stress tests

Risks considered in combinations



Underwriting and market risks featured heavily in these tests, this is expected as these two factors would typically be expected to be the most pertinent risks for non-life and life insurers. The underwriting risk break down should be interpreted in the context of a similar number of life and non-life insurers being considered in this analysis. The CAT category above includes bespoke CAT events calibrated at higher loss thresholds and are not the same CAT shocks specified in the Financial Soundness for Insurers (FSI) standards. Specific information on the events was not provided in the ORSA report.

Reverse stress testing (RST) practices

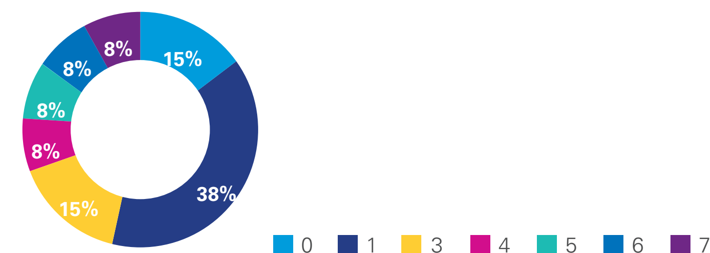
These tests are created to identify the scenario which would make a company's business model unviable. If reverse stress testing is done well and sufficient time and effort are put into it, then the "perfect storm" scenario which might lead to an insurance company's failure can be identified.

Not all insurers included a reverse stress test within the ORSA report. Where such tests were included, we saw that 7% of these were qualitative in nature. It was interesting to see that on average, solo ORSA reports included one reverse stress test, whereas on average group ORSA reports included two such tests. In a survey performed by KPMG in Australia, where companies indicated that their stress and scenario testing results were seen as valuable by the Board, on average more than one reverse stress test was performed.[1]

We next looked at the results of this for solo and group entities separately. We observed that some groups perform a reverse stress test for each insurance licenced entity which pushed up the average given that nearly half of the group ORSA reports covered more than one insurance entity. In reality, most groups performed one reverse stress test for each licence.

Figure 8 Pie charts illustrating the number of reverse stress tests included within the solo and group ORSA reports

Reverse stress tests perfomed by groups



Reverse stress tests performed for solo entities

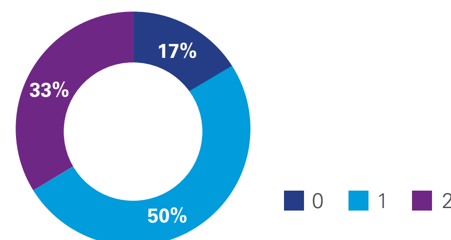


Figure 8 shows that 15% of group ORSA reports did not include a reverse stress test; similarly, 17% of solo ORSA reports did not include reverse stress tests.

[1] Stress and Scenario Testing survey performed by KPMG Australia, prepared for the Actuaries Institute 2017 Actuaries Summit.

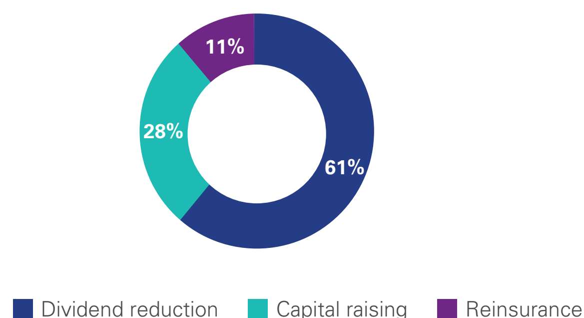
Management actions

Other than to test resilience of the firm to severe but plausible tail events, stress and scenario tests also serve to ensure that the company is well-equipped to adequately deal with the likely impacts of plausible events and to efficiently implement appropriate management actions or design plans that would enable recovery from the scenarios envisioned. We observed that a number of ORSA reports needed improvement in this area. From a total of nineteen ORSA reports, fifteen included management actions for their stress and scenario tests whereas four neglected to do so. Of these four that neglected to do so, two contained scenarios that breached the SCR cover ratio of one.

Most management actions centred around initiatives to raise further capital, with other actions also including but not limited to, review of business strategy and culture, risk management systems, and risk strategy and appetite. Capital considerations included delayed distribution through withholding or reducing dividend payments, or external capital raising facilities, ranging from banks to parent companies or through changes in reinsurance structure (see figure 9 below).

Figure 9 - Pie chart showing the type of management actions considered

Types of management actions considered



Bringing it all together

Performing stress, scenario and reverse stress tests are much like performing checks to ensure that your boat will remain seaworthy. It prepares you for when the storm hits. Similarly, performing a wide range of stress and scenario tests should help an insurer to:

- leverage the collective knowledge of the organisation by involving expertise across the organisation;
- understand vulnerability to key risks or combination of risks;
- understand how risks can combine and the potential severity of outcomes associated with such combinations;
- be better prepared if the storm hits by being able to implement documented appropriate management actions that help speed up the recovery process. It is far easier to come up with effective management actions while the storm is still at bay;
- determine which specific factors have the most severe impact on the SCR coverage ratio;
- use the results of the various stress and scenario tests as a feedback loop to inform refinements of limits and/or risk appetite; and
- be more resilient.

Additional resources

Definitions of stress and scenario testing

There was no consistent definition, across the ORSA reports, of what constitutes a sensitivity test, a stress test, a scenario test and a reverse stress test. For the purpose of this article, we used the following definitions to aid in consistency of measurement and analysis:

- Stress test: this is a single factor shock

- Sensitivity test: this was classified as a stress test, but just of smaller magnitude
- Scenario test: this is a multi-factor shock
- Reverse stress test: this is a scenario which may cause an insurance company's business model to become unviable.

For the purpose of our analysis, we:

- grouped sensitivity and stress tests together as single factor stress tests;
- distinguished between single factor tests (stress tests) and multi-factor tests (scenario tests);
- gave an indication of whether these were applied over a single period (i.e. sudden once off shock) or multi-period (i.e. initial and subsequent shocks or knock-on effects); and
- considered all reverse stress tests that were identified as such within the ORSA reports.

Terms used

- SST: Stress and Scenario Testing
- RST: Reverse Stress Tests

Reference sources

- Stress and Scenario Testing survey performed by KPMG Australia, prepared for the Actuaries Institute 2017 Actuaries Summit.

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

"Only those who dare to fail greatly,
can ever achieve greatly."
- Robert F. Kennedy

Chris Van Eden

Manager

Insurance

Tel: +27 72 787 9543

Email: chris.vaneden@kpmg.co.za

What are the odds?

"That was one in a million" - a throwaway phrase that we use in our everyday interactions when something completely unexpected and unlikely happens. But what do you do when "one in a million" becomes a reality?

A modelling exercise done for the insurance industry concluded that the annual risk of an influenza outbreak on the scale of the 1918 pandemic lies between 0.5% and 1.0%.[1] That's between a 1-in-200 and 1-in-100 year event in absolute terms. It is estimated that about 500 million people or one-third of the world's population was infected by the virus that caused that pandemic with the number of worldwide deaths estimated to be at least 50 million.[2] It is too early to tell whether the Covid-19 pandemic will reach the same proportions as that of 1918, but what we can say for certain is that no one saw it coming.

It is natural that in the wake of Covid-19, concerns regarding the solvency of insurers have been raised by both regulators and market participants, especially considering the related financial market volatility. After all, the primary role of insurers is to protect society against exactly this kind of low probability, high impact event and offer a cushion against the fallout. But when the event in question is affecting the entire world almost simultaneously, the usual rules are harder to apply.

Thankfully, it has become clear through the passage of time, that any concerns around the immediate solvency of insurers were unwarranted both locally and globally, evidenced by the fact that there are free assets of R373bn in the South African life insurance industry, more than double what is needed under the solvency capital requirements imposed by the Prudential Authority.[3] Despite very different solvency regimes existing across different countries and markets, all of them have ensured that the industry was able to bear the brunt of Covid-19 and not only meet the challenge, but in some cases play an even greater role in society through the creation of relief funds or offering payment holidays to policyholders.

But, this is not to say that Covid-19 will not have a significant impact on solvency and how we view it going forward! The risk of insolvencies is certainly not zero and most, if not all insurers, will experience a decrease in their solvency ratios over the next six to eighteen months. However, it is unlikely that the decrease in solvency ratios will lead to an industry-wide problem and it is likely that solvency issues will be felt more keenly by thinly capitalised companies that do not have much of a buffer to play with or very bespoke or mono-line insurers heavily exposed to classes of business worst affected by the pandemic. The risk of insolvencies will of course start to increase if there were to be a sustained global recession or South Africa was forced to go back into Level 5 lockdown but this is true for all industries and is not unique to the insurance industry.

[1] (World Health Organisation, 2018)
[2] (Centre for Disease Control and Prevention, 2019)
[3] (Cranston, 2020)

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It is our view that the most important solvency questions as we move into a post-Covid-19 world are:

1. What is the future of solvency measurement?

One benefit the pandemic has yielded is to reinforce the fact that the industry is right to move towards more sophisticated solvency regimes as it is better able to model and provide for an event like this pandemic. It is interesting to note that there is still a wide variety of views on regulatory capital globally with some regions slow to move towards a more sophisticated regime. The three basic approaches to regulatory capital as well as key markets where they are applied is summarised below:

Calculation complexity	Simplified approaches 'Solvency I approach'	RBC (Risk Based Capital) approaches	Internal model, Solvency II, ICAAP
Brief description	Factor-based methods, may not be risk weighted, focused on minimum capital levels	Rules based, mostly factor-based methods (some modelling e.g. VA's, CAT's, other), focused on minimum capital levels	Some aspects are principles-based approach, others are formulaic, to calculate an economic required capital amount and a minimum capital level, factor based
Selected countries	India, Hong Kong (SAR), China; MACAU (SAR) China	US, Canada, Japan, most of South East Asia	EU countries, UK, South Africa, Switzerland, Bermuda, Australia, China

All three approaches determine capital requirements by assessing the impact of adverse events on the assets and liabilities of the insurer. This can include changes to interest rates, reductions in asset values, increases in claims or other adverse events such as credit defaults and losses from operational events. The more sophisticated regimes, such as our local SAM regime, allow for the complex interactions and dependencies between these adverse events and full re-quantification of the balance sheet in response to specific shocks (for example a pandemic event) is required.

The resilience of the local insurance industry is a credit to the SAM regime and the work done by the Prudential Authority in taking the prescient step of moving towards a more sophisticated regime a few years ago. The fact that this regime models for the risk of a 1-in-200 year event means that the South African insurance industry is well capitalised and has been able to take the pandemic in reasonable stride and continue its work of supporting the local economy during a time when many other companies could not.

2. What is driving solvency ratios down?

Global insurers today have more than USD20 trillion in assets under management and it is our view that the biggest downward pressure on solvency ratios currently is the impact of financial market action on these asset values. This pressure is coming from several different directions:

- **Equity market volatility:** March 2020 had some unsettling similarities to September 2008 and the Global Financial Crisis and the bailout of insurance giant American International Group Inc. From its peak on 19 February 2020, the S&P 500 collapsed as a result of the pandemic and ensuing lockdowns, losing 34% of its value by 23 March 2020, dragging global markets down along with it as investors panicked and a scramble to safe haven assets occurred.[4] However, these losses have been pared as of 30 June 2020 with the S&P 500 now positive for the year and the JSE down a mere 0.88% over the same period. [5]

- Whilst this is positive news, what is clear is that we are living in a time of unprecedented volatility in equity markets. Insurers with larger equity exposures in their investment portfolios are likely to see significant swings in solvency requirements month-to-month as a result of increased volatility. The Volatility Index[6], or VIX, has traded above the 30 level since Tuesday, 25 February 2020 with no sign of reducing any time soon – indicating an expectation of increased volatility for the foreseeable future.

- **Downgrading of investments:** many companies and governments are likely to experience financial pressures as a result of the pandemic which will drive downgrades in the credit ratings of their bonds. Insurers with exposure to these instruments will face a corresponding decrease in their solvency ratio as a result of credit downgrades and may need to replace these bonds with higher quality ones, locking in previously unrecognised investment losses.

[4] (The Craziest Statistic From the Coronavirus Market Crash, 2020)

[5] (Bloomberg, 2020)

[6] Created by the Chicago Board Options Exchange (CBOE), the Volatility Index, or VIX, is a real-time market index that represents the market's expectation of 30-day forward-looking volatility. Derived from the price inputs of the S&P 500 index options, it provides a measure of market risk and investors' sentiments. It is also known by other names like "Fear Gauge" or "Fear Index." In absolute terms, VIX values greater than 30 are generally linked to a large volatility resulting from increased uncertainty, risk and investors' fear. VIX values below 20 generally correspond to stable, stress-free periods in the markets.

– **Credit and credit spread risk:** many insurers will see an increase in the credit risk of counterparties, reducing related asset values, as well as in the credit spreads used in liability discounting.

3. What are possible avenues that insurers can explore to try and counteract the above factors?

The recovery of the local and global equity markets is evidence that it is wise to move carefully and patiently as the effects from the pandemic emerge and are quantified, as demonstrated by most of the insurance industry.

If not already in place, insurers with significant equity exposure might start exploring the viability of entering into a hedging strategy through the use of derivatives (such as short positions) to protect against any more sudden equity movements. However, the current market volatility may make this an expensive option in the near term.

Another consideration is to review current asset and liability maturities in order to determine whether investment portfolios need to be rebalanced to avoid a cash crunch.

Finally, insurers should consider their exposure to external credit risk and identify significantly at-risk counterparties in order to be ahead of any issues that may arise if the pandemic were to draw out over an extended period or the country were to move back to Level 5 of the lockdown.

4. What does this mean for the future of solvency?

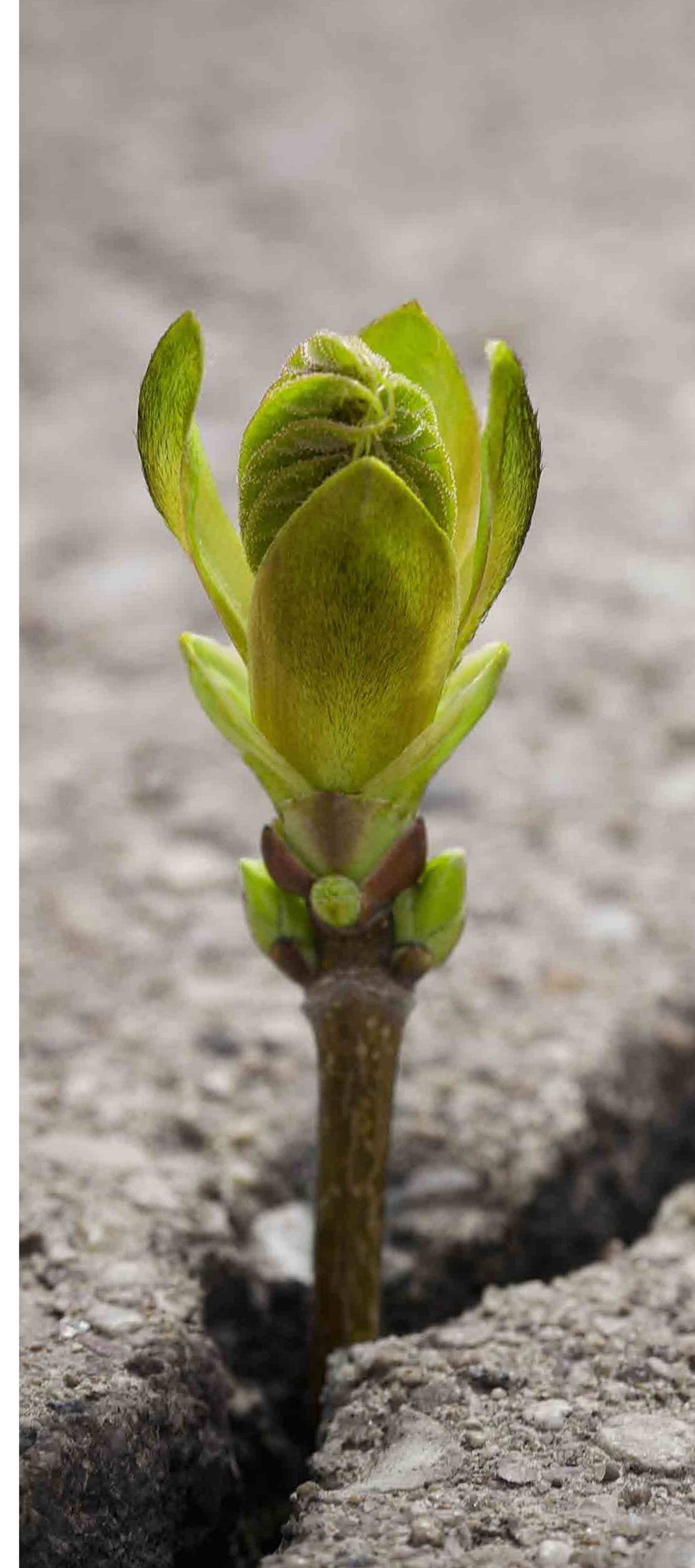
We expect that there will be a "new normal" for solvency ratios over the next eighteen months, with solvency levels generally being much closer to the minimum level than before.

In the longer-term, it is likely that many insurers will reassess their investment portfolio mix and review their asset-liability management approaches as a result of the increased volatility in equities and the lowering interest rates.

One question that is receiving a lot of attention is how this will impact small and medium sized insurers relative to larger insurers? The general view is that this will challenge some of them to the point of potential insolvency or at least they will face more distress than may be felt by the larger insurers. This could point to more M&A activity and further consolidation in the market.

There is also the complex question of how all of this will impact the reinsurers. Will we see sharp increases in pricing due to the global increase in insurance and credit risk? What steps will the reinsurers take to mitigate the reduction in their own credit ratings and investment portfolios? We expect that company's will be more aware of their total universe of exposure and be more open to paying to pass on risks that they previously would have retained for themselves. Will reinsurers continue to innovate, as they always have, to create new products around pandemic risk that can help insurers?

What is clear is that Covid-19 will change how we look at solvency forever, and thankfully it will primarily be for the better. The current approach to solvency has enabled the insurance industry to achieve its primary goal - endure the pandemic and support those who desperately need support. Any improvements can only reap even greater rewards.



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For more information please contact:

Martin Vipond
Partner
Advisory
T: +27 83 454 1812
E: martin.vipond@kpmg.co.za

"Like tiny seeds with potent power to push through tough ground and become mighty trees, we hold innate reserves of unimaginable strength. We are resilient."

- Catherine DeVrye, The Gift of Nature

Muhammed Seedat

Manager

Insurance

Tel: +27 82 576 3413

Email: muhammed.seedat@kpmg.co.za

Financial markets update and considerations for insurers

"Beware the Ides of March"

In March 2020, the World Health Organisation ('WHO") declared Covid-19 as a pandemic. The months that followed were and continue to be engulfed in uncertainty. Entire countries have been shut down in the form of lockdowns as an initial response to curbing the pandemic, working from home has become the new reality, and our entire social construct has been turned on its head.

Equity markets have fallen initially due to risk-off sentiment and still demonstrate significant volatility, bond yields have reached new lows, bid-offer spreads widened, liquidity has evaporated, and credit default swap (CDS) spreads have surged. These factors, coupled with a looming recessionary period, have meant that governments and central banks have provided significant fiscal stimulus and flexible monetary policies to support economies. These factors have led to ultra-low interest rate environments, which will have an impact on investment returns and add to volatility in financial markets.

In a South African context, this is worsened by increasingly high levels of unemployment, waning investor and business confidence, troubled and debt-laden state-owned enterprises, already weakened economic growth, little fiscal space, and a sovereign downgrade. Given these factors, it is vital to understand the impact that global financial markets will have on insurers' assets and their ability to display resilience to external shocks.

"It's the economy, stupid..."

The famous and often quoted phrase coined by a strategist within Bill Clinton's 1992 presidential campaign still rings true today.

Had we ever truly 'valued' our ability to move freely, operate a business and, socialise? As countries began to shutdown to curb the rising infection rates of the pandemic, the dominoes started to fall. Economies in emerging markets were not in a place to provide governmental assistance to their citizens due to a lack of fiscal space, which meant that emerging markets were hit much harder than developed economies.

The global economic system is interlinked with our everyday lives, and the impact that the global pandemic has had on economies globally is a prime example of this. A simple example of this can be shown using data from Google Trends, which plots the popularity of search terms relating to Covid-19 against the closing price of the JSE All-Share (Alsi) Index.

As the uncertainty of the pandemic reached South African shores, which is indicated by increased Google search activity, we see an almost perfect correlation with the downtrend in value of the closing price of the Alsi Index.

From a global perspective, looking at the S&P 500 Index and the Chicago Board Options Exchange's (CBOE) Volatility Index (VIX), which are commonly used by investors as a gauge for listed equities and overall systemic risk, respectively, an interesting phenomenon is observed. The S&P 500 index, which indicates the performance of 500 large listed companies in the United States, has reached new highs predominantly off the back of rallies in technology stocks such as Apple, Amazon, Tesla, Google, Netflix, and Microsoft. On the other side of this - the VIX, which is constructed using price data from traded options on the S&P 500 Index and is commonly known as the "Fear Gauge," is currently priced at a terrifyingly high level. This suggests a dislocation in equity markets as the S&P 500's record rally was against increased systemic and market risk and investor irrationality.

Amidst a global pandemic, oil price wars, ultra-low interest rates, unprecedented fiscal stimulus, and rising global tensions, it is crucial to have an understanding and context of the factors that drive financial markets and ultimately impact investment values.

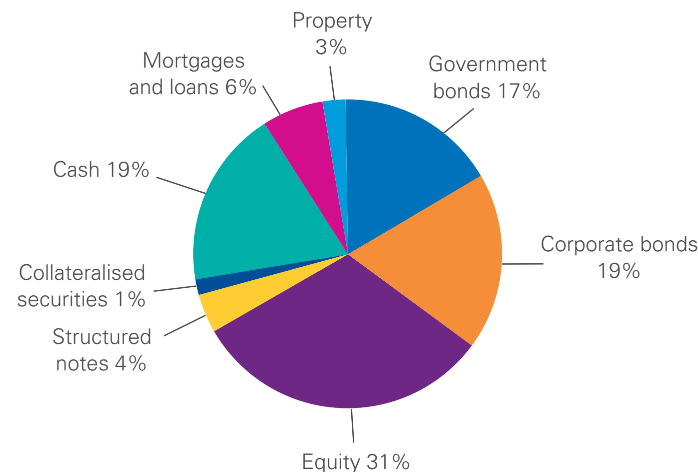
" Distrust and caution are the parents of security." – Benjamin Franklin

Insurers provide a sense of security to their policyholders and rely on sound investment decisions around policyholder funds to ensure that risks are mitigated. Insurers hold almost $20trn in assets globally[1] and are some of the largest institutional investors in this regard. Any movements in financial markets will have a ripple effect on insurers, and it is crucial to understand the drivers behind investment values.

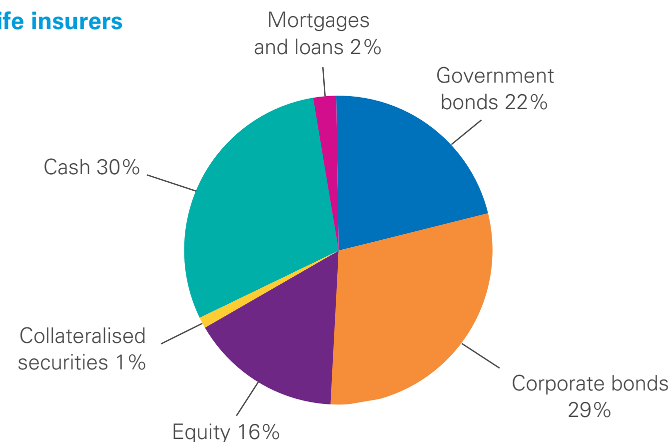
In providing a sense of security, insurers closely manage and ensure asset and liability matching. What happens to this when a shock event takes place? Industry results have shown that insurers' asset portfolios demonstrated resilience and could withstand market stresses during peak Covid-19 market stress. However, insurers will need to remain alert to this and consider potential rebalancing of their investment portfolios.

In a South African context, local insurers account for just under 1% of the $20trn in assets held, and this is split as follows between the different asset classes[2]:

Life insurers



Non-life insurers



[1] Making sense of solvency, capital and COVID-19 for the insurance sector (https://home.kpmg/xx/en/home/insights/2020/04/covid-19-solvency-capital-and-the-insurance-sector.html)
[2] Selected South African insurance sector data - March 2020 (Prudential Authority)

More than half of insurers' assets are within the following asset classes:

1. **Bonds (government and corporate)**
2. **Equities**
3. **Money market products**

Equities and bonds have displayed significant volatility due to stress observed in financial markets. The low-interest rate environment will have an impact on insurers' investment income, and the considerable demand for such assets will further increase pressure on the already low yields of certain "safe-haven" assets.

"Governments never learn. Only people learn" – Milton Friedman

There were signs of stress in the financial system before the global pandemic. Systemic and geopolitical risks were present, and the pandemic has all but exacerbated this.

The world has become increasingly polarised over the past few years with surprise electoral victories for strongmen leaders in the United States, Brazil, United Kingdom, Hungary, and the Philippines, which have joined the ranks of those already in power in Russia, India, and China. Tightening foreign policies that focused solely on national interests and the waning abilities of supranational bodies have posed a threat to globalisation and global trade.

The most publicised example of this increased polarisation can be seen in the increased tension in US-China relations, which ranges from trade wars to the banning of individual tech companies such as ByteDance (known for its popular app, Tik-Tok).

Putting this into context, increased tensions in the US-China relationship, and the precedent set with the ban of ByteDance, can open the door for other Chinese tech firms to suffer a similar fate in the future. Tencent comes to mind in this regard, with most South African equity indices overweight on Naspers and Prosus, which have a significant interest in Tencent.

There have also been increased tensions between mainland China and Hong Kong over the sovereignty of the island. This could translate to an outflow of capital from Hong Kong, with investors seeking an alternate entry into the Asian financial market.

There is still significant uncertainty surrounding Brexit. This could create inefficiencies in European supply chains and consequently impact economic output.

Rising tensions in the Middle East, especially amongst the Gulf countries, could put further pressure on the oil price as we advance. This would result in additional uncertainty globally.

This is also a year of the US elections, which will play on investor sentiments and drive further volatility in financial markets.

Locally, forecasted GDP is expected to contract by 7% with economic activity slowly picking up under the new level 1 restrictions. Unemployment is rising, and there has been a significant decrease in consumer and business confidence. The debt-to-GDP ratio is approaching 80%, which is alarmingly high for any economy.

"Whatever it takes..."

This is homage to Mario Draghi, the former European Central Bank president's famous speech, which is believed to have saved the Euro from collapsing in 2012. We have seen central banks take decisive action to deal with the economic fallout of the pandemic and have also seen the re-introduction of dollar swap lines offered by the Federal Reserve to ensure liquidity in markets.

While most insurers are well capitalised and have shown resilience in their balance sheets, closer monitoring of low-interest rates, equity markets, and credit is required due to the downturn in financial markets.

Caveat: Due to the fluidity of financial markets, the information used in this article was accurate at the time of writing. Movements between the date of the report and date of publishing are expected.

KPMG

Michelle Dubois

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

Regulation, resilience and risk

One of the key challenges facing the insurance industry must be the sheer volume of regulation and the rapid pace of change.

Mark Carney, Bank of England Governor, was recently quoted as saying that the banking supervision teams at the Bank of England, "now receive the equivalent of twice the entire works of Shakespeare of reading each week." Bearing in mind that Shakespeare wrote 37 plays, 154 sonnets and any number of poems in his lifetime, your regulatory burden could be somewhere between a comedy and a tragedy.

The British Insurance Brokers' Association (BIBA) warned in 2017 already that the regulatory burden imposed by the Financial Services Authority (FSA) on the insurance broking sector is a greater competitive disadvantage than the amount of corporation tax it pays. Others would argue that the increased regulation has changed the face of the industry in a positive way, gaining increased trust from customers and ensuring financial stability in unprecedented economic times. Whichever way you look at it, this volume is only going to grow exponentially over time and insurers are going to be challenged to keep abreast.

Closer to home, the tabling of the Financial Sector Regulation (FSR) Bill in Parliament is imminent. To clearly illustrate the sheer volume of regulation involved in this legislative process; when the first draft of the FSR Bill was published in December 2013, close to 300 pages of comments were received on the draft Bill that would change the regulatory landscape so dramatically.

The Financial Sector Conduct Authority (FSCA) has been active in the first half of this year with a steady stream of draft Conduct standards being published. This raises an important question – is Conduct currently effective in the industry or does Conduct only become effective on the promulgation of the Conduct of Financial Institutions Bill (COFI Bill)? KPMG's view is that the Market Conduct requirements is already alive through the various financial sector laws and regulations like the FAIS Act, the Policyholder Protection Rules and various banking regulations and it is almost irrelevant that the COFI Bill has not yet been enacted. We encourage insurers not to wait for the COFI Bill to be fully and finally effected before establishing a Conduct programme and critically not to let implementing Conduct in business be solely regulatory driven.

The FSCA has published firm guidance for industry on coping with the Covid-19 pandemic. The pandemic itself poses numerous challenges for insurers across the business cycle from offering premium relief for policyholders to managing underwriting risk with limited and deferred medical underwriting to the challenge of interpreting business interruption insurance claims. The regulator's message has been clear, encouraging insurers to act in the best interests of their customers and engage with the regulator in a proactive manner where support or clarification of the principles is required.

For many firms, one of the key regulatory challenges in 2020 is no doubt the requirement to convert their license in terms of the requirements of the Insurance Act. This process was initially planned to be completed by July 2020, however it seems that the process will take a bit longer than anticipated. To further complicate the matter, the Prudential Authority recently announced that it will temporarily suspend the issuance of new licences (not the conversion of existing licences) for a period of six months. This is to take into account the impact that Covid-19 has had on the economic environment in South Africa and the additional challenges this may place on new entrants to prove financial soundness, in line with the Prudential Authority's mandate to ensure financial stability.

The Prudential Authority is also proposing changes to the audit requirements for insurers and controlling companies. Draft prudential standards on audit requirements for solo insurers, groups (controlling companies), Lloyds, microinsurers and branches, registered in terms of the Insurance Act, have been published to this effect. These standards introduce additional reporting requirements for the auditor with regard to cell captives and reinsurance providers and some changes in the level of assurance provided over certain parts of the quantitative regulatory returns for solo insurers and Lloyds.

The audit requirements are new for branches, controlling companies and microinsurers since these types of entities did not exist until the enactment of the Insurance Act. As a result, insurance groups will now, for the first time, require their auditor(s) to provide assurance over their group returns. At this stage the envisaged effective date is 1 September 2020, meaning insurers and controlling companies whose financial year-end is after the effective date of the proposed standards will be required to comply with the standards.

Financial crime continues to be a threat to our industry, and is anticipated to rise over the coming months, particularly as unemployment increases and economic growth stalls. Remote working and increased control risks on the one hand together with increased online activity and fraudsters posing as charitable organisations and other fraudulent scams provide the perfect storm for money laundering operations. In an effort to curb this risk in the insurance industry, the Financial Intelligence Centre (FIC) issued a compliance communication earlier this year which provides FIC Act compliance obligations to accountable institutions which offer life insurance products, urging that they must consider the money laundering and terrorist financing risks relating to the nominated beneficiaries of their clients and conduct the necessary due diligence prior to receipt or pay out of funds.

The long awaited effective date for the majority of the provisions of the Protection of Personal Information Act (POPIA) has finally been released and most of the provisions of the Act came into effect on 1 July 2020. Although POPIA provides for a transitional period of one year, the insurance industry will need to comply with provisions relating to direct marketing by means of unsolicited electronic communications, the treatment of sensitive personal data and the security of personal information without delay. The one year transitional period afforded by the Act will pass quickly. If firms have not yet aligned their data management strategies, together with privacy regulations and an assessment of the associated cyber risk, they have significant work to do to ensure that they are compliant and more importantly, not at risk of a breach. Implementation of the regulations does not simply entail a gap analysis and updating of organisational policies. There are many new concepts introduced by the Act, such as a central process for data subject access rights which require detailed planning. Refer to our article: The Protection of Personal Information Act is effective?!

Part of the success story for the insurance industry is its ability to expect disruption, be flexible, anticipate change, and recover quickly from setbacks. As insurers continue working to comply with new regulation and shape the industry, there is no doubt that there will be an increased need to develop solutions that not only assist with regulatory compliance but also build customer trust and reduce business risk.

Visibility of tax data is often not good, making it difficult to evaluate the accuracy and completeness of tax decisions made by the organisation.

KPMG can put you in control of your tax data and compliance. Our Tax Intelligent Solution Data Analytics tool is an enterprise-based IT solution that extracts transaction level data using bespoke analytical tests and populates dashboards with relevant exception data.

For more information please contact:

Madelein van Zyl
Partner
Insurance Tax Technology
T: +27 82 718 8810
E: madelein.vanzyl@kpmg.co.za

Teresa Fondse
Manager
Insurance Tax Technology
T: +27 82 719 5791
E: teresa.fondse@kpmg.co.za

Benjamin Vosloo

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

Non-life insurance industry results

In the midst of the current environment in which we are experiencing one of the most unprecedented world-wide occurrences of the Coronavirus and the related lockdown measures, it is hard to think and reflect on a time before this.

Economic environment

However, in order to understand the 2019 non-life insurance industry financial results we take a look back to the 2019 calendar year and unpack the main contributors to the results. To be honest 2019 was also no walk in the park.

Following a contraction of -1.4% and -0.8% in the fourth and third quarters of 2019 respectively, the South African gross domestic product (GDP) ended 2019 with an overall real growth rate of 0.2%. This is compared to a real GDP growth rate of 0.8% in 2018. Growth was constrained by electricity supply shortages, weak business confidence and low public investment. The year-on-year annual consumer price inflation was 4.1% in December 2019. Inflation for the insurance sector, contributing to the consumer price index, was 6.8% year-on-year in December 2019.

In 2019 South African consumers struggled under increased fuel prices, higher electricity tariffs and lower earnings. South Africa's structural problems, including high unemployment and income inequality amongst other social problems, have persisted. Unstable debt ratios, corruption and the poor financial and operational standing of South Africa's state-owned enterprises also play a significant role.

During 2019 the risk of a Moody's downgrade overshadowed the economic outlook and business confidence.

Profitability

The table below summarises key metrics as contained within the results of survey participants over the last five calendar years.

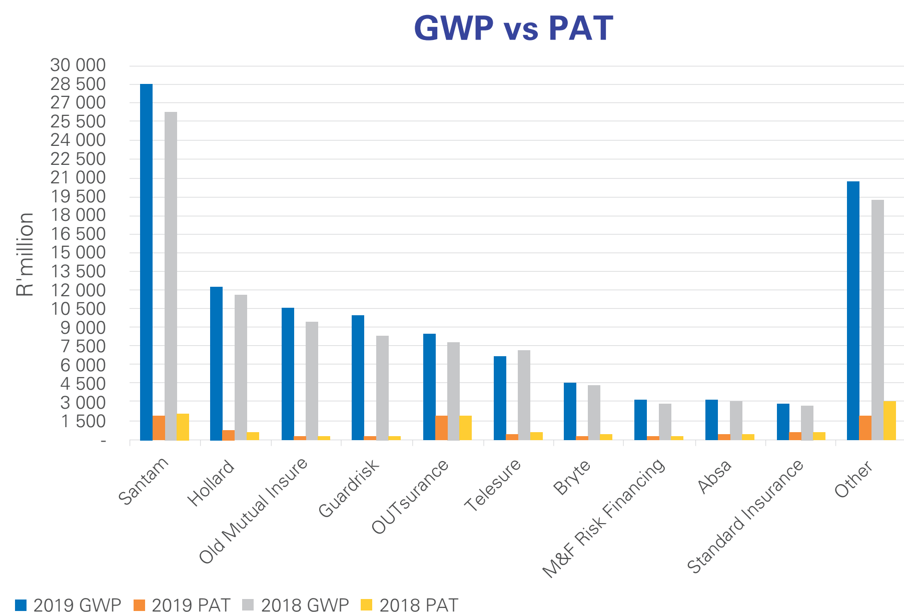
	2019	2018	2017	2016	2015
Increase in gross written premium[1]	7.6%	8.1%	5.5%	4.2%	11.4%
Increase in net earned premiums	4.7%	7.1%	3.1%	6.2%	8.8%
(Decrease)/Increase in investment income	10.6%	(11.5%)	30%	(15.2%)	12.4%
Claims incurred	58.9%	55.3%	57.3%	57.9%	57.1%
Combined ratio	95.6%	92.2%	93.4%	93.6%	94.1%
Operating ratio[2]	86.1%	82.2%	81.8%	84.6%	82.8%
Management expense ratio[3]	28.4%	26.9%	26.4%	26.5%	27.2%

Against the backdrop of a difficult economic climate and fierce competition in a low growth market, the non-life insurance industry reported gross written premiums (GWP) of R110.6 billion in 2019. This amounts to an increase of 7.6% when compared to the R102.7 billion recorded in 2018. The top five contributors to the growth, in real terms, were Santam Limited (Santam), Hollard[4], Old Mutual Insure Limited (Old Mutual Insure), Guardrisk Insurance Company Limited (Guardrisk) and Renasa Insurance Company Limited (Renasa). The two insurers that stand out are Guardrisk and Renasa which grew their top lines by 22% and 46% respectively. Guardrisk's growth was achieved through the expansion of its traditional insurance business, Guardrisk General Insurance, which generated approximately R1.99 billion in GWP. One of the contributing factors to Renasa's growth in GWP was the departure of other insurers in its segment.

[1] The gross written premiums of the companies featured in this publication approximate 74% of the industry's gross written premiums and based on that, the survey results are a fair representation of the results of the overall industry.
[2] (claims incurred + net commission incurred +management expenses – investment income)/net earned premium
[3] Management and other expenses/net earned premium
[4] Includes The Hollard Insurance Company Limited and Hollard Specialist Insurance Company Limited

It is however worth noting that the industry's growth in GWP did not translate into profits. Profits after taxation (PAT) amounted R7.7 billion, a decrease of 16.9% from R9.3 billion in 2018.

The chart below indicates PAT compared to GWP for the ten largest non-life insurance companies.



The decrease in PAT was mainly driven by the 'Other' category of insurers. The insurers which experienced large decreases in profits were Sasria SOC Limited (Sasria) and Escap SOC Limited (Escap).

During 2019, South Africa was hit by a spate of violence, looting and protests resulting in significant financial loss. We saw for example the Johannesburg xenophobic riots and protests against government service delivery. According to Sasria, violent protests have become endemic across South Africa and the momentum seems to be increasing. Sasria, for the first time in its history, recorded a loss which was mainly attributed to an influx in claims following political unrest.

Escap's PAT decreased by 58% to R0.6 billion in 2019. This was mainly due to a 12.3% decrease in net premium earned to R2.5 billion and a 41% increase in claims incurred to R2.43 billion.

Other contributors to the decreased PAT were Bryte Insurance Company Limited (Bryte) and Telesure[5] where decreases in profits of 73.8% and 43.3% were noted respectively. Bryte's profit was mainly impacted by a decrease in the underwriting result. Bryte reported an underwriting loss during 2019 and this was mainly attributable to an increase in claims incurred of 13%, resulting in a claim incurred loss ratio of 66% versus 63% in 2018. In addition, Bryte's investment income was down by 28%, however this is compared to the investment income of 2018 which included a once-off gain on disposal related to the sales of its shareholdings in some if its subsidiaries. Telesure experienced lower GWP volumes and increased reinsurance costs and management expenses.

Other key metrics explaining the industry results

Cost of reinsurance

Net written premium increased by 5% versus 7.6% increase in GWP, therefore more was 'paid away' to reinsurers. The reinsurance premium costs increased by 14% in 2019 when compared to 2018. This has been a trend over the last few years indicating that reinsurance rates are hardening and the market is increasing its coverage. There was however a slight offset from an increase in reinsurance commission revenues by 20% in 2019. The net impact, however, resulted in a decrease of R2.7 billion to the overall profit.

Increase in claims incurred

The claims experience over the past few years has made it clear that South Africa is not exempt from catastrophe events and changing weather patterns are a reality. The higher frequency and severity of drought, flooding, storms and wildfires in South Africa seemed to have become the new norm. The net claims incurred for the non-life sector increased by R4.5 billion (11.5%) versus a R3.3 billion (4.7%) increase in net earned premiums. This resulted in the claims incurred ratio increasing from 55.3% in 2018 to 58.9% in 2019.

[5] Includes Auto and General Insurance Company (RF) Limited, Budget Insurance Company (RF) Limited, Dial Direct Insurance (RF) Limited and First for Women Insurance Company (RF) Limited

The table below reflects the claims incurred ratio for the non-life sector for the most recent years.

2019	2018	2017	2016	2015
58.9%	55.3%	57.3%	57.9%	57.1%

In 2018 the industry had positive claims experience. When compared to the industry's claims history before 2018, the 2018 claims experience seems to be somewhat of an anomaly.

In 2019 the industry experienced multiple catastrophe events, including storms in several areas in KwaZulu-Natal, Gauteng and the Eastern Cape and fires in the Betty's Bay area. South Africa even experienced tornado losses, which resulted in lives lost, injuries and damages to homes and public infrastructure. These tornado losses seem to increase in South Africa as thunderstorms grow more severe. The industry also experienced hail-related losses which especially affected crop business.

Many insurers reported that the catastrophe claims were not large enough to individually exceed the retention on their catastrophe excess of loss treaties. This ultimately resulted in the non-life industry bearing the brunt of a large portion of these claims which contributed to the worsening of the net claims incurred ratio.

According to the World Economic Forum's global risks report, the African continent will be hardest hit by climate change as it is more vulnerable than any other region to the world's changing weather patterns. Climate change was also on the agenda of the Prudential Authority (PA). It is considered as a significant risk for the industry. The PA intends to publish a document outlining proposals for insurers to consider climate risks as part of their Pillar 2 assessments. The PA promised to enhance its supervisory processes and activities in assessing climate risks within its overall risk assessment process for financial institutions. Furthermore, the PA recognises the importance of introducing specific climate reporting as a component of regulatory reporting requirements. According to the FitchSolutions Q1 2020 South Africa Insurance Report, there is an opportunity for better limiting of losses from catastrophes by increasing the cooperation between local authorities and insurers.

In addition to the weather-related losses, load shedding and the GDP contraction, the trade credit insurance industry experienced higher attritional losses during 2019. Covid-19 has exacerbated this trend in 2020.

Investment income

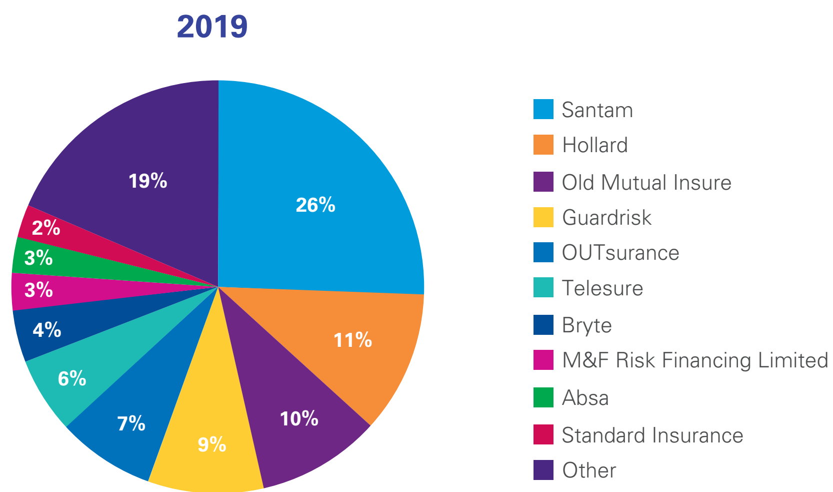
Total investment income was up 10.6% from 2018. This increase is however following a less than satisfactory investment performance during 2018. Total investments, including cash and cash equivalents, increased by 7.2% from the prior year. The majority of the increase was attributable to an increase in cash and cash equivalents, indicating an increasingly risk-averse stance from insurers.

Factors affecting investment income:

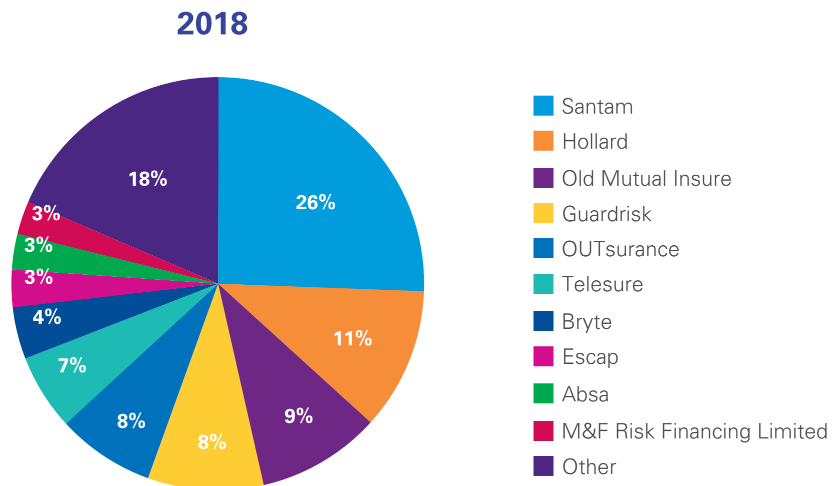
- There was not much movement from an interest rate perspective. During 2019 there was a prime interest rate cut of 25 basis points over the half year mark.
- The 91-day Treasury Bills tender rates were down in 2019, when compared 2018.
- The SWIX benchmark (60% SWIX and 40% Capped SWIX) delivered a return of 8.3%. This is compared to 2018 where the SWIX decreased by 14%.
- The South African Rand gradually weakened against the United States Dollar (USD) over the course of 2019, meaning that any insurers with USD exposed assets in their investment portfolios have seen an improvement in investment income from these assets.

Market share by GWP

2019



2018



In 2019 the market share of the ten largest insurers by GWP amounted to 81% of total market share which is relatively consistent with 2018 at 82%.

Comparing the market share positions of 2019 to that of 2018, Escap dropped out of the top ten from eighth place, after its premium income from Eskom was reduced significantly. Escap is currently in eleventh place and has been replaced by Standard Insurance Limited (Standard Insurance) in tenth place. Mutual & Federal Risk Financing Limited moved into eighth place.

Corporate activities, new entrants and partnerships

Following the completion of the acquisition of the Regent Insurance Group by the Hollard Insurance Group in 2017, Regent Insurance Company Limited's name changed, effective 1 July 2019, to Hollard Specialist Insurance Company Limited. The move cements the combined non-life insurance businesses' position among the top ten in South Africa.

Compass Insurance Company Limited (Compass), a wholly owned subsidiary of Hannover Re, announced its strategic partnership with Natsure Underwriting Managers (Natsure). Natsure offers a bouquet of niche non-life insurance products.

Following the completion of Momentum Metropolitan Holdings' acquisition of the Alexander Forbes non-life insurance business, Alexander Forbes Insurance (AFI) will be renamed Momentum Insurance Company Limited in the next step on its growth journey to integrate as a single entity. The two businesses will continue to operate as two separate entities in the medium-term until the integration is successfully completed.

Insuretech is arguably the most significant trend locally and globally. Take Lemonade Inc for example, the mobile-based insurance start-up's recent listing on the New York Stock Exchange saw it doubling the share value after the Initial Public Offering.

Globally, partnerships between insurers and technology companies are increasingly common. Since 2017, insurance companies and technology companies around the globe have publicly announced more than 180 partnerships. The number of partnerships formed each quarter continues to rise. These insurers are all pursuing new innovations and tools to remain relevant and competitive in a changing market. Digitisation and automation is fundamentally reshaping the future of insurance.

Digital innovation is gathering pace in South Africa as well, for example, we have seen the following partnerships develop recently:

- Santam has invested and partnered with insurtech company, JaSure. JaSure offers digital, on-demand insurance to clients effectively allowing them to choose what they want to insure and when to do so. JaSure's offering is app-based and provides on-demand insurance for portable possessions like cellphones and laptops, photography, bicycles, other sports gear, eyewear, camping equipment and musical instruments. Insurance can be purchased for an individual item for a specific period of time, and the cover can be turned on and off at the client's discretion.
- Old Mutual Insure and insurtech startup, Pineapple, announced their agreement to cooperate in the local non-life insurance market. Pineapple, is a peer-to-peer insurer employing technology, artificial intelligence and a mobile app. Pineapple was recently awarded USD1.5 million in funding at a start-up challenge called VentureClash. Pineapple provides property insurance with customers purchasing cover via the app by providing a picture of the item to be insured. It plans to expand into motor insurance in the coming months.
- Guardrisk has partnered with Root, a fintech start-up, to extend its CarSure product, which offers insurance to people renting cars if their vehicle is damaged or stolen. CarSure has taken its commitment to quick and easy access to products a step further with a WhatsApp chatbot. This is arguably South Africa's first non-life insurance WhatsApp chatbot. In addition, Guardrisk's partnership with Agnovate has resulted in a multi-peril yield insurance product to mitigate and reduce the financial risks faced by South African grain farmers, who are vulnerable to the effects of drought and grain price volatility. Insurance rates are calculated based on the historical yield performance of a predefined production area which considers similar soil and climate in one geographical zone.

In closing

Looking back at 2019, it will be remembered as the year before COVID-19 but also a year of low economic growth, increased natural catastrophes and increased collaboration with insuretech startups.

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NON-LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-19	Dec-18	Dec-19	Dec-18	Mar-19	Mar-18	Dec-19	Dec-18	Jun-19	Jun-18
Group/Company	**Absa Insurance Company Limited**		**Absa Insurance Risk Management Services Limited**		**Alexander Forbes Insurance Company Limited**		**Allianz Global Corporate and Specialty South Africa Limited**		**Auto and General Insurance Company (RF) Limited**	
Share capital and share premium	31 000	31 000	20 000	20 000	67 915	67 915	123 164	123 164	53 506	53 506
Retained earnings/(deficit)	1 310 783	1 450 013	23 202	30 041	284 992	251 953	65 153	52 068	543 734	765 802
Reserves	7 257	5 262	-	-	-	-	-	-	-	-
Total shareholders' funds	**1 349 040**	**1 486 275**	**43 202**	**50 041**	**352 907**	**319 868**	**188 317**	**175 232**	**597 240**	**819 308**
Gross outstanding claims	443 271	412 409	68 175	55 395	276 787	283 367	1 211 877	1 318 629	365 694	392 257
Gross unearned premium reserve	774 162	740 134	-	-	28 271	26 389	398 432	410 185	144 098	140 055
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	61 182	58 045
Owing to cell owners	-	-	54 394	63 566	-	-	-	-	-	-
Deferred reinsurance commission revenue	6 774	6 555	-	-	5 533	5 133	119 407	154 297	-	-
Deferred tax liability	-	-	2	2	-	-	-	-	-	-
Other liabilities (including lease liabilites)	387 732	330 644	29 639	20 379	160 402	106 872	476 568	239 435	529 714	331 711
Total liabilities	**1 611 939**	**1 489 742**	**152 210**	**139 342**	**470 993**	**421 761**	**2 206 284**	**2 122 546**	**1 100 688**	**922 068**
Total investments including investments in subsidiaries	**2 139 669**	**2 194 343**	**65 341**	**73 789**	**1 078**	**257 673**	**-**	**-**	**1 009 767**	**1 119 142**
Deferred tax asset, intangible assets, PPE and ROU assets	97 141	48 983	-	-	11 259	11 265	8 753	4 576	35 116	1 561
Reinsurers' share of outstanding claims	53 952	62 401	68 175	55 395	209 741	242 304	1 170 936	1 288 374	78 517	69 064
Reinsurers' share of unearned premium reserve	67 631	64 780	-	-	21 282	19 837	397 954	410 405	-	-
Gross expected salvages and recoveries	-	-	-	-	-	-	-	-	81 094	105 391
Deferred aquisition costs	124 255	119 888	-	-	1 102	2 328	86 079	91 839	14 243	13 609
Cash and cash equivalents	210 732	377 312	47 063	57 520	442 113	32 191	390 402	228 277	258 212	158 420
Other assets	267 599	108 310	14 833	2 679	137 325	176 031	340 477	274 307	220 979	274 189
Total assets	**2 960 979**	**2 976 017**	**195 412**	**189 383**	**823 900**	**741 629**	**2 394 601**	**2 297 778**	**1 697 928**	**1 741 376**
International solvency margin	46%	62%	N/A	N/A	80%	75%	(9 182%)	(2 956%)	98%	52%
Total assets/Total liabilities	184%	200%	128%	136%	175%	176%	109%	108%	154%	189%
Change in shareholders' funds	(9%)		(14%)		10%		7%		(27%)	

NON-LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-19	Dec-18	Jun-19	Jun-18	Dec-19	Dec-18	Jun-19	Jun-18	Dec-19	Dec-18
Group/Company	**Bryte Insurance Company Limited**		**Budget Insurance Company (RF) Limited**		**Chubb Insurance South Africa Limited**		**Clientele General Insurance Limited**		**Compass Insurance Company Limited**	
Share capital and share premium	4 650	4 650	80 001	80 001	115 000	115 000	42 500	42 500	114 284	114 284
Retained earnings/(deficit)	1 295 444	1 245 424	254 886	524 042	122 715	110 528	185 886	176 542	151 270	135 758
Reserves	(27 835)	(23 436)	-	-	889	1 752	3 508	3 618	253	201
Total shareholders' funds	**1 272 259**	**1 226 638**	**334 887**	**604 043**	**238 604**	**227 280**	**231 894**	**222 660**	**265 807**	**250 243**
Gross outstanding claims	2 834 409	2 336 084	242 787	258 593	585 327	520 308	5 973	6 465	522 608	486 897
Gross unearned premium reserve	711 448	671 167	42 963	44 685	252 756	186 581	3 469	3 358	106 743	96 764
Reinsurers' share of expected salvages and recoveries	-	-	44 509	31 905	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	51 366	40 130	-	-	56 164	41 730	-	-	32 914	29 682
Deferred tax liability	-	-	-	-	25	318	5 643	6 398	-	-
Other liabilities (including lease liabilites)	1 802 830	1 388 162	445 104	94 459	124 957	114 960	42 545	53 017	264 702	316 756
Total liabilities	**5 400 053**	**4 435 543**	**775 363**	**429 642**	**1 019 229**	**863 897**	**57 630**	**69 238**	**926 966**	**930 099**
Total investments including investments in subsidiaries	**2 363 767**	**2 152 175**	**635 398**	**733 237**	**302 923**	**238 323**	**242 510**	**227 893**	**496 313**	**540 557**
Deferred tax asset, intangible assets, PPE and ROU assets	226 949	166 023	29 466	689	6 484	2 981	14 499	16 161	24 219	10 757
Reinsurers' share of outstanding claims	1 681 977	1 370 251	43 953	30 643	458 667	405 404	-	-	465 050	433 415
Reinsurers' share of unearned premium reserve	214 804	268 185	-	-	186 126	137 697	-	-	107 183	97 203
Gross expected salvages and recoveries	-	-	62 332	67 144	-	-	-	-	-	-
Deferred aquisition costs	103 792	92 825	358	554	36 021	27 689	-	-	30 154	27 098
Cash and cash equivalents	838 748	643 738	262 998	89 054	90 227	143 798	28 345	46 278	45 650	42 680
Other assets	1 242 275	968 984	75 745	112 364	177 385	135 285	4 170	1 566	24 204	28 632
Total assets	**6 672 312**	**5 662 181**	**1 110 250**	**1 033 685**	**1 257 833**	**1 091 177**	**289 524**	**291 898**	**1 192 773**	**1 180 342**
International solvency margin	35%	37%	79%	72%	217%	190%	52%	55%	224%	280%
Total assets/Total liabilities	124%	128%	143%	241%	123%	126%	502%	422%	129%	127%
Change in shareholders' funds	4%		(45%)		5%		4%		6%	

NON-LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Mar-19	Mar-18	Jun-19	Jun-18	Mar-19	Mar-18	Dec-19	Dec-18	Jun-19	Jun-18
Group/Company	**Corporate Guarantee (South Africa) Limited**		**Dial Direct Insurance (RF) Limited**		**Escap SOC Limited**		**The Federated Employers Mutual Assurance Company (RF) Proprietary Limited**		**First for Women Insurance Company (RF) Limited**	
Share capital and share premium	42 900	42 900	20 001	20 001	379 500	379 500	-	-	82 000	82 000
Retained earnings/(deficit)	5 929	27 637	176 178	280 908	6 855 525	6 223 310	3 531 000	3 038 000	71 088	104 796
Reserves	-	-	-	-	-	9 784	-	-	-	-
Total shareholders' funds	**48 829**	**70 537**	**196 179**	**300 909**	**7 235 025**	**6 612 594**	**3 531 000**	**3 038 000**	**153 088**	**186 796**
Gross outstanding claims	10 142	10 100	99 847	108 553	5 267 865	4 953 336	2 553 000	2 378 000	102 315	116 442
Gross unearned premium reserve	552 553	523 619	120 700	118 725	713 988	933 704	685 000	726 000	50 675	44 742
Reinsurers' share of expected salvages and recoveries	-	-	17 699	12 145	-	-	-	-	21 653	24 667
Owing to cell owners	-	-	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	-	-	-	-	-	-	-	-	-	-
Deferred tax liability	-	-	-	-	30 011	85 197	-	-	-	-
Other liabilities (including lease liabilites)	5 557	5 380	112 068	45 083	5 046	2 549	71 000	62 000	197 042	56 835
Total liabilities	**568 252**	**539 099**	**350 314**	**284 506**	**6 016 910**	**5 974 786**	**3 309 000**	**3 166 000**	**371 685**	**242 686**
Total investments including investments in subsidiaries	**492 980**	**448 994**	**386 898**	**439 845**	**12 143 774**	**10 324 844**	**6 684 000**	**5 998 000**	**339 539**	**287 375**
Deferred tax asset, intangible assets, PPE and ROU assets	3 098	2 576	14 346	514	-	-	80 000	71 000	15 574	145
Reinsurers' share of outstanding claims	-	-	18 393	13 561	595 057	1 294 152	4 000	6 000	18 985	22 821
Reinsurers' share of unearned premium reserve	-	-	-	-	366 425	479 606	-	-	-	-
Gross expected salvages and recoveries	-	-	24 723	25 416	-	-	-	-	30 512	27 893
Deferred aquisition costs	-	-	72	129	-	-	-	-	152	246
Cash and cash equivalents	63 769	87 925	75 884	62 377	24 610	14 344	33 000	23 000	75 469	43 303
Other assets	57 234	70 141	26 177	43 573	122 069	474 434	39 000	106 000	44 542	47 699
Total assets	**617 081**	**609 636**	**546 493**	**585 415**	**13 251 935**	**12 587 380**	**6 840 000**	**6 204 000**	**524 773**	**429 482**
International solvency margin	529%	1 370%	128%	74%	291%	233%	589%	500%	71%	415%
Total assets/Total liabilities	109%	113%	156%	206%	220%	211%	207%	196%	141%	177%
Change in shareholders' funds	(31%)		(35%)		9%		16%		(18%)	

NON-LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Jun-19	Jun-18	Jun-19	Jun-18	Jun-19	Jun-18	Sep-19	Sep-18	Mar-19	Mar-18
Group/Company	**Guardrisk Insurance Company Limited**		**The Hollard Insurance Company Limited**		**Hollard Specialist Insurance Company**		**Indequity Specialised Insurance Limited**		**Infiniti Insurance Limited**	
Share capital and share premium	224 414	224 414	1 642 601	1 642 601	200 503	200 503	14 470	14 470	187 230	187 230
Retained earnings/(deficit)	349 594	375 467	1 293 007	1 204 961	44 641	43 918	18 171	21 070	303 574	231 531
Reserves	-	-	4 012	4 012	659 914	792 834	(1 340)	(2 265)	-	-
Total shareholders' funds	**574 008**	**599 881**	**2 939 620**	**2 851 574**	**905 058**	**1 037 255**	**31 301**	**33 275**	**490 804**	**418 761**
Gross outstanding claims	2 233 766	1 672 900	2 707 595	3 085 426	270 018	281 142	4 675	5 062	303 636	405 205
Gross unearned premium reserve	4 078 400	3 856 490	2 131 626	1 755 950	416 187	370 898	246	293	238 702	231 188
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	5 585 802	4 991 574	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	161 034	120 698	-	-	-	-	-	-	12 529	10 484
Deferred tax liability	-	14 520	199 333	223 310	-	41 829	-	183	14 925	35 514
Other liabilities (including lease liabilites)	1 492 468	1 390 475	2 448 868	2 862 107	219 522	158 157	6 550	3 315	202 616	176 710
Total liabilities	**13 551 470**	**12 046 657**	**7 487 422**	**7 926 793**	**905 727**	**852 026**	**11 471**	**8 853**	**772 408**	**859 101**
Total investments including investments in subsidiaries	**9 368 466**	**8 790 531**	**3 238 387**	**3 221 672**	**1 275 299**	**1 632 654**	**8 635**	**8 697**	**864 196**	**746 861**
Deferred tax asset, intangible assets, PPE and ROU assets	40 974	18 105	404 943	343 966	51 486	67 282	3 594	2 142	1 613	1 794
Reinsurers' share of outstanding claims	1 725 579	1 213 536	985 789	1 548 649	28 329	34 840	30	31	100 830	205 956
Reinsurers' share of unearned premium reserve	768 851	635 781	1 025 301	1 203 812	4	86	-	-	49 072	45 143
Gross expected salvages and recoveries	-	-	-	-	-	-	2 116	2 080	-	-
Deferred aquisition costs	143 659	88 169	109 729	116 443	-	-	-	-	57 260	57 987
Cash and cash equivalents	956 327	841 226	2 575 926	2 221 041	419 635	86 917	28 040	29 088	65 932	86 634
Other assets	1 121 622	1 059 190	2 086 967	2 122 784	36 032	67 502	357	90	124 309	133 487
Total assets	**14 125 478**	**12 646 538**	**10 427 042**	**10 778 367**	**1 810 785**	**1 889 281**	**42 772**	**42 128**	**1 263 212**	**1 277 862**
International solvency margin	14%	19%	36%	36%	66%	77%	50%	57%	51%	43%
Total assets/Total liabilities	104%	105%	139%	136%	200%	222%	373%	476%	164%	149%
Change in shareholders' funds	(4%)		3%		(13%)		(6%)		17%	

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NON-LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Jun-19	Jun-18	Jun-19	Jun-18	Jun-19	Jun-18	Dec-19	Dec-18	Dec-19	Dec-18
Group/Company	**King Price Insurance Company Limited**		**Lombard Insurance Company Limited**		**Momentum Short Term Insurance Company Limited**		**Mutual and Federal Risk Financing Limited**		**Nedgroup Insurance Company Limited**	
Share capital and share premium	730 400	730 400	189 050	189 050	863 713	798 613	4 550	4 550	5 000	5 000
Retained earnings/(deficit)	(447 424)	(502 028)	538 206	498 806	(274 851)	(287 147)	201 694	211 767	850 421	782 887
Reserves	-	-	-	-	-	-	-	-	-	-
Total shareholders' funds	**282 976**	**228 372**	**727 256**	**687 856**	**588 862**	**511 466**	**206 244**	**216 317**	**855 421**	**787 887**
Gross outstanding claims	172 319	136 701	1 124 255	1 085 172	171 983	141 141	696 418	694 720	169 481	143 926
Gross unearned premium reserve	7 945	1 300	542 807	505 992	26 901	19 336	435 737	396 998	364 232	404 172
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	-	-	1 118 978	878 101	-	-
Deferred reinsurance commission revenue	-	-	58 745	58 684	-	-	68 529	70 438	17	17
Deferred tax liability	-	-	-	2 963	-	-	3 331	4 560	14 587	9 652
Other liabilities (including lease liabilites)	168 966	133 499	1 397 746	1 303 665	82 646	76 148	364 103	356 364	106 778	100 340
Total liabilities	**349 229**	**271 500**	**3 123 553**	**2 956 476**	**281 530**	**236 625**	**2 687 096**	**2 401 181**	**655 095**	**658 107**
Total investments including investments in subsidiaries	**-**	**-**	**965 532**	**493 927**	**678 565**	**586 943**	**1 298 158**	**972 273**	**1 247 974**	**1 179 669**
Deferred tax asset, intangible assets, PPE and ROU assets	214 652	149 143	40 633	32 939	116 518	121 817	-	-	3 526	2 983
Reinsurers' share of outstanding claims	144 865	119 922	776 155	744 761	482	1 469	543 710	522 944	24 888	29 314
Reinsurers' share of unearned premium reserve	7 175	1 130	255 888	212 533	242	215	383 612	345 201	2 792	4 815
Gross expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Deferred aquisition costs	1 946	123	66 647	62 736	229	220	68 529	70 438	135 987	174 582
Cash and cash equivalents	229 236	210 733	1 028 234	1 250 752	72 790	34 074	395 675	407 751	35 057	27 138
Other assets	34 332	18 820	717 720	846 684	1 566	3 353	203 656	298 891	60 292	27 493
Total assets	**632 206**	**499 871**	**3 850 809**	**3 644 332**	**870 392**	**748 091**	**2 893 340**	**2 617 498**	**1 510 516**	**1 445 994**
International solvency margin	118%	120%	87%	105%	68%	69%	449%	556%	76%	74%
Total assets/Total liabilities	181%	184%	123%	123%	309%	316%	108%	109%	231%	220%
Change in shareholders' funds	24%		6%		15%		(5%)		9%	

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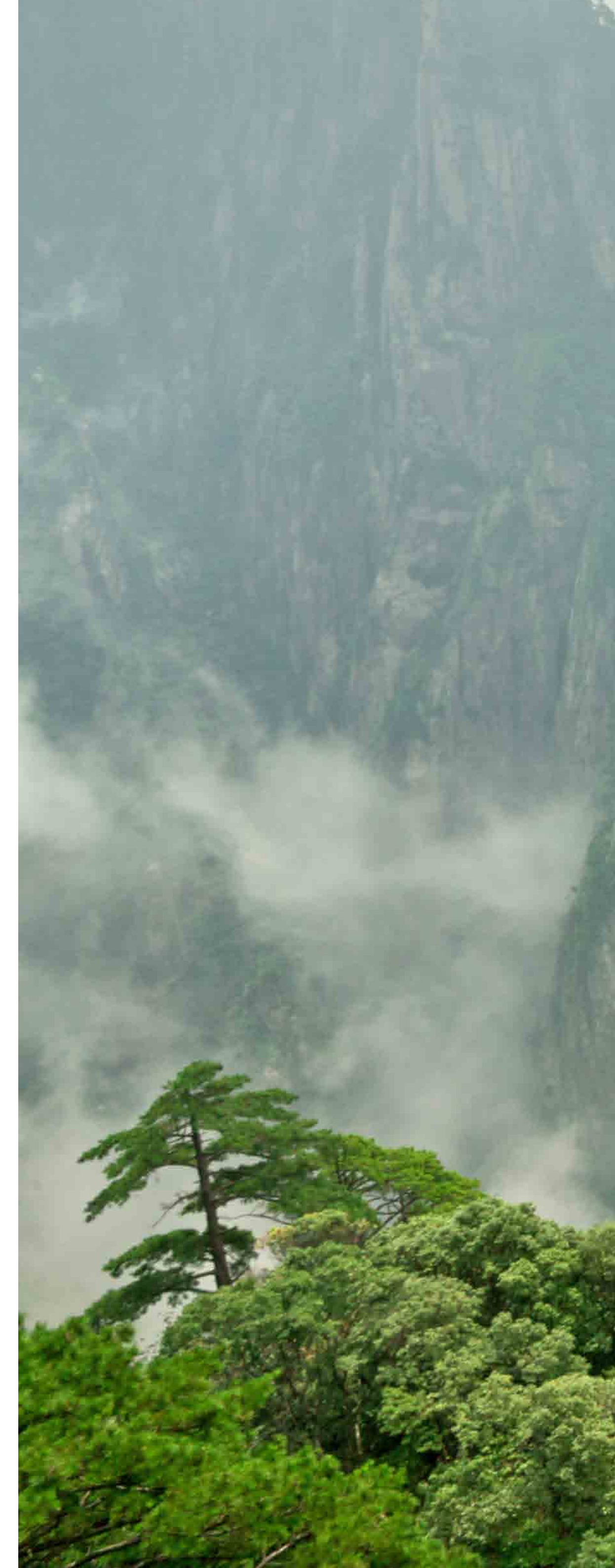
NON-LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-19	Dec-18	Jun-19	Jun-18	Dec-19	Dec-18	Jun-19	Jun-18	Dec-19	Dec-18
Group/Company	**Old Mutual Insure Limited**		**OUTsurance Insurance Company Limited**		**Professional Provident Society Short-Term Insurance Company Limited**		**Renasa Insurance Company Limited**		**Santam Limited**	
Share capital and share premium	1 797 000	1 797 000	25 000	25 000	364 463	308 413	197 407	149 550	103 000	103 000
Retained earnings/(deficit)	2 157 000	2 375 000	3 692 812	3 781 819	(207 597)	(179 008)	51 881	18 518	8 398 000	7 763 000
Reserves	90 000	90 000	10 529	132 964	-	-	-	-	-	-
Total shareholders' funds	**4 044 000**	**4 262 000**	**3 728 341**	**3 939 783**	**156 866**	**129 405**	**249 288**	**168 068**	**8 501 000**	**7 866 000**
Gross outstanding claims	2 607 000	2 874 000	1 419 377	1 262 241	31 009	20 535	396 394	297 249	10 484 000	9 885 000
Gross unearned premium reserve	1 034 000	955 000	468 151	458 219	7 874	1 273	66 982	49 483	3 801 000	3 415 000
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	125 000	114 000	-	-	-	-	-	-	408 000	374 000
Deferred tax liability	-	-	-	-	-	-	-	-	-	-
Other liabilities (including lease liabilites)	2 736 000	2 332 000	472 486	624 485	46 601	27 501	164 659	180 920	7 149 000	7 081 000
Total liabilities	**6 502 000**	**6 275 000**	**2 360 014**	**2 344 945**	**85 484**	**49 309**	**628 035**	**527 652**	**21 842 000**	**20 755 000**
Total investments including investments in subsidiaries	**4 622 000**	**5 077 000**	**5 350 379**	**5 498 123**	**-**	**-**	**165 127**	**109 277**	**16 155 000**	**15 685 000**
Deferred tax asset, intangible assets, PPE and ROU assets	895 000	328 000	148 043	172 026	83 512	61 509	9 110	8 599	935 000	347 000
Reinsurers' share of outstanding claims	916 000	1 090 000	22 604	48 063	6 494	1 957	359 969	270 087	4 212 000	4 270 000
Reinsurers' share of unearned premium reserve	505 000	463 000	-	-	6 179	-	60 489	44 752	1 551 000	1 406 000
Gross expected salvages and recoveries	222 000	275 000	-	-	-	-	-	-	-	-
Deferred aquisition costs	174 000	158 000	-	-	-	-	10 692	8 304	639 000	564 000
Cash and cash equivalents	283 000	343 000	177 881	164 198	126 914	105 705	216 448	203 746	2 057 000	1 361 000
Other assets	2 929 000	2 803 000	389 448	402 318	19 251	9 543	55 488	50 955	4 794 000	4 988 000
Total assets	**10 546 000**	**10 537 000**	**6 088 355**	**6 284 728**	**242 350**	**178 714**	**877 323**	**695 720**	**30 343 000**	**28 621 000**
		-								
International solvency margin	45%	52%	45%	52%	85%	78%	116%	119%	38%	37%
Total assets/Total liabilities	162%	168%	258%	268%	284%	362%	140%	132%	139%	138%
Change in shareholders' funds	(5%)		(5%)		21%		48%		8%	

NON-LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Mar-19	Mar-18	Dec-19	Dec-18	Sep-19	Sep-18
Group/Company	**Sasria SOC Limited**		**Standard Insurance Limited**		**Unitrans Insurance Limited**	
Share capital and share premium	-	-	30 000	30 000	15 150	15 150
Retained earnings/(deficit)	6 625 406	6 097 080	1 859 652	1 595 908	355 411	420 673
Reserves	-	529 709	140	140	-	-
Total shareholders' funds	**6 625 406**	**6 626 789**	**1 889 792**	**1 626 048**	**370 561**	**435 823**
Gross outstanding claims	1 263 851	765 440	544 314	497 991	48 692	51 942
Gross unearned premium reserve	416 988	413 964	68 290	63 486	167 498	153 804
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	-	-
Deferred reinsurance commission revenue	8 850	4 321	-	-	2 952	2 709
Deferred tax liability	70 112	91 860	4 560	-	8 898	8 913
Other liabilities (including lease liabilites)	87 554	114 011	149 473	130 000	142 324	33 872
Total liabilities	**1 847 355**	**1 389 596**	**766 637**	**691 477**	**370 364**	**251 240**
Total investments including investments in subsidiaries	**3 842 110**	**5 644 715**	**2 128 237**	**1 703 353**	**421 726**	**256 851**
Deferred tax asset, intangible assets, PPE and ROU assets	64 909	7 299	1 392	12 675	14	-
Reinsurers' share of outstanding claims	8	108	39 812	8 516	6 294	13 985
Reinsurers' share of unearned premium reserve	29 501	24 722	-	-	81 602	69 018
Gross expected salvages and recoveries	-	-	-	-	-	-
Deferred aquisition costs	61 325	59 498	7 689	5 633	35 808	34 621
Cash and cash equivalents	4 162 225	1 940 774	190 032	312 912	156 816	274 240
Other assets	312 683	339 269	289 267	274 436	38 665	38 348
Total assets	**8 472 761**	**8 016 385**	**2 656 429**	**2 317 525**	**740 925**	**687 063**
International solvency margin	334%	363%	72%	65%	250%	254%
Total assets/Total liabilities	459%	577%	347%	335%	200%	273%
Change in shareholders' funds	(0%)		16%		(15%)	



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"A good half of the art of living is resilience."
- Alain de Botton

NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-19	Dec-18	Dec-19	Dec-18	Mar-19	Mar-18	Dec-19	Dec-18	Jun-19	Jun-18
Group/Company	**Absa Insurance Company Limited**		**Absa Insurance Risk Management Services Limited**		**Alexander Forbes Insurance Company Limited**		**Allianz Global Corporate and Specialty South Africa Limited**		**Auto and General Insurance Company (RF) Limited**	
Gross premiums written	3 093 306	2 566 695	-	-	1 776 101	1 695 208	1 116 843	984 993	2 993 006	3 592 071
Net premiums written	2 990 721	2 407 539	-	-	443 484	426 694	(1 964)	(5 635)	613 725	1 581 846
Earned premiums	**2 959 043**	**2 404 751**	**-**	**-**	**443 047**	**427 009**	**(2 051)**	**(5 929)**	**609 682**	**1 575 591**
Total net investment income	**193 807**	**161 182**	**7 236**	**7 477**	**36 798**	**31 759**	**17 554**	**12 921**	**97 334**	**86 858**
Reinsurance commission revenue	9 766	18 660	-	-	412 982	343 262	318 865	275 000	958 257	805 417
Other income	37 065	33 925	11	19	39 394	65 838	6 647	7 794	67 530	76 871
Total income	**3 199 681**	**2 618 518**	**7 247**	**7 496**	**932 220**	**867 868**	**341 015**	**289 786**	**1 732 803**	**2 544 737**
Net claims incurred	1 888 445	1 393 522	3 995	4 589	275 391	273 580	12 013	1 472	480 041	1 004 797
Acquisition costs	462 549	387 541	-	-	95 986	84 798	165 861	149 566	303 664	504 199
Cell owners' transactions	-	-	-	-	-	-	-	-	-	-
Management and other expenses	398 474	433 759	9 315	111	398 312	391 110	145 081	125 327	906 685	802 182
Total expenses	**2 749 468**	**2 214 822**	**13 310**	**4 700**	**769 689**	**749 488**	**322 955**	**276 365**	**1 690 390**	**2 311 178**
Net profit/(loss) before taxation	**450 213**	**403 696**	**(6 063)**	**2 796**	**162 531**	**118 380**	**18 060**	**13 421**	**42 413**	**233 559**
Taxation	130 441	96 121	776	-	45 492	32 952	4 977	(7 021)	8 024	64 071
Net profit/(loss) after taxation	**319 771**	**307 575**	**(6 839)**	**2 796**	**117 039**	**85 428**	**13 083**	**20 457**	**34 389**	**169 488**
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**319 771**	**307 575**	**(6 839)**	**2 796**	**117 039**	**85 428**	**13 083**	**20 457**	**34 389**	**169 488**
Transfer to/(from) retained earnings	-	(215 138)	-	-	-	-	-	-	457	-
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Dividends	459 000	192 000	-	-	84 000	-	-	-	256 000	54 440
Change in retained earnings	**(139 229)**	**330 713**	**(6 839)**	**2 796**	**33 039**	**85 428**	**13 083**	**20 457**	**(222 068)**	**115 048**
Net premium to gross premium	97%	94%	N/A	N/A	25%	25%	(0%)	(1%)	21%	44%
Claims incurred to earned premium	64%	58%	N/A	N/A	62%	64%	(586%)	(25%)	79%	64%
Management and other expenses to net earned premium	13%	18%	N/A	N/A	90%	92%	(7 074%)	(2 114%)	149%	51%
Combined ratio	93%	91%	N/A	N/A	81%	95%	(199%)	(23%)	120%	96%
Operating ratio	86%	85%	N/A	N/A	72%	88%	656%	195%	104%	90%
Return on equity	24%	21%	(16%)	6%	33%	27%	7%	12%	6%	21%

NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-19	Dec-18	Jun-19	Jun-18	Dec-19	Dec-18	Jun-19	Jun-18	Dec-19	Dec-18
Group/Company	**Bryte Insurance Company Limited**		**Budget Insurance Company (RF) Limited**		**Chubb Insurance South Africa Limited**		**Clientele General Insurance Limited**		**Compass Insurance Company Limited**	
Gross premiums written	4 528 179	4 274 594	1 827 702	1 748 909	571 083	470 808	450 200	404 006	1 496 467	1 411 342
Net premiums written	3 692 299	3 350 637	423 840	846 348	127 752	109 107	450 200	404 006	118 721	92 473
Earned premiums	**3 598 637**	**3 348 086**	**425 562**	**843 151**	**110 007**	**119 443**	**450 200**	**404 006**	**118 724**	**89 312**
Total net investment income	**329 900**	**459 989**	**61 990**	**56 087**	**21 973**	**22 490**	**14 300**	**19 815**	**56 953**	**53 178**
Reinsurance commission revenue	86 673	182 582	632 650	403 894	118 485	107 097	-	-	493 939	495 692
Other income	2 247	5 181	40 005	66 916	2 920	4 194	1 236	1 992	3 387	1 967
Total income	**4 017 457**	**3 995 838**	**1 160 207**	**1 370 048**	**253 385**	**253 224**	**465 736**	**425 813**	**673 002**	**640 149**
Net claims incurred	2 375 360	2 108 232	357 716	594 173	63 935	53 947	41 755	40 363	57 365	41 040
Acquisition costs	727 282	672 389	29 264	31 410	89 341	93 170	280 405	206 577	489 366	481 011
Cell owners' transactions	-	-	-	-	-	-	-	-	-	-
Management and other expenses	768 852	738 803	563 000	434 178	55 121	51 839	69 686	87 223	57 650	48 387
Total expenses	**3 871 494**	**3 519 424**	**949 980**	**1 059 761**	**208 397**	**198 956**	**391 846**	**334 163**	**604 381**	**570 438**
Net profit/(loss) before taxation	**145 963**	**476 414**	**210 227**	**310 287**	**44 988**	**54 268**	**73 890**	**91 650**	**68 621**	**69 711**
Taxation	45 943	94 565	58 946	86 850	12 741	15 281	19 567	24 557	13 109	14 399
Net profit/(loss) after taxation	**100 020**	**381 849**	**151 281**	**223 437**	**32 247**	**38 987**	**54 323**	**67 093**	**55 512**	**55 312**
Other comprehensive income	-	-	-	-	-	-	-	-	52	(13)
Total comprehensive income for the year	**100 020**	**381 849**	**151 281**	**223 437**	**32 247**	**38 987**	**54 323**	**67 093**	**55 565**	**55 298**
Transfer to/(from) retained earnings	-	66 727	(437)	-	-	-	21	(127)	-	-
Other comprehensive income	-	-	-	-	-	-	-	-	(52)	13
Dividends	50 000	693 000	420 000	70 920	20 060	21 203	45 000	35 000	40 000	20 000
Change in retained earnings	**50 020**	**(244 424)**	**(269 156)**	**152 517**	**12 187**	**17 784**	**9 344**	**31 966**	**15 512**	**35 312**
Net premium to gross premium	82%	78%	23%	48%	22%	23%	100%	100%	8%	7%
Claims incurred to earned premium	66%	63%	84%	70%	58%	45%	9%	10%	48%	46%
Management and other expenses to net earned premium	21%	22%	132%	51%	50%	43%	15%	22%	49%	54%
Combined ratio	105%	100%	75%	78%	82%	77%	87%	83%	93%	84%
Operating ratio	96%	86%	60%	71%	62%	58%	84%	78%	45%	24%
Return on equity	8%	31%	45%	37%	14%	17%	23%	30%	21%	22%

NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Mar-19	Mar-18	Jun-19	Jun-18	Mar-19	Mar-18	Dec-19	Dec-18	Jun-19	Jun-18
Group/Company	**Corporate Guarantee (South Africa) Limited**		**Dial Direct Insurance (RF) Limited**		**Escap SOC Limited**		**The Federated Employers Mutual Assurance Company (RF) Proprietary Limited**		**First for Women Insurance Company (RF) Limited**	
Gross premiums written	38 169	48 648	824 615	899 430	2 721 598	3 340 874	857 000	957 000	952 433	935 796
Net premiums written	38 169	48 648	154 699	413 090	2 377 971	2 734 362	847 000	934 000	220 055	52 427
Earned premiums	**9 235**	**5 150**	**152 724**	**404 230**	**2 484 507**	**2 834 745**	**599 000**	**607 000**	**214 122**	**45 041**
Total net investment income	**48 168**	**47 195**	**36 895**	**36 576**	**767 375**	**894 278**	**674 000**	**5 000**	**28 493**	**24 504**
Reinsurance commission revenue	-	-	301 335	216 222	61 799	79 639	-	-	329 683	253 957
Other income	121	7	34 059	38 510	-	-	-	-	18 642	30 322
Total income	**57 524**	**52 352**	**525 013**	**695 538**	**3 313 681**	**3 808 662**	**1 273 000**	**612 000**	**590 940**	**353 824**
Net claims incurred	32 275	31 056	140 271	276 641	2 360 218	1 677 753	528 000	471 000	168 666	56 016
Acquisition costs	697	414	8 344	9 833	-	-	-	-	21 522	19 086
Cell owners' transactions	-	-	-	-	-	-	-	-	-	-
Management and other expenses	21 067	19 598	327 553	275 637	83 526	63 083	252 000	213 000	280 656	204 609
Total expenses	**54 039**	**51 068**	**476 168**	**562 111**	**2 443 744**	**1 740 836**	**780 000**	**684 000**	**470 844**	**279 711**
Net profit/(loss) before taxation	**3 485**	**1 284**	**48 845**	**133 427**	**869 937**	**2 067 826**	**493 000**	**(72 000)**	**120 096**	**74 113**
Taxation	192	(613)	13 555	37 239	237 722	570 637	-	-	33 608	20 688
Net profit/(loss) after taxation	**3 293**	**1 897**	**35 290**	**96 188**	**632 215**	**1 497 189**	**493 000**	**(72 000)**	**86 488**	**53 425**
Other comprehensive income	-	-	-	-	(9 784)	4 137	-	-	-	-
Total comprehensive income for the year	**3 293**	**1 897**	**35 290**	**96 188**	**622 431**	**1 501 326**	**493 000**	**(72 000)**	**86 488**	**53 425**
Transfer to/(from) retained earnings	-	-	(20)	-	-	-	-	-	(196)	-
Other comprehensive income	-	-	-	-	9 784	(4 137)	-	-	-	-
Dividends	25 000	-	140 000	39 080	-	-	-	-	120 000	46 560
Change in retained earnings	**(21 707)**	**1 897**	**(104 730)**	**57 108**	**632 215**	**1 497 189**	**493 000**	**(72 000)**	**(33 708)**	**6 865**
Net premium to gross premium	100%	100%	19%	46%	87%	82%	99%	98%	23%	6%
Claims incurred to earned premium	350%	603%	92%	68%	95%	59%	88%	78%	79%	124%
Management and other expenses to net earned premium	228%	381%	214%	68%	3%	2%	42%	35%	131%	454%
Combined ratio	585%	992%	114%	86%	96%	59%	130%	113%	66%	57%
Operating ratio	64%	75%	90%	77%	65%	27%	18%	112%	53%	3%
Return on equity	7%	3%	18%	32%	9%	23%	14%	(2%)	56%	29%

NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-19	Jun-18	Jun-19	Jun-18	Jun-19	Jun-18	Sep-19	Sep-18	Mar-19	Mar-18
Group/Company	**Guardrisk Insurance Company Limited**		**The Hollard Insurance Company Limited**		**Hollard Specialist Insurance Company**		**Indequity Specialised Insurance Limited**		**Infiniti Insurance Limited**	
Gross premiums written	9 983 925	8 200 592	10 856 041	10 259 310	1 433 548	1 395 861	63 565	59 148	1 155 450	1 123 437
Net premiums written	4 126 144	3 535 970	8 573 189	7 928 872	1 418 330	1 380 467	62 180	57 969	971 696	959 003
Earned premiums	**4 044 849**	**3 213 072**	**8 251 626**	**7 885 604**	**1 372 988**	**1 355 752**	**62 227**	**57 936**	**968 111**	**968 582**
Total net investment income	**804 517**	**715 739**	**438 607**	**678 977**	**146 004**	**131 423**	**2 020**	**1 643**	**82 136**	**(56 799)**
Reinsurance commission revenue	1 079 367	830 831	-	-	1 191	1 876	-	-	44 625	39 210
Other income	94 473	116 476	61 923	154 132	15 800	34 708	87	290	-	-
Total income	**6 023 206**	**4 876 118**	**8 752 156**	**8 718 713**	**1 535 983**	**1 523 759**	**64 334**	**59 869**	**1 094 872**	**950 993**
Net claims incurred	1 119 290	891 237	4 374 371	4 384 083	586 000	564 101	26 215	25 435	480 469	520 890
Acquisition costs	1 157 005	981 979	909 741	894 333	389 922	333 425	4 377	4 163	180 676	192 390
Cell owners' transactions	595 470	423 739	-	-	-	-	-	-	-	-
Management and other expenses	3 037 550	2 407 739	2 748 187	2 792 805	229 782	269 442	20 594	17 465	316 988	280 790
Total expenses	**5 909 315**	**4 704 694**	**8 032 299**	**8 071 221**	**1 205 704**	**1 166 968**	**51 186**	**47 063**	**978 133**	**994 070**
Net profit/(loss) before taxation	**113 891**	**171 424**	**719 857**	**647 492**	**330 279**	**356 791**	**13 148**	**12 806**	**116 739**	**(43 077)**
Taxation	36 635	50 847	175 005	428 389	117 524	105 756	3 803	3 549	29 696	(8 116)
Net profit/(loss) after taxation	**77 256**	**120 577**	**544 852**	**219 103**	**212 755**	**251 035**	**9 345**	**9 257**	**87 043**	**(34 961)**
Other comprehensive income	-	-	-	-	-	-	925	(1 755)	-	-
Total comprehensive income for the year	**77 256**	**120 577**	**544 852**	**219 103**	**212 755**	**251 035**	**10 270**	**7 502**	**87 043**	**(34 961)**
Transfer to/(from) retained earnings	(546)	-	42 717	-	198 832	225 476	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	(925)	1 755	-	-
Dividends	102 583	-	414 089	595 503	13 200	-	12 244	6 326	15 000	15 000
Change in retained earnings	**(25 873)**	**120 577**	**88 046**	**(376 400)**	**723**	**25 559**	**(2 899)**	**2 931**	**72 043**	**(49 961)**
Net premium to gross premium	41%	43%	79%	77%	99%	99%	98%	98%	84%	85%
Claims incurred to earned premium	28%	28%	53%	56%	43%	42%	42%	44%	50%	54%
Management and other expenses to net earned premium	75%	75%	33%	35%	17%	20%	33%	30%	33%	29%
Combined ratio	105%	107%	97%	102%	88%	86%	82%	81%	96%	99%
Operating ratio	85%	85%	92%	94%	77%	76%	79%	78%	88%	104%
Return on equity	13%	20%	19%	8%	24%	24%	30%	28%	18%	(8%)

NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-19	Jun-18	Jun-19	Jun-18	Jun-19	Jun-18	Dec-19	Dec-18	Dec-19	Dec-18
Group/Company	**King Price Insurance Company Limited**		**Lombard Insurance Company Limited**		**Momentum Short Term Insurance Company Limited**		**Mutual and Federal Risk Financing Limited**		**Nedgroup Insurance Company Limited**	
Gross premiums written	1 611 631	1 173 159	2 018 561	1 813 441	880 795	747 327	3 221 478	2 847 136	1 180 062	1 174 687
Net premiums written	240 819	190 695	826 043	698 302	869 744	737 730	46 311	41 711	1 092 816	1 065 707
Earned premiums	**240 219**	**190 548**	**832 644**	**652 894**	**869 678**	**737 351**	**45 983**	**38 925**	**1 130 733**	**1 068 513**
Total net investment income	**15 339**	**13 354**	**147 466**	**141 051**	**56 400**	**41 129**	**14 106**	**16 913**	**118 541**	**93 878**
Reinsurance commission revenue	576 813	418 139	351 663	373 415	-	-	570 129	457 283	3 661	10 573
Other income	35 105	20 447	9 462	13 793	-	-	-	-	34 490	35 374
Total income	**867 476**	**642 487**	**1 341 235**	**1 181 153**	**926 078**	**778 480**	**630 218**	**513 121**	**1 287 425**	**1 208 338**
Net claims incurred	81 493	60 315	337 588	236 791	554 242	485 955	4 566	1 437	598 262	505 787
Acquisition costs	396 185	296 875	482 242	414 651	89 605	83 039	570 134	457 546	212 157	219 041
Cell owners' transactions	-	-	-	-	-	-	-	-	-	-
Management and other expenses	370 363	311 565	427 834	413 143	265 153	233 871	31 017	42 094	249 396	291 416
Total expenses	**848 042**	**668 754**	**1 247 664**	**1 064 585**	**909 000**	**802 865**	**605 717**	**501 077**	**1 059 815**	**1 016 244**
Net profit/(loss) before taxation	**19 435**	**(26 267)**	**93 571**	**116 568**	**17 078**	**(24 385)**	**24 501**	**12 044**	**227 610**	**192 094**
Taxation	(35 170)	(36 856)	26 381	30 205	4 782	(60 404)	9 574	3 840	60 076	49 125
Net profit/(loss) after taxation	**54 604**	**10 589**	**67 190**	**86 363**	**12 296**	**36 019**	**14 927**	**8 204**	**167 534**	**142 969**
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**54 604**	**10 589**	**67 190**	**86 363**	**12 296**	**36 019**	**14 927**	**8 204**	**167 534**	**142 969**
Transfer to/(from) retained earnings	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	27 790	54 814	-	-	25 000	-	100 000	-
Change in retained earnings	**54 604**	**10 589**	**39 400**	**31 549**	**12 296**	**36 019**	**(10 073)**	**8 204**	**67 534**	**142 969**
Net premium to gross premium	15%	16%	41%	39%	99%	99%	1%	1%	93%	91%
Claims incurred to earned premium	34%	32%	41%	36%	64%	66%	10%	4%	53%	47%
Management and other expenses to net earned premium	154%	164%	51%	63%	30%	32%	67%	108%	22%	27%
Combined ratio	113%	132%	108%	106%	105%	109%	77%	113%	93%	94%
Operating ratio	107%	125%	90%	84%	98%	103%	47%	69%	83%	85%
Return on equity	19%	5%	9%	13%	2%	7%	7%	4%	20%	18%

NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-19	Dec-18	Jun-19	Jun-18	Dec-19	Dec-18	Jun-19	Jun-18	Dec-19	Dec-18
Group/Company	**Old Mutual Insure Limited**		**OUTsurance Insurance Company Limited**		**Professional Provident Society Short-Term Insurance Company Limited**		**Renasa Insurance Company Limited**		**Santam Limited**	
Gross premiums written	10 660 000	9 511 000	8 380 352	7 796 100	203 073	173 923	2 044 864	1 405 270	28 431 000	26 361 000
Net premiums written	9 015 000	8 191 000	8 251 617	7 635 022	185 274	166 647	216 759	143 434	22 591 000	21 041 000
Earned premiums	**8 978 000**	**8 179 000**	**8 241 685**	**7 625 991**	**184 852**	**166 394**	**214 997**	**141 243**	**22 288 000**	**21 008 000**
Total net investment income	**326 000**	**10 000**	**516 168**	**404 401**	**7 232**	**6 389**	**16 258**	**6 929**	**1 553 000**	**1 293 000**
Reinsurance commission revenue	376 000	236 000	-	6 706	2 749	1 690	514 697	270 430	1 435 000	1 336 000
Other income	-	-	-	-	1 129	2 769	-	-	56 000	64 000
Total income	**9 680 000**	**8 425 000**	**8 757 853**	**8 037 098**	**195 962**	**177 242**	**745 952**	**418 602**	**25 332 000**	**23 701 000**
Net claims incurred	5 788 000	4 941 000	4 104 481	3 579 263	128 170	130 906	159 823	112 978	13 860 000	12 629 000
Acquisition costs	1 588 000	1 351 000	35 737	31 228	13 589	10 577	307 175	215 156	5 164 000	4 792 000
Cell owners' transactions	-	-	-	-	-	-	-	-	-	-
Management and other expenses	2 060 000	1 866 000	2 105 476	1 780 792	93 889	72 678	264 392	79 820	3 786 000	3 643 000
Total expenses	**9 436 000**	**8 158 000**	**6 245 694**	**5 391 283**	**235 648**	**214 161**	**731 390**	**407 954**	**22 810 000**	**21 064 000**
Net profit/(loss) before taxation	**244 000**	**267 000**	**2 512 159**	**2 645 815**	**(39 686)**	**(36 919)**	**14 562**	**10 648**	**2 522 000**	**2 637 000**
Taxation	94 000	143 000	704 866	754 884	(11 097)	(10 246)	4 192	3 096	651 000	700 000
Net profit/(loss) after taxation	**150 000**	**124 000**	**1 807 293**	**1 890 931**	**(28 589)**	**(26 673)**	**10 370**	**7 552**	**1 871 000**	**1 937 000**
Other comprehensive income	8 000	(4 000)	(1 850)	58 777	-	-	22 993	10 166	-	-
Total comprehensive income for the year	**158 000**	**120 000**	**1 805 443**	**1 949 708**	**(28 589)**	**(26 673)**	**33 363**	**17 718**	**1 871 000**	**1 937 000**
Transfer to/(from) retained earnings	8 000	(4 000)	(76 700)	-	-	-	-	-	19 000	27 000
Other comprehensive income	(8 000)	4 000	1 850	(58 777)	-	-	-	-	-	-
Dividends	376 000	225 000	1 973 000	1 682 500	-	-	-	-	1 217 000	1 127 000
Change in retained earnings	**(218 000)**	**(105 000)**	**(89 007)**	**208 431**	**(28 589)**	**(26 673)**	**33 363**	**17 718**	**635 000**	**783 000**
Net premium to gross premium	85%	86%	98%	98%	91%	96%	11%	10%	79%	80%
Claims incurred to earned premium	64%	60%	50%	47%	69%	79%	74%	80%	62%	60%
Management and other expenses to net earned premium	23%	23%	26%	23%	51%	44%	123%	57%	17%	17%
Combined ratio	101%	97%	76%	71%	126%	128%	101%	97%	96%	94%
Operating ratio	97%	97%	70%	65%	122%	124%	93%	92%	89%	88%
Return on equity	4%	3%	48%	48%	(18%)	(21%)	4%	4%	22%	25%

NON-LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Mar-19	Mar-18	Dec-19	Dec-18	Sep-19	Sep-18
Group/Company	**Sasria SOC Limited**		**Standard Insurance Limited**		**Unitrans Insurance Limited**	
Gross premiums written	2 168 955	1 994 199	2 758 516	2 659 180	270 355	282 353
Net premiums written	1 983 090	1 845 397	2 640 257	2 553 408	149 564	172 705
Earned premiums	**1 986 189**	**1 824 025**	**2 614 128**	**2 514 655**	**148 454**	**171 597**
Total net investment income	**271 059**	**833 654**	**179 834**	**137 786**	**39 629**	**34 960**
Reinsurance commission revenue	38 277	61 963	6 500	6 419	3 645	3 031
Other income	191	1 116	-	-	5 031	4 697
Total income	**2 295 716**	**2 720 758**	**2 800 462**	**2 658 860**	**196 759**	**214 285**
Net claims incurred	1 578 424	662 891	1 306 843	1 223 714	62 153	95 632
Acquisition costs	319 814	271 091	478 726	450 246	38 557	36 370
Cell owners' transactions	-	-	-	-	-	-
Management and other expenses	469 996	419 311	353 450	313 660	12 665	12 769
Total expenses	**2 368 234**	**1 353 293**	**2 139 019**	**1 987 620**	**113 375**	**144 771**
Net profit/(loss) before taxation	**(72 518)**	**1 367 465**	**661 443**	**671 240**	**83 384**	**69 514**
Taxation	(71 135)	342 260	197 699	174 186	23 646	19 225
Net profit/(loss) after taxation	**(1 383)**	**1 025 205**	**463 744**	**497 054**	**59 738**	**50 289**
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	**(1 383)**	**1 025 205**	**463 744**	**497 054**	**59 738**	**50 289**
Transfer to/(from) retained earnings	529 709	(49 423)	-	-	-	-
Other comprehensive income	-	-	-	-	-	-
Dividends	-	162 979	200 000	300 000	125 000	-
Change in retained earnings	**528 326**	**812 803**	**263 744**	**197 054**	**(65 262)**	**50 289**
Net premium to gross premium	91%	93%	96%	96%	55%	61%
Claims incurred to earned premium	79%	36%	50%	49%	42%	56%
Management and other expenses to net earned premium	24%	23%	14%	12%	9%	7%
Combined ratio	117%	71%	82%	79%	74%	83%
Operating ratio	104%	25%	75%	73%	47%	62%
Return on equity	0%	15%	25%	31%	16%	12%

"Resilience is accepting your new reality,
even if it's less good than the one
you had before."
- Elizabeth Edwards

Pierre Fourie

Partner
Financial Services
Tel: +27 82 490 8077
Email: pierrejnr.fourie@kpmg.co.za

Life insurance industry results

Reflecting on the results for 2019 for the industry is very interesting from the view of what has happened in 2020.

The 2019 results will become the high-water mark for many organisations when measuring their recovery from the Covid-19 pandemic. It is therefore useful to remember that the South African economy has only grown Gross Domestic Product (GDP) by 0.2%, the lowest growth in more than ten years. It is however interesting to note that the finance sector has grown by 2.3% and now comprises 20% of the South African GDP. It is therefore a cornerstone of the economy. 2019 was also a year of recovery on the stock market with the JSE SWIX improving by 9.3% boosting investments returns for insurers.

With the equity markets showing a recovery and the financial position of many customers remaining stable, yet constrained, insurers were able to recover some of their losses by increasing their new business levels during the year. The largest five life insurers all reported sound increases in Life Annual Premium Equivalent (APE) during the period. Loyalty programmes have become the norm rather than the exception with the introduction of the Old Mutual programme and improvements to the programmes of Liberty, Momentum Metropolitan and Discovery. A further feature was the focus on reducing the cost of business and improvements in Value of New Business (VNB) margins seen at Momentum Metropolitan, Liberty and Sanlam. The competitive landscape and pricing pressure in the low-income markets saw a drop in the VNB margin for Old Mutual. Discovery's margin also declined during the year although it remains at a very healthy at 5%.

Value of new business

Discovery including Vitality[1] – R2.62bn (2018: R2.80bn)

Liberty – R407m (2018: R371m)

Momentum Metropolitan – R541m (2018: R345m)

Old Mutual – R1.87bn (2018: R2.1bn)

Sanlam – R2.28bn (2018: R1.99bn)

VNB margin

Discovery – 5.0% (2018: 5.4%)

Liberty – 1.0% (2018: 0.9%)

Momentum Metropolitan – 1.0% (2018: 0.7%)

Old Mutual – 2.6% (2018: 3.2%)

Sanlam – 3.0% (2018: 2.7%)

Claims experience in 2019 was subdued and many will argue that it was the quiet before the storm.

Only Discovery reported a negative mortality experience which they describe to several abnormally high claims during the period. The insurer reported a negative mortality and morbidity experience variance of R242m whilst Momentum (R373m), Old Mutual (R211m), Liberty (R124m) and Sanlam (R454m) reported positive mortality and morbidity experiences.

A notable trend during the year was the pressure on persistency. The economic pressure on customers and the introduction of authenticated collection started to reflect in the persistency of policyholder contracts, with all the five largest insurers showing negative experience variances during the period.

Looking at embedded values as a measure of performance in 2019, four of the five largest insurers improved their returns on Embedded Value (EV), while Discovery returned to a normalised level after a very high 2018.

EV – Operating experience variances

Discovery – R19m (2018: R305m)

Liberty – (R206m) (2018: R423m)

Momentum Metropolitan – R417m (2018: (R181m))

Old Mutual – (R124m) (2018: R70m)

Sanlam – R1 361m (2018: R2 114m)

[1] Vitality is Discovery's rewards programme that encourages healthy activity, eating and regular health checks and rewards them for it. Discovery earns non-premium income from the Vitality concept through global partnerships that make use of the Vitality platform. The more a customer participates the higher their rewards.

EV – Assumption and modelling changes

Discovery – (R1 930m) (2018: R787m)

Liberty – (R59m) (2018: R84m)

Momentum Metropolitan – (R442m) (2018: (R1 316m))

Old Mutual – R1 023m (2018: R117m)

Sanlam – (R235m) (2018: R338m)

Embedded value

Discovery – R71.2bn (2018: R65.6bn)

Liberty – R34.4bn (2018: R33.7bn)

Momentum Metropolitan – R41.2bn (2018: R39.6bn)

Old Mutual – R72.3bn (2018: R64.1bn)

Sanlam – R60.2bn (2018: R56.2bn)

Return on EV

Discovery – 10.0% (2018: 16.9%)

Liberty – 8.6% (2018: 4.1%)

Momentum Metropolitan – 8.0% (2018: (1.1%))

Old Mutual – 12.7% (2018: 12.5%)

Sanlam – (Return on Group equity value on covered business) – 16.6% (2018: 11.0%)

Discovery Life described the matters that influenced their year as:

- A tough economic environment through product innovation and integration with Vitality.
- Mortality claims volatility due to large claims.
- Use of technology to advance their business model.

As described earlier, there is significant value in an insurance company building on the loyalty of its customer base but also in using its reward schemes to attract new clients. Discovery claims that clients with no Vitality or a Blue Vitality (footnote 1) status have an Actual versus Expect (A/E) lapse rate of close to 100%, whilst Gold and Diamond customers have an A/E lapse rate closer to 40%. Vitality is Discovery's well-known loyalty scheme.

Discovery experienced several large claims during the first half of the year. As a result, it changed its reinsurance strategy to ameliorate the impact of large single claims.

Arguably, Discovery remains the leader in the use of data and to build products in response of trends. This will remain important for the insurer in its response to ever increasing competition.

Liberty Life utilised 2019 as a year to reset its strategy and to increase its competitiveness. Early successes were clear in its results. According to the insurer, its new strategy was built on addressing the following matters:

- Non compelling client and adviser value proposition and an erosion of the Liberty brand.
- Poor investment performance relative to client expectations.
- Substantial complexity due to inadequate legacy management and an inadequate control environment for new initiatives.
- Liberty sought to revolutionise its advice and associated processes, moving from a product-based business to one where advice was most important. In working to achieve this, it rolled out a cloud-based financial needs analysis tool to its advisors. This was supported by improved training and development for advisors and the rejuvenation of risk and investment products, including the launch of the Liberty Wellness Bonus loyalty programme.

Momentum Metropolitan implemented its reset and grow strategy during 2018 and saw early indications of improvement albeit at lower rates than they had targeted. The insurer described its risks and opportunities as follows:

- Business performance.
- Efficiency of cost base.
- Impact of distribution-related challenges on new business volumes.
- Impact of client service challenges on client retention.
- Attracting and retaining top talent.
- Executing the grow phase of the reset and grow strategy.
- Executing on their new initiatives' strategies (Aditya Birla Health Insurance, Ayo, Multiply Money).
- Rationalisation of the African portfolio.
- Integration of Alexander Forbes Insurance following regulatory approval of its acquisition.

Old Mutual remained committed to its battlegrounds and saw some notable improvements in various areas:

- Improving key underperforming businesses. The focus was on its African footprint and on driving cost and control efficiencies to attain market leading positions in the countries in which it operates. The results were however negatively impacted by the group's Zimbabwe presence.
- Defend and grow the market share. Despite intense competition in the mass market, Old Mutual has been the envy of other insurers in this market. It continues to develop its product offering and advisor model in this segment to defend its current position in the personal finance segment and to grow it further. During the year its loyalty programme also started to gain traction.
- Building long term competitive advantage. Significant investments continued to be made in strengthening the group's technology offering with new advisor tools being rolled out and an improvement of core systems. Old Mutual indicated that the investment in technology started to have an impact on achieving cost savings.

Sanlam defined its strategic pillars to enhance its return on group equity value as:

- Profitable top-line growth through a culture of client centricity.
- Extracting value through innovation and improved efficiencies.
- Enhancing Sanlam's resilience and earnings growth through diversification.
- Responsible capital allocation and management.
- The Sanlam group implemented various structural changes to enhance its agility and responsiveness to client needs. These are focused on building more loyalty around the Sanlam brand.
- One of the major drivers within Sanlam's innovation pillar was to reduce the complexities of its product offering and bring new innovative products to the market.
- The 2019 results reflect the first full-year inclusion of the Saham results. The results also include significant growth from its joint venture with Capitec. Sanlam's strategic imperative will most likely include more acquisitions to improve both product diversification and geographic diversification.

South African insurance companies remained well capitalised which helped them during unexpected events like Covid-19, the outcome of which will be seen in the 2020 analysis.

Group solvency

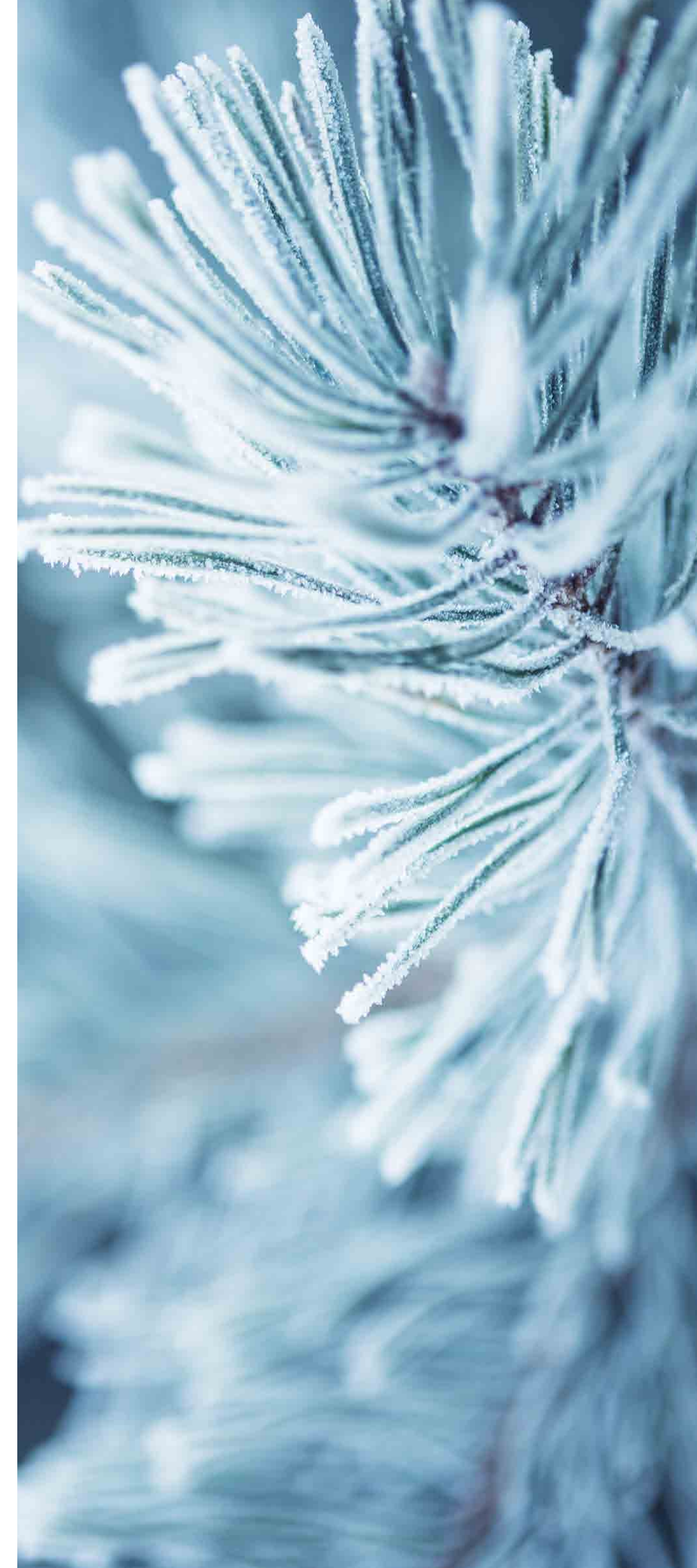
Discovery – 1.6 times (2018: 1.7 times)

Liberty – 1.99 times (2018: 1.87 times) (upper end of target range)

Momentum Metropolitan – 2.08 times (2018: 1.93 times) (upper end of target range)

Old Mutual – 1.61 times (2018: 1.68 times) (middle of target range)

Sanlam – 2.11 times (2018: 2.15 times) (upper end of target range)



LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Jun-19	Jun-18	Dec-19	Dec-18	Jun-19	Jun-18	Jun-19	Jun-18	Jun-19	Jun-18
Group/Company	**1Life Insurance (RF) Limited**		**Absa Life Limited**		**Assupol Holdings Limited and its subsidiaries**		**AVBOB Mutual Assurance Society**		**Clientele Life Assurance Company Limited**	
Share capital and premium	398 000	398 000	24 000	24 000	639 533	639 438	-	-	4 853	4 853
Retained earnings/(deficit)	1 200 043	976 331	1 515 296	1 585 993	3 477 328	2 931 147	6 185 740	6 183 372	765 321	781 972
Other reserves	-	-	6 798	4 306	150 561	113 679	-	-	16 312	18 891
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
Total shareholders' funds	**1 598 043**	**1 374 331**	**1 546 094**	**1 614 299**	**4 267 422**	**3 684 264**	**6 185 740**	**6 183 372**	**786 486**	**805 716**
Policyholder liabilities under insurance and reinsurance contracts and contracts with DPF's	222 778	237 723	1 542 134	1 593 171	-	-	11 212 995	9 772 427	618 120	620 674
Policyholder liabilities under investment contracts	1 157 160	455 103	27 462 270	27 362 753	2 775 940	2 177 393	-	-	6 865 129	2 464 295
Preference share liability	-	-	-	-	-	-	-	-	-	-
Linked liability	-	-	-	-	-	-	-	-	-	-
Reinsurance contract liability	19 758	160 444	-	-	-	-	-	-	-	-
Cell owners' interest	-	-	102 477	108 603	-	-	-	-	-	-
Current tax payable	10 000	8 777	-	-	26 072	-	-	4 708	2 607	7 877
Deferred tax liability	369 620	342 202	83 232	90 790	861 127	839 869	188 525	208 989	70 518	17 499
Other liabilities (including lease liabilities)	149 411	108 640	400 804	322 555	739 383	588 867	888 781	810 267	362 521	278 936
Total liabilities	**1 928 727**	**1 312 889**	**29 590 917**	**29 477 872**	**4 402 522**	**3 606 129**	**12 290 301**	**10 796 391**	**7 918 895**	**3 389 281**
Total investments	**1 705 746**	**935 789**	**30 296 393**	**30 345 999**	**4 727 520**	**3 991 604**	**15 981 034**	**14 776 967**	**7 912 956**	**3 514 373**
Assets arising from insurance contracts	1 523 616	1 424 570	-	-	2 994 440	2 424 981	-	-	-	-
PPE, goodwill, intangible assets and ROU assets	-	-	5 435	27 141	396 141	388 367	221 652	185 704	62 505	56 010
Reinsurers' share of policyholder liabilities	123 724	144 974	77 961	32 394	2 891	3 515	17 688	14 958	2 868	2 925
Deferred acquisition costs	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	142 092	72 377	286 518	194 738	424 812	346 698	1 614 153	1 482 553	175 225	296 567
Other assets	31 592	109 510	378 270	322 122	124 140	132 197	580 679	473 972	308 250	296 410
Income/Deferred tax asset	-	-	92 434	169 777	-	3 031	60 835	45 609	243 577	28 712
Deposits held with cell option	-	-	-	-	-	-	-	-	-	-
Total assets	**3 526 770**	**2 687 220**	**31 137 011**	**31 092 171**	**8 669 944**	**7 290 393**	**18 476 041**	**16 979 763**	**8 705 381**	**4 194 997**
Total assets/Total liabilities	183%	205%	105%	105%	197%	202%	150%	157%	110%	124%
Increase in shareholders' funds	16%		(4%)		16%		0%		(2%)	

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LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Jun-19	Jun-18	Jun-19	Jun-18	Jun-19	Jun-18	Dec-19	Dec-18	Jun-19	Jun-18
Group/Company	**Guardrisk Life Limited**		**The Hollard Life Assurance Company Limited**		**Hollard Specialist Life Limited**		**Liberty Group Limited**		**Momentum Metropolitan Life Limited**	
Share capital and premium	70 000	70 000	20 000	20 000	94 688	94 688	58 000	58 000	1 041 000	1 041 000
Retained earnings/(deficit)	221 192	133 037	1 224 877	1 477 874	661 123	502 047	18 984 000	18 380 000	8 614 000	7 180 000
Other reserves	-	-	-	-	-	-	694 000	582 000	5 656 000	5 936 000
Non-controlling interests	-	-	-	-	77 507	120 745	7 878 000	7 915 000	-	-
Total shareholders' funds	**291 192**	**203 037**	**1 244 877**	**1 497 874**	**833 318**	**717 480**	**27 614 000**	**26 935 000**	**15 311 000**	**14 157 000**
Policyholder liabilities under insurance and reinsurance contracts and contracts with DPF's	3 089 022	2 656 220	901 333	1 799 845	(121 704)	47 191	214 476 000	208 366 000	126 294 000	120 761 000
Policyholder liabilities under investment contracts	1 718 814	117 017	17 029 164	8 802 864	121 018	212 996	105 723 000	98 985 000	237 550 000	235 777 000
Preference share liability	-	-	-	-	-	-	-	-	-	-
Linked liability	-	-	-	-	-	-	-	-	-	-
Reinsurance contract liability	1 321 202	1 058 954	243 740	261 377	-	-	246 000	283 000	-	-
Cell owners' interest	2 878 619	2 924 745	-	-	-	-	-	-	-	-
Current tax payable	41 631	49 428	20 643	-	26 580	-	205 000	337 000	276 000	78 000
Deferred tax liability	-	-	444 821	608 390	141 179	159 407	2 999 000	2 503 000	1 399 000	901 000
Other liabilities (including lease liabilities)	237 525	268 964	1 845 178	1 389 336	235 672	201 067	47 753 000	45 432 000	23 210 000	20 445 000
Total liabilities	**9 286 813**	**7 075 328**	**20 484 879**	**12 861 812**	**402 745**	**620 661**	**371 402 000**	**355 906 000**	**388 729 000**	**377 962 000**
Total investments	**6 476 006**	**4 576 001**	**17 958 285**	**11 081 276**	**717 880**	**872 596**	**375 066 000**	**358 261 000**	**382 292 000**	**364 073 000**
Assets arising from insurance contracts	1 369 908	1 109 162	-	-	-	-	7 017 000	6 708 000	-	-
PPE, goodwill, intangible assets and ROU assets	130	109	195 435	180 097	10 531	16 023	2 832 000	2 824 000	4 073 000	4 448 000
Reinsurers' share of policyholder liabilities	572 531	562 559	224 454	190 574	132 809	138 732	1 939 000	1 642 000	2 131 000	1 872 000
Deferred acquisition costs	-	-	-	-	-	-	766 000	758 000	-	-
Cash and cash equivalents	562 928	635 998	2 519 439	2 030 823	331 186	230 014	7 543 000	7 646 000	12 478 000	12 478 000
Other assets	440 241	380 827	832 143	800 957	43 657	54 695	3 734 000	4 965 000	3 066 000	9 248 000
Income/Deferred tax asset	156 261	13 709	-	75 959	-	26 081	119 000	37 000	-	-
Deposits held with cell option	-	-	-	-	-	-	-	-	-	-
Total assets	**9 578 005**	**7 278 365**	**21 729 756**	**14 359 686**	**1 236 063**	**1 338 141**	**399 016 000**	**382 841 000**	**404 040 000**	**392 119 000**
Total assets/Total liabilities	103%	103%	106%	112%	307%	216%	107%	108%	104%	104%
Increase in shareholders' funds	43%		(17%)		16%		3%		8%	

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LIFE INSURERS | 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	Jun-19	Jun-18
Group/Company	**Nedgroup Life Assurance Company Limited**		**Nedgroup Structured Life Limited**		**Old Mutual Alternative Risk Transfer Limited**		**Old Mutual Life Assurance Company (South Africa) Limited**		**OUTsurance Life Insurance Company Limited**	
Share capital and premium	55 000	55 000	26 351	26 351	12 425	12 425	6 423 000	6 423 000	435 002	435 002
Retained earnings/(deficit)	1 289 996	1 056 460	60 451	53 764	42 105	38 386	47 732 000	50 072 000	298 049	210 676
Other reserves	-	-	-	-	(117)	52	(167 000)	(114 000)	1 577	13 196
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
Total shareholders' funds	**1 344 996**	**1 111 460**	**86 802**	**80 115**	**54 413**	**50 863**	**53 988 000**	**56 381 000**	**734 628**	**658 874**
Policyholder liabilities under insurance and reinsurance contracts and contracts with DPF's	1 499 544	2 404 521	-	-	1 248 109	1 152 269	309 025 000	300 083 000	487 942	347 157
Policyholder liabilities under investment contracts	9 268 588	8 490 058	15 302 442	11 544 749	4 428 681	2 828 874	299 018 000	261 250 000	-	-
Preference share liability	-	-	-	-	-	-	-	-	-	-
Linked liability	-	-	-	-	-	-	-	-	-	-
Reinsurance contract liability	-	-	-	-	-	-	-	-	-	-
Cell owners' interest	-	-	-	-	403 782	251 147	-	-	-	-
Current tax payable	18 032	12 412	-	1 540	9 228	-	1 229 000	706 000	-	-
Deferred tax liability	5 736	4 697	-	-	-	-	2 362 000	1 545 000	39 904	43 885
Other liabilities (including lease liabilities)	185 371	168 025	1 445	1 207	246 001	206 532	41 981 000	36 949 000	35 688	40 929
Total liabilities	**10 977 271**	**11 079 713**	**15 303 887**	**11 547 496**	**6 326 573**	**4 438 822**	**653 615 000**	**600 533 000**	**563 534**	**431 971**
Total investments	**11 773 922**	**11 648 710**	**15 361 954**	**11 599 278**	**5 220 474**	**3 556 159**	**675 395 000**	**629 648 000**	**1 085 768**	**905 267**
Assets arising from insurance contracts	-	-	-	-	-	-	-	-	-	-
PPE, goodwill, intangible assets and ROU assets	914	389	-	-	-	-	7 275 000	6 239 000	-	-
Reinsurers' share of policyholder liabilities	176 272	166 482	-	-	571 570	497 873	1 424 000	524 000	104 617	86 403
Deferred acquisition costs	-	-	-	-	-	-	1 283 000	1 235 000	-	-
Cash and cash equivalents	177 901	134 289	16 629	13 304	372 600	259 970	6 784 000	6 216 000	68 496	57 284
Other assets	193 258	241 303	9 434	15 029	215 933	174 859	15 405 000	12 994 000	15 549	19 489
Income/Deferred tax asset	-	-	2 672	-	409	824	37 000	58 000	23 732	22 402
Deposits held with cell option	-	-	-	-	-	-	-	-	-	-
Total assets	**12 322 267**	**12 191 173**	**15 390 689**	**11 627 611**	**6 380 986**	**4 489 685**	**707 603 000**	**656 914 000**	**1 298 162**	**1 090 845**
Total assets/Total liabilities	112%	110%	101%	101%	101%	101%	108%	109%	230%	253%
Increase in shareholders' funds	21%		8%		7%		(4%)		11%	

LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-19	Dec-18	Dec-19	Dec-18	Sep-19	Sep-18
Group/Company	**Professional Provident Society Insurance Company Limited**		**Sanlam Limited**		**The Standard General Insurance Company Limited**	
Share capital and premium	10 000	10 000	13 452 000	5 657 000	26 500	26 500
Retained earnings/(deficit)	460 310	424 287	59 851 000	57 288 000	113 500	512 513
Other reserves	-	-	(5 986 000)	6 561 000	-	-
Non-controlling interests	-	-	12 043 000	12 111 000	-	-
Total shareholders' funds	**470 310**	**434 287**	**79 360 000**	**81 617 000**	**140 000**	**539 013**
Policyholder liabilities under insurance and reinsurance contracts and contracts with DPF's	31 768 286	29 674 516	231 019 000	226 481 000	111 848	117 639
Policyholder liabilities under investment contracts	2 604 273	2 058 982	401 481 000	355 337 000	-	-
Preference share liability	-	-	-	-	-	-
Linked liability	-	-	-	-	-	-
Reinsurance contract liability	62 383	-	-	-	-	-
Cell owners' interest	-	-	3 935 000	3 305 000	-	-
Current tax payable	-	-	2 327 000	3 085 000	468	17 187
Deferred tax liability	137 564	57 384	5 766 000	5 352 000	-	-
Other liabilities (including lease liabilities)	478 436	411 984	176 341 000	140 399 000	76 783	11 794
Total liabilities	**35 050 942**	**32 202 866**	**820 869 000**	**733 959 000**	**189 099**	**146 620**
Total investments	**33 335 204**	**30 735 318**	**770 995 000**	**690 744 000**	**10 758**	**16 462**
Assets arising from insurance contracts	-	-	18 934 000	19 093 000	-	-
PPE, goodwill, intangible assets and ROU assets	513 349	429 650	25 261 000	25 071 000	16 361	19 225
Reinsurers' share of policyholder liabilities	-	73 885	2 042 000	1 971 000	5 656	1 056
Deferred acquisition costs	-	-	3 505 000	3 446 000	-	-
Cash and cash equivalents	1 058 080	833 318	30 369 000	28 151 000	266 516	625 760
Other assets	414 462	439 301	46 339 000	43 792 000	11 200	4 522
Income/Deferred tax asset	200 157	125 681	2 784 000	3 308 000	18 608	18 608
Deposits held with cell option	-	-	-	-	-	-
Total assets	**35 521 252**	**32 637 153**	**900 229 000**	**815 576 000**	**329 099**	**685 633**
Total assets/Total liabilities	101%	101%	110%	111%	174%	468%
Increase in shareholders' funds	8%		(3%)		(74%)	

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-19	Jun-18	Dec-19	Dec-18	Jun-19	Jun-18	Jun-19	Jun-18	Jun-19	Jun-18
Group/Company	**1Life Insurance (RF) Limited**		**Absa Life Limited**		**Assupol Holdings Limited and its subsidiaries**		**AVBOB Mutual Assurance Society**		**Clientele Life Assurance Company Limited**	
Recurring premiums	1 386 956	1 333 889	4 084 799	3 779 717			4 158 073	3 635 622		
Single premiums	-	-	-	-	3 458 166	2 987 369	-	-	1 826 111	1 791 811
Other premiums	-	-	-	-			-	-		
Reinsurance premiums	161 809	155 109	729 317	667 806	101 417	234 253	1 948	1 949	136 730	120 349
Net premium income	**1 225 147**	**1 178 780**	**3 355 482**	**3 111 911**	**3 356 749**	**2 753 116**	**4 156 125**	**3 633 673**	**1 689 381**	**1 671 462**
Service fees from investment contracts	**-**	**-**	**68 350**	**349 408**	**67 766**	**57 849**	**-**	**-**	**32 146**	**12 418**
Total net investment income	**44 173**	**35 847**	**2 074 590**	**154 582**	**292 830**	**368 619**	**863 718**	**1 499 938**	**766 910**	**300 583**
Commission received	-	-	-	-	3 154	7 222	-	-	-	-
Other unallocated income	29 730	36 160	-	-	7 700	8 431	2 197	115	138 609	150 937
Total income	**1 299 050**	**1 250 787**	**5 498 422**	**3 615 901**	**3 728 199**	**3 195 237**	**5 022 040**	**5 133 726**	**2 627 046**	**2 135 400**
Death/Disability			1 336 701	1 146 339	548 343	461 377	1 243 779	962 106	191 281	202 713
Maturities			48 858	78 009	94 495	92 460	648	637	-	-
Annuities	541 579	505 241	-	-	-	-	-	-	-	-
Surrenders			144 034	147 866	36 963	48 459	201 304	196 832	184 713	191 673
Withdrawals and other benefits			99 617	84 342	394 039	374 446	255 710	200 349	34 719	51 892
Reinsurance recoveries	(131 911)	(113 575)	(318 505)	(319 694)	(88 605)	(224 643)	(1 219)	(488)	(110 070)	(101 705)
Net policyholder benefits under insurance contracts	**409 668**	**391 666**	**1 310 705**	**1 136 862**	**985 235**	**752 099**	**1 700 222**	**1 359 436**	**300 643**	**344 573**
Change in cell owners' liability	-	-	(45 053)	(50 690)	-	-	-	-	-	-
Change in assets arising from insurance contracts	(239 732)	(108 085)	-	-	-	-	-	-	57	(421)
Change in policyholder liabilities under insurance contracts	6 305	(13 241)	(85 794)	(236 374)	(568 835)	(532 926)	1 461 583	2 002 052	(2 555)	(22 558)
Fair value adjustments on policyholder liabilities under investment contracts	(104)	-	1 697 846	(126 910)	186 445	177 311	-	-	828 346	172 115
Acquisition costs	147 487	139 627	605 328	955 497	-	-	681 967	650 647	1 013 181	883 638
Administration, management and other expenses	673 039	612 267	587 346	515 727	1 974 874	1 619 599	1 102 012	975 396	175 288	173 379
Total expenses	**996 663**	**1 022 234**	**4 070 378**	**2 194 112**	**2 577 719**	**2 016 083**	**4 945 784**	**4 987 531**	**2 314 960**	**1 550 726**
Equity-accounted earnings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit/(Loss) before tax	**302 387**	**228 553**	**1 428 044**	**1 421 789**	**1 150 480**	**1 179 154**	**76 256**	**146 195**	**312 086**	**584 674**

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-19	Jun-18	Dec-19	Dec-18	Jun-19	Jun-18	Jun-19	Jun-18	Jun-19	Jun-18
Group/Company	**1Life Insurance (RF) Limited**		**Absa Life Limited**		**Assupol Holdings Limited and its subsidiaries**		**AVBOB Mutual Assurance Society**		**Clientele Life Assurance Company Limited**	
Tax	(78 285)	(64 435)	(523 742)	(547 866)	(243 441)	(332 259)	(73 391)	(144 065)	47 747	(162 116)
Profit/(Loss) after tax	**224 102**	**164 118**	**904 302**	**873 923**	**907 039**	**846 895**	**2 865**	**2 130**	**359 833**	**422 558**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**(497)**	**326**	**-**	**-**
Total comprehensive income/(loss) for the year	**224 102**	**164 118**	**904 302**	**873 923**	**907 039**	**846 895**	**2 368**	**2 456**	**359 833**	**422 558**
Other transfers to/(from) retained income	(389)	-	-	-	92	862	-	-	(3 099)	(4 447)
Other comprehensive income not charged against retained earnings	-	-	-	-	-	-	497	(326)	-	-
Ordinary dividends	-	-	975 000	665 000	360 950	209 616	-	-	373 385	342 424
Allocated to preference shareholders	-	-	-	-	-	-	-	-	-	-
Allocated to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Change in retained earnings	**223 713**	**164 118**	**(70 698)**	**208 923**	**546 181**	**638 141**	**2 865**	**2 130**	**(16 651)**	**75 687**
Management expenses to net premium and service fees on investment contracts	55%	52%	17%	15%	58%	58%	27%	27%	10%	10%
Tax as a % of NIBT	(26%)	(28%)	(37%)	(39%)	(21%)	(28%)	(96%)	(99%)	15%	(28%)
Comments	Company		Company		Society		Society		Company	

"Life doesn't get easier or more forgiving, we get stronger and more resilient."

- Steve Maraboli, Life, the Truth, and Being Free

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-19	Jun-18	Jun-19	Jun-18	Jun-19	Jun-18	Dec-19	Dec-18	Jun-19	Jun-18
Group/Company	**Guardrisk Life Limited**		**The Hollard Life Assurance Company Limited**		**Hollard Specialist Life Limited**		**Liberty Group Limited**		**Momentum Metropolitan Life Limited**	
Recurring premiums	6 855 207	6 208 565	6 584 080	6 354 440						
Single premiums	552 437	581 888	68	-	718 472	821 378	38 820 000	37 494 000	27 510 000	21 355 000
Other premiums	-	-	145 000	143 395						
Reinsurance premiums	5 836 718	5 002 385	1 704 257	1 507 077	7 162	60 027	1 597 000	1 411 000	2 405 000	2 269 000
Net premium income	**1 570 926**	**1 788 068**	**5 024 891**	**4 990 758**	**711 310**	**761 351**	**37 223 000**	**36 083 000**	**25 105 000**	**19 086 000**
Service fees from investment contracts	**-**	**-**	**-**	**-**	**-**	**-**	**1 396 000**	**1 417 000**	**2 615 000**	**2 254 000**
Total net investment income	**408 286**	**392 094**	**254 177**	**497 420**	**68 337**	**101 705**	**32 717 000**	**3 040 000**	**20 495 000**	**31 591 000**
Commission received	19 076	18 390	-	-	-	-	-	-	-	-
Other unallocated income	-	-	426 763	460 450	49 658	50 093	466 000	448 000	590 000	533 000
Total income	**1 998 288**	**2 198 552**	**5 705 831**	**5 948 628**	**829 305**	**913 149**	**71 802 000**	**40 988 000**	**48 805 000**	**53 464 000**
Death/Disability			2 854 258	2 670 830	141 994	211 290			9 234 000	8 597 000
Maturities			1 156 365	870 616	33 058	30 688			4 476 000	4 422 000
Annuities	2 112 727	1 902 260	18 807	45 535	-	-	38 850 000	37 407 000	4 312 000	3 829 000
Surrenders			31 706	42 827	74 110	66 542			2 524 000	2 941 000
Withdrawals and other benefits			54 563	72 039	47 512	9 810			1 987 000	3 876 000
Reinsurance recoveries	(2 098 781)	(1 883 964)	(1 079 041)	(992 854)	(36 489)	(51 376)			(2 112 000)	(1 927 000)
Net policyholder benefits under insurance contracts	**13 946**	**18 296**	**3 036 658**	**2 708 993**	**260 185**	**266 954**	**37 153 000**	**36 196 000**	**20 421 000**	**21 738 000**
Change in cell owners' liability	345 195	339 931	-	-	-	-	-	-	-	-
Change in assets arising from insurance contracts	(260 746)	(56 554)	-	-	-	-	(309 000)	776 000	-	-
Change in policyholder liabilities under insurance contracts	245 001	45 045	(946 701)	(665 231)	(162 972)	7 893	5 792 000	(12 135 000)	5 274 000	1 240 000
Fair value adjustments on policyholder liabilities under investment contracts	-	-	-	-	4 954	24 400	8 917 000	(1 283 000)	8 888 000	17 466 000
Acquisition costs	-	-	525 695	522 748	128 339	212 184	3 497 000	3 685 000	3 103 000	3 068 000
Administration, management and other expenses	1 534 091	1 709 166	2 341 360	2 381 877	211 480	136 102	11 023 000	10 389 000	6 639 000	6 756 000
Total expenses	**1 877 487**	**2 055 884**	**4 957 012**	**4 948 387**	**441 986**	**647 533**	**66 073 000**	**37 628 000**	**44 325 000**	**50 268 000**
Equity-accounted earnings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit/(Loss) before tax	**120 801**	**142 668**	**748 819**	**1 000 241**	**387 319**	**265 616**	**5 729 000**	**3 360 000**	**4 480 000**	**3 196 000**

LIFE INSURERS | **Statement of Comprehensive Income** | **R'000**

Accounting year end	Jun-19	Jun-18	Jun-19	Jun-18	Jun-19	Jun-18	Dec-19	Dec-18	Jun-19	Jun-18
Group/Company	**Guardrisk Life Limited**		**The Hollard Life Assurance Company Limited**		**Hollard Specialist Life Limited**		**Liberty Group Limited**		**Momentum Metropolitan Life Limited**	
Tax	(32 646)	(38 903)	(179 526)	(317 068)	(113 566)	(61 727)	(2 381 000)	(1 069 000)	(1 537 000)	(1 618 000)
Profit/(Loss) after tax	**88 155**	**103 765**	**569 293**	**683 173**	**273 753**	**203 889**	**3 348 000**	**2 291 000**	**2 943 000**	**1 578 000**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**58 000**	**91 000**	**(203 000)**	**(989 000)**
Total comprehensive income/(loss) for the year	**88 155**	**103 765**	**569 293**	**683 173**	**273 753**	**203 889**	**3 406 000**	**2 382 000**	**2 740 000**	**589 000**
Other transfers to/(from) retained income	-	-	(133 629)	-	(148)	326	(5 000)	492 000	61 000	172 000
Other comprehensive income not charged against retained earnings	-	-	-	-	-	-	(58 000)	(91 000)	203 000	989 000
Ordinary dividends	-	80 000	688 660	663 886	73 700	87 785	2 235 000	2 252 000	1 536 000	3 047 000
Allocated to preference shareholders	-	-	-	-	-	-	-	-	34 000	35 000
Allocated to non-controlling interests	-	-	-	-	(40 829)	(53 516)	504 000	135 000	-	-
Change in retained earnings	**88 155**	**23 765**	**(252 996)**	**19 287**	**159 076**	**62 914**	**604 000**	**396 000**	**1 434 000**	**(1 332 000)**
Management expenses to net premium and service fees on investment contracts	98%	96%	47%	48%	30%	18%	29%	28%	24%	32%
Tax as a % of NIBT	(27%)	(27%)	(24%)	(32%)	(29%)	(23%)	(42%)	(32%)	(34%)	(51%)
Comments	Company		Company		Company		Group		Company	

"Courage doesn't always roar.
Sometimes courage is the quiet voice at the end
of the day saying 'I will try again tomorrow."

- Elizabeth Edwards

LIFE INSURERS | 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	Jun-19	Jun-18
Group/Company	**Nedgroup Life Assurance Company Limited**		**Nedgroup Structured Life Limited**		**Old Mutual Alternative Risk Transfer Limited**		**Old Mutual Life Assurance Company (South Africa) Limited**		**OUTsurance Life Insurance Company Limited**	
Recurring premiums										
Single premiums	2 171 744	2 006 296	-	-	1 144 634	1 006 888	55 324 000	53 920 000	503 297	468 628
Other premiums										
Reinsurance premiums	102 760	88 449	-	-	1 168 198	1 012 235	1 959 000	1 463 000	42 168	38 523
Net premium income	**2 068 984**	**1 917 847**	**-**	**-**	**(23 564)**	**(5 347)**	**53 365 000**	**52 457 000**	**461 129**	**430 105**
Service fees from investment contracts	**-**	**-**	**6 321**	**5 288**	**9 059**	**9 000**	**6 423 000**	**7 207 000**	**-**	**-**
Total net investment income	**725 483**	**533 921**	**6 079**	**5 158**	**482 901**	**194 859**	**59 005 000**	**2 884 000**	**94 421**	**55 458**
Commission received	-	-	-	-	-	-	-	-	-	-
Other unallocated income	36 752	27 184	16 145	-	1 201	6 908	-	-	-	-
Total income	**2 831 219**	**2 478 952**	**28 545**	**10 446**	**469 597**	**205 420**	**118 793 000**	**62 548 000**	**555 550**	**485 563**
Death/Disability	668 772	568 555								
Maturities	1 092 799	449 534								
Annuities	27 185	73 433	-	-	442 302	390 341	70 461 000	42 819 000	126 085	117 416
Surrenders	37 246	68 034								
Withdrawals and other benefits	-	-								
Reinsurance recoveries	(68 071)	(61 450)	-	-	(1 123 163)	(941 768)	(2 566 000)	(1 495 000)	(45 033)	(39 876)
Net policyholder benefits under insurance contracts	**1 757 931**	**1 098 106**	**-**	**-**	**(680 861)**	**(551 427)**	**67 895 000**	**41 324 000**	**81 052**	**77 540**
Change in cell owners' liability	-	-	-	-	428 635	345 069	-	-	-	-
Change in assets arising from insurance contracts	-	-	-	-	(89 468)	(86 155)	-	-	-	-
Change in policyholder liabilities under insurance contracts	(1 006 561)	(463 112)	-	-	95 840	82 941	-	-	122 571	125 727
Fair value adjustments on policyholder liabilities under investment contracts	443 638	227 427	-	-	367 504	154 036	27 398 000	(5 669 000)	-	-
Acquisition costs	144 292	294 987	-	-	103 579	52 639	7 127 000	6 788 000	9 399	-
Administration, management and other expenses	421 882	447 609	3 112	2 794	239 136	196 546	12 008 000	11 506 000	232 010	210 687
Total expenses	**1 761 182**	**1 605 017**	**3 112**	**2 794**	**464 365**	**193 649**	**114 428 000**	**53 949 000**	**445 032**	**413 954**
Equity-accounted earnings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit/(Loss) before tax	**1 070 037**	**873 935**	**25 433**	**7 652**	**5 232**	**11 771**	**4 365 000**	**8 599 000**	**110 518**	**71 609**

LIFE INSURERS | 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	Jun-19	Jun-18
Group/Company	**Nedgroup Life Assurance Company Limited**		**Nedgroup Structured Life Limited**		**Old Mutual Alternative Risk Transfer Limited**		**Old Mutual Life Assurance Company (South Africa) Limited**		**OUTsurance Life Insurance Company Limited**	
Tax	(286 501)	(254 411)	(18 746)	(2 142)	(1 513)	(3 325)	(3 998 000)	1 421 000	(30 096)	(18 981)
Profit/(Loss) after tax	**783 536**	**619 524**	**6 687**	**5 510**	**3 719**	**8 446**	**367 000**	**10 020 000**	**80 422**	**52 628**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**52**	**(302 000)**	**(108 000)**	**(1 057)**	**13 809**
Total comprehensive income/(loss) for the year	**783 536**	**619 524**	**6 687**	**5 510**	**3 719**	**8 498**	**65 000**	**9 912 000**	**79 365**	**66 437**
Other transfers to/(from) retained income	-	-	-	-	-	475	24 000	70 000	6 951	-
Other comprehensive income not charged against retained earnings	-	-	-	-	-	(52)	10 000	108 000	1 057	(13 809)
Ordinary dividends	550 000	650 000	-	-	-	-	2 439 000	4 421 000	-	45 587
Allocated to preference shareholders	-	-	-	-	-	-	-	-	-	-
Allocated to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Change in retained earnings	**233 536**	**(30 476)**	**6 687**	**5 510**	**3 719**	**8 921**	**(2 340 000)**	**5 669 000**	**87 373**	**7 041**
Management expenses to net premium and service fees on investment contracts	20%	23%	49%	53%	(1 649%)	5 380%	20%	19%	50%	49%
Tax as a % of NIBT	(27%)	(29%)	(74%)	(28%)	(29%)	(28%)	(92%)	17%	(27%)	(27%)
Comments	Company		Company		Company		Company		Company	

"When we learn how to become resilient, we learn how to embrace the beautifully broad spectrum of the human experience."

\- Dewalt

KPMG

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-19	Dec-18	Dec-19	Dec-18	Sep-19	Sep-18
Group/Company	**Professional Provident Society Insurance Company Limited**		**Sanlam Limited**		**The Standard General Insurance Company Limited**	
Recurring premiums Single premiums Other premiums	4 605 942	4 211 472	87 931 000	67 246 000	81 942	64 446
Reinsurance premiums	(333 049)	(346 326)	15 893 000	11 262 000	(20 906)	(2 265)
Net premium income	**4 272 893**	**3 865 146**	**72 038 000**	**55 984 000**	**102 848**	**66 711**
Service fees from investment contracts	**72 040**	**64 410**	**7 589 000**	**6 373 000**	**-**	**-**
Total net investment income	**2 253 456**	**1 400 527**	**76 067 000**	**14 761 000**	**45 814**	**103 282**
Commission received	-	-	2 676 000	2 166 000	-	-
Other unallocated income	1 183 786	(1 491 601)	-	-	863	4 366
Total income	**7 782 175**	**3 838 482**	**158 370 000**	**79 284 000**	**149 525**	**174 359**
Death/Disability Maturities Annuities Surrenders Withdrawals and other benefits	3 508 073	2 923 379	53 485 000	41 799 000	22 633	21 022
Reinsurance recoveries	(244 854)	(209 063)	(8 428 000)	(6 705 000)	(1 355)	(956)
Net policyholder benefits under insurance contracts	**3 263 219**	**2 714 316**	**45 057 000**	**35 094 000**	**21 278**	**20 066**
Change in cell owners' liability	-	-	-	-	-	-
Change in assets arising from insurance contracts	-	-	-	-	-	-
Change in policyholder liabilities under insurance contracts	2 255 377	(416 243)	6 963 000	(2 571 000)	(10 391)	(10 642)
Fair value adjustments on policyholder liabilities under investment contracts	169 491	(46 871)	39 506 000	(2 999 000)	-	-
Acquisition costs	-	-	13 246 000	10 139 000	-	-
Administration, management and other expenses	1 702 244	1 579 392	42 026 000	25 079 000	182 323	119 176
Total expenses	**7 390 331**	**3 830 594**	**146 798 000**	**64 742 000**	**193 210**	**128 600**
Equity-accounted earnings	**-**	**-**	**2 989 000**	**2 424 000**	**-**	**-**
Profit/(Loss) before tax	**391 844**	**7 888**	**14 561 000**	**16 966 000**	**(43 685)**	**45 759**

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-19	Dec-18	Dec-19	Dec-18	Sep-19	Sep-18
Group/Company	**Professional Provident Society Insurance Company Limited**		**Sanlam Limited**		**The Standard General Insurance Company Limited**	
Tax	(355 821)	48 827	(5 756 000)	(4 164 000)	(5 328)	(15 282)
Profit/(Loss) after tax	**36 023**	**56 715**	**8 805 000**	**12 802 000**	**(49 013)**	**30 477**
Other comprehensive income	**8 295**	**3 714**	**(5 017 000)**	**2 298 000**	**-**	**-**
Total comprehensive income/(loss) for the year	**44 318**	**60 429**	**3 788 000**	**15 100 000**	**(49 013)**	**30 477**
Other transfers to/(from) retained income	-	-	2 224 000	(765 000)	-	-
Other comprehensive income not charged against retained earnings	(8 295)	(3 714)	3 888 000	(1 717 000)	-	-
Ordinary dividends	-	-	6 500 000	6 053 000	350 000	900 000
Allocated to preference shareholders	-	-	-	-	-	-
Allocated to non-controlling interests	-	-	837 000	1 402 000	-	-
Change in retained earnings	**36 023**	**56 715**	**2 563 000**	**5 163 000**	**(399 013)**	**(869 523)**
Management expenses to net premium and service fees on investment contracts	40%	41%	53%	40%	177%	179%
Tax as a % of NIBT	(91%)	619%	(40%)	(25%)	12%	(33%)
Comments	Company		Group		Company	

"Resilience is based on compassion for ourselves as well as compassion for others."

- Sharon Salzberg

Kashmira Naran

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

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.

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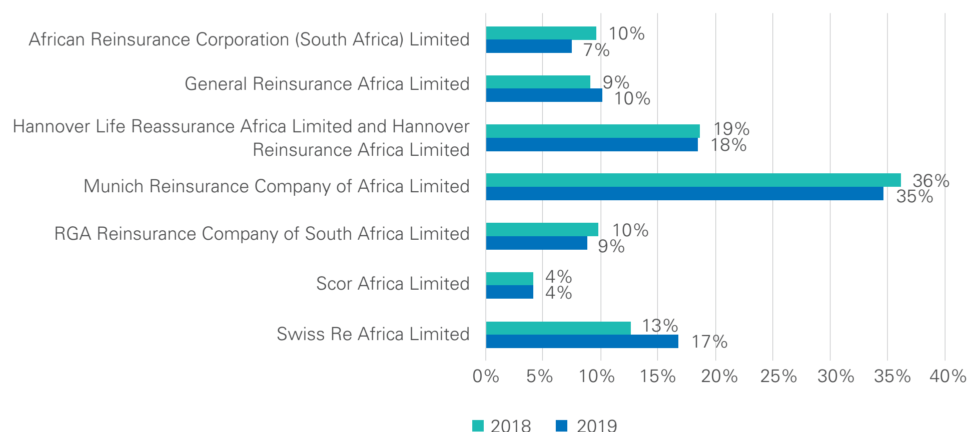
IIllustrated below is the share of the reinsurance market by GWP, as reported in the audited financial statements of the reinsurers participating in this survey.



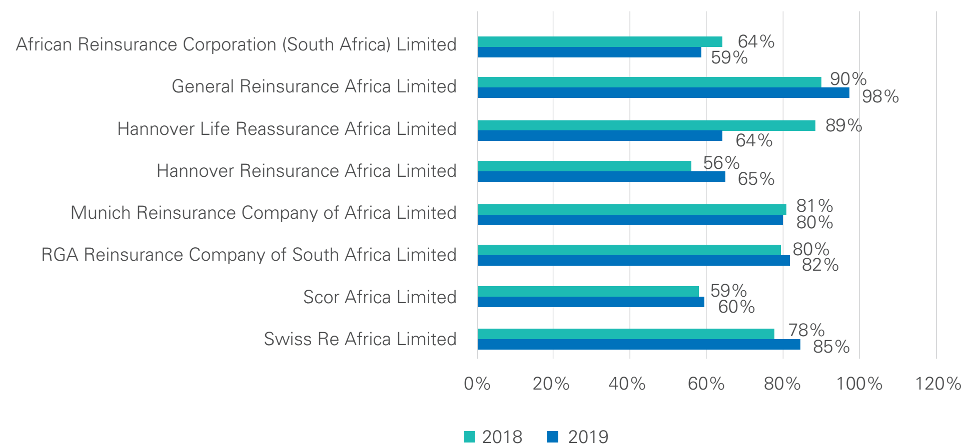
Munich Reinsurance Company of Africa Limited and Hannover Reinsurance Group continue to dominate the local life and non-life reinsurance industries. Their combined market share accounts for 53% (2018: 55%) measured by GWP volumes. The market share distribution across reinsurers continues to remain relatively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

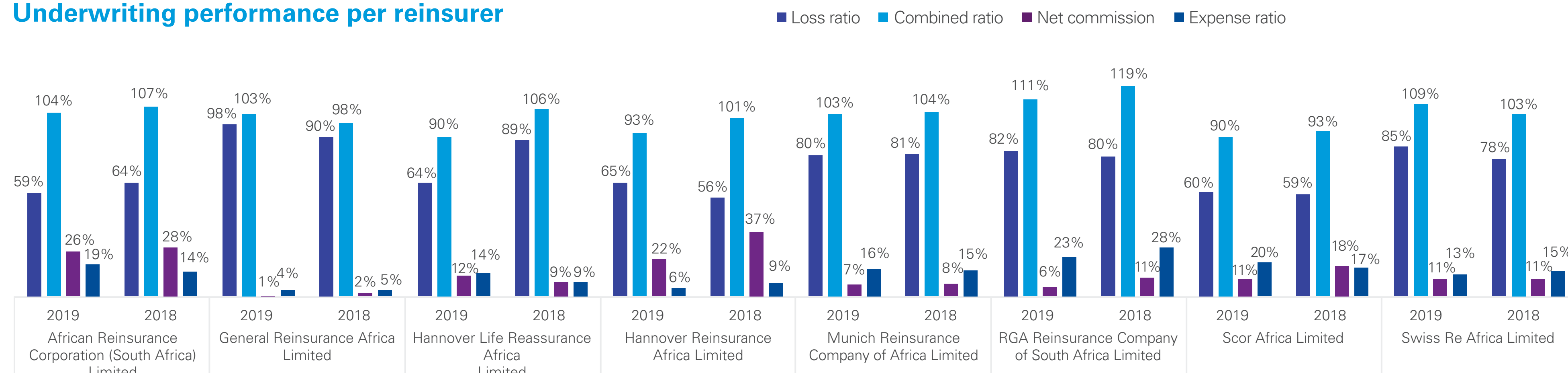
Other key performance indicators based on the results of reinsurers participating in the 2019 KPMG survey is as follows:

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.





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 aquisition 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 aquisition 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	

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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	

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Editorial team

Mark Danckwerts
Partner
Head of Insurance:
KPMG in South Africa
T: +27 82 710 3261
E: mark.danckwerts@kpmg.co.za

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

Asiphe Swana
Supervisor
T: +27 64 754 5913
E: asiphe.swana@kpmg.co.za

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