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Life insurance industry results analysis

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

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

Macroeconomic overview

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

Observations in 2024

GDP growth

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

Inflation

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

Interest rates

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

Rand performance:

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

Employment

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

Key drivers in 2024

Load shedding

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

Logistics crisis

Port and rail inefficiencies constrained exports

Fiscal position

Budget deficit widened to ~5.2% of GDP.

Debt-to-GDP ratio climbed toward 75%.

Investment

Private sector remains cautious while public infrastructure spends lagged.

Investment returns have been positive

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

Stronger equity market performance

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

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

Bond market stability and yield compression

South African government bond yields eased in late 2024 as:

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

Currency dynamics

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

Alternative and real asset performance

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

Release of reserving buffers

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

Analysis of the largest life insurer results

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

Sanlam Limited

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

Notable activity

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

Group solvency cover: 168%

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

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

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

Embedded value

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

Value of new business (VNB)

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

Cash generation

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

Earnings

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

Performance on operating metrics in constant currency

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

Old Mutual

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

Notable activity

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

Group solvency cover: 178%

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

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

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

Embedded value

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

Cash generation

Cash generation improved on higher headline earnings and cost control.

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

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

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

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

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

Discovery Limited

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

Notable activities

Entering a new phase in the lifecycle of the Group.

Discovery Life SCR: 183%

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

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

Assets under administration: R155 billion (30 June 2024)

Embedded value at June 2024

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

Cash generation

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

Year ended 30 June 2024

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

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

Interim update to 31 December 2024

Headline earnings were up 34% compared to December 2023.

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

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

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

Momentum Metropolitan

Solid recovery in earnings; improved persistency and cost discipline.

Notable activity

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

Group solvency: 164% at June 2024

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

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

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

Embedded value at 30 June 2024

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

Cash generation

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

Year ended 30 June 2024

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

Interim update up to 31 December 2024

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

Liberty

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

Notable activities

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

Solvency: 167%

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

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

The Group continued to focus on:

Integration to drive collaboration

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

Operational synergies

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

M&A activity in the year

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

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

Themes that we have noted include:

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

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

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

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

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