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The South African Insurance Industry Survey 2022

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Contents

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I have a client who keeps telling me that he's going to retire before IFRS 17 becomes mandatory for insurance companies. I thought that was quite a drastic decision to make, just to avoid the complexity of a new accounting standard. But that was before I read the article we've included in our survey about the metaverse. I'm not sure I want a digital life, nor do I want to make a decision about where I want to spend it or what my digital avatar will be. James, my IFRS 17-averse client, might have a point - I might retire before the first ground-breaking insurance company gets ET, the "data-rich personal avatar," to sell me a living annuity. #runningscared

If you quite like the idea of ET phoning you at home to sell you an insurance policy, you might enjoy our article "Insurance in the Metaverse" written by two of our digital consultants, Muhamed and Shaheed, both of whom have assured me that they are in fact human. On the other hand, if like James, IFRS 17 scares you, I suggest you read the easy to understand IFRS 17 articles.

A recent article about the reinsurance industry in the local press spoke of global reinsurers' growing reluctance to insure South African risks amid the rise of natural disasters, decaying infrastructure and public violence. KPMG's Chief Ethics Officer has written a great article called "The erosion of social cohesion: how do we insure an angry world?" in which he talks about the lack of social cohesion the world over and why it's another risk the industry needs to model. There's plenty more in the survey about ESG, what our mental state means for life insurers and what it might mean for insurance companies if the FATF puts South Africa on its Grey List.

On a happier note, non-life and life insurers have bounced back nicely after the pandemic. Our last three articles cover the results of the industry in great detail; thank you to the 34 non-life insurers, 19 life insurers and 4 reinsurers who allowed us to interrogate their results.

Finally, thanks to the insurance team at KPMG who never cease to amaze me with their tenacity, energy and passion for the industry.

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Insurance in the metaverse

Introduction

When it comes to technological revolution, nothing compares to the way the metaverse stormed onto the scene in late 2021. The metaverse is an amalgamation and intersection of virtual reality (VR), digital assets, and the utility provided by its developers. It promises the existence of virtual worlds parallel to the physical world – wherein you can spend your digital life, exist as a digital avatar, and enjoy digital experiences designed to simulate the physical world. Underpinning these vast new worlds and the promise of digital infinity is the distributed ledger and blockchain technology that birthed the now familiar concepts of cryptocurrencies and non-fungible tokens (NFTs). These concepts go hand in hand with the metaverse - with the cryptocurrencies serving as metaverse currency and tokenised, NFTs roleplaying as digital 'metaversal' assets. All of which is secured on a blockchain. These concepts deliver a completely new class of assets and valuables through the virtual property we own, the health of our avatars, and the data that is making all this possible. Like all other assets, these will need to be protected.

With the NFT market holding a staggering valuation of USD15.7 billion in 2021, the metaverse offers virtual asset types ranging from digital art pieces to virtual real estate on one of the many metaverse platforms. Music, gaming consumables, collectibles, virtual fashion, and event tickets populate a towering list of assets that, whilst typically existing physically and sold for fiat currency, can be minted and sold as an NFT.

While the same assets existing in the physical world offer a tangibility unmatched, these virtual assets deliver benefit to both sellers and holders. Musicians can be compensated in full for the proceeds from their art, gamers are able to enjoy the uniqueness and non-fungibility of their in-game assets, and wearers of virtual clothing are able to benefit from an asset that undergoes no physical wear. If anything, early virtual assets are expected to appreciate, as their originality and collectability skyrockets with the influx of new NFT creators as the metaverse expands.

With blockchain technology enabling true ownership of digital assets and therefore creating significant utility, marketability and tradability, these digital assets now have a more distinct, inherent value. Naturally, owners of this value would want to protect it by implementing risk controls, one of them being the insurance of their digital assets. In this article, we will discuss the effect of the metaverse (a shared, virtual experience powered by blockchain technology) on the insurance industry.

The impact of the metaverse on the insurance industry

Virtual assets, including cryptocurrencies and NFTs, and the underpinning digital data behind them, represent the metaverse's version of economic assets held by citizens of these virtual worlds. Just like physical economic assets, these virtual assets bring a need to be protected from events such as attacks, misplacement and in the case of digital data, accidental and malicious destruction. The oft-touted security and decentralisation presented by blockchain technology arrives with different classes of risks against which users of the metaverse, NFTs, and crypto-assets will seek insurance.

Opportunities presented by the metaverse

Marketing: Experiences in the metaverse extend much farther from retail, entertainment, and leisure, as industries look towards capitalising on the reach and opportunity that virtual environments offer. With the digital infinity that blockchain technology and the metaverse offer, functional operations of the insurance landscape are poised to be bolstered and hosted in the metaverse and on the blockchain. The saturated quantities of data stored on the metaverse and which contain information such as consumer purchase history, financial behaviour and incident history, present a gold mine for insurance providers to deliver personalised value to virtual citizens. Virtual environments also create an entirely new and dynamic landscape for marketing opportunities and brand awareness, especially when geared towards the more youthful citizen, who presents the typical user of the metaverse. The metaverse creates an opportunity for sellers of insurance to host client-agent consultations in a virtual setting. This allows for, what is usually a haggle over a phone call, to become an immersive experience enriched by a face-to-face conversation and even virtual depictions and simulations of scenarios and incidents that could impact the insurance holder and their assets. These same virtual environments provide a platform for firms to train claims adjusters in simulated environments mimicking real-life damage inspections through digital replicas of such scenarios.

Smart insurance contracts: Metaverse technology brings much more than its face of immersive experiences and data-rich personal avatars suggests. The underpinning blockchain technology powering the metaverse and its assets presents even more use-cases for the insurance industry - tokenised and NFT-based contracts and policies. Whereas real-life contracts are currently digitised and document-based, the issuing of contracts as non-fungible tokens hints at protection from fraudulent activity through forged documents and tampered policies. Tokenised contracts promise traceable and secure documentation in full ownership and control by policyholders. On top of this, smart contracts utilised on the blockchain offer a secure means of premium payments by policyholders or claim settlements by insurance providers, all in cryptocurrency. In the real world, claims can take a significant amount of time to be verified, processed, and paid. Smart contracts may contain functionality that automatically determines whether a claim is valid and applicable, and could disburse payment instantaneously (e.g. travel insurance claims could be instantly paid out once it is verified on the blockchain that a flight was cancelled).

Innovation: The data-rich and complex nature of metaverse technology presents the biggest driver for digital transformation in firms looking to prepare for adoption. While no insurance firm benefits from a proprietary and in-house developed metaverse platform or blockchain, there is certainly a need for future-geared firms to remain digitally dynamic. Synchronous internal IT departments and metaverse centres of excellence will help support the business landscape and employees to remain operational, efficient, and well-trained in handling the new environments, ways of work and products effected by a firm's metaverse adoption. Additionally, the risks and looming regulation of metaverse technology will require an enormous effort from risk, compliance, and governance teams to create risk management frameworks and controls to ensure that all aspects of "metaversal" ventures remain in compliance with regulation and business continuity protocols.

Risks presented by the metaverse

It would be necessary to determine the main risks related to the unique environment which the metaverse presents. It is also noteworthy that every risk presents an opportunity to provide innovative insurance solutions. Insurance considerations of risks relating to the metaverse would include:

Crypto wallets: these are digital wallets/addresses existing on a blockchain where one can store cryptoassets. These wallets can be hot wallets or cold wallets, where the former is a wallet which is connected to the internet and cryptocurrency network (and in most cases, held on a trading exchange) while the latter is an offline wallet stored on a platform not connected to the internet and which is normally used for storage of cryptoassets for prolonged periods of inactivity. Naturally, hot wallets would be riskier from a security perspective and would result in higher insurance premiums for coverage than cold wallets as they would be more exposed to security breaches and/or losses incurred from active trading. Cold wallets are associated with long-term holdings of cryptoassets and are therefore less risky from an insurance perspective as they are not as exposed to vulnerabilities such as online hacks and crypto exchange hacks like hot wallets are.

Crypto companies: crypto companies themselves would also require insurance services to offset their risks. These could include policies relating to cybersecurity which are already provided by certain insurance providers and there is now a need to instil and facilitate cryptosecurity policies too. Even though blockchain technology is a technological advancement in digital security, it still will not guarantee its users or providers complete safety. Crypto exchange companies are susceptible to attack. Crypto.com lost $30 million worth of cryptocurrency from 483 users' crypto wallets in a hack at the beginning of 2022. Additionally, as most crypto companies have user license agreements which result in them holding ownership over the keys to crypto wallets on their exchange, crypto companies could find themselves in potential lawsuits if the keys to these wallets are accidentally deleted or stolen.

Hackers: since the rise of the internet, hacking has been a constant security threat which companies have insured against, whether it be over the value of their servers or as a contingency plan in case of a distributed denial-of-service (DDoS) attack. However, the metaverse could intensify this threat. With access to the metaverse leaning toward virtual realities, hackers could access and create copies of your biological and personal data. With data such as your fingerprints and identity details, much damage can be done to financial arrangements and reputation. Hackers may even be able to hack virtual reality gear and execute simulations which could cause neurological and physical harm to users. Insurance companies would therefore have to create tailor-made policies for these virtual reality-related risks and others no one has even thought of yet.

Cryptocurrency: cryptocurrency holders and traders are creating an increasing demand for insurance policies relating to cryptocurrency itself. This would be tricky from an insurance perspective, as it would require an in-depth understanding relating to the nature of the currency at hand. For example, blockchains can be categorised into various levels, similarly to how our current networks can have various levels. Just like how the internet is one level, and the world wide web is built on top of the internet, and certain applications like Facebook are built on top of the web – similar instances occur for blockchain networks. Blockchains which have no scalability (the ability to build an app or software on top of a blockchain) are typically less risky than blockchains which do have scalability. This is because the more layers the cryptoasset is built on top of, the more vulnerabilities it is exposed to as it is exposed to the inherent risk of each layer.

Additionally, the nature of the cryptoasset itself could be risky. Luna was a cryptocurrency which instead of being backed by fiat money, was attempting to be backed by cryptocurrency itself to branch away from fiat dependency. As a result, it lost 99.9% of its value after falling victim to a wide-scale dilapidation because its stablecoin was de-pegged.

Insurance companies would therefore need an in-depth technological understanding of each cryptocurrency before drafting policies for them. Insurance companies may need to consider the curation of a one-size-fits-all cryptocurrency insurance policy as the due diligence required for unique cryptoassets may be cost-intensive. Offering unique, tailor-made insurance solutions may be possible if policyholders are willing to pay higher premiums for them. Insurance companies may choose to outsource the analysis of blockchain vulnerabilities and crypto-related risks to avoid capital-intensive investments.

Rugpulls: these are situations where the original creator(s) of a crypto project gather funding (whether cryptocurrency or fiat currency) through an initial offering in exchange for their created cryptoasset. This could be cryptocurrency or an NFT. The creators then disappear with the money received from investors, rendering the project an empty shell, causing its fair market value to nosedive, and essentially removing whatever solid foundation investors thought they had from underneath them. For centuries, people have fallen victim to ponzi schemes and fraudulent projects, and therefore insurance companies would need to perform extensive due diligence on a crypto project before being willing to create any policies for the investor or creator's benefit.

Physical and mental health: much like the increase of technological and social media adoption has had a correlative effect on the decreased mental and physical health of most developed societies, the mainstream adoption of a virtual reality-based metaverse is expected to have the same impact. With individuals spending more time in a virtual world, reduced physical movement would result in decreased quality of physical health. This, coupled with the concept of the real world being contrasted with a utopian virtual world could result in increased mental health issues. There is also a risk of physical injury – an India Times article notes that "many users who are already logged onto the metaverse are reporting injuries - ranging from benign fractures to more serious ones. According to the Wall Street Journal, virtual reality is sending people to emergency rooms."[1] This is yet another opportunity for insurers to consider offering insurance to cover metaverse physical injury risk. This decrease in the quality of society's physical and mental health could result in insurance companies having to diversify their life and medical insurance product range.

1 https://www.indiatimes.com/technology/news/virtual-reality-injuries-rising-in-hospitals-561025.html

Future

The road to realising the possibilities and opportunities that the metaverse promises, is riddled with risks and undefined regulatory hurdles that need to be addressed before firms can begin to pilot associated programmes. Both the pace at which the technology evolves, and its mainstream adoption present even further challenges that CIOs and COOs will have to consider as they undertake their metaverse journey. Regardless, the insurance industry is poised to evolve as metaverse technology continues to accelerate in growth, scope, and adoption. While physical and real-life asset insurance will always be necessary, digital assets such as cryptocurrencies, NFTs, and virtual real estate usher in new classes of assets to be insured and protected. The metaverse's virtual environments will serve as platforms for immersive client-customer engagement with data-rich personal avatars providing a means for personalised policies and product offerings. Blockchain technology provides a means for a more secure, automated, and robust mechanism for the issuing of contracts and policies, while transactions facilitated by smart contracts hosted on the blockchain provide a means for settling of claims and payment of insurance premiums. Firms will need to gear towards digitally transforming their businesses to remain ever ready for the inevitable arrival of these revolutions to the insurance landscape, and to stay abreast of the risks, regulation, and impending legal implications.

Insurance entities should take the time to understand what the metaverse entails and what it is trending towards. Insurance laws may need to evolve as well, as End-User License Agreements (EULA) for participating in various metaverse platforms may become increasingly important for insurance purposes. Just as a drunk driver cannot claim for a car crash, individuals who sign up to participate in certain metaverse activities and agree to whatever was stated in the EULA without understanding the terms and conditions may not be able to claim from their insurance provider. A conversation will then have to be had regarding whether an everyday layperson would understand the concepts and clauses of the EULA they agreed to. People are becoming simpler, while the bounds of technology are becoming increasingly complex, and it is therefore the task for insurance companies to find a middle ground on which to base innovative insurance solutions.

It is extremely easy to get caught up in the hype and want to be the 'first' and 'ground-breaking' insurance company to branch into the metaverse, however the space is constantly evolving. We have not even begun to scratch the surface of what the impact of the metaverse, blockchain technology and NFT's will be on society at large. Innovative companies are not necessarily successful companies, and it may be worthwhile to sit back, obtain an evolving understanding, analyse the market, and determine what works before branching into the metaverse. Being the first to the market is exciting, however investing in a market too quickly could mean the difference between becoming the next Myspace, or the next Facebook.

P.S. Note from the editor

If you are like me and are still grappling with coming to grips with the barrage of new technologies and the technical jargon that goes with it, on the next page we thought we would include a glossary of the technical terms used that might help you navigate this article.

Term	Definition	Reference source
Distributed ledger	A **distributed ledger** is a database that is consensually shared and synchronized across multiple sites, institutions, or geographies, accessible by multiple people. It allows transactions to have public "witnesses." The participant at each node of the network can access the recordings shared across that network and can own an identical copy of them. Any changes or additions made to the ledger are reflected and copied to all participants in a matter of seconds or minutes. A distributed ledger stands in contrast to a centralized ledger, which is the type of ledger that most companies use. A centralized ledger is more prone to cyber attacks and fraud, as it has a single point of failure.	https://www.investopedia.com/terms/d/distributed-ledgers.asp
Blockchain	A **blockchain** is a distributed database or ledger that is shared among the nodes of a computer network. As a database, a blockchain stores information electronically in digital format. Blockchains are best known for their crucial role in cryptocurrency systems, such as Bitcoin, for maintaining a secure and decentralized record of transactions. The innovation in a blockchain is that it guarantees the fidelity and security of a record of data and generates trust without the need for a trusted third party. One key difference between a typical database and a blockchain is how the data is structured. A blockchain collects information together in groups, known as blocks, that hold sets of information. Blocks have certain storage capacities and, when filled, are closed and linked to the previously filled block, forming a chain of data known as the blockchain. All new information that follows that freshly added block is compiled into a newly formed block that will then also be added to the chain once filled. A database usually structures its data into tables, whereas a blockchain, as its name implies, structures its data into chunks (blocks) that are strung together. This data structure inherently makes an irreversible timeline of data when implemented in a decentralized nature. When a block is filled, it is set in stone and becomes a part of this timeline. Each block in the chain is given an exact timestamp when it is added to the chain.	https://www.investopedia.com/terms/b/blockchain.asp
Cryptocurrency	A **cryptocurrency** is a digital or virtual currency that is secured by cryptography, which makes it nearly impossible to counterfeit or double-spend. Many cryptocurrencies are decentralized networks based on blockchain technology—a distributed ledger enforced by a disparate network of computers. A defining feature of cryptocurrencies is that they are generally not issued by any central authority, rendering them theoretically immune to government interference or manipulation.	https://www.investopedia.com/terms/c/cryptocurrency.asp
Non-fungible token (NFT)	A **non-fungible token (NFT)** is a financial security consisting of digital data stored in a blockchain. The ownership of a NFT is recorded in the blockchain, and can be transferred by the owner, allowing NFTs to be sold and traded. NFTs can be created by anybody, and require few or no coding skills to create.[1] NFTs typically contain references to digital files such as photos, videos, and audio. Because NFTs are uniquely identifiable assets, they differ from cryptocurrencies, which are fungible.	https://en.wikipedia.org/wiki/Non-fungible_token
Token/tokenized	Generally speaking, a token is a representation of a particular asset or utility. Within the context of blockchain technology, tokenization is the process of converting something of value into a digital token that's usable on a blockchain application. Assets tokenized on the blockchain come in two forms. They can represent **tangible** assets like gold, real estate, and art, or **intangible** assets like voting rights, ownership rights, or content licensing. Practically anything can be tokenized if it is considered an asset that can be owned and has value to someone, and can be incorporated into a larger asset market.	https://www.gemini.com/cryptopedia/what-is-tokenization-definition-crypto-token#section-security-tokens-utility-tokens-and-cryptocurrencies
DDoS attack	A distributed denial-of-service (DDoS) attack is a malicious attempt to disrupt the normal traffic of a targeted server, service or network by overwhelming the target or its surrounding infrastructure with a flood of internet traffic.	https://www.cloudflare.com/learning/ddos/what-is-a-ddos-attack/
Stablecoin	Stablecoins are cryptocurrencies the value of which is pegged, or tied, to that of another currency, commodity or financial instrument. Stablecoins aim to provide an alternative to the high volatility of the most popular cryptocurrencies including Bitcoin (BTC), which has made such investments less suitable for wide use in transactions.	https://www.investopedia.com/terms/s/stablecoin.asp

P.P.S. Further note from the editor – if, like me, you still don't understand, please feel free to call one of the authors at KPMG!

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IFRS 17 – Don't trip up in the last stretch

With just less than four months remaining until the go-live date of 1 January 2023 for *IFRS 17 Insurance Contracts* (IFRS 17) (for insurers with a December year-end), the insurance industry has reached the last stretch of the implementation journey. Progress has been made and lessons have been learnt, and although it feels like it has often been two steps forward and one step back, the industry is slowly but surely moving closer to the finish line. In this article we consider some of the current challenges experienced within the industry, as a guide to assist you in overcoming the last hurdles.

Impracticability

IFRS 17 requires an entity to apply the standard fully retrospectively, unless it is impracticable to do so (par C3). The standard however does not define "impracticable". Entities must consider their interpretation of what they define as "impracticable". This consideration has been top of mind for the insurance industry as it directly impacts the adoption of the standard and involves significant management judgement, and it remains a key hurdle to overcome. Not only does the entity's implementation team have to be comfortable with the decision, but various stakeholders also need to be satisfied. Although insurers may have had an initial "gut feel" for where fully retrospective application would be impracticable, this assessment may have been further refined as insurers enhanced their understanding of the standard, particularly the detail required relative to the information available to the entity. Included below are the common areas of consideration which insurers have been grappling with in respect of the impracticability assessment:

- Data requirements – IFRS 17 requires a significant amount of data at a more granular level than what was required under *IFRS 4 Insurance Contracts* (IFRS 4). A comprehensive understanding of current data flows (and how these have changed over the years) is key in determining what data is available for IFRS 17 calculations. The data requirements and data availability may differ between products and may differ where intermediaries have been or are involved. As data from previous financial reporting years will be used in the adoption of IFRS 17, entities should also consider how confident they are with the quality of historical data, and what controls are in place to ensure that this data has not been inappropriately altered over the years.

- Systems – legacy systems are prevalent in the insurance industry. Understanding the capabilities and limitations of these legacy systems is key in determining impracticability. Information may not have been stored in a sufficient level of detail, or may be irretrievable or unreadable from older systems. Entities with multiple legacy systems may also struggle to collate historical data due to differences in previous data formatting and capturing. A complete understanding of how these systems interlink, the data available from these systems and how to retrieve this data is key in an entity's impracticability assessment. It is also important for an insurer to understand how systems have evolved over the years, including migration of data between systems and adequacy of embedded controls.

- Modelling – an understanding of the modelling of technical provisions undertaken in prior years is necessary in understanding where there may be limitations and where fully retrospective adoption may not be possible, particularly where significant modelling changes were made. Models under IFRS 4 are not always IFRS 17 compliant and may need to be updated. Insurers need to determine whether the older models can be updated and whether the time and effort needed to do so is worth it. Insurers need to consider whether the changes required to IFRS 4 models are material, or whether these can be accepted under IFRS 17 based on materiality. If models cannot be updated or the difference in the insurance result using an older model cannot be quantified, this may impact the impracticability consideration.

Once the impracticability decision has been made, documentation of the factors and thought process is imperative to ensure that the decision can stand up to interrogation – both now as we enter IFRS 17 go-live, and also in the upcoming years when the arguments supporting impracticability drivers are no longer at the forefront of everyone's minds.

Where business is written prior to the impracticability date, the insurer has a choice of applying the fair value or the modified retrospective approach. This requirement is in line with IFRS 17.C5 which states that if, and only if, it is impracticable for an entity to apply paragraph C3 for a group of insurance contracts, an entity shall apply the modified retrospective approach, or the fair value approach. There is no hierarchy in the choice between modified retrospective or fair value approach, except that if the modified retrospective approach is not feasible given the lack of reasonable and supportable information, then the fair value approach must be adopted. This gives the entity some flexibility to select an approach that best reflects their desired outcome in terms of the contractual service margin (CSM) at transition which determines the opening balance of the comparative period on adoption of the standard, and future earnings from those opening CSM balances.

Fair value

Within the South African market, a significant number of insurers initially opted for the fair value approach rather than the modified retrospective approach, where a fully retrospective approach was deemed impracticable. However, determining fair value for these groups brings its own complications as IFRS 17 does not prescribe the calculation to be followed in determining a fair value. What may have previously been seen as an easier alternative to fully retrospective adoption has become an area of equal debate as IFRS 17 implementation has progressed. *IFRS 13 Fair Value Measurement* contains guidance which insurers must apply when determining the fair value of a group of insurance contracts at the transition date, in order to ultimately calculate the CSM, or loss component of the liability for remaining coverage at that date.

Areas of judgement in the fair value calculation include the buyer's required return on the transaction, the level and diversification of capital and how to allow for cross subsidies between products and anticipated business synergies as a result of the transaction. All of these are assessed from the willing buyer's perspective but the absence of an active market and the limited availability of comparable transactions to inform reasonable ranges makes this option challenging.

As projects have matured, we have seen more insurers electing the modified retrospective approach instead of the fair value approach, where the fully retrospective approach is impracticable.

Modified retrospective approach

When insurers select the modified retrospective approach, the outcome is closer to full retrospective application than that achieved when using the fair value approach.

Where entities have attempted a fully retrospective approach for groups of insurance contracts, but are faced with limitations, the permitted modifications allowed by the standard are limited to the following areas:

a) assessments of insurance contracts or groups of insurance contracts that would have been made at the date of inception or initial recognition;

b) amounts related to the CSM or loss component for insurance contracts without direct participation features;

c) amounts related to the CSM or loss component for insurance contracts with direct participation features; and

d) insurance finance income or expenses.

By applying the modified retrospective approach, an entity maximises the use of information that is available without undue cost or effort that would have been used to apply a full retrospective approach. This approach provides entities with a reasonable "middle ground" in the adoption of IFRS 17, where a fully retrospective approach is impracticable, but where a significant amount of information is available that the entity can utilise in its transition calculations.

When fully retrospective adoption is impracticable, the modified retrospective approach may result in a higher CSM at transition compared to the CSM calculated using the fair value approach. This in turn will translate into higher future earnings as the CSM is released over time. For some risk business, the resulting profile of profit emergence may align more closely with existing profits reported under the current accounting framework.

An entity may also be aiming to be as consistent as possible in their transition approaches. In some jurisdictions (i.e., the European insurance market), the modified retrospective approach is expected to be favoured over the fair value approach – this could be another key driving factor of the transition methodology adopted by South African based subsidiaries or branches of global based (re)insurers.

Once impracticability has been determined, insurers should consider whether the modified retrospective approach is an option for the groups of contracts, and whether opting for the modified retrospective approach or the fair value approach is more appropriate. If, however, reasonable and supportable information is not available to apply the modified retrospective approach, the only remaining option is to apply the fair value approach.

The transition balance sheet

Insurers are working towards the opening transition balance sheet, which includes the calculated CSM and the impact on retained earnings. As a more refined balance sheet is prepared, insurers must consider how and when the adjustments are communicated to various internal and external stakeholders. Stakeholder education is key in ensuring recipients understand the adjustments or changes to retained earnings and the disclosure on the level and extent of judgements and assumptions that resulted in the change to the opening retained earnings balance. Although many insurers may only have an expected range of the equity impact at this point in their implementation projects, it is vital to get the timing of communication with stakeholders right.

Communication that is too early may result in many iterations and changes before a final adjustment is released, whereas delayed communication may result in growing anxiety particularly where peers have communicated their balance sheet impacts. Either way – with go-live day edging closer – time is running out.

Financial statements "pre-IFRS 17"

As we move towards the first set of results under IFRS 17, it is important for insurers to remember the disclosure in current financial statements for standards issued but not yet effective. This is required for reporting leading up to adoption, as specified in paragraph 30 of *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8). The disclosure is expected to increase in detail as an insurer moves closer to adopting IFRS 17. Although IAS 8 disclosure has been relatively light across the industry in prior financial reporting periods (something that we have seen across both the South African market and further abroad), insurers will be hard-pressed to provide sufficient disclosure for a user to understand the expected impact of IFRS 17, in the financial statements immediately preceding adoption of the standard. Insurers should also not neglect interim reporting, which may be required during the first year of adoption, and should focus on getting this reporting as accurate as possible to avoid discrepancies between interim reporting, and the first full year reporting under IFRS 17.

Impacts to IFRS 4

The extensive work at a more disaggregated level as required by IFRS 17 has led to some insurers identifying potential issues in their current IFRS 4 reporting. As these concerns may relate to current reporting, this is an area that insurers have had to deal with immediately in financial statements for the years before IFRS 17 is adopted, adding more pressure to the IFRS 17 project. Areas where insurers may encounter issues include misclassification of products, errors within modelling calculations, and data errors/inconsistencies. It is expected that this area will develop further as insurers work through the potential issues, firstly to determine whether these are concerns that impact current IFRS 4 reporting and how they will be dealt with in the current financial statements, and secondly how these will be dealt with for IFRS 17.

Getting to the finish line

Time is no longer on the side of insurers. The effective date for adoption of IFRS 17 has already been extended twice – initially from 2021 to 2022, and then to 2023, but since then insurers have had their hands full with dealing with the impacts of COVID-19 and the resultant shortage of capacity and skills in the industry. This overall lack of resources has pushed many implementation projects into a red status, where timely adoption of the standard is at risk.

For many insurers a parallel run period in the year before adoption is no longer viable; many insurers will be working through teething problems in a live environment. This will place further strain on the current resource base as processes and controls for the business are being established while reporting concurrently on results.

Although the focus is now on finalising the transition balance sheet, this must soon shift to providing restated comparatives and to achieve the end state business as usual processes that insurers had in mind when commencing with their IFRS 17 implementation projects. The go-live date may be edging closer, but the industry still has a way to go before we are truly settled into our new IFRS 17 world.

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#trending

Scott Adams, the cartoonist said, "Methods for predicting the future: 1) read horoscopes, tea leaves, tarot cards, or crystal balls . . . collectively known as "nutty methods;" 2) put well-researched facts into a sophisticated computer . . . commonly referred to as "a complete waste of time"." I tend to agree. Science fiction films of the 20th century all had flying cars, but few predicted the smart phone. That said trends are interesting and provide some insight as to where things might go. I'm not talking about millennial trends that hashtag for two weeks and then disappear, but rather genuine plausible relationships between the objects of our attention which persist over time: decades, centuries and longer. A trend in this context is a general direction in which something is developing or changing. The purpose of this article is to explore some trends and ponder on what they could mean for the insurance industry. Our focus will be split between the following trending topics: #stuff; #mentalmatters; and #boom!

#stuff

The use of tools is not particular to humans. Chimpanzee stone hammers have been dated back 4,300 years[1]. Birds use twigs, grass, feathers, and other objects to make and shape their homes. In my personal experience, elephants have used trees to take down electric fences to access water pipes. My favourite example is macaques, "Macaques living near a Buddhist shrine in Lopburi, Thailand, are known to pull out hair from visitors to use as floss to clean their mouths."[2] But amongst the animal kingdom I think it would be fair to say that humans have a particular fondness for tools – we just love our stuff!

The BBC released a fascinating 100-episode podcast called "A history of the world in 100 objects[3]." If you enjoy history and have 20 minutes a day to spare (perhaps whilst driving) I highly recommend this podcast. The basic premise is that human history can be seen through a lens of the #stuff that we use. From early art and stone tools to credit cards - stuff defines us.

The trend in stuff is one of continued increase. Whilst our cave dwelling ancestors might have taken pride in their handful of objects: a stone axe; a single animal skin; a carved statue; and fancy wall paintings - the average American household had 300,000 items[4] – back in 2014! The average American woman owns 30 outfits compared to just nine back in 1930[5]. It is not only the Americans by the way – the average British child owns 238 toys (but plays with only twelve on a regular basis[6]). The average Chinese household spent $45 a year on toys, with a big city budget being up to ten times this amount[7]. The toy industry in China alone is expected to grow by around 11.1% per annum over the next five years[8]. Unfortunately for insurers, with a usage rate of around 5%, toys do not make a highly insurable market.

However, the trend of continuous growth holds true for more valuable assets. Consider the car. Worldwide the number of automobiles has increased from one for every 48 people in 1950 to around one for every twelve people in 1999[9]. The number of vehicles (including vans, buses, personal motor vehicles and commercial vehicles) ranges from a staggering 897 per 1000 in New Zealand to 1 per 1000 in North Korea. Whilst China is the largest vehicle market in the world, their ownership statistics are quite low at only 219 per 1000 people. Fairly close to South Africa's at 232.

1 10 Animals That Use Tools | Live Science https://www.livescience.com/9761-10-animals-tools.html

2 10 Animals That Use Tools | Live Science https://www.livescience.com/9761-10-animals-tools.html

3 BBC Radio 4 - A History of the World in 100 Objects https://www.bbc.co.uk/programmes/b00nrtd2

4 For many people, gathering possessions is just the stuff of life - Los Angeles Times (latimes.com) https://www.latimes.com health/la-xpm-2014-mar-21-la-he-keeping-stuff-20140322-story.html

5 The Real Cost of Your Shopping Habits (forbes.com) https://www.forbes.com/sites/emmajohnson/2015/01/15/the-real-cost-of-your-shopping-habits/?sh=57745fb71452

6 Ten-year-olds have £7,000 worth of toys but play with just £330 (telegraph.co.uk) https://www.telegraph.co.uk/finance newsbysector/retailandconsumer/8074156/Ten-year-olds-have-7000-worth-of-toys-but-play-with-just-330.html

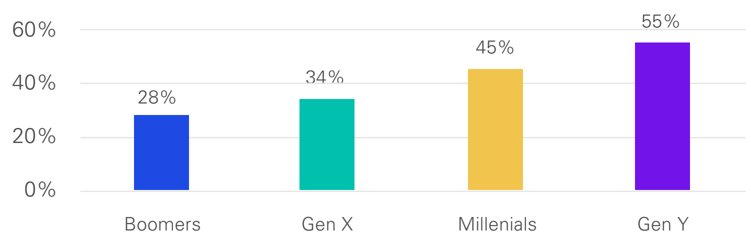
7 China's toy market potential huge following 'second child policy' - CGTN https://news.cgtn.com/news/2020-06-01/China-s-toy-market-potential-huge-following-second-child-policy--QYsMLVIqhG/index.html

8 China Toys Market Share, Growth, Trends & Forecast 2022-2027 (imarcgroup.com) https://www.imarcgroup.com/china-toys-market

9 Lomborg, Bjørn (2001). The Skeptical Environmentalist: Measuring the Real State of the World. Cambridge University Press. p. 79. ISBN 9780521010689.

Whilst the numbers have increased there are many other trends impacting this industry. Cox Automotive published an interesting article supporting a general view that car ownership is becoming less important over time. Their research and their graph below, suggest that younger generations see ownership as less important than access[10]. The advent of services like Uber and Lyft, as well as anecdotal evidence from conversations with our audit trainees, seem to support this. Interestingly, this concept is also being applied in the freight and commercial vehicle space with companies like Manbang in China – "described as the Chinese Uber for trucks"[11]. Whilst this trend is not necessarily a problem for insurers as the vehicles still exist, the insured parties and the risk associated with the vehicles does however change.

Having transportation is necessary, but owning a vehicle is not (% agree)



Obviously COVID-19 has also impacted the personal automobile industry. However, at least two surveys we inspected suggest that the "intent to purchase a vehicle" metric is heading back to pre-COVID-19 levels (97% of pre-COVID-19 levels according to McKinsey)[12]. The "intent to purchase" is a forward looking metric about expected consumer behaviour, but actual sales statistics show us what people are really doing. Actual worldwide motor vehicle sales growth has already rebounded to a 5% increase in 2021 following massive declines in 2020 due to nationwide lockdowns in many jurisdictions[13].

Another impact of COVID-19 has been the increased emphasis on the usage-based insurance model. The usage-based model in vehicle insurance, also called pay-as-you-drive (PAYD) and like pay-how-you-drive (PHYD), brings modern telematics and information to help manage premiums. Many a braai-side conversation in the not-so-locked-down periods during the pandemic highlighted consumers' concern about their insurance premiums in the context of a dormant, or largely idle vehicle. Metromile is an example of usage-based vehicle insurance from the US that launched in the COVID-19 period and has had some success over the period. The idea was trending enough that Metromile went public in February of 2021 and was recently acquired by the well know Insurtech company Lemonade[14]. The availability of PAYD types of insurance, popularised by Discovery Insure, has become extensive, with many South African insurers now playing in this space.

However, in relation to stuff in general, the usage-based model of insurance has shown significant growth. If you only ski in winter, you turn on your ski insurance when you leave your house in Zurich for the alps and back off again when you park your car at home after the weekend. The same for bikes, cameras and other stuff.

Our stuff needs to come from somewhere. Getting it there remains primarily the role of the merchant fleet. The volume of goods loaded has increased from 4.8bn tons in 1996 to 11bn tons in 2020[15] - a 46.5% increase. Only two years in that period showed negative growth, being 2009 and 2020; no doubt the credit crisis and COVID-19 respectively. That reflects an average annual growth in the volume of goods being shipped of 4.4%. That is a remarkable amount of stuff being moved around the world.

Clearly marine and transportation insurance will have benefitted from this growth. This is more than the gross domestic product (GDP) growth for the period which averaged 2.98% and has averaged 3.5% since 1960[16]. GDP growth has exceeded the average annual population growth rate of 1.58% since 1960. Admittedly, the industrial and agricultural components of GDP account for around 35% of GDP and the rest is services[17 18].

10 Shift from Ownership to Access Is Shaping the Future of Automotive - Cox Automotive Inc. (coxautoinc.com) https://www.coxautoinc.com/learning-center/2018-mobility-study/

11 The Station: COVID's effect on car ownership | TechCrunch https://techcrunch.com/2020/11/30/the-station-covids-effect-on-car-ownership/

12 How car buying and mobility is changing amid COVID-19 | McKinsey https://www.mckinsey.com/business-functions/growth-marketing-and-sales/our-insights/how-consumers-behavior-in-car-buying-and-mobility-changes-amid-covid-19

13 Worldwide motor vehicle sales growth | Statista https://www.statista.com/statistics/1097317/worldwide-motor-vehicle-sales-growth/

14 The Station: COVID's effect on car ownership | TechCrunch https://techcrunch.com/2020/11/30/the-station-covids-effect-on-car-ownership/

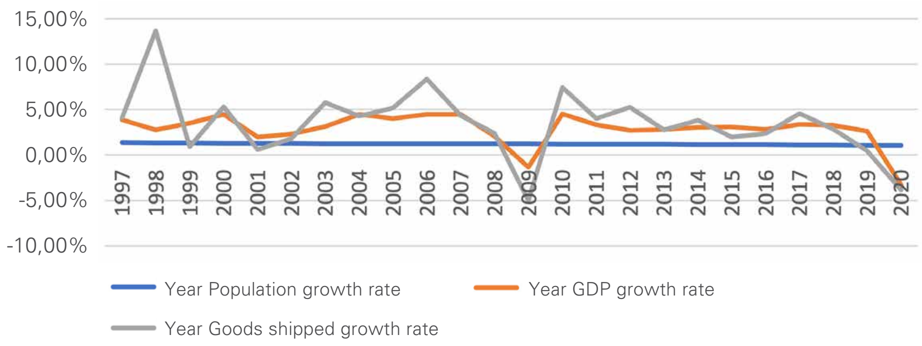
15 World seaborne trade – UNCTAD Handbook of Statistics 2021 https://hbs.unctad.org/world-seaborne-trade/

16 https://www.macrotrends.net/countries/WLD/world/gdp-growth-rate'>World GDP Growth Rate 1961-2022. www.macrotrends.net. Retrieved 2022-08-07

17 List of countries by GDP sector composition - Wikipedia https://en.wikipedia.org/wiki/List_of_countries_by_GDP_sector_composition

18 What Percentage of the Global Economy Is the Financial Services Sector? (investopedia.com) https://www.investopedia.com ask/answers/030515/what-percentage-global-economy-comprised-financial-services sector.asp#:~:text=Global%20GDP%2is%20broken%20down%20into%20three%20sectors,services%2C%2025%25%20industry%2C%20and%203%25%20agriculture.%2010%20%EF%BB%BF

Comparison of growth rates for population, GDP and goods shipped



What does this mean for property insurers? Well, if the past is a good indicator of the future – then every year there will be more and more stuff to insure. Sounds like good news. However, there are two other trends that might undermine this rosy outlook.

#mentalmatters

We have all this stuff and more of it every year, but is our stuff making us any happier or more fulfilled? To try and answer this question, let us look at some trends in mental health.

I realise that equating unhappiness and mental health is spurious and overly simplifying a complex area; however, I would argue that a proportionate increase in depression, anxiety and suicide is a reasonable indicator of increased levels of dissatisfaction and unhappiness. It seems I am not alone. OurWorldInData suggests that: "Overall, evidence suggests that there is a negative correlation between prevalence of particular mental health disorders (depression and anxiety have been the most widely assessed) and self-reported life satisfaction." This suggests that life satisfaction and happiness tend to be lower in individuals experiencing particular mental health disorders."[19]

Mental health is of direct interest to life insurers as it can impact peoples' ability to work – leading to loss of income and income protection claims. Furthermore, mental health is associated with physical health and suicide, which increase mortality claims.

Prevalence of mental health is difficult to establish, and many researchers are at pains to point out the problems in most of the data on this topic. Mental health studies are significantly more frequent in developed and high-income countries which tend to have greater access to mental health professionals, leading to a bias in the underlying data. Active tracking and statistics related to mental health are also more recent phenomena, such that increasing rates cannot be distinguished meaningfully from increasing awareness leading to greater reporting.

The World Health Organisation (WHO) believes that as of 2019, "1 in every 8 people, or 970 million people around the world were living with a mental disorder, with anxiety and depressive disorders the most common."[20] OurWorldInData puts the number at 13% with an in-country variance between 11% and 18%[21]. The most common types are listed below, courtesy of OurWorldInData.Org. As explored on the next page, COVID-19 has significantly distorted the recent data and so we've stuck with 2017.

A primary measure of the impact of mental health is the Disability-Adjusted Life Years (DALYs), which measures the years of life lost, and years of life lived with a disability. The DALY measure is used to assess the global burden of disease in general, of which mental health is considered one of the primary disease burdens. The important distinction here is between a simple mortality measure, which considers the cause of death, and DALYs which consider both death and disability and the resultant loss of healthy years.

Whilst variously ranked based upon definitions "mental health and substance use disorders" tend to rank in the top five DALYs for most developed and high-income countries. This does not mean that developed countries have higher incidence of mental health, but rather that other causes of lost years, such as infant mortality, malaria, respiratory infections etc. are less impactful in developed countries. Cardiovascular diseases and cancers are the leading causes of both deaths and DALYs. From the table on the next page, it is notable that the DALY rate, the lost years due to mental illness, has declined for most categories except eating disorders. However, we are still losing more than 1250 years of productive life per 100,000 people due to mental illness.

[19] Mental Health - Our World in Data https://ourworldindata.org/mental-health#data-availability-on-mental-health

[20] Institute of Health Metrics and Evaluation. Global Health Data Exchange (GHDx), (https://vizhub.healthdata.org/gbd-results/, accessed 14 May 2022).

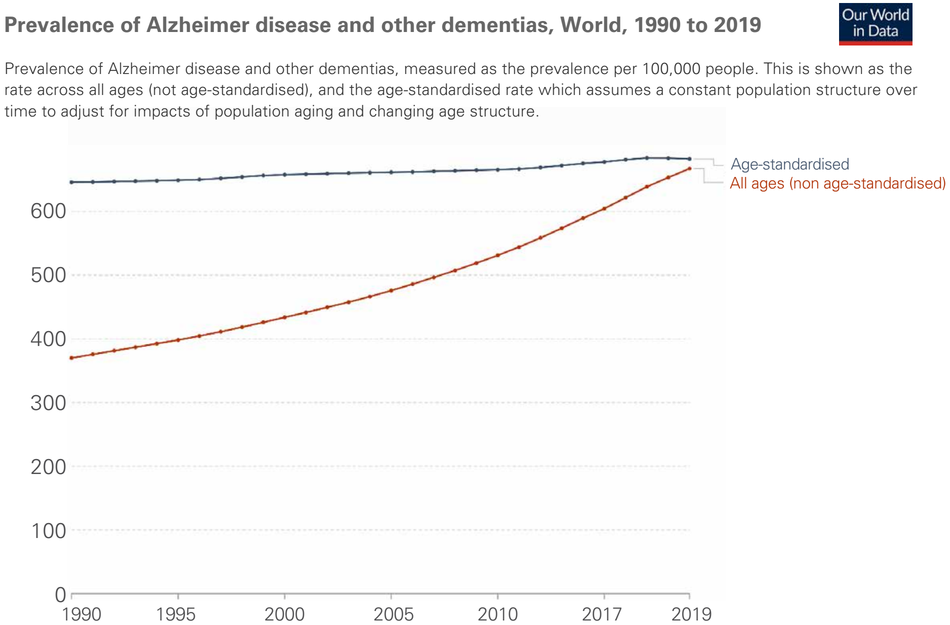
[21] Saloni Dattani, Hannah Ritchie and Max Roser (2021) - "Mental Health". Published online at OurWorldInData.org. Retrieved from: 'https://ourworldindata.org/mental-health' [Online Resource]

Disorder	Share of global population with disorder (2017) [difference across countries]	Number of people with the disorder (2017)	Share of males: females with disorder (2017)	DALY (Disability-Adjusted Life Year) rates from disorders, measured as the number of DALYs per 100,000 individuals (age standardised) – {1990}; [2019]
Any mental health disorder	10.7%	792 million	9.3% males 11.9% females	
Depression	3.4% [2-6%]	264 million	2.7% males 4.1% females	{588.57} [577.75]
Anxiety disorders	3.8% [2.5-7%]	284 million	2.8% males 4.7% females	{360.55} [360.12]
Bipolar disorder	0.6% [0.3-1.2%]	46 million	0.55% males 0.65% females	{105.5} [105.43]
Eating disorders (clinical anorexia and bulimia)	0.2% [0.1-1%]	16 million	0.13% males 0.29% females	{32.15} [37.19]
Schizophrenia	0.3% [0.2-0.4%]	20 million	0.26% males 0.25% females	{185.19} [184.15]
Any mental or substance use disorder	13% [11-18%]	970 million	12.6% males 13.3% females	
Alcohol use disorder	1.4% [0.5-5%]	107 million	2% males 0.8% females	
Drug use disorder (excluding alcohol) [22]	0.9% [0.4-3.5%]	71 million	1.3% males 0.6% females	

COVID-19 had a significant impact on the levels of reported mental illness. Initial estimates show a 26% and 28% increase respectively for anxiety and major depressive disorders in just one year[23]. However, outside of the pandemic, various metrics seem to suggest that rates of mental illnesses have remained consistent over time and might even be reducing, taking the slight reduction in DALYs over time. "Except for age-related changes, we do not seem to have become more ill than the generation of our parents."[24] Age related matters distort the data. To illustrate this, consider the prevalence of Alzheimer's disease and other dementias. As the population structure changes and the proportion of older people increases, so the absolute number of individuals living with Alzheimer's disease and other dementias has increased. However, within particular age groups the rates have only changed marginally over time.

Prevalence of Alzheimer disease and other dementias, World, 1990 to 2019

Prevalence of Alzheimer disease and other dementias, measured as the prevalence per 100,000 people. This is shown as the rate across all ages (not age-standardised), and the age-standardised rate which assumes a constant population structure over time to adjust for impacts of population aging and changing age structure.



Source: IHME, Global Burden of Disease

This is a problem for insurers with a stable but aging population group because, if this group remains in-force, the proportion of this group experiencing Alzheimer's or other dementias will continue to increase. The total proportion of the South African population with these illnesses (dementias) has increased from 271.61 per thousand in 1990 to 381.1 per thousand in 2019. In other words, as we live longer, so the proportion of the total population living with Alzheimer's and other dementias will continue to increase and consequently the loss of income from this will continue to increase.

22 If you want to understand the technical definitions of these illnesses a good place to start is the World Health Organisation's International Classification of Diseases, version 11 (ICD-11) definitions.

23 Mental Health and COVID-19: Early evidence of the pandemic's impact. Geneva: World Health Organization; 2022. (https://www.who.int/publications/i/item/WHO-2019-nCoV-Sci_Brief-Mental_health-2022.1)

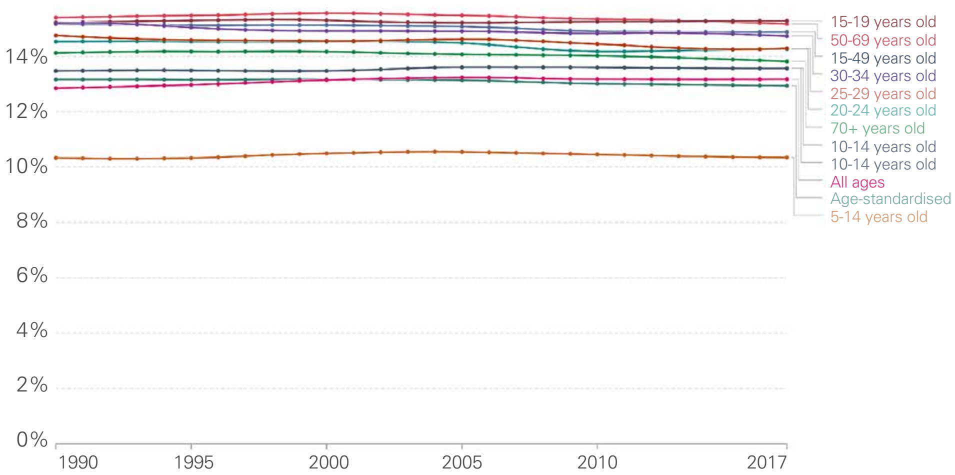
24 Häfner H. Are mental disorders increasing over time? Psychopathology. 1985;18(2-3):66-81. doi: 10.1159/000284218. PMID: 4059492.

The stable prevalence trend seems to hold true for major categories of mental illness, when allowing for changing population structures and population growth:

Prevalence of mental and substance use disorders across age groups, World, 1990 to 2017

Our World in Data

Share of population by age groups suffering from mental health or substance use disorders; this includes depression, anxiety, bipolar, eating disorders, alcohol or drug use disorders, and schizophrenia. Due to the widespread under-diagnosis, these estimates use a combination of sources, including medical and national records, epidemiological data, survey data, and meta-regression models.



Source: IHME, Global Burden of Disease

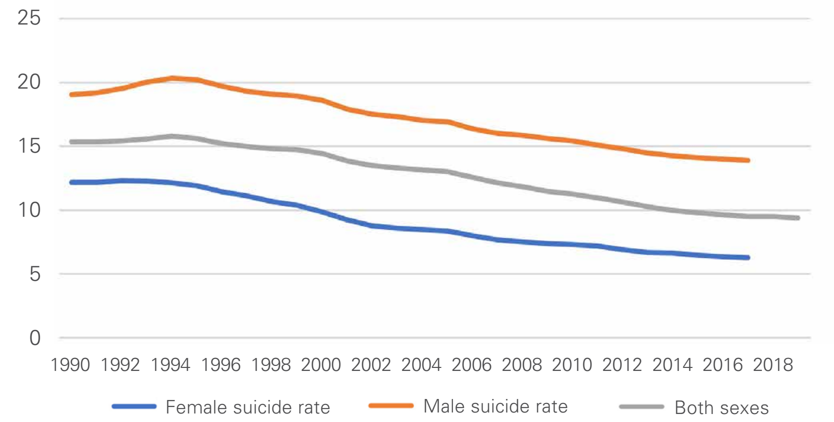
The "All ages" group has increased from 12.86% in 1990 to 13.17% in 2017, which is a 0.31% increase (or 2.4% on the base). On the face of it, not a huge increase, but an expected 2.4% increase in morbidity rates over the next 27 years is quite large. If we consider that the Solvency Assessment and Management shock is a 25% increase, this is approximately 10% of that.

Suicide rates are closely linked to mental illness. 98% of suicides are linked to individuals with a diagnosable mental illness[25]. The rates vary quite significantly across the world as shown below:

Country group (Country)[26]	All	Male	Female
Africa	11.2	18.0	5.2
South Africa	*23.5*	*37.9*	*9.8*
Americas	9.0	14.2	4.1
South-East Asia	10.2	12.3	8.1
Europe	10.5	17.1	4.3
Eastern Mediterranean	6.4	9.2	3.5
Western Pacific	7.2	9.7	4.8
Global	9.0	12.6	5.4

Men are more likely to commit suicide in almost all jurisdictions. Whilst women are more prone to depression, anxiety and even suicidal thoughts, the statistics indicate that men are more likely to act on them. Suicide rates are not higher in high-income countries but rank higher as a cause of death (as above this is because in higher income countries infant mortality, malaria, respiratory illnesses are less likely to result in death). The figures are most likely under-reported due to cultural and religious taboos related to suicide. But it is not all doom and gloom. The worldwide suicide rate has declined by 38.9% from its 1990 base.

Suicide rate per 100,000 age-standardised rate



25 Bertolote and Fleischmann (2002)

26 List of countries by suicide rate - Wikipedia https://en.wikipedia.org/wiki/List_of_countries_by_suicide_rate

It seems all our stuff is not making us notably happier or more fulfilled. Whilst Buddha, Jesus and Mohammed told us this centuries ago – it is sobering to see the statistics. Inversely, it is not necessarily making us any unhappier either. The jury is still out on this one.

What does all of this mean for life insurers? Mental health matters. The incidence and prevalence of mental health remains a significant contributor to loss of income, disabled years, and mortality rates. Understanding the causes of these illnesses as well as risk indicators will help insurers to price better but perhaps more importantly insurers stand to play an important role in helping manage the impact of these diseases by promoting cultural and personal lifestyle changes that can manage the incidence. Like other illnesses, we first need to acknowledge their existence, move away from superstitious and primitive causal models before we can manage and reduce their impact. Insurers and their agents are well positioned to participate in this journey.

#boom!

Well, that was heavy! And whilst the next topic is not a light-hearted one, you'll have to forgive me if I make light of a bad situation. The truth is that in a few years (measured in the context of our species) most of us will be living underwater, dying of thirst and carrying fire extinguishers. The world is on a dangerous trajectory and all our stuff is not helping! Floods, hurricanes, sea level rise, pollution, wildfires, over-population, and extinction. Just the kind of happy note I love to end on.

There is something captivating and terrifying about hurricanes. Freud might have attributed it to our death instinct, our innate and unconscious tendency toward self-annihilation[27]. It appears that the rate of hurricanes is increasing as is their intensity. At least three sources support this view. According to Euan Mearns, the frequency of Atlantic Hurricanes has increased from 4.4 per annum in 1851 to 6.3 per annum today[28]. Referring to major hurricanes (category 3,4,5), statista.com suggests that in the 1970s and 1980s there were on average 1.6 major hurricanes per year, by the 2000s and 2010s this had increased to between 3.1 and 3.8 per year[29]. NEEF (the National Environmental and Education Fund) supports this view and states that: "from 1980-2018, tropical cyclones have caused the most damage, have the highest average event cost, and are responsible for more deaths than any other billion-dollar weather and climate disaster type in the US". 2020 saw the highest number of named storms in the Atlantic, with 30 named storms.

It was so bad that the usual list of names (21 in total) had to be supplemented with Greek alphabet names[30]. Oh, and in 2020 there was COVID-19 – not a good year.

The trend also holds true in the South Indian Ocean although not for the North Pacific. "With 2 °C (3.6 °F) warming, a greater percentage (+13%) of tropical cyclones are expected to reach Category 4 and 5 strengths."[31] The categories of hurricanes can be summarised as follows:

Category [32]	Description	Wind speed (kmph)	
		Low	High
Category 1	Very dangerous winds will produce some damage	119	153
Category 2	Extremely dangerous winds will cause extensive damage	154	177
Category 3	Devastating damage will occur	178	208
Category 4	Catastrophic damage will occur	209	251
Category 5	Catastrophic damage will occur[33]	252	

Luckily for us down in South Africa, the regularity of storms making landfall is limited. Only 25 of all the recorded South-West Indian Ocean tropical cyclones have made landfall. Three of those made it to South Africa (and Mozambique) – Dineo, Eloise and Gumba; and nine landed on Madagascar. However, all the severe ones occurred in the 2010s or 2020s with two out of three in 2021. If the trend is increasing, the limited data seems to suggest we are going to experience it.

For insurers this comes through in global reinsurance rates, where the cost of the Americas' hurricanes is funded through rate increases to the world. However, increased tropical storms will also come through in increased exposure in South Africa and our neighbours. This can be directly through wind damage or indirectly through increased rain and flooding.

27 www.merriam-webster.com/dictionary/death%20instinct

28 Atlantic Hurricane Trends and Mortality | Energy Matters (euanmearns.com) (https://euanmearns.com/atlantic-hurricane-trends-and-mortality/)

29 Chart: Number of Major Hurricanes Over Atlantic Rises | Statista (https://www.statista.com/chart/11009/hurricanes-over-the-atlantic-basin/)

30 The Latest Hurricane Statistics for 2022 (US) - PolicyAdvice https://policyadvice.net/insurance/insights/hurricane-statistics/

31 Knutson, Thomas; Camargo, Suzana J.; Chan, Johnny C. L.; Emanuel, Kerry; Ho, Chang-Hoi; Kossin, James; Mohapatra, Mrutyunjay; Satoh, Masaki; Sugi, Masato; Walsh, Kevin; Wu, Liguang (August 6, 2019). "Tropical Cyclones and Climate Change Assessment: Part II. Projected Response to Anthropogenic Warming". Bulletin of the American Meteorological Society. (https://journals.ametsoc.org/view/journals/bams/101/3/bams-d-18-0194.1.xml)

32 Hurricane Categories: What Categories 1, 2, 3, 4, 5, 6 Mean | Time https://time.com/4946730/hurricane-categories/

33 Seems there is nothing more damaging than catastrophic damage

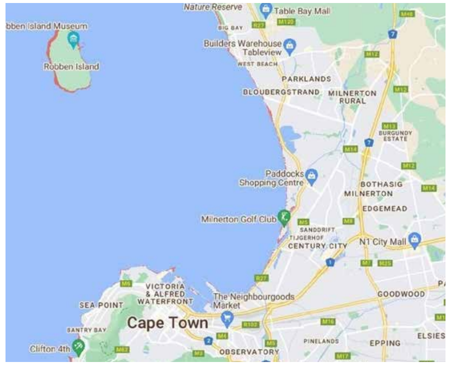
Speaking of flooding, floods are the most common type of natural disaster in the last 20 years. Forty seven percent of natural disasters worldwide are floods and account for 43.5% of deaths from natural disasters. Low-income countries (predominantly located in sub-Saharan Africa) carry more than 75% of the death burden[34]. One only needs to consider the recent floods in South Africa to know that this is a problem that is close to home. Furthermore, the WHO believe that "floods are also increasing in frequency and intensity, and the frequency and intensity of extreme precipitation is expected to continue to increase due to climate change."[35]

Flooding is caused by various factors, but the most obvious are heavy rainfall, storm surges and dam bursts. Dam failures are usually associated with heavy rainfall, but most are also associated with poor construction or maintenance[36]. It is not inconceivable that these two factors will converge in South Africa, with the poor rates of maintenance and increased incidence of flooding. It is also a well-established fact that increased urbanisation leads to greater and more frequent flooding[37]. The run-off from rain is not absorbed into the earth, but rather channelled into specific outlets and rivers. "As a result, the peak discharge, volume, and frequency of floods increase in nearby streams."[38]

Insurers need to start considering (if not doing so already) the risk of flooding in the pricing and underwriting models they use. The risk of flooding will continue to increase due to increased exposure to severe storms, increased intensity of rainfall, and urbanisation. Proximity to rivers and dams are factors that can be easily assessed. In commercial and agricultural insurance, existing techniques of flood risk assessment, can help manage and mitigate the risks. However, a broader responsibility rests with the public to ensure that government and construction companies are planning appropriately and maintaining existing infrastructure to reduce these risks.

A lot of this is irrelevant if you are underwater due to sea-level rise. Like mental health, Hollywood has taken some liberties in their portrayal of climate change in general and sea-level risk in particular – perhaps more appropriately as nobody really takes disaster movies seriously. Most studies on sea-level rise seem to suggest a base line increase of over 50cm by the end of the century, with some going as high as 2m[39 40]. So not Waterworld, but unpleasant. To make sense of this consider the graphics to the right presenting some serious outcomes for Durban and Cape Town[41]. The first two maps represent the more comprehensive but less certain view from an Intergovernmental Panel on Climate Change (IPCC) 2021 study. These maps show an unchecked pollution scenario with bad luck (which means that the interactions between various factors are all negative and we are in the 95th percentile "worst-case" scenario)[42].

Whilst the previous two images represent a "worst-case" scenario the current best consensus is not nearly this severe. According to the IPCC 2021 best consensus study, with moderate pollution cuts and a bit of luck (at the 50th percentile) by 2100 the scenario is less dramatic:



34 Epidemiology of floods in sub-Saharan Africa: a systematic review of health outcomes | BMC Public Health | Full Text (biomedcentral.com) (https://bmcpublichealth.biomedcentral.com/articles/10.1186/s12889-022-125844#:~:text=Flooding%20has%20been%20the%20most%20common%20type%20of,from%20natural%20disasters%20in%202019%20%5B%202%20%5D.)

35 Floods (who.int) https://www.who.int/health-topics/floods/#tab=tab_1

36 The Deadliest Dam Failures In History - WorldAtlas https://www.worldatlas.com/articles/the-deadliest-dam-failures-in-history.html

37 How does a urbanization increases flooding? – Short-Fact https://short-fact.com/how-does-a-urbanization-increases-flooding/

38 www.pubs.usgs.gov/

39 South Africa - Sea Level Rise | Climate Change Knowledge Portal (worldbank.org) https://climateknowledgeportal.worldbank.org/country/south-africa/impacts-sea-level-rise

40 How rising sea-levels may impact Durban and Cape Town (dailymaverick.co.za) https://www.dailymaverick.co.za/article/2021-10-24-how-to-navigate-the-rising-sea-levels/

41 Climate Central | Comparison: long-term sea level outcomes https://coastal.climatecentral.org/map/

42 Climate Central; https://www.climatecentral.org/

What is apparent in all scenarios is that the ports that bring in all our stuff are under serious threat. Even in the current consensus scenario, with moderate management of pollution and a bit of luck, piers and wharfs will be flooded by rising sea levels. This would be exacerbated by storm surges and spring tides. The solution from a purely commercial perspective is to start using these and other models to start informing pricing of long-term asset insurance. However, the first movers in this scenario would potentially price themselves out of the market because these risks will only materialise 50 to 100 years into the future.

So, we all move inland to avoid getting flooded and are safe? Unfortunately, not. The United Nations Environment Program suggests that the frequency of severe wildfires will increase between 31% and 57% by the end of the century [43]. The incidence of wildfires is not entirely attributable to climate change - various other factors including poor fire safety management, a lack of firebreaks, non-compliance with existing legislation and simple negligence all play a role. Whilst the news focus tends to be on fires in commercial and urban areas (Cape Town and St. Francis Bay), the impact on farming is extensive. The loss of farmland, livestock, infrastructure and lives is significant and continues unabated. In recent news we have had fires in most provinces of South Africa – the Eastern Cape, Mpumalanga, the Free State, Gauteng, the Northern Cape and the Western Cape. In 2021 fires destroyed 3.2 million hectares of land in South Africa [44]. That is around 2.6% of the country burnt in one year.

Fires are more controllable than hurricanes and sea level rise. Good fire management practice can reduce the incidence, if not eliminate it. With a probability of increasing incidence and severity of wildfires, strict adherence by policyholders to risk management practices becomes more important and enforcing these is clearly beneficial to the public at large. Once again, insurers have an important role to play in how these issues are managed and controlled.

#SoWhat?

I hope you survived my hurricane of doom, gloom and statistics. We have seen many trends, many of which are supported by solid statistical evidence. Whilst our consumption of goods seems to be on an inexorable rise, the cost seems to be coming through in rising levels of disasters. The statistics are hard to ignore. Thrown into this mix are complications from people living longer and the prevalence of mental illness. It is equally clear that insurers can play an important role in managing these challenges. The natural feedback loop of pricing and risk management is a tool that can be utilised to encourage good behaviours that have benefits beyond simply containing loss ratios. Educating policyholders on the good practices they can engage in to manage risks and incentivising them for doing so is a practice that has been part of the insurance industry for years, but is more important than ever in the current world. The levels of uncertainty are high, but for an industry built on manging uncertainty this is the time for insurance to shine.

[43] United Nations Environment Programme (2022). Spreading like Wildfire – The Rising Threat of Extraordinary Landscape Fires. A UNEP Rapid Response Assessment. Nairobi. (https://www.unep.org/resources/report/spreading-wildfire-rising-threat-extraordinary-landscape-fires)

[44] The burning season: Wildfires sweeping across South Afr... (dailymaverick.co.za) https://www.dailymaverick.co.za/article/2021-10-04-the-burning-season-wildfires-sweeping-across-south-africa-and-namibia-have-left-devastation-in-their-wake/

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How will IFRS 17 impact the tax profile of insurance companies?

Introduction

***International Financial Reporting Standard 17: Insurance Contracts* (IFRS 17) is the new accounting standard that changes the way insurance contracts are accounted for. This new standard replaces *IFRS 4 Insurance Contracts* (IFRS 4).**

IFRS 17 will be effective for reporting periods commencing on or after 1 January 2023. The standard specifically sets out the principles of recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 aims to improve the consistent application of these principles, enabling users of financial statements to meaningfully compare financial results of insurers.

Implementation of the new standard

Insurers are currently busy with their IFRS 17 implementation projects. The new standard requires a fully retrospective transition as the default transition approach (i.e. IFRS 17 needs to be adopted "as though it was always in place" as a default principle, although there are some exemptions/practical expedients if one of the other transition approaches is followed). This will result in an opening balance adjustment on 1 January 2022 (for insurers with a 31 December year-end, or later for those with non-December year-ends) on adoption of the standard, as well as restated comparatives for the 2022 (or 2023 for non-December year-ends) financial year.

What are the conceptual tax challenges?

The opening balance adjustment referred to above, and the subsequent measurement of insurance contracts under IFRS 17 will change the timing of the emergence of profits and will therefore have income tax consequences. The introduction of IFRS 17 is expected to have a material impact on both the life and non-life insurance industry. National Treasury released the Draft Taxation Laws Amendment Bill, 2022 (2022 TLAB) on 29 July 2022, which proposes amendments to the income tax legislation aimed at managing (minimising) the consequent cash flow disruptions as a result of the new standard.

For life insurers

Life insurers are expected to experience accelerated profit emergence when compared to current patterns under IFRS 4. In addition, any additional prudence, (currently included in the technical provisions under IFRS 4) will need to be released which will result in an overall increase in accounting profit. These accounting changes are expected to result in significant tax cash flow consequences and we discuss below the measures proposed by National Treasury in the 2022 TLAB to mitigate the impact by introducing phasing-in measures.

For non-life insurers

Due to the shorter-term duration of contracts issued by non-life insurers, the anticipated potential tax cash flow impact as a result of the implementation of IFRS 17 is expected to be less severe.

A summary of the proposed tax amendments set out in the 2022 TLAB

Terminology changes

A few years back, amendments were made to section 29A of the Income Tax Act (the Act) to account for changes introduced by the Financial Services Board (now referred to as the Prudential Authority). The changes were aimed at addressing the Solvency Assessment and Management (SAM) regulatory regime applicable to insurers and the IFRS 4 standard for insurance.

This SAM framework prompted the introduction of certain definitions and terminologies which included the definition of "adjusted IFRS value" and "negative liability".

"Adjusted IFRS value" was broadly defined to include liabilities in respect of policies of the insurer adjusted for reinsurance assets, negative liabilities, deferred tax liabilities, deferred acquisition costs and deferred revenue determined in accordance with IFRS.

In order to facilitate an easier transition to IFRS 17, National Treasury has proposed changes to the tax legislation in order to align terminology in section 29A of the Act with that set out in IFRS 17. The main terminology changes proposed are as follows:

- *Definition of "value of liabilities"*

  The definition of "value of liabilities" will be amended to refer to all other liabilities that fall outside of the "adjusted IFRS value" definition (see revisions to this definition below), but which are allocated to policyholder business.

- *Definition of "adjusted IFRS value"*

  The implementation of IFRS 17 introduces a distinction in the accounting recognition and disclosure between insurance contract liabilities in terms of IFRS 17 and investment contract liabilities in terms of IFRS 9. It is proposed that changes are made to refer to "investment contract liabilities" instead of the current general reference to liabilities.

"Adjusted IFRS value" under section 29A of the Act is calculated in accordance with a specific formula. This formula includes different components which ultimately make up the "adjusted IFRS value" which is to be used as part of the income tax calculation.

In terms of the proposed tax amendments "L"[1] in the definition of "adjusted IFRS value" will be amended and comprises of the following:

– insurance contract liabilities;

– investment contract liabilities; and

– reinsurance contract liabilities;

reduced by:

– insurance contract assets;

– reinsurance contract assets; and

– liability for incurred claims; provided that this amount is not less than zero.

The "adjusted IFRS value" formula now also provides for the separate addition of the liability for incurred claims as the liability of a group of insurance contracts comprises the liability for remaining coverage and the liability for incurred claims in terms of IFRS 17.

[1] In the 2022 TLAB, the proposed formula for the amount to be determined is I = (L + LIC + DL + PF) – PT – DC + DR, as set out in section 15 of the 2022 TLAB (http://www.treasury.gov.za/comm_media/press/2022/2022%2DraftTax/2022%20DRAFT%20TLAB%20-29%20July%202022.pdf). The change is thus the addition of "LIC" (liability for incurred claims) to the formula.

Phasing-in measures for life insurers

The 2022 TLAB proposes the following phasing-in measures for life insurers:

- A phasing-in period of six years that will provide for the "phasing in amount" to be deducted from (or included in) the income of the corporate fund;
- The "phasing-in amount" will be the difference between:
  - The "adjusted IFRS value" amount determined with reference to IFRS 4 (at the end of the year of assessment commencing on or after 1 January 2022 but before 1 January 2023); and
  - The "adjusted IFRS value" determined with reference to IFRS 17 (as amended by the 2022 TLAB, and applied to the year of assessment as referred to above);
- The amount that has been deducted as a "phasing-in amount" will be included in the income of the corporate fund in the following year of assessment (or vice versa).

We understand that these proposed tax amendments are not aligned to what some of the larger life insurers were expecting and concerns have been raised by the insurance industry on the first draft of the proposed amendments. We set out some of the industry concerns later in this article.

Proposed amendments applicable to non-life insurers

Under SAM, non-life insurers may claim deductions for amounts recognised as liabilities in accordance with IFRS. In determining the taxable income of a non-life insurer, IFRS insurance liabilities, adjusted for reinsurance assets, deferred acquisition costs and deferred revenue relating to premiums and claims, may be claimed as a tax deduction. This deduction must be added back to taxable income of the non-life insurer in the following year of assessment.

IFRS 17 requires that:

- Estimates of future cash flows included in the determination of insurance contract liabilities are to be discounted to a present value;
- Salvages and third-party recoveries are to be included in the determination of the total insurance contract liabilities; and
- Premium debtor amounts are to be included in the determination of the total insurance contract liabilities.

The requirements noted above are anticipated to result in an increase in the taxable income of non-life insurers due to a reduction in the amount that is deductible after the implementation of IFRS 17. In order to mitigate the tax and cash flow impact for non-life insurers, the following transitional measures have been proposed:

- Due to the shorter-term duration of contracts issued by non-life insurers, a "phasing-in" period of three years is provided to non-life insurers to account for the possible reduction in the deduction which the non-life insurer may claim in determining its taxable income;
- The "phasing-in amount" will be the difference between:
  - The amount that is deductible from the income of a non-life insurer in terms of the current provisions of the Act (at the end of the year of assessment commencing on or after 1 January 2022 but before 1 January 2023 determined under the current rules of the Act); and
  - The amount of the deduction applying the revised provisions of the Act due to the implementation of IFRS 17 for the period referred to above.

How has the 2022 TLAB been received by the industry?

We understand that a number of concerns have been raised by the insurance industry in respect of the 2022 TLAB. Some of these relate to textual errors, and there are concerns that the wording used in the 2022 TLAB does not achieve its intended objective (and has some unintended consequences). We briefly discuss some of the concerns which no doubt will be escalated to National Treasury for further consideration.

Phasing-in period

We understand that the proposed phasing-in period of six years may be considered to be too short for life insurers. In the United Kingdom, a ten-year phasing-in period has recently been confirmed by Her Majesty's Revenue and Customs (in a consultation outcome document titled "Corporation tax: response to accounting changes for insurance contracts – summary of responses[2]") dated 20 July 2022. This, we understand, is partly motivated by the fact that life insurance contracts have a long duration which extends to ten years, and more. This duration provides for profits or losses that the insurer will be earning to be spread over the life of the contract. Similarly, a phasing-in period of three years for non-life insurers appears to be disproportionate given the shorter-term duration of those contracts.

The utilisation of losses and special transfer credits in policyholder funds

The phasing-in methodology in the 2022 TLAB proposes that a phasing-in amount needs to be determined in the policyholder funds and this phasing-in amount needs to be included in the income of the corporate fund. Based on this, there is uncertainty as to how a life insurer would be able to utilise tax losses or special transfer credits in its policyholder funds, if the phasing-in amount is included in the corporate fund on transition.

Phasing-in of capital gains

The manner in which the phasing-in mechanism has been proposed in the 2022 TLAB (realising all transitional transfers of assets to/from the corporate fund in the year of transition), may require that the asset portfolios in policyholder funds are rebalanced. In order to achieve this rebalancing, a transfer of assets will be required, which will trigger a 'disposal' for capital gains tax purposes. Currently, the 2022 TLAB does not provide for any relief of any resultant capital gains (similar to the phasing-in set out above).

Other aspects to consider

IFRS 17 introduces new terminology and will require a redesign of the annual financial statements from a presentation and disclosure perspective. These changes have currently not been accommodated for in the current ITR14. This may require SARS to reconsider the format of the ITR14 after the implementation of IFRS 17 to maintain alignment with the revised presentation and disclosure requirements in the financial statements prepared by applying IFRS 17.

Value-Added Tax (VAT)

Lastly, the adoption of IFRS 17 may also have indirect VAT impacts. Although the determination of VAT is not expected to be impacted by IFRS 17, insurers may need to consider whether any of the inputs used in the calculations required when the turnover-based method is used, are affected by the adoption of IFRS 17. Insurers may also need to consider whether their operational procedures for VAT are affected, specifically if the capturing of VAT is currently driven off the back of their current IFRS 4 financial reporting.

Conclusion

As the effective date of the standard draws closer, insurers are running out of time to work out what needs to be actioned based on the transitional arrangements provided by National Treasury. It is currently expected that a large number of insurers may need to pay additional tax on the IFRS 17 transitional opening balance adjustment based on preliminary transition impact analyses.

The insurance industry has been surveyed (both life and non-life) by various working groups co-ordinated by industry bodies, to understand the impacts the adoption of IFRS 17 will have on the income tax profile and cash flows. In addition, there were individual discussions between insurers and National Treasury prior to the release of the 2022 TLAB. It is our impression that this first round of proposed tax amendments has fallen short of the insurance industry's expectations. We acknowledge the complexity involved with drafting income tax legislation to incorporate IFRS 17; the facts and circumstances of insurers are different. National Treasury and insurers will have to find a balance between their respective objectives.

2 https://www.gov.uk/government/consultations/corporation-tax-response-to-accounting-changes-for-insurance-contracts/outcome/corporation-tax-response-to-accounting-changes-for-insurance-contracts-summary-of-responses

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Regulatory landscape and challenges facing the microinsurance industry

The insurance industry plays a pivotal role in protecting us against unforeseen events, and those that need it most are the lower income earning individuals. While these individuals represent the large majority of the South African population, affordability of relevant insurance products is a high barrier to entry for said individuals. At the turn of the century, most insurance cover, barring funeral cover, was held by policyholders representing the middle to upper class. It was clear that changes were needed to the highly regulated insurance sector, to better incorporate relevant and affordable products, that would protect the majority of South Africans while still proving to be commercially viable to insurers.

As a result, in 2008 National Treasury released a discussion paper titled "The Future of Micro-insurance Regulation in South Africa" which sought to develop a regulatory framework that would encourage and facilitate the provision of microinsurance. Following on from this, instead of introducing a separate legislative framework to regulate microinsurers, the Prudential Authority incorporated microinsurance regulations under the Twin Peaks regulatory framework with the Insurance Act. This outlined the prudential and product standards set out in rule 2A of the policyholder protection rules (PPR) and created a microinsurance category which reduced the barriers to entry to the insurance industry, while still providing protection to consumers.

The International Association of Insurance Supervisors defines microinsurance as a "protection of low-income people against specific perils in exchange for regular premium payments proportionate to the livelihood and cost of the risk involved". Microinsurance protects those that are most vulnerable in our society, namely the lower income market who, unlike their wealthier counterparts, tend to have a smaller safety net when disaster strikes.

The Prudential Standards set out both the framework for financial soundness of microinsurers (FSM) and the governance and operational standards for microinsurers (GOM). These standards aim to scale back the regulatory requirements when compared to the requirements for traditional insurers, to attract both the existing large industry players and new businesses. The cumulative effect is the ability to offer low-cost, yet effective cover across both life and non-life insurance product classes.

A high-level overview of these frameworks seeks to simplify the requirements of microinsurers and sets out the following:

1. The minimal capital requirements, which are designed to be a simple measure, have two elements:
   a. Fifteen percent of the greater of the amount of net written in respect of policies entered into -
      i. Twelve months preceding the current reporting date; or
      ii. Twelve months preceding the previous reporting date.
   b. An absolute minimum of R4 million.

2. A microinsurer is not required to have a risk and remuneration committee but must have an effective actuarial function capable of assisting the board of directors and responsible for expressing an opinion on the reliability and adequacy of the calculations of the microinsurer's technical provisions, and minimum and solvency capital requirements.

3. A microinsurer may not engage in fronting arrangements and is not allowed to reinsure or retrocede directly or indirectly more than 75% of premiums in respect of its life or non-life insurance business to one reinsurer.

4. The maximum amount for life and non-life insurance which may be underwritten by a microinsurer is R100 000 per life insured and R300 000 per policy, escalating annually by the Consumer Price Index (CPI) annual inflation rate.

5. Microinsurers can only issue a life or non-life insurance policy that provides for a loyalty benefit, no claim bonus or rebate in premiums with the approval of the Prudential Authority.

6. A microinsurer must annually, and when the risk profile of the microinsurer changes materially, or when so directed by the Prudential Authority, undertake an Own Risk and Solvency Assessment (ORSA).

Further to the above, the PPR sets out the following requirements:

1. All policies issued by a microinsurer may not have a contract term longer than twelve months and no variations are allowed within the first twelve months of the policy unless the insurer can demonstrate actuarial grounds for the change, or it is to the benefit of the policyholder.

2. A policy must at the end of the expiry date be automatically renewed.

3. Waiting periods are generally limited to three months or six months under certain circumstances and no waiting period is allowed following an accidental death, disability, or health event.

4. Claims must be paid, repudiated, or disputed within two business days after all required documentation has been received from the policyholder.

5. A microinsurance policy may only provide one standard excess per risk event covered under a particular class of non-life insurance business which may not exceed the lower of –
   a. Ten percent of the value of the policy benefits; or
   b. R1 000.

6. Commission is uncapped except for credit life at 7.5% and for motor policies with a sum insured between R120,000 to R300,000, at a rate of 12.5%.

To date, only nine microinsurance licences and one composite cell captive microinsurance license have been issued, which is below the envisaged target. While this can be used as a proxy for the growth in the microinsurance market, it can be misleading as many larger insurers already offer microinsurance products through their fully-fledged life or non-life insurance licensed operations.

Africa has historically had large gaps in its insurance coverage, where relatively few had insurance cover, were either underinsured or their insurance policy was misaligned to the actual insurance they needed. Even today access to and uptake of insurance cover across South Africa remains relatively low by global standards. Insurance penetration in South Africa has increased steadily over the last two decades with uptake increasing by approximately 7% for the period 2003 to 2021, mostly driven by funeral insurance cover. That being said, there has been a decrease in non-funeral insurance cover (life insurance and medical cover) with asset insurance remaining relatively flat over the past twenty years. Largely due to COVID-19, for the period between 2019 to 2021 there was a noticeable decrease in non-funeral insurance cover from 21% to 19% and funeral insurance cover from 53% to 42%.

Whilst insurance penetration is on the right trajectory, it is not yet accessible to the majority of the population in South Africa. However, I would like to remain optimistic that microinsurance will challenge this status quo in the coming years. The real challenges driving the lack of demand for microinsurance are a lack of awareness and financial literacy of what insurance is and the benefits it can provide, coupled with a general lack of trust in the industry and understanding the complexity of these products. This is evidenced by the large unclaimed reserves held by insurance companies and the relatively low claims/loss ratios observed across microinsurance products. However, evidence also suggests that as perception changes over time and policyholders understand and experience the benefits of insurance; the word spreads, gross premiums increase, claims ratios increase and the overall underinsured and non-insured gap becomes smaller.

Another challenge that is facing the microinsurance industry is finding sustainable, effective and far-reaching distribution channels. Profitability and financial viability in the insurance industry require economies of scale and diversification in products, business lines and policyholders to aggregate risk and provide value for money to policyholders. To tackle the challenge, insurers have developed new and unique distribution models to reach low-income individuals who are often situated in remote areas. These are most notably due to the rapid advances and accessibility of mobile technology to low-income individuals. The rapid increase in smartphone users has allowed insurers to reach remote populations with little to no acquisition costs or upfront expenditure. Other developments include the emergence of insurtech and mobile intermediaries who often understand the target markets better than traditional insurers and can offer useful services, from product development to administration. There are still some drawbacks though; premium collection and low claims ratios still seem prevalent and difficulties incorporating IT systems across insurers, administrators and other service providers are often misaligned, making it difficult to manage centrally.

While the regulatory reforms aim to lower the barriers to entry, the regulatory requirements still appear to be too cumbersome for the informal sector. For many, insuring with a community-based risk pooling businesses remains cheaper and is perceived as more trustworthy. Having said that, there are often few consequences for those managing community-run risk pooling mechanisms, who can avoid any regulatory requirements and often leave policyholders vulnerable, and the scheme open to fraud, corruption, and abuse.

The inclusion of a microinsurance category in the insurance regulatory universe is just the start and has allowed a framework for success and the opportunity to extend insurance cover across South Africa.

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ESG: measuring what we value and the need for longer term planning and global collaboration

ESG is the largest risk cluster that our generation faces! When I was asked to write an article on ESG risk, I started by re-reading an article I wrote in 2007 for the London-based Insurance Day titled "Climate Change – understanding new risks and mitigating exposures". Fifteen years ago the "Climate Change" phrase was everywhere. Today this has morphed into more than just Climate Change – it is now Environment, Social and Governance.

In this article I take a closer look at why we cannot focus on just one of these letters without bringing the others along. I also discuss the importance of figuring out how to change what we currently do, to measure and report on what we actually value.

The genesis of ESG

My search led me to what seems to be the accepted origin of ESG - the 2005 United Nations (UN) Asset Management Working Group, Freshfields report: "A legal framework for the integration of environmental, social and governance issues into institutional investment". This report explored the fiduciary responsibilities of those responsible for managing other people's investments and whether they had a duty to focus on measures beyond short-term profitability. In particular, they suggest that ethical conduct requires a focus on more than just short-term financial returns and should extend to longer term considerations, including social and environmental returns.

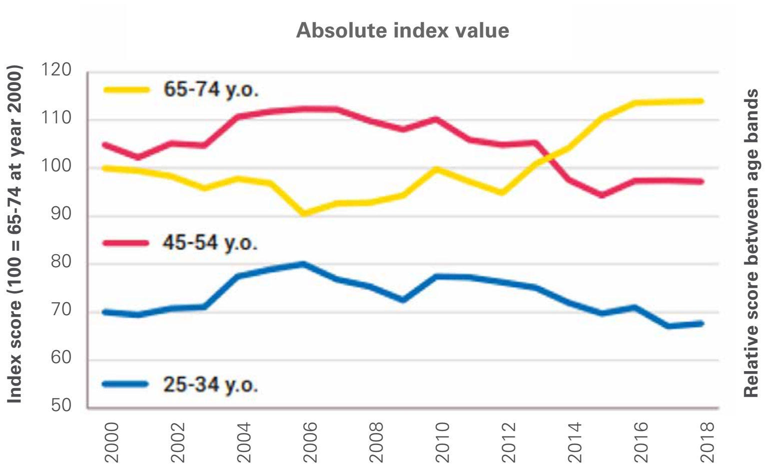
Sustainable development

Although this seems to have been the origin of the ESG acronym, the underlying considerations were already being discussed years earlier, with the UN's Brundtland report "Our Common Future" in 1987 already defining sustainable development as: "development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

Directly linked to this focus on intergenerational quality of life, the Australian Actuaries Institute embarked on an exercise to forecast how we are looking after our children's futures[1].

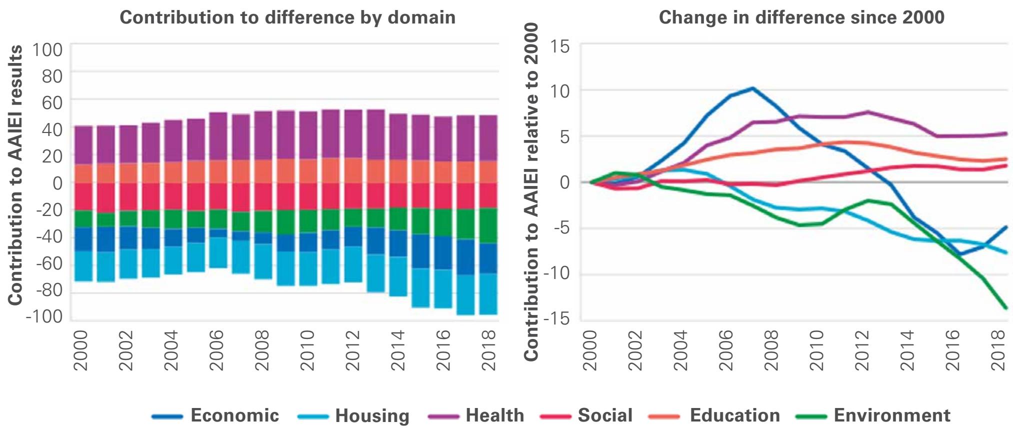
1 https://www.actuaries.asn.au/microsites/australian-actuaries-intergenerational-equity-index

The graphs below and on the right are taken from this research “Mind the gap – The Australian Actuaries Intergenerational Equity Index”[2] and show that younger people have been relatively disadvantaged across a range of measures in the past few years. As quoted in the publication: “The absolute lines (left) indicate whether wealth and wellbeing are improving for particular age bands across the range of domains. The level of the lines for different age bands indicates that measures are generally better for older versus younger people. For the last calculated year, the index is 68 for the 25-34 age band, 99 for the 45–54 age band and 115 for the 65-74 age band. This compares to an average standard deviation of approximately six within each age band over the time period and, therefore, the gaps are substantial. This ordering seems natural. For example, in the economic and housing domains, older Australians have had more time to accumulate wealth and housing, which is reflected in the differences. The most notable trend in the absolute index values is the marked increase in the index for the 65-74 age band from 2012 onwards, while over the same period there was a pronounced drop in the index for the 25-34 and 45-54 age bands.”



In particular, the study emphasises the negative differentials between the younger generation and older generations associated with the economy, housing and the environment. The publication further goes on to say that “While younger Australians have significantly higher scores for health and education-related measures, we can see large deficits for the economic, housing, social and environment domains. When focusing on change – particularly over the past five years – it is the movement of the economic, housing and environmental components of the index that causes the observed slide in relative score for 25-34 versus 65-74 age bands.”

Contribution of domains to the values and movement in AAIEI: 25-34 versus 65-74 age bands



As can be seen from the above, ESG concerns have been around for decades, but we are still grappling with how to ‘solve’ this challenge. Before turning to the constraints of our current systems and the cycles that are preventing us from moving forward quickly enough, I wanted to highlight some recent research, evidencing that air pollution has a direct and measurable impact on how long people live.

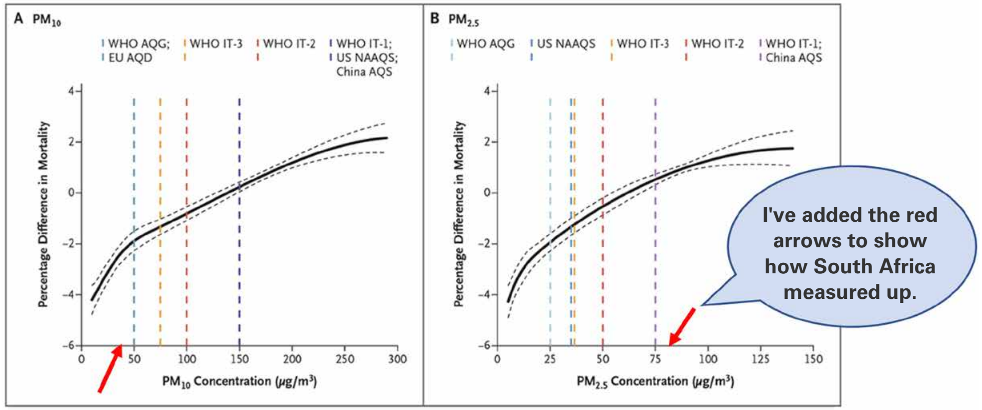
Why life insurers should be interested in air pollution

I’d like to give credit to Santiago Arechaga and Melissa Leitner for drawing my attention to this example. They presented Plenary Session II: The Sustainability Actuary: for Planet People or Profit at the European Congress of Actuaries in 2022. In this session they referenced the New England Journal of Medicine: “Ambient Particulate Air Pollution and Daily Mortality in 652 Cities” which shows the change

[2] https://actuaries.asn.au/Library/Opinion/2020/AAIEIIGreenPaper170820.pdf

in mortality rates linked to changes in concentrations of inhalable particulate matter. The graphs below show relative changes in mortality rates based on concentrations of larger particle pollutants in the air on the left-hand side and finer particle pollutants on the right-hand side.

The way to interpret these graphs is to consider life expectancy impacts based on where a city's pollution index measures up relative to the weighted average in the survey, which is calibrated to zero on the vertical axis. Put simply, very clean air can reduce mortality rates by around 4%, in contrast very dirty air can increase mortality rates by up to 2%.



Source: Ambient Particulate Air Pollution and Daily Mortality in 652 Cities | NEJM[3]

This is quite motivational - if we clean up the air we are breathing, we will live longer! I added the red arrows to show how South African cities measured up, which was significantly better than the average with respect to the larger particulate pollutants in the air (left graph) but worse than the average with respect to finer pollutants in the air (right graph). If you're interested in more detail see the full report at the source linked above.

Focusing on the opportunity that this presents to South Africa, on the left-hand side it can be seen that marginal gains to life expectancy actually increase as a city cleans up its air. So even though we are already better than the average, there is still good incentive to keep improving. On the right-hand graph, we can see that even if marginal benefits are slower at first, there are significant longer-term benefits that could be achieved if we clean up the air in our cities.

Insurers are well positioned to incentivise the kinds of behaviour that can reduce air pollutants through the use of telematics. This can be used to promote efficient driving, recommend optimised routes and reduce unnecessary idling which contributes to reduced fuel consumption. Alternatively, for example, life insurers can offer green life-wrapped investment vehicles that only invest in more sustainable investments.

We have seen how air quality impacts life insurers through longevity risk. Non-life insurers are of course more directly and immediately impacted by climate change.

Property and casualty insurers

We can look at ESG impacts on non-life insurers through many different lenses. While this article is not focusing on the broader ESG considerations for non-life insurers, I wanted to share this publicly available research providing up-to-date insights into how environmental changes are impacting society and insurers in:

- The USA and Canada: Data Update to the Actuaries Climate Index | American Academy of Actuaries[4] and
- Australia: Australian Actuaries Climate Index[5].

These projects monitor extreme temperatures, sea level rises and extreme rainfall, directly impacting insurers through increased bushfire, storm and flooding risk for example. This has a direct impact on insurance claims cost and brings into question whether certain regions become uninsurable all together.

We will now turn to key considerations to unlock some of the better future outcomes.

3 https://www.nejm.org/doi/full/10.1056/NEJMoa1817364

4 https://www.actuary.org/Data_Update_to_the_Actuaries_Climate_Index#:~:text=The%20Actuaries%20Climate%20Index%20is,period%20from%201961%20to%201990.

5 https://www.actuaries.asn.au/Library/MediaRelease/2022/MediaReleaseAACISummer2022FINAL280422.pdf

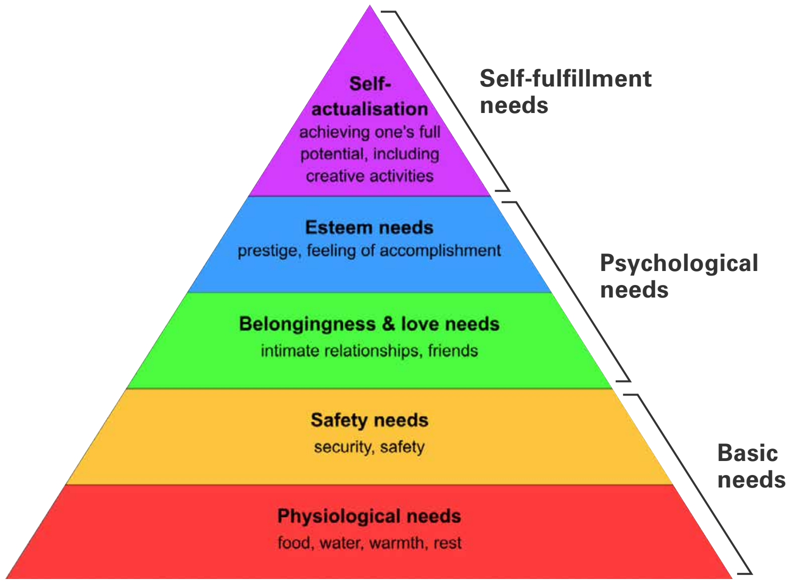
The link between Environmental and Social issues

Intuitively it makes sense to me that we cannot solve a globally interconnected problem like climate change without solving the globally interconnected problem of societal inequality. The COVID-19 pandemic showed us that local societal conditions and inequalities can very quickly spread and become a global problem. In particular, the response in Wuhan was not able to contain and eradicate the virus at source whereas under different social conditions this might very well have been achieved. Also, once the virus had gone global, different countries' ability to source and distribute vaccines had a significant impact on how the virus impacted different societies. Just like a pandemic, our sea and air are globally connected systems and it is encouraging that we are seeing acknowledgement and progress on some of these interconnected issues. For example, at the United Nations COP 26 conference held in November 2021, it was discussed that rich countries can't push production onto poor countries and then point at them for being heavy carbon emitters.

Although it is a step in the right direction if country A sets itself a goal to cut polluting emissions and stop overfishing etc, the benefits of this are quickly eroded if country B increases its emissions and poaches the fishing waters to feed itself and country A. Therefore, it is important to consider how people are faring in each of the more or less 200 countries.

According to the **Credit Suisse Global Wealth Report**[6], "2.9 billion individuals – 55% of all adults in the world – had wealth below USD 10,000 in 2020" in aggregate owning only 1.3% of the total global wealth.

If we consider this alongside Maslow's Hierarchy of Needs, we can understand why people are unlikely to prioritise worrying about climate and damaging the environment if they do not feel safe and secure and do not have their basic needs met. This supports the view that the outcomes of Environmental and Social matters are closely inter-related.



Source: Maslow's hierarchy of needs - Wikipedia[7]

It also explains why politicians with a focus on short-term populist issues that more directly address the short-term needs of the 55% of the population with wealth below USD10,000 have been able to win the vote in democratic countries. Even if politicians do try to focus on longer term infrastructure investments to address problems like climate change, the relatively short political cycles have meant that many of these initiatives lose momentum when the opposition is voted in 3 or 4 years down the line.

Environmental and Social issues are different problems, but they are connected and it seems unlikely to me that we can solve global environmental problems without moving forward on global societal inequalities. This is important to understand and explains why in South Africa at the moment the focus is more weighted towards social matters rather than on the environment, compared to Europe for example.

6 https://www.credit-suisse.com/media/assets/corporate/docs/about-us/research/publications/global-wealth-report-2021-en.pdf

7 https://en.wikipedia.org/wiki/Maslow%27s_hierarchy_of_needs

What we measure - why time horizon is important

For more or less the last century, company reports and global success has focused on annual revenue and profitability growth. Corporate leadership incentives have tended to focus on short-term results with the last year's revenue growth often a key driver of bonuses.

Does it make sense for a CEO to make a substantial investment that is going to reduce her or his remuneration in the three years before retirement, even though it will significantly increase the profitability of the company in 10 years' time? With remuneration packages structured to incentivise individuals to focus on the short-term, can we expect those nearing retirement today to make decisions to reduce their short-term payoff to improve the lives of people in 20, 30, 40 years' time?

The focus on profitability through the time value of money discounts away the value we place on our great grandchildren's voices. This is contrary to the common definition of sustainable development that "meets the needs of the present without compromising the ability of future generations to meet their own needs".

Similarly, our short-term political cycles of three, four or five years disincentivise politicians to make longer term investments in infrastructure or education that will have an opportunity cost in the short-term of not being able to win political favour linked to other more populist spending measures. In many cases those leaders with stronger morals and ethics who do what they know is right, making the long-term investment decisions, lose popularity because of the short-term hardships that result and end up getting voted out, only for the opposition to take the credit for the fruits of the long-term investments once they get voted into power on a populist ticket.

Global political cycles and the annual focus on corporate year-on-year revenue growth needs to be revisited for us to tackle longer term challenges such as environmental degradation and societal inequalities. Throughout history, great political and corporate leaders have bent potential future outcomes towards their vision by having a clarity of focus through the short-term ups and downs. Think Nelson Mandela, Bill Gates, Steve Jobs or Elon Musk. Together with strong leadership, maybe artificially intelligent machines can help us come up with better performance metrics to create incentives for business and political leaders to focus on the long term?

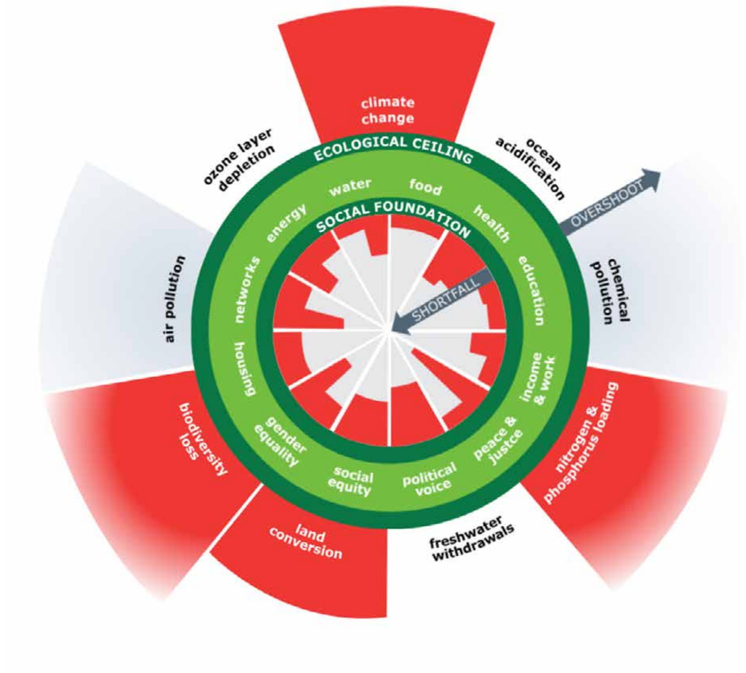
Coming up with new measures and reporting on what we actually value

So, moving forward on ESG is really about us getting clarity on and redefining what we value and then creating new ways to measure what we actually value.

This point was brought home to me by Kate Raworth in her book "Doughnut Economics". If you haven't got time to read her book you can listen to her TED talk. She explains how the well-known Gross Domestic Product or GDP measure was invented in the 1930s to help the world move forward from the Great Depression. However, it has continued to dominate policy and strategy ever since and we have never paused to ask whether we are still measuring the right thing. This addiction to growth has resulted in relentless pressure on listed companies to find new ways to grow profits year-on-year without asking the question of whether that is actually in the long-term interests of the investors or society more generally.

Growth in GDP, as we have measured it to date, certainly served a purpose when it was introduced and has improved the quality of life of many. Now we need to revisit the one-tracked focus on this old-style GDP growth, which is resulting in environmental destruction and worsening societal inequalities.

We need to adapt our measures to incorporate the market externalities that we would like to see managed better. Kate Raworth challenges us to figure out how to get our governance right and come up with new measures that we report on as rigorously as we have focused on GDP and revenue growth (the governance or G in ESG). She argues that we need to harness growth within the constraints of not damaging our environment and at the same time figure out how to improve society more holistically, i.e. focus on growth within the green doughnut pictured on the next page. If we grow beyond the doughnut, it is negatively impacting the environment and if we grow within the doughnut we are magnifying societal shortcomings, both limiting future generations' quality of life.



Source: The Doughnut of social and planetary boundaries Doughnut | Kate Raworth[8]

What to do with all of the data out there

Defining what we value and figuring out how to measure it is the crux of what ESG is all about. However, because ESG is a relatively new field, many organisations face similar challenges when it comes to identifying and capturing ESG-related data in a way that is consistent and meaningful. Some clients report to having data from over 400+ rating agencies and are not certain as to how they will make sense of their wildly disparate scoring systems. As software and technology develops in this area, it is anticipated that we will begin to have more structured and clearer methodologies around ESG data capture. Organisations will also need to better understand their own risk profiles and materiality, and feed these into their data-capture frameworks. Technology, like low-code platform, natural language processing, artificial intelligence, as well as data warehousing and analytics tools are making this easier for organisations and can importantly provide real time data – key in a world where things are rapidly changing. Whilst we are still getting our heads around ESG data collection, in the near future we should be able to use ESG data like we use credit ratings.

Is the ESG risk cluster going to be a human disruptor?

The Kodak story has become a case study on how a successful company can be blindsided and disrupted. Kodak was founded in 1892 and for most of the 20th century it was a leading global brand in photographic film. However, the company failed to adapt to the introduction of digital photography in the late 1990s and early 21st century and in January 2012 filed for bankruptcy. After some serious restructuring they have re-emerged, but it has been a difficult journey for the company[9]. Disruption has become a buzz word in the last decade due to rapid technological advances creating existential threats to incumbent organisations that not long before seemed so well entrenched and untouchable.

In Bill Gates' book the "Road Ahead" he shares an insight that probably best explains why organisations get disrupted. To paraphrase, when something new comes along we always overestimate the change that will occur in the short-term and underestimate the change that will occur in the longer term. This cognitive dissonance that arises from thinking too linearly in an exponential world is well captured by this poem that popped up on my social media feed:

Not yet
Not yet
Not yet
Not yet
Not yet
EAT ME NOW
Too late.
- Avocados

8 https://www.kateraworth.com/doughnut/

9 Kodak - Wikipedia https://en.wikipedia.org/wiki/Kodak

I've heard it said we are the first generation to be broadly aware of the risks associated with pollution and environmental degradation and the last to be able to do anything about it. In avocado terms the time to eat is now!

What does this mean for insurers?

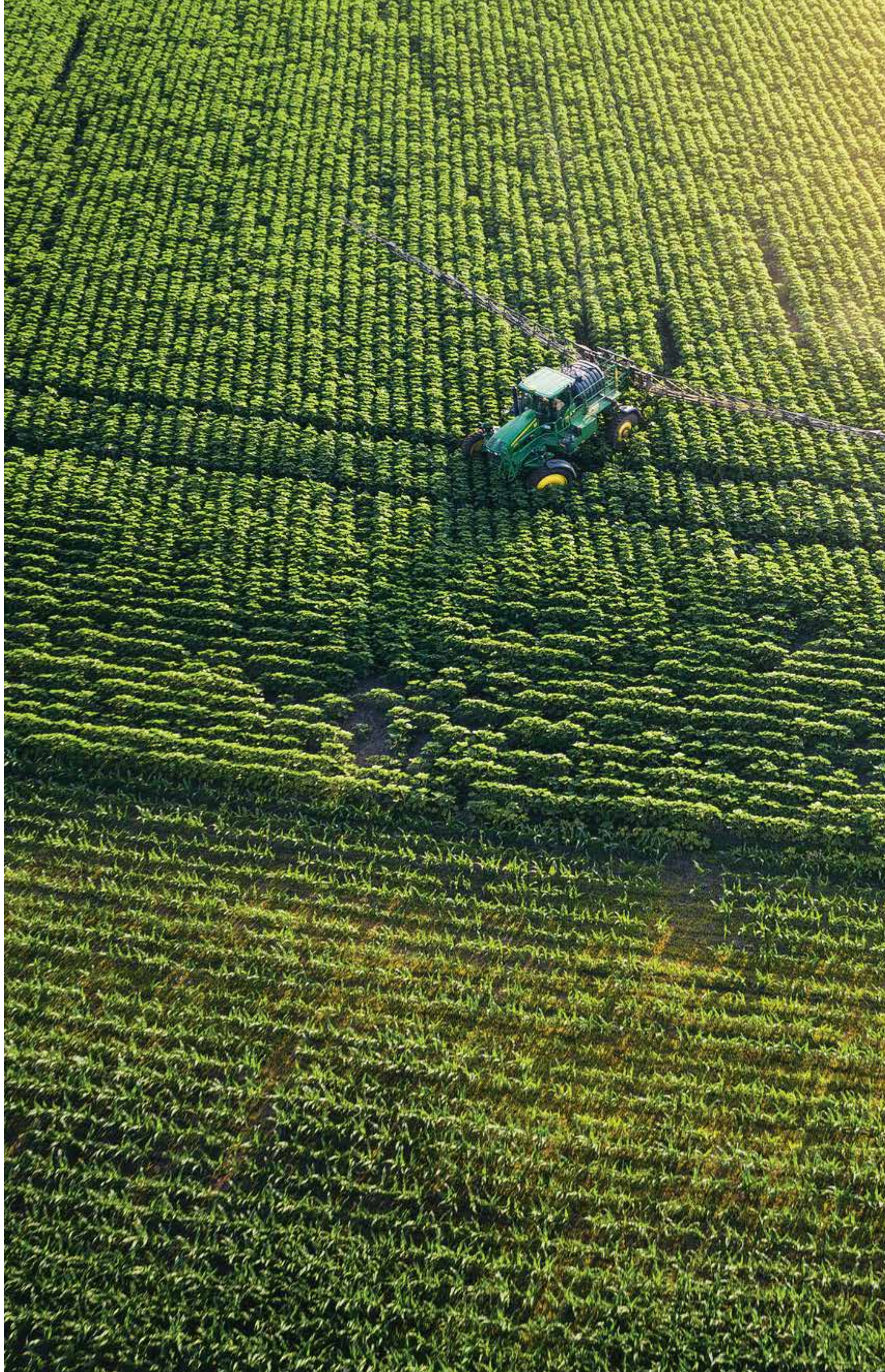
Insurers are well positioned to lead the change. Various tools exist in the insurance process to incentivise good behaviour such as pricing and underwriting requirements. These can be used to encourage sustainable behaviours. Insurers also manage significant amounts of retirement funds and policyholder assets, which are invested with long term goals in mind. Through aligning these investment portfolios with ESG outcomes, insurers can help make the long-term decisions that others tend to shy away from.

The global challenges posed by ESG seem immense, but Elon Musk summed it up best when he said that he thought he would fail but that some things are important enough to try even if the expected outcome is failure.

We need to figure out how to reconsider the time horizons and measures we focus on. This is not going to be easy to do and we need global leadership and collaboration from those at the top of the wealth pyramid to drive this forward.

We do know that we have a very short window of time to limit our emissions, to avoid a climate catastrophe. Like the avocados, we have reached a tipping point and how we respond in the next decade or so is going to define what humanity's future looks like. Thankfully regulators are getting involved - we need regulatory intervention. We also need tech enabled machine learning and/or artificial intelligence (AI) systems to help us with ESG issues.

We tend to be biased toward managing what we can measure. Quoting Jennifer Shulman, KPMG global lead partner, ESG advisory "I loved the notion of changing the definition of value. One that's not just driven by profit or GDP but…quality of life, quality of the planet we live on and interrelationships with other people". To me that is what ESG is all about.



Sustainability services

Increasing pressure from the customer, investors and regulators means that the impact of ESG needs to be considered from strategy through to assurance. At KPMG we are specialised in end-to-end business transformation, with combined sector experience in insurance and ESG. Our international network means that we can leverage best practice applications and provide insights, recommendations and build operating models for you to enable ESG integration across your business. Our services include:

Top of house

- Developing ESG strategy
- Regulatory compliance
- Developing appetite and target state
- Developing internal governance reporting
- External assurance
- Management reporting
- Translation of metrics into value

Front office

- Product development
- Product labelling
- Stakeholder engagement training
- Product distribution

Back office

- Disclosures and regulatory reporting
- Target operating model
- Maturity model and process maps
- Risk and control metrics

ESG data analytics

- ESG data and technology solutions
- ESG analytics and research
- ESG scores and metrics
- ESG IQ
- Exposure monitoring
- ESG data repository

Financed emissions

- Emissions
- Net zero and decarbonisation
- Principle for sustainable insurance

Climate risk modelling services

- Climate risk modelling and stress testing
- Regulatory scenarios
- Corporate services

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Takaful

Islamic finance is based on the principles of *shariah* (Islamic law). This entails the removal of interest (*riba*), excessive uncertainty (*gharar*), gambling (*maysir*) and the trade of prohibited items, such as alcohol, within the contracts and structuring and application of financial products when compared to conventional financial products. Parties must share the risks and rewards of a business or transaction, the transaction should have a real economic purpose without unnecessary speculation and not involve any exploitation of either party.

Internationally, the industries which have had exposure to this specialised field of financing have been the banking, insurance, equity and the bond markets.

Various types of Islamic finance products have been available for a number of years, but it is only within the last ten to fifteen years that the Islamic finance market has gained its momentum. Islamic finance products in the Far and Middle East, which have been available for a number of years, are at an advanced stage of development.

Products that are compliant with *shariah* are gaining wider understanding and acceptance and are slowly making their way into the mainstream market of financial products. To further elaborate, according to shariah the following are prohibited:

- The charging and receipt of interest (*riba*);
- Excessive uncertainty or deception (*gharar*), for example an ambiguity or lack of clarity in the terms of a contract that can give rise to speculation like short-selling;
- Gambling (*maysir*) or speculation, for example any transaction undertaken for purely speculative purposes; and
- Unethical investments, for example dealing in commodities that include, for example, alcohol, pork, pornography, conventional financial services and tobacco.

Consequently, financial institutions offering *shariah* compliant products observe five distinguishing features. All products:

- are interest free;
- are multi-purpose and not purely commercial;
- are based on risk sharing and strongly equity orientated;
- prohibit speculative behaviours and uncertain transactions; and
- limit transactions to *shariah* compliant activities.

This is achieved by having a *shariah* board approving and overseeing the *shariah* compliance of products.

Coming back to our shores, South Africa is home to almost two million Muslims (of the 60 million population) scattered across the various provinces. The Islamic finance market is dynamic and becoming more appealing not only to Muslims, but to non-Muslims too.

Islamic finance and the insurance sector

An industry that has shown immense growth across many countries in the world is the Islamic insurance industry. Islamic insurance, which is better known as *takaful*, is the way in which risk is managed in accordance with Islamic principles.

According to the International Market Analysis Research and Consulting (IMARC) Group, the global *takaful* market reached a value of US$ 27.6 billion in 2021. Looking forward, it expects the market to reach US$ 49.8 billion by 2027.[1]

The difficulty with conventional insurance products is that there are a number of uncertainties within the underlying contract. In addition, there is an element of gambling ("you win, I lose" *or vice versa*) which results in these products not being *shariah* compliant and therefore not open to the Muslim community.

How is *takaful* different to conventional insurance?

Insurance is an agreement between the insured and the insurer. The insurer bears the risk, and in order to be insured, a fee, also known as a premium, is paid by the insured to the insurer (this is often referred to as the transfer of risk). These premiums are invested by insurers in businesses which may not be *shariah* compliant, including those with elements of *riba*, *maysir*, *gharar* and other investments (considered to be unethical for *shariah* compliance purposes).

Takaful companies are required to follow Islamic finance principles, such as producing *shariah*-compliant contracts for clients and appointing a board of *shariah* scholars to ensure that both the products and the operations of the company comply with *shariah*. Furthermore, *takaful* insurers are required to invest in *shariah*-compliant investment products, where possible. *Takaful* arrangements can be used to pool either non-life or life (known as family *takaful*) risks.

The main difference between conventional insurance and *takaful* lies in how each deal with risks and profits (the "uncertainties" and the "gambling"). Whereas conventional insurers take and retain insurance risk, *takaful* businesses are risk managers, because *takaful* operates on a risk-sharing model. The operator manages a pool of funds on behalf of the policyholders who benefit from the investment income and in return the operator earns only a management fee.

As there are no *takaful* regulations, *takaful* insurers would still be governed by the Insurance Act, as well as the supporting regulations set out by the Prudential Authority.

[1] https://www.imarcgroup.com/takaful-market

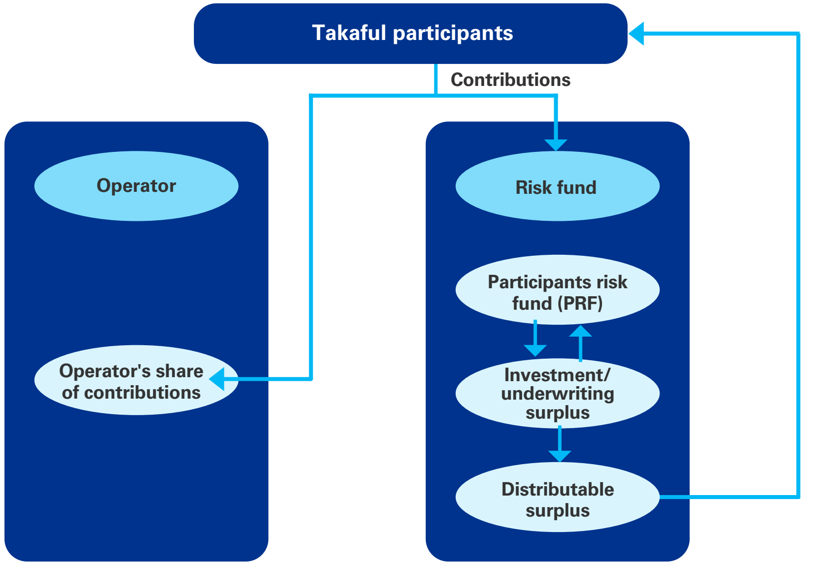
The transparency of contracts used in *takaful* and the avoidance of industries such as alcohol, gambling and tobacco in the investment portfolios of *takaful* companies potentially appeals to a wider category of non-Muslim customers seeking ethical financial services.

What *takaful* models are available?

With the establishment of a number of *takaful* models by Islamic scholars, there are now products available that assist in the mitigation of risk in accordance with Islamic principles. These can be found in the *wakala* (agency) model, *mudarabah* (profit and loss sharing) model as well as a hybrid *mudarabah* model, amongst others. The structuring of these products is based on models whereby every party to the fund contributes for the purpose of assisting other members of that fund who have undergone a loss.

While there are a number of models that are used globally and approved by Islamic scholars, for the purposes of this article we focus on the *wakala* model, which is essentially a pure arm's length concept and the most preferred model used locally.

***Wakala* (agency model)**



In the *wakala* model, the operator (insurer) acts as an agent of the participants and does not participate in the profits/losses of the business. The operator is paid a pre-agreed proportion of the contributions paid by the participants (policyholders), in return for running the insurance operations of the *takaful* business, on behalf of the policyholders. If the policyholders' fund makes a loss, the operator provides an interest-free loan to the policyholders' fund that is repaid out of future surpluses in the fund. This interest-free loan is known as a *qard hassan* and is extended by the lender to the borrower on the basis of benevolence.

Essentially the policyholder contributes to the pool of funds towards a common good. Further, reinsurance is permitted and conventional reinsurers can be used if suitable re-*takaful* insurers are not available, which will be done through guidance from the *shariah* board. This principle is known as *durura*, and finds application when there is an overriding necessity.

This structure may be operated through a division or 'window' within a business, similar to how some of the mainstream banking operations offer *shariah* compliant banking options. These divisions are typically aggregated as part of a statutory legal entity.

What further opportunities are there for *takaful* in South Africa?

There remains a misconception that Islamic finance products, and *takaful* by implication, is only available to the Muslim community.

With the rise of the ethical investor who seeks out ethically viable investment opportunities, *takaful* is an appealing alternative to consider owing to the nature in which the business is conducted and in how investments are made, the competitive pricing and the ability to participate in any surplus distributions. In addition, *takaful* operators are able to offer most conventional life and non-life insurance products (e.g. funeral cover, family insurance, property and casual insurance). Currently in South Africa there are only a few companies that offer *takaful* products, and this creates an opportunity for businesses to think of expanding into a niche market.

In more recent times, we have seen large South African medical aid insurers offer *shariah* compliant medical aid products. This is certainly an indication that the market recognises the opportunity and value in offering these products. With ESG currently being front and foremost on the minds of many a company executive, the ethical aspect underpinning *shariah* compliant products should increase their appeal to a broader audience.

From a tax perspective, we understand that *takaful* entities as operated under the *wakala* model are subject to existing tax legislation. However, should anomalies arise where for example a different model is used, we expect that National Treasury will amend legislation to put *takaful* on a similar playing field as conventional insurers. We saw this happen in 2010 when specific changes were made to the income tax legislation, the effect of which was to put Islamic finance, and conventional finance, on a similar footing. Since then, there has been little to no change from a legislative perspective on the tax treatment of Islamic finance.

** With thanks to Mahomed Akoob, who kindly assisted by sharing his time and experience for purposes of drafting this article. Mahomed Akoob is a non-executive director at Credit Guarantee Insurance Corporation of Africa Limited and Chedid Capital Holding, and the Chairman of the Bryte Insurance Company Takaful Committee.

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The erosion of social cohesion: how do we insure an angry world?

Insurrection in America, unrest in KwaZulu Natal, a state of emergency in Sri Lanka, an invasion of Ukraine, inequality, the cost-of-living crisis, family feuds over vaccination, and furious but opposing reactions to abortion, Boris Johnson, Will Smith, Chris Rock, Johnny Depp and Amber Heard – these are but a few eruptions of the so-called "erosion of social cohesion". Given these examples, you would be forgiven for thinking the world is becoming an angrier and a more divided place. And if you worry about this phenomenon, you're not alone.

In 2022, the World Economic Forum identified social cohesion erosion as a top global risk. They found that it is perceived as "a critical threat to the world across all time spans – short, medium, and long term – and is seen as among the most potentially damaging for the next ten years"[1]. What the risk entails is:

[the] loss of social capital and a fracture of social networks negatively impacting social stability, individual well-being and economic productivity as a result of persistent public anger, distrust, divisiveness, lack of empathy, marginalization of minorities, [and] political polarization"[2].

It turns out, in other words, that society and civility are brittle. And we're more dependent on an invisible force called "trust" than we realise. When the invisible social bonds and the implicit agreements among strangers break down, things get expensive, society becomes violent, and life lacks certainty.

What causes "social cohesion erosion"?

Social cohesion is a social phenomenon – it is a measure of our ability to peacefully and functionally interact with one another. But there is also a moral component to this phenomenon. Christian Larsen, Professor at the Centre for Comparative Welfare Studies in Denmark, suggests that social cohesion be defined as "the belief held by citizens of a particular nation-state that they share a *moral* community, which enables them to trust each other"[3] [my emphasis].

At the heart of the risk of social cohesion erosion, therefore, is trust. And it is this trust that we are rapidly losing on a variety of levels. The latest Edelman Trust Barometer findings suggest that "a cycle of distrust is threatening social stability"[4]. While inequality, discrimination, job losses and climate change cause disproportionate suffering and further social alienation, the media and governments in some cases pile on – fuelling "division and disinformation" for political and commercial gain. The result is not only a distrust of political leaders and journalists, but a profound decrease in social cohesion. The Edelman survey found that 59% of participants indicated that "My tendency is to distrust until I see evidence that something is trustworthy". In addition, 64% of participants believe that people in their country "lack the ability to have constructive and civil debates about issues they disagree on"[5].

1 WEF. 2022. The Global Risks Report 2022. Available at: https://wef.ch/risks22 [Accessed: 14 July 2022] p.16.

2 Ibid, p. 94.

3 Larsen, C.A. 2013. "Social Cohesion: Definition, measurement, and developments". Available at: [Accessed: 15 July 2022], p.2.

4 Edelman 2022. "Global Report: Edelman Trust Barometer 2022". Available at: [Accessed: 15 July 2022], p.12.

5 Ibid, p.19.

The default setting of citizens across the globe is therefore "distrust", and this is important in modern societies. In smaller pre-modern communities, characterised by familial or tribal ties and shared religion, trust comes easier. In modern, globalised and disembedded society, however, trust is more tricky and more important. Modern life is held together by a number of trust strands between strangers. We trust the bus driver, the pilot, the 130 people that are on the plane with us, the other drivers sharing the road, the financial advisor, the pension fund administrator, the person who prepares our food at the restaurant, the person minding our children or teaching them literature, and the person recommending insurance products. On a larger scale we are all also dependent on civility and collaboration between countries – to ensure national security and to avoid becoming war refugees; to manage pandemics and extreme weather associated with climate change; and, to guarantee food security across the globe.

How do we switch back?

But how do we flick the switch back from "distrust" to "trust" between citizens? The good news is, we don't need to retreat into smaller communities, or to persuade everyone to adopt a single, universal religion. The erosion of social cohesion is not simply caused by differing religious, political or ideological beliefs. The problem is not pluralism or diversity. The problem is that citizens have ceased to believe that they share a cardinal moral norm – the norm of *not cheating each other* [6].

In essence, examples of social cohesion erosion consistently reveal the belief that an ingroup is being cheated by an outgroup. The overturning of Roe v Wade is interpreted as Republicans wishing to cheat Democrats (and women in general) out of their reproductive rights. Gun control is regarded as an attempt by Democrats to cheat Republicans out of their right to bear arms. Mandatory vaccination is seen as a conspiracy to rob people of healthcare autonomy, at the least, and out of freedom in general, at worst. In South Africa, xenophobia turns on a belief that foreigners are cheating locals out of job opportunities.

To provide citizens with the assurance that they can trust fellow citizens – that the norm still holds – different interventions have been suggested. Political philosopher Robert Talisse suggests that we are "overdoing democracy" by saturating every choice with politics. In the US, for instance, even one's choice of coffee franchise reveals a political allegiance. It is necessary, therefore, to "put politics in its place" – to create spaces and activities that are free of politics and that allow groups and citizens to interact without being suspicious[7]. The hope is that these spaces can promote that important democratic currency Talisse calls "civic friendship".

The philosopher Michael Sandel proposes something similar in relation to economic classes. He laments the "hollowing out" of the public realm caused by an increasing chasm between rich and poor[8]. As the rich secede from shared spaces, through private schools, private security, private gyms and hospitals, citizens no longer encounter one another, and civic solidarity dissipates. Sandel therefore recommends that we reinvest in shared, public spaces.

These superstructural initiatives require, as their complement on the base level, an economic "levelling up" or "levelling down" (depending on where in the world one finds oneself). The disproportionate hardships caused by inequality, job losses and climate change cannot be left out of the social cohesion equation[9]. This will require growth initiatives in some places, and wealth taxes in others.

Implications for the insurance industry

What are the implications of the erosion of social cohesion for the insurance industry? Insurance, we remind ourselves, is always *insurance of* and *insurance against*. We insure our property against theft or natural disasters. And we insure the livelihood of our families against the loss of income resulting from our deaths.

6 Larsen, C.A. 2013. "Social Cohesion: Definition, measurement, and developments". Available at: [Accessed: 15 July 2022], p.5.

7 Cf. Talisse, R. 2019. Overdoing Democracy. Oxford: Oxford University press.

8 Cf. Sandel. M. 2010. Justice. England: Penguin Books.

9 Consider, for instance, the recent protests by Bangladeshi citizens over the devastating impact flooding has on their lives. One of their messages to the world regarding climate change is "We are not in the same boat". Cf. https://www.theguardian.com/environment/2022/jul/05/every-year-it-gets-worse-on-the-frontline-of-the-climate-crisis-in-bangladesh

What social cohesion erosion represents is risk. To descend into the banal: social cohesion erosion translates into, among other things, the risk of my business being damaged during political unrest. The first task of insurers is therefore to identify and quantify the risks associated with social cohesion erosion; to calculate what it would cost to safeguard clients against this risk; and, to communicate to clients, clearly and fairly, what their cover includes and what it excludes.

But there is a second task for insurers – more difficult, but potentially more rewarding. The job is to ask to what extent the insurance industry contributes to or maintains social erosion. It has long been a complaint against medical aid schemes, for instance, that it keeps South Africans apart.

Some can afford private healthcare, while others travel far and wait in queues for minimal care. Some can afford expensive procedures – both necessary and unnecessary; others suffer and sometimes die from what is preventable. The question is therefore how to insure the uninsured and the uninsurable. Much like the founder of Grameen Bank, Professor Mohammed Yunus, asked how a bank could extend credit to those who, at that stage, were deemed unworthy of credit; so, the insurance industry has an opportunity to identify and service a new market – those who stand to be hit the hardest by social erosion and its consequences. We have seen good examples of this in the recent past. Sasria, with the support of many insurers, came through to support businesses impacted by the social unrest in July 2021. Life insurers have paid billions to families suffering loss during COVID-19. Insurers' staff have had to work significantly longer hours to finalise these claims. The question is, how do we cast this net wider, so that even more people could benefit in such circumstances?

The point of insurance has always been to protect people against uncertainty. Social cohesion erosion is a form of uncertainty that the insurance industry should make work of. The goal, of course, is to protect people against the worst foreseeable consequences of social erosion. But it may also be possible to address the problem in the process – to protect people in such a way that they are not further divided and alienated from one another.

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Sustainability disclosure standards: finding a common language

The Organisation for Economic Co-operation and Development estimates that it will cost $6.9 trillion annually through to 2030 to finance the Sustainable Development Goals.[1] The capital markets play a crucial role in mobilising this capital and allocating it towards more sustainable alternatives. As the second largest group of asset owners behind pension funds, insurers play a key role in influencing the allocation of this capital and ensuring that their businesses operate in a way that supports the transition.

As more funding is channelled towards sustainable finance initiatives, greenwashing is becoming rife. Recently the American Securities Exchange Commission (SEC) commenced investigations into a large bank[2] for its questionable "green investments", which has sent a strong message to the market. The risk of getting fined or even losing their operating licenses, has sent banks and insurers scrambling to understand what they can and can't label as "green" or "sustainable" products. Like nutrition information on food labels informs customers about what the food contains, customers and investors want assurance that their capital is being used as anticipated. With sustainability-linked assets at USD $35.3 trillion, investors want to know that investee companies are channelling their profits for purpose, not just contributing to a polluting bottom line. In a similar vein, customers need assurance that their assets will be protected if there are dramatic shifts in weather patterns. If we were to undergo significant climate change, would insurers remain solvent, or would we be headed for another financial crisis?

What we require is a common language to identify, frame and report on these risks. This article looks at what is being done to streamline this across three areas – impact analysis from a risk perspective, reporting and classification.

Impact analysis from a risk perspective

Climate change poses significant risks to financial systems worldwide, as extreme weather events make economies less predictable. To anticipate these shocks, we are seeing a strong response from central banks across the world. Climate risk stress tests are becoming more mainstream and such tests could eventually feed into prudential capital requirements. In the UK for example, the Bank of England will embed climate change into its supervisory approach by the end of 2022, and actively supervise firms in line with these expectations[3]. The Bank's recent Climate Biennial Exploratory Stress Tests revealed that if there were instantaneous shocks as modelled, some insurers would breach their solvency ratios[4].

On home soil, the South African Prudential Authority (PA) is taking similar steps. In October 2021 the PA issued its Climate Risk Survey report, which investigated the responses of regulated financial institutions to specific climate risk issues. Results indicated that whilst 74% of insurers identified that climate related risks could impact their business, 65% of insurers have not undertaken any type of stress-testing[5]. Reasons for failing to run stress tests were varied; lack of data and guidance on methodologies, limited market practices and lack of resources to complete the work.

[1] Usher, Eric (2022, 21 April). *Why Financial Institutions are banking on Sustainability*. UN Environment Program. (https://www.unep.org/news-and-stories/story/why-financial-institutions-are-banking-sustainability)

[2] Robinson, Gary (2022, 26 August). DWS rocked by $1trillion SEC Greenwashing probe-reports. International Investment. (https://www.internationalinvestment.net/news/4036306/dws-rocked-usd1trillion-sec-greenwashing-probe-reports)

[3] Bank of England (2022, 8 June). Climate Change: Our response to climate change. BOE. (https://www.bankofengland.co.uk/climate-change)

[4] Bank of England (2022, 24 May). Results of the 2021 Climate Biennial Exploratory Scenario (CBES). Bank of England. (https://www.bankofengland.co.uk/stress-testing/2022/results-of-the-2021-climate-biennial-exploratory-scenario)

[5] South African Reserve Bank Prudential Authority (2021, October). Prudential Authority Climate Risk Survey Report. Prudential Authority. (https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-public-awareness/financial-sector-awareness/2021/PA%20Climate%20Survey%20Report%202021.pdf)

Notwithstanding these challenges, it is fundamental that insurers keep on (or start in some cases) working on the implementation of climate risk stress testing approaches. A gradual and iterative approach, where model shortcomings and data shortages are being solved progressively during successive model estimation cycles, is probably most effective. Obtaining the first stress test results, even if still including for example significant expert judgement, allows not only for identifying data gaps and modelling issues, but also starts the process of integrating these tests in the company's processes and procedures. Climate risk stress test results will also have to feed into the own risk and solvency assessment (ORSA) and assist management and the board with strategic and operational decisions.

Furthermore, UK studies on climate risk modelling have indicated that overall costs for insurers will be lowest if early, well managed action is taken. In scenarios with no mitigation actions towards climate change, costs that initially fall on insurers would ultimately be passed on to their customers[4] . This would mean that households and businesses vulnerable to physical risks would be especially hard hit. In a market like South Africa, with Conduct high on the agenda and an already large vulnerable population, insurers will be pressed to understand the risks climate change pose and use this to inform decision making and action taking.

Reporting

Many insurers are already using multiple voluntary frameworks for their reporting, including those issued by the Global Reporting Initiative (GRI), Task Force on Climate-Related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB) – the list is extensive. Whilst these frameworks are helpful to frame and report on ESG data, they are applied inconsistently across companies and often not assured. What is needed is a reputable organisation to enter the space with enough gravitas to push a set of standard reporting frameworks across the financial services industry. The IFRS foundation has created the ISSB – International Sustainability Standards Board. By leveraging existing frameworks, such as those from the TCFD and GRI, the ISSB has created two prototypes which cover governance, strategy, and risk management. Whilst still in consultation phase, the ISSB are expecting to publish its first set of standards by the end of 2022. Whilst only voluntary, many countries have welcomed the announcement and will likely seek to legislate that compliance with the standards becomes mandatory in the upcoming years[6].

Classification

The European Union (EU) taxonomy for sustainable activities is a framework to classify "green" or "sustainable" economic activities executed in the EU[7] . While not mandatory, the EU taxonomy will be an enabler of change and encourage a transition to a greener economy. For insurers, this sort of taxonomy is a standardised language by which to assess "sustainable investment products", as well as a framework to certify insurance-based investment products (IPIBs)[8] .

Launched in April 2022, South Africa followed suit and launched a Green Finance Taxonomy. Modelled on the EU's framework, it is intended to help the financial sector with clarity and certainty in selecting green investments in line with international best practice and South Africa's national policies and priorities[9] . Users of the taxonomy can evaluate an economic activity and screen performance against technical criteria: a 'do no significant harm' (DNSH) criterion as well as 'minimum social safeguards' (MSS). The taxonomy, whilst only voluntary at present, is a vital instrument to help us move towards more sustainable finance. It is also an important tool to combat greenwashing, attract investments and help companies better understand the risks associated with certain investments.

Global temperatures have already risen by 1.1 degree celsius above degrees above pre-industrial levels. We are consequently witnessing an uptick of extreme weather events even on home soil.

6 OneTrust (2022, 3 November). IFRS Announce International Sustainability Standards Board (ISSB). OneTrust. (https://www.onetrust.com/blog/ifrs-announce-international-sustainability-standards-board-issb/)

7 Envoria (2022) EU Taxonomy Overview. Envoria. (https://eu-taxonomy.info/info/eu-taxonomy-overview)

8 Scholer, Marie and Cuesta Barbera, Lazaro (Date Unknown). The EU Sustainable Finance Taxonomy from the perspective of the insurance and reinsurance sector. European Insurance and Occupational Pensions Authority. (https://www.eiopa.europa.eu/document-library/thematic-article/eu-sustainable-finance-taxonomy-perspective-of insurance-and_en?source=search)

9 National Treasury Republic of South Africa (2022, April). South African Green Finance Taxonomy: First Addition, March 2022. National Treasury: Republic of South Africa. (http://www.treasury.gov.za/comm_media/press/2022 SA%20Green%20Finance%20Taxonomy%20-%201st%20Edition.pdf)

With an extremely vulnerable population here in South Africa, it is important that players in the financial services industry act responsibly and understand the contribution they can make to slow down emissions, and meet our Net Zero targets by 2050.

In order to do this, we require clear guardrails set in place by regulators. This includes integrating environmental risk into supervisory frameworks and deepening climate scenario analysis.

Insurers should also familiarise themselves with South Africa's Green Finance Taxonomy and understand what should and should not be classified as a "green" product under this framework. Finally, the ISSB standards provide a practical reporting baseline to present consistent and comparable information. Whilst still in draft, these standards align reporting principles, structure, and measurement, which are important to form a global reporting baseline that all companies can adopt.

Across risk, reporting and classification, we are gradually heading towards a common reporting language. The global collaboration we have seen across the public, private and government sectors to construct these frameworks is encouraging.

KPMG recently provided its response to the ISSB standards in this article.[10]

[10] https://home.kpmg/xx/en/home/insights/2022/07/sustainability-reporting-ifrs-s1-s2-comment-letter.html

ESG IQ: KPMG's cloud-based tool for informed ESG ratings and decision making

Insurers rely on ESG data for multiple reasons - to assess ESG ratings of the assets they manage, to make decisions about the risks they underwrite, and to screen third parties they engage with. In order for these decisions to be made on relevant information, ESG ratings need to be updated regularly and derived from trustworthy sources.

Hosted on Google Cloud, ESG IQ is a bespoke tool which allows insurers to define and customise their data universe by choosing rating sources most relevant to their business. The tool also aims to help insurers understand the drivers behind their ESG standings, providing the root-cause analyses of the factors that have led to the assessment.

Other characteristics of ESG IQ include:

- Brings the power of artificial intelligence and machine learning to ESG data through advanced statistical modelling;
- Assists insurers with defining their investment and underwriting criteria and apply weightings based on their materiality thresholds;
- Supports the requirements of forthcoming regulations;
- Identifies potential 'greenwashing risk' through identification of ESG risk factors;
- Analyses a range of asset classes from listed entities to investment funds, government bonds, equities, structured bonds and more; and
- Identifies and measures the carbon footprint across portfolios, trading books or balance sheets to help insurers meet carbon targets.

For more information, or to request a demo, please contact:

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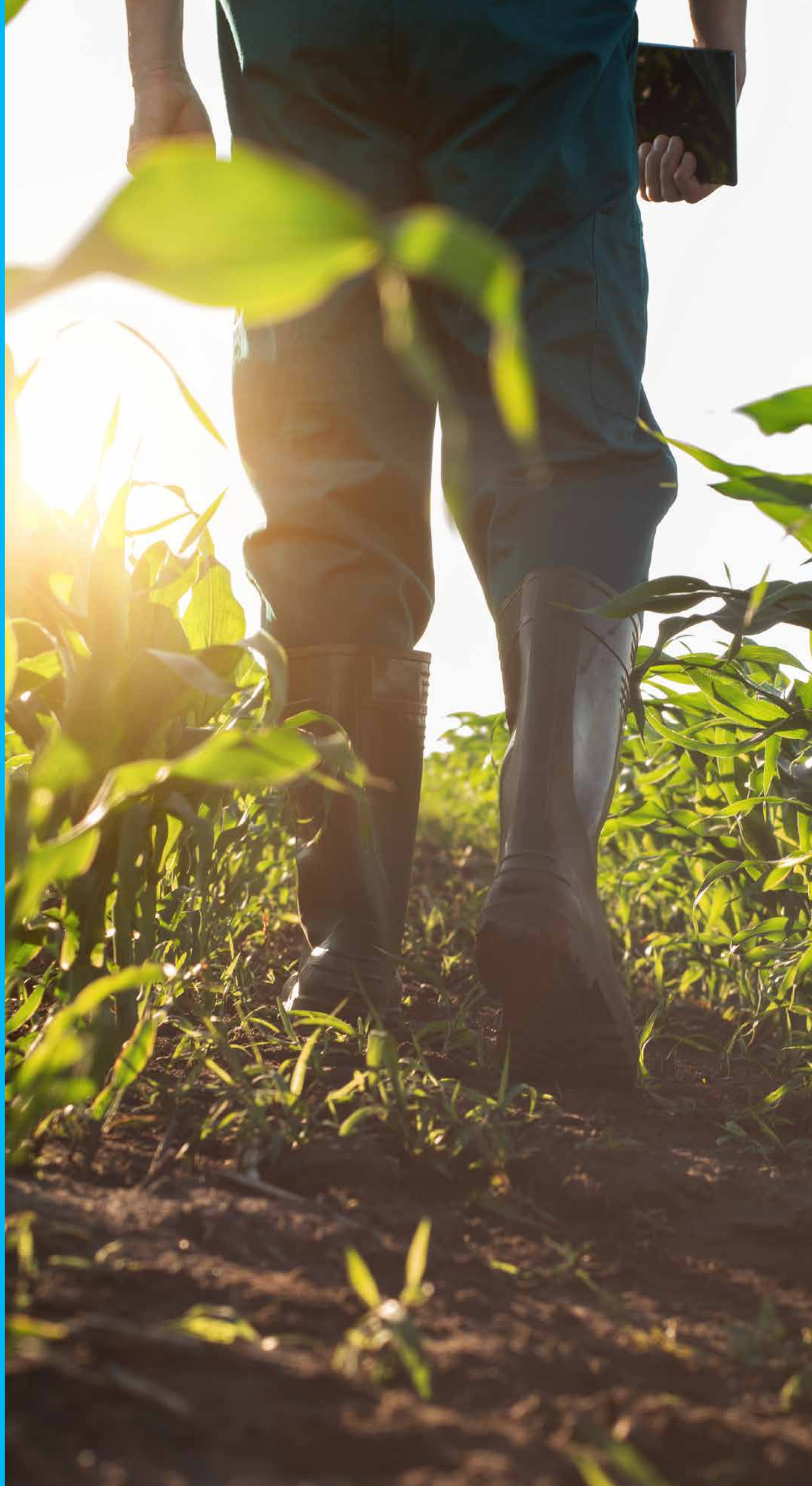

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The Financial Action Task Force Grey Listing is possible... are you prepared for it?

How close are we to the Grey List?

The Financial Action Task Force (FATF) is the global money laundering and terrorist financing watchdog that sets international standards aimed at preventing these illegal activities. The FATF has developed the FATF Recommendations, or FATF Standards, with more than 200 countries and jurisdictions committed to their implementation. The FATF monitors countries through ongoing rounds of peer reviews called Mutual Evaluations, to ensure that FATF Standards are implemented appropriately and holds countries that do not comply accountable.

In October 2021 the FATF published the long-awaited Mutual Evaluation Report on South Africa which showed poor results. In respect of technical compliance, South Africa is fully compliant with three and largely compliant with seventeen of the forty FATF recommendations, with twenty non-compliant ratings achieved on the remaining recommendations. When it comes to effectiveness of compliance, South Africa did not achieve any positive scores in the eleven immediate outcomes. Due to the severity of deficiencies detected in this Mutual Evaluation, South Africa has now been placed in the FATF enhanced follow-up review category, which means that three follow-up assessments over a five-year period will be performed by the FATF post the publishing of the initial Mutual Evaluation Report (MER). For its first follow-up assessment, the FATF committee will be coming to South Africa in October 2022 to reassess, from a technical compliance perspective, the progress that has been made to remediate strategic anti-money laundering (AML) and counter-terrorist financing (CTF) deficiencies. This will assist the FATF in deciding on whether South Africa should be included in the FATF list of "jurisdictions under increased monitoring", also commonly known as the **FATF Grey List**. The effectiveness rating would only be reassessed five years after the publishing of the Mutual Evaluation Report.

South Africa's ratings are deficient even when compared to other grey-listed jurisdictions set out in the diagram on the next page. Most grey-listed jurisdictions produced better results than South Africa in their Mutual Evaluation, such as Turkey and Zimbabwe which both had eleven compliant ratings while South Africa had three compliant ratings in terms of technical compliance. If we look at the ratings in the FATF's follow-up review, Turkey achieved nine negative ratings (partially compliant and non-compliant ratings) while Zimbabwe achieved ten negative ratings. Such results were not good enough to avoid a grey listing of these countries. Zimbabwe subsequently achieved satisfactory progress and was removed from the Grey List in 2022.

		Gibraltar	Malta	Turkey	Botswana	Zimbabwe	Mauritius	South Africa
Mutual Evaluation	Year	2019	2019	2019	2017	2017	2018	2021
	Technical Compliance	15 C	10 C	11 C	0 C	11 C	3 C	3 C
		15 LLC	21 LC	17 LC	2 LC	9 LC	11 LC	17 LC
		10 PC	9 PC	10 PC	14 PC	14 PC	13 PC	15 PC
		0 NC	0 NC	2 NC	23 NC	6 NC	13 NC	5 NC
		--	--	--	1 N/A	--	--	--
	Effectiveness rating	0 HE	0 HE	0 HE	0 HE	0 HE	0 HE	0 HE
		1 SE	2 SE	2 SE	0 SE	0 SE	0 SE	0 SE
		7 ME	6 ME	7 ME	2 ME	2 ME	4 ME	8 ME
		3 LE	3 LE	2 LE	9 LE	9 LE	7 LE	3 LE
Follow-up	Year	2021	2021	2021	--	2019	2019	
	Technical Compliance	22 C	12 C	11 C	--	18 C	10 C	
		17 LC	28 LC	20 LC	--	12 LC	13 LC	
		1 PC	0 PC	7 PC	--	6 PC	10 PC	
		0 NC	0 NC	2 NC	--	4 NC	7 NC	
	Decision	Grey Listed after follow up	Grey Listed after follow up	Remain in Grey List	Grey Listed after Mutual Evaluation	Grey Listed after follow up	Grey Listed after follow up	
	Current Status	Grey-Listed	Removed in 2022	Grey-Listed	Removed in 2021	Removed in 2022	Removed in 2021	

* There are four possible levels of technical compliance: Compliant (C), Largely Compliant (LC), Partially Compliant (PC) and Non-Compliant (NC)

** Effectiveness ratings can be either: High (HE), Substantial (SE), Moderate (ME) or Low (LE) level of effectiveness

*** Source: FATF Mutual Evaluations reports and Follow-up Reports on different jurisdictions

In order to avoid the grey-listing, various actions have been taken to remediate the findings. Since December 2021, many South African supervisory authorities have submitted notifications asking accountable institutions to proceed with remedial actions according to the FATF requirements, and strengthened the extent of their supervision on said accountable institutions. In recent weeks we have observed more regular activity in the AML/CTF space, such as:

- Cabinet approving the General Laws (Anti-Money Laundering and Combating Terrorism Financing) Amendment Bill of 2022 for submission to Parliament;
- the establishment of the new draft list of accountable institutions; and
- the Financial Sector Conduct Authority (FSCA) requesting financial institutions to provide information on their ownership structure.

Requests for technical compliance re-ratings will not be considered where the FATF determines that the legal, institutional, or operational framework has not changed since the country's MER. Additionally, such changes need to be presented to the FATF at least six months before the Plenary, which is scheduled to take place mid-February 2023.

At this stage, with less than two months left before the FATF reassessment, many deficiencies have not yet been addressed or are still in the planning or approval process. These deficiencies can therefore not be considered for re-assessment by the FATF.

Based on the information above, it is highly probable that South Africa will enter the FATF Grey List.

Therefore, instead of asking whether South Africa will be included in the FATF Grey List, the question we now need to ask is: How will South Africa be impacted by the FATF grey-listing and what can we do to prepare for this?

How will the FATF grey-listing impact South Africa from a regulatory and economic perspective?

To answer this question we need to analyse the cases of other grey-listed jurisdictions and understand the cause-and-effect relationship of subsequent events that took place in their regulatory and economic spaces, to attempt to predict the impact of the grey-listing on South Africa.

On the following page are some of the jurisdictions that were grey-listed in recent years that may be used as a reference for South Africa to consider in the event of a grey-listing.

Impact observed on other grey-listed jurisdictions

Botswana

- Asset managers were not able to transact directly with pension funds with an offshore portfolio.
- Foreign direct investment in the diamond sector was affected as the repatriation of profits from Botswana to the origin was affected.

(Information provided by KPMG Botswana)

Pakistan

The paper titled, "Bearing the cost of global politics -- the impact of FATF grey-listing on Pakistan's economy", authored by Naafey Sardar, suggests that the FATF grey-listing, which began in 2008 and ended in 2019, may have resulted in cumulative real GDP losses of approximately $38 billion.

Malta

- The number of active correspondent banking relationships fell by 20% between 2011 and 2019.
- Banks and supervisory authorities prepared contingency plans to ensure that the payment infrastructure remains uninterrupted.

(Source: www.fitchratings.com: No immediate Impact on Malta's Ratings from Greylisting)

Turkey

- Decline in foreign investments: from 2007 to 2020, foreign direct investment declined from $19 billion to $5.7 billion; foreign ownership of bonds was down to 5% in 2021 from 25% in 2016.
- The decline in foreign investment and economic activity further exacerbated Turkey's currency crisis and high inflation. Turkey's central bank cut interest rates by 2% in October 2021, causing the value of the Turkish Lira to fall to new lows after already shedding 20% of its value in 2021.

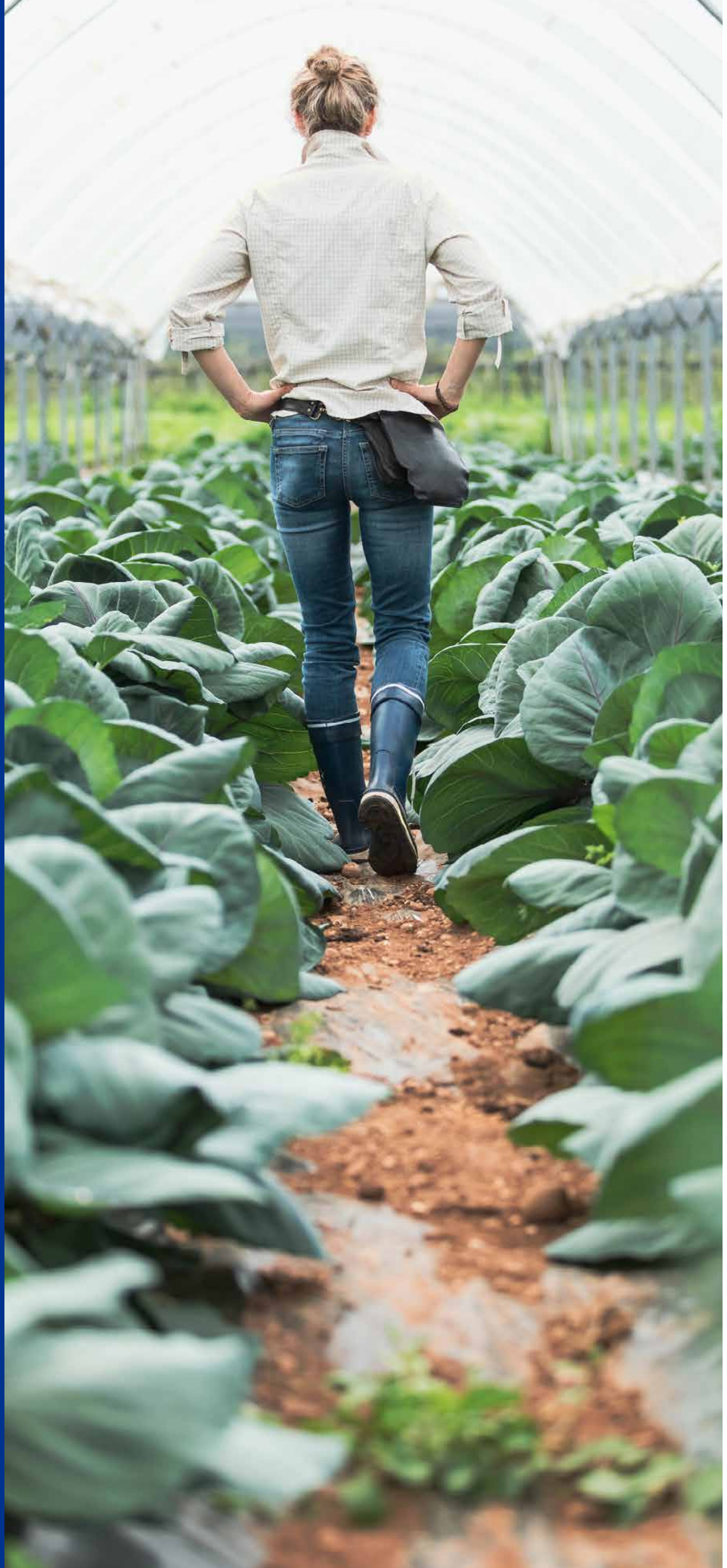
(Source: www.ft.com: Turkey faces threat of "grey-listing" by global finance watchdog; www.reuters: Finance watchdog "grey lists' Turkey in threat to investment)

Mauritius

- Soon after its inclusion in the grey list, a large foreign custodian operating in India had put a halt on trades from Mauritius.
- The Reserve Bank of India had rejected a few applications for non-banking financial company licences as the investments were routed through Mauritius. Any foreign portfolio investor from Mauritius could only acquire voting rights of a non-banking financial company not exceeding twenty per cent of the total shareholding.

(Source: www.business-standard.com: Mauritius exits FATF grey list, Pakistan remains on the list: http://timesofindia.Indiatimes.com: RBI blocks NBFC plans of Mauritius-funded startups; https://economictimes.indiatimes.com: RBI tightens screws around Mauritius based investments into NBFCs)

The inclusion of a country in the FATF grey list would lead to a number of international and domestic economic impacts. According to the International Monetary Fund (IMF), a grey-listed country can expect an average decline in capital inflow of 7.6% of gross domestic product (GDP), a decrease in foreign direct investment (FDI) of 3% of GDP, and a decrease in portfolio inflow of 2.9% of GDP. However, this might worsen in jurisdictions that already had trouble attracting investments, such as Turkey, whose foreign ownership of bonds is down to about 5% in 2021 from 25% in 2016. The extent of capital inflow and outflow is expected to decline as a result of reduced investments and business activity. Interestingly, in many grey-listed jurisdictions it was observed that ahead of the grey-listing announcement, a surge in capital outflow took place where advantage was taken of the information asymmetry.



In the event that South Africa is included in the FATF grey list, in addition to the enhanced follow-up reviews by the FATF, South Africa may also face restrictions imposed by other jurisdictions, leading to barriers to doing business or investing in South Africa. The international economic impacts may include: increase in the regulatory burden imposed on both South African entities and their foreign counterparties, economic restrictions from international funders such as the IMF or World Bank, or restrictions imposed by individual banks and businesses in doing business with South African entities. This would lead to a loss of trading and business partners as well as loss of financial flows. According to National Treasury, it will take a number of years for South Africa to fall off the FATF Grey Life which may mean that the international economic impact may have long-lasting effects on the South African economy.

The grey-listing would also lead to a direct domestic economic impact: due to increased compliance requirements and restrictions imposed, there would be a significant increase in the cost of doing business and in the cost of capital. These obstacles would hamper South Africa's ability to remain competitive and in obtaining investment. There would also be macroeconomic impacts, such as on the exchange rate and interest rate, inflation, and negative effects on economic growth and employment. The reputational damage goes without saying.

The starting point of all events is the decision and announcement of a grey-listing. This status officially recognises the failure of a jurisdiction to address its financial crime risks. Following the announcement, an action plan would be developed by the FATF with South Africa to address its strategic deficiencies. As part of the enhanced follow-up review, South Africa would go through two more follow-up sessions that aim to monitor the progress of the country in executing the action plan, until the fifth year post the Mutual Evaluation. Thereafter, an evaluation on the effectiveness of the implementation of the action plan would be performed.

The enhanced supervision of the FATF on South Africa would lead to a significant regulatory impact at a jurisdiction level. Major legal and regulatory AML/CTF changes would take place following the FATF requirements; operational changes and government actions would be taken with the purpose of ensuring the appropriate implementation of the legal and regulatory changes. This would lead to more frequent and stricter supervisory actions on various institutions, as well as the imposition of more significant fines and penalties as required by the FATF.

The negative reputational effect of the grey-listing would lead foreign counterparties to impose scrutiny on any business relationship or investment with South African entities, including the performance of additional due diligence and control measures or the performance of an AML/CTF audit based on international standards.
In extreme cases we might observe what is called "de-risking", which is a process through which existing relationships with South African entities might be terminated.

We have performed a study on the impact suffered by other grey-listed jurisdictions with a number of our KPMG member firms located in such jurisdictions and based on publicly available information.

Included below is a summary of the possible scenarios that South African entities might face in the event of the FATF grey-listing:

South African entities may not be recognised as equivalent regulated entities

- South African entities may **not** be recognised as **equivalent regulated entities**.
- Subject to **limitation** and **scrutiny**.
- South African international branches may not be able to establish new business relationships and transactions.

De-risking and disinvestment in South African entities and investment vehicles

- Institutions may be **reluctant** to maintain current or start new business **relationships**.
- Investors may sell their current investments in South Africa and **redomicile** their **funds**.
- South African entities will need to **prove** that **sufficient AML/CTF controls** are in place to limit the effect of de-risking.

Imposition of AML/CFT audits, following national and international standards

- **AML/CTF audits** may be imposed as a **precondition** for new and existing business relationships, applying **international standards** and regulations.
- In the event of **unfavourable** audit **results**, remedial actions need to be implemented within a short space of time.
- **Mandatory annual AML/CTF audits** were adopted across many grey-listed jurisdictions.
- South African entities need to perform **self-examination** and **remediation** assessments according to FATF standards and international best practice.

Delays in payment settlements

- For **payments** in **foreign currency**, additional **due diligence** may be requested.
- This would be relevant to **any type of transfer** of funds.
- This would lead to significant **delays** of the payment process of transactions.
- South African institutions need to prepare and **train** their **operations units** to shorten the process.

Reluctancy to establish relationships related to PEPs

- The current definition of a politically exposed person **(PEP)** in the FIC Act is **deficient** and is in the process of being amended.
- Investors would be reluctant to establish relationships with **entities related to PEPs**.
- Additional **controls to identify PEPs** according to international standards may be requested.
- Some grey-listed countries applied controls to limit the entry of PEPs in private entities.

Extensive KYC performance and remediation

- Current **sources** of corporate information are **not reliable** (legal changes to this process in progress).
- **The extent of reliance on KYC** performed by third parties such as intermediaries or agents may be **limited**.
- Where reliance is still possible, entities need to **enhance** their **controls over third parties**.
- Entities need to **perform and remediate KYC** assessments in accordance with new requirements, changes in official sources and where reliance is limited.

Next steps for the South African financial services sector

Regardless of whether South Africa is grey-listed or not, it is obvious that the country faces huge financial and proceed-generating crime risks. Many financial institutions may not have the right skills to identify the risks or the necessary controls to effectively address them on a timely basis.

There is a possibility that some financial institutions may be limiting their controls to the minimum requirements or are still applying a rules-based compliance mindset, despite the enforcement of a risk-based approach that is required through the amended Financial Intelligence Centre (FIC) Act of 2017.

How should South African life insurers fight financial crime? Once again, we would look to the lessons learnt by other jurisdictions which were in the same position as we are now, but which are currently more advanced in their implementation of industry best practice. In most advanced jurisdictions, the implementation of industry best practice by accountable institutions is considered to be mandatory.

Set out below are the key areas where we believe the life insurance industry will be subject to substantial remediation:

1. Better understanding of the threat landscape to address risks

In order to address financial crime risks effectively, it is necessary to have a comprehensive understanding of the threats and vulnerabilities from a sector and institutional perspective. Only when an insurer understands the different schemes used by criminals to abuse the life insurance system, and the vulnerabilities of an institution when facing these threats, can effective measures be designed and implemented. In order to achieve this, insurers need to understand the existing financial crime threats that may be relevant to the sector and quantify each risk factor taking into consideration the business context, such as volume of business, types of products and services distributed, types and number of business relationships, amongst other risk factors. The quantification of such risk factors should enable the design of risk mitigating measures to be able to address each risk effectively, leading to a limited residual risk that should also be quantified and monitored by the institution. Those insurers that expand their business risk assessment beyond a general and one-dimensional description of risk per business area, incorporate best practice activities such as:

- the inclusion of a comprehensive consideration of all relevant risk factors that the institution might be exposed to;
- considering the business context to quantify risk exposure; and
- addressing each emerging risk with effective risk mitigating measures.

2. Better understanding of risk through know-your-client (KYC) and customer risk assessment

The purpose of performing KYC and customer risk assessments is to better understand each client, which enables insurers to predict the behaviour of the customer during the course of the business relationship and detect activities that do not make economic sense. The information collected through the KYC process serves as a baseline for such knowledge whereas the risk rating predicts the potential threat of the customer. For any activity performed by the customer or any relevant change or update in the customer's background, the KYC information should be consulted in order to ensure that the activities performed continue to make sense.

The starting point for life insurers in ensuring an effective KYC and customer risk assessment check is to collect information and documentation as required by the amended FIC Act and archive it for record keeping purposes and in line with documentation retention requirements. In order to enhance the effectiveness and robustness of this process, insurers consider the following factors:

- Consideration as to whether the product need is aligned with the nature of the business relationship with the client along with other potential risk factors associated with the client, and not simply limiting the assessment to the product the client has purchased.

- A framework is implemented that provides for a robust weighting of risk factors, ensuring that all relevant risk factors are taken into consideration and have an appropriate impact on the final risk rating. The framework provides for a single client risk view across the suite of entities and business divisions that may be offering products to the same customer.

3. Third party risk

Many life insurance companies work with a large amount of third parties and intermediaries such as brokers and agents who distribute products to or perform risk assessment procedures in respect of clients on the insurer's behalf. Those life insurers that have succeeded in ensuring that such third parties comply with AML/CTF requirements have implemented effective controls. For example, implementing periodic controls to ensure that brokers follow the policies set out by the insurer. These practices will mitigate against the possibility of brokers or intermediaries acting as frontmen for financial crime schemes.

4. Effective enhanced due diligence measures

When onboarding high risk customers, life insurers usually apply enhanced due diligence measures, such as approval by senior management or performing more frequent KYC assessments. The usefulness of this assessment increases where the due diligence is not seen as a formality and where real value is extracted from this process that can provide better protection to the insurer against the potential increased risks of such customers.

Enhanced due diligence practices should ensure that more information is gathered and further verification procedures are performed. As an example, international best practice requires a more in-depth examination of the client's shareholding structure; a better understanding of the source of income by requesting documentation such as financial statements, salary slips and tax declaration records; and requesting additional information for each relevant transaction to understand whether this deviates from the expected behaviour of the customer.

5. Investment in technology

The implementation of technology is critical for life insurers, particularly as many have large client bases and sell a high volume of products and services. Included below are examples of how life insurers are able to make the best use of effective technology platforms or enablers to mitigate potential financial crime risks:

- The first example is KYC technology. Extracting information contained in KYC documentation for further processing and analysis assists in the detection of relevant changes in the KYC assessment that may impact on the risk profile of the customer. This also assists in detecting possible activities that may deviate from the knowledge that insurers have of their customer and monitoring possible suspicious activities to ensure the timely detection of and analysis of such scenarios. A risk-based monitoring model is suitable for customers of different risk profiles as well as different product offerings.

- In keeping with the sophistication of financial crime schemes, the importance of implementing automated monitoring mechanisms to identify red flags is more pronounced. For example, mechanisms can be put in place to detect whether a payment made by a customer to purchase an insurance policy comes from an account that belongs to the customer, or whether the early surrender of such policy and the return of the premium is paid into the policyholder's account.

Conclusion

There is still uncertainty as to whether South Africa will be grey-listed by the FATF. However, we do not need to wait to be included on the list to realise that South Africa has material financial crime shortcomings that need to be addressed.

Anti-Money Laundering and Counter Terrorism Financing services

The Financial Action Task Force (FATF) Mutual Evaluation Report, published in October 2021, highlighted systemic deficiencies with the effectiveness of South Africa's Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) regulations. While financial crime risk has always been a major concern for South African financial institutions, the highly possible inclusion in the FATF Grey List may result in severe negative impacts on South Africa's reputation, economic status, regulatory environment, and daily transacting. Accountable institutions are expected to be most affected by the grey-listing, which may result in heightened scrutiny from international counterparties and a multitude of upcoming regulatory change.

KPMG can help you assess the impact of the FATF grey-listing on your business, prepare for the upcoming changes and assist you in implementing processes to satisfy the requirements of national regulators, FATF standards and international counterparties.

Our services include:

- Gap analysis over your current AML/CTF control universe;
- Design and implementation of risk mitigation and remediation measures;
- AML enterprise wide or business line risk assessment;
- Design and implementation of a risk management programme; and
- Review, (re)design and implementation of AML policies, procedures and controls.

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Risky business

A benchmarking exercise performed on the risk appetite statements of eighteen South African insurers from 2015 to 2022

For most people, stability is typically sought after and risk is often shunned away in everyday life. However, if you are in the business of accepting risk, as insurers are, you need to have an alternative approach. Risk is a double-edged sword, with more risk generally equating to a potential for more reward, but also for greater loss. Consequently, an increase in risk appetite and risk-taking may result in greater losses. The insurance and financial services sector are familiar with this concept and there is a constant tension between growing revenue and market share versus maintaining underwriting discipline within risk appetite. So where does the sweet spot lie?

There is no one size fits all answer to this. Each insurer has a wide range of stakeholders who have differing and often conflicting goals. For example, regulators will have policyholder protection as their main goal. Shareholders will have dividend growth as a goal, which may lend to a more aggressive investment strategy. To accommodate all stakeholders, insurers seek to constantly recalibrate their risk appetite to achieve each stakeholders' unique objectives. Once this view has been consolidated, an effective way to communicate an insurer's risk appetite to all stakeholders is by using risk appetite statements.

Background

What is a risk appetite statement (RAS)? According to ISO31000 this is defined as "the amount and type of risk that an organisation is prepared to pursue, retain or take." A RAS is not unique to insurers, although it is more critical for an insurer to establish this view and update it on a regular basis.

From the definition, we can see that a RAS should have two components. One that defines the **type** of risk an insurer wants to accept, and another to establish **how much** of this risk should be accepted.

Generally speaking, we can expect risk appetite measures to be defined either quantitatively or qualitatively. The former considers numerical measures for quantifying risks, while the latter category is broader in nature and encompasses measures not included in the quantitative bucket.

Regulatory framework for RAS

The regulatory landscape is scant when it comes to references to RAS. Limited mention is made in the Governance and Operational Standards (GOIs), in particular GOI3.1 paragraphs 4.1 and 6.1 which states that:

"The objective of the ORSA is to assess - … the overall solvency needs of the insurer taking into account the specific risk profile, approved risk appetite and business strategy of the insurer;" and "Where an insurer employs … a capital model … to assess its risks, it must justify to the Prudential Authority why it … considers the standard formula to be an accurate reflection of its own risk profile, board-approved risk appetite, and business strategy."

This indicates the importance of a RAS and clearly links to the Own Risk and Solvency Assessment (ORSA) process; however, it does not give much guidance on what constitutes a good RAS.

Given the limited guidance available, a benchmarking exercise was a natural way to identify some of the practices and leading trends in the insurance market in this respect.

The benchmark results outlined below are based on our review of eighteen ORSA reports, covering a total of 45 risk appetite statements, from 2015 to 2022, across life and non-life insurance licenses and insurance groups. The eighteen insurers reviewed were split equally among life and non-life insurers and insurance groups.

Observations from our survey

Overview of risk type coverage

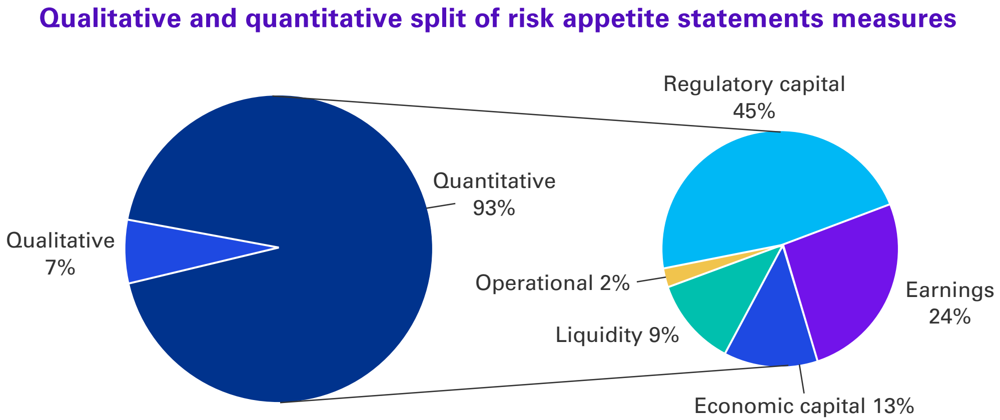
All insurers defined each individual RAS according to a particular **type** of risk as well as including a risk appetite statement at a licence or insurance group level based on regulatory capital needs.

Some insurers added an economic view of capital needs by leveraging the regulatory capital framework and applying changes to desirable components of it, to better reflect their economic view of the risk profile. None of the insurers reviewed modelled a full economic view of their capital needs independently from the regulatory view.

In addition to capital related risk measures, the most common types of quantitative risk appetite statements applied by insurers included earnings measures, liquidity and operational risk types.

Figure 1 below shows a high-level view of the **types** of risks observed in risk appetite statements, grouped by quantitative and qualitative risks. It can be seen that 93% of risk appetite statements were quantitative in nature. The measures used for qualitative risk appetite statements were linked to 'brand and reputation'.

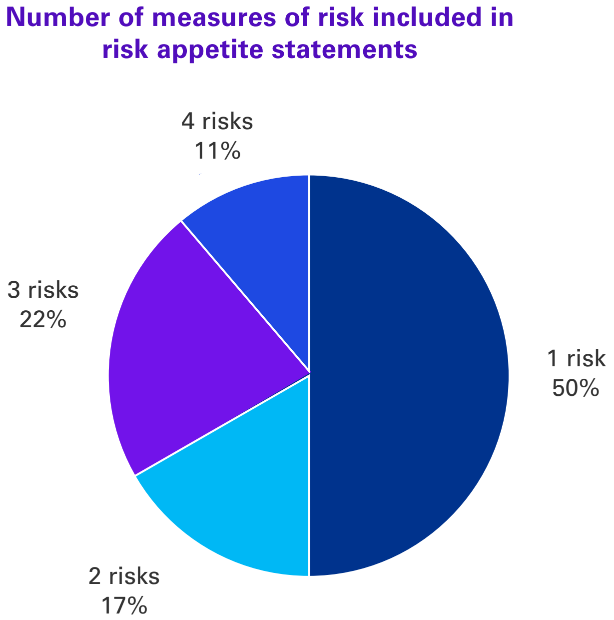
Figure 1: Pie chart illustrating the types of risks considered in RAS



Half of the insurers reviewed defined more than one risk type when setting up their RAS. In some instances, it was also observed that insurers defined multiple risk appetite statements for each risk type using different measures or timeframes for the risk.

Figure 2 below shows that insurers included at most four risk types in their RAS.

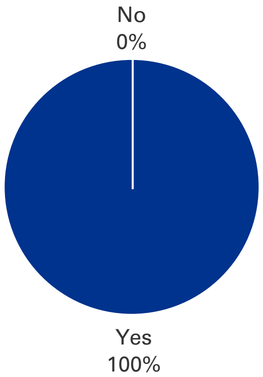
Figure 2: Pie chart showing the number of types of risks considered in RAS per insurer



Of the total number of quantitative risk appetite statements surveyed, almost half modelled the regulatory capital requirement with a small portion also providing a separate economic capital view. In Figure 3 Yes indicates the proportion of insurers that included the risk in their risk appetite statements while No indicates the proportion of insurers that did not consider the risks in their risk appetite statements.

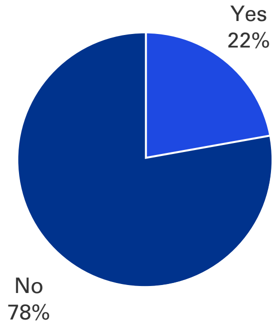
Figure 3: Pie charts showing common risks considered in RAS

Capital: regulatory view



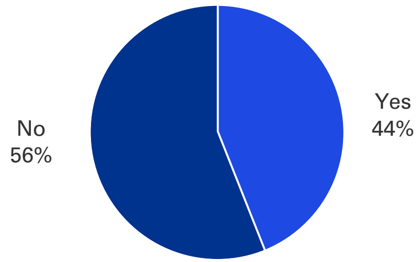
Regulatory capital coverage appetite statements were included in all ORSA reports reviewed.

Capital: economic view



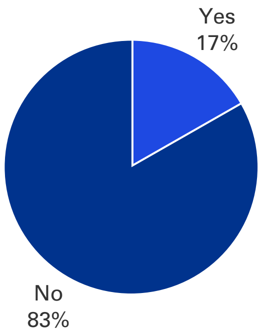
Economic capital coverage was considered as a separate but related view to regulatory capital coverage in 22% of ORSA reports reviewed.

Earnings



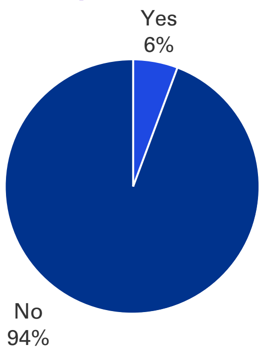
Earnings RAS was the second most common risk included in ORSA reports after capital coverage.

Liquidity



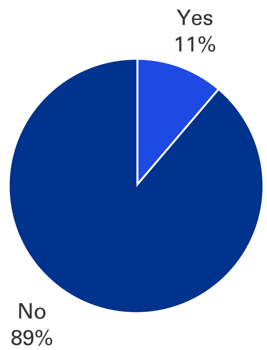
Liquidity RAS was the third most common risk included in ORSA reports reviewed. This risk was measured using either the level of gross written premium, a specified liquidity buffer or the Liquidity Coverage Ratio (LCR).

Operational



Operational risks were considered as quantitative risk appetite statements with a maximum appetite for losses occurring from operational risks capped at a certain level.

Other



Risks grouped under “other” were all qualitative risk appetite statements in nature. These included mainly reputational risks.

Overview of risk measures chosen

Once an insurer has determined the risk types it wants to include in the RAS, it needs to develop a consistent way of measuring exposure to this risk. While some risks lend themselves toward straightforward **measures** (for example, regulatory capital coverage), other risks were open to broader measures. The table below provides a summary of the primary **measures** chosen per **type** of risk:

Table 1: Main measures chosen by type of risk

Type of risk	Measure linked to
Regulatory capital	Solvency Capital Requirement (SCR) coverage
Economic capital	Economic Capital Requirement (ECR) coverage
Earnings	Earnings deviation, combined ratio, return on invested capital
Liquidity	Gross written premium deviation, size of liquidity buffer, mismatch limit, liquidity coverage ratio (LCR)
Operational	Operating earnings
Other (qualitative)	Brand and reputation

The greatest number of measures used to model exposure was identified over earnings deviation and liquidity risk, with three and four measures observed respectively. We expand on earnings deviation risk in more detail later on in this article. None of the insurers reviewed included alternative methods to model exposure to regulatory or economic capital risks, with the SCR and ECR coverage ratios being used across all risk appetite statements, albeit set at different buffer levels above 1 x SCR.

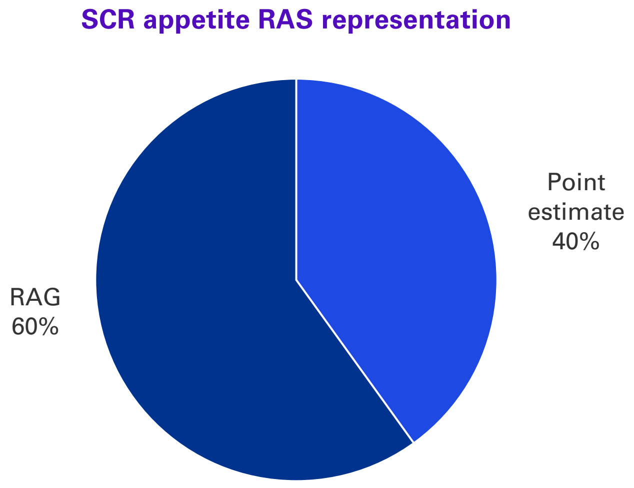
Liquidity risk appetite statements used three measures to model exposure to this risk. Either the deviation from expected gross written premium, the absolute amount of a liquidity buffer held, or the LCR. Some insurers also considered long- and short-term views for liquidity risk, with differing appetite levels set for each.

Below we expand on the most common risk types observed, namely regulatory capital, economic capital, as well as earnings risk. Due to data limitations, we were not able to draw any meaningful conclusions from the remaining risk type measures included and therefore no further commentary has been provided.

Regulatory capital coverage

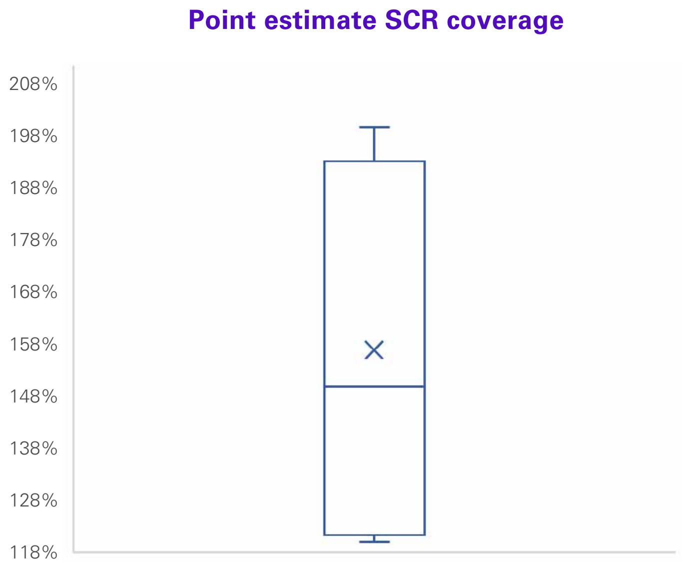
A regulatory capital coverage RAS was set by all insurers benchmarked. However, variation was observed in the appetite for SCR coverage as well as how this was presented. Figure 4 below shows that only 40% of risk appetite statements presented a point estimate as being within appetite for SCR coverage, with the remainder of risk appetite statements presented having applied more advanced risk measures incorporating bands of coverage, often with associated Red-Amber-Green (RAG) bands being explicitly defined.

Figure 4: Pie chart showing split between insurers applying RAG bands and point estimates in demonstrating SCR coverage ratio risk appetites



The spread of the point estimate SCR coverage within appetite was analysed in Figure 5 below, with the average being 1.58 x SCR and the minimum and maximum being 1.2 x SCR and 2 x SCR respectively.

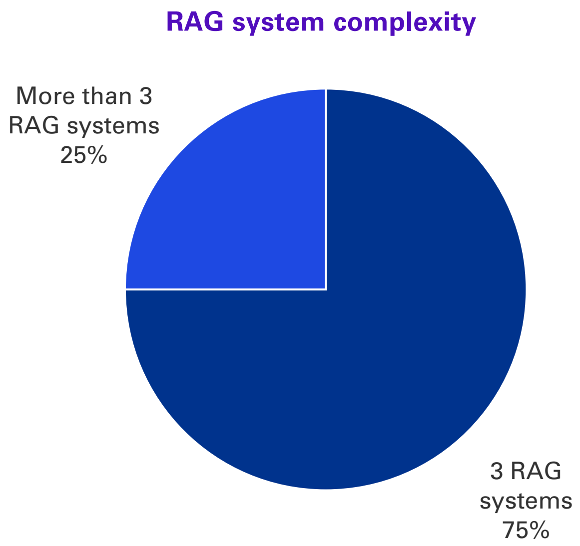
Figure 5: Box and whisker plot showing variation in point estimate coverage levels. The whiskers represent maximum and minimum levels, with the three lines representing quartiles 1, 2 and 3 respectively. The x represents the mean.



We noticed further variation in the complexity of the chosen RAG system. While 75% of RAG systems used a basic system with three explicit bands (i.e., red, amber, and green), the remainder implemented more enhanced systems.

These enhanced systems considered explicit amber and red levels above and below the green band. One is therefore able to observe and understand both upside and downside risk which is representative of current leading market practice. This is in contrast to the traditional system using only three bands which considers only downside risk. Using a more enhanced system enables insurers to define capital levels which are inefficient or excessive, which can hamper the ability of an insurer to remain competitive in the market. Included below in Figure 6 is a comparison of the RAG systems applied by insurers surveyed.

Figure 6: Pie chart showing split between simple and enhanced RAG systems used

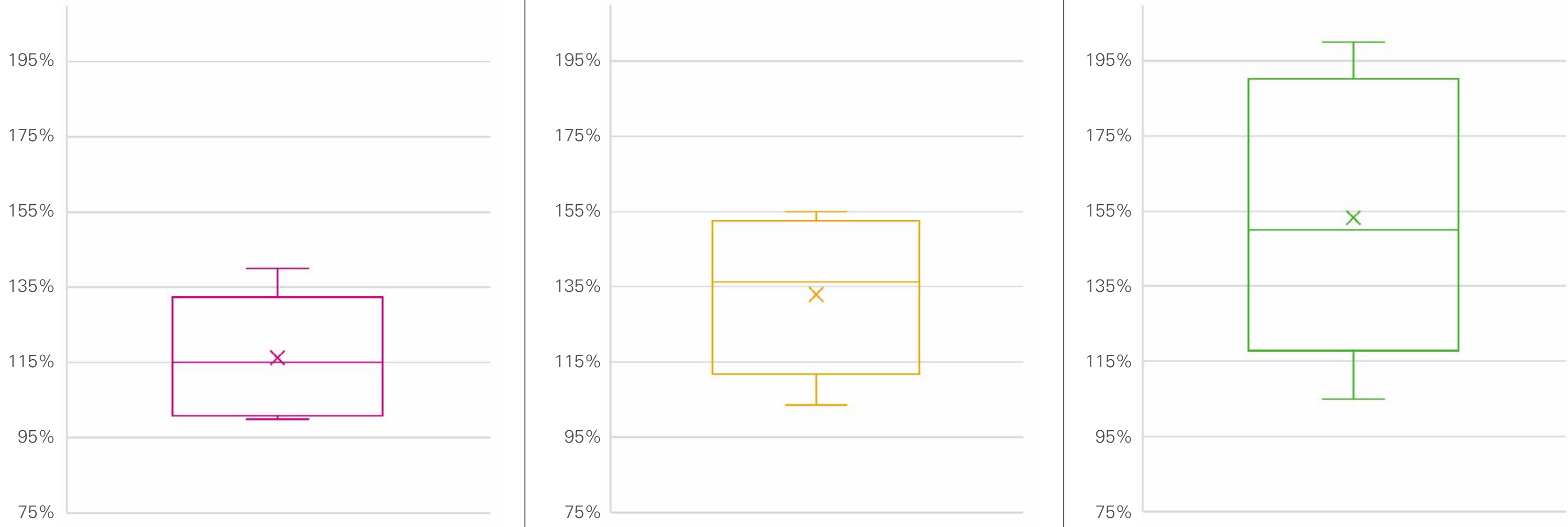


For ease of comparison in respect of the analysis set out on the following page, we have simplified the use of enhanced RAG systems applied by insurers by only considering red and amber levels defined below the green band i.e. we have considered only downside risk for the purpose of this analysis.

The box and whisker diagrams set out in Figure 7 show that all insurers defined a level of 1 x SCR coverage to be red rated. The maximum point that was set for the red band was 1.4 x SCR coverage. The green band saw a much greater spread, with the SCR coverages ranging from a low of 1.05 x SCR to a high of 2 x SCR. Of course, the volatility of the underlying business being insured would also be a key driver of where the bands would sit in the context of an insurer's risk appetite.

Figure 7: Box and whisker plots showing variation in RAG systems used for SCR coverage levels. The whiskers represent maximum and minimum levels, with the three lines representing quartiles 1, 2 and 3 respectively. The x represents the mean.

Upper limits for red band risk appetite levels	Range of amber band risk appetite levels	Starting points for green band risk appetite levels



- The upper limit of insurers' red bands were considered for this view.
- All insurers considered an SCR cover ratio of below one to be a red status. This is in line with a regulatory breach.

- What constitutes amber would depend on multiple factors such as, size of insurer, industry, business strategy etc.
- The average regulatory capital ratio set by insurers within the amber band was 0.37 x SCR coverage.
- We observed a high level of volatility in regulatory capital levels applied by insurers in this band the amber, with a minimum of 1.03 x SCR and a maximum of 1.60 x SCR.

- The lower limit of insurers' green bands were considered for this view.
- We observed a high level of variability in what insurers considered to be within the green range, with the lowest observed point being at 1.05 x SCR, just shy off the minimum regulatory requirement, and the highest being 2 x SCR.

While not visible from Figure 7, it should be noted that 75% of RAG systems did not have an explicit upper limit for their green bands (these insurers define their green band to be an amount in excess of a defined threshold e.g. > 2 x SCR coverage), while 25% of statements set a fixed point of SCR coverage to be the maximum coverage allowed within risk appetite (these insurers effectively considered too much capital to also not be within appetite). All reports included limits above which dividends should be paid out.

It would be interesting to compare the actual capitalisation levels of insurers in the industry alongside the analysis performed above. In Figure 8 below and Figure 9 to the right we include the SCR coverage ratios for insurers in both the non-life and life insurance industries, as reported in the 2020 (in respect of the financial year ended 2019) non-life[1] and life[2] insurance industry experience presentations by ASSA and the Prudential Authority respectively.

Figure 8: Stacked column chart showing average SCR coverage levels across South African non-life insurers

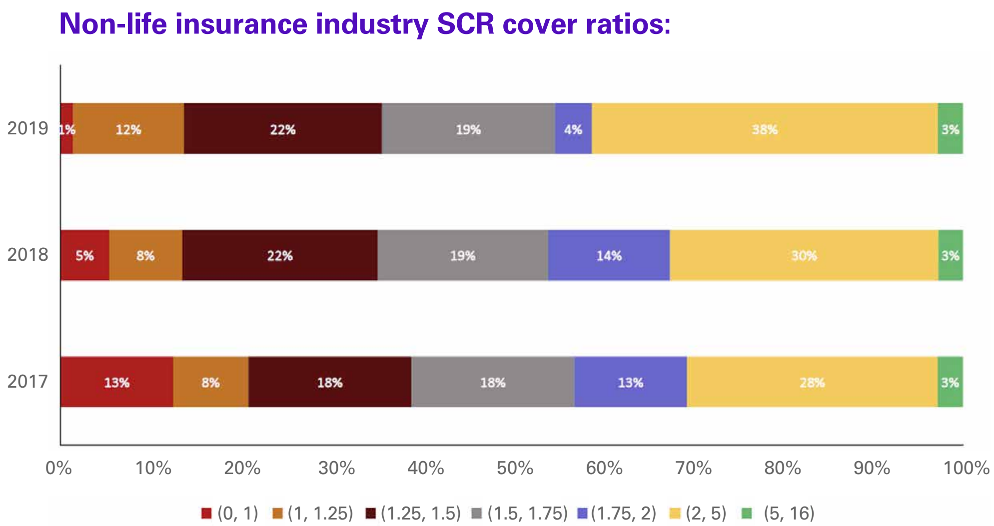
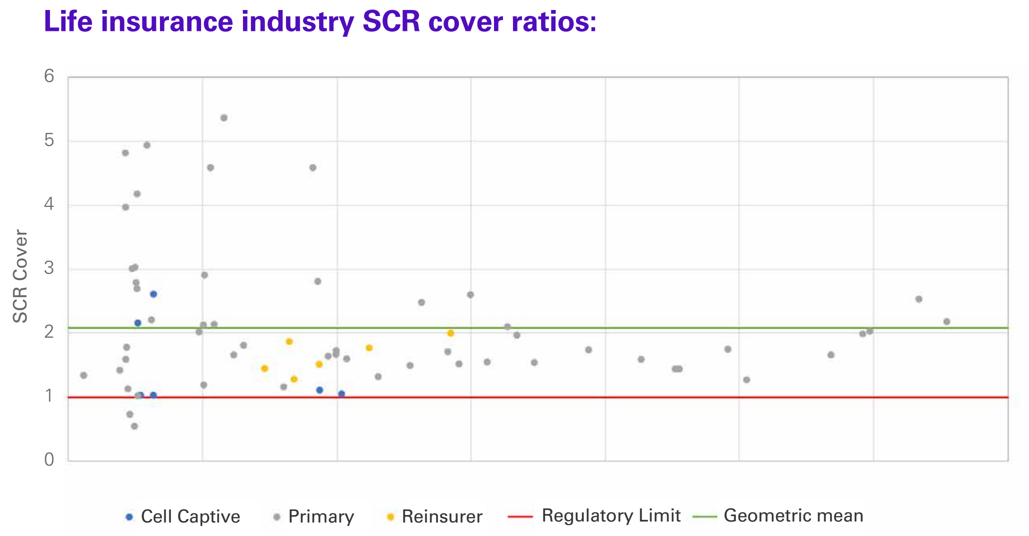


Figure 9: Scatter plot showing average SCR coverage levels across South African life insurers



From Figure 8 and 9 it can be seen that the average SCR cover ratio for the year ended 2019 was approximately 1.6 x SCR for the non-life insurance industry and 2 x SCR for the life insurance industry, as represented by the grey band in Figure 8 and the solid green line in Figure 9 respectively. For primary insurers with coverage between 1 x SCR and 2 x SCR, on average the capitalisation level appears to be at the 1.5 x SCR level. This seems to be consistent with the average SCR coverage within appetite which we observed set for point estimates (as depicted in Figure 5).

Ranges of SCR coverage ratio are calibrated to be consistent with insurers' risk appetites by estimating the probability of breaching the different appetite levels. For example, the standard formula is calibrated to provide sufficient capital for insurers to withstand 1-in-200-year events (i.e., a 99.5% probability). This can either be quantitative or qualitative in nature.

[1] https://www.resbank.co.za/content/dam/sarb/publications/prudential-authority/pa-insurers/insurance-sector-data/special-reports/2020/8964/Non-Life%20Industry%20Experience%202020.pdf

[2] https://www.actuarialsociety.org.za/download/2019-life-industry-experience-brian-mapaure-dikeledi-matsimela-2020/?wpdmdl=13965&refresh=62c7298ab1b3e1657219466

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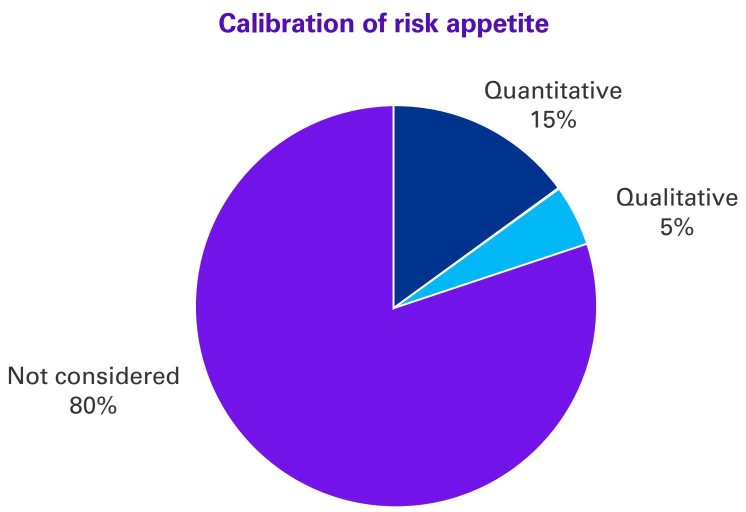
Figure 10: Pie chart showing different approaches taken to calibrating RAS

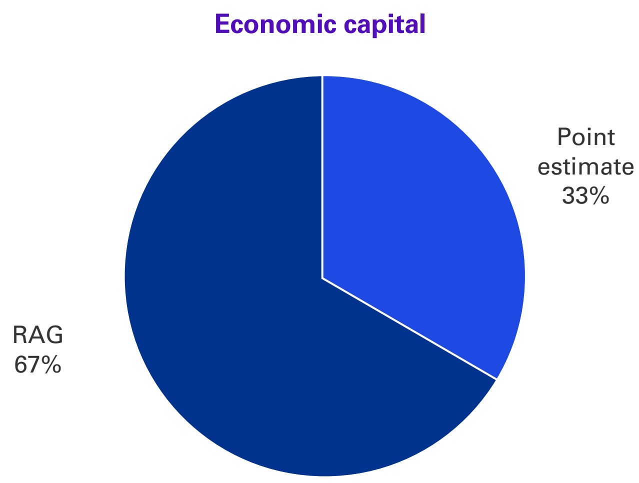


Where a quantitative approach was used, the ORSA reports specified the probability associated with the target level(s) using confidence intervals. Eighty percent of insurers reviewed did not provide evidence of calibration of their risk appetite statements. It is possible that such detail was included in a separate document. The calibration of the RAS assists stakeholders in understanding the inherent level of variability allowed for in an insurer's risk appetite. Consequently, it would be of value for an insurer to include this information alongside their RAS. This is an area where increased transparency of the information presented in the ORSA report would possibly add value.

Economic capital coverage

All risk appetite statements that included an economic capital view measured this by using a targeted economic coverage ratio (ECR). As was the case for SCR related risk appetite setting, the two approaches used were to set a single point estimate or acceptable bands, with RAG systems the more common approach used.

Figure 11: Pie chart showing split between RAG systems and point estimates for acceptable ECR coverage ratios

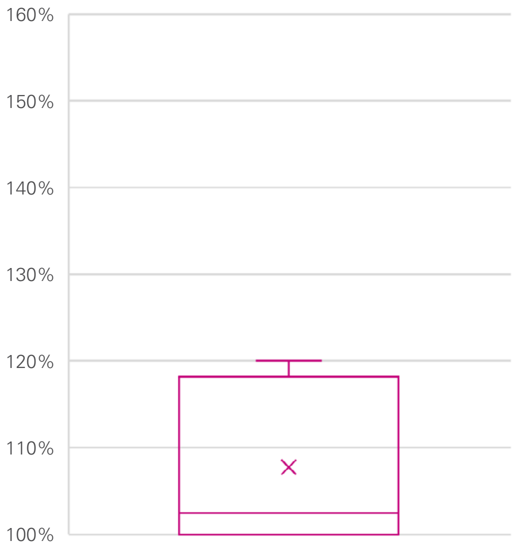


It is important to note that none of the ECR levels were derived through full capital modelling that is independent of the regulatory capital framework. Instead, the SCR model was adjusted to better fit the entity risk profile by either adding or modifying the way certain risks are modelled or by calibrating the model to a different probability than referenced by SCR (99.5% over a one-year time horizon). The most common type of risk modelled in an ECR was operational risk.

Unlike with SCR coverage, none of the ECR RAG systems applied a complex set of RAG bands. The box and whisker diagram below shows the level of variance seen in the RAG bands observed in our sample.

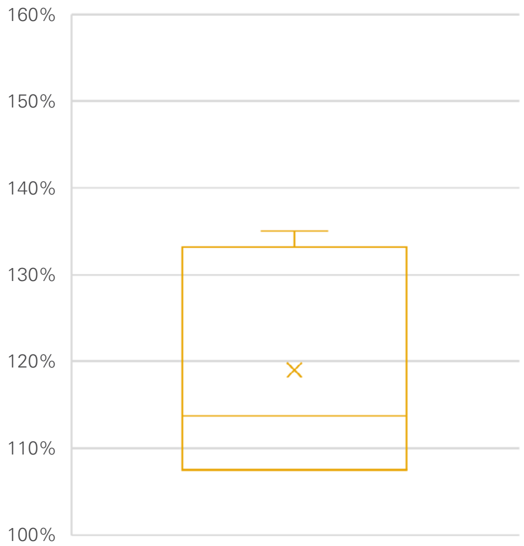
Figure 12: Box and whisker plots showing variation in RAG systems used for ECR coverage levels. The whiskers represent maximum and minimum levels, with the three lines representing quartiles 1, 2 and 3 respectively. The x represents the mean.

Upper limits for red band risk appetite levels



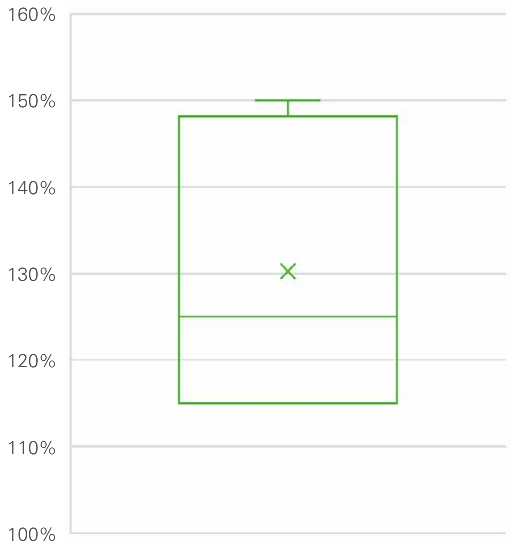
Similar to regulatory capital coverage, all insurers considered an economic coverage ratio of below 1 x SCR to not within the acceptable risk appetite.

Range of amber band risk appetite levels



For this band we observed a lower level of volatility compared to the regulatory capital view, with the average range in the amber band being 0.15 x ECR coverage as opposed to 0.97 x SCR coverage observed in figure 7. This makes intuitive sense, since the ECR is more closely aligned with the insurers risk profile, while the SCR is standardized.

Starting points for green band risk appetite levels



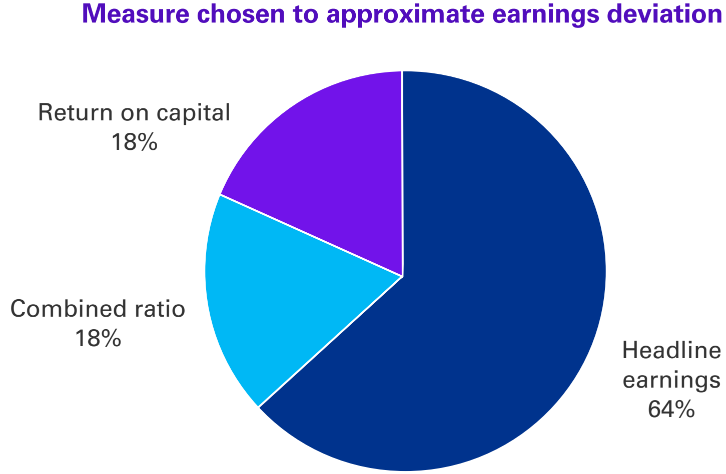
Unlike with the SCR coverage ratio, none of the bands applied by insurers included a fixed upper bound for the ECR.

While there is no regulatory expectation of ECR coverage, the minimum level of acceptable ECR coverage was also set at 1 x ECR. It is interesting to note that the maximum level of acceptable ECR coverage was 1.5 x ECR coverage - this was lower than the observed maximum of SCR coverage within appetite of 2 x SCR. This may be reasoned by the fact that economic modelling should provide the Board with a more accurate picture of the true underlying risks faced by the insurer and so there is less need to hold multiples of surplus capital on an economic capital basis.

Earnings deviation

Deviation from expected earnings was a relatively common measure used, with 44% of ORSA reports having defined an earnings related RAS. Three types of earnings related measures were used, namely headline earnings, combined ratio, and return on capital. Deviation from projected headline earnings was the most common measure used.

Figure 13: Pie chart showing split of different measures considered for earnings RAS

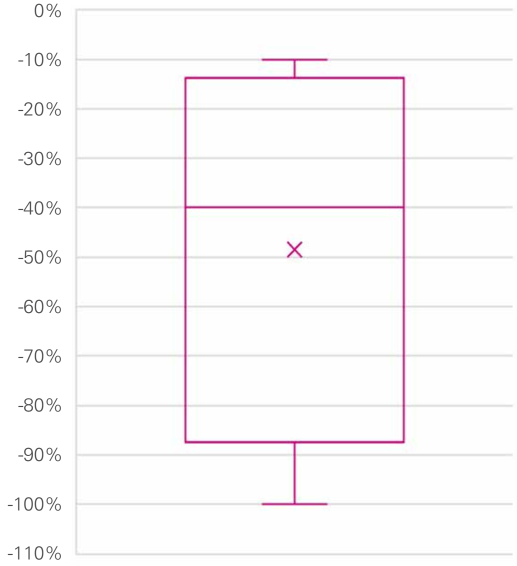


While all the above measures would be good approximations for earnings deviation risk, certain stakeholders would appreciate a view of specific measures over other measures. Shareholders for example, may appreciate a return on employed capital view while potential investors appreciate a view on headline earnings. As with the SCR and ECR coverage ratio levels, all risk appetite statements that used headline earnings made use of RAG statuses to define acceptable levels of deviation.

In this case, the measure was defined as the total deviation from a projected earnings metric (i.e., headline earnings). In Figure 14 below we include box and whisker plots showing the variation in the observed RAG bands.

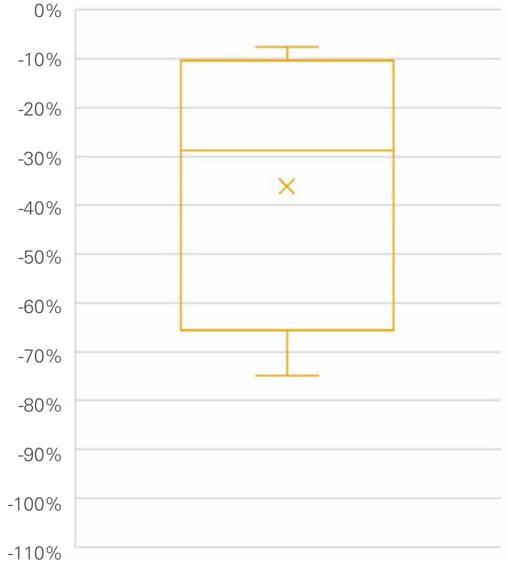
Figure 14: Box and whisker plots showing variation in RAG systems used for acceptable earnings deviation levels. The whiskers represent maximum and minimum levels, with the three lines representing quartiles 1, 2 and 3 respectively. The x represents the mean.

Upper limits for red band risk appetite levels



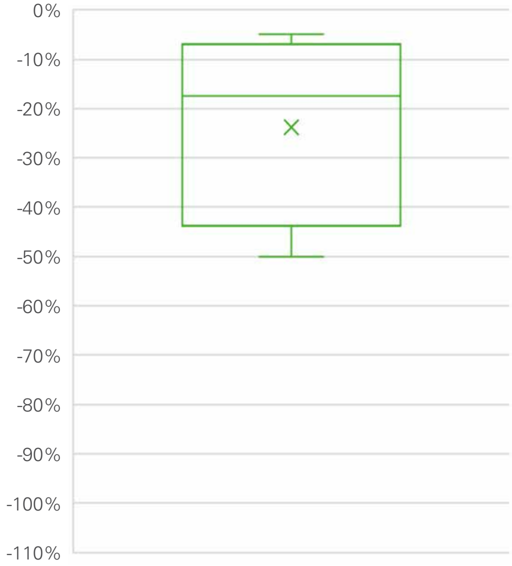
The maximum amount of variation considered to be within the red band was 100% below projected earnings.

Range of amber band risk appetite levels



It was interesting to note the extent of volatility in the amber band with the minimum threshold being just below 10% and the maximum threshold being 75% below projected earnings.

Starting points for green band risk appetite levels



The maximum volatility allowed within insurers' risk appetite was at a level of 50% below projected earnings. This would be significantly influenced by the insurer's strategy, with a larger green band range indicative of more flexibility in an insurer's strategy.

A high level of variation was observed within the chosen RAG bands, specifically within the red and amber bands, reflective of the varying level of appetite acceptable to each insurer. For red bands, the minimum starting point was 10% less than projected earnings with the maximum starting point being 100% less than projected earnings. It is important to note that an insurer can have less than 100% of projected earnings. As an illustrative example, if an insurer had projected earnings of a profit of ZAR 50m, but instead achieved a loss of ZAR 50m for the same period, the insurer would have effectively achieved a 200% loss of projected earnings. This extreme level of variation was not considered in our sample size. For amber bands, the most common acceptable deviation from projected earnings observed was 45%.

Unlike SCR related RAG systems, none of the RAG systems set more than three bands here.

Operational risk

The International Association of Insurance Supervisors (IAIS) defines operational risk as "the risk of adverse change in the value of capital resources resulting from operational events such as inadequacy or failure of internal systems, personnel, procedures, or controls, as well as external events." Operational risks are notoriously difficult to model due to the lack of relevant historical data. Adding to this complexity is the wide range of impacts of operational risks, as they can vary from insurer to insurer depending on the scenario and available management actions in each case.

It is therefore interesting to note that operational RAS was measured by quantifying the maximum financial loss tolerated due to operational risks over the business-as-usual projection period. While only 6% of insurers' ORSA reports defined an operational RAS explicitly, a further 22% of insurers included it implicitly in their economic risk coverage risk appetite statements by modelling it in a way that better aligns with their actual risk profile. The remainder of the insurers reviewed made minor allowances for it in the regulatory coverage RAS, which will likely not result in an accurate representation of operational risk profiles.

Given the importance of this risk, the fact that only 28% of insurers considered their own exposure to this risk may indicate that this is an area that requires improvement.

Bringing it all together

While setting risk appetite statements is a relatively new prudential regulatory requirement, insurers should not view this as merely a tick box exercise. Insurers are in the business of accepting risk and a well-defined RAS will help guide an insurer's business strategy in line with varying stakeholder goals and ensure a consistent outlook on risk taking across the organisation.

What constitutes an effective RAS is subjective, as it will be heavily influenced by an insurer's specific risk profile and internal objectives. There are however certain features that will improve a RAS framework. Based on the analyses we conducted, our view of the best practice approaches applied in the South African insurance market and which we encourage insurers to consider applying in future periods include:

- defining risk appetite levels for multiple risk types – this would enable insurers to consider their risk exposure in a more dynamic manner and moving away from the traditional siloed view of risk exposure;
- presenting their RASs using capital and earnings metrics so as to consider both risk and return related measures;
- defining risk appetite using qualitative and quantitative measures – this would not only increase the clarity and comprehensibility of the RAS to be of benefit to technical and non-technical stakeholders, it will also encourage insurers to consider risks that cannot be easily quantified such as operational risks;
- providing a view on an insurer's own risk profile and related capital needs in order to provide a comparative view for the RAS;
- providing clearer and unambiguous statements to aid transparency; and
- document the insurer's approach to calibration for the set RAS which will contribute towards improved transparency.

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International Association of Insurance Supervisors (IAIS) website: https://www.iaisweb.org/

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Future fit regulation for the insurance sector

Ten years ago, then Minister of Finance Pravin Gordhan presented his budget speech to the nation, announcing his intention to shift to a twin peaks system of regulation. A year before that the policy paper: A Safer Financial Sector to Serve South Africa Better (also known as the Red Book) was released, announcing a wide-ranging set of proposals to reform the financial regulatory system.

A sector in need of change

At the time, the country's financial sector was described as being characterised by high and opaque fees. The Statement of Intent had been signed between the Minister of Finance and the industry and noted the abusive charging practices in the insurance sector. Heavy penalties for cancellation and switching of policies created the perfect storm for a sector with rapidly declining levels of trust. Inconsistent regulatory treatment across the financial sector created gaps in the treatment of various products. This resulted in the practice of churning by intermediaries in the pursuit of higher fees to the detriment of the consumer. This also created regulatory arbitrage opportunities such as the demarcation debate around gap cover. Complex products, notoriously difficult for the average customer to understand and impossible for the financially uneducated, were sold with a sales driven mindset, in many instances prioritising shareholder interests above policyholders, and in many cases resulting in the unfair treatment of customers.

On reflection, the Financial Services Conduct Authority's (FSCA) Regulatory Strategy from 1 April 2022 to 31 March 2025 shows us just how far we have come in changing the regulatory landscape. Having made great strides in setting the groundwork with the strategy reflecting less on the challenges that the Regulator has managed to remediate, the Regulator is now able to move forward into the next phase of developing the regulatory framework.

A glimpse into the future

Looking forward another ten years to 2032, what will our reflections be? No doubt the Conduct of Financial Institutions (COFI) Bill will have been enacted and will introduce a shift in the financial services legislative architecture from the current sector specific laws to a consolidated and holistic legislative framework for Conduct - a framework which prioritises the fair treatment of customers. This will have meant the repeal of current sector-specific laws and the introduction of a more streamlined and overarching framework. Culture in ten years' time will no longer be regarded as a fluffy and intangible concept and will be measured and managed as a key Conduct indicator.

The draft COFI Bill states that regulation currently in place and amended by COFI remains enforceable until repealed by Conduct standards. This will mean that a large amount of legislation in existing law will need to be transitioned to the COFI environment. This harmonisation of frameworks will take some time but when completed will result in a streamlined legislative framework, unrecognisable to the industry ten years prior.

On reflection, 2032 may show a move closer to the implementation of an accountability regime, similar to the UK's Senior Manager Regime where senior managers are required to take responsibility for their actions and are held to account for their failures to act where poor behaviour results in Conduct failures. This is now a global concept and is becoming a regulatory focus area for many regulators. However, we believe that it may take some time for this to be implemented in South Africa as there is still significant work to be done on this topic. According to the FSCA's Regulatory Plan, regulators are working on a Joint Standard relating to Culture and Governance which will address some pockets of accountability over the next few years.

South Africa currently lacks an overall ESG regulatory and policy framework that mandates non-financial reporting and disclosure. However, the pressure for firms to report and disclose ESG metrics is growing. KPMG UK's blog "Mandatory ESG reporting is here, and finance needs to get ready", clearly shows that the pace is picking up, confirming that "for financial years starting after 6 April 2022, Task Force on Climate related Financial Disclosures ("TCFD") based reporting will be mandated for more than 1,300 of the largest UK-registered companies and financial institutions." These include many of the UK's largest insurers. I have no doubt that ten years from now we will see well established and comprehensive ESG reporting frameworks in place, contributing to a better future for all.

Moving over to the evolution and transformation of financial products, crypto currencies will possibly have been brought into the regulatory landscape and be regulated as financial assets. The immediate implications of digital currencies being included in the ambit of the Financial Intelligence Centre are clear - increased Know Your Customer and exchange control regulations. However, the strategic implications for the insurance industry are vast. The Great American Insurance Group was the first insurer to underwrite Bitcoin holders for fraud and forgery. It remains to be seen whether insurers will accept premium payments in crypto as a generally accepted practice. At the moment there are a handful of pioneers, including non-life insurer AXA Switzerland and New England based Premier Shield Insurance, offering home, auto and flood cover and Atupri Health, a Swiss health insurer, all of whom accept Bitcoin as premium payments.

Data driven regulation

Our regulators of the future will be data driven, proactive and intrusive. The United Kingdom's Financial Conduct Authority (FCA) stated that it has seen a 200% increase in the amount of data it needs to process for investigations. It is focused on modernising its systems and becoming the first regulator in the world to move to the cloud. Nikhil Rathi CEO of the FCA expressed that "over the next five years, we will become a data regulator as much as a financial one." The FSCA in turn is showing its intention to be more data focused with a data driven strategy to enhance its ability to gather and interpret information as part of its supervision activities.

The current work on the Omni Conduct of Business Returns (CBR) and the ongoing engagement with the Prudential Authority on cloud computing, which will likely be consulted on over the next few years, is a good example of things to come. In an ideal world, we will look back in ten years and see our regulators sharing data more consistently through a shared service, connecting regulators in corridors of information relating to transformation, emerging risks and consumer behaviour. In order to make this data meaningful, new technology and IT systems will need to be developed to enable detailed analysis.

The future is now

Gone are the days where transacting in the metaverse or considering the feasibility of accepting a central bank digital currency as a premium payment method was an interesting plot twist in a science fiction movie. I can't wait to see what the next ten years brings…maybe the future really is now.

KPMG Regulatory Horizon tool

Insurers need to constantly stay on top of a large volume of regulatory updates in order to remain relevant and compliant as efficiently and effectively as possible. The KPMG Regulatory Horizon tool assists you in tracking, assessing and responding to regulatory developments as they emerge.

Key features of the tool include:

- Live tracking of regulatory updates from external sources such as regulators, standard setters and industry associations on a 24/7 basis.
- Global coverage of regulatory updates supported by the global KPMG member firm network.
- Expert curated regulatory and industry specific taxonomies using expert led tagging and smart automation, supported by sector, country and regional regulatory specialists.
- Flagging of information related to forward looking events.
- Updates provided are tailored to the size and needs of your organisation, including the ability for cross-border reach.
- Access to KPMG regulatory specialists and support throughout the regulatory change lifecycle.

The KPMG Regulatory Horizon tool can also feed data into third party governance, risk and compliance platforms to enable integrations with existing or new compliance regulatory scanning capabilities.

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Non-life insurance industry results

The International Financial Reporting Standards (IFRS) definition of an insurance contract is: "A contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder." The essence of an insurance contract is that risks are transferred from one party to another. Over the last two years we have seen risks realising which made me think of a typical doomsday movie. The argument of the necessity of insurance is as old as the financial product itself. However, considering the events that transpired over the last two years, this has more so than ever shown us the importance of being insured; to ensure financial resilience when unexpected adversity occurs.

Economic environment

The devastating impact of COVID-19 continued to impact economies worldwide in 2021, including South Africa. The global economy is slowly improving. The impact of COVID-19 is exacerbated due to an already weak South African economy. The long-term financial challenges that the pandemic created for individuals and organisations has become a reality.

Inflation rose during 2021, due to rising energy prices, and became a major concern across the globe in the second half of 2021. This resulted in a new cycle of fiscal and monetary tightening by governments and central banks worldwide. The South African economy grew by 1.2% in the fourth quarter of 2021 and recorded an annual gross domestic product (GDP) growth rate of 4.9% following a decline of 6.4% in 2020. The slow economic growth, sharp increases in the cost of living and doing business, and a crumbling national infrastructure all add to the ongoing challenges that our non-life insurance industry ("the industry") faces.

Structural constraints such as interruptions in the power supply, underperforming and debt-ridden state-owned companies (SOCs) as well as high unemployment (exacerbated by COVID-19 induced job losses) are expected to slow long-term growth and as a result we can expect increased social tension. This is dangerous territory considering the civil unrest already experienced in July 2021. The unemployment rate is a reliable variable that demonstrates how policy decisions impact the economy and, by implication, the livelihoods of South Africans.

On the positive side, in December 2021, the rating agency Fitch unexpectedly upgraded the outlook for South Africa to "stable", which was a welcome boost for investor confidence. Fitch however kept the nation's foreign and local currency ratings at BB-, which is three levels below investment grade, and still well into the so-called "junk status". The newest looming threat for the country's economy is the possibility of South Africa being included in the Financial Action Task Force Grey List, which will place further pressures on the already struggling South African economy.

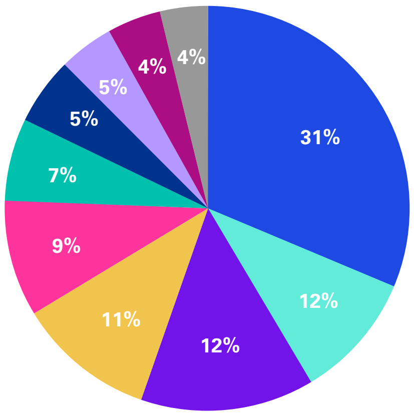
Profitability

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

	2021	2020	2019	2018	2017	2016	2015
Increase in gross written premium[1]	7.0%	4.9%	7.6%	8.1%	5.5%	4.2%	11.4%
Increase in net earned premiums	4.7%	3.2%	4.7%	7.1%	3.1%	6.2%	8.8%
Increase/(Decrease) in investment income	77.3%	(31.9%)	10.6%	(11.5%)	30%	(15.2%)	12.4%
Claims incurred	56.9%	61.0%	59.0%	55.3%	57.3%	57.9%	57.1%
Combined ratio	94.2%	98.8%	96.2%	92.2%	93.4%	93.6%	94.1%
Operating ratio[2]	83.2%	92.3%	86.2%	82.2%	81.8%	84.6%	82.8%
Management expense ratio[3]	30.5%	30.7%	30.5%	26.9%	26.4%	26.5%	27.2%

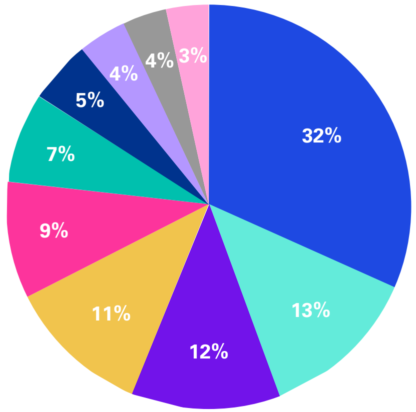
Market share by gross written premium (GWP)

GWP 2021



Santam Limited
Hollard
Guardrisk Insurance Company Limited
Old Mutual Insure Limited
OUTsurance Insurance Company Limited
Telesure
Bryte Insurance Company Limited
Discovery Insure Limited
Escap SOC Limited
Centriq Insurance Company Limited

GWP 2020



Santam Limited
Hollard
Guardrisk Insurance Company Limited
Old Mutual Insure Limited
OUTsurance Insurance Company Limited
Telesure
Bryte Insurance Company Limited
Discovery Insure Limited
Centriq Insurance Company Limited
Mutual and Federal Risk Financing

In 2021 the market share of the ten largest insurers by GWP amounted to 76.5% of total market share which is relatively consistent with 2020 at 76.8%.

Comparing the market share positions of 2021 to that of 2020, the top eight insurers remained consistent, with marginal shifts in market share amongst them. Escap moved back into the top ten from eleventh in 2020 to ninth in 2021. This resulted in Centriq Insurance Company Limited moving down to the tenth position, pushing Mutual and Federal Risk Financing Limited out of the top ten into eleventh position.

The industry reported GWP of R131.6 billion in 2021. This amounts to an increase of 7% when compared to the R123 billion recorded in 2020. This is a worthy top-line performance, considering the state of the economy, competition in the market, and the ongoing COVID-19 impact. Some insurers continued with premium relief measures for their customers during the 2021 financial year. The growth in GWP for the non-life insurance industry exceeded headline year-on-year consumer price index (CPI) increases over the period of 5.9%.

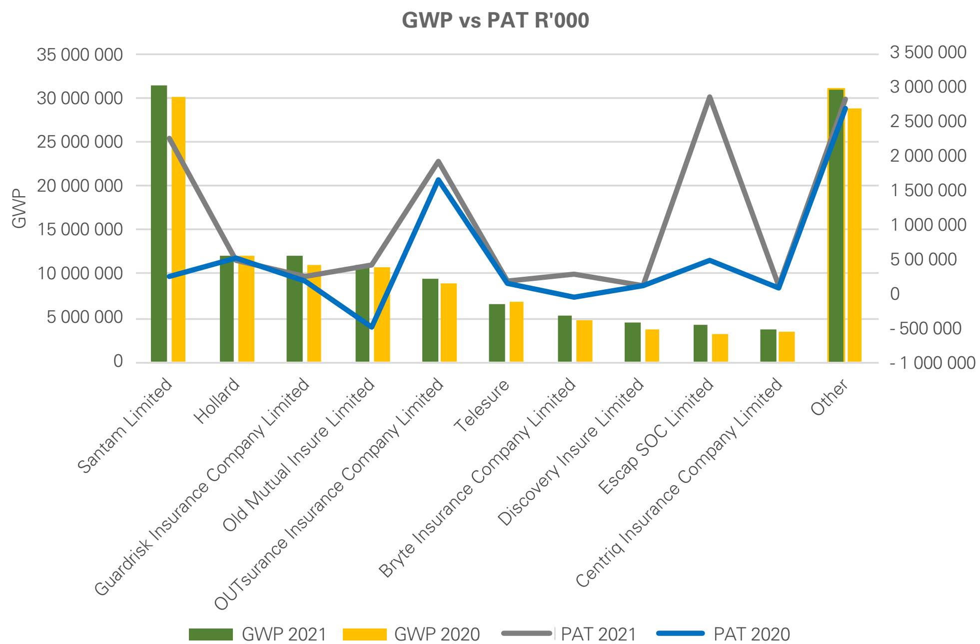
[1] The gross written premiums of insurers featured in this publication approximate 80% of the industry's gross written premiums and are a fair representation of the results of the overall industry.

[2] (claims incurred + net commission incurred + management expenses – investment income)/net earned premium

[3] Management and other expenses)/net earned premium

The top five insurers that managed to outperform the GWP growth rate of the industry, were Escap SOC Limited (Escap), Guardrisk Insurance Company Limited (Guardrisk), Discovery Insure Limited (Discovery), Bryte Insurance Company Limited (Bryte) and Lombard Insurance Company Limited (Lombard). Escap grew its GWP by R1.2 billion (growth rate of 38%). Escap has benefitted from executing its long-term strategy to diversify its client base by providing insurance to other public entities. This assisted Escap in generating additional income and reducing policyholder concentration risk. Guardrisk grew its GWP by R0.98 billion (growth rate of 9%). This growth appears to be attributable to healthy new business volumes in its non-life underwriting risk-taking division, Guardrisk General Insurance. Discovery Insure grew its GWP by R0.68 billion (growth rate of 18%) and is attributable to strong new business growth with a large contribution from Discovery Business Insurance. Discovery Insure reported that it experienced its lowest lapse rates since inception; 2% lower than the previous year. Bryte and Lombard grew their GWP by R0.66 billion (growth rate of 14%) and R0.48 billion (growth rate of 22%) respectively.

The chart below indicates profit after tax (PAT) compared to GWP for the ten largest non-life insurance companies over 2020 and 2021. PAT for the industry amounted to R11.7 billion in 2021, which represents an increase of 110% from R5.6 billion in 2020.



Included below is our analysis of the reported results of the top five non-life insurers in terms of their contribution to the improvement in total PAT for the industry.

Escap is a wholly-owned insurance captive company, which manages and insures the business risks of Eskom Holdings SOC Limited (Eskom) and its subsidiaries. Escap recorded PAT of R2.85 billion, which increased by R2.36 billion (481% increase) from the 2020 financial year. This makes Escap the largest contributor to the industry's PAT for 2021. Escap's net earned premium increased by R0.89 billion attributable to its increased GWP of R1.2 billion. Reinsurance premiums increased as a result of high reinsurance rates and reduced reinsurance market capacity and appetite for coal and public sector-related risks. The main contributors to Escap's 2021 PAT were an increase in investment income of R0.9 billion over 2021 (attributable to an increase in unrealised gains on listed equity securities) and a decrease of R1.57 billion (62% decrease) in claims incurred. The last time Escap reported PAT above R2 billion was in its 2017 financial year.

Santam increased its GWP by R1.5 billion (growth rate of 5%), mainly driven by its motor book. Santam's profitability recovered very well during the 2021 financial year, following its 2020 financial year which will be remembered as the year of the COVID-19 related business interruption (BI) claims. Santam reported that BI claims represent the largest amount of claims paid, from a single event, in Santam's history by a significant margin. It does not come as a surprise then that Santam's PAT increased by R2 billion (853% increase) attributable to the recovery of Santam's property book which, in the 2020 financial year, was significantly impacted by BI claims. These claims were provided for at the end of the 2020 financial year. At the time, Santam reported a R3 billion expected impact of COVID-19 related claims on net underwriting results. Santam commenced the process of assessing and settling valid claims for policies with BI extensions early in 2021 after obtaining legal certainty on the proximate cause of BI losses. Further legal clarity was obtained by Santam in October 2021. The South African Supreme Court of Appeal (SCA) provided judgement on the eighteen-month indemnity period applied to the Ma-Afrika Hotels and Stellenbosch Kitchen policies with BI extensions. Santam argued an indemnity period of three months based on their interpretation of the policy conditions. The judgement impacted other policies structured similarly to the Ma-Afrika policy, issued by Santam's hospitality and leisure division. Santam noted that these policies comprise less than a third of the 3 200 notified BI claims. Up to 31 December 2021, gross BI claim payments of R3.2 billion were made, including relief payments of R1 billion made in August 2020 to small and medium-sized businesses in the hospitality, leisure and non-essential retail services industries. Based on the BI claims settled and the expected reinsurance recoveries, Santam revised the extent of its exposure to net expected BI claims by a reduction of R450 million. This positively affected the underwriting result. It is also pleasing to note that alignment on covered losses had been reached between Santam and its reinsurers.

Further to the above, Santam's underwriting account was impacted by several large fire claims in the first half and last quarter of 2021 and excessive rains across large parts of South Africa.

Santam's crop book experienced significant claims due to wide-spread hail and excessive rains during November and December 2021. The very wet summer season also had a negative impact on the commercial and personal business. Frost claims in certain regions contributed to the overall gross claims paid and reserved exceeding R1.1 billion, resulting in a net underwriting loss of R92 million for the crop business in 2021. The crop business is significantly reinsured via a panel of reinsurers who in partnership with Santam, ensure that a sustainable long-term approach is taken to manage the negative impact of high claims incidence years.

From a motor insurance perspective, more normalised traffic patterns resulted in normalised claims results when compared to 2020 when the lockdown restrictions resulted in reduced motor usage. The motor class achieved satisfactory underwriting performance in the intermediated and direct distribution channels.

Old Mutual Insure Limited (Old Mutual) recorded a PAT of R0.43 billion in 2021, following a loss after tax of R0.48 billion, in 2020 therefore increasing its PAT by 188%. In 2020, Old Mutual's profit was also significantly affected by BI claims. At the time, Old Mutual provided R460 million (net of reinsurance) for BI losses. While all BI claims had not been fully finalised by the end of the 2021 financial year, it seemed likely that total claim payments would be lower than expected. Old Mutual also recorded a strong performance by its iWYZE businesses. iWYZE is Old Mutual's direct marketing product and delivered an excellent performance in the 2021 financial year. Whilst the direct market remains under pressure, iWYZE's ascribes its success to a reduced cost of capital achieved through strategically placed reinsurance structures.

Bryte increased its PAT by R0.34 billon and recorded a profit in the 2021 financial year of R0.28 billion; this after a loss after tax in the 2020 financial year. Bryte improved its underwriting result, which for the financial year was a loss of R248 million, compared to a loss of R404 million in the previous financial year. Bryte achieved an increase of 17.3% in its investment income.

OUTsurance Insurance Company Limited (OUTsurance) increased GWP by 6% to R9.4 billion for 2021, resulting in an increase in PAT of 16% to R1.94 billion. The non-life insurer reported that it continued to expand its policy count in its core OUTsurance personal book and achieved a significant growth recovery in OUTsurance Business owing to the expansion of OUTsurance Brokers. Contributing to OUTsurance's PAT was the performance of its equity portfolio. The claims ratio increased from 49.2% in 2020 to 49.9% in 2021 and OUTsurance reported that the factors impacting the claims ratio in the current year include; the impact that the work-from-home patterns had on average premiums; an increase in property claims resulting from power surges and dip claims; and increased geyser replacements related to colder weather conditions. In the 2020 financial year lower motor claim frequencies were experienced due to more restrictive lockdown conditions. In addition, claim provisions of R198 million had been raised for BI claims, which were fully settled during 2021. The increase in the cost-to-income ratio is attributed to the rapid expansion in the OUTsurance Broker footprint, however OUTsurance personal lines continued to deliver a reducing cost-to-income ratio.

Other key metrics explaining the industry results

Cost of reinsurance

Across the participants in our survey, net written premium increased by 4.7% versus a 7% increase in GWP. The trend of increasing reinsurance rates continued from the 2020 calendar year and was anticipated following the low interest rate environment and larger than forecasted pandemic and non-pandemic losses. Significant claim events such as BI claims are expected to impact the availability of reinsurance capacity and the pricing of insurance. Reinsurance premium costs increased by 11.3% (2020: 8.5%) in 2021 when compared to 2020. The impact on profit before tax is a decrease of R4.5 billion (2020: R2.3 billion), net of reinsurance commissions.

Decrease in claims incurred

2021	2020	2019	2018	2017	2016	2015
57%	61%	59%	55%	57%	58%	57%

The loss ratio for the industry reduced from 61% in 2020 to 57% in 2021. Some would say the loss ratio returned to 'normal'. The 2020 loss ratio was adversely impacted by BI claims incurred, but partly offset by fewer weather-related catastrophes and lower claim frequencies experienced over several insurance classes following the impact of the COVID-19 lockdown. For example, the lockdown restrictions resulted in a reduction in usage of motor vehicles and a reduction in claims, especially in the hard lockdown period in April and May 2020. The 2021 claim ratio is influenced by a number of off-setting factors; normalisation of BI claims and significant 2020 BI provision releases; and higher motor and weather-related claims.

An initial feature of the pandemic was the reduced motor claim frequencies resulting from hard lockdowns. As restrictions were lifted and the economy opened up, motor claim frequencies trended towards historic pre-COVID-19 levels which resulted in higher claims ratios than 2020. There is a view in the industry that the severity of motor vehicle claims increased during 2021. While there is a reduced number of vehicles on South African roads, motorists have been found to be driving at higher speeds, resulting in an increase in the severity of motor accident claims. The Ombudsman for Short-Term Insurance (OSTI) announced that an increasing number of motor vehicle accident claims were rejected and disputed on the strength of the reasonable precautions clause in most insurance policies. A spokesperson from the OSTI noted that there were various reasons why an insurer may invoke this clause, but it was mainly relied on in cases where the insurer alleges that the insured was driving above the regulated speed limit. In addition, a global trend that is putting pressure on South Africa's ability to manage motor claims are supply chain disruptions and scarcities. The shortage of motor vehicle parts and the weakening Rand are driving up the price of parts and making it more expensive to repair vehicles.

The instability of the national power grid remains a material risk factor for insurers, both directly in terms of business continuity during periods of loadshedding, and indirectly, due to losses and equipment damages caused by power surges. A further cause for concern is that load-shedding, which was already at a high-level of occurrence, is on an increasing trend. At the time of writing this report, we have already witnessed record breaking instances of loadshedding, with there being a high possibility of recurrence as the year progresses. Consequently, a large-scale national grid failure has become an increased concern for insurers. The impact of such a situation on the national economy and businesses could be catastrophic. There is a renewed effort by insurers to educate customers on using alternative sources of energy. Some customers wish to escape the ever-increasing electricity price hikes, while others seek a reliable power supply free from load-shedding interruptions. Many want to do their part for the planet by using cleaner energy. This does come with some pain points for the industry at claims stage when the installation of the likes of solar powered systems, inverters and generators, have not been performed by qualified and accredited technicians. Many insurers are developing products for the fast-developing alternative energy industry in South Africa.

The Table Mountain wildfire, flooding and severe weather events led to circa R2.7 billion in economic losses for South Africa in 2021, as reported by insurance group AON. These events were among the global catastrophes listed in AON's 2021 Weather, Climate and Catastrophe Insight report. The report shows that there were 401 natural disaster events globally in 2021, including tropical cyclones, flooding and wildfires. It was reported that these kinds of catastrophes are increasing in frequency and severity which is impacting livelihoods, communities, and businesses across the globe.

Although not included in the 2021 industry results, we note the devastating floods in the KwaZulu-Natal province during April 2022. These events caused large scale damage to property and infrastructure, including roads, health centres and schools, as well as loss of lives. From a meteorological perspective, South Africa is experiencing atypical autumn rains on the back of a regional La Niña event. The KwaZulu-Natal floods follow a series of recent tropical storms and cyclones. In March 2019 the extremely destructive Tropical Cyclone Idai made landfall in Mozambique, with floods in eThekwini later that year. Then came Tropical Storm Ana in January 2022 and Tropical Cyclone Batsirai in February 2022. Once again, floods followed in eThekwini and surrounding areas.

The seven-days of unrest in KwaZulu-Natal in 2021 cost the economy about R50 billion and led to the destruction and closure of many businesses as well as job losses. The riots had far-reaching socio-economic consequences affecting both the communities in close proximity to the riots and the broader financial sector players. Sasria SOC Limited (Sasria), the state-owned insurer, took the largest knock from an insurance claims perspective. Sasria received more than 14 000 claims valued at R30 billion, of which 80% were from KwaZulu-Natal. These losses occurred in July 2021.

As Sasria has a March financial year-end these losses will come through in Sasria's financial results for 2022. Other non-life insurers, which bind Sasria in cover and collect premiums from policyholders on its behalf, assisted Sasria with the administration and settlement of claims. Some insurers also provided premium relief to customers impacted by the unrest and looting. Of importance is the extent of financial assistance that National Treasury provided to Sasria, as well as the manner in which the industry and government worked together to help policyholders, many of which are SMMEs.

The hardest-hit during the riots were small businesses that did not have insurance cover. According to results of the FinScope SA Survey on SMMEs for 2020 published in July 2021, 67% of township-based businesses in South Africa are uninsured, while only 33% have either employee benefits insurance or business insurance.

Over a three-month period (January to March 2022) and according to the South African Police Service, there were 40 960 home burglaries, hijackings were up by 19.7% and there were 9 377 cases of car and motorbike theft. This, coupled with weather-related catastrophe events and the possibility of more social unrest as the economy worsens, paints a picture that will require resilience, skill and an increased focus on loss-preventing technology from non-life insurers.

Corporate activity, new entrants, partnerships and products

In 2020 we reported that customers were seeking insurance products linked more closely to personal behaviour like good driving, daily driving routines and reduced vehicle usage. Many insurers have responded with new products.

- Santam launched its first fully digital insurance product through MiWay Blink. MiWay Blink is a division of MiWay Insurance. MiWay Blink gives consumers the ability to only pay for the kilometres they drive, a pay-as-you-drive offering.
- Old Mutual is developing more targeted on-demand insurance products, such as Comma Insure, which allows customers to activate/deactivate their cover as needed. Comma Insure was placed in the BCX Innovation awards in 2021.

Other noteworthy activities in the industry:

- The Dial Direct and Discovery Insure pothole patrol app - the City of Joburg, Dial Direct and Discovery Insure launched a pothole patrol initiative. This is a partnership to manage the repair of potholes throughout Johannesburg. This unique data driven initiative is designed to make roads safer for all residents and reduce the number of tyre damage claims.
- Guardrisk acquired the Inniu Underwriting business, including its staff, in June 2021. This acquisition will form part of Guardrisk General Insurance's corporate property insurance offering as this business unit enters the next phase in its development as a general corporate/commercial insurer.
- Sanlam and Allianz have agreed to combine their current and future operations across Africa. The joint venture will house the business units of both Sanlam and Allianz in the African countries where one or both companies have a presence. Namibia will be included at a later stage and South Africa is excluded from the agreement.

In closing

As losses from climate risks continue to escalate, heightened attention on sustainability can be expected. Regulators and governments are likely to increase their focus on climate related insurance risks. The July 2021 civil unrest highlighted an emerging risk; the manner in which the public responds and reacts to certain political or social tensions have become a threat to business. Following on from this theme and in the interest of protecting policyholders, the legal clarity required in respect of BI cover has put renewed focus on the significance of clear insurance policy conditions.

There are increased threats relating to the interruptions in the power supply, as well as operational pain points and opportunities for the industry with the increased usage of alternative energy sources. Consequently, the insurance industry is expected to increase its efforts to counter environmental, social and governance challenges.

The insurance industry is a vital socioeconomic sector that provides critical safety to society. The events over the last two years have reminded us that insurance is a non-negotiable financial lifeline and a get-back-on-your-feet solution for when things go wrong.

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

Accounting year end	Dec-21	Dec-20	Dec-21	Dec-20	Nov-21	Nov-20	Dec-21	Dec-20	Jun-21	Jun-20
Group/Company	**Absa Insurance Company Limited**		**Absa Insurance Risk Management Services Limited**		**AIG South Africa 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	557 500	557 500	123 164	123 164	53 506	53 506
Retained earnings/(deficit)	1 142 555	1 356 837	25 376	23 922	39 177	44 886	89 911	79 381	537 108	480 011
Other reserves	1 187	1 706	-	-	-	-	-	-	-	-
Total shareholders' funds	**1 174 742**	**1 389 543**	**45 376**	**43 922**	**596 677**	**602 386**	**213 075**	**202 545**	**590 614**	**533 517**
Gross outstanding claims provision	459 420	460 576	24 047	31 324	2 506 869	2 855 490	1 512 813	1 274 394	371 434	328 179
Gross unearned premium provision	801 847	787 663	-	-	804 818	726 916	376 099	343 294	142 647	141 653
Reinsurers' share of expected salvages and recoveries	1 044	469	-	-	-	-	-	-	52 826	48 436
Owing to cell owners	-	-	54 248	57 730	-	-	-	-	-	-
Deferred reinsurance commission revenue	7 826	7 278	-	-	231 331	224 924	108 037	94 304	-	-
Deferred tax liability	-	-	-	-	-	-	-	-	-	-
Other liabilities (including lease liabilites)	441 380	332 608	1 895	22 840	1 036 900	1 073 801	332 308	449 245	587 985	675 237
Total liabilities	**1 711 517**	**1 588 595**	**80 190**	**111 894**	**4 579 918**	**4 881 131**	**2 329 257**	**2 161 237**	**1 154 892**	**1 193 505**
Total investments including investments in subsidiaries	**2 070 121**	**2 302 056**	**60 424**	**65 438**	**935 045**	**683 085**	**159 611**	**230 767**	**962 587**	**764 936**
Deferred tax asset, intangible assets, PPE and ROU assets	163 613	126 958	-	-	131 630	156 085	12 471	5 024	31 174	41 225
Reinsurers' share of outstanding claims provision	13 977	52 801	24 047	31 324	2 452 011	2 760 807	1 491 295	1 256 004	75 375	71 031
Reinsurers' share of unearned premium provision	78 413	72 969	-	-	701 624	616 701	373 810	340 998	-	-
Gross expected salvages and recoveries	51 873	60 682	-	-	-	-	-	-	70 918	70 677
Deferred aquisition costs	126 744	124 227	-	-	107 719	110 451	68 896	74 771	14 093	13 470
Cash and cash equivalents	246 697	96 704	36 885	59 054	310 795	730 517	140 569	120 418	360 579	543 592
Other assets	134 820	141 741	4 210	-	537 771	425 871	295 680	335 800	230 780	222 091
Total assets	**2 886 259**	**2 978 138**	**125 566**	**155 816**	**5 176 595**	**5 483 517**	**2 542 332**	**2 363 782**	**1 745 506**	**1 727 022**
International solvency margin	38%	46%	N/A	N/A	275%	248%	22 764%	(9 182%)	94%	87%
Total assets/Total liabilities	169%	187%	157%	139%	113%	112%	109%	109%	151%	145%
Change in shareholders' funds	(15%)		3%		(1%)		5%		11%	

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

Accounting year end	Dec-21	Dec-20	Jun-21	Jun-20	Dec-21	Dec-20	Dec-21	Dec-20	Jun-21	Jun-20
Group/Company	**Bryte Insurance Company Limited**		**Budget Insurance Company (RF) Limited**		**Centriq Insurance Company Limited**		**Chubb Insurance South Africa Limited**		**Clientele General Insurance Limited**	
Share capital and share premium	4 650	4 650	80 001	80 001	55 000	55 000	115 000	115 000	42 500	42 500
Retained earnings/(deficit)	1 496 279	1 227 758	361 667	327 690	440 813	333 571	165 987	129 300	203 815	172 383
Other reserves	(28 157)	(23 204)	-	-	-	-	736	766	3 950	3 832
Total shareholders' funds	**1 472 772**	**1 209 204**	**441 668**	**407 691**	**495 813**	**388 571**	**281 723**	**245 066**	**250 265**	**218 715**
Gross outstanding claims provision	4 723 665	4 771 617	251 694	205 176	1 260 428	1 129 985	1 143 203	998 235	5 980	6 002
Gross unearned premium provision	852 159	735 973	40 624	41 482	6 091 217	5 124 064	342 088	345 413	2 524	2 633
Reinsurers' share of expected salvages and recoveries	-	-	47 441	44 795	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	2 461 797	2 068 288	-	-	-	-
Deferred reinsurance commission revenue	68 625	49 416	-	-	94 362	83 345	73 959	69 405	-	-
Deferred tax liability	7 723	-	-	-	5 809	-	-	-	-	-
Other liabilities (including lease liabilites)	2 184 963	1 685 192	301 385	345 927	1 392 492	1 463 401	287 594	191 226	144 466	133 449
Total liabilities	**7 837 135**	**7 242 198**	**641 144**	**637 380**	**11 306 105**	**9 869 083**	**1 846 844**	**1 604 279**	**152 970**	**142 084**
Total investments including investments in subsidiaries	**3 325 718**	**2 828 019**	**586 253**	**503 917**	**9 211 315**	**7 994 796**	**332 507**	**319 770**	**238 030**	**198 463**
Deferred tax asset, intangible assets, PPE and ROU assets	171 265	245 221	10 100	11 987	4 987	25 741	3 686	4 726	96 527	100 743
Reinsurers' share of outstanding claims provision	3 246 509	3 360 287	37 600	26 525	794 670	680 560	941 849	813 660	-	-
Reinsurers' share of unearned premium provision	332 629	227 440	-	-	340 396	282 191	253 436	261 255	-	-
Gross expected salvages and recoveries	-	-	67 145	64 151	-	-	-	-	-	-
Deferred aquisition costs	122 346	119 841	66	165	149 228	95 727	51 242	48 863	-	-
Cash and cash equivalents	776 749	978 254	300 908	370 635	462 790	485 073	259 138	209 730	63 757	56 057
Other assets	1 334 691	692 340	80 740	67 691	838 532	693 566	286 709	191 341	4 921	5 536
Total assets	**9 309 907**	**8 451 402**	**1 082 812**	**1 045 071**	**11 801 918**	**10 257 654**	**2 128 567**	**1 849 345**	**403 235**	**360 799**
International solvency margin	38%	33%	106%	94%	136%	159%	180%	165%	50%	47%
Total assets/Total liabilities	119%	117%	169%	164%	104%	104%	115%	115%	264%	254%
Change in shareholders' funds	22%		8%		28%		15%		14%	

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

Accounting year end	Dec-21	Dec-20	Jun-21	Jun-20	Jun-21	Jun-20	Mar-21	Mar-20	Dec-21	Dec-20
Group/Company	**Compass Insurance Company Limited**		**Dial Direct Insurance (RF) Limited**		**Discovery Insure Limited**		**Escap SOC Limited**		**Exxaro Insurance Company Limited**	
Share capital and share premium	114 284	114 284	20 001	20 001	2 402 000	2 402 000	379 500	379 500	312 000	312 000
Retained earnings/(deficit)	214 076	186 516	229 614	183 822	(358 000)	(479 000)	10 201 187	7 346 950	437 286	385 182
Other reserves	1 250	5 670	-	-	(48 000)	1 000	-	-	-	-
Total shareholders' funds	**329 610**	**306 470**	**249 615**	**203 823**	**1 996 000**	**1 924 000**	**10 580 687**	**7 726 450**	**749 286**	**697 182**
Gross outstanding claims provision	788 130	652 143	90 534	88 090	441 000	353 000	7 535 177	7 220 417	27 750	14 641
Gross unearned premium provision	133 725	119 356	103 723	117 648	203 000	166 000	503 494	553 919	204 531	148 285
Reinsurers' share of expected salvages and recoveries	-	-	15 819	17 652	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	40 702	36 574	-	-	-	-	-	-	15 988	24 831
Deferred tax liability	-	-	-	-	-	-	50 558	-	-	-
Other liabilities (including lease liabilites)	260 230	250 112	126 511	164 241	505 000	401 000	2 853	107 147	3 998	4 776
Total liabilities	**1 222 787**	**1 058 185**	**336 587**	**387 631**	**1 149 000**	**920 000**	**8 092 082**	**7 881 483**	**252 267**	**192 533**
Total investments including investments in subsidiaries	**528 133**	**492 288**	**387 712**	**328 907**	**2 243 000**	**1 974 000**	**17 513 202**	**14 589 286**	**-**	**-**
Deferred tax asset, intangible assets, PPE and ROU assets	17 712	20 099	6 302	10 594	369 000	380 000	52	96 795	4 477	6 953
Reinsurers' share of outstanding claims provision	697 526	585 668	15 205	12 473	16 000	8 000	618 455	560 454	4 335	3 135
Reinsurers' share of unearned premium provision	128 858	117 605	-	-	6 000	6 000	289 768	297 553	178 958	124 948
Gross expected salvages and recoveries	-	-	22 368	25 184	-	-	-	-	-	-
Deferred aquisition costs	37 950	34 250	8	26	64 000	39 000	-	-	-	-
Cash and cash equivalents	78 022	55 722	138 145	193 063	124 000	143 000	30 030	28 615	809 412	745 025
Other assets	64 197	59 024	16 462	21 207	323 000	294 000	221 262	35 230	4 371	9 654
Total assets	**1 552 397**	**1 364 656**	**586 202**	**591 454**	**3 145 000**	**2 844 000**	**18 672 769**	**15 607 933**	**1 001 553**	**889 715**
International solvency margin	147%	147%	148%	120%	46%	52%	302%	295%	1 522%	1 378%
Total assets/Total liabilities	127%	129%	174%	153%	274%	309%	231%	198%	397%	462%
Change in shareholders' funds	8%		22%		4%		37%		7%	

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

Accounting year end	Dec-21	Dec-20	Jun-21	Jun-20	Jun-21	Jun-20	Jun-21	Jun-20	Jun-21	Jun-20
Group/Company	**The Federated Employers Mutual Assurance Company (RF) Proprietary Limited**		**First for Women Insurance Company (RF) Limited**		**Guardrisk Insurance Company Limited**		**The Hollard Insurance Company Limited**		**Hollard Specialist Insurance Company Limited**	
Share capital and share premium	-	-	82 000	82 000	224 414	224 414	1 642 601	1 642 601	400 503	400 503
Retained earnings/(deficit)	4 730 000	3 914 000	179 451	141 182	432 043	286 690	1 224 603	1 158 293	(207 429)	(117 363)
Other reserves	-	-	-	-	-	-	4 012	4 012	221 990	245 006
Total shareholders' funds	**4 730 000**	**3 914 000**	**261 451**	**223 182**	**656 457**	**511 104**	**2 871 216**	**2 804 906**	**415 064**	**528 146**
Gross outstanding claims provision	2 982 000	2 717 000	100 174	90 320	3 030 309	2 636 810	4 304 534	2 678 988	201 572	212 177
Gross unearned premium provision	615 000	656 000	48 395	50 048	5 750 596	5 016 007	2 309 190	2 225 979	88 533	120 813
Reinsurers' share of expected salvages and recoveries	-	-	20 986	20 905	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	5 858 834	5 896 310	-	-	-	-
Deferred reinsurance commission revenue	-	-	-	-	176 408	184 077	-	-	-	-
Deferred tax liability	-	-	-	-	-	-	172 999	121 393	-	-
Other liabilities (including lease liabilites)	63 000	65 000	140 864	165 100	1 485 035	1 316 765	3 015 609	2 800 118	134 107	134 292
Total liabilities	**3 660 000**	**3 438 000**	**310 419**	**326 373**	**16 301 182**	**15 049 969**	**9 802 332**	**7 826 478**	**424 212**	**467 282**
Total investments including investments in subsidiaries	**8 227 000**	**7 188 000**	**359 986**	**270 530**	**10 661 951**	**10 166 561**	**4 046 261**	**3 160 490**	**413 509**	**495 572**
Deferred tax asset, intangible assets, PPE and ROU assets	93 000	88 000	6 055	7 687	52 175	58 903	540 948	621 661	18 259	26 559
Reinsurers' share of outstanding claims provision	4 000	3 000	16 859	11 983	2 231 621	1 860 556	2 127 647	611 747	24 255	28 990
Reinsurers' share of unearned premium provision	-	-	-	-	646 439	694 403	611 128	523 011	104	104
Gross expected salvages and recoveries	-	-	29 752	29 885	-	-	-	-	-	-
Deferred aquisition costs	-	-	20	59	144 483	146 176	115 413	113 681	706	3 749
Cash and cash equivalents	16 000	11 000	135 397	213 218	2 258 939	1 531 712	2 837 896	3 233 633	336 956	412 548
Other assets	50 000	62 000	23 801	16 193	962 031	1 102 762	2 394 255	2 367 161	45 487	27 907
Total assets	**8 390 000**	**7 352 000**	**571 870**	**549 555**	**16 957 639**	**15 561 073**	**12 673 548**	**10 631 384**	**839 276**	**995 429**
International solvency margin	878%	637%	120%	100%	14%	13%	36%	33%	47%	51%
Total assets/Total liabilities	229%	214%	184%	168%	104%	103%	129%	136%	198%	213%
Change in shareholders' funds	21%		17%		28%		2%		(21%)	

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

Accounting year end	Sep-21	Sep-20	Mar-21	Mar-20	Jun-21	Jun-20	Jun-21	Jun-20	Jun-21	Jun-20
Group/Company	**Indequity Specialised Insurance Limited**		**Infiniti Insurance Limited**		**King Price Insurance Company Limited**		**Legal Expenses Insurance Southern Africa Limited**		**Lombard Insurance Company Limited**	
Share capital and share premium	14 470	14 470	187 230	187 230	850 000	730 400	16 634	16 634	189 050	189 050
Retained earnings/(deficit)	14 562	16 185	432 692	326 007	(352 106)	(256 437)	415 431	434 468	648 998	576 912
Other reserves	-	(1 076)	-	-	-	24 061	9 218	9 602	-	-
Total shareholders' funds	**29 032**	**29 579**	**619 922**	**513 237**	**497 894**	**498 023**	**441 283**	**460 704**	**838 048**	**765 962**
Gross outstanding claims provision	4 252	3 980	559 413	373 816	238 842	168 318	225 042	243 494	1 793 415	1 792 358
Gross unearned premium provision	285	254	243 761	237 516	12 060	7 044	11 050	11 049	641 050	542 676
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	-	-	19 588	16 802	-	-	-	-	82 352	59 501
Deferred tax liability	159	-	38 520	12 525	-	-	203	7 475	-	1 756
Other liabilities (including lease liabilites)	2 462	8 660	267 124	247 066	508 322	282 072	62 014	60 186	2 119 859	1 653 134
Total liabilities	**7 158**	**12 894**	**1 128 406**	**887 725**	**759 224**	**457 434**	**298 309**	**322 204**	**4 636 676**	**4 049 425**
Total investments including investments in subsidiaries	**-**	**6 935**	**1 113 501**	**917 803**	**188 069**	**83 757**	**538 153**	**601 340**	**2 622 218**	**2 146 036**
Deferred tax asset, intangible assets, PPE and ROU assets	1 731	5 294	2 367	1 698	400 031	253 007	106 947	108 120	63 341	60 146
Reinsurers' share of outstanding claims provision	39	34	328 333	155 937	208 970	144 356	-	-	1 352 262	1 356 798
Reinsurers' share of unearned premium provision	-	-	74 111	64 897	10 623	6 323	-	-	318 136	265 192
Gross expected salvages and recoveries	902	1 455	-	-	-	-	-	-	-	-
Deferred aquisition costs	-	-	54 308	56 685	2 216	1 479	-	-	93 063	70 758
Cash and cash equivalents	31 816	23 968	76 239	92 112	236 988	330 671	81 290	63 942	659 089	477 786
Other assets	1 702	4 787	99 469	111 830	210 221	135 864	13 202	9 506	366 615	438 671
Total assets	**36 190**	**42 473**	**1 748 328**	**1 400 962**	**1 257 118**	**955 458**	**739 592**	**782 908**	**5 474 724**	**4 815 387**
International solvency margin	41%	45%	60%	48%	128%	153%	58%	58%	88%	89%
Total assets/Total liabilities	506%	329%	155%	158%	166%	209%	248%	243%	118%	119%
Change in shareholders' funds	(2%)		21%		(0%)		(4%)		9%	

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

Accounting year end	Dec-21	Dec-20	Jun-21	Jun-20	Dec-21	Dec-20	Dec-21	Dec-20	Dec-21	Dec-20
Group/Company	**Miway Insurance Limited**		**Momentum Insure Company Limited***		**Mutual and Federal Risk Financing Limited**		**Nedgroup Insurance Company Limited**		**Old Mutual Insure Limited**	
Share capital and share premium	250 101	250 101	931 628	931 628	4 550	4 550	5 000	5 000	1 797 000	1 797 000
Retained earnings/(deficit)	133 452	173 388	165 991	125 499	225 130	215 995	1 101 117	923 549	2 181 000	1 762 000
Other reserves	-	-	23 319	11 563	-	-	-	-	-	-
Total shareholders' funds	**383 553**	**423 489**	**1 120 938**	**1 068 689**	**229 680**	**220 545**	**1 106 117**	**928 549**	**3 978 000**	**3 559 000**
Gross outstanding claims provision	197 215	182 770	532 594	475 732	789 022	787 303	158 188	204 243	4 058 000	7 353 000
Gross unearned premium provision	150 794	142 652	86 597	84 626	424 523	410 396	242 741	296 663	1 001 000	1 061 000
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	1 232 366	999 935	-	-	-	-
Deferred reinsurance commission revenue	-	-	4 310	4 774	66 148	63 348	-	-	115 000	123 000
Deferred tax liability	-	-	-	-	5 606	-	28 585	16 140	-	-
Other liabilities (including lease liabilites)	268 482	339 929	279 488	247 349	630 931	594 243	49 257	62 862	3 309 000	3 064 000
Total liabilities	**616 491**	**665 351**	**902 990**	**812 481**	**3 148 596**	**2 855 225**	**478 771**	**579 908**	**8 483 000**	**11 601 000**
Total investments including investments in subsidiaries	**441 808**	**533 639**	**824 887**	**751 065**	**1 724 922**	**1 614 236**	**1 409 065**	**1 323 361**	**4 921 000**	**4 902 000**
Deferred tax asset, intangible assets, PPE and ROU assets	128 552	181 253	136 908	155 084	2 809	9 734	4 395	4 903	587 000	791 000
Reinsurers' share of outstanding claims provision	167 040	155 022	176 028	194 312	504 451	552 117	5 002	4 573	2 208 000	5 253 000
Reinsurers' share of unearned premium provision	127 958	121 033	16 335	18 147	374 939	359 428	-	495	494 000	472 000
Gross expected salvages and recoveries	-	-	-	-	-	-	-	-	252 000	191 000
Deferred aquisition costs	-	-	23 921	20 036	66 148	63 348	60 985	84 491	178 000	177 000
Cash and cash equivalents	79 764	50 535	579 010	643 541	361 438	194 269	83 613	48 644	839 000	755 000
Other assets	54 921	47 358	266 838	98 985	343 569	282 638	21 828	41 990	2 982 000	2 619 000
Total assets	**1 000 043**	**1 088 840**	**2 023 927**	**1 881 171**	**3 378 276**	**3 075 770**	**1 584 888**	**1 508 457**	**12 461 000**	**15 160 000**
International solvency margin	81%	97%	75%	70%	404%	455%	101%	84%	48%	41%
Total assets/Total liabilities	162%	164%	224%	232%	107%	108%	331%	260%	147%	131%
Change in shareholders' funds	(9%)		5%		4%		19%		12%	

* This reflects the combined results of Momentum Insurance Company Limited and Momentum Short Term Insurance Company Limited, now managed as one legal entity, Momentum Insure Company Limited.

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

Accounting year end	Jun-21	Jun-20	Mar-21	Mar-20	Dec-21	Dec-20	Dec-21	Dec-20
Group/Company	**OUTsurance Insurance Company Limited**		**Safire Insurance Company Limited**		**Santam Limited**		**Standard Insurance Limited**	
Share capital and share premium	25 000	25 000	10 053	10 053	103 000	103 000	30 000	30 000
Retained earnings/(deficit)	3 240 038	3 153 126	250 833	208 029	9 567 000	7 779 000	2 069 802	2 135 490
Other reserves	3 065	2 386	15 965	19 581	-	-	140	140
Total shareholders' funds	**3 268 103**	**3 180 512**	**276 851**	**237 663**	**9 670 000**	**7 882 000**	**2 099 942**	**2 165 630**
Gross outstanding claims provision	911 677	1 083 360	173 329	136 526	20 163 000	14 761 000	572 180	565 314
Gross unearned premium provision	1 029 719	998 043	113 800	92 641	4 535 000	4 309 000	93 006	77 835
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	80 255	89 836	-	-	-	-
Deferred reinsurance commission revenue	-	-	5 281	856	475 000	442 000	-	-
Deferred tax liability	-	-	12 928	8 961	-	19 000	-	-
Other liabilities (including lease liabilites)	1 046 678	864 450	252 021	166 413	7 039 000	7 651 000	150 232	198 309
Total liabilities	**2 988 074**	**2 945 853**	**637 614**	**495 233**	**32 212 000**	**27 182 000**	**815 418**	**841 458**
Total investments including investments in subsidiaries	**5 229 674**	**5 152 773**	**380 522**	**293 280**	**18 427 000**	**18 546 000**	**2 075 942**	**2 378 956**
Deferred tax asset, intangible assets, PPE and ROU assets	488 867	534 153	48 571	49 028	842 000	794 000	27 930	22 781
Reinsurers' share of outstanding claims provision	6 407	4 485	119 711	70 348	11 926 000	6 195 000	46 705	58 865
Reinsurers' share of unearned premium provision	-	-	37 678	19 976	1 910 000	1 783 000	-	-
Gross expected salvages and recoveries	-	-	-	-	-	-	40 609	35 687
Deferred aquisition costs	-	-	19 469	17 334	804 000	732 000	11 752	8 834
Cash and cash equivalents	284 137	185 268	28 603	59 596	1 842 000	2 036 000	465 617	261 519
Other assets	247 092	249 686	279 911	223 334	6 131 000	4 978 000	246 805	240 446
Total assets	**6 256 177**	**6 126 365**	**914 465**	**732 896**	**41 882 000**	**35 064 000**	**2 915 360**	**3 007 088**
International solvency margin	35%	36%	89%	71%	39%	34%	73%	78%
Total assets/Total liabilities	209%	208%	143%	148%	130%	129%	358%	357%
Change in shareholders' funds	3%		16%		23%		(3%)	

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

Accounting year end	Dec-21	Dec-20	Dec-21	Dec-20	Nov-21	Nov-20	Dec-21	Dec-20	Jun-21	Jun-20
Group/Company	**Absa Insurance Company Limited**		**Absa Insurance Risk Management Services Limited**		**AIG South Africa Limited**		**Allianz Global Corporate and Specialty South Africa Limited**		**Auto and General Insurance Company (RF) Limited**	
Gross premiums written	3 234 477	3 108 139	-	-	1 826 721	1 750 795	1 150 603	1 115 480	3 026 629	3 029 635
Net premiums written	3 097 730	2 986 713	-	-	210 201	241 905	479	3 116	626 227	609 775
Net earned premiums	**3 088 454**	**2 991 558**	**-**	**-**	**217 221**	**243 071**	**936**	**1 514**	**625 233**	**612 219**
Total net investment income	**110 329**	**143 396**	**3 060**	**4 927**	**46 009**	**80 428**	**11 497**	**20 269**	**57 928**	**79 977**
Reinsurance commission revenue	14 816	8 954	-	-	526 572	567 899	285 546	276 256	1 011 277	978 602
Other income	46 806	52 919	-	-	4 282	5 000	9 334	7 993	92 643	71 201
Total income	**3 260 405**	**3 196 827**	**3 060**	**4 927**	**794 084**	**896 398**	**307 313**	**306 032**	**1 787 081**	**1 741 999**
Net claims incurred	1 998 990	1 814 286	1 722	2 332	187 352	217 655	6 137	(21 947)	478 062	468 940
Acquisition costs	497 513	460 635	-	-	247 225	289 773	140 466	186 211	291 569	313 249
Cell owners' transactions	-	-	-	-	-	-	-	-	-	-
Management and other expenses	421 130	363 284	(326)	555	331 609	281 256	149 373	121 558	938 179	1 049 995
Total expenses	**2 917 633**	**2 638 205**	**1 396**	**2 887**	**766 186**	**788 684**	**295 976**	**285 822**	**1 707 810**	**1 832 184**
Net profit/(loss) before taxation	**342 772**	**558 622**	**1 664**	**2 040**	**27 898**	**107 714**	**11 337**	**20 210**	**79 271**	**(90 185)**
Taxation	(102 055)	(161 568)	(210)	(1 320)	(8 609)	(31 912)	(807)	(5 982)	(22 174)	26 462
Net profit/(loss) after taxation	**240 718**	**397 053**	**1 454**	**720**	**19 289**	**75 802**	**10 530**	**14 228**	**57 097**	**(63 723)**
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**240 718**	**397 053**	**1 454**	**720**	**19 289**	**75 802**	**10 530**	**14 228**	**57 097**	**(63 723)**
Transfer to/(from) retained earnings	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Dividends	455 000	351 000	-	-	25 000	25 000	-	-	-	-
Change in retained earnings	**(214 282)**	**46 053**	**1 454**	**720**	**(5 711)**	**50 802**	**10 530**	**14 228**	**57 097**	**(63 723)**
Net premium to gross premium	96%	96%	N/A	N/A	12%	14%	0%	0%	21%	20%
Net claims incurred to net earned premium	65%	61%	N/A	N/A	86%	90%	656%	(1 450%)	76%	77%
Management and other expenses to net earned premium	14%	12%	N/A	N/A	153%	116%	15 959%	8 029%	150%	172%
Combined ratio	94%	88%	N/A	N/A	110%	91%	1 114%	632%	111%	139%
Operating ratio	90%	83%	N/A	N/A	89%	58%	(114%)	(707%)	102%	126%
Return on equity	20%	29%	3%	2%	3%	13%	5%	7%	10%	(12%)

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

Accounting year end	Dec-21	Dec-20	Jun-21	Jun-20	Dec-21	Dec-20	Dec-21	Dec-20	Jun-21	Jun-20
Group/Company	**Bryte Insurance Company Limited**		**Budget Insurance Company (RF) Limited**		**Centriq Insurance Company Limited**		**Chubb Insurance South Africa Limited**		**Clientele General Insurance Limited**	
Gross premiums written	5 387 853	4 723 796	1 794 578	1 853 682	3 774 216	3 359 348	773 779	761 180	498 627	465 149
Net premiums written	3 872 663	3 654 690	417 231	430 016	1 103 666	848 833	160 632	166 296	498 627	465 149
Net earned premiums	**3 861 666**	**3 642 801**	**418 088**	**431 498**	**363 831**	**243 960**	**156 138**	**148 767**	**498 736**	**463 700**
Total net investment income	**664 077**	**386 598**	**40 281**	**52 382**	**554 058**	**536 852**	**13 210**	**17 726**	**24 817**	**(740)**
Reinsurance commission revenue	209 759	158 262	615 334	642 089	381 237	344 182	165 100	134 252	-	-
Other income	3 200	3 200	26 429	22 891	167 249	143 769	13 455	5 832	1 495	1 653
Total income	**4 738 702**	**4 190 861**	**1 100 132**	**1 148 860**	**1 466 375**	**1 268 763**	**347 903**	**306 577**	**525 048**	**464 613**
Net claims incurred	2 639 194	2 655 462	317 423	328 062	407 783	369 137	89 536	103 760	41 483	44 053
Acquisition costs	841 290	759 431	40 780	30 003	356 024	321 157	125 649	107 210	247 449	227 803
Cell owners' transactions	-	-	-	-	235 341	185 662	-	-	-	-
Management and other expenses	898 891	861 050	695 174	613 371	297 609	279 882	50 551	51 828	124 503	128 615
Total expenses	**4 379 375**	**4 275 943**	**1 053 377**	**971 436**	**1 296 757**	**1 155 838**	**265 736**	**262 798**	**413 435**	**400 471**
Net profit/(loss) before taxation	**359 327**	**(85 082)**	**46 755**	**177 424**	**169 618**	**112 925**	**82 167**	**43 779**	**111 613**	**64 142**
Taxation	(80 806)	27 394	(12 778)	(49 620)	(48 007)	(30 297)	(23 270)	(12 484)	(30 181)	(17 645)
Net profit/(loss) after taxation	**278 521**	**(57 688)**	**33 977**	**127 804**	**121 611**	**82 628**	**58 897**	**31 295**	**81 432**	**46 497**
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**278 521**	**(57 688)**	**33 977**	**127 804**	**121 611**	**82 628**	**58 897**	**31 295**	**81 432**	**46 497**
Transfer to/(from) retained earnings	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Dividends	10 000	10 000	-	55 000	14 369	23 145	22 210	24 710	50 000	60 000
Change in retained earnings	**268 521**	**(67 688)**	**33 977**	**72 804**	**107 242**	**59 483**	**36 687**	**6 585**	**31 432**	**(13 503)**
Net premium to gross premium	72%	77%	23%	23%	29%	25%	21%	22%	100%	100%
Net claims incurred to net earned premium	68%	73%	76%	76%	112%	151%	57%	70%	8%	10%
Management and other expenses to net earned premium	23%	24%	166%	142%	82%	115%	32%	35%	25%	28%
Combined ratio	108%	113%	105%	76%	187%	257%	64%	86%	83%	86%
Operating ratio	91%	102%	95%	64%	35%	37%	56%	74%	78%	87%
Return on equity	19%	(5%)	8%	31%	25%	21%	21%	13%	33%	21%

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

Accounting year end	Dec-21	Dec-20	Jun-21	Jun-20	Jun-21	Jun-20	Mar-21	Mar-20	Dec-21	Dec-20
Group/Company	**Compass Insurance Company Limited**		**Dial Direct Insurance (RF) Limited**		**Discovery Insure Limited**		**Escap SOC Limited**		**Exxaro Insurance Company Limited**	
Gross premiums written	1 801 433	1 639 378	831 198	885 988	4 385 000	3 706 000	4 359 096	3 162 224	413 652	300 237
Net premiums written	228 052	210 921	154 312	167 213	4 233 000	3 603 000	3 460 720	2 526 914	51 466	47 659
Net earned premiums	**224 935**	**208 729**	**168 236**	**170 265**	**4 233 000**	**3 603 000**	**3 503 359**	**2 618 111**	**49 229**	**50 586**
Total net investment income	**51 328**	**56 661**	**23 946**	**33 555**	**136 000**	**162 000**	**1 506 846**	**604 707**	**25 113**	**36 305**
Reinsurance commission revenue	495 156	448 869	301 899	323 461	-	-	107 979	77 753	41 212	44 572
Other income	7 245	1 586	34 832	31 611	18 000	12 000	-	-	1 178	2 756
Total income	**778 664**	**715 845**	**528 913**	**558 892**	**4 387 000**	**3 777 000**	**5 118 184**	**3 300 571**	**116 732**	**134 219**
Net claims incurred	79 845	63 195	132 485	155 190	2 379 000	1 987 000	958 851	2 532 870	14 054	1 771
Acquisition costs	567 050	520 862	11 200	11 737	653 000	516 000	-	-	15 064	13 619
Cell owners' transactions	-	-	-	-	-	-	-	-	-	-
Management and other expenses	60 609	58 725	321 901	374 362	1 188 000	1 131 000	186 209	127 068	15 248	16 619
Total expenses	**707 503**	**642 782**	**465 586**	**541 289**	**4 220 000**	**3 634 000**	**1 145 060**	**2 659 938**	**44 366**	**32 009**
Net profit/(loss) before taxation	**71 161**	**73 063**	**63 327**	**17 603**	**167 000**	**143 000**	**3 973 124**	**640 633**	**72 366**	**102 210**
Taxation	(13 601)	(12 817)	(17 534)	(4 960)	(47 000)	(40 000)	(1 118 887)	(149 208)	(20 262)	(28 618)
Net profit/(loss) after taxation	**57 560**	**60 247**	**45 793**	**12 643**	**120 000**	**103 000**	**2 854 237**	**491 425**	**52 104**	**73 592**
Other comprehensive income	(4 420)	5 417	-	-	4 000	(4 000)	-	-	-	-
Total comprehensive income for the year	**53 140**	**65 664**	**45 793**	**12 643**	**124 000**	**99 000**	**2 854 237**	**491 425**	**52 104**	**73 592**
Transfer to/(from) retained earnings	-	-	-	-	1 000	-	-	-	-	-
Other comprehensive income	4 420	(5 417)	-	-	(4 000)	4 000	-	-	-	-
Dividends	30 000	25 000	-	5 000	-	-	-	-	-	-
Change in retained earnings	**27 560**	**35 247**	**45 793**	**7 643**	**121 000**	**103 000**	**2 854 237**	**491 425**	**52 104**	**73 592**
Net premium to gross premium	13%	13%	19%	19%	97%	97%	79%	80%	12%	16%
Net claims incurred to net earned premium	35%	30%	79%	91%	56%	55%	27%	97%	29%	4%
Management and other expenses to net earned premium	27%	28%	191%	220%	28%	31%	5%	5%	31%	33%
Combined ratio	94%	93%	97%	128%	100%	101%	30%	99%	6%	(25%)
Operating ratio	72%	66%	83%	108%	96%	96%	(13%)	76%	(45%)	(97%)
Return on equity	17%	20%	18%	6%	6%	5%	27%	6%	7%	11%

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

Accounting year end	Dec-21	Dec-20	Jun-21	Jun-20	Jun-21	Jun-20	Jun-21	Jun-20	Jun-21	Jun-20
Group/Company	**The Federated Employers Mutual Assurance Company (RF) Proprietary Limited**		**First for Women Insurance Company (RF) Limited**		**Guardrisk Insurance Company Limited**		**The Hollard Insurance Company Limited**		**Hollard Specialist Insurance Company Limited**	
Gross premiums written	770 000	870 000	949 289	983 555	12 091 152	11 112 844	11 311 624	11 051 009	862 964	967 227
Net premiums written	760 000	853 000	216 426	222 788	5 411 712	4 767 676	8 006 422	8 545 520	857 383	957 148
Net earned premiums	**539 000**	**614 000**	**218 079**	**223 415**	**4 625 813**	**3 915 985**	**7 983 874**	**8 487 130**	**887 584**	**1 034 642**
Total net investment income	**1 139 000**	**552 000**	**23 100**	**28 245**	**643 522**	**725 591**	**435 982**	**285 065**	**53 616**	**71 229**
Reinsurance commission revenue	-	-	327 621	343 209	1 212 026	1 152 976	-	-	-	-
Other income	-	-	11 047	10 377	117 031	118 512	136 432	101 759	23 689	15 729
Total income	**1 678 000**	**1 166 000**	**579 847**	**605 246**	**6 598 392**	**5 913 064**	**8 556 288**	**8 873 954**	**964 889**	**1 121 600**
Net claims incurred	649 000	521 000	151 238	161 341	1 287 269	1 219 191	4 781 091	4 501 352	480 225	437 649
Acquisition costs	-	-	22 320	25 799	1 396 454	1 331 343	728 107	943 146	111 314	124 903
Cell owners' transactions	-	-	-	-	243 491	121 297	-	-	-	-
Management and other expenses	213 000	262 000	353 423	300 022	3 257 637	2 594 344	2 604 820	3 011 276	188 717	267 704
Total expenses	**862 000**	**783 000**	**526 981**	**487 162**	**6 184 851**	**5 266 175**	**8 114 018**	**8 455 774**	**780 256**	**830 256**
Net profit/(loss) before taxation	**816 000**	**383 000**	**52 866**	**118 084**	**413 541**	**646 889**	**442 270**	**418 180**	**184 633**	**291 344**
Taxation	-	-	(14 597)	(32 990)	(179 709)	(479 793)	(84 670)	(101 179)	(51 983)	(74 789)
Net profit/(loss) after taxation	**816 000**	**383 000**	**38 269**	**85 094**	**233 832**	**167 096**	**357 600**	**317 001**	**132 650**	**216 555**
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**816 000**	**383 000**	**38 269**	**85 094**	**233 832**	**167 096**	**357 600**	**317 001**	**132 650**	**216 555**
Transfer to/(from) retained earnings	-	-	-	-	821	-	-	-	90 365	127 826
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	15 000	89 300	230 000	291 290	451 710	132 351	250 733
Change in retained earnings	**816 000**	**383 000**	**38 269**	**70 094**	**145 353**	**(62 904)**	**66 310**	**(134 709)**	**(90 066)**	**(162 004)**
Net premium to gross premium	99%	98%	23%	23%	45%	43%	71%	77%	99%	99%
Net claims incurred to net earned premium	120%	85%	69%	72%	28%	31%	60%	53%	54%	42%
Management and other expenses to net earned premium	40%	43%	162%	134%	70%	66%	33%	35%	21%	26%
Combined ratio	160%	128%	91%	64%	102%	102%	102%	100%	88%	80%
Operating ratio	(51%)	38%	81%	52%	88%	83%	96%	96%	82%	73%
Return on equity	17%	10%	15%	38%	36%	33%	12%	11%	32%	41%

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

Accounting year end	Sep-21	Sep-20	Mar-21	Mar-20	Jun-21	Jun-20	Jun-21	Jun-20	Jun-21	Jun-20
Group/Company	**Indequity Specialised Insurance Limited**		**Infiniti Insurance Limited**		**King Price Insurance Company Limited**		**Legal Expenses Insurance Southern Africa Limited**		**Lombard Insurance Company Limited**	
Gross premiums written	72 683	66 756	1 282 953	1 288 982	2 511 582	2 101 233	764 104	791 739	2 641 159	2 159 116
Net premiums written	70 807	65 175	1 027 443	1 053 740	389 895	325 441	764 104	791 739	996 853	851 276
Net earned premiums	**70 776**	**65 167**	**1 030 413**	**1 070 750**	**389 185**	**325 490**	**764 104**	**791 739**	**951 696**	**855 893**
Total net investment income	**632**	**1 591**	**153 822**	**16 362**	**10 860**	**16 243**	**95 953**	**4 408**	**145 981**	**178 493**
Reinsurance commission revenue	-	-	68 053	58 114	842 325	819 292	-	-	556 136	495 946
Other income	207	253	-	-	48 001	44 543	12 628	12 073	16 782	13 921
Total income	**71 615**	**67 011**	**1 252 288**	**1 145 226**	**1 290 371**	**1 205 569**	**872 685**	**808 220**	**1 670 595**	**1 544 253**
Net claims incurred	29 523	22 445	505 727	550 086	190 883	102 922	94 203	111 867	294 602	419 773
Acquisition costs	5 239	4 597	196 440	197 547	579 365	471 780	95 710	93 410	617 205	516 618
Cell owners' transactions	-	-	-	-	-	-	-	-	-	-
Management and other expenses	11 139	22 308	350 136	316 561	468 762	471 922	519 933	522 835	652 033	543 510
Total expenses	**45 901**	**49 350**	**1 052 303**	**1 064 194**	**1 239 011**	**1 046 624**	**709 846**	**728 112**	**1 563 840**	**1 479 901**
Net profit/(loss) before taxation	**25 714**	**17 661**	**199 985**	**81 032**	**51 360**	**158 945**	**162 839**	**80 108**	**106 755**	**64 352**
Taxation	(7 217)	(4 945)	(48 300)	(23 599)	(17 029)	32 042	(21 903)	(20 806)	(34 669)	(25 646)
Net profit/(loss) after taxation	**18 497**	**12 716**	**151 685**	**57 433**	**34 332**	**190 986**	**140 936**	**59 302**	**72 086**	**38 706**
Other comprehensive income	1 076	264	-	-	(24 061)	24 061	(384)	(101)	-	-
Total comprehensive income for the year	**19 573**	**12 980**	**151 685**	**57 433**	**10 271**	**215 047**	**140 552**	**59 201**	**72 086**	**38 706**
Transfer to/(from) retained earnings	-	76	-	-	-	-	-	-	-	-
Other comprehensive income	(1 076)	(264)	-	-	24 061	(24 061)	384	101	-	-
Dividends	20 120	14 626	45 000	35 000	130 000	-	159 973	39 993	-	-
Change in retained earnings	**(1 623)**	**(1 986)**	**106 685**	**22 433**	**(95 668)**	**190 986**	**(19 037)**	**19 309**	**72 086**	**38 706**
Net premium to gross premium	97%	98%	80%	82%	16%	15%	100%	100%	38%	39%
Net claims incurred to net earned premium	42%	34%	49%	51%	49%	32%	12%	14%	31%	49%
Management and other expenses to net earned premium	16%	34%	34%	30%	120%	145%	68%	66%	69%	64%
Combined ratio	65%	76%	96%	94%	102%	70%	93%	92%	106%	115%
Operating ratio	64%	73%	81%	92%	99%	65%	80%	91%	91%	94%
Return on equity	64%	43%	24%	11%	7%	38%	32%	13%	9%	5%

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

Accounting year end	Dec-21	Dec-20	Jun-21	Jun-20	Dec-21	Dec-20	Dec-21	Dec-20	Dec-21	Dec-20
Group/Company	**Miway Insurance Limited**		**Momentum Insure Company Limited***		**Mutual and Federal Risk Financing Limited**		**Nedgroup Insurance Company Limited**		**Old Mutual Insure Limited**	
Gross premiums written	3 170 627	2 912 757	2 791 314	3 236 140	3 748 374	3 289 565	1 110 697	1 103 617	11 031 000	10 644 000
Net premiums written	475 320	437 693	2 729 184	3 224 253	55 410	47 285	1 036 346	1 030 777	8 231 000	8 706 000
Net earned premiums	**474 024**	**436 775**	**1 492 753**	**1 523 929**	**56 794**	**48 442**	**1 090 763**	**1 100 643**	**8 243 000**	**8 718 000**
Total net investment income	**24 959**	**34 990**	**63 528**	**113 440**	**9 185**	**11 520**	**120 814**	**75 439**	**519 000**	**(294 000)**
Reinsurance commission revenue	923 472	1 110 945	528 748	593 900	609 365	562 326	1 052	730	781 000	429 000
Other income	310	94	1 773	3 704	-	-	27 353	30 378	41 000	-
Total income	**1 422 765**	**1 582 803**	**2 086 802**	**2 234 973**	**675 344**	**622 288**	**1 239 982**	**1 207 190**	**9 584 000**	**8 853 000**
Net claims incurred	291 145	222 235	926 277	884 633	1 858	508	525 559	568 257	5 202 000	5 591 000
Acquisition costs	-	-	232 263	255 208	609 367	562 329	200 765	219 851	1 949 000	1 935 000
Cell owners' transactions	-	-	-	-	-	-	-	-	-	-
Management and other expenses	953 980	951 649	678 253	745 851	51 432	41 297	276 104	248 513	1 940 000	1 839 000
Total expenses	**1 245 125**	**1 173 883**	**1 836 793**	**1 885 691**	**662 657**	**604 134**	**1 002 428**	**1 036 621**	**9 091 000**	**9 365 000**
Net profit/(loss) before taxation	**177 639**	**408 920**	**250 009**	**349 282**	**12 687**	**18 154**	**237 554**	**170 569**	**493 000**	**(512 000)**
Taxation	(47 575)	(113 149)	(70 669)	(98 382)	(3 552)	(3 853)	(59 986)	(47 441)	(68 000)	29 000
Net profit/(loss) after taxation	**130 064**	**295 770**	**179 340**	**250 900**	**9 135**	**14 301**	**177 568**	**123 128**	**425 000**	**(483 000)**
Other comprehensive income	-	-	758	-	-	-	-	-	(6 000)	(2 000)
Total comprehensive income for the year	**130 064**	**295 770**	**180 097**	**250 900**	**9 135**	**14 301**	**177 568**	**123 128**	**419 000**	**(485 000)**
Transfer to/(from) retained earnings	-	-	(395)	-	-	-	-	-	-	88 000
Other comprehensive income	-	-	-	-	-	-	-	-	-	2 000
Dividends	170 000	250 000	140 000	130 000	-	-	-	50 000	-	-
Change in retained earnings	**(39 936)**	**45 770**	**40 493**	**120 900**	**9 135**	**14 301**	**177 568**	**73 128**	**419 000**	**(395 000)**
Net premium to gross premium	15%	15%	N/A	N/A	1%	1%	93%	93%	75%	82%
Net claims incurred to net earned premium	61%	51%	62%	58%	3%	1%	48%	52%	63%	64%
Management and other expenses to net earned premium	201%	218%	45%	49%	91%	85%	25%	23%	24%	21%
Combined ratio	68%	14%	88%	85%	94%	86%	92%	94%	101%	103%
Operating ratio	63%	6%	83%	77%	78%	63%	81%	87%	95%	106%
Return on equity	34%	70%	16%	23%	4%	6%	16%	13%	11%	(14%)

* This reflects the combined results of Momentum Insurance Company Limited and Momentum Short Term Insurance Company Limited, now managed as one legal entity, Momentum Insure Company Limited.

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

Accounting year end	Jun-21	Jun-20	Mar-21	Mar-20	Dec-21	Dec-20	Dec-21	Dec-20
Group/Company	**OUTsurance Insurance Company Limited**		**Safire Insurance Company Limited**		**Santam Limited**		**Standard Insurance Limited**	
Gross premiums written	9 407 445	8 856 321	589 297	498 849	31 502 000	29 976 000	3 028 393	2 923 713
Net premiums written	9 271 911	8 729 504	313 808	335 175	24 709 000	23 404 000	2 904 553	2 801 742
Net earned premiums	**9 258 878**	**8 723 230**	**312 552**	**335 729**	**24 663 000**	**23 168 000**	**2 873 237**	**2 776 159**
Total net investment income	**512 011**	**239 858**	**33 791**	**15 540**	**1 551 000**	**603 000**	**149 075**	**155 266**
Reinsurance commission revenue	-	-	92 226	50 187	1 491 000	1 576 000	7 148	7 147
Other income	-	-	4 044	54 846	89 000	79 000	-	-
Total income	**9 770 889**	**8 963 088**	**442 613**	**456 302**	**27 794 000**	**25 426 000**	**3 029 460**	**2 938 572**
Net claims incurred	4 622 979	4 295 846	143 349	178 534	15 282 000	15 953 000	1 358 080	1 218 412
Acquisition costs	28 739	36 189	122 728	114 305	5 758 000	5 622 000	502 033	530 638
Cell owners' transactions	-	-	52	11 551	-	-	-	-
Management and other expenses	2 432 230	2 291 440	105 290	105 604	3 738 000	3 502 000	455 061	471 803
Total expenses	**7 083 948**	**6 623 475**	**371 419**	**409 994**	**24 778 000**	**25 077 000**	**2 315 174**	**2 220 853**
Net profit/(loss) before taxation	**2 686 941**	**2 339 613**	**71 194**	**46 308**	**3 016 000**	**349 000**	**714 286**	**717 719**
Taxation	(751 198)	(671 328)	(18 440)	(12 646)	(739 000)	(110 000)	(193 974)	(191 881)
Net profit/(loss) after taxation	**1 935 743**	**1 668 285**	**52 754**	**33 662**	**2 277 000**	**239 000**	**520 312**	**525 838**
Other comprehensive income	679	(8 143)	-	(88)	-	-	-	-
Total comprehensive income for the year	**1 936 422**	**1 660 142**	**52 754**	**33 574**	**2 277 000**	**239 000**	**520 312**	**525 838**
Transfer to/(from) retained earnings	-	9 471	(83)	3 767	(8 000)	31 000	-	-
Other comprehensive income	(679)	8 143	-	88	-	-	-	-
Dividends	1 848 831	2 198 500	10 033	10 733	497 000	827 000	586 000	250 000
Change in retained earnings	**86 912**	**(539 686)**	**42 804**	**19 162**	**1 788 000**	**(619 000)**	**(65 688)**	**275 838**
Net premium to gross premium	99%	99%	53%	67%	78%	78%	96%	96%
Net claims incurred to net earned premium	50%	49%	46%	53%	62%	69%	47%	44%
Management and other expenses to net earned premium	26%	26%	34%	31%	15%	15%	16%	17%
Combined ratio	77%	76%	89%	104%	94%	101%	80%	80%
Operating ratio	71%	73%	78%	99%	88%	99%	75%	74%
Return on equity	59%	52%	19%	14%	24%	3%	25%	24%

* This reflects the combined results of Momentum Insurance Company Limited and Momentum Short Term Insurance Company Limited, now managed as one legal entity, Momentum Insure Company Limited.

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Life insurance industry results

It has been another intriguing year as life insurers continued to navigate the plethora of complexities resulting from the COVID-19 pandemic. By January 2022, South Africa had experienced four recognisable COVID-19 pandemic waves. During the period under review, the South African government also commenced the roll-out of the national vaccination programme and relaxed certain lockdown restrictions.

It is in the context of this landscape that we present and comment on the results of the life insurance industry for 2021.

Growth

For many, the COVID-19 pandemic highlighted the importance of adequate life insurance cover and protection against possible loss of income. According to the Association for Savings and Investment South Africa (ASISA) statistics, there were 10.4 million new individual recurring premium risk policies (life, disability, dread disease, and income protection cover) bought in the twelve months to December 2021. This is a 17% increase on the 2020 number of new policies of 8.9 million.[1] This was coupled with a welcomed reduction in lapses. ASISA reported that 7.4 million risk policies lapsed during 2021 compared to 10.4 million in 2020 and 8.8 million in 2019.[2]

The Prudential Authority reported that the total net premium income of the life insurance industry had increased by approximately 10.4% to R595.2 billion in 2021 from R539.1 billion in 2020.[3] The life insurance companies that participated in this survey experienced net premium income growth of 9.4%.

The value of new business (VNB) and the VNB margin are important metrics when considering the future profitability of life insurers. The VNB reflects the present value of future profits that insurers expect to earn because of new policies written during the period and the VNB margin reflects the profit margin on these policies.

Included below is the VNB and VNB margin results for the five largest life insurers in South Africa.

	VNB		
R'million	**2021**	**2020**	**2019**
Discovery Limited [4,5] (Discovery)	1 891	1 922	2 622
Liberty Holdings (Liberty) [6,7]	229	24	407
Momentum Metropolitan Holdings (MMH) [8,9]	725	280	541
Old Mutual Limited [10,11] (Old Mutual)	1 300	621	1 865
Sanlam Limited [12,13] (Sanlam)	2 764	1 921	2 280

1 https://www.asisa.org.za/media-releases/life-insurers-well-capitalised-despite-historic-pay-outs-of-r608-billion-in-2021/

2 https://www.asisa.org.za/media-releases/life-insurers-well-capitalised-despite-historic-pay-outs-of-r608-billion-in-2021/

3 https://www.resbank.co.za/content/dam/sarb/publications/reports/pa-annual-reports/2022/Prudential%20Authority%20Annual%20Report%202021%202022.pdf

4 https://www.discovery.co.za/assets/discoverycoza/corporate/investor-relations/2021/new-discovery-annual-financial-statements-2021.pdf

5 https://www.discovery.co.za/assets/discoverycoza/corporate/investor-relations/2020/new-discovery-annual-financial-statements-2020.pdf

6 https://www.libertyholdings.co.za/Documents/Reports/20220606-liberty-annual-report-2021.pdf

7 https://www.libertyholdings.co.za/Documents/Reports/liberty-integrated-report-2020.pdf

8 https://www.momentummetropolitan.co.za/wps/wcm/connect/mmiholdings-za/81652fb0-895c-40fa-86e5885624890b80/full-financial-results-announcement-for-the-year-ending-30-june-2021-booklet.pdf?MOD=AJPERES

9 https://www.momentummetropolitan.co.za/wps/wcm/connect/mmiholdings-za/b65c6ff9-642b-4dff-9f1c12ecc2007640/IAS+Booklet+2020.pdf?MOD=AJPERES

10 https://www.oldmutual.com/v3/assets/blt566c98aeecc1c18b/bltd9a32b4b931f13b9/6261970db04465339a50c45/2021_Integrated_Report.pdf

11 https://eu-assets.contentstack.com/v3/assets/blt566c98aeecc1c18b/bltb81eee85a3559be8/5f30273470d76a3d4e9986a7/2019-annual-results-booklet.pdf

12 https://www.sanlam.com/downloads/results-announcements/2021/Sanlam-Annual-Results-2021.pdf

13 https://www.sanlam.com/downloads/reporting-suite/2020/Sanlam-Annual-Results-2020.pdf

MMH and Sanlam were able to achieve improvement on both their 2020 and 2019 VNB results. Whilst Liberty and Old Mutual achieved improved VNB results in 2021 compared to 2020, these metrics are still lower than they were in 2019 for these two insurers. Improvements in VNB results correlate with the relaxation of national lockdown measures which had previously caused a significant decrease in sales in 2020. Discovery Life reported that its VNB including COVID-19 impacts decreased by 2.4% to R411 million and increased by 12.9% to R586 million excluding the COVID-19 impacts. The difference in the VNB reported for Discovery Life and that reported in the table on the previous page is due to amounts in the table on the previous page reflecting the VNB of the Discovery Group, including other companies in the group.

	VNB Margin		
	2021	2020	2019
Discovery Life* [14, 15]	5.7%	5.8%	10.2%
Liberty [16, 17]	0.5%	0.1%	1.0%
MMH [18, 19]	1.1%	0.6%	1.0%
Old Mutual [20, 21]	1.9%	1.1%	2.6%
Sanlam [22, 23]	2.9%	2.6%	2.9%

**As VNB margins are not disclosed for all segments, we have included the Discovery Life segment VNB margin.*

For many life insurers, results have not yet returned to pre-pandemic levels. It will be important for these insurers to understand the reasons for this and refocus efforts on other drivers of profitability including digital innovation, cost optimisation and pricing reviews. In the early stages of the pandemic, there was debate within the industry around whether the vaccination status of policyholders would be a pricing factor in the pricing of new and renewed products. In 2021, Discovery Life implemented pricing changes to its products that considered the reduced mortality risk of vaccinated policyholders. Similarly, Old Mutual reported that management actions taken to offset the impact of COVID-19 included price increases for individual underwritten new business for unvaccinated lives.

The sustainability of growth will be impacted by the macroeconomic outlook. As reported by Stats SA, real gross domestic product (GDP) annual growth for 2021 was 4.9%[24] and average consumer inflation for 2021 was 4.5%, which is higher than the averages recorded for 2020 (3.3%) and 2019 (4.1%).[25] High unemployment levels and inadequate power supply continue to reduce potential economic growth. Real GDP growth of 2.1% is projected for 2022 by National Treasury.[26]

The COVID-19 pandemic has highlighted the importance of life insurance cover, however, the weak economic outlook and increase in the cost of living will continue to place customers' disposable income under pressure. Insurers will be required to innovate and respond to this to achieve long-term growth.

Market performance

The FTSE/JSE Africa All-Share Index (ALSI) grew by 24% in 2021 – the best performance over a calendar year since 2009 when the market rebounded from the 2008 financial crisis.[27] The performance of the equity markets reflects global optimism regarding South Africa's recovery from the pandemic. The Prudential Authority reported that total assets of life insurers as at 31 December 2021 was R3 724 billion compared to R3 255 billion as at 31 December 2020.[28] The 14% growth in total assets correlates with the performance of the financial markets. The surveyed insurers experienced total asset growth of 10.9%.

14 https://www.discovery.co.za/assets/discoverycoza/corporate/investor-relations/2021/new-discovery-annual-financial-statements-2021.pdf

15 https://www.discovery.co.za/assets/discoverycoza/corporate/investor-relations/2020/new-discovery-annual-financial-statements-2020.pdf

16 https://www.libertyholdings.co.za/Documents/Reports/20220606-liberty-annual-report-2021.pdf

17 https://www.libertyholdings.co.za/Documents/Reports/liberty-integrated-report-2020.pdf

18 https://www.momentummetropolitan.co.za/wps/wcm/connect/mmiholdings-za/81652fb0-895c-40fa-86e5885624890b80/full-financial-results-announcement-for-the-year-ending-30-june-2021-booklet.pdf?MOD=AJPERES

19 https://www.momentummetropolitan.co.za/wps/wcm/connect/mmiholdings-za/b65c6ff9-642b-4dff-9f1c12ecc2007640/IAS+Booklet+2020.pdf?MOD=AJPERES

20 https://www.oldmutual.com/v3/assets/blt566c98aeecc1c18b/bltd9a32b4b931f13b9/6261970db04465339a50c45/2021_Integrated_Report.pdf

21 https://eu-assets.contentstack.com/v3/assets/blt566c98aeecc1c18b/bltb81eee85a3559be8/5f30273470d76a3d4e9986a7/2019-annual-results-booklet.pdf

22 https://www.sanlam.com/downloads/results-announcements/2021/Sanlam-Annual-Results-2021.pdf

23 https://www.sanlam.com/downloads/reporting-suite/2020/Sanlam-Annual-Results-2020.pdf

24 https://www.statssa.gov.za/?p=15214

25 https://www.statssa.gov.za/?p=15080

26 http://www.treasury.gov.za/documents/national%20budget/2022/review/Chapter%202.pdf

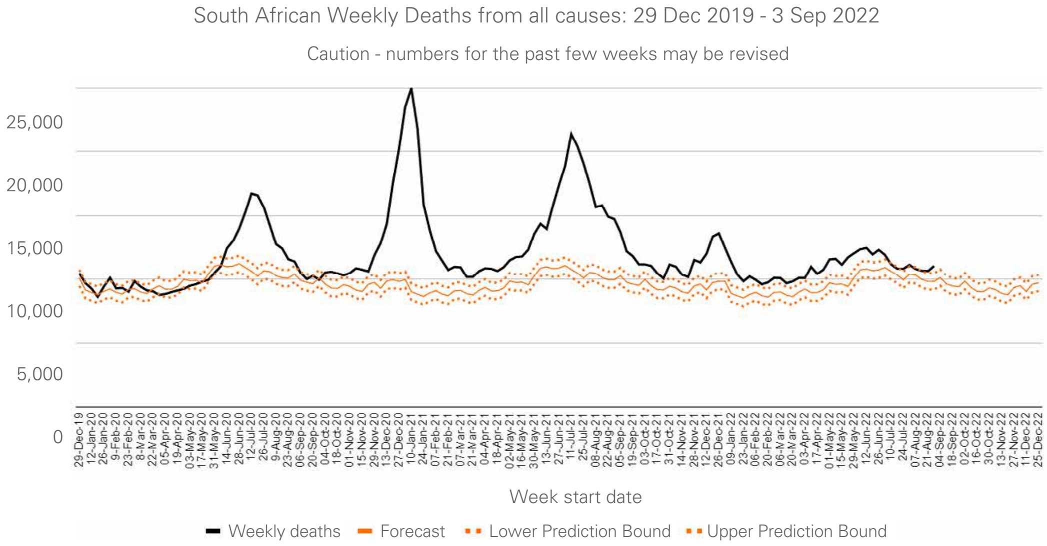
27 https://www.iol.co.za/personal-finance/investments/2021-the-year-financial-markets-soared-while-the-economy-sagged-8c307aa8-e829-41c9-aefa-fde36ff8d1ba

28 https://www.resbank.co.za/content/dam/sarb/publications/reports/pa-annual-reports/2022/Prudential%2Authority%20Annual%20Report%202021%202022.pdf

Pandemic reserves and claims experience

Differences in reporting periods continue to pose a challenge when comparing results. The general sentiment, however, is that the impact of the pandemic was significantly worse than estimated by insurers in the previous period as South Africa experienced severe second and third waves.

South African Medical Research Council (SAMRC) – Weekly deaths compared to forecasted[29] deaths[30]



In March 2022, ASISA reported that more than half a million claims were received between 1 April 2021 and 30 September 2021 with a cumulative value of R44.4 billion.[31] Included to the right is a summary of how this compares to the 2019 (pre-pandemic) period.

29 The black line represents the number of people who actually died. This number requires some estimation as information provided to the Department of Home Affairs and SAMRC is incomplete. This "actual" experience is then compared to the historic average experience (solid orange line) which has a best estimate and an upper and lower range (dotted orange line; set to a 95% confidence level).

30 https://www.samrc.ac.za/reports/report-weekly-deaths-south-africa

31 https://www.asisa.org.za/media-releases/life-insurers-report-a-surge-in-death-claims-during-covid-19-third-wave/

32 https://www.asisa.org.za/media-releases/life-insurers-report-a-surge-in-death-claims-during-covid-19-third-wave/

33 https://www.momentummetropolitan.co.za/en/media/2021-09-08

Claim category	Six-month period 1 April 2021 – 30 September 2021 (third COVID-19 wave)		Six-month period 1 April 2019 – 30 September 2019 (pre-COVID-19)	
	Count of death claims	Value of benefits paid	Count of death claims	Value of benefits paid
Individual life	32 111	R23.46 billion	19 323	R9.52 billion
Group life	94 856	R12.52 billion	59 655	R4.35 billion
Funeral	424 657	R7.37 billion	280 196	R4.35 billion
Credit life	13 880	R1.07 billion	10 718	R0.43 billion
Total	**565 522**	**R44.42 billion**	**369 892**	**R19.53 billion**

The SAMRC graph indicates that the second wave reached the highest peak in terms of weekly number of deaths. In terms of count of and cumulative value of death claims, however, the third wave was more severe than the first two waves of the pandemic. This was due to a longer wave and the emergence of the Delta variant which was more transmissible. ASISA reported that life insurers experienced a total number of death claims of 1 023 083 (to a value of R47.58 billion) for the twelve-month period 1 April 2020 – 31 March 2021.[32] For entities with June year ends, the financial year kicked off during the first wave (SARS-Cov-2) and ended during the third wave (Delta variant):

Discovery	At the end of the previous year, Discovery projected that South Africa would experience a severe second wave and recognised a R2 billion pandemic provision. The provision proved to be largely adequate for retail business claims, because of the positive lapse experience which offset increased mortality. At 30 June 2021, based on the expected mortality claims from the run-off of the third wave into the 2022 financial year as well a predicted fourth wave, Discovery recognised an additional R1.8 billion pandemic reserve. Discovery also responded to the uncertainty surrounding the pandemic by not declaring any ordinary dividends for the 2021 financial year.
MMH[33]	MMH reported that their South African life insurance businesses paid R10.7 billion in death claims during the year which was significantly higher than their average of R5.6 billion per year paid over the three years preceding the pandemic. In addition, the group recognised additional COVID-19 pandemic reserves of R2.2 billion to cover an extended period of future COVID-19 claims.

For entities with December year ends, the financial year commenced during the second wave (Beta variant) and ended during the fourth wave (Omicron variant):

Liberty	By 31 December 2021, with the emergence of the highly contagious Omicron variant, evidence of significant reinfection and post-vaccination infection, Liberty concluded that herd immunity was no longer considered to be attainable for the foreseeable future. The insurer assumed that 100% of their population of lives insured would become infected with COVID-19 either during the fourth wave or subsequent waves, whether they had been previously infected or not and whether they had been vaccinated or not. Liberty reported that R3.47 billion in COVID-19 related claims were paid out in 2021.
Old Mutual	Old Mutual Life Assurance Company (South Africa) Limited reported that the pandemic reserves raised at December 2020 and June 2021 were insufficient to fully cover excess deaths. Additional pandemic reserves of R3.6 billion were raised by the group.[34] The closing provisions were established taking January 2022 infection results into account and assumed no future variant wave that surpasses immunity would take place. This means that it was assumed that each future wave would have a decreasing contribution to excess mortality considering vaccinations, immunity through past infection and less virulent variants.
Sanlam	The Sanlam group recorded total excess mortality claims of R4.2 billion. Consistent with the rest of the industry, excess mortality claims were most severe in the second and third waves. The fourth wave in the final quarter of 2021 had less of an impact on excess mortality claims relative to previous waves. The group reported that corporate business was impacted much more than retail business and indicated that this resulted from the consistent under-pricing of premiums for pandemics. Sanlam also increased discretionary capital from R636 million as at 31 December 2020 to R2.9 billion as at 31 December 2021 in response to the uncertainty of the pandemic. The group has historically maintained discretionary capital of around R1.0 billion.

Studies indicate that the Omicron wave had a higher and quicker peak but generally resulted in fewer patients being admitted to hospital, less clinically severe illness and a lower case-fatality ratio compared to previous waves.[35] In August 2022, Old Mutual posted an 87% increase in results from operations and reported that the impact of the pandemic had become muted in the first half of 2022.[36] Similarly, for the six-month period ended 30 June 2022, Discovery reported that the impact of COVID-19 had eased with the South African composite expecting normalised operating profit to increase by between 38% and 43%.[37] These are positive indicators that potentially signal that the COVID-19 pandemic is closer to achieving endemic status.

Most insurers established specific pandemic reserves related to COVID-19 and did not adjust long-term assumptions. It will be interesting to see if or how this is impacted by 'long COVID'. The World Health Organisation (WHO) defines long COVID as a "post COVID-19 condition that occurs in individuals with a history of probable or confirmed SARS-CoV-2 infection, usually three months from the onset of COVID-19 with symptoms that last for at least two months and cannot be explained by an alternative diagnosis". The National Institute for Communicable Diseases (NICD) reported that it is presently believed that as many as one in ten people who become ill with COVID-19 will not have recovered fully nine months after their acute illness. Doctors and scientists are trying to fully understand why some people develop long COVID.[38]

The range of potential long COVID symptoms is wide and includes severe fatigue, breathing difficulties, "brain fog", muscle pain, anxiety and depression. These symptoms may cause a delay in the amount of time individuals take to return to work after infection and in more severe cases, their ability to return to work at all.

Sanlam, Discovery, and Liberty communicated similar views on the impact of long COVID. Given that long COVID is not yet well understood medically, it will be 'business as usual' during the underwriting process. Policy applicants who present long COVID symptoms will disclose these as part of the normal health screening process. Their individual risk will be assessed, and premiums will be priced accordingly. These insurers also reported that existing policyholders would not be impacted.[39]

34 https://www.oldmutual.com/v3/assets/blt566c98aeecc1c18b/blt8c5bed9d0b40e9c0/623c012e46d8c56f3f76b2f/2022-03-24_OMLACSA_AFS_2021.pdf

35 https://www.thelancet.com/pdfs/journals/langlo/PIIS2214-109X(22)00114-0.pdf

36 https://www.oldmutual.com/v3/assets/blt566c98aeecc1c18b/blt14c5385091dd54d7/630d8e1efd13b07e10e069f3/Media_Release.pdf

37 https://www.moneyweb.co.za/mny_sens/discovery-limited-trading-statement-for-the-year-ended-30-june-2022/

38 https://www.nicd.ac.za/diseases-a-z-index/disease-index-covid-19/long-covid/#:~:text=According%20to%20The%20World%20Health,explained%20by%20an%20alternative%20diagnosis.

39 https://www.news24.com/health24/medical/infectious-diseases/coronavirus/long-covid/long-covid-how-3-sa-insurance-companies-are-handling-sickness-disability-claims-and-life-cover-20220304-3

Life insurers also experienced significant increases in the number of detected fraudulent and dishonest claims. In May 2022, ASISA released the fraudulent and dishonest claims statistics for 2021 which indicated that similarly to previous periods, funeral insurance attracted the highest incidence of these claims followed by death cover, disability cover, hospital cash plans and retrenchment benefit cover. Life insurers detected 4 287 (2020: 3 186) fraudulent and dishonest claims worth R787.6 million (2020: R587.3 million). ASISA attributed the increase to the deployment of sophisticated detection mechanisms including the use of artificial intelligence and data sharing. Strict national lockdown measures in 2020 also prevented forensic investigators from performing field investigations. With the relaxation of these measures, investigations were largely back to normal which assisted in the detection of more syndicate operations.[40]

Solvency

Despite these high pay-outs, the life insurance industry remained well capitalised. The Prudential Authority reported that primary life insurers held assets and liabilities of R3 695 billion and R3 343 billion respectively as at 31 December 2021 and had an average solvency capital ratio (SCR) of 1.7.[41] [42] The five largest life insurers achieved the following SCR results at June/December 2021:

	SCR
Discovery*	1.80
Liberty	1.72
MMH	1.70
Old Mutual	1.84
Sanlam	1.73

*Discovery Life

Other notable corporate activities

- In July 2021, Liberty and the Standard Bank Group (SBG) announced SBG's firm intention to acquire all the issued Liberty shares that it did not already own. Liberty and SBG entered into an implementation agreement which would result in Liberty becoming a wholly owned subsidiary of SBG in 2022.[43] This was finalised and in 2022 Liberty is now a 100% held subsidiary of SBG.
- On 20 September 2021, Rand Merchant Investment Holdings Limited announced their intention to restructure their business and will unbundle their shareholding in Discovery as part of this restructuring process.[44]
- Sanlam announced the establishment of an InsurTech strategic alliance with MTN. The alliance will allow for the distribution of a wide range of insurance and investment products to the mobile operator's customers. Sanlam expects that this will significantly enhance the financial inclusion of consumers that are currently not reached through traditional distribution channels.[45]

Conclusion

Life insurers faced another turbulent year. The industry experienced improvements in the volume and profitability of new business and welcomed a positive lapse experience and better equity and bond market performance. The period also saw the highest recorded level of claim and benefit payments and South African economic growth lagged behind global markets. The industry demonstrated its resilience once again and was able to remain well capitalised and meet policyholder obligations.

40 https://www.asisa.org.za/media-releases/life-insurers-uncover-record-numbers-of-fraudulent-and-dishonest-claims-in-2021/

41 https://www.resbank.co.za/content/dam/sarb/publications/reports/pa-annual-reports/2022/Prudential%2 Authority%20Annual%20Report%202021%202022.pdf

42 Primary life insurers

43 https://www.libertyholdings.co.za/Documents/Reports/20220606-liberty-annual-report-2021.pdf

44 https://www.discovery.co.za/assets/discoverycoza/corporate/investor-relations/2021/discovery-integrated-annual-report-2021.pdf

LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Jun-21	Jun-20	Dec-21	Dec-20	Nov-21	Nov-20	Jun-21	Jun-20	Jun-21	Jun-20
Group/Company	**1Life Insurance (RF) Limited**		**Absa Life Limited**		**AIG Life South Africa Limited**		**Assupol Life Limited**		**AVBOB Mutual Assurance Society**	
Classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Society*	
Share capital and premium	398 000	398 000	24 000	24 000	10 000	10 000	490 019	490 019	-	-
Retained earnings/(deficit)	1 079 377	1 286 009	779 516	1 093 476	235 429	261 769	3 812 076	3 683 549	6 229 444	6 192 859
Other reserves	-	-	5 398	1 154	-	-	273 705	244 752	-	-
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
Total shareholders' funds	**1 477 377**	**1 684 009**	**808 914**	**1 118 630**	**245 429**	**271 769**	**4 575 800**	**4 418 320**	**6 229 444**	**6 192 859**
Policyholder liabilities under insurance and reinsurance contracts and contracts with DPFs	535 708	285 442	2 483 423	1 594 658	44 088	43 666	-	-	16 020 837	12 371 975
Policyholder liabilities under investment contracts	2 447 601	2 102 996	21 185 126	24 698 775	-	-	3 920 585	3 376 877	-	-
Preference share liability	-	-	-	-	-	-	-	-	-	-
Linked liability	-	-	-	-	-	-	-	-	-	-
Reinsurance contract liability	-	-	-	-	-	-	-	-	-	-
Cell owners' interest	-	-	104 648	130 541	-	-	-	-	-	-
Current tax payable	1 066	15 464	-	-	-	-	-	9 437	2 553	-
Deferred tax liability	284 271	354 930	131 175	193 180	-	-	797 888	807 856	194 671	39 223
Other liabilities	161 618	153 816	653 348	420 146	12 880	4 056	973 194	891 096	5 652 223	2 595 042
Total liabilities	**3 430 264**	**2 912 648**	**24 557 720**	**27 037 300**	**56 968**	**47 722**	**5 691 667**	**5 085 266**	**21 870 284**	**15 006 240**
Total investments	**3 084 690**	**2 681 313**	**24 354 626**	**27 266 551**	**192 707**	**140 472**	**6 707 940**	**5 646 691**	**24 474 211**	**17 218 546**
Assets arising from insurance contracts	1 340 409	1 485 217	-	-	-	-	2 596 285	2 953 399	-	-
PPE, goodwill and intangible assets, non-current assets classified as held for sale	-	-	51 821	22 949	-	-	335 619	340 645	312 792	273 992
Reinsurers' share of policyholder liabilities	300 062	170 333	178 843	93 060	-	-	100 592	22 514	23 860	17 185
Deferred acquisition costs	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	123 147	224 069	365 230	317 430	39 106	103 954	326 103	391 634	2 521 848	2 980 431
Other assets	59 333	35 725	271 210	294 086	63 468	61 261	198 405	148 703	767 017	704 881
Income/Deferred tax asset	-	-	144 904	161 854	7 116	13 804	2 523	-	-	4 064
Deposits held with cell option	-	-	-	-	-	-	-	-	-	-
Total assets	**4 907 641**	**4 596 657**	**25 366 634**	**28 155 930**	**302 397**	**319 491**	**10 267 467**	**9 503 586**	**28 099 728**	**21 199 099**
Total assets/Total liabilities	143%	158%	103%	104%	531%	669%	180%	187%	128%	141%
Increase in shareholders' funds	(12%)		(28%)		(10%)		4%		1%	

LIFE INSURERS | Statement of Financial Position | R'000

Accounting Year end	Dec-21	Dec-20	Jun-21	Jun-20	Jun-21	Jun-20	Jun-21	Jun-20	Jun-21	Jun-20
Group /Company	**Centriq Life Insurance Company Limited**		**Clientele Life Limited**		**Guardrisk Life Limited**		**Hollard Life Assurance Company Limited**		**Hollard Specialist Life Assurance Company Limited**	
Classification	*Cell captive*		*Traditional*		*Cell captive*		*Traditional*		*Traditional*	
Share capital and premium	15 000	15 000	4 853	4 853	70 000	70 000	20 000	20 000	94 687	94 687
Retained earnings/(deficit)	24 492	18 085	692 434	693 518	307 041	270 016	1 327 568	1 475 290	862 152	808 614
Other reserves	-	-	19 318	17 858	-	-	-	-	-	-
Non-controlling interests	-	-	-	-	-	-	-	-	20 901	39 332
Total shareholders' funds	**39 492**	**33 085**	**716 605**	**716 229**	**377 041**	**340 016**	**1 347 568**	**1 495 290**	**977 740**	**942 633**
Policyholder liabilities under insurance and reinsurance contracts and contracts with DPFs	174 754	120 916	841 961	733 103	9 471 072	7 865 046	2 595 812	1 553 227	(96 686)	246 559
Policyholder liabilities under investment contracts	-	-	7 325 437	7 392 569			25 852 351	23 660 062	104 460	(318 251)
Preference share liability	-	-	-	-	-	-	-	-	-	-
Linked liability	-	-	-	-	-	-	-	-	-	-
Reinsurance contract liability	89 485	160 597	-	-	1 915 941	1 690 937	172 287	219 800	2 812	(3 074)
Cell owners' interest	656 514	680 078	-	-	4 442 281	3 301 627	-	-	-	-
Current tax payable	5 097	3 324	8 545	4 122	118 696	122 379	-	-	6 422	-
Deferred tax liability	367	358	-	-	-	-	942 825	631 971	144 627	149 302
Other liabilities	303 539	224 996	547 436	535 845	330 972	264 448	1 989 662	2 462 047	122 845	171 577
Total liabilities	**1 229 756**	**1 190 269**	**8 723 379**	**8 665 639**	**16 278 962**	**13 244 437**	**31 552 937**	**28 527 107**	**284 480**	**246 113**
Total investments	**869 536**	**868 330**	**8 263 450**	**8 188 368**	**14 124 074**	**10 650 215**	**26 742 472**	**24 233 370**	**661 607**	**591 559**
Assets arising from insurance contracts	-	-	-	-	-	-	-	-	-	-
PPE, goodwill and intangible assets, non-current assets classified as held for sale	-	-	285 317	303 318	16	79	351 095	437 127	1 764	5 288
Reinsurers' share of policyholder liabilities	17 832	26 426	91 128	38 738	686 600	707 184	952 098	621 827	127 459	126 305
Deferred acquisition costs	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	212 591	97 266	378 618	394 687	881 235	1 367 643	2 143 841	3 081 187	425 560	413 209
Other assets	79 804	70 735	292 991	287 379	568 126	437 154	697 539	691 713	37 085	35 492
Income/Deferred tax asset	-	-	128 480	169 378	395 952	422 178	2 013 460	957 173	8 745	16 893
Deposits held with cell option	89 485	160 597	-	-	-	-	-	-	-	-
Total assets	**1 269 248**	**1 223 354**	**9 439 984**	**9 381 868**	**16 656 003**	**13 584 453**	**32 900 505**	**30 022 397**	**1 262 220**	**1 188 746**
Total assets/Total liabilities	103%	103%	108%	108%	102%	103%	104%	105%	444%	483%
Increase in shareholders' funds	19%		0%		11%		(10%)		4%	

LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-21	Dec-20	Jun-21	Jun-20	Dec-21	Dec-20	Dec-21	Dec-20	Dec-21	Dec-20
Group/Company	**Liberty Group Limited**		**Momentum Metropolitan Life Limited**		**Nedgroup Life Assurance Company Limited**		**Nedgroup Structured Life Limited**		**Old Mutual Alternative Risk Transfer Limited**	
Classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Cell captive*	
Share capital and premium	141 000	141 000	1 041 000	1 041 000	55 000	55 000	26 351	26 351	12 425	12 425
Retained earnings/(deficit)	15 398 000	15 708 000	5 104 000	6 286 000	2 089 638	1 595 571	71 355	65 998	41 572	40 560
Other reserves	499 000	610 000	5 339 000	5 481 000	-	-	-	-	44	70
Non-controlling interests	6 335 000	6 487 000	-	-	-	-	-	-	-	-
Total shareholders' funds	**22 373 000**	**22 946 000**	**11 484 000**	**12 808 000**	**2 144 638**	**1 650 571**	**97 706**	**92 349**	**54 041**	**53 055**
Policyholder liabilities under insurance and reinsurance contracts and contracts with DPFs	237 478 000	216 574 000	132 867 000	120 062 000	1 846 577	2 165 078	-	-	1 425 241	1 312 520
Policyholder liabilities under investment contracts	120 822 000	104 466 000	270 558 000	241 431 000	4 154 587	8 043 035	13 738 753	12 824 552	4 428 801	4 308 824
Preference share liability	-	-	-	-	-	-	-	-	-	-
Linked liability	-	-	-	-	-	-	-	-	-	-
Reinsurance contract liability	205 000	206 000	-	-	-	-	-	-	-	-
Cell owners' interest	-	-	-	-	-	-	-	-	338 377	631 417
Current tax payable	688 000	178 000	-	41 000	1 390	-	-	-	6 294	13 092
Deferred tax liability	1 936 000	2 115 000	999 000	981 000	30 150	10 653	-	-	-	-
Other liabilities	46 893 000	59 061 000	26 903 000	28 225 000	127 316	136 593	1 982	1 640	211 191	216 756
Total liabilities	**408 022 000**	**382 600 000**	**431 327 000**	**390 740 000**	**6 160 020**	**10 355 359**	**13 740 735**	**12 826 192**	**6 409 904**	**6 482 609**
Total investments	**407 808 000**	**382 737 000**	**413 072 000**	**378 787 000**	**7 357 899**	**11 336 525**	**13 821 168**	**12 905 082**	**4 813 757**	**5 285 151**
Assets arising from insurance contracts	2 868 000	5 050 000	-	-	-	-	-	-	-	-
PPE, goodwill and intangible assets, non-current assets classified as held for sale	2 057 000	2 241 000	4 361 000	4 285 000	214 462	1 345	-	-	-	-
Reinsurers' share of policyholder liabilities	2 921 000	2 539 000	2 312 000	2 156 000	225 698	269 822	-	-	1 050 469	657 430
Deferred acquisition costs	751 000	761 000	-	-	-	-	-	-	-	-
Cash and cash equivalents	9 138 000	7 286 000	18 590 000	14 885 000	341 573	232 718	8 786	2 430	409 908	411 054
Other assets	4 788 000	4 885 000	4 140 000	3 435 000	165 026	160 977	6 547	11 029	189 531	181 722
Income/Deferred tax asset	64 000	47 000	336 000	-	-	4 543	1 940	-	280	307
Deposits held with cell option	-	-	-	-	-	-	-	-	-	-
Total assets	**430 395 000**	**405 546 000**	**442 811 000**	**403 548 000**	**8 304 658**	**12 005 930**	**13 838 441**	**12 918 541**	**6 463 945**	**6 535 664**
Total assets/Total liabilities	105%	106%	103%	103%	135%	116%	101%	101%	101%	101%
Increase in shareholders' funds	(2%)		(10%)		30%		6%		2%	

LIFE INSURERS | Statement of Financial Position | R'000

Accounting Year end	Dec-21	Dec-20	Jun-21	Jun-20	Dec-21	Dec-20	Jun-21	Jun-20
Group /Company	**Old Mutual Life Assurance Company (South Africa) Limited**		**OUTsurance Life Insurance Company Limited**		**Sanlam Limited**		**The Standard General Insurance Company Limited**	
Classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*	
Share capital and premium	6 423 000	6 423 000	445 002	445 002	12 784 000	12 784 000	26 500	26 500
Retained earnings/(deficit)	26 966 000	27 621 000	201 978	182 360	52 188 000	49 178 000	126 085	152 754
Other reserves	(311 000)	(536 000)	787	(197)	4 407 000	2 750 000	-	-
Non-controlling interests	-	-	-	-	13 517 000	12 512 000	-	-
Total shareholders' funds	**33 078 000**	**33 508 000**	**647 767**	**627 165**	**82 896 000**	**77 224 000**	**152 585**	**179 254**
Policyholder liabilities under insurance and reinsurance contracts and contracts with DPFs	355 214 000	317 600 000	843 448	535 528	244 217 000	240 695 000	71 159	109 476
Policyholder liabilities under investment contracts	376 396 000	317 786 000	37 181	23 508	454 538 000	434 584 000	-	-
Preference share liability	-	-	-	-	-	-	-	-
Linked liability	-	-	-	-	-	-	-	-
Reinsurance contract liability	-	-	-	-	-	-	-	-
Cell owners' interest	-	-	-	-	4 900 000	4 226 000	-	-
Current tax payable	310 000	201 000	-	-	2 556 000	2 542 000	-	2 545
Deferred tax liability	5 385 000	3 388 000	29 689	29 947	7 311 000	5 810 000	-	-
Other liabilities	57 276 000	54 869 000	90 925	205 562	259 760 000	177 589 000	143 678	90 457
Total liabilities	**794 581 000**	**693 844 000**	**1 001 243**	**794 545**	**973 282 000**	**865 446 000**	**214 837**	**202 478**
Total investments	**789 997 000**	**693 959 000**	**1 266 949**	**1 117 220**	**834 287 000**	**812 948 000**	**23 751**	**10 392**
Assets arising from insurance contracts	-	-	-	-	24 243 000	19 976 000	-	-
PPE, goodwill and intangible assets, non-current assets classified as held for sale	7 513 000	7 463 000	-	-	104 356 000	25 667 000	9 819	11 773
Reinsurers' share of policyholder liabilities	3 704 000	3 366 000	177 199	118 501	2 188 000	2 258 000	12 833	23 486
Deferred acquisition costs	1 214 000	1 219 000	-	-	3 225 000	3 374 000	123 144	105 772
Cash and cash equivalents	6 700 000	5 840 000	148 800	141 167	27 701 000	30 094 000	102 961	189 631
Other assets	17 446 000	14 926 000	15 673	8 645	55 806 000	44 568 000	62 992	14 300
Income/Deferred tax asset	1 085 000	579 000	40 389	36 177	4 372 000	3 785 000	31 922	26 378
Deposits held with cell option	-	-	-	-	-	-	-	-
Total assets	**827 659 000**	**727 352 000**	**1 649 010**	**1 421 710**	**1 056 178 000**	**942 670 000**	**367 422**	**381 732**
Total assets/Total liabilities	104%	105%	165%	179%	109%	109%	171%	189%
Increase in shareholders' funds	(1%)		3%		7%		(15%)	

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-21	Jun-20	Dec-21	Dec-20	Nov-21	Nov-20	Jun-21	Jun-20	Jun-21	Jun-20
Group/Company	**1Life Insurance (RF) Limited**		**Absa Life Limited**		**AIG Life South Africa Limited**		**Assupol Life Limited**		**AVBOB Mutual Assurance Society**	
Classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Society*	
Recurring premiums	1 498 061	1 441 756	4 624 178	4 352 852	289 799	344 100			5 188 496	4 734 566
Single premiums	-	-	-	-	-	-	4 359 112	4 003 620	6 488	4 398
Other premiums	-	-	-	-	-	-			-	-
Reinsurance premiums	159 334	160 051	815 666	782 364	23 816	26 286	145 113	122 411	1 957	1 945
Net premium income	**1 338 727**	**1 281 705**	**3 808 512**	**3 570 488**	**265 983**	**317 814**	**4 213 999**	**3 881 209**	**5 193 027**	**4 737 019**
Service fees from investment contracts	**-**	**-**	**50 680**	**49 190**	**-**	**-**	**63 333**	**68 078**	**-**	**-**
Total net investment income	**43 693**	**55 510**	**2 035 588**	**1 458 981**	**8 223**	**14 140**	**709 111**	**204 037**	**3 696 133**	**220 576**
Commission received	-	-	-	-	-	-	74	6 783	-	-
Other unallocated income	11 467	15 620	-	-	-	-	611	3 177	4 039	778
Total income	**1 393 887**	**1 352 835**	**5 894 780**	**5 078 659**	**274 206**	**331 954**	**4 987 128**	**4 163 284**	**8 893 199**	**4 958 373**
Death/Disability			2 960 090	1 658 454			1 172 522	647 872	2 069 766	1 387 555
Maturities			74 917	59 768			200 018	98 881	1 301	558
Annuities	754 132	473 628	-	-	57 712	82 101	31 797	24 160	-	-
Surrenders			112 467	101 990			23 861	35 560	293 120	210 484
Withdrawals and other benefits			118 170	302 908			588 180	382 769	318 690	288 346
Reinsurance recoveries	(187 765)	(154 914)	(656 755)	(303 305)	(7 709)	(7 849)	(261 272)	(97 814)	(613)	(1 087)
Net policyholder benefits under insurance contracts	**566 367**	**318 714**	**2 608 889**	**1 819 815**	**50 003**	**74 252**	**1 755 106**	**1 091 428**	**2 682 264**	**1 885 856**
Change in cell owners' liability	-	-	(39 985)	(46 725)	-	-	-	-	-	-
Change in assets arising from insurance contracts	105 785	(54 191)	-	-	-	-	-	-	-	-
Change in policyholder liabilities under insurance contracts	159 560	88 887	356 669	(140 667)	422	(14 330)	279 036	21 418	3 669 695	1 159 987
Fair value adjustments on policyholder liabilities under investment contracts	-	409	1 662 622	1 260 925	-	-	322 265	191 247	-	-
Acquisition costs	183 313	167 902	676 519	689 772	69 907	83 909	888 404	823 150	867 241	640 925
Administration, management and other expenses	647 447	708 464	667 165	580 164	86 372	75 825	1 210 471	1 239 552	1 377 133	1 221 113
Total expenses	**1 662 472**	**1 230 185**	**5 931 879**	**4 163 284**	**206 704**	**219 656**	**4 455 282**	**3 366 795**	**8 596 333**	**4 907 881**
Equity-accounted earnings (incl. hyper-inflationary adjustments)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit/(Loss) before tax	**(268 585)**	**122 650**	**(37 099)**	**915 375**	**67 502**	**112 298**	**531 846**	**796 489**	**296 866**	**50 492**

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-21	Jun-20	Dec-21	Dec-20	Nov-21	Nov-20	Jun-21	Jun-20	Jun-21	Jun-20
Group/Company	**1Life Insurance (RF) Limited**		**Absa Life Limited**		**AIG Life South Africa Limited**		**Assupol Life Limited**		**AVBOB Mutual Assurance Society**	
Tax	(61 953)	36 684	94 861	333 195	18 842	31 322	171 116	221 924	260 454	43 109
Profit/(Loss) after tax	**(206 632)**	**85 966**	**(131 960)**	**582 180**	**48 660**	**80 976**	**360 730**	**574 565**	**36 412**	**7 383**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**173**	**(264)**
Total comprehensive income/ for the year	**(206 632)**	**85 966**	**(131 960)**	**582 180**	**48 660**	**80 976**	**360 730**	**574 565**	**36 585**	**7 119**
Other transfer to/(from) retained income	-	-	-	-	-	-	-	-	-	-
Other comprehensive income not charged against retained earnings	-	-	-	-	-	-	-	(20 000)	-	-
Ordinary dividends	-	-	182 000	1 004 000	75 000	50 000	232 208	316 159	-	-
Allocated to preference shareholders	-	-	-	-	-	-	-	-	-	-
Allocated to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Change in retained earnings	**(206 632)**	**85 966**	**(313 960)**	**(421 820)**	**(26 340)**	**30 976**	**128 522**	**238 406**	**36 585**	**7 119**
Management expenses to net premium and service fees on investment contracts	48%	55%	17%	16%	32%	24%	28%	31%	27%	26%
Tax as a % of NIBT	23%	30%	(256%)	36%	28%	28%	32%	28%	88%	85%
Comments	Company		Company		Company		Company		Society	

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-21	Dec-20	Jun-21	Jun-20	Jun-21	Jun-20	Jun-21	Jun-20	Jun-21	Jun-20
Group/Company	**Centriq Life Insurance Company Limited**		**Clientele Life Limited**		**Guardrisk Life Limited**		**Hollard Life Assurance Company Limited**		**Hollard Specialist Life Assurance Company Limited**	
Classification	*Cell captive*		*Traditional*		*Cell captive*		*Traditional*		*Traditional*	
Recurring premiums			1 800 064	1 755 622	8 065 017	7 595 147	6 694 178	6 793 748	5 737	8 194
Single premiums	4 175 425	2 594 508	-	-	-	-	-	-	651 555	689 680
Other premiums			-	-	-	-	161 238	147 927	43 244	39 304
Reinsurance premiums	4 089 047	2 578 730	127 960	125 566	6 908 102	6 299 783	1 541 920	1 632 125	3 020	4 003
Net premium income	**86 378**	**15 778**	**1 672 104**	**1 630 056**	**1 156 915**	**1 295 364**	**5 313 496**	**5 309 550**	**697 516**	**733 175**
Service fees from investment contracts	**-**	**-**	**37 853**	**39 583**	**-**	**-**	**-**	**-**	**-**	**-**
Total net investment income	**42 463**	**48 049**	**490 194**	**875 623**	**1 032 257**	**814 359**	**333 082**	**58 649**	**87 840**	**66 535**
Commission received	160 160	104 352	-	-	40 596	45 307	-	-	-	-
Other unallocated income	-	75	105 649	119 840	-	-	211 780	268 155	13 683	12 101
Total income	**289 001**	**168 254**	**2 305 800**	**2 665 102**	**2 229 768**	**2 155 030**	**5 858 358**	**5 636 354**	**799 039**	**811 811**
Death/Disability			284 396	187 691			5 127 294	2 937 886	28 408	11 612
Maturities			-	-			1 683	18 043	84	10
Annuities	2 156 735	1 157 922	-	-	3 572 808	2 287 420	1 442	1 734	-	-
Surrenders			242 422	181 243			16 570	20 678	-	-
Withdrawals and other benefits			24 031	25 132			63 052	63 301	333 533	249 689
Reinsurance recoveries	(2 126 544)	(1 151 121)	(171 721)	(110 173)	(3 553 799)	(2 275 982)	(1 982 948)	(1 154 019)	(24 477)	(24 339)
Net policyholder benefits under insurance contracts	**30 191**	**6 801**	**379 128**	**283 893**	**19 009**	**11 438**	**3 227 093**	**1 887 623**	**337 548**	**236 972**
Change in cell owners' liability	31 171	31 680	-	-	305 886	207 758	-	-	-	-
Change in assets arising from insurance contracts	-	-	(52 390)	(35 870)	(408 631)	(287 912)	-	-	-	-
Change in policyholder liabilities under insurance contracts	(2 368)	(1 325)	108 858	114 983	(234 113)	(213 295)	521 303	892 720	88 030	(68 638)
Fair value adjustments on policyholder liabilities under investment contracts	-	(2 724)	319 600	832 722	672 573	536 068	-	-	10 831	3 538
Acquisition costs	123 154	79 595	911 191	868 384	1 567 885	1 575 596	475 427	459 949	27 743	70 886
Administration, management and other expenses	72 840	29 113	221 516	195 429	165 054	159 842	2 063 918	2 479 172	218 768	240 995
Total expenses	**254 988**	**143 140**	**1 887 903**	**2 259 541**	**2 087 663**	**1 989 495**	**6 287 741**	**5 719 464**	**682 920**	**483 753**
Equity-accounted earnings (incl. hyper-inflationary adjustments)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit/(Loss) before tax	**34 013**	**25 114**	**417 897**	**405 561**	**142 105**	**165 535**	**(429 383)**	**(83 110)**	**116 119**	**328 058**

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-21	Dec-20	Jun-21	Jun-20	Jun-21	Jun-20	Jun-21	Jun-20	Jun-21	Jun-20
Group/Company	**Centriq Life Insurance Company Limited**		**Clientele Life Limited**		**Guardrisk Life Limited**		**Hollard Life Assurance Company Limited**		**Hollard Specialist Life Assurance Company Limited**	
Tax	9 524	7 032	150 425	118 150	33 580	40 712	(751 746)	(528 256)	31 368	96 187
Profit/(Loss) after tax	**24 489**	**18 082**	**267 472**	**287 411**	**108 525**	**124 823**	**322 363**	**445 146**	**84 751**	**231 871**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income/ for the year	**24 489**	**18 082**	**267 472**	**287 411**	**108 525**	**124 823**	**322 363**	**445 146**	**84 751**	**231 871**
Other transfer to/(from) retained income	-	-	-	786	-	-	-	-	-	-
Other comprehensive income not charged against retained earnings	-	-	-	-	-	-	-	-	-	-
Ordinary dividends	18 082	13 354	268 556	360 000	71 500	76 000	470 085	194 732	29 850	58 330
Allocated to preference shareholders	-	-	-	-	-	-	-	-	-	-
Allocated to non-controlling interests	-	-	-	-	-	-	-	-	(1 363)	(26 048)
Change in retained earnings	**6 407**	**4 728**	**(1 084)**	**(71 803)**	**37 025**	**48 823**	**(147 722)**	**250 414**	**53 538**	**147 493**
Management expenses to net premium and service fees on investment contracts	84%	185%	13%	12%	14%	12%	39%	47%	31%	33%
Tax as a % of NIBT	28%	28%	36%	29%	24%	25%	175%	636%	27%	29%
Comments	Company		Company		Company		Company		Company	

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-21	Dec-20	Jun-21	Jun-20	Dec-21	Dec-20	Dec-21	Dec-20	Dec-21	Dec-20
Group/Company	**Liberty Group Limited**		**Momentum Metropolitan Life Limited**		**Nedgroup Life Assurance Company Limited**		**Nedgroup Structured Life Limited**		**Old Mutual Alternative Risk Transfer Limited**	
Classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Cell captive*	
Recurring premiums							-	-		
Single premiums	43 801 000	38 339 000	27 328 000	23 811 000	2 382 844	2 257 760	-	-	1 340 737	1 223 588
Other premiums							-	-		
Reinsurance premiums	1 847 000	1 723 000	2 800 000	2 615 000	92 893	99 981	-	-	1 339 786	1 244 234
Net premium income	**41 954 000**	**36 616 000**	**24 528 000**	**21 196 000**	**2 289 951**	**2 157 779**	**-**	**-**	**951**	**(20 646)**
Service fees from investment contracts	**1 624 000**	**1 289 000**	**2 991 000**	**2 920 000**	**-**	**-**	**6 040**	**5 675**	**12 192**	**10 115**
Total net investment income	**57 311 000**	**17 260 000**	**52 626 000**	**3 914 000**	**450 909**	**753 500**	**4 145**	**4 771**	**554 412**	**510 446**
Commission received	-	-	-	-	-	-	-	-	-	-
Other unallocated income	-	-	528 000	595 000	24 269	27 976	78 548	14 803	446	7 154
Total income	**100 889 000**	**55 165 000**	**80 673 000**	**28 625 000**	**2 765 129**	**2 939 255**	**88 733**	**25 249**	**568 001**	**507 069**
Death/Disability			14 790 000	9 774 000	1 067 983	998 882	-	-		
Maturities			4 535 000	4 550 000	362	-	-	-		
Annuities	46 367 000	38 119 000	4 843 000	4 580 000	1 997	1 878	-	-	802 631	570 368
Surrenders			2 749 000	2 977 000	43 517	39 587	-	-		
Withdrawals and other benefits			1 669 000	1 776 000	-	-	-	-		
Reinsurance recoveries	(2 987 000)	(1 715 000)	(3 920 000)	(2 433 000)	(135 848)	(98 676)	-	-	(1 761 082)	(1 548 912)
Net policyholder benefits under insurance contracts	**43 380 000**	**36 404 000**	**24 666 000**	**21 224 000**	**978 011**	**941 671**	**-**	**-**	**(958 451)**	**(978 544)**
Change in cell owners' liability	-	-	-	-	-	-	-	-	278 453	663 835
Change in assets arising from insurance contracts	2 182 000	1 967 000	-	-	-	-	-	-	212 025	153 086
Change in policyholder liabilities under insurance contracts	20 549 000	510 000	12 482 000	(8 828 000)	(64 627)	192 937	-	-	107 020	64 410
Fair value adjustments on policyholder liabilities under investment contracts	17 307 000	5 065 000	32 475 000	5 796 000	112 238	526 960	-	-	464 758	70 561
Acquisition costs	3 811 000	3 428 000	3 470 000	3 156 000	149 442	138 133	-	-	184 099	163 500
Administration, management and other expenses	11 856 000	10 767 000	6 510 000	5 856 000	431 914	366 416	2 887	2 824	278 682	372 439
Total expenses	**99 085 000**	**58 141 000**	**79 603 000**	**27 204 000**	**1 606 978**	**2 166 117**	**2 887**	**2 824**	**566 586**	**509 287**
Equity-accounted earnings (incl. hyper-inflationary adjustments)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit/(Loss) before tax	**1 804 000**	**(2 976 000)**	**1 070 000**	**1 421 000**	**1 158 151**	**773 138**	**85 846**	**22 425**	**1 415**	**(2 218)**

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-21	Dec-20	Jun-21	Jun-20	Dec-21	Dec-20	Dec-21	Dec-20	Dec-21	Dec-20
Group/Company	**Liberty Group Limited**		**Momentum Metropolitan Life Limited**		**Nedgroup Life Assurance Company Limited**		**Nedgroup Structured Life Limited**		**Old Mutual Alternative Risk Transfer Limited**	
Tax	1 840 000	132 000	783 000	903 000	314 084	217 563	80 489	16 878	403	(673)
Profit/(Loss) after tax	**(36 000)**	**(3 108 000)**	**287 000**	**518 000**	**844 067**	**555 575**	**5 357**	**5 547**	**1 012**	**(1 545)**
Other comprehensive income	**(88 000)**	**(4 000)**	**(596 000)**	**357 000**	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income/ for the year	**(124 000)**	**(3 112 000)**	**(309 000)**	**875 000**	**844 067**	**555 575**	**5 357**	**5 547**	**1 012**	**(1 545)**
Other transfer to/(from) retained income	156 000	186 000	(349 000)	27 000	-	-	-	-	-	-
Other comprehensive income not charged against retained earnings	-	-	506 000	(288 000)	-	-	-	-	-	-
Ordinary dividends	-	1 431 000	1 030 000	2 908 000	350 000	250 000	-	-	-	-
Allocated to preference shareholders	-	-	-	34 000	-	-	-	-	-	-
Allocated to non-controlling interests	342 000	(1 081 000)	-	-	-	-	-	-	-	-
Change in retained earnings	**(310 000)**	**(3 276 000)**	**(1 182 000)**	**(2 328 000)**	**494 067**	**305 575**	**5 357**	**5 547**	**1 012**	**(1 545)**
Management expenses to net premium and service fees on investment contracts	27%	28%	24%	24%	19%	17%	48%	50%	2 120%	(3 537%)
Tax as a % of NIBT	102%	(4%)	73%	64%	27%	28%	94%	75%	28%	30%
Comments	Group		Company		Company		Company		Company	

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-21	Dec-20	Jun-21	Jun-20	Dec-21	Dec-20	Jun-21	Jun-20
Group/Company	**Old Mutual Life Assurance Company (South Africa) Limited**		**OUTsurance Life Insurance Company Limited**		**Sanlam Limited**		**The Standard General Insurance Company Limited**	
Classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*	
Recurring premiums Single premiums Other premiums	55 953 000	55 806 000	649 861	551 308	107 571 000	95 645 000	193 200	93 312
Reinsurance premiums	2 910 000	2 321 000	64 556	47 986	20 081 000	18 794 000	22 677	6 791
Net premium income	**53 043 000**	**53 485 000**	**585 305**	**503 322**	**87 490 000**	**76 851 000**	**170 523**	**86 521**
Service fees from investment contracts	**5 405 000**	**5 125 000**	**171**	**68**	**9 316 000**	**9 056 000**	**-**	**-**
Total net investment income	**119 925 000**	**36 961 000**	**213 235**	**(52 366)**	**100 504 000**	**44 030 000**	**6 452**	**4 935**
Commission received	-	-	-	-	2 815 000	2 929 000	-	-
Other unallocated income	2 457 000	1 907 000	-	-	-	-	2 579	6 260
Total income	**180 830 000**	**97 478 000**	**798 711**	**451 024**	**200 125 000**	**132 866 000**	**179 554**	**97 716**
Death/Disability Maturities Annuities Surrenders Withdrawals and other benefits	107 983 000	66 827 000	304 244	176 897	41 048 000	61 689 000	65 066	19 709
Reinsurance recoveries	(5 581 000)	(3 582 000)	(102 414)	(55 429)	(19 563 000)	(13 939 000)	(19 737)	(4 238)
Net policyholder benefits under insurance contracts	**102 402 000**	**63 245 000**	**201 830**	**121 468**	**21 485 000**	**47 750 000**	**45 329**	**15 471**
Change in cell owners' liability	-	-	-	-	-	-	-	-
Change in assets arising from insurance contracts	-	-	-	-	-	-	-	-
Change in policyholder liabilities under insurance contracts	-	-	249 222	33 703	44 340 000	1 500 000	(28 259)	(20 203)
Fair value adjustments on policyholder liabilities under investment contracts	52 339 000	22 231 000	-	-	73 767 000	26 646 000	-	-
Acquisition costs	6 258 000	6 311 000	(95)	(208)	14 724 000	14 319 000	91 252	41 199
Administration, management and other expenses	12 553 000	10 319 000	323 321	276 879	30 547 000	40 012 000	69 031	64 361
Total expenses	**173 552 000**	**102 106 000**	**774 278**	**431 842**	**184 863 000**	**130 227 000**	**177 353**	**100 828**
Equity-accounted earnings (incl. hyper-inflationary adjustments)	**-**	**-**	**-**	**-**	**2 240 000**	**2 568 000**	**-**	**-**
Profit/(Loss) before tax	**7 278 000**	**(4 628 000)**	**24 433**	**19 182**	**17 502 000**	**5 207 000**	**2 201**	**(3 112)**

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-21	Dec-20	Jun-21	Jun-20	Dec-21	Dec-20	Jun-21	Jun-20
Group/Company	**Old Mutual Life Assurance Company (South Africa) Limited**		**OUTsurance Life Insurance Company Limited**		**Sanlam Limited**		**The Standard General Insurance Company Limited**	
Tax	3 537 000	2 188 000	4 815	4 871	6 152 000	3 805 000	(1 131)	(3 959)
Profit/(Loss) after tax	**3 741 000**	**(6 816 000)**	**19 618**	**14 311**	**11 350 000**	**1 402 000**	**3 332**	**847**
Other comprehensive income	**203 000**	**(586 000)**	**984**	**(1 774)**	**2 018 000**	**3 143 000**	**-**	**-**
Total comprehensive income/ for the year	**3 944 000**	**(7 402 000)**	**20 602**	**12 537**	**13 368 000**	**4 545 000**	**3 332**	**847**
Other transfer to/(from) retained income	161 000	(36 000)	-	-	(148 000)	(4 453 000)	-	-
Other comprehensive income not charged against retained earnings	(225 000)	369 000	(984)	1 774	(3 977 000)	(3 827 000)	-	-
Ordinary dividends	4 535 000	13 042 000	-	130 000	6 233 000	6 938 000	30 000	-
Allocated to preference shareholders	-	-	-	-	-	-	-	-
Allocated to non-controlling interests	-	-	-	-	-	-	-	-
Change in retained earnings	**(655 000)**	**(20 111 000)**	**19 618**	**(115 689)**	**3 010 000**	**(10 673 000)**	**(26 668)**	**847**
Management expenses to net premium and service fees on investment contracts	21%	18%	55%	55%	35%	47%	40%	74%
Tax as a % of NIBT	49%	(47%)	20%	25%	35%	73%	(51%)	127%
Comments	Company		Company		Group		Company	

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Reinsurance industry results

I have been authoring the reinsurance industry results analysis for the last ten years. When I sat back to reflect on what transpired in the reinsurance industry over the course of the 2021 financial year, I thought this was a year that had seen more change in the South African reinsurance world than most others – largely due to the enactment of the Insurance Act in 2018:

- African Reinsurance Corporation (South Africa) Limited (African Re) relicenced as a composite reinsurer;
- Hannover Reinsurance Africa Limited transferred its business operations to Hannover Life Reassurance Africa Limited, and Hannover Life Reassurance Africa Limited was renamed to Hannover Re South Africa Limited (Hannover Re). Hannover Re now operates under a composite reinsurance licence; and
- SCOR SE (Incorporated in France) - Africa Branch (SCOR Africa Branch) commenced business activities in South Africa following the sale of SCOR Africa Limited to SCOR Africa Branch. SCOR Africa Branch operates as a branch underwriting both life and non-life reinsurance risks.

In previous editions of this survey I noted that there was an expectation that the level of competition may increase due to foreign reinsurers being able to operate branches under the new Insurance Act. The market saw no development for many years until 2021 with SCOR Africa Branch. It would be interesting to see how this development evolves over the next few years.

The latest insurance sector data published by the South African Reserve Bank indicates that there are eight professional reinsurers as at December 2021.[1] In this year's survey, we analyse the results of four registered reinsurers in the South African market, representing approximately 64% of the market. These results include three composite reinsurers, and one composite branch.

While the developments set out on the left are noteworthy, we cannot forget that the results of the reinsurance industry need to be reflected on against what has transpired over the course of 2021 for the South African non-life insurance and life insurance industries.

Coming off a 7% negative economic growth in 2020, the lowest economic growth in more than ten years, 2021 saw a respectable annual gross domestic product (GDP) growth rate of 4.9%.[2] According to Stats SA "Despite these positive figures, real GDP has yet to recover to the level recorded in the second quarter of 2021, before civil unrest and stricter lockdown restrictions shook the economy in the third quarter. Real GDP continues to lag pre-pandemic levels too, with economic activity on par with the third quarter of 2017."[3] In addition, average consumer inflation for 2021 was 4.5%, higher than the averages recorded for 2020 (3.3%) and 2019 (4.1%).[4] The unemployment rate rose to a record high of 35.3% in the last quarter of 2021.[5] These factors placed immense pressure on the disposable income of consumers and policyholders with cascading impacts on premium renewals, rate increases and lapse rates.

For the life insurance industry, the industry went from an overall loss of R5 billion experienced in 2020 to a healthy profit of R17.1 billion in 2021. The non-life industry managed to increase its profits from R5.5 billion experienced in 2020 to R12.1 billion in 2021. It is clear from these results that the primary insurance industry was sufficiently protected by the reinsurance industry through the robust reinsurance structures and arrangements in place, and that the reinsurance industry bore the brunt of a large extent of the loss events that occurred during 2021.

1 https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-selected-south-african-insurance-sector-data/2021/Selected-South-African-Insurance-Sector-2021

2 https://www.statssa.gov.za/?p=15214

3 https://www.statssa.gov.za/?p=15214

4 https://www.statssa.gov.za/?p=15080

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

Financial indicators

For this year's analysis, I conducted a series of interviews with various reinsurers to better understand their results and obtain their insights on what the future holds for the South African reinsurance industry.

To many, 2020 was seen as the year of survival, with 2021 being the year of recovery and growth. However, insurers and reinsurers alike were still grappling with the impacts of the struggling economic environment, COVID-19, political unrest and natural catastrophes (albeit benign in 2021) – and this is clearly reflected in the 2021 results of the reinsurance industry.

Growth

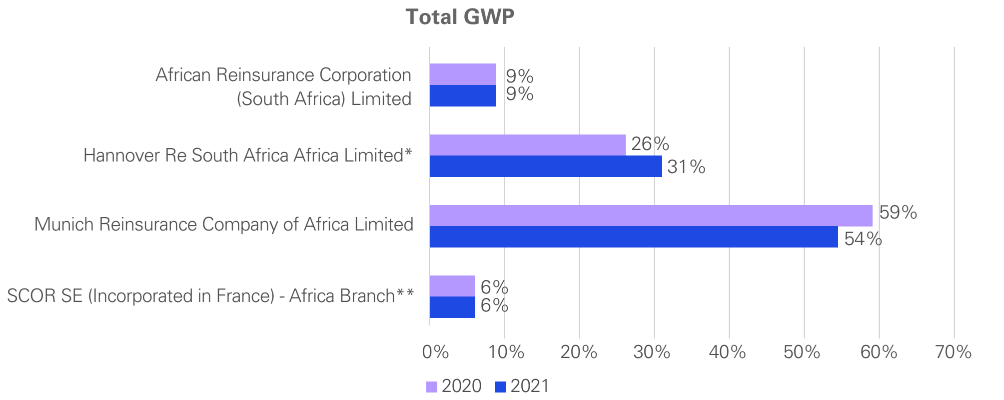
Regrettably, a downward trend in gross written premium (GWP) was experienced for the third year since 2019 with a growth rate of 1% experienced in 2021 (2020: 8%). These results are unsurprisingly reflective of the continued repressed local and global economic environment. Surprisingly though, these results are not reflective of the growth in GWP experienced by life insurers of 9.7% and non-life insurers of 7%. In the previous year, we had expected that due to the anticipated increased losses from business interruption claims, uncertainties around the nature and frequency of natural catastrophe events, business failures, loss of employment, death and increased health-related claims, the reinsurance market would see a hardening of rates, manifested through higher growth levels on GWP. This was not consistently evident in the results of the reinsurance industry and can be attributable to a few driving factors:

- increased competition in the market;
- the affordability of policyholders was highly constrained from the tough economic environment;
- the market was of the view that it might have been premature to increase premium rates following the COVID-19 and political riot risk events; and
- many reinsurers applied stricter underwriting and pricing principles while also de-risking their portfolio of poor performing business.

Reinsurers are of the view that to some extent a hardening of rates, particularly in the non-life sector, is expected to be observed in the 2022 financial year in respect of traditional and attritional risk exposures, off the back of the KwaZulu-Natal floods and riots. However, this will need to be strongly supported by past loss experience without a blanket approach applied. For the life insurance industry, premium rate increases are not as easily enforceable due to the longer-term view of the market which is expected to remain largely stable over time.

Investment income declined by 11%, a stark contrast to the growth of 12% experienced in 2020 and 23% in 2019. However, the decline in investment income is directly correlated with the decrease in investment balances held by reinsurers of 22%, primarily attributable to the political unrest and COVID-19 claim events, and to a smaller extent natural catastrophe claims, which were in some cases settled out of investments.

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

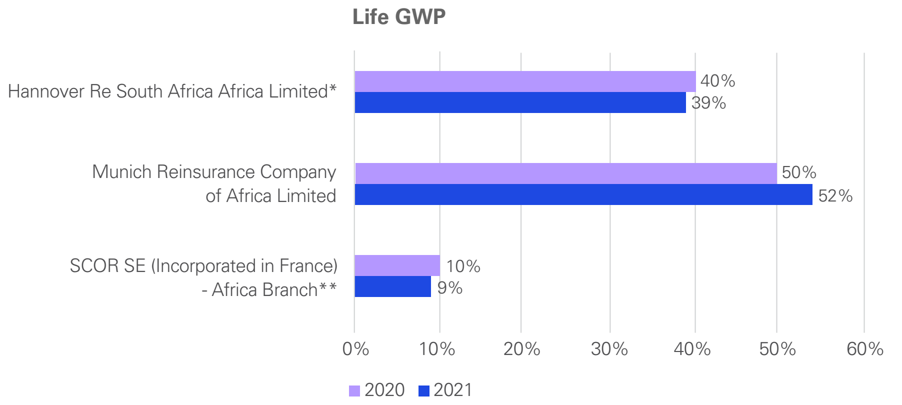


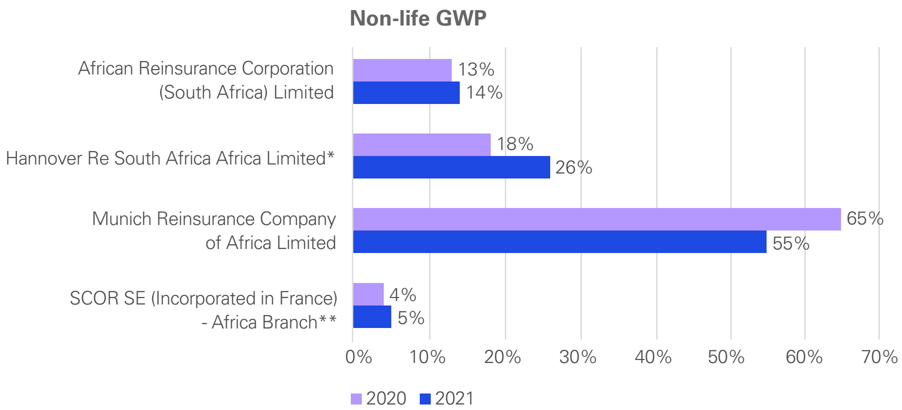
** We have included the 2020 comparative results of both Hannover Reinsurance Africa Limited and Hannover Re South Africa Limited as the 2020 comparative results of Hannover Re South Africa Limited does not include the results of Hannover Reinsurance Africa Limited. This comment applies to all graphs depicting an analysis by reinsurer.*

*** The 2021 amounts presented above represent the financial results of the branch (SCOR SE (Incorporated in France) - Africa Branch), while the 2020 amounts presented reflect the results of the reinsurance company (SCOR Africa Limited). This comment applies to all graphs depicting an analysis by reinsurer.*

Munich Re and Hannover Re lead the reinsurance market with their combined market share accounting for 85% (2020: 85%) measured by GWP volumes. Consistent with previous years, the market share distribution across reinsurers continues to remain relatively consistent moving from 2020 and 2021, with only marginal movements noted across industry players.

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





Other key performance indicators based on the results of the five reinsurers participating in the 2021 KPMG survey are as follows:

Performance indicator	2021	2020
Net commission to net earned premium	11%	10%
Management and other expenses to net earned premium	14%	14%
Net policyholder benefits and entitlements to net earned premium	115%	77%
Underwriting loss[6]	R3 782 million	R50 million

The net commission to net earned premium ratio has remained stable for the industry from 2020 to 2021, however some notable variances across individual insurers will be discussed further on in this article.

The management and other expenses to net earned premium ratio has remained stable, indicative of the active and controllable cost containment measures employed by reinsurers, in the context of unavoidable claims costs exposures, as well as the lower level of activity during the year as a large component of the workforce continued to work from home.

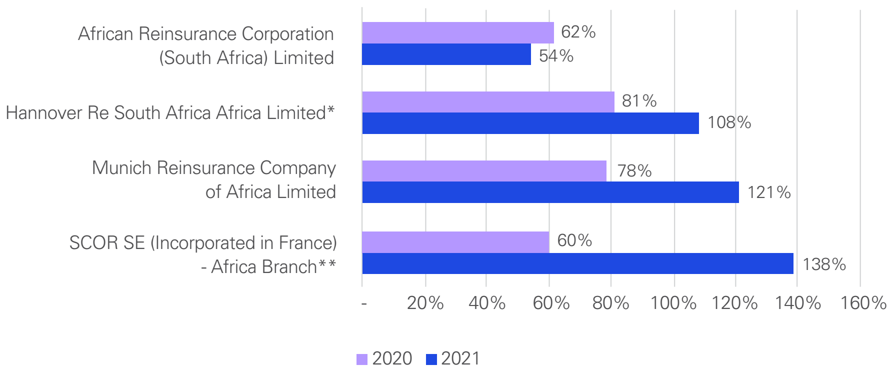
The impacts of COVID-19 were still being felt for large parts of 2021. For the life insurance industry, increased mortality experience was still prevalent due to the phased roll-out of vaccines that occurred in the second half of 2021, with vaccine hesitancy also contributing to this experience. Most businesses were able to operate as normal for the most part of the year resulting in a lower degree of business interruption claims for non-life insurers. In the context of the losses that (re)insurers were exposed to in the past, despite the decline in business interruption claims, many industry players either scaled back their exposure to or stopped writing business interruption cover altogether. It is no surprise that the industry loss ratio deteriorated as a result of ongoing COVID-19 claims, the riots in KwaZulu-Natal in July 2021 and various, albeit benign, natural catastrophe events.

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

While Sasria SOC Limited (Sasria) was largely on risk for the losses emanating from the July 2021 KwaZulu-Natal riots compared to the rest of the primary non-life insurance industry, all South African reinsurers surveyed were exposed to these losses.[7] South Africa also experienced three natural catastrophe events in 2021: Cyclone Eloise in January 2021 and floods and wildfires in the Western Cape in April 2021[8], which were individually and in the aggregate benign.

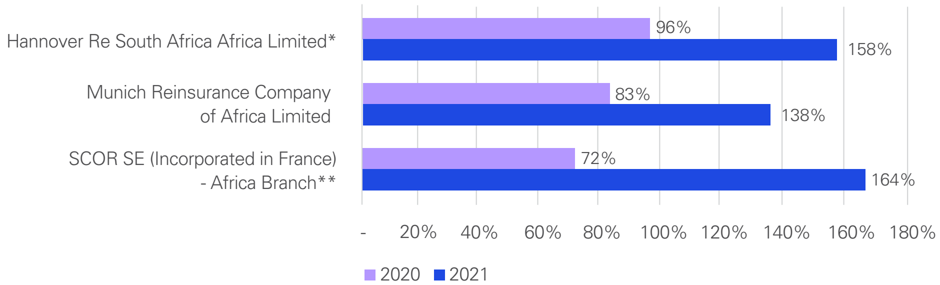
The graph included below illustrates the net loss ratio for each reinsurer which is a direct reflection of the performance of the life and non-life insurance industries. Except for African Re that demonstrated an improved loss ratio, the rest of the reinsurers surveyed experienced a worsening of their loss ratios.

Net loss ratio

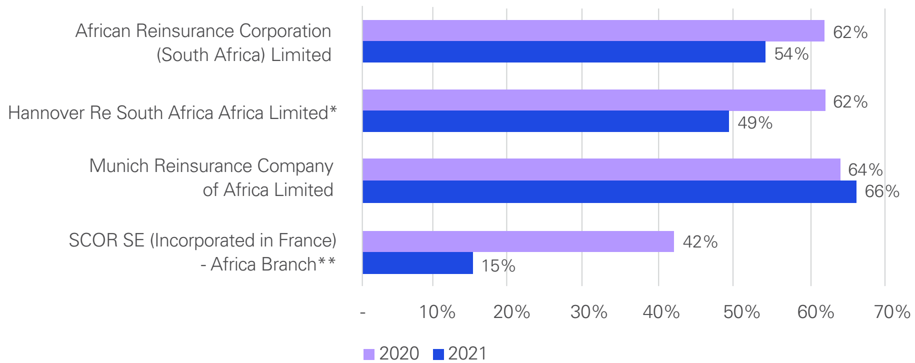


Breaking the results up further, while reinsurers writing life insurance risks were hit much harder than non-life insurance risks, it was a tough year all round for life and non-life risks alike.

Life loss ratio



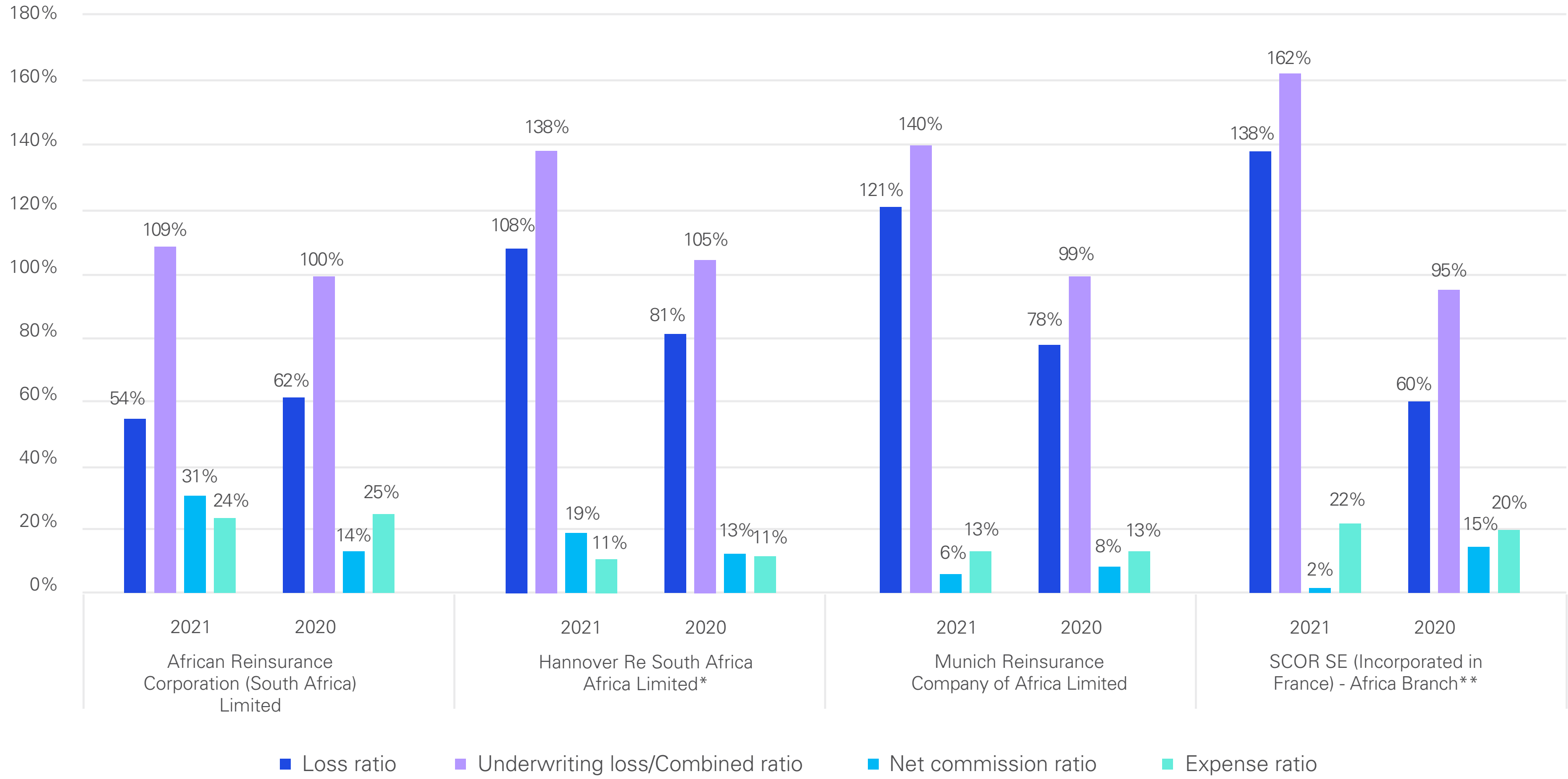
Non-life loss ratio



7 https://www.sasria.co.za/wp-content/uploads/2022/06/Sasria-Integrated-Report-2021.pdf

8 https://aon.co.za/insights/aon-2021-weather-climate-and-catastrophe-insight-report/

Underwriting performance per reinsurer



All reinsurers experienced a net underwriting loss for 2021 which deteriorated from 2020 to 2021. Included below is our analysis where we dive deeper into the results of each reinsurer.

African Re

Historically registered as a non-life reinsurer, African Re underwent a relicencing process as part of their implementation of the Insurance Act and is now registered as a composite reinsurer. This enables it to write both non-life and life reinsurance business, however no life reinsurance business was written during 2021. The results presented for 2021 therefore only relate to African Re's non-life reinsurance business.

In the previous year we reported a reduction in African Re's GWP and net earned premium of 18% and 20% respectively. During 2021 GWP growth remained flat with a slight reduction in net earned premium of 1%, a vast improvement compared to the result of 2020. This is attributable to the impact of the final stages of the implementation of the reinsurer's turnaround strategy which it embarked on in 2018 that aimed to de-risk and enforce better underwriting discipline in the quality of risks undertaken.

Although African Re was significantly exposed to losses from Sasria, the strategic restructuring of its retrocession programme coupled with the effects of the turnaround strategy resulted in an overall improvement in the net loss ratio from 62% in 2020 to 54% in 2021. As a result, African Re's investment and cash and cash equivalent balances remained stable with a return on investments of 5% (2020: 4%) experienced for the year.

The increase in the combined ratio needs to be further dissected to understand its movement. While claims (and loss ratios) and management and other expenses have reduced over 2021, the largest contributor to the increase in the combined ratio is the increase in the net commission ratio from 14% in 2020 to 31% in 2021. This can be attributed to the increased extent of solvency relief contracts offered to cedants which attracted higher profit commission payments on profitable business, also as a result of the reinsurer's turnaround strategy.

While a net underwriting loss of R51 million was experienced (2020: R1.2 million underwriting profit), this was the lowest experienced loss across all reinsurers surveyed.

"The economy is in dire straits; we have witnessed monumental economic losses which the insurance industry has stood up to and demonstrated their capacity and resilience. We encourage the wider economy to embrace the contribution of the insurance industry for the benefit of policyholders and the economy as a whole."

- Ibrahim Ibisomi (Management Consultant) and Sudadi Senganda (General Manager: Finance and Administration) from African Re, reflecting on the results of the 2021 financial year.

Hannover Re

On 1 January 2021 the business operations of Hannover Reinsurance Africa Limited was transferred to Hannover Life Reassurance Africa Limited. Hannover Life Reassurance Africa Limited was renamed to Hannover Re South Africa Limited and operates under one composite reinsurance licence. For ease of comparability, we have included the 2020 comparative results of both Hannover Reinsurance Africa Limited and Hannover Re South Africa Limited (previously Hannover Life Reassurance Africa Limited) as the 2020 comparative results of Hannover Re South Africa Limited (previously Hannover Life Reassurance Africa Limited) does not include the results of Hannover Reinsurance Africa Limited.

GWP and net earned premium improved significantly from 2020 with an increase in GWP experienced of 23% in 2021 (2020: decrease of 3%) and an increase in net earned premium experienced of 5% (2020: decrease of 13%). The increase is largely attributable to growth in the non-life business; however, a portion of this increase is related to portfolio transfer transactions that occurred in 2021 as a result of the transfer of the non-life operations to Hannover Re. The mix of life and non-life business has remained largely stable with the non-life business contributing 53% (2020: 46%) and life contributing 47% (2020: 54%) to overall GWP.

Unfortunately, the growth in GWP and net earned premium did not translate into an improved loss ratio for 2021, which saw a 27% deterioration in the ratio from 81% experienced in 2020 to 108% experienced in 2021. Had it not been for the increase in GWP and net earned premium, the loss ratio experience would have been far worse, highlighting the significant extent of losses that the reinsurer was exposed to during the year. Losses are weighted more towards the life insurance business at a 79% (2020: 66%) contribution with the non-life business contributing 21% (2020: 34%) to overall net claims incurred. The worsening of the loss ratio over the year is mainly attributable to the life business as a result of worsening mortality and disability experience due to COVID-19. The non-life business provided some relief due to an improvement in the loss ratio from 2020. Although Hannover Re was also significantly exposed to losses from Sasria due to the KwaZulu-Natal riots, its net exposure was limited due to the relief provided by its retrocession agreement.

The impact of the results set out on the previous page culminates in an increase in underwriting loss from R30.6 million in 2020 to R1 019 million in 2021.

Munich Re

The non-life book of business contributed 64% (2020: 71%) to total GWP with the remaining 36% (2020: 29%) attributable to the life book of business. GWP from the life business increased by 15% while GWP from the non-life business decreased by 18%. Due to the higher weighting of the non-life GWP to the total book of business, overall GWP decreased by 8% (2020: increase of 20%). Interestingly, while a decrease in overall GWP was experienced in 2021, overall net earned premium increased by 9% (2020: 3%).

As it relates to net claims incurred, the mix of life and non-life business is inverted compared to GWP in that 87% (2020: 80%) of net claims incurred relates to the life book of business with the remaining 13% (2020: 20%) relating to the non-life book. Similar to Hannover Re, a deterioration in the overall loss ratio was experienced from 78% in 2020 to 121% in 2021. The increase in loss ratio emanates substantially from the life book at a loss ratio of 138% (2020: 83%), with the non-life book loss ratio coming in at 66% (2020: 64%).

Consequently, the primary contributor to the increase in combined ratio from 99% in 2020 to 140% in 2021 is due to increased claims experience. While acquisition expenses decreased and management expenses increased, the ratio to earned premium has remained largely consistent from 2020 to 2021 with a net commission to earned ratio of 6% (2020: 8%) and management expense to earned ratio of 13% (2020: 13%).

Looking at the underwriting result, Munich Re experienced the largest underwriting loss for the year, compared to the rest of the reinsurers surveyed, with a loss of R2 259 million in 2021 from an underwriting profit of R42 million in 2020.

SCOR Africa branch

On 1 January 2021 SCOR SE (Incorporated in France) - Africa Branch commenced business activities in South Africa. This follows the sale of SCOR Africa Limited to SCOR Africa Branch at that date. For comparability, we have included the 2021 result of the branch (SCOR SE (Incorporated in France) - Africa Branch) as well as the 2020 result of the insurance company (SCOR Africa Limited).

The significant benefit of this structure to SCOR Africa Branch is being able to leverage off the AA- global credit rating of SCOR SE, without having its credit rating limited to the South African sovereign cap. Other than not being required to establish governance committees such as a board and audit and risk committee, no material changes have occurred in the operations of the branch.

In terms of GWP, the mix of life and non-life business is largely consistent with 2020 with the life business contributing 53% (2020: 53%) to GWP and the non-life business contributing 47% (2020: 47%) to overall GWP. Similarly, the increase in GWP of 8% (2020: 16%) is consistent across both the life and non-life books. As with many reinsurers, SCOR Africa Branch also embarked on an initiative to de-risk its portfolio, particularly its non-life portfolio due to the extent of exposure to catastrophe risks underwritten.

As with Hannover Re and Munich Re, the net loss ratio for SCOR Africa Branch for 2021 worsened from 60% in 2020 to 138% in 2021, the highest loss ratio experienced across all reinsurers surveyed. The mix of net claims incurred changed materially from 2020 in that the life business contributed 98% (2020: 72%) to net claims incurred while the non-life business contributed 2% (2020: 28%). The increase in claims from the life book is the primary driver to the increase in loss ratio, with the loss ratio for the life book coming in at 164% (2020: 72%) for 2021 and 15% (2020: 42%) for the non-life book.

Management have noted that the worsening claims experience is as a result of increased mortality and losses due to COVID-19 as well as exposure to losses from the KwaZulu-Natal July 2021 riots. It is important to highlight that a large portion of the non-life book is retroceded resulting in a favourable loss ratio, even though the gross claims exposure was significant. In addition, the de-risking exercise performed by management contributed to the favourable net loss ratio. For the life business, the extent of retrocession was not as high as for the non-life business and as a result, the losses on a net claims incurred basis were more pronounced.

The combined ratio increased from 95% in 2020 to 162% in 2021 directly as a result of the claims experience. Decreases in acquisition costs were offset by increases in management and other expenses as can be seen by the relatively stable management expense to earned premium ratio of 22% (2020: 20%).

These results culminated in an underwriting loss of R452 million, from an underwriting profit of R26 million experienced in 2020.

Investment performance

Reinsurers achieved an average return on investments (including cash and cash equivalents) of 6.5% (2020: 6.0%) compared to an average prime rate of 7.25%[9] (2020: 7.9%) and the average 10-year government bond yield of 9.098%[10] (2020: 9.4%).

Munich Re was the top performer in terms of investment returns in 2021 with 8.3% (2020: 7.1%). Hannover Re followed closely with 6.9% (2020: 6.8%), and African Re achieving a return of 5.0% (2020: 3.8%). SCOR Africa Branch is the only anomaly with negative investment return of 1.7% (2020: positive 4%). This is primarily due to interest expense recognised on funds withheld in excess of investment income earned. Removing the impact of interest expense, SCOR Africa Branch's investment return is within a similar range as the rest of the reinsurers surveyed at 4.7% for 2021.

What the future holds for reinsurance operations

Reinsurers have a tough road ahead, having to navigate a barrage of uncertainty related to investment markets, mortality losses from COVID-19, the risk of another pandemic or additional COVID-19 waves and more frequent and severe natural catastrophes. According to S&P Global, "while reinsurers are price-takers in this insurance cycle, the winners will be those that combine underwriting discipline with innovative risk solutions while enhancing their value proposition to cedents and insureds. Our negative outlook could improve if we come to believe the sector may earn its COC, but we don't expect this will happen before 2022, at the earliest."[11]

When asked about what future trends and developments we can expect to see in the reinsurance market in the future, a few common themes mentioned by reinsurers included the conversion to a branch structure, rate increases, ESG, natural catastrophe events, continued COVID-19 uncertainty and digitisation:

- Many reinsurers are in the infancy stages of considering converting to a branch structure, a structure that is favoured by many international retrocessionaire parents. For others, this is not an option at all.
- Reinsurers have started to actively consider the impact of ESG on financial reporting, as well as on their underwriting and investment strategies. This is largely being guided by their international parents.
- For the reinsurers writing life insurance risk, no immediate changes are being considered to long-term assumptions related to COVID-19, however this an area they continue to monitor due to the uncertainty of the possibility of future pandemics.
- There is concern by reinsurers around the severity and frequency of natural catastrophe events, with many parent retrocessionaires placing higher focus on South Africa following the KwaZulu-Natal floods that occurred earlier this year. It will be interesting to see how reinsurers balance the protection enjoyed by retrocessionaires in the past and how this will be renewed going forward, with the extent of cover it will provide to cedants who are equally exposed.
- Digitisation is high on the agenda as it relates to optimising client interface platforms and automation of underwriting and claims processes. A number of reinsurers are considering partnering with insurtechs, this is still in early stages of consideration with the lead being taken from global parent companies.

Quintin Landman, Financial Director of Hannover Re, noted that:

"For life insurance, the effects of long-COVID is an area that will need to be monitored over time, we can also expect to see an increase in dread disease risks from delayed screening due to COVID-19. In respect of non-life insurance, ESG considerations from an underwriting and investment point of view, effects from global warming, and the increase in catastrophe events will be high on the agenda. The consequences of unemployment, social conditions and inflation on repair/replacement costs is another area to watch closely as this may impact the affordability of policyholders."

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

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

11 https://www.spglobal.com/ratings/en/research/articles/211028-the-global-reinsurance-sector-outlook-remains-negative-as-returns-fall-short-12162847

In addition, while the buzzwords of the moment are crytopassets, cryptocurrency, non-fungible tokens and the like, none of the reinsurers surveyed were considering providing reinsurance cover for these associated risks in the near future. Again, this is being guided by their international parents but discussions around this are still in their infancy.

It is interesting to note that, with the exception of Munich Re, no other reinsurer declared dividends during the year, consistent with the financial results of 2020. It is likely that many reinsurers are taking a conservative approach, in the context of the strength of their balance sheets, while the lingering effects of the COVID-19 pandemic runs its course.

Reinsurers have continued to demonstrate their significance to the South African economy through the support they provided to primary insurers in times of extreme uncertainty and volatility. It appears that every year seems to bring with it a new set of challenges – however, the ability of the reinsurance industry to provide unwavering support when it matters most is commendable, ensuring a better outcome for the greater good.

REINSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-21	Dec-20	Dec-21	Dec-20	Dec-20
Group/Company	**African Reinsurance Corporation (South Africa) Limited**		**Hannover Re South Africa Limited***	**Hannover Life Reassurance Africa Limited***	**Hannover Reinsurance Africa Limited***
Share capital and share premium	80 300	80 300	1 177 292	162 500	72 778
Retained earnings/(deficit)	850 630	768 994	469 298	843 220	630 332
Other reserves	51 702	51 702	14 340	21 567	434 375
Total shareholders' funds	**982 632**	**900 996**	**1 660 930**	**1 027 287**	**1 137 485**
Gross outstanding claims provision	1 380 067	1 401 559	6 394 379	2 207 358	2 559 184
Gross unearned premium provision	169 775	146 860	488 742	14 780	469 028
Provision for profit commission	-	-	428 976	129 918	359 716
Policy holder liabilities under insurance contracts	-	-	3 210 590	2 804 699	-
Liabilities in respect of investment contracts	-	-	-	-	-
Deferred reinsurance commission revenue	36 940	35 055	125 355	20 873	122 266
Deferred tax liabilities/(assets)	11 050	1 802	(356 284)	5 416	(10 748)
Funds withheld	1 865 551	1 728 495	320 230	3 874	339 257
Other liabilities	229 791	179 030	2 092 660	589 487	547 557
Total liabilities	**3 693 174**	**3 492 801**	**12 704 648**	**5 776 405**	**4 386 260**
Total investments	**3 084 056**	**3 036 077**	**3 877 942**	**2 495 728**	**1 686 381**
Funds withheld	63 254	28 668	516 643	110 490	411 182
PPE, intangible assets and ROU assets	769	943	47 475	2 589	15 847
Retrocessionaires' share of outstanding claims provision	1 087 150	1 080 200	4 590 328	1 257 449	1 772 115
Retrocessionaires' share of unearned premium provision	123 127	100 642	383 083	-	400 332
Retrocessionaires' share of profit commission	-	-	259 999	485	349 825
Retrocessionaires' share of liabilities under life insurance contracts	-	-	1 858 754	1 785 030	-
Deferred aquisition cost	44 499	39 423	337 644	179 660	144 305
Cash and cash equivalents	47 640	9 269	306 961	204 885	150 962
Other assets	225 311	98 575	2 186 749	767 376	592 795
Total assets	**4 675 806**	**4 393 797**	**14 365 578**	**6 803 692**	**5 523 744**
Return on equity	8%	9%	(23%)	13%	3%
Total assets / Total liabilities	127%	126%	113%	118%	126%
Change in shareholders' funds	9%		62%		

* On 1 January 2021 the business operations of Hannover Reinsurance Africa Limited was transferred to Hannover Life Reassurance Africa Limited. Hannover Life Reassurance Africa Limited was renamed to Hannover Re South Africa Limited and operates under one composite reinsurance licence. For ease of comparability, we have included the 2020 comparative results of both Hannover Reinsurance Africa Limited and Hannover Re South Africa Limited (previously Hannover Life Reassurance Africa Limited) as the 2020 comparative results of Hannover Re South Africa Limited (previously Hannover Life Reassurance Africa Limited) does not include the results of Hannover Reinsurance Africa Limited.

REINSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-21	Dec-20	Dec-21	Dec-20
Group/Company	**Munich Reinsurance Company of Africa Limited**		**SCOR SE (Incorporated in France) - Africa Branch****	
Share capital and share premium	544 915	544 915	-	344 700
Retained earnings/(deficit)	1 132 890	2 951 956	(463 440)	138 313
Other reserves	(26 782)	(60 190)	1 673	23 889
Total shareholders' funds	**1 651 023**	**3 436 681**	**(461 767)**	**506 902**
Gross outstanding claims provision	9 141 615	8 054 490	2 663 259	1 722 805
Gross unearned premium provision	3 001 803	2 444 843	256 879	231 059
Provision for profit commission	(100 450)	74 509	-	-
Policy holder liabilities under insurance contracts	3 556 878	3 400 090	745 520	583 740
Liabilities in respect of investment contracts	-	-	-	-
Deferred reinsurance commission revenue	1 294 808	819 103	88 114	70 651
Deferred tax liabilities/(assets)	(257 031)	251 191	(559)	(18 898)
Funds withheld	5 959	25 924	1 686 081	902 372
Other liabilities	2 973 924	2 629 681	1 708 171	950 452
Total liabilities	**19 617 506**	**17 699 831**	**7 147 465**	**4 442 181**
Total investments	**3 837 447**	**5 874 700**	**133 201**	**998 928**
Funds withheld	600 228	205 872	-	-
PPE, intangible assets and ROU assets	42 592	45 768	380 875	8 544
Retrocessionaires' share of outstanding claims provision	6 203 029	5 231 204	1 955 687	1 734 911
Retrocessionaires' share of unearned premium provision	2 756 025	2 200 757	185 304	163 829
Retrocessionaires' share of profit commission	(79 498)	68 260	-	-
Retrocessionaires' share of liabilities under life insurance contracts	6 236	473 481	285 483	434 973
Deferred aquisition cost	3 637 578	3 221 254	190 791	166 412
Cash and cash equivalents	1 106 693	595 751	545 742	730 410
Other assets	3 158 199	3 219 465	3 008 615	711 076
Total assets	**21 268 529**	**21 136 512**	**6 685 698**	**4 949 083**
Return on equity	(85%)	11%	100%	13%
Total assets / Total liabilities	108%	119%	94%	111%
Change in shareholders' funds	(52%)		(191%)	

** On 1 January 2021 SCOR SE (Incorporated in France) - Africa Branch commenced business activities in South Africa. This follows the sale of SCOR Africa Limited to SCOR SE at that date. The 2021 amounts presented above represent the financial results of the branch (SCOR SE (Incorporated in France) - Africa Branch), while the 2020 amounts presented reflect the results of the reinsurance company (SCOR Africa Limited).

REINSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-21	Dec-20	Dec-20	Dec-20	Dec-20
Group/Company	**African Reinsurance Corporation (South Africa) Limited**		**Hannover Re South Africa Limited***	**Hannover Life Reassurance Africa Limited***	**Hannover Reinsurance Africa Limited***
Gross premiums written	2 119 057	2 120 721	7 579 185	3 329 334	2 855 940
Net premiums written	584 652	586 541	2 776 152	1 420 817	1 104 395
Earned premiums	**584 222**	**589 334**	**2 688 254**	**1 418 288**	**1 143 870**
Total net investment income	157 675	114 618	287 381	183 768	123 823
Reinsurance commission revenue	600 671	555 246	815 049	120 890	498 833
Other income	55	-	-	36 198	11 734
Total income	**1 342 623**	**1 259 198**	**3 790 684**	**1 759 144**	**1 778 260**
Policyholder benefits and entitlements	316 937	362 447	2 903 595	1 362 815	706 334
Acquisition expense	779 053	635 317	1 323 841	13 519	930 755
Management and other expenses	139 935	145 558	295 313	193 533	95 150
Total expenses	**1 235 925**	**1 143 322**	**4 522 749**	**1 569 867**	**1 732 239**
Net profit/(loss) before tax	**106 698**	**115 876**	**(732 065)**	**189 277**	**46 022**
Tax	(25 062)	(31 192)	358 143	(53 712)	(6 982)
Net profit/(loss) after tax	**81 636**	**84 684**	**(373 922)**	**135 565**	**39 039**
Other comprehensive income	-	-	(9 476)	27 318	67 541
Total comprehensive income for the year	**81 636**	**84 684**	**(383 398)**	**162 883**	**106 580**
Minority shareholders' interest	-	-	-	-	-
Transfer to/(from) retained earnings	-	-	9 476	(27 318)	(67 541)
Dividends	-	-	-	-	-
Change in retained earnings	**81 636**	**84 684**	**(373 922)**	**135 565**	**39 039**
Net premium to gross premium	28%	28%	37%	43%	39%
Policyholder benefits and entitlements to earned premium	54%	62%	108%	96%	62%
Management and other expenses to earned premium	24%	25%	11%	14%	8%
Comments	Composite company		Composite company	Company	Company

* On 1 January 2021 the business operations of Hannover Reinsurance Africa Limited was transferred to Hannover Life Reassurance Africa Limited. Hannover Life Reassurance Africa Limited was renamed to Hannover Re South Africa Limited and operates under one composite reinsurance licence. For ease of comparability, we have included the 2020 comparative results of both Hannover Reinsurance Africa Limited and Hannover Re South Africa Limited (previously Hannover Life Reassurance Africa Limited) as the 2020 comparative results of Hannover Re South Africa Limited (previously Hannover Life Reassurance Africa Limited) does not include the results of Hannover Reinsurance Africa Limited.

REINSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-21	Dec-20	Dec-21	Dec-20
Group/Company	**Munich Reinsurance Company of Africa Limited**		**SCOR SE (Incorporated in France) - Africa Branch****	
Gross premiums written	13 173 780	14 364 946	1 597 902	1 485 419
Net premiums written	5 607 535	5 119 954	806 135	479 524
Earned premiums	**5 612 596**	**5 141 185**	**733 607**	**514 853**
Total net investment income	408 287	458 739	(11 204)	69 224
Reinsurance commission revenue	2 539 605	3 017 544	96 419	167 357
Other income	17 667	12 845	-	-
Total income	**8 578 155**	**8 630 313**	**818 822**	**751 434**
Policyholder benefits and entitlements	6 782 415	4 015 827	1 015 865	308 403
Acquisition expense	2 886 954	3 427 058	107 634	243 631
Management and other expenses	741 625	673 478	158 763	103 561
Total expenses	**10 410 994**	**8 116 363**	**1 282 262**	**655 595**
Net profit/(loss) before tax	**(1 832 839)**	**513 950**	**(463 440)**	**95 839**
Tax	421 773	(128 061)	-	(27 649)
Net profit/(loss) after tax	**(1 411 066)**	**385 889**	**(463 440)**	**68 190**
Other comprehensive income	33 408	(91 906)	(1 937)	17 248
Total comprehensive income for the year	**(1 377 658)**	**293 983**	**(465 377)**	**85 438**
Minority shareholders' interest	-	-	-	-
Transfer to/(from) retained earnings	(33 408)	91 906	1 937	(17 248)
Dividends	408 000	350 000	-	-
Change in retained earnings	**(1 819 066)**	**35 889**	**(463 440)**	**68 190**
Net premium to gross premium	43%	36%	50%	32%
Policyholder benefits and entitlements to earned premium	121%	78%	138%	60%
Management and other expenses to earned premium	13%	13%	22%	20%
Comments	Composite company		Composite branch	

** On 1 January 2021 SCOR SE (Incorporated in France) - Africa Branch commenced business activities in South Africa. This follows the sale of SCOR Africa Limited to SCOR SE at that date. The 2021 amounts presented above represent the financial results of the branch (SCOR SE (Incorporated in France) - Africa Branch), while the 2020 amounts presented reflect the results of the reinsurance company (SCOR Africa Limited).

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