Adapt

The South African Insurance Industry Survey 2021

Proudly published for more than twenty years

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Contents

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The COVID-19 pandemic has brought the insurance industry monumental challenges. The impacts of this health emergency have expanded into far-reaching economic and societal issues. It seems clear that as we emerge from this period, it will be into a new reality that will look different to what existed before.

KPMG insurance professionals around the world have been reflecting intensively on - and widely discussing with clients - the nature of the upheaval taking place and what this means for insurers.

Insurers are confident in their growth prospects and the local and global economy in general. Many insurers are expecting aggressive growth and are looking to expand their businesses. Concerns about operational matters, like supply chain resilience, cyber security and regulatory matters, have climbed back to the top of their agendas.

A major lesson from the pandemic has been that we all need to work together to solve big problems, and importantly, ESG is front and centre in most business plans.

Insurers recognise that digital lies at the heart of how they create new sources of value and have lagged other sectors in their digitization efforts - but we have reached a watershed moment. It is time for those insurers who did not use the pandemic as an accelerator of their digital plans to do so now; to catch up and re-emerge stronger and better. While this is an opportunity, it's also a risk - the acceleration of digital technologies means that business models that have existed for years can quickly become obsolete and irrelevant. As they digitally connect their systems and share data with partners, insurers need to make sure systems and data - especially customer data - are secure. Cyber security threats limit growth and create boundaries to digital development.

It is with great pride that we release this years' annual KPMG insurance survey, proudly published for more than twenty years! Our survey covers the financial results of 40 non-life insurers, 21 life insurers and seven reinsurers in a way that enables you to make direct comparisons of a large number of financial measures across all of them. Apart from the survey, we have published a number of articles written by our superb team of insurance specialists covering many of the key themes affecting the insurance industry right now, including the rising prominence of ESG and the continuing need for digital innovation. We are already looking forward to our 2022 survey in which we hope to analyse the financial results of the biggest insurance companies in East Africa too.

Many insurers coped extremely well with the pandemic, demonstrating tenacious agility as they dealt with their one-in-one hundred year event. Continuing this agility will be key to economic recovery. The contribution of the insurance industry to the stability and financial soundness of the South African economy demonstrates the resilience and agility of the industry to innovate and show up when it matters.

I hope that you will enjoy reading this survey and the articles written by the extraordinary people in our insurance practice and that you will contact us should you need more information.

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The rising importance of ESG

The COVID-19 pandemic has led to an unprecedented disruption to lives and businesses.

It has also presented an equally unparalleled opportunity to change and accelerate action in areas that were not the forefront of attention before, one of these being Environmental, Social and Governance (ESG) matters. The concept of ESG is not new by any means, however developments in this space have accelerated in the past two years. What was once only part of the "sustainability arm" of operations or dealt with in various sub-committees, has now risen to the top of boardroom agendas in an all-encompassing manner.

ESG has applicability across the globe to every organisation, industry, and sector, whether public or private. These matters should not be seen in isolation as they penetrate every aspect of business including strategy, policies, risk, and day-to-day operational considerations.

Insights

Businesses are finding that stakeholder ESG awareness has become heightened and more answers are demanded in terms of demonstrating the role they play in addressing the environmental, social, and economic challenges presented. Performance is no longer measured just by the financial bottom line, but rather through understanding the organisation's economic, social, and environmental impacts and how the related risks and opportunities are managed. There is a need for enhanced ESG disclosure that goes beyond reporting on lagging indicators and talks to impact measurement and reporting.

The KPMG 2020 CEO Outlook survey identified a change in priorities of corporate leaders, as noted below. In this evolving environment there is a clear need for businesses to understand their purpose and impact on society. It is critical to be able to adapt to maintain success and enhance resilience.

Key changes in CEO's thinking found in the survey[1]

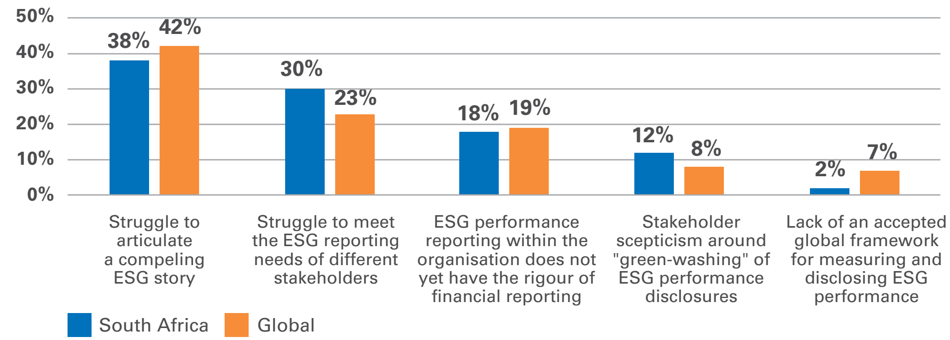
A year later, the KPMG 2021 CEO Outlook Survey[2] (which included the views of a number of CEOs of insurance companies) identified the following: 10% of South African companies rate environment and climate risk change as one of the top three risks that pose the greatest threat to an organisation's growth, with the global average not far off at 12%.

- Integrating ESG reporting into measurement and reporting processes was identified by 6% (global: 15%) of South African companies as a top operational priority in order to achieve growth objectives over the next three years. However, 58% (global: 52%) of South African companies are seeing an increasing level of demand from stakeholders (investors, regulators and customers) for increased reporting and transparency on ESG matters. 51% (global: 52%) of the demand and pressure is coming from institutional investors, 34% (global: 29%) from regulators, 11% (global: 5%) from employees and new hires and 3% (global: 14%) from customers.

1 'KPMG 2020 CEO Outlook: COVID-19 Special Edition', KPMG, 2020, https:/home.kpmg/content/dam/kpmg/xx/pdf/2020/09/kpmg-2020-ceo-outlook.pdf'

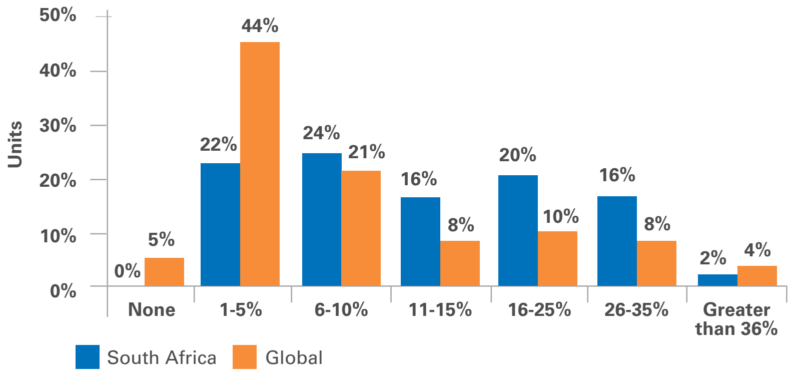
2 https://home.kpmg/xx/en/home/insights/2021/08/kpmg-2021-ceo-outlook.html

- Key challenges identified by South African respondents in communicating ESG performance to stakeholders include:



- Respondents were also asked to rate the impact of the company's ESG programme on financial performance. 46% (global: 23%) of respondents indicated a reduction in financial performance, 20% (global: 25%) an improvement in financial performance, 18% (global: 40%) a neutral or negligible impact on financial performance with 16% (global: 11%) indicating a significant improvement on financial performance.

- Lastly, respondents were asked to indicate what percentage of revenue will be invested in programs that will enable the organisation to become more sustainable:



KPMG's Survey of Sustainable Reporting[3] 2020 sampled 5 200 of the largest companies by revenue in 52 countries and noted the following trends in ESG reporting:

- 80% of companies worldwide now report on ESG or Sustainability – with 96% of the top 100 companies in South Africa reporting on ESG or Sustainability publicly.
- One in five companies globally report climate risk in line with recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).
- Globally, more than 70% of companies are now disclosing carbon reduction targets in their reporting and a growing number are linking them to external targets. Of these external linkages, the most popular climate goal was to link targets to the Paris Agreement goal to limit global warming to 2°C above pre-industrial levels.
- The United Nations (UN) Sustainable Development Goals (SDG) have also begun to resonate strongly with businesses. Close to 70% of companies globally connect their business activity to the SDGs in their corporate reporting in some way, although, there is significant room for improvement in the quality of reporting.
- The transition of companies to net-zero carbon emissions is somewhat slower.

Why should ESG matters be considered in the insurance industry?

Through their roles as risk managers, risk carriers, and investors, insurers are well positioned to lead and assist in addressing wider ESG challenges. Whilst in the past, ESG issues may not have been widely integrated into investment analysis and decision-making by investors, this is changing. There is an increased appetite to understand how ESG factors and an organisation's improved performance are intertwined.

It is known that the insurance industry is highly affected by environmental changes. It is critical that material climate risks and exposures are identified and measured and responded to through governance, strategy, risk management, product offerings and related reporting. The role that this industry plays is vital in the transition to a low carbon economy.

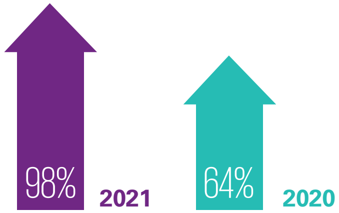
[3] The KPMG Survey of Sustainability Reporting 2020 - KPMG Global (home.kpmg)

Social risks also have a significant impact on the industry, and these should be equally considered and addressed. KPMG's 2021 CEO Outlook Pulse Survey[4], noted such heightened focus on the social component of the ESG agenda by the insurance industry.

Continued focus on environment and climate risk

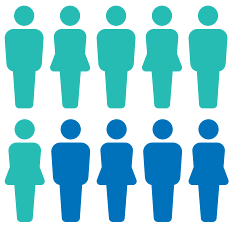
90% of insurance CEOs are looking to lock in the **sustainability** and **climate** change gains made during the crisis.

Heightened focus on "S" component of ESG

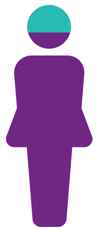


Insurance leaders are shifting their focus to the **social** component of their ESG program up from August 2020.

Diversity, equity and inclusion top agenda issues for insurance CEOs



60% of insurance leaders believe progress has moved **too slowly** on **diversity** and **inclusion**.



90% agree there is still much to do to build **gender diversity** on boards.

The following ESG issues are material to the insurance industry and developing mechanisms to manage and report on these could lead to improved performance.

Environmental issues:

- Climate change
- Carbon emissions
- Air and water pollution
- Deforestation
- Water management
- Water scarcity

Social issues:

- Human rights
- Labour standards
- Social inclusion
- Data protection and privacy
- Gender and diversity

Governance related issues:

- Executive remuneration
- Risk management
- Boards and committee composition
- Whistle-blower policy lobbying

Environmental risks and events are not new to insurers. Their quantification has always been on the radar of actuaries working particularly in non-life insurance fields through, for example, pricing and reserving for extreme weather-related events such as hurricane, earthquake, wildfire and flood damages, or even crop and weather or rainfall index type products. The observed increase in both the frequency and severity of global insured weather-related property losses has however refocused attention and initiatives on modelling and managing these risks.

The global COVID-19 pandemic has also highlighted second and third order impacts that may well have not been adequately considered by insurers when performing their historic extreme event scenario testing. Although some, mainly life insurers, may have considered and potentially modelled pandemic type scenarios within their Own Risk and Solvency Assessment (ORSA) scenarios, few, if any, had adequately considered the linkages and connectedness between risks sufficiently to fully foresee the impacts on equity markets, interest rates, operational risks (including physical operational and sales, fraud and cyber risks) and persistency risks.

[4] KPMG 2021 CEO Outlook Pulse Survey Insurance sector (home.kpmg)

Environmental risks similarly may lead to a wide spectrum of potential knock-on impacts that insurers should be considering when modelling such scenarios and considering in their management actions. Rising temperatures, for example, can lead to rising sea levels and subsequent property damage. Furthermore, rising temperatures could also change weather patterns and thus alter rainfall levels with knock-on impacts on agricultural activities and crop yields leading to direct insured losses. Such events, however, may then have further impacts on food and water supply potentially leading to inflationary pressures and health risk events. These types of events may have further impacts to life and health claims as well as impact insurers' operations due to physical and people risks. Under such scenarios, global markets via interest rate changes and company financial performance, may then also be adversely impacted leading to further risks manifesting and insured events being triggered.

The modelling of such scenarios and events is complex with the need to consider second and third order impacts, the inter-connectedness of risks, as well as their velocity of onset to obtain a comprehensive understanding of potential implications.

In recognition of this risk, insurance (and banking) regulators and industry bodies are taking ever more proactive actions towards testing and ensuring industry resilience and robustness. Some examples include the Bank of England which has introduced targeted climate change stress testing for various banks and insurers via their Climate Biennial Exploratory Scenario (CBES) testing requirements[5]. In their discussion paper on methodological principles of insurance stress testing, the European Insurance and Occupational Pensions Authority (EIOPA) also sets out methodological principles to incorporate climate change risks[6], both physical and transition risks, into European Union insurers' stress testing frameworks. In addition to these regulatory activities, the International Actuarial Association (IAA) established the Climate Risk Task Force to deliver on several IAA activities relating to climate-related risks. The objective of these activities is to contribute to global efforts to further identify, measure and manage climate risks. The IAA has, to date, released three papers in a series aimed at creating awareness and promoting actuarial approaches in climate-related risk management and reporting including the use of, and formulation and implementation of climate related scenario testing[7].

The emergence of a greater ESG related regulatory burden on insurers will, in the short-term, lead to an increase in regulatory driven costs borne by insurers. The level of this is however currently divergent between jurisdictions.

The "Environmental" component of ESG may receive the most attention from the actuarial and quant teams within insurers. However, the corporate governance, market conduct (including miss-selling and policyholder disclosure issues) and data privacy and cyber security breaches are all relevant ESG issues insurers are increasingly concerned about. The recent changes in the work environment and practices, brought on by government enforced lock-down measures in response to the spread of COVID-19, have also raised the profile of additional "Social" risks to insurers and their clients' and employees' wellbeing.

Reports of failures by insurance markets to adequately and appropriately consider the treatment of customers in designing their processes and products have been ever increasing. Task force investigations into such behaviours include the likes of the well-publicised Financial Services Royal Commission in Australia[8]. Such failures have led to the introduction of Treating Customers Fairly (TCF) type regulations in many jurisdictions and further highlights the social and reputational risks that the outdated and less customer centric practices of insurers may be introducing. This has a direct and negative impact on insurers through fines, impaired financial performance, and external credit ratings. Thus, increased focus and scrutiny is being given to the governance structures insurers employ in order to manage and limit such risks and that of resultant reputational damage.

Reporting landscape

Whilst ESG reporting is becoming more mainstream, one of the challenges it presents is the number of ESG reporting frameworks, standards, and the amount of guidance available to companies. This has resulted in reporting fatigue and confusion in deciding on where to concentrate efforts to ensure mandatory reporting is covered and what to report in order to stay on par with industry peers when it comes to voluntary reporting.

5 https://www.bankofengland.co.uk/stress-testing/2021/key-elements-2021-biennial-exploratory-scenario-financial-risks-climate-change

6 https://www.eiopa.europa.eu/sites/default/files/publications/consultations/eiopa-bos-20-341_second-discussion_paper-methodological-principles-for-stress-testing.pdf

7 https://www.actuaries.org/IAA/Documents/Publications/Papers/CRTF_Application_Climate_Scenarios.pdf

8 https://home.kpmg/au/en/home/insights/2019/02/financial-services-royal-commission.html

In South Africa, insurance companies have begun to respond to the changing landscape. Performance in terms of environmental and corporate social investment commitments is more common amongst reporters, including disclosure around alignment to UN Principles for Responsible Investment (PRI), UN SDGs and the Code for Responsible Investing in South Africa (CRISA). Momentum is gaining in terms of alignment to the recommendations of the Task Force on Climate Related Financial Disclosures; however, many are still grappling with how this is to be implemented.

In 2020 a partnership between the World Economic Forum International Business Council, Bank of America and the Big Four professional services firms resulted in a White Paper entitled "Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation". The White Paper[9] does not create new standards or metrics, but the teams evaluated all the available global standards, frameworks and guidance and came up with a set of core metrics and expanded metrics (based on existing material) that all companies can use to provide meaningful, comparable and transparent information to stakeholders.

More framework and standard setters are starting to work together:

- In June 2021, the International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB) announced their merger to form the Value Reporting Foundation. The Foundation aims to "support business and investor decision-making with three key resources: Integrated Thinking Principles, Integrated Reporting Framework and SASB Standards. These tools help businesses and investors develop a shared understanding of enterprise value and how it is created, preserved or eroded over time."
- A call for improving the consistency and comparability in sustainability reporting has resulted in the IFRS Foundation undertaking the creation of a Sustainability Standards Board whose aim is to develop a global set of sustainability standards.

In South Africa, the National Treasury in its draft technical paper released in May 2020 *"Financing a Sustainable Economy"*, proposed a framework for financial institutions to better disclose public information on their green practices and investments. This paper includes insurance specific recommendations for authorities to enhance the supervisory processes to deal more explicitly with sustainability risks and consider using regulatory instruments and supervisory tools to improve their understanding of climate risks and the impacts on insurers as well as on the financial system. It further suggests that the authority's own risk and solvency assessment requirements should be enhanced to deal more explicitly with the risk management of sustainability and, specifically, climate risks.

The landscape is changing at a fast pace and it will be imperative that standard setters and those that provide guidance come together to create a stable environment which results in meaningful and transparently reported information for stakeholders.

Conclusion

The rapidly changing landscape is driving businesses to evaluate their purpose and redefine their strategies, products and manner of operation. Businesses need to understand, evaluate and measure their economic, social and environmental impacts now in order to be responsive to the changing future. Whilst the focus on the environmental impact in ESG continues to remain important, the social impact requires much more attention and insightful action. Success and resilience will be measured by businesses' ability to embrace and interconnect the three areas equally.

[9] Toward Common Metrics and Consistent Reporting of Sustainable Value Creation | World Economic Forum (weforum.org)

Sustainability Services

Environmental, social and governance (ESG) matters have taken centre stage as stakeholders look to businesses to play a wider role in tackling social and economic challenges. In turn, companies have sought to respond, recover and enhance their resilience to the evolving environment.

KPMG Sustainability Services enables clients to develop future-fit businesses. We do this through our multidisciplinary team comprising of specialists in environmental management, health and safety, socio-economic development, assurance, and monitoring and evaluation. We also benefit from collaboration across the numerous other KPMG service lines and geographies.

Our services include:

- Sustainability assurance
- ESG risk and materiality analysis
- Impact measurement
- Social services
- Green and social bonds
- South African carbon tax
- Sustainability reporting and Sustainable Development Goals

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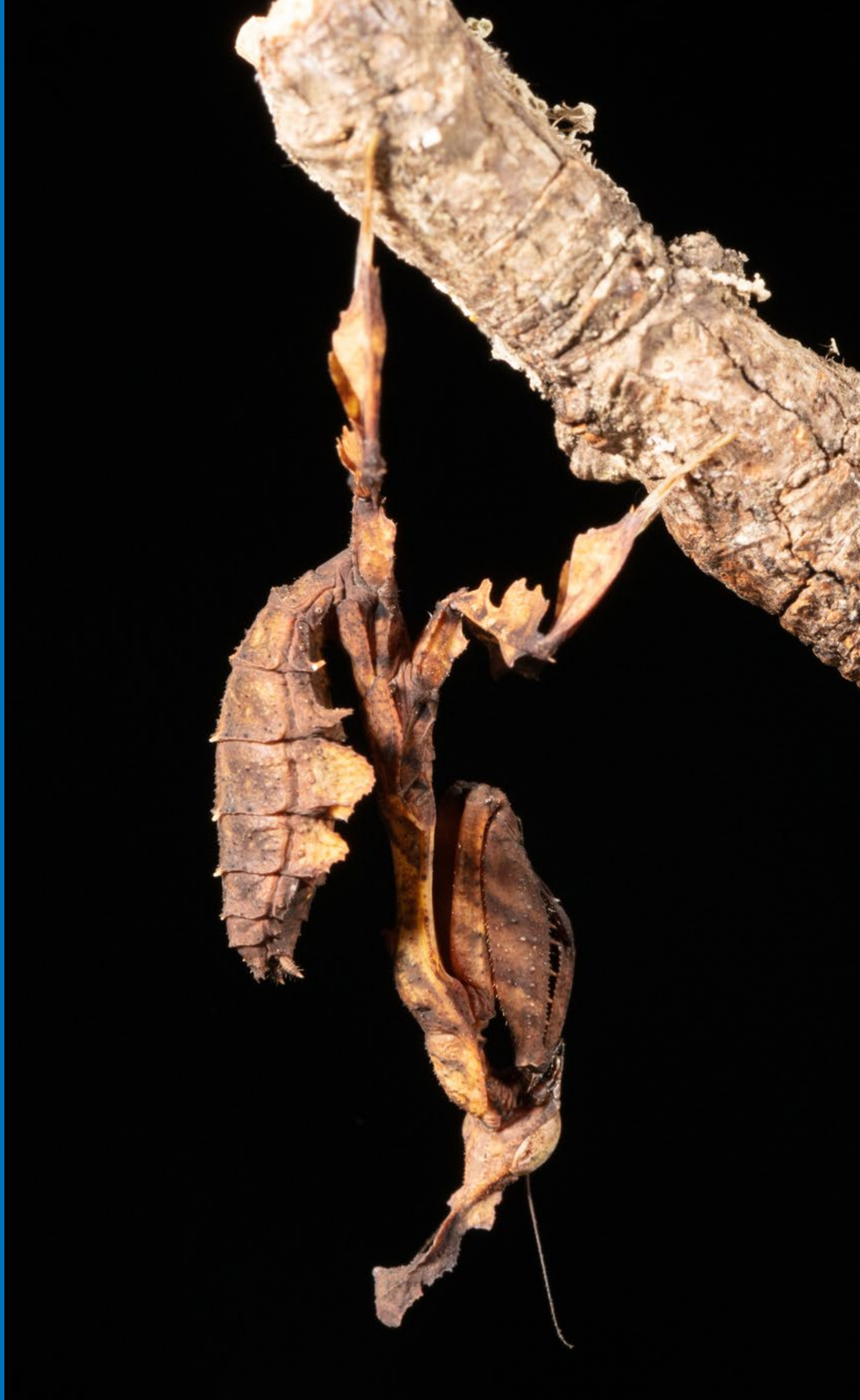

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Newton's third law of technology and change

Last year we explored a couple of potential and actual technologies going pear shaped[1]. Our focus was on the opportunities and risks these technologies present for the insurance industry. To quote myself: "As an auditor, I am in the job of risk management. The insurance industry itself is a risk management tool. So, pondering just how things can go wrong is part of our job description." I had so much fun writing last year's article that I have decided to continue the theme. This year's article ponders a couple of other near-future and existing technologies, with the focus expanded to include related social trends, and the risks and opportunities for insurers.

Identity crisis

"Unfortunately for you, Mr. Insurer, when you priced me ten years ago, I was a man. I have subsequently become a woman and would therefore like a refund!"

I think it is fair to say the first world is going through something of an identity crisis. As the old definitions and stereotypes of masculinity and femininity are replaced, notions of biological sex are being revisited and sexuality is no longer the state's mandate. Positive social change often requires revisiting existing business practices. This is as true for insurance as for any other industry.

In South Africa a significant amount of our pricing for both life and non-life insurance is predicated on certain historic evidence related to the behavioural patterns of men and women. As these notions become obsolete, we run the risk of making outdated assumptions about risk behaviours and characteristics.

Differences in life expectancy between men and women are well documented and have been thoroughly explored. It is currently a fact that women (on average) live longer than men. However, the exact reasons and causes remain a mystery. There appears to be some consensus that women are genetically predisposed to live longer than men but, there is also evidence that this can largely be outweighed by social, cultural, and behavioural factors [2]. I say largely because in every country in the world this difference exists, indicating that there is probably some genetic trait, playing a significant role. Current theories related to the other drivers of women's longevity focus on the healing power of oestrogen, the killing power of testosterone and the way men and women carry fat [3] – these are not cliches at all! Many of these are also linked to behavioural and lifestyle choices of "typical" men and women – such as that men drink, smoke and fight more (something clearly predicated on traditional male identity stereotypes).

The extent of this difference is quite varied, "in Russia women live 10 years longer than men; in Bhutan the difference is less than half a year"[4]. There are even indications that women did not live longer than men in the 19th century [5]. This number has fluctuated significantly in the last 100 years as shown in the table below:

Difference between female and male life expectancy in years			
Country	**Early 1920's**[6]	**1970-1980 Peak**[7]	**Recent**[8]
France	2.74	6.77 (1982)	5.9
Sweden	1.27	5.13 (1980)	3.4
United Kingdom	2.55	5.45 (1971)	3.7
United States	0.91	6.23 (1977)	5.1
South Africa	Not available	6.21 (1991)[9]	3.7[10]

1 https://home.kpmg/content/dam/kpmg/za/pdf/pdf2020/south-african-insurance-survey-2020.pdf

2 Why is life expectancy longer for women than it is for men? - Scientific American https://www.scientificamerican.com/article/

3 4 reasons why women live longer than men (iol.co.za)

4-7 Why do women live longer than men? - Our World in Data https://ourworldindata.org/why-do-women-live-longer-than-men

8 Average life expectancy by country (worlddata.info) https://www.worlddata.info/

9 Female and male life expectancy at birth (ourworldindata.org)

10 South Africans are living longer | Statistics South Africa (statssa.gov.za)

There does not seem to be a good explanation and understanding of the exact drivers of these differences. As the first world's identity crisis changes our cultural, social, and behavioural practices we could see massive changes in the differences between men and women's life expectancy and risk. Notably, if groups or sub-groups of men adopt those behavioural patterns which are driving some of these differences, these groups will have different risk profiles. A clearer understanding of drivers of these differences is required to improve the quality of risk identification and underwriting. Watch this space!

Another aspect of this cultural shift is the recognition and activism of transgender and non-binary individuals. Current estimates of population prevalence are questionable due to cultural and social barriers but have placed the prevalence somewhere between 0.5% and 1% of the first world populations[11]. Whilst that might not translate directly in South Africa this could mean a market of up to 600,000 individuals with specific health and life insurance needs. Conversely, failing to accommodate such identity diversity could lead to significant reputational harm when a call centre agent or claims handler mis-identifies a customer.

Anti-aging treatments

"And the Lord God said, behold, the man is become as one of us, to know good and evil: and now, lest he put forth his hand, and take also of the tree of life, and eat, and live for ever. Therefore, the Lord God sent him forth from the garden of Eden, to till the ground from whence he was taken. So, he drove out the man; and he placed at the east of the garden of Eden Cherubim, and a flaming sword which turned every way, to keep the way of the tree of life." Genesis 3.22-24

It seems that for as long as people have died, they have obsessed about eternal life and yet the path to immortality has been blocked by forces beyond our understanding. In recent years we have come a long way to understanding these barriers and, in other ways, no closer. I will leave spiritual immortality to the religious and focus on the mundane, physical world.

One of the primary causes of death is aging. Whilst aging per se does not kill people, age is a good predictor of death. "Biologically, ageing results from the impact of the accumulation of a wide range of molecular and cellular damage over time. Thus, this leads to a gradual decline in physical and mental capacity, a growing risk of diseases, and ultimately, death"[12]. Basically, we slowly breakdown more and more often as we get older until something serious breaks and cannot be repaired. So why can't we just replace the broken parts? Replaceable parts was one of the topics we explored last year, however aging seems to present a unique problem in that the extent and frequency of problems gets worse as we get older. Eventually you would reach a point at which you are breaking faster than you can be fixed. Two key factors drive this: programmed factors; and damage-related factors. The former implies that basically cells are designed to breakdown eventually. The latter implies that chaos wins, and things break. Not everything ages - hydra have a regenerative ability by which they avoid dying. Unless a hydra is eaten or killed, it would technically live for ever[13]. Other things achieve alternate forms of immortality, such as bacteria, which simply split in two and continue going; or some plants which send out runners to create clones of themselves.

One of the most frequently cited means to actually combat aging[14] (as opposed to fighting the impact) is the enzyme Telomerase, which overcomes one of the key hurdles in the anti-aging game – that cells can only divide a limited number of times. Unfortunately, this is exactly the problem with cancer – it has no hard stop and just continues dividing. So, whilst this has been shown to increase the life expectancy of mice, it has also been shown to increase the incidence of cancer in those same mice[15].

Consequently, whilst various vendors and certain pharmaceuticals might punt a particular product or method to stop aging, there seems to be limited genuine science backing our ability to currently halt the aging process itself. Whilst replaceable parts, prosthetics, gene therapies and lifestyle might all increase life span – there does seem to be a hard stop somewhere around 125[16] years of age, due to our internal aging process. This itself is disputed. So, for now, therefore it looks like mortality risk will be around for a while and longevity still has an end.

11 Demographic and temporal trends in transgender identities and gender confirming surgery (nih.gov) https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6626314/

12 Ageing - Wikipedia https://en.wikipedia.org/wiki/Ageing

13 For fans of the Greek classics, this little organism is indeed named after the mythological Hydra which is known for being able to regenerate its head. It also looks remarkably like the mythological beast.

14 In more reputable sources than tabloids…

15 Telomerase - Wikipedia https://en.wikipedia.org/wiki/Telomerase

16 Weon BM, Je JH (February 2009). "Theoretical estimation of maximum human lifespan". Biogerontology.

The neural lace

"In fact, I may never have been able to stop you from remembering, or at least from passing on what you have learned. Hmm. That's irksome."

"Please explain?"

"The distributed device within your brain and central nervous system, which I have, annoyingly, only recently become aware of, will have recorded its own memories of this encounter and would be able to transmit them to your own biological brain. I strongly suspect it has already transmitted our conversation so far… else where. Perhaps to the drone you arrived with and the ship you arrived on. That is very unusual. Unique, even. Also, most irritating."

"What are you talking about? Do you mean a neural lace?" [17]

The idea of a neural lace has excited me for as long as I have had an inkling of the idea. In essence a neural lace[18] is a form of brain computer interface; a net of tiny wires that resides under the bone of your skull and interacts directly with your brain and other parts of the nervous system. When this idea was first kicked around in sci-fi novels (long before the quote above), it was exactly that, sci-fi.

This is however no longer science fiction, "in 2016, the US military's Defense Advanced Research Projects Agency (DARPA) had introduced a research program called Neural Engineering System Design (NESD) which is focused toward developing an implantable neural interface, connecting human minds directly to computers."[19] Furthermore, entrepreneur and businessman Elon Musk has launched a business venture exploring this exact space - Neuralink [20].

Currently our interaction with technology is largely limited to the cumbersome physical realm. We need to poke things, wave our hands, hit buttons etc. Although this is advancing – for example glasses using eye movements and actions as a trigger[21] – this all pales in comparison to the possibilities of interfacing directly from the brain. Not only would the processing time be significantly reduced (thought is faster than speech and fingers) – the implications are awesome.

Neuralink states that "the initial goal of our technology will be to help people with paralysis to regain independence through the control of computers and mobile devices."[22] The near-future impacts could expand to include direct interfacing between human brains (i.e. telepathy) and full recall of life experiences, amongst other remarkable impacts.

The social implications of this kind of interface have been explored in various forms of speculative media – Black Mirror's episode "The Entire History of You", Brainstorm (1983 Film), Rememory (2017 film), Robin Williams' 2004 film "The Final Cut", etc. but what does it mean for insurers? The growing market of medical devices such as prosthetics etc. for the aged and disabled creates a clear opportunity for high value asset insurance – the neural net would be no different. In twenty years, an individual's most valuable assets could well be their house and their neural lace.

The implications on morbidity claims are profound. Whilst recovering motor function after an accident might take extensive time, with the rapid strides we have already taken in remote working, being able to access your computer directly from your brain would allow many injured individuals to return to work much quicker and potentially long before being physically able to do so.

Linking back to anti-aging treatments, one of the alternative forms of immortality is the brain upload, whereby the human brain is perfectly scanned and then digitised on an electronic platform. Theoretically this would allow a backup of the brain to be taken and then downloaded at a later stage. Alternatively, one could continue to live on in the machine. This would probably require something like a neural lace to activate and achieve the upload. Luckily, if the neural lace is a while away, the brain upload is years away and the complexities of simple things like who is the policyholder can be pushed out.

[17] From Surface Detail, by Iain M Banks. Published by Orbit in 2010

[18] Also referred to as a neural net, neural link, an implantable neural interface etc.

[19] https://www.cuelogic.com/blog/neural-lace-technology-next-boom-in-artificial-intelligence

[20] https://neuralink.com/

[21] HUD Glasses: The Future of Wearable Tech Is Right in Front of Your Eyes (thedigitalrenewal.com)

[22] https://neuralink.com/

VR lives

"I don't know what to do," father said, "he just lies on his bed for hours, eyes wide open staring into space!"

"It's nothing to worry about," mother responded, leaning back and tapping the lace-activator on her ear, "he is just playing with his friends online." Mother leaned back in the couch and her eyes glazed over as she disappeared into the other world.

Whilst it might be some time before our brains are uploaded into machines, there are many people who already live virtual lives on a day to day basis. The amount of time some people spend online gaming can be excessive, as in the case of Ong Haw, a 23-year-old who died after gaming for 15 hours straight[23]. The Gamer published an article in 2017 reporting on *15 People Who Have Died Playing Video Games*[24], most of which were caused by heart failure or deep vein thrombosis after binge playing for periods often well in excess of 15 hours. Whilst 15 hours seems like a lot, they report on one individual recorded as playing for 40 hours and another playing for 50 consective hours[25].

The American Psychiatric Association is considering including gaming disorder as a recognised mental illness. It is already recognised as such in South Korea and China[26]. It has also been recognised by the World Health Organisation as a disorder[27]. Whilst prevalence rates range significantly (because the definition is loose) the range is somewhere between 0.5% and 3%[28]. Clearly this is also biased to more advanced economies than less advanced ones.

There is clearly a problem here, which can easily translate into a public health problem due to the sedentary but high adrenaline nature of gaming. This problem is likely to become significantly worse with the advances in virtual reality technology. It is one thing to get addicted to clicking keys and tapping screens, quite a lot easier when the experience is fully immersive and multi-sensory. Add to this a neural lace and it is easy to imagine kids just lying on their beds lost in a digital world for hours on end.

So what for insurers? Well clearly excessive gaming is a risk indicator and one which could become more prominent in the future. Whilst there could be personal information challenges, knowing that your policyholder is spending fifteen hours a day gaming would clearly indicate a higher mortality risk. This information is often linked through gaming accounts to other social media making it more readily available. Furthermore, if your policyholder has insured R300,000 of gaming equipment it might also be a flag for the life underwriting team when it comes to pricing.

Virtual property

"Hello Mr. X, I understand you would like to submit a claim?"

"Yes, it is most horrific." The voice is shaky and nervous. "When I woke up this morning, I checked in on my castle storage and noticed that the level 63, flaming blade of Lord Boom was missing. Upon further investigation I also found that my level 31, helm of Goat Power was also gone." There is an expectant pause, which is not filled. "I don't know what to do?" he screeches, "I used all my gems powering up the castle to protect them. I'm not sure I can carry on." It sounds like he is crying.

"Mr. X, have you been drinking? Should I call an ambulance?"

The Gamer also includes a story of two gamers (Chengwei and Coayuan) who jointly won a virtual sword, only for Coayuan to sell it – in the real world – for $870. The ensuing feud led ultimately to Chengwei murdering Coayuan[29 30].

This is however pocket change when compared to some of the price tags associated with virtual assets. David Storey, for example, a University of Sydney graduate bought a virtual island for $26,500 - "The island consists of 6 000 acres and includes a castle, a mine and fantastic beasts to hunt. The owner has complete mining and hunting taxation rights and can also allocate parcels of land to sell to other players."[31]

23 23-Year-Old Penangite Dies After Playing Computer Games Non-Stop For 15 Hours (says.com) https://says.com/my/news/23-year-old-computer-game-addict-dies-after-playing-non-stop-for-15-hours

24 https://www.thegamer.com/15-people-who-have-died-playing-video-games/

25 Whilst playing Diablo 3 and StarCraft respectively for those in the know.

26 Internet Gaming (psychiatry.org)

27 Addictive behaviours: Gaming disorder (who.int)

28 Gaming Disorder - Prevalence, Symptoms, Research - INTENTA

29 https://www.thegamer.com/15-people-who-have-died-playing-video-games/

30 To be clear, he killed the real person, not his avatar.

31 Virtual island sells for $26,500 in cyber assets | New Scientist

The island itself is housed in a virtual world called Entropia, which has been the site of some mind boggling sales: the planet Calypso sold for $6 million; Club Neverdie sold for $635 thousand; the Crystal Palace sold for $335 thousand; and the Nest Egg sold for $70 thousand. I'll admit I don't even understand what some of the descriptions of these items mean[32].

Other virtual assets which have sold for staggering amounts include:

Item	Game	Price tag in real world money[33]
Ethereal Flames Pink War Dog	Dota 2	$38,000
Age of Wulin Sword	Age of Wulin	$16,000
Echoing Fury Mace	Diablo 3	$14,000
Revenant Super Carrier	Eve Online	$9,000

The implications for insurers are obvious. Gaming assets can hold real world value. It is conceivable that soon these could account for a sizeable portion of policyholders' owned assets. Understanding the security associated with these and their ability to get damaged, lost or stolen would require a whole new world of underwriting skills. Seems like a great idea for a specialist UMA – but maybe not in South Africa – right now.

IoT ABC XYZ

It is 2am and I can't sleep. I head through to the kitchen for some midnight munchies. "How you doin'?" I hear the fridge, hitting on the microwave again. There is a shrill giggle from the washing machine. It's a classic love triangle and one that will never end… whose stupid idea was it to give these machines brains and connect all these devices to my neural lace. No wonder I can't sleep!

Some mad people think it is a clever idea to connect all our devices to our other devices. Already, sometimes when I turn on my work-from-home headphones I hear my son's tank battles over Bluetooth rather than my colleagues. Not to mention the "smart" speakers which regularly play my wife's conversations for the whole household. And we want to connect more of these devices? Because all I want on Sunday night is to be reprimanded by my fridge for the low milk supply and get told off on Monday morning by the exercise ball for not doing my morning routine. People already can't put down their devices and now we want to connect more devices to our devices and have them sharing data in real time. Madness!

The most cited example of the internet of things (IoT) is the smart home - the idea that we can connect to our house and our house is connected to us. Whether it is using your phone to start the oven as you drive home, your heater sensing that nobody is around and powering off or the fridge and the shopping list app getting chummy – all of these things are actually pretty cool. Simple things to make our lives easier. It would be useful if my garage door knew it was me pulling into the driveway and simply opened and the household doors unlocked as I approached. Of course, that leaves it incredibly open to some criminal syndicate also conveniently having the garage door open for them and the front door unlocked [34]. Furthermore as my fridge is adding things to my shopping list, which is sending instructions to my online delivery company, which makes payment using my banking details – the thugs who gained access to my house could use the fridge to gain access to my bank account, as well as dodgy personal information such as my preferences for 85% cocoa chocolate over the traditional sweeter milk chocolate.

The often-cited insurance application of the IoT is geyser sensors which immediately notify the insurer and designated plumber when there is a leak or a burst. Another obvious application is that once the devices are all connected, when one is stolen and disappears off the network it is obvious it is gone. No sooner will we have tagged all our assets in a wireless network – than there will be crooks figuring out ways to utilise this to profit unduly. What is fairly obvious is that insurers will need a strong handle on the relative security and privacy merits of various IoT connectors or providers in the near future to ensure their underwriting captures the actual risks associated with smart homes and offices.

Conclusion

Newton's third law seems to apply to technology and change: every positive advance in technology and culture is met by an equal and opposite advance in criminality and/or risk. For insurers, who are in the business of risk, this is a good thing. Whilst the world appears to be getting more complicated, it also allows for a more customer centric and targeted approach to insurance, which will need to consider the various interconnections to remain relevant.

[32] 10 Most expensive virtual items in Video Games | SuccessStory

[33] 10 Most expensive virtual items in Video Games | SuccessStory

[34] Internet of things - Wikipedia

Insurance is facing a new reality - and we are equipped with the technologies to help you

The COVID-19 health crisis has forced many industries to adapt – the insurance industry is no exception. While some change is needed to meet short-term needs, many aspects of every-day life and business have changed for good. KPMG's Matchi platform provides a selection of in excess of 6,400 start-up and scale-up technologies to assist insurers with meeting business needs, materialise significant business impact in a short span of time and maintain and build competitive advantage. The platform enables insurers to navigate the universe of insurtechs to solve business problems either by identifying best in class technology providers or developing bespoke solutions.

Examples of benefits from such technologies include:

- Reduction in claim assessment costs with an augmented reality motor vehicle assessment tool which uses artificial intelligence to record the visible condition of cars before a claim is reported.
- Bringing disparate data sets together with emerging technology to help insurers extract relevant policy information from customer relationship management (CRM) legacy systems and internal data silos – helping insurers understand key trends in the business.
- Taking advantage of innovation by adopting a non-clinical diagnostic tool which helps insurers accurately, quickly and non-invasively assess a patient's health status wherever and whenever it is needed.

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Recent tax law cases and their impact on insurers

As the world becomes more sophisticated and industries look for ways to increase revenues and decrease expenses, we will see the Commissioner challenge the tax treatment of new and untested contractual arrangements between businesses and their customers and the insurance industry is right in the way. Insurers are responding to the challenge of differentiating themselves through innovative solutions and the more innovative they get the more they and SARS will need to work together to reach consensus on what these changes mean to both parties.

With this new business reality, we have noticed stricter revenue collection methods and more queries being raised by SARS. Put the above into a melting pot with far-reaching proposed tax amendments and stir in some interesting new tax case law and suddenly your tax environment becomes more complex and unpredictable.

In this article we highlight certain proposed tax amendments and recent court cases relevant to the insurance industry, which may lead to SARS audits and queries on these matters:

- proposed lowering of the corporate income tax rate;
- prepayments (Telkom court case); and
- loyalty programmes (Clicks court case).

Key highlights from the 2021 Budget Speech announcement and lowering of the corporate income tax rate

The Minister of Finance, in his 2021 Budget Speech, proposed to broaden the tax base through changes to the interest limitation provisions in respect of cross border debt, whereby interest deductions will be limited to 30% of Earnings Before Interest, Taxes, Depreciation and Amortisation ("EBITDA"). Another proposal is to limit the utilisation of assessed losses carried forward to taxable income. These measures were proposed to be introduced in 2022.

The Minister of Finance also announced the lowering of the corporate income tax rate from 28% to 27% with effect from years of assessment commencing on or after 1 April 2022. It is intended that the introduction of the lower rate will be implemented in a revenue neutral manner. In other words, the rate may be lower, but more taxes will be collected in other areas, for instance the limitation of interest deductions and limited utilisation of assessed losses.

The lowering of the corporate income tax rate will impact the accounting for and determination of deferred tax for year ends prior to years of assessment commencing on or after 1 April 2022. IAS 12: Income Taxes, paragraph 47 refers:

*Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the **asset is realised or the liability is settled**, based on tax rates (and tax laws) that have been **enacted or substantively enacted** by the end of the reporting period.*

There is currently uncertainty on the interpretation of ‘enacted or substantively enacted’. From an accounting perspective there are arguments to support the view that the change in the corporate income tax rate has been substantively enacted.

On the other hand, section 5(2)(b) of the Income Tax Act states that where such an announcement is made, the rate change will be effective from the date given in the budget speech announcement and will be valid for a period of twelve months from the date of the budget speech announcement. This section, however, contains a proviso that the new rate will apply "subject to Parliament passing legislation giving effect to that announcement within that period of twelve months".

The deferred taxes raised prior to the rate change will need to be assessed and may also result in deferred tax being raised at blended rates i.e. short-term vs long-term realisation of deferred tax balances.

Finally, there may be disclosures which should be considered in terms of *IAS 10: Events After The Reporting Period*, in terms of:

- the nature of the event; and
- an estimate of its financial effect, or a statement that such an estimate cannot be made.

It is evident that each insurer would need to assess the impact on the annual financial statements and should consult both from a tax and accounting perspective to obtain clarity on when and how the change in the corporate income tax rate should be reflected.

Prepayments (Telkom court case)

In the Supreme Court of Appeal judgement between Telkom SA SOC Limited, ("Telkom"),and the Commissioner for the South African Revenue Services ("the Commissioner") (case no. 239/19 dated on 25 March 2020), the Supreme Court of Appeal had to decide, amongst other matters, on the tax treatment of prepayments in terms of the limitations of section 23H.

The case concerned the tax treatment of once-off cash incentive bonuses paid to "dealers" e.g. in the case of insurers these would be commission earners and agents on the sale of initial policyholder contracts. These bonuses were deducted for tax purposes by Telkom on the basis that the once-off incentive bonus was paid for a new connection with a customer, and the benefit attached to the payment related to the new contracts that were concluded.

The court found in favour of the Commissioner, stating that the period over which the expenditure may be claimed must be the period over which the true benefit is actually enjoyed as referenced in the below extract from the judgement:

"Telkom does not incur the incentive bonus expenditure solely to establish a new connection with a customer. The benefit lies in having a customer who pays subscription fees over the fixed term of the contract. Telkom does not enjoy any benefit immediately upon the conclusion of a new contract. It has nothing to show for it until such time as the connection turns into fee income. That is when Telkom begins to enjoy the true benefits of the cash incentive payments".

The submission by the Commissioner in the case focused on the term "any other benefit" as contained in section 23H and contended that the payment should be spread over the term of the subscriber contract. The court found that the expenditure may only be claimed as a deduction over the period during which the benefit is enjoyed, which in Telkom's case was over 24 months.

How does this affect insurers?

Applying the principle established in the Telkom court case, the key issue for consideration when claiming prepaid expenditure as a deduction is whether the benefit is enjoyed over a period of time in excess of six months after year-end and extends beyond the receipt or accrual of goods and services.

When we look at the insurance industry, deferred acquisition costs may be impacted and should be considered. The impact for non-life insurance companies may be limited owing to a specific provision in section 28 of the Income Tax Act which states that the section 23H limitation does not apply, but an assessment is still necessary. This assessment may entail comparing the principles in the court case and assessing these against the current provisions in section 28 for non-life insurance companies.

However, section 29A of the Income Tax Act relevant to life insurers does not contain the same provision as non-life insurers and hence life insurers must consider the Telkom Court case with reference to the expense deduction in terms of section 29A(11) of the Income Tax Act.

Whilst performing the above assessment of the relevant impact, it is also important to consider how prior periods should be corrected, if necessary.

Loyalty programmes (Clicks court case)

In a recent Constitutional Court judgement in the dispute between Clicks Retailers Proprietary Limited ("Clicks") and the Commissioner (case CCT 07/20 dated on 21 May 2021), the Constitutional Court had to decide whether Clicks was entitled to claim a section 24C allowance in terms of the Income Tax Act in respect of future expenditure to be incurred under its Clicks ClubCard loyalty programme.

Section 24C of the Income Tax Act provides that a taxpayer may defer paying tax on income if that income accrues in terms of a contract and such income will be used to finance future expenditure, which the taxpayer is obliged to incur in terms of such contract (i.e. expenditure to be incurred in a subsequent tax year).

Where the income accrues and the obligation to incur the future expenditure are contained in a single contract, the scope of section 24C poses no problem. However, taxpayers have sought to extend the scope of section 24C to cover arrangements where the accrual of income and obligation in respect of the future expenditure are contained in separate but inextricably linked contracts.

Clicks claimed a section 24C allowance on its Clicks ClubCard loyalty programme. In terms of the loyalty programme, Clicks provides its customers with cash back vouchers in proportion to the value of purchases made at Clicks stores. Clicks argued that the income it earned from individual sale contracts with loyalty programme members will be used to fund future expenditure when the vouchers are redeemed. In addition, Clicks argued that they were entitled to claim a section 24C allowance as the income and obligation to incur the future expenditure arose from one contract.

The Constitutional Court confirmed that it was not sufficient for a taxpayer to show that the contract under which the income was earned and the Clicks ClubCard contract under which the future expenditure would be incurred, were inextricably linked. The taxpayer must show that the inextricable link between the contracts is such that the contracts meet the section 24C requirement for sameness. It is, however, unlikely that the sameness requirement would be met where the contracts are not inextricably linked.

An "inextricable link" will be established when an issue, claim, contract or conduct cannot be determined or assessed without another, or the legal consequence of the one cannot be understood or measured without reference to another. In contrast, the concept of "sameness" requires at a minimum that both the earning of income and the obligation to finance future expenditure must depend on the existence of both contracts. If either contract can be entered into and exist without the other, the requirement would not be met.

The Constitutional Court concluded that the income earned on the sales contract with the customers was not the same as the contract which customers entered into regarding the ClubCard contract. The Constitutional Court found that Clicks had not established the contractual sameness that is required by section 24C and hence disallowed the section 24C allowance.

Conclusion for insurers

Based on the principles established in the Clicks case, a section 24C allowance will only be available where a single contract exists or the accrual of income and obligation to incur future expenditure are contained in inextricably linked contracts that are not capable of being applied independently of one another.

Many insurance companies have loyalty programmes for their policyholders. It is necessary that the income tax implications of these loyalty programmes are considered, taking into account the principles established in the Clicks court case together with the Big G Restaurants[1] court case in order to assess whether a section 24C allowance may find application.

For non-life insurance companies, the IFRS disclosure of the future costs could be very relevant and will impact the tax treatment, following the application of section 28(3).

For life insurance companies, the deduction as part of the so-called I-E methodology will largely depend on the application of section 29A(11) and whether the future cost liability will be considered a claim as envisaged in the Income Tax Act.

Looking forward

The journey ahead would not be complete without considering the tax implications of IFRS 17: Insurance Contract (IFRS 17) impacts. There are potential challenges that non-life and life insurers may face with the introduction of IFRS 17. Distinct cash flow mismatches may arise which can result in tax being paid upfront, rather than smoothed over a period of time. Another area of consideration would be over the transitional provisions or day 1 IFRS 17 adjustments to determine whether the taxing event is on transition date of IFRS 17 or over a period of time.

The tax working groups of the Actuarial Society of South Africa for life insurers and the South African Insurance Association for non-life insurers are in the process of collating information from insurers to determine the tax-related challenges of implementing IFRS 17. The objective of this exercise is to gather information to consult with National Treasury to facilitate draft changes to relevant provisions of the Income Tax Act to minimise and/or mitigate areas of challenge identified by the industry.

We remain positive that the consultation process between industry representatives and National Treasury will result in tax legislation with minimal and refined outcomes for insurers once promulgated.

[1] 'In the matter of Big G Restaurants (Pty) Ltd v CSARS 2020 (6) SA 1 (CC), the Constitutional Court accepted that section 24C required the contract in terms of which which the income accrued to be the same contract under which the obligation to incur the future expenditure arises. However, the court held that two or more contracts contracts may be so inextricably linked that they may satisfy this requirement of "sameness".

Insurance tax technology

The tax landscape has changed requiring a new way of thinking.

The tax executive needs to rethink, reimagine and reposition its tax function. This is necessary to ensure it achieves the company's future tax vision by developing a Target Operating Model to reduce cost, maintain and improve quality, unlock value and prepare for a digital future with improved efficiencies.

KPMG's Tax Technology Transformation Services team specialises in the digitisation and automation of the tax function through robotics and technology.

It all starts with a conversation about your organisation's unique tax challenges and aspirations in order to develop solutions that meet your immediate and long-term needs.

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Who will watch the robots? Ethics, Insurance and Artificial Intelligence

More knowledge, more ethics?

More information should help us become more ethical. Ethics is (at least partially) a matter of recognising and predicting how our actions affect others, and then pursuing those actions that result in the least harm or the greatest good.

With more information and better prediction our ethical decision-making should improve. At least, this would be the case if one assumes, as Socrates did, that "knowledge is virtue". Socrates believed that when we truly grasp what is good, and why it is good, such knowledge is compelling – it effectively guides behaviour. The inverse, then, is that bad behaviour is ultimately a form of ignorance.

Artificial Intelligence (AI) for good

TIt stands to reason, then, that the advent of Big Data and the predictive power of AI opens new moral opportunities. And there are uses of Big Data and AI that do exactly that. Consider, for instance, the personal behavioural improvements made possible by the myriad of tracking apps available to individuals. Receiving alerts and summaries about the driving "mistakes" you make allows you to consciously adjust your driving, learn new habits, and consequently reduce the risk of accident, injury or death. In a Socratic sense, these applications help the moral agent to "know thyself"[1].

On a bigger scale, organisations like "AI for Good" are pursuing moral good through the use of AI. One example is rAInbow (or "Bo" for short) – an AI-powered conversational bot that provides a safe and non-judgemental space to identify and prevent abuse and gender-based violence[2]. Another example, from the field of psychiatry, is the use of machine learning to identify the risk of suicide from an analysis of social media posts, creating algorithms that will aid clinical decision-making in future[3]. Through technologies like these, new avenues open up for the effective pursuit of health, mental and physical wellbeing, community and social justice.

The vices of Big Data

But while there are examples of AI being applied for moral purposes, it seems that the age of Big Data has brought with it more vice than virtue. Instead of using data to prevent moral harm, many of our applications of data tend instead to undermine our most valued goods, including privacy, autonomy, justice and democracy. The recent phenomenon of "election meddling" illustrates the point. In both the 2016 and the 2020 US elections it was alleged that data applications were used in an attempt to manipulate the electoral outcome. Reportedly 19% of tweets relating to the 2016 US election were created by so-called "bots"(or automated Twitter accounts that share content)[4]. The use of AI makes these bots more difficult to distinguish from humans, and the use of these bots often has malicious intent – sowing division and ill will intended to drive voting behaviour.

1 Aristotle, the father of virtue, provided three practical rules for good conduct. The second rule reads "We must notice the errors into which we ourselves are liable to fall, and we must drag ourselves in the opposite direction. (The Nichomachean Ethics, Book Two, ix)

2 For more information, visit https://www.aiforgood.co.uk/

3 Roy, Nikolitch, McGinn, Jinah, Klement & Kaminsky. 2020. "A machine learning approach predicts future risk to suicidal ideation from social media data" in npj Digital Medicine. Available at: https://www.nature.com articles/s41746-020-0287-6 [Accessed: 2 July 2021]

4 Guglielmi, G. 2020. "The next-generation bots interfering with US elections". Nature 582 (21). Available at https://www.nature.com/articles/d41586-020-03034-5#ref-CR1. [Accessed: 4 July 2021.]

Regarding the effects of bots and fake news, a recent study found that fake news/stories may only have a small influence on people's behaviour, but that these small effects could still cause serious harm. Think, for instance, of the potential harm that can result from only a small percentage of people opting against vaccination[5].

What is clear, therefore, is that corporations and nations alike are not necessarily using data and AI to promote moral good. Instead, information gathering and prediction are used to get to "know" people better, with the express purpose of guiding them (sometimes by means of targeted false information) toward other-serving actions. The aim of knowledge becomes power, rather than virtue.

AI and insurance

How does this relate to insurance? Insurance is fundamentally about information and prediction. Information and prediction drives decisions regarding underwriting, claims, pricing, marketing and products. Among other uses, data helps insurance companies to determine risk more accurately; to make decisions about whether or not to accept risk; and, to judge whether to invest time or resources in the investigation of a claim. Big Data and AI are consequently being used to make insurance more efficient, to make decisions faster, and to help clients better.

While the increase in knowledge can be put to virtuous use – matching the right clients with the right products; lowering the cost of insurance; increasing the speed and efficiency with which clients are helped – it can also lead to less ethical outcomes, intentional or unintentional. The following related ethics risk stands out: the erroneous use of data, bias, and opacity.

As AI and algorithms are increasingly used to make insurance decisions, we may rightly ask whether we can trust these decisions. When we employ the help of AI to decide how risky a policyholder is, or whether a claim is suspicious or not, can we be sure that a learning machine is not incorporating factors like gender or ethnicity into its determinations? This could lead to erroneous decisions, but may also lead to a violation of rights. It is possible that we intentionally or unwittingly allow bias into the insurance process.

Towards the responsible use of data in insurance

To counter the ethics risks associated with data and AI, the insurance industry must focus on increased transparency and on the cultivation of what philosopher of technology Shannon Vallor calls "technomoral virtue".

One of the problems of AI is that the algorithms used and the calculations performed happen behind the magician's curtain. We are impressed and astounded by the results, but we are seldom sure how the trick works. When the trick is not meant to entertain, but to determine whether I am insurable, what the cost of my insurance should be, or whether I am attempting to commit insurance fraud, then a good magician always reveals his secrets.

This is one of the key principles for the responsible use of data in the insurance industry, namely of human involvement, monitoring and transparency. Before an application is used in the insurance industry, companies must consider how best to explain AI outcomes to customers. This kind of transparency lies in the extension of such treasured financial services values of *fairness, informed consent* and *autonomy.*

Secondly, human involvement is crucial in the use of data-driven technologies. When these technologies throw up red flags relating to underwriting or fraud risk, human governance is required to understand the basis on which these flags were raised. This also allows companies to improve these technologies – correcting them when flags are false.

If on the institutional and technological level transparency and human involvement are important, then on the individual level, design, operational and commercial decisions should be informed by so-called technomoral virtue.

We often ask which technical skills students will need to prepare themselves for future professions and employability. What we don't consider is that new industries and employment opportunities may require new moral skills. To steer technology towards moral purposes, for instance, data scientists working in financial services will need to develop new moral skills, tailored for the world of technological opacity, and the risks associated with data. Shannon Vallor suggests that the virtues that will be required include, among others, technomoral wisdom and empathy.

As an illustration, think of the use of AI to identify and counter claims fraud. To solve this problem, data scientists break up the problem in a myriad of smaller problems, that AI addresses individually. It requires wisdom and empathy for a data scientist to steer this process towards an accurate and fair outcome.

[5] Greene, C. 2021. "COVID-19: the first study to look at whether fake news actually changes people's behaviour" in The Conversation. Available at https://theconversation.com/covid-19-the-first-study-to-look-at-whether-fake-news-actually-changes-peoples-behaviour-144819. [Accessed: 5 July 2021]

According to data scientist Eric Sibony:

It's crucial to understand that AI should not be trying to determine whether or not a claim is fraudulent. AI should be making decisions about various aspects of the claim to determine if they are suspicious or not. As such, algorithms must be designed to identify questionable behaviors and determine the extent of suspiciousness. Fundamentally, the claim is not suspect simply because of a policyholder's ethnicity or gender, or the neighbourhood in which they live. Algorithms must represent this fact [6].

It is this kind of practical wisdom that insurance companies need to develop to prevent bias, and to ensure that the use of AI builds confidence in the industry, treats customers fairly, and benefits the insured.

Who will watch the robots?

Increased information and predictive power allow us to better know ourselves and our customers. It also enables us to pursue human and financial wellbeing more effectively. Through negligence or malice, however, Big Data and AI can also result in more opaque forms of discrimination and injustice.

One often gets the feeling of being watched by our technologies, especially when a targeted advertisement pops up pushing a product you remember mentioning casually to a friend. Data researchers dispel the conspiracy that Facebook is recording your conversations. Instead, AI is just getting better at predicting our wants. Adding a human element to data-driven technologies – cultivating ethics focused on the realities of AI applications – is a way for humans to "watch back".

[6] Sibony, E. 2020. "Keeping the robots trustworthy: The ethics of artificial intelligence". Available at: https://www.propertycasualty360.com/2020/11/03 keeping-the-robots-trustworthy-the-ethics-of-artificial-intelligence/ ?slreturn=20210528223245. [Accessed: 5 July 2021]

Privacy advisory services

Enable and protect

As organisations seek to improve the customer experience, create value and obtain competitive advantage associated with trust in their brand, the ability to leverage personal information assets in the right way is crucial.

Creating value from personal information, whilst still ensuring legal and operational compliance may be increasingly challenging – we can help you overcome these challenges with our wide range of service offerings:

- **Privacy audits, assessments and advice:** Identify areas of risk associated with privacy compliance and areas where your organisation may be misinterpreting privacy requirements and/or not leveraging personal information to create value.
- **Privacy strategy and governance:** Assist with the design and implementation of a privacy strategy and governance framework that is right for your organisation.
- **Privacy programme implementation:** Design and embed pragmatic, fit for purpose privacy structures and controls to manage privacy risk as part of broader enterprise risk.
- **Privacy inventories and data flow mapping:** Identify personal information at rest /in motion to identify risk points and develop strategies to manage the risk in line with appetite.
- **Binding corporate rules and data processing agreements:** Our privacy lawyers can assist with the preparation of fit for purpose data processing agreements and binding corporate rules.
- **Training and awareness:** Develop and roll-out training and awareness programmes tailored to your organisation needs and audience.
- **Privacy impact assessments for business and technology projects or transformation programmes:** Identify issues early in a project/programme life cycles, reducing the operational risks of placing non-compliant systems, services or processes into production and helping to avoid re-work, subsequent investigations and related costs.
- **Privacy incident response:** Help establish sustainable incident response plans in advance of a data breach, and assist in data loss/breach investigations and remediation.

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Overview of the Zimbabwean insurance industry

Overview of current state of the Zimbabwean insurance market

The year 2020 started off with most insurers experiencing pressure on their real earnings as a result of net monetary losses incurred due to the change of functional currency from the United States Dollar ("USD") to the Zimbabwean Dollar ("ZWL"), effected by Statutory Instrument 149 of 2019.

The instrument stated the ZWL as the sole currency for legal tender and consequently insurers had to price their policies in local currency. To make matters more difficult, consumer confidence was also adversely affected due to the loss in value that policyholders experienced during the previous currency transition in Zimbabwe in 2008/9.

The Zimbabwean insurance industry was also affected by the global outbreak of the COVID-19 pandemic which led to unprecedented disruption and created material uncertainty. The successive lockdowns first introduced on 30 March 2020 as well as other restrictions to manage the spread of the virus had a far-reaching negative impact on the level of aggregate demand and economic activity within the country. The erosion of disposable income across the economy coupled with uncertainty over the ability of the sector to cover claims against the impact of the pandemic have resulted in a low appetite for insurance products.[1] Restrictions on movement and adoption of working from home also resulted in decreased underwriting volumes and a slowdown in collection of premiums across the industry. The underwriting business is mainly carried out through physical interaction in Zimbabwe so new business was limited. Retail consumer demand for insurance slid because of low disposable income, exacerbated by the severely affected informal sector that accounts for a significant segment of the economy.

The onset of hyperinflation in Zimbabwe further compounded the pressure on purchasing power and resulted in the constant upward reviews of sums insured as well as spikes in the cost of insurance claims and operating costs. However, non-life insurers benefitted from the hyperinflation as most policyholders could not update the sums insured in-line with inflation quickly enough, resulting in a lower amount of claims paid out. Many of the large Zimbabwean insurers earn much rental income as landlords; as a result reduced occupancy levels on leased properties had a direct impact on revenue streams. According to the Knight Frank H2 2020 report, office market demand remained subdued with vacancy rates remaining high between 30% and 40%.[2]

Challenges in accessing foreign currency resulted in reduced capacity to settle accumulated legacy creditors and underwrite foreign currency denominated policies. The introduction of the foreign currency auction system provided for improved access to foreign currency which made it easier for insurers to settle foreign currency obligations[3].

[1] https://Impact-of-COVID-19-on-the-Zimbabwean-insurance-sector-21.10.20.pdf (fsdafrica.org)

[2] https://content.knightfrank.com/research/2054/documents/en/zimbabwe-market-update-h2-2020-7873.pdf

[3] GCR Ratings Zimbabwe Insurance Sector Research report

The government also promulgated Statutory Instruments 268 and 280 of 2020 which provided for the charging and collection of levies, premiums, and claims in foreign currency for specified classes of insurance business, and Statutory Instrument 85 of 2020 which provided for the payment of goods and services using free funds which are defined in the Exchange Control Regulations 1996, S.I 109/96 as "money which is lawfully held outside Zimbabwe by a Zimbabwean resident and which was acquired by him otherwise than as the proceeds of any trade, business or other gainful occupation or activity carried on by him in Zimbabwe". These interventions cushioned the operations of the industry significantly as policies could now be priced in foreign currency bringing about stability but reducing the confidence of external partners fearing increasing foreign exchange risk.

For the year-ended 31 December 2020 the insurance industry was made up of 2 156 participants including 48 insurers, registering a decline of 4% from the 2019 figure of 2 235 as shown in the table below[4]:

Composition of the insurance industry

Class of Business	2019	2020
Life assurance	12	12
Funeral assurance	8	8
Non-life insurance	16	16
Composite insurers	2	2
Micro-insurers	1	2
Non-life reinsurers	3	5
Composite reinsurers	5	3
Insurance brokers	31	32
Reinsurance brokers	7	7
Agents	2 150	2 069
Total	**2 235**	**2 156**

Source: Insurance and Pensions Commission (IPEC) Annual Report 2020

Gross premiums written increased to ZWL18.48 billion as at 31 December 2020 from ZWL 2.69 billion recorded in 2019 which represents a nominal increase of 586%. The exchange rate, which largely fuelled inflation saw annual inflation increasing from 473.3% in January 2020 peaking at 837.3% in July 2020 before disinflation from August 2020. The December annual inflation was at 348.6%. The movement in inflation figures resulted in the continual readjustment of premiums for existing insurance cover as well as upward price adjustment of new policies.

Gross written premiums

Class of Business	Dec 2019 (ZWL $ Million)	Dec 2020 (ZWL $ Million)	Percentage Change
Life assurers	596,93	3 651,58	512%
Life reinsurers	22,19	153,08	591%
Non-life assurers	1 375	9 107	562%
Non-life reinsurers	665	5 299	697%
Funeral assurers	34,50	274,14	695%
Total	**2 693,59**	**18 484,80**	**586%**

Source: IPEC Annual Report 2020

Total assets for the industry grew by 191% from ZWL$17.19 billion as at 31 December 2019 to ZWL$50.04 billion as at 31 December 2020. Overall, the industry recorded a profit after tax of ZWL$16.89 billion.

2020 industry profits

Sector	Profit after tax (ZWL $ Million)
Insurance brokers	327,00
Funeral companies	46,67
Non-life insurers	2 432,46
Reinsurers	2 112,81
Life assurers	11 850,00
Total	**16 768,94**

Source: IPEC Annual report 2020.

[4] Insurance and Pensions Commission (IPEC) 2020 Report

Statutory Instrument 59 of 2020 reviewed the levels of minimum capital requirements for the industry and converted them to ZWL. As at 31 December 2020 87% of industry participants complied with funeral assurance companies recording the lowest compliance ratio at 38% as shown in the table below.

Minimum Capital Requirements (MCR) Compliance

Class of Business	MCR (ZWL$ Million)	No. of entities	No. of compliant entities	Compliance status
Insurance brokers	1,5	32	28	88%
Funeral companies	62,5	8	3	38%
Non-life insurers	37,5	18	18	100%
Reinsurers	7,5	8	8	100%
Life assurers	7,5	12	10	83%
Micro-insurers	4,5	2	2	100%
Average compliance				87%

Source: IPEC Annual Report 2020.
Note: The non-life insurers caption composed of sixteen non-life insurers and two composite insurers

Areas of growth and opportunity

- Insurance penetration levels currently lie below 5% providing an opportunity for industry players offering competitively priced products to grow their market share[5]. The COVID-19 pandemic has reconfigured the traditional systems of doing business; insurance may now be more front-of-mind than before the pandemic and those able to be innovative, offering products that meet consumers' changing needs and create value are better positioned to benefit from the opportunity.

- The pandemic had brought to the fore the need for Zimbabwean insurers to diversify their portfolios and reduce their exposure to exchange rate risk. Those insurers that had foreign subsidiaries that had earnings in foreign currency were better positioned to navigate the 2020 terrain that was characterised by foreign currency shortages. This revenue provided a hedge against the hyperinflation that prevailed in the country. As the region gears for economic recovery, opportunities remain for local insurers and reinsurers to expand their operations and footprint into the region and play a more active role in the recovery.

- Increased digitalisation has paved the way for changing business models and development of new products. The internet penetration rate as at 31 December 2020 stood at 59% which provides an opportunity for web-based and mobile application products as they will have more reach to the young population of Zimbabwe.[6] Block chain ledgers, telematics, machine learning, big data and other technologies are innovative solutions to reduce insurance fraud and is an area for fintech companies to maximise on and reduce the operational losses of insurance companies.[7]

- The Insurance and Pensions Commission ("IPEC") has partnered with the World Bank for technical support in the development of a regulatory framework and capacity building for weather-index insurance.[8] The migration from conventional insurance products to weather index insurance provides an opportunity for growth in the insurance sector for an agro-based economy like Zimbabwe. Insurance is a lucrative approach to managing climate risk and addresses the need to protect the livestock and crops of smallholder and subsistence farmers who are the majority in Zimbabwe following the land redistribution exercise.

Areas of challenge

- There has been an increase in cyber security threats emanating from the increased use of electronic platforms in Zimbabwe and now exacerbated by more people working remotely.

- The prevailing economic environment has led to asset-liability mismatches due to the unavailability of value preserving short-term investment assets which match the liability profiles of insurance companies. The absence of inflation-indexed Prescribed Assets has made it very difficult for insurers to preserve value through Prescribed Assets, evidenced by the low level of compliance with the requirement to do so. In 2019 Prescribed Asset status was awarded to government linked projects which normally bear a fixed rate of interest, thereby exposing insurers to losses in an inflationary environment. This prevailing situation exposes the industry to liquidity risk leading to some insurers failing to settle claims on a timely basis as funds are held in prescribed assets yielding a return less than the rate of inflation. As a result of this legislation driven loss making position, compliance for some entities remains a challenge.

5 GCR Ratings Zimbabwe Insurance Sector Research report
6 Postal & Telecommunications Regulatory Authority of Zimbabwe (POTRAZ) 3rd Quarter Report 2020
7 https://www.longdom.org/open-access/an-assessment-of-the-impact-of-innovation-on-insurance-fraud-management-in-zimbabwe.pdf
8 Insurance and Pensions Commission (IPEC) 2020 Report

- High inflation has resulted in increasing cost of doing business. Low disposable incomes across the economy have adversely affected the uptake of insurance products thereby making the operating environment even harsher for insurers.

- Regulatory policy changes have also been a challenge for the industry and the economy at large. The recent gazetting of Statutory Instrument 127 of 2021 that penalised companies for charging premiums in USD when most cannot access foreign currency on the official foreign currency auction, sends negative signals to the business community and again reducing confidence in the industry. Key provisions contained in SI 127 include measures that prohibit businesses from selling goods and services or quoting them at an exchange rate above the ruling auction market rate, issuing buyers with a Zimbabwean Dollar receipt for payment received in foreign currency, giving buyers a discount for paying in foreign currency and setting out penalties for businesses that refuse to accept payment in the Zimbabwean Dollar at the ruling auction market rate.

State of change in the industry

- The insurance sector is in the process of developing mortality tables that are specific to Zimbabwe, a significant departure from the South African developed tables that do not correctly depict the mortality experience for Zimbabwe. This will result in the industry having more appropriate mortality experience assumptions for product pricing purposes which will reduce the insurance liabilities for the industry as products will now be correctly priced.

- The Insurance Act and the IPEC Act are currently being reviewed for further amendments so as to strengthen the regulation of the sector which should improve the credibility of the industry. Among the initiatives is to modernise the risk and solvency assessment to be in line with international standards through the Zimbabwe Integrated Capital and Risk Project (Zicarp). Zicarp aims to improve the safety and soundness of the insurance companies as well as enhancing protection for policyholders by moving away from an unscientific determined capital of the one size fits all approach which was in place. It is expected to capacitate insurers to withstand any risk they get exposed to as it requires them to have capital aligned to the risk they carry.

- On 13 March 2020, IPEC issued Statutory Instrument 69 of 2020, "Guidance for the Insurance and Pension Industry on Adjusting Insurance and Pension Values in Response to Currency Reforms of 2019." This guidance requires long-term insurance companies to separate policyholder and shareholder funds. The guidance also provides rules for profit allocation between shareholders and policyholders and the equitable distribution of revaluation gains, which is a significant improvement to the 2008/2009 scenario where policyholder values were eroded by inflation and subsequently the change in currency, resulting in the ongoing loss of confidence in life insurance products.

- Like much of the rest of the world, the insurance sector in Zimbabwe is in the process of adopting International Financial Reporting Standard 17 so as to standardise insurance accounting and improve comparability. The standard also increases transparency as users of accounts can meaningfully understand the insurer's exposures and performance. The implementation of the IFRS 17 model has been faced with challenges including a lack of understanding of the complexities around the standard's interpretation which requires the training of stakeholders. Zimbabwean insurers will need to implement significant technical and practical changes to current practices including a complete overhaul of their underlying actuarial models, financial reporting processes and systems, and transparency demands within their corporate governance structures which is proving to be expensive.

Future outlook

Severe weather patterns have been increasing in the past few years with Zimbabwe experiencing regular droughts and a cyclone in 2019. Climate change will continue to pose a challenge to businesses, particularly in agro-based economies like Zimbabwe. Proper risk management will be critical for mitigating risks to supply chains, property and business continuity.

The advancement in technology has made the global economy more interconnected. Businesses are becoming more complex, increasing their exposure to inter-related risks as well as other emerging and intangible risks which will increase the focus on enterprise risk management going forward [9]. The rise of quantum computing and advancement in 5th Generation technologies has also heightened concerns around cyber security and data protection for insurers particularly as most global powerhouses now use big data in their product development. Insurers in Zimbabwe will have to invest more in these resources and in compliance with data privacy if they are to operate and compete globally.

[9] https://www.chubb.com/za-en/_assets/documents/industry-outlook-2020_gary.pdf

Insurers should be upgrading not only their technology systems and operating models, but their human talent capabilities too. The digital skills gap is increasing. There has to be more investment targeted towards training and retention of the younger generations who drive innovative product development.

The Zimbabwean economy has remained volatile and continues to exert significant pressure on company operations and earnings resulting in most insurers expanding regionally so as to earn foreign currency. However, the evolving taxation landscape will likely prompt insurers to reconsider the focus of their operations in some countries and regions. The Base Erosion and Profit Shifting (BEPS) framework introduced by the Organisation for Economic Cooperation and Development (OECD) and more recently the pronouncement by the G7 finance ministers after signing the "global tax agreement to bring international tax systems to the 21st century" are examples of game changing reforms that will impact businesses across the globe and in Zimbabwe.[10]

[10] https://taxissuecom.wordpress.com/2021/06/08/near-yet-so-far-an-analysis-of-the-so-called-g7s-historic-global-tax-agreement/

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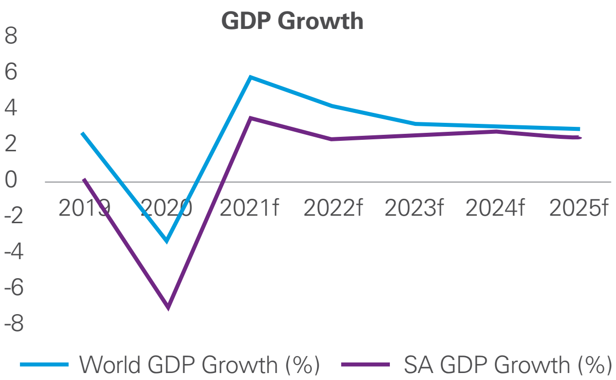
Financial market update

The current market conditions are tricky to navigate and result from the economic and health crisis brought on by the COVID-19 pandemic. Asset prices, as a result of good news surrounding the vaccine rollouts, have reached new highs. The rise of retail traders (read "meme stocks"), non-fungible tokens and increased stock market buoyancy indicates a dislocation in financial markets.

This subsequent recovery leaves a threat for a possible market correction should investor confidence wane and favourable fiscal and monetary policies end.[1]

A sudden halt!



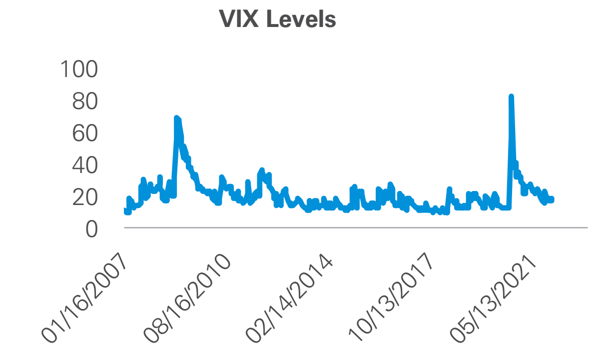
Source: Fitch Solutions

In March 2020, life as we knew it (before COVID-19) came to a sudden halt. In an attempt to stop the spread of the virus, lockdowns were introduced, which brought about an unprecedented drop in economic activity. This slump in economic activity resulting from the lockdowns is displayed by the significant contraction in the GDP figures for 2020, both locally and globally.

Over the following few graphs, we will go through the response to this sudden halt, the responsive measures put in place, and the trajectory of the above chart indicates the success of these measures.

The uptick was driven by a recovery in private consumption and external factors favourable to the South African economy, such as rising commodity prices.

Volatility follows panic!



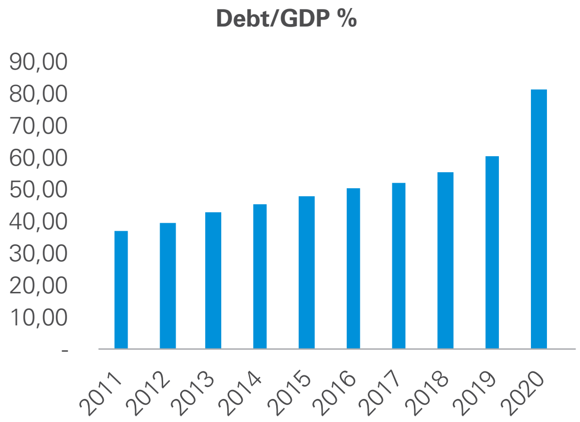
Source: Cboe

The sudden halt led to a drop in equity markets across the board, a surge in credit spreads, and an overall increase in volatility. The effect is depicted by the spikes in volatility as indicated by the Chicago Board Options Exchange's (CBOE) Volatility Index (VIX) above, which has reached levels not seen since the Global Financial Crisis of 2008. The VIX, which is constructed using price data from traded options on the S&P 500 Index and is commonly known as the "Fear Gauge," is used by investors to gauge overall systemic risk.[2]

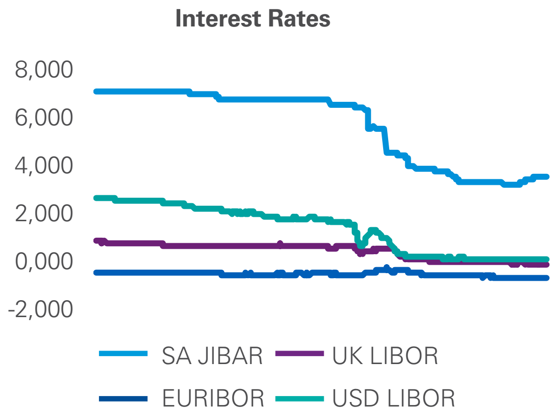
[1] Financial Perils in Check for Now, Eyes Turn to Risk of Market Correction – IMF Blog

[2] The South African Insurance Industry Survey 2020. https://assets.kpmg/content/dam/kpmg/za/pdf/pdf2020/financial-markets-update-and-considerations-for-insurers.pdf

Quell the fears!



Source: Fitch Solutions

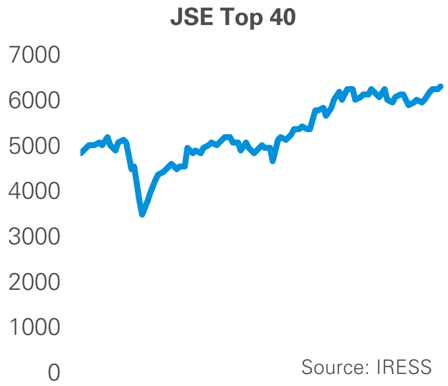


Source: Refinitiv Eikon

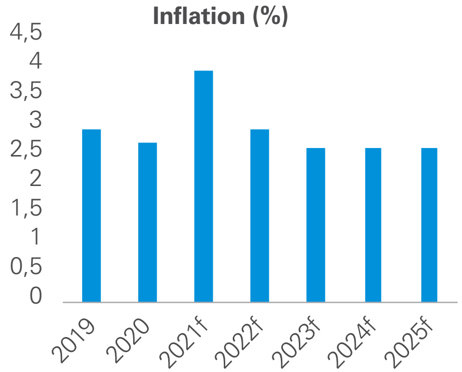
In response to this 1-in-200 year event, central banks and governments have provided unprecedented monetary and fiscal stimulus to the economy. Central banks have lowered interest rates across the board and embarked on asset-buying schemes, and governments have implemented stimulus programmes. For example, in South Africa, our response included tax measures to alleviate cash flow burdens on tax compliant small to medium-sized businesses arising from the COVID-19 pandemic and lockdown and debt-relief schemes.

The various stimuli provided led to an expansion in sovereign debt and an expansion in central bank's balance sheets. In the current low-interest-rate environment, the servicing costs of this debt are relatively low. However, there will be a concern when rates start to rise, increasing the servicing cost of this debt on the national budget. Most of South Africa's debt is denominated in ZAR with a maturity of over ten years, which mitigates the increased debt levels. However, the continued indebtedness of our state-owned enterprises, whose debt is guaranteed by the South African government, will weigh heavily on investor confidence for foreign direct investment.

The recovery!



Source: IRESS



Source: Fitch Solutions

We have seen a recovery in equity markets buoyed by the fiscal and monetary stimulus, combined with the gradual reopening of the economy post lockdown. However, uncertainty around new variants of the virus and subsequent lockdowns have left volatility in financial markets at an elevated level.

There has been a spike in inflation figures, which is currently believed to be transitionary due to the unusual dynamics brought about by the pandemic. As a result, central banks will need to balance the relevant transitionary inflation pressures and their outlook on rates.[3]

The impact on insurers

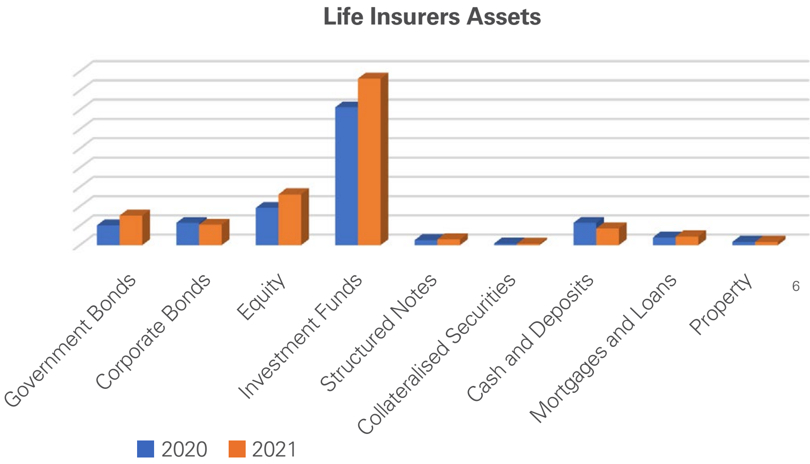
The volatility displayed across all asset classes, combined with increased morbidity and mortality rates and business interruption claims, low-interest rates and a liquidity crunch due to the pandemic, pose and continue to pose risks for insurers.[4]

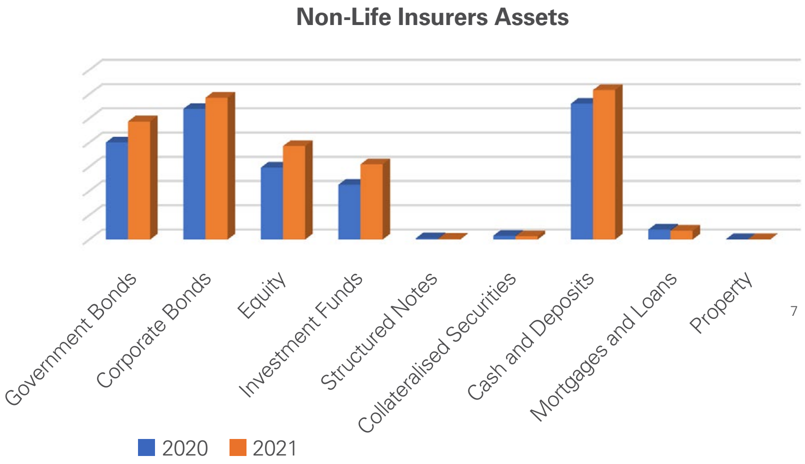
Industry results have shown that insurers' asset portfolios demonstrated resilience, could withstand peak COVID-19 market stresses and did not significantly impact capital and solvency requirements. The split in insurers asset portfolios has also remained relatively consistent year-on-year, with the uptick in equity markets showing the real difference.

3 https://www.imf.org/en/Publications/WEO/Issues/2021/07/27/world-economic-outlook-update-july-2021

4 Impact of COVID-19 on Insurers (imf.org)

In general, we have seen that insurers have avoided knee-jerk reactions to market movements.[5]





Outlook

There is still uncertainty, and while most insurers are well capitalised and have shown resilience in their balance sheets, closer monitoring of low-interest rates, equity markets, and credit are required.

The extraordinary measures put in place by central banks constrain future policy space to manoeuvre future crises.

Rising geopolitical tensions and stressed US-Sino diplomatic relations would also weigh heavily on the economic recovery and add to elevated market volatility.

Slow vaccine rollouts and the threat of new variants will continue to play a role in the economic trajectory over the coming years. In South Africa, rising unemployment and inequality has been exacerbated by the pandemic, and the threat of further social unrest remains.

It's clear that not all recoveries are created equal. KPMG in the US believes a K-shaped economic recovery is forming. Different parts of the economy are recovering from the pandemic at different rates and magnitudes. There are signs of this across many economies — with a dislocation between various industries, geographies and households.[8]

Factors that will continue to weigh heavy on the South African economic recovery include:

- Power supply - the continued impact of load-shedding and the generation capacity of Eskom, the increased pressure globally to move to clean energy, and the significant debt carried by Eskom are cause for concern.
- Economic reforms - over the past few months, we have seen a wide range of economic reforms tabled. The ability to execute these reforms will play a significant role in the economic recovery of South Africa.
- Monetary policy and the volatile Rand - with current inflationary pressures, any tightening in monetary policy to respond to these pressures may hinder economic recovery. Adding to that, the Rand continues to be a volatile emerging market currency.
- Climate change - we have seen increased indicators of this in South Africa indicated by the water crises (think "Day Zero") in the Western Cape, droughts in the Northern Cape and increased climate variability.
- Cyberattacks - the recent cyberattack against Transnet, which has led to a force-majeure event, indicates our national infrastructure's vulnerability.

The COVID-19 pandemic is a global stress event testing all businesses' financial, operational and commercial resilience. Against this backdrop, the financial services sector has to adapt rapidly to current constraints and market conditions.[9]

Due to the fluidity of financial markets, the information used in the above article was accurate at writing. Therefore, movements between the date of the report and the date of publishing are expected.

5 https://home.kpmg/xx/en/home/insights/2020/04/covid-19-solvency-capital-and-the-insurance-sector.html

6 Selected South African insurance sector March 2021.pdf (resbank.co.za)

7 Selected South African insurance sector March 2021.pdf (resbank.co.za)

8 https://home.kpmg/xx/en/home/insights/2021/07/a-tale-of-two-recoveries.html

9 https://home.kpmg/xx/en/home/insights/2020/04/covid-19-insights-emerging-risks.html

KPMG's insurance practice

We provide audit, advisory and tax services to more than ninety percent of the insurance market.

We operate a specialist insurance audit unit of more than 180 professionals fully supported by tax and IT specialists, actuaries, lawyers and other regulatory professionals. This means that our insurance clients get a team of insurance specialists every time.

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

26 Partners

62 Managers

Over 180 professional staff

Top of our game in everything we do

Our staff attend more than 10 insurance industry training courses and they present another 15 courses to clients, certified by the IISA (Insurance Institute of South Africa).

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

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

KPMG Insurance in the rest of the world

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

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

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The (un)expected observations - tax experiences in a pandemic

While this is the second year that the majority of the world has had to deal with the impact of the COVID-19 pandemic, we not too long ago completed the first round of audits of insurance companies.

The COVID-19 pandemic has affected insurance companies in many ways. In addition to customer, people and operational considerations, volatile markets have affected investment portfolios on balance sheets, all of which unsurprisingly has had a tax impact.

The pandemic has resulted in the loss of lives globally over the past eighteen months. Many individuals lost their jobs and many businesses have suffered losses, with some even closing down. As a result, many insurance companies throughout South Africa had to settle claims ranging from death and disability to business interruption. The impact of this can be seen in the financial results released by many insurance companies.

In general, policyholder behaviour has arguably also changed as a result of COVID-19. For instance, cash flow or financial constraints may force the early surrender of policies or even increase the probability of insurance fraud being committed. Furthermore, lockdown regulations would have stifled new business sales thereby affecting the premium income of insurance companies.

At the start of the pandemic we speculated what themes and trends would emerge for the insurance industry. We set out below highlights of our key observations for life insurance companies.

Underwriting profits

Simply put, 'transfer tax' is the result of the excess of policyholder assets over liabilities at the financial year-end, and can also loosely be described as the underwriting profits earned by an insurance company. We have observed a general trend with the increase of policyholder liabilities – as a result of an increase in anticipated future claims – along with a corresponding decreasing trend in the financial markets and its related impact on the assets held by policyholders. Consequently, insurance companies have as a result generated reduced surpluses, and deficits in some instances, when comparing the market value of policyholder assets to the policyholder liabilities at year-end. This has the effect of reducing the tax liability of insurance companies. In addition, there are deferred tax consequences which are set out further in the article.

Consideration has to be given to whether to impair any policyholder assets due to the impact of COVID-19. To the extent that these assets are allocated to policyholder funds, any impairment will reduce the profit transfer in the year that it is raised, and will similarly have a consequential impact of a reduction in tax.

Less to share with SARS

Losses suffered by businesses over the past year and a half have negatively affected the declaration of dividends with many listed companies declaring lower dividends, and in some instances, not declaring any dividends at all. This has an impact on the dividends tax paid to SARS. Rental income of property-owning companies has decreased due to business interruption, with some businesses not able to continue operating after the initial hard lockdown was relaxed. To the extent that policyholder assets include investments in listed companies and property-owning companies, returns on these investments would be lower due to the aforementioned reasons. In addition to lower (or no) transfer tax being payable as described above, insurance companies are withholding less tax from policyholder funds as a result of lower profits being derived from the net of investment returns (on assets) and expenses allocated to that policyholder fund.

As investment values reduce, lower realised capital gains (or even realised capital losses) generated from the disposal of underlying policyholder assets also leave less for SARS.

Deferred tax

The lower market value of assets, and as a result the reduced unrealised capital gain on those policyholder assets, and other assets held by insurance companies, will result in a decrease in the deferred tax liability that would generally be recognised on the unrealised gain attributable to those assets.

In other instances where there is a deficit (in other words the value of the policyholder assets is less than the policyholder liabilities at year-end), no profit transfer arises to the corporate fund. This deficit results in a reverse interfund transfer (the corporate fund makes good the aforementioned shortfall where the policyholder assets are less than the policyholder fund liabilities.) These reverse interfund transfers raise the question whether the insurance company should recognise a deferred tax asset in its corporate fund.

The recognition of deferred tax assets requires consideration of the future movement of the market value of assets held by policyholders in addition to the future actuarial valuation of liabilities of the policyholders.

(Imminent) limitation of use of assessed loss

During the 2020 Budget Speech it was announced that National Treasury intended to restrict the offset of assessed losses carried forward. It was proposed that the offset of an assessed loss brought forward would be restricted to 80% of taxable income. At face value, the impact would be that taxpayers would be subject to tax on a minimum of 20% of their taxable income calculated for that year, irrespective of the quantum of any assessed loss brought forward. While not clearly stated, it is assumed that the balance of any unutilised assessed loss will remain available to be carried forward to the next year, subject to the same restriction in the following year. This proposed change – which has been placed on hold as a result of COVID-19 – is likely to affect company cash flows as it would have to pay tax on profits earned in a financial year even where it has a significant assessed loss to offset the profits. This will also affect the recognition of deferred tax assets on assessed losses as the full value of the tax loss is deferred to future years. The proposed limitation of assessed losses, once promulgated, will similarly affect insurance companies (including their policyholder funds) and may create cash flow constraints.

Changing costs

The introduction of the first hard lockdown presented an immediate challenge for businesses as they had to rapidly enable a mass transition to remote working in order to maintain operations. In the insurance sector, the degree of challenge this presented varied widely; some were in a better position than others to effect the change. It is essential to establish a true picture of the costs of running the remote workforce, and cost savings like the reduced need for office space, compared to normal baseline costs. The changing cost of running a remote workforce will result in a change in the cost allocation applied by insurance companies, which will ultimately affect the determination of taxable income for both the insurer and its policyholder funds.

From an employees' perspective, SARS recently released a revised draft Interpretation Note 28, to provide clarity on the deductibility of home office expenses incurred by persons in employment or persons holding an office. The revision provides for a strict application of when a taxpayer can claim home office expenditure. The home office must be regularly and exclusively used for trade purposes. Anecdotally, taxpayers who claim the deduction, and especially those who claim it for the first time, are likely to be subjected to an audit by SARS.

Concluding comments

This uncertainty associated with the pandemic does not bode well for insurance companies as the severity of the "third wave" will determine the extent to which these companies are impacted financially. If the trends that we described above continues, there is a knock-on impact from a tax revenue perspective which would place the spotlight firmly on SARS. If SARS continues to face pressure on the collection of tax revenues – not only from insurance companies – but from all businesses, it will be interesting to see what tax reforms and legislative changes are tabled in the coming cycle. In addition, with the implementation of IFRS 17 looming for insurance companies, there certainly are a number of significant changes to contend with in a very uncertain environment.

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Business interruption insurance - are we out of the woods?

More than twenty-one months have elapsed since the WHO was informed of cases of pneumonia from unknown causes. A novel coronavirus was identified, and life as we had known it was thrust into a trajectory that no one could have predicted. The impacts have been devastating - with more than 4.5m deaths worldwide over this time. Globally, more than 6.7% of global GDP was lost in 2020 because of the pandemic.[1]

The COVID-19 crisis affected all business sectors and insurers were inundated with claims across multiple lines whether that be for health, life or non-life cover.[2]

These financial impacts had repercussions on capital maintenance too. Further strain related to how insurer operations had to be adapted to remote working and dealing with channel overload.

And despite these challenges on operations, the insurance sector – in particular short-term insurers – initially expected the impact on claims to be relatively manageable. Most insurers learned lessons from the SARS outbreak of 2003 and introduced exclusion clauses for communicable diseases and epidemics/pandemics into their non-life products such as business interruption (BI) and travel insurance[3]. As a result, most BI insurance available in South Africa only covers physical damage to an organization's assets which render it unable to operate - so insurers' positions were that coronavirus related claims were not covered by these policies. Then came the government-enforced nationwide lockdowns to curb the spread of the virus and the situation needed to be reassessed.

Government, pressure groups and the media voiced their concern over the position that most insurers had taken on BI insurance cover, along with the impact on potential pay-outs to customers. There were significant parallels to the recent issues in the UK banking sector on payment protection insurance and interest rate hedging[4] and against this backdrop, claims needed to be considered quickly and individually on their merits. The key was to get money paid out rapidly to those who needed it the most.

The rule of law and intervention of regulators

Given the extensive work done by underwriters after 2003 to scope out pandemics from BI cover, and in spite of initial views from various insurance associations that standard BI insurance would not respond to COVID-19 related claims (in most countries) both regulators and business association groups were challenging this stance[5].

What followed (and continues to develop) was that not all insurance policies are equal. There was significant divergence in practice regarding policy wording and it has become clear in most countries where the courts have intervened that each policy and case needed to be assessed on its own merit.

[1] Statista 2021 - GDP Loss COVID-19 economy

[2] KPMG – Do insurers have COVID-19 covered KPMG Insights

[3] KPMG – Do insurers have COVID-19 covered KPMG Insights

[4] Business interruption insurance: Next steps for insurers and brokers KPMG Insights

[5] BI claims arising from COVID-19 womblebonddickinson

In the UK, the FCA decided that the quickest route to resolving the issue and providing certainty for all parties was to go to the High Court to seek a declaration on what the wordings covered. In June 2020, the FCA began a test case in the High Court, where their counsel had reviewed over 500 policy wordings to arrive at the 21 representative policy 'types' issued by the eight insurers included in the test case. They then selected wordings that were representative of the key issues in dispute at the time between policyholders and insurers. These 21 policy types contained three types of cover wording:

(i) cover for BI caused by an outbreak of disease within a specified radius of the premises.
(ii) cover for BI caused by denial of access to premises, following public authority action, taken due to an emergency.
(iii) 'hybrid' wordings which combine a requirement for both outbreak of disease and public authority denial of access to premises.

Similar analyses have been performed in other countries, not all driven centrally through the regulators as was the case in the UK. In addition to the categories above, distinctions were made for those policies where there are no infectious disease clauses and where BI extends solely to damages to property.

In South Africa more legal certainty was provided in December 2020 following rulings by the Supreme Court of Appeal. In this market the "central question … was whether the government's imposition of a lockdown … was covered by the infectious diseases clause," the written judgment read. In this instance, and thereby setting legal precedent, the question was answered in favour of the policyholder. With insurers in South Africa having lost four times in the high court and one appeal at the Supreme Court [6], most have now moved onto settling BI claims. What continues to evolve however is the interpretation of "indemnity periods" covered in the contract and now, almost ten months after the ruling the burden is on policyholders to supply all the relevant information to support the purported losses.

Not all countries are as progressed as South Africa in its legal conclusions – with many cases still playing out in the various courts of law:

Legal judgements leaning towards policyholders	
United Kingdom	The Financial Conduct Authority (FCA), which had brought a closely-watched test case on behalf of policyholders against major insurers, indicated in September 2021 that 27,248 companies out of 42,308, which had had claims accepted, had received at least an interim payment. Small companies in Britain, which demanded that their insurers cover claims for losses accrued during the COVID-19 pandemic, have received more than one billion pounds in full and interim business interruption pay-outs to date[7].

More favourable judgements towards insurers	
USA	Policyholders continue to lose most COVID-19-related business interruption coverage disputes. However, a picture on the issue will likely not emerge before state supreme and federal appellate courts issue more rulings on the issue. Insurers so far have largely argued successfully that the coronavirus does not result in physical loss or damage to property — the critical issue in many COVID-19 cases — and therefore lost revenue is not covered under all-risks policies. Federal courts have mainly ruled in favour of insurers, but policyholder attorneys say it is too soon to draw any conclusions on the overall eventual outcome[8]. Refer to the graph sourced from Hunton Andrews Kurth LLP that highlights the trend in complaint activity (and lawsuits) in the USA.
Australia	More recent Federal Court rulings dismissed applications for declaratory relief, finding that the losses claimed were not resulting from physical loss, damage, or destruction of properties and that COVID-19 did not constitute a catastrophe within the meaning of the Civil Authority Extension. However, like the US, there are other test cases currently afoot throughout Australia which, over the next few years, will provide further clarification on interpretation issues for business interruption policies in the context of COVID-19[9].
Canada	The Supreme court found in favour of insurers – "Business interruption must be the result of the direct damage to an insured good." As such, it was of the opinion that the deterioration caused to a good due to contamination was not covered by the policy[10].

6 Court rulings in SA - Daily Maverick

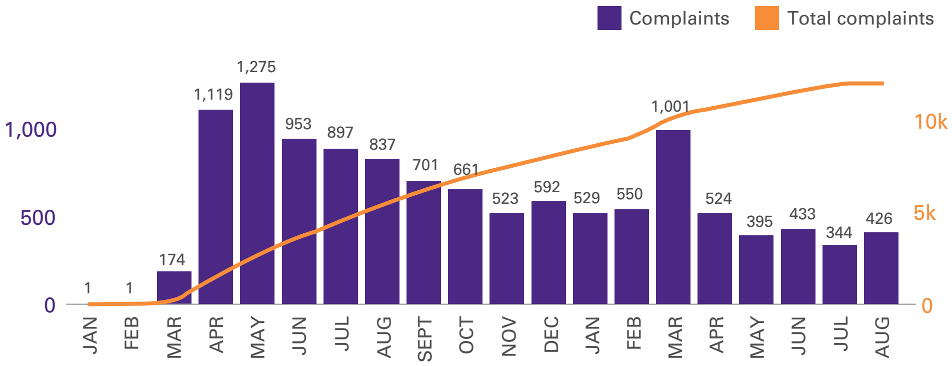
7 UK COVID-19 business insurance payouts - Reuters

8 Business Insurance - USA Early COVID-19 rulings tilt to insurers

9 Collin Biggers & Paisley - Insights - A recent update on Covid-related business interruption coverage (cbp.com.au)

10 The Lawyers Daily - COVID-19, class actions and business interruption: Quebec court renders trilogy of decisions - The Lawyer's Daily (thelawyersdaily.ca)

COVID-19 lawsuits wave



Source: Hunton Andrews Kurth LLP

Focus by the regulators

In the initial months, South African regulators intervened to ensure that policyholders were treated fairly, given differences in interpretation of the BI clauses. Their attention in the last six months has moved onto ensuring that insurers are not dragging their heels in making payments to policyholders which threaten to put policyholders out of business. Most regulators continue to adopt a customer first approach[11] to the resolution of issues identified, and there is an expectation that insurers must assess these issues in line with their obligations and act honestly, fairly, and professionally in the best interests of customers and with due skill, care and diligence.

In the UK, the tracking of case load and payments per insurer are being made available to the public. This "name and shame" approach has not been adopted in many other countries, with most regulators opting to follow up directly with insurers and put pressure on them in private discourse.

The response from reinsurers

In the initial months, the primary concerns where whether reinsurers would themselves cover losses submitted to them by insurers and whether there was sufficient capacity within the market to handle the quantum of losses emanating from the pandemic (including, but not limited to BI claims).

However, with more time having passed, there have been few instances where reinsurers have rejected claims made by insurers, and even fewer disputes which were escalated to courts of law.

The reinsurance market has proven to have had sufficient depth and was able to absorb losses without any notifications of reinsurers requiring intervention by central banks or regulators in their territories to remain solvent. While reinsurers have buffered the storm to date, many have cautioned that there remain numerous legal actions related to the COVID-19 pandemic (between primary insurers and policyholders) that are ongoing and emerging in different jurisdictions, which could also affect their results if court decisions are unfavourable[12].

What is concerning is insurers' and reinsurers' appetite for pandemic related risks in future years. Santam released their Insurance Barometer in September 2021, and John Melville, Santam's executive Head of Underwriting Services, Reinsurance and International indicated:

"The pandemic is proving to be more than a passing risk event. Instead, it has turned out to be a powerful catalyst of other systemic risks which combined make insurance less affordable. … [R]einsurers have increased the premiums they charge insurers for catastrophe cover. They also moved quickly to exclude pandemic risk from their cover." In global markets. Nicholas Scofield, Chief Corporate Affairs Officer for Allianz Australia indicated "When you've seen some of these new wordings, there's not a cigarette paper, or a crack of sunlight in some of these revised infectious diseases wordings through which someone could even dream that a claim would be possible … [E]verybody is tightening that up. There won't be much doubt when the next pandemic comes about whether there's cover or not. I don't think it will warrant a test case."[13]

If insurers cannot diversify these risks at a global level, then they cannot insure them; and if this is the case, businesses and consumers will have to bear the responsibility to protect themselves against "uninsurable" pandemic and other excluded catastrophic risks.

Several insurers, both global and local, when reflecting on this potential insurance gap have considered alternatives to the traditional BI cover. Most of these alternatives suggest partnerships between insurers, the public and government to build up a fund that everybody can draw from when a pandemic occurs. In South Africa, whether this is a potential expansion to the mandate of SASRIA will only be determined over a few years, and that means that a number of businesses may find themselves exposed.

[11] Reinsurance News - COVID-related BI & cat losses a challenge for reinsurers

[12] Reinsurance News - COVID-related BI & cat losses a challenge for reinsurers

[13] Insurance Business Mag - Should BI insurance cover pandemics? | Insurance Business Australia (insurancebusinessmag.com)

So how do insurers adapt?

KPMG has been talking to insurers and brokers in the market to advise on key learnings over the last eighteen months on what more can be done to limit the impact on the industry.

A few themes have arisen:

Dealing with channel overload – insurers have learnt valuable lessons on dealing with the huge spike in customer contacts when scenarios such as this have emerged. Identifying and planning for events such as these will help insurers to respond more quickly. Insurers may also need to consider how teams are cross skilled to ensure that more agile working is possible where 'volume shifting' is required based on sets of claim events.

Digitized is optimised – a number of insurers struggled initially to get to grips with their exposure and various manual processes needed to run to source and obtain information to help them understand gross exposure as well as gather information to assess the event scenarios for reinsurance recoveries. Those insurers with more advanced digital underwriting, claims, and administrative processes were in a much stronger position than others that did not have seamless and granular data available for analysis. More so now than ever, technological investments are key for insurers to keep pace with the emerging risks that have arisen.

Scenario planning – given the legal uncertainties associated with BI and infectious disease clauses, more insurers are now spending time carefully working with their legal and risk teams to stress test implications of different scenarios and what they would mean for policies in force. Where unintended consequences arise, contract wording is being tightened up to ensure that there is absolute clarity on risks covered.

Social responsibility is on the rise – while social media has been a blessing over lockdown – giving us Jeruselma and Elsa Majimbo, it has also enhanced the voices of activist policyholders. For a few years now, the damage that this can have on brands has been on insurers' radars, but the events over the last 550+ days of lockdown have refined the focus on how much more needs to be done to engage quickly and deliberately with policyholders to understand sentiment and prevent any fall out.

So are we out of the woods? Nearly – there is still some road to cover, but it is good to see that insurers are adapting to meet the challenges ahead.

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- How do we design seamless, intentional experiences for customers, employees, and partners, supporting the customer value propositions and delivering business objectives?
- How do we interact and transact with customers and prospects across marketing, sales, and service and achieve measurable results?
- How do we operate the business with efficiency and agility to fulfil the customer promise in a consistent and profitable way?
- How do we build a customer-centric organisation and culture that inspires people to deliver on the customer promise and drive up business performance?
- How do we create intelligent and agile services, technologies and platforms, enabling the customer agenda with solutions that are secure, scalable, and cost-effective?
- How do we engage, integrate, and manage third parties to increase speed to market, reduce costs, mitigate risk, and close capability gaps to deliver the customer promise?

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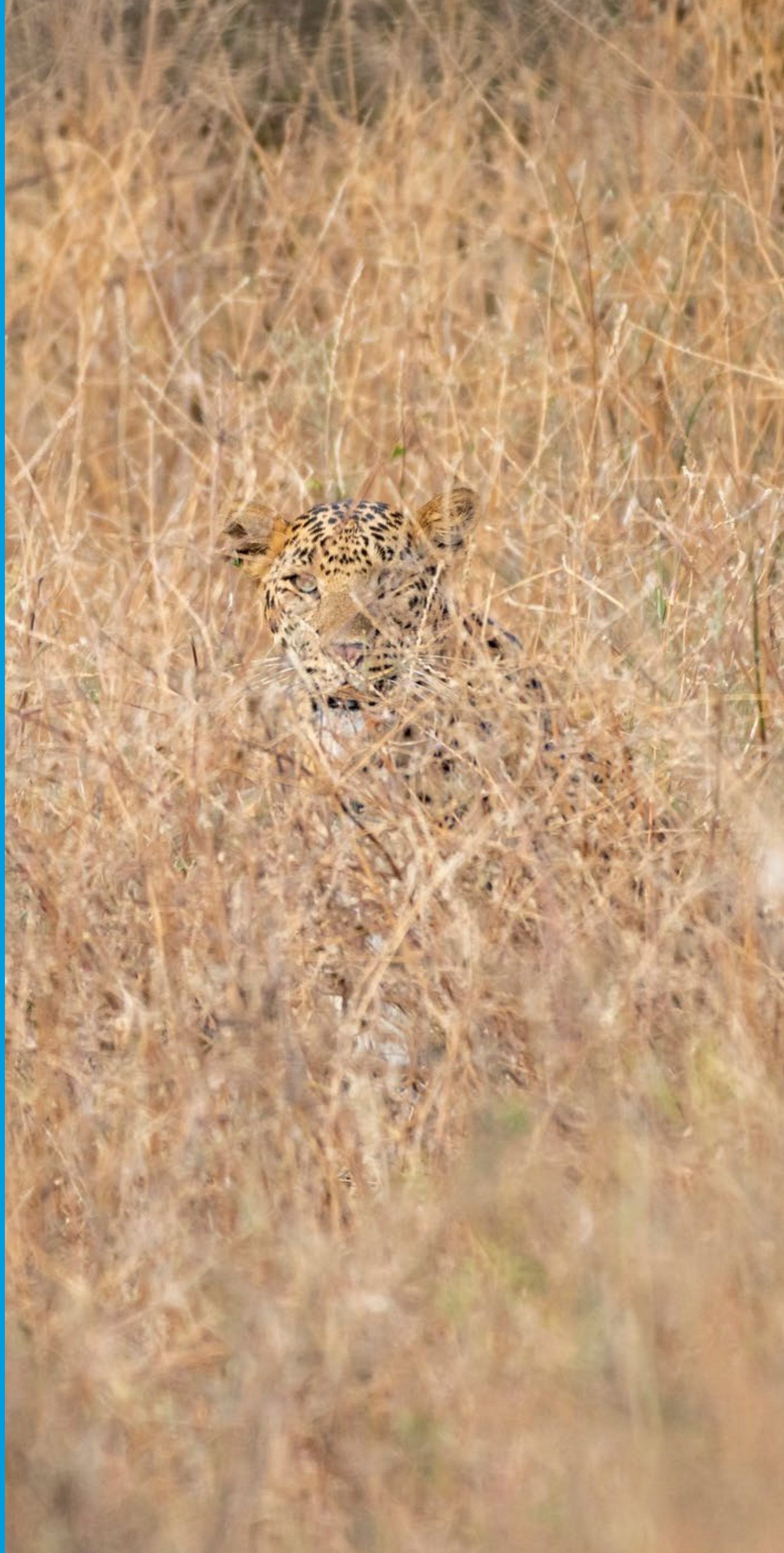

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The National Health Insurance scheme - short-lived or here to stay?

South Africa is never short of a good (or bad) news story, and even if you haven't been paying attention, every now and then, an article about the National Health Insurance (NHI) creeps into your newsfeed.

Whether you choose to scroll on or turn the page, eventually, the NHI will be fully implemented and we will all be affected. The NHI is a financing mechanism in which funds are to be pooled together in order to provide universal access to medical care to all South African's regardless of social class. Access to healthcare remains a human right, and the NHI aims to bridge the gap between socio-economic status and the privileges associated with it in order to access healthcare within South Africa. The main objective is to provide all South Africans with quality, affordable healthcare services. Below, we aim to outline a broad overview of the NHI and assess its impact on South Africans.

The National Department of Health proposed a three-phase implementation of the NHI, which started in 2012 and is due to be completed by 2025/2026. Phase one (2012 – 2017) focused on piloting the development of systems, processes and certain functions throughout the country at crucial institutions. Phase one was met with varied success (and failure) and quickly highlighted the country's current state of the healthcare sector. Looking for a silver lining was difficult, but the conclusion of phase one shed light on what is needed for success; rigorous planning, coordination and communication, sufficient human and financial resources, and a robust mechanism for monitoring systems. The second phase, which is expected to be completed in 2021/2022 focuses on ensuring that the NHI Fund (the Fund) is fully operational and marks the beginning of the health department purchasing services from independent practises and ensuring that processes and structures are in place to perform this service efficiently. The third and final phase set to begin in 2022 will see an uplift in the public registration processes, mandatory prepayments taking place and the finalisation of amendments to the Medical Schemes Act and NHI Bill. The final phase will also see the National Department of Health focusing more on contracting private healthcare providers to provide the services where the government is unable to.

This project outline sounds good on paper, but the question on everyone's mind is – is it mandatory? The short answer is 'yes'. The NHI bill mentions in section 2(a) that the purpose of the Fund is to "achieve sustainable and affordable universal access to quality health care services by serving as the single purchaser and single payer of health care services in order to ensure the equitable and fair distribution and use of health care services". It is fair to say that state-owned entities haven't inspired confidence in the public in recent years and entrusting them with the most precious of assets, your health, has been met with brutal opposition. In other countries where other forms of a national health insurance plan have been implemented, the public generally still had the option to take out private medical aids. The overarching feeling from the South African general public is that whilst everyone supports the concept of the NHI, they still want an option whereby they feel empowered to 'opt out' if it is not working or 'opt in' for additional coverage privately.

Given the poor financial state of many public enterprises, many are also left asking – so who is going to pay for this? While further clarity is still required, the bill in section 49(2)(a) states that funding will be "appropriated from money collected and in accordance with social solidarity" which then refers to:

(i) general tax revenue, including shifting funds from the provincial equitable share and conditional grants into the Fund;

(ii) reallocation of funding for medical scheme tax credits paid to various medical schemes towards the funding of NHI;

(iii) payroll tax (employer and employee); and

(iv) surcharge on personal income tax, introduced through a Money Bill by the Minister of Finance and earmarked for use by the Fund.

The NHI bill outlines no clear indication as to how the above taxes will be affected; some studies and initial thoughts suggest that the implementation of the NHI will impact payroll tax, personal income tax (PIT) and VAT in the range of 2-4%. PIT is of concern as we know that South Africa is faced with an ever-shrinking tax base while the primary source of revenue for SARS is, in fact personal income tax. Therefore, placing additional strain on these taxpayers might have further negative repercussions whereby we lose them, their expertise and capital to foreign countries. On the other end, households who currently pay high medical aid fees might find that the additional taxes imposed on them are cheaper than the sum of these fees. Many also argue that the NHI can prove to provide better benefits whilst reducing costs, whereas the private healthcare sector has no incentive to curb expenses and effectively pass these on to medical schemes and their members.

Medical schemes have also been left out in the cold, unsure about their role in the future. The NHI bill states that "medical schemes may only offer complementary cover to services not reimbursable by the Fund". The details about what complementary cover is and what services will not be reimbursable by the Fund remain unclear. We know that some countries with some form of an NHI have restricted the public from having medical aid privately. One view advocates that the only way for the NHI to achieve sufficient capacity, as well as a robust structure is by nationalising the private sector, but critics argue that this will create additional burdens on the NHI, due to them having to accommodate individuals who would otherwise have opted for private medical care.

The current shortage of doctors in our country can also not be negated, and the implementation of the NHI will impact doctors significantly. Doctors who currently work within the private sector will be forced to effectively become public employees, which may directly impact on their standard of living and working conditions. Many doctors have already expressed their concerns with the NHI plans and are considering emigrating should it be fully implemented. This will further aggravate the shortage of doctors and might defeat the very objective that the NHI expects to achieve. In Cuba, implementation of an NHI led to a significant shortage of healthcare professionals.

Whilst aspects of the NHI still require further discussion and clarification, the implementation thereof is steaming ahead. The soon to begin final phase of the NHI will mark the beginning of a new healthcare sector in South Africa, and while the years to come will prove to be challenging, it's clear that NHI is here to stay.

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Powered Enterprise

With the disruption experienced by businesses as a result of COVID-19, some of the most resilient companies have been those that are the most digitally enabled. The pandemic has accelerated customer adoption of digital channels and this has created an impetus for insurers to undertake digital transformation projects to bring customers more seamless and integrated digital products and services.

Transformative change must be executed with a holistic view, tying together the front, middle and back office and integrating the organisation's capabilities and systems with customer touchpoints.

The KPMG Powered Enterprise solution can help with the digital transformation of your business functions. Our Powered tools and assets are all pre-built enabling you to start your transformation journey with the model answer. The solution is structured around the business target operating model covering all relevant aspects such as people, process, data and performance insights, service delivery model and governance in addition to the technology aspects.

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When the improbable happens – how insurers' stress and scenario tests have been adapted since COVID-19

It has been more than a year and a half since the start of this COVID-19 pandemic and industries across the world are still reeling from its effects. Insurers have played an important role paying out claims for business interruption, retrenchment, medical and death claims.

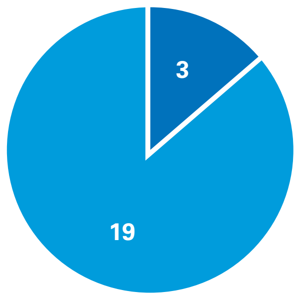
This article builds on that which we published in last year's survey on stress and scenario testing in the insurance industry, based on our survey of a sample of insurers' own risk and solvency assessment (ORSA) reports.

In this article we focus on the enhancements made to insurers' stress and scenario testing to better capture the increased complexity and uncertainty associated with the current pandemic. Our findings are based on a sample of South African insurers' ORSA reports for the 2020 financial year.

Extent of pandemic impact considerations

Pre-pandemic, as shown in the figure below, only three of the insurers in our sample of nineteen had explicit pandemic related stress or scenario tests.

Split of insurers who considered and did not consider pandemic scenarios



Insurers who considered pandemic scenarios
Insurers who did not considered pandemic scenarios

Pie chart showing the number of insurers who included specific pandemic scenarios pre-COVID-19, and those that did not.

A stress test is defined as a varying of only one factor at a time while keeping the rest of the factors stable, in order to determine the effect on a portfolio. This is different to a scenario test which is a more holistic consideration, with multiple factors being varied simultaneously.

As expected, post-COVID-19 all insurers had included COVID-19 and its effects in some way in their forecasting exercises. We found that insurers followed two typical approaches. They:

- included stresses or shocks on specific assumptions as described in more detail below, or
- they updated the budget forecast for the expected impact of COVID-19 and applied further considered scenario projections to these updated budget numbers.

More than half of the ORSA reports included a mix of individual stress tests and broader scenario tests.

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Key COVID-19-related assumptions stressed

Stress tests performed looked at the impact of varying the following assumptions, one factor at a time:

- increasing and decreasing interest rates;
- declining in equity prices;
- declining new business volumes;
- impact of fraud by increasing the projected claims ratio;
- deteriorating loss ratios;
- increasing mortality and morbidity rates;
- allowing premium leeway/holidays to policyholders;
- increasing the probability of default of brokers;
- downgrading of reinsurer credit ratings;
- increasing cyber losses; and
- increasing lapse rates.

Of the above listed factors, the most common assumptions stressed related to the decline in new business volumes and the impact of fraud.

COVID-19-related scenario tests

Scenario tests are different from stress tests in that more than one factor is considered to vary simultaneously to more closely model real world interactions and outcomes. Insurers considered a mix of qualitative and quantitative scenarios, with most scenarios being qualitative in nature.

Post March 2020, scenario modelling was updated to better capture the multiple impacts of a pandemic, including insurance business and market related factors, typically capturing:

- market crashes similar to those of the 2008 crisis;
- increased fraud;
- increased claim and lapse rates;
- increased unemployment and retrenchment rates; and
- lower rates of renewal associated with deteriorating economic conditions.

Other assumptions included the failure of reinsurance coverage for some lines of business, including those where the pandemic resulted in significant claims.

Over half of the insurers that performed quantitative scenario tests projected that the modelled pandemic related scenario would lead to a breach of the target SCR level, with only one insurer breaching the regulatory requirement of 1 times SCR level i.e. these organisations' risk appetites did not include a capital buffer large enough to be able to absorb the anticipated effects of a pandemic scenario and still retain SCR coverage within the targeted range.

Pandemic scenario adaptation

Hindsight is always a perfect science. We now know that a pandemic scenario has many knock-on effects, but did we always consider this? To answer this we turn our attention to how the industry had predicted a pandemic scenario before the start of COVID-19.

Looking at our previous year's benchmarking exercise based on pre-COVID-19 stresses and scenarios *(included in the 2020 KPMG insurance industry survey)*, we saw that of our sample of nineteen ORSA reports, only three included a pandemic related scenario test within their chosen set of stress and scenario tests.

While those that included pandemic scenarios considered the direct effects of a pandemic on claim and mortality rates and some knock-on effects such as a decrease in economic activity, generally we did not see assumption sets as severe or as wide-spread as the actual experience resulting from the pandemic. The severe knock-on impact of the pandemic (and resulting lockdown) on, for example, the economy and wider mental wellbeing of people (employees and policyholders alike) was often not considered.

In addition the effects were modelled only over a short time horizon (one-year period), with longer term impacts being largely ignored. It is clear that the impact of a pandemic scenario was widely underestimated pre- COVID-19.

Insurers have been agile in adapting their stress and scenario tests. In the most recent ORSA reports, pervasive effects of a pandemic and an economic lockdown were considered. This included not only the effect on market risks, but also social, mental and emotional wellbeing of people. Consideration was given to increased unemployment, higher lapse rates, poverty and potential rioting and unrest, theft and fraud. While some of these outcomes might even recently have seemed improbable, subsequent events have shown that all were well within the realm of possibility.

This seems to highlight a more generic theme - with the fast pace of change in the inter-connected world we live in today we can place less reliance on past data to predict future outcomes.

The past year has shown us the value of insurance to the economy. It has been a shock absorber and allowed many businesses to recover. Likewise, the SARB's new risk-based capital regulations seem to have done well to prepare insurers to withstand the shocks of this current pandemic.

So what does the fast pace of change and the new normal mean for us going forward? How should stress and scenario tests be parameterised to ensure scenario tests are sufficiently severe, while still plausible? What other stress or scenario tests should insurers consider in the new normal, and how should the learnings from the pandemic related stresses be brought into future stress and scenario tests? What other events that insurers are currently modelling are at risk of being inadequately parameterised?

For the greater good of our communities, insurers need to remain vigilant and keep on improving their modelling of extreme events. Management and boards need to keep challenging themselves in this respect. It is time to put a spotlight on the events that we call "1 in 200-year events" with a vision of what the future might look like and how this might differ from our limited understanding of historic events.

The future of regulatory: Altering your view

The KPMG Regulatory Centre of Excellence challenges you to alter your view of the future of regulation.

The benefits of regulation emerge when we are able to rise above the compliance lens, when we start to see regulation as a strategic advantage. These opportunities present a new way of thinking and simply put, alter our view of each piece of new regulation. The diverse backgrounds of our complement of specialists enable us to respond with future-centric solutions with the growth agenda in mind.

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Enterprise Risk Management maturity - a study of eleven South African insurers

Enterprise Risk Management (ERM) is a process effected by an entity's board of directors, management and other personnel. It is applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity and help manage risks to be within its risk appetite and to provide reasonable assurance regarding the achievements of entity objectives.

Source: The Committee of Sponsoring Organizations of the Treadway Commission (COSO)

Why ERM...

Effective risk management is fundamental to the prudent management of an insurer. The Risk Management and Internal Controls for Insurers (GOI 3) standard requires insurers to have a board-approved enterprise-wide risk management system. In addition, the King Code on Corporate Governance King IV™ suggests that the organisation should assume responsibility for the governance of risk and that actions should be taken to monitor the effectiveness of risk management and how outcomes were addressed.

Insurance companies should therefore develop and maintain a risk assurance programme to ensure risks are managed in such a way that the interests of all stakeholders are protected. Since risk is the effect of uncertainty on the achievement of the organisation's objectives, enterprise risk management is a process to effectively and proactively identify, assess, quantify, and mitigate such risks, providing the organisation with reasonable assurance that its objectives will be met through consideration of both the positive and negative effects of the risk.

KPMG's contribution to the promotion of risk maturity within the insurance industry

The KPMG Enterprise Risk Assessment (ERA) maturity continuum has been developed considering recognised and leading global industry best practice, various governance and risk codes and has reference to the KPMG Global ERM Methodology. It is aimed at guiding organisations in terms of achieving their desired risk maturity status and provides practical and realistic recommendations to achieve higher levels of risk maturity in a structured and formalised manner.

Over the last two years, covering the period August 2019 to July 2021, KPMG performed a number of risk maturity assessments which included eleven individual risk maturity assessments for South African insurers.

The consolidated results of the eleven individual assessments are presented in this article and reflect the overall maturity levels per element as well as the overall risk maturity score achieved by these insurers.

Elements of our risk management maturity assessment

We used these key components of the ERM process to assess our clients' risk maturity.

Risk strategy and appetite	Risk governance	Risk culture	Risk assessment and measurement	Risk management and monitoring	Risk reporting and insights	Data and technology
Linkage to corporate strategy	Board oversight and committee	Knowledge and understanding	Risk definition and taxonomy	Risk mitigation response and action plans	Risk reporting	Data quality and governance
Risk Strategy	Company risk operating structure	Belief and commitment	Risk identification	Testing validation and management's assurance	Business/ operational requirements	Risk analytics
Risk Appetite and Tolerance	Risk guidance	Competencies and context	Assessment and prioritisation	Monitoring	Board and senior management requirements	Technology enablement
	Roles and responsibilities	Action and determination	Quantitative methods and modeling	Risk in projects/ initiatives	External requirements	
	Decision		Risk aggregation correlation and concentration			
			Scenario analysis and stress testing			
			Capital and performance management			

How risk-mature are South African insurers?

In general, the results show that insurance companies' risk maturity levels are higher compared to those of most other industries. We believe that the following factors contribute to this more favourable score:

- The policies as prescribed by the GOI 3 and issued by the Prudential Authority have promoted risk management practices and ensured that insurance companies not only comply with these requirements, but also incorporate the principles they enshrine into their businesses.
- Insurers are in the business of risk management by virtue of the services and/ or products they provide. Profitability can only be achieved if risk is managed effectively so risk management is business as usual and ingrained throughout the strategy and operational practices of the business.
- Pressure on insurers to embrace change and adapt to an ever-evolving environment which requires creative thinking and more importantly access to the kind of talent that can turn ideas into actions.
- The fact that insurers should remain transparent and well-connected to their customers, employees, distribution channels, external stakeholders, and society to ensure continued trust and support in such unprecedented times.

The average risk maturity score achieved by the eleven insurance companies included in our population is **3.40** out of 5, representing a **mature** level of risk practices adopted and implemented by these companies.

The various maturity levels as defined in our framework are described in the table below:

Weak	Sustainable	Mature	Integrated	Advanced
(1 - 1.99)	**(2 - 2.99)**	**(3.00 - 3.99)**	**(4.00 - 4.99)**	**(5.00)**
– Governance pre-requisites for a formal risk management framework are not in place. – Risk management processes and frameworks are siloed, undocumented, inconsistent, and/ or lack clarity. – Risk management activities are not aligned with business strategy. – Risk management capabilities are dependent on individuals. – Risk is not consistently considered as business decisions are made.	– The business does the minimum to meet the expectations of internal and external stakeholders. – Select risk management activities are defined; some of which are aligned with business strategy. – Risk management capabilities vary across the "four lines of assurance". – Limited and inconsistent use of supporting technology. – Limited focus on emerging risks and/ or scenario analysis.	– The Board and executives are increasingly confident that risk is being effectively managed based on emerging risk identification efforts, external benchmarking, and the use of risk appetite, tolerances, and limits. – Risk management activities are aligned with business strategy. – "Corporate" risk management functions demonstrate a level of consistency, but remote operations or business entities are not integrated. Use of technology is not integrated.	– Risk management capabilities and activities are integrated and coordinated across corporate and remote operations and business entities. – Risk management objectives and value propositions are consistently aligned with business strategy. – Common tools and processes are used with enterprise-wide risk monitoring, measurement, and reporting. – Proactive change management exists among the "four lines of assurance".	– Risk management activities are fully embedded in strategic planning, capital allocation, and in daily decision making. – An early warning system is in place to notify the Board and management of risks above established thresholds. – Risk management serves as a source of competitive advantage. – Incentive compensation formally considers risk management.

Individual element scores achieved by these insurance companies for the respective elements defined in our framework are presented below:

Based on the above results it is notable that six of the seven elements resulted in an average score above three and that the **"data and technology"** element resulted in the lowest maturity score of **2.71**. On one hand, this result is perhaps not surprising since almost every survey locally and globally shows; and insurance company CEOs admit to the fact that; the industry is behind the curve when it comes to making optimal use of technology in many aspects of the business, front and back-end. On the other hand, given that risk management is the essence of what insurers do for a living, it is surprising that sophisticated risk management technology has not been embraced as fully as possible.

Insurers might wish to consider:

- Utilising risk management software tools and online applications for real-time analysis of trends within the insurance industry;
- Developing systems to maintain the integrity of risk management data; and
- Investing in automated and integrated governance, risk and compliance technologies to store, manage, monitor and report on real-time risk data and information.

In which areas have insurance companies performed well?

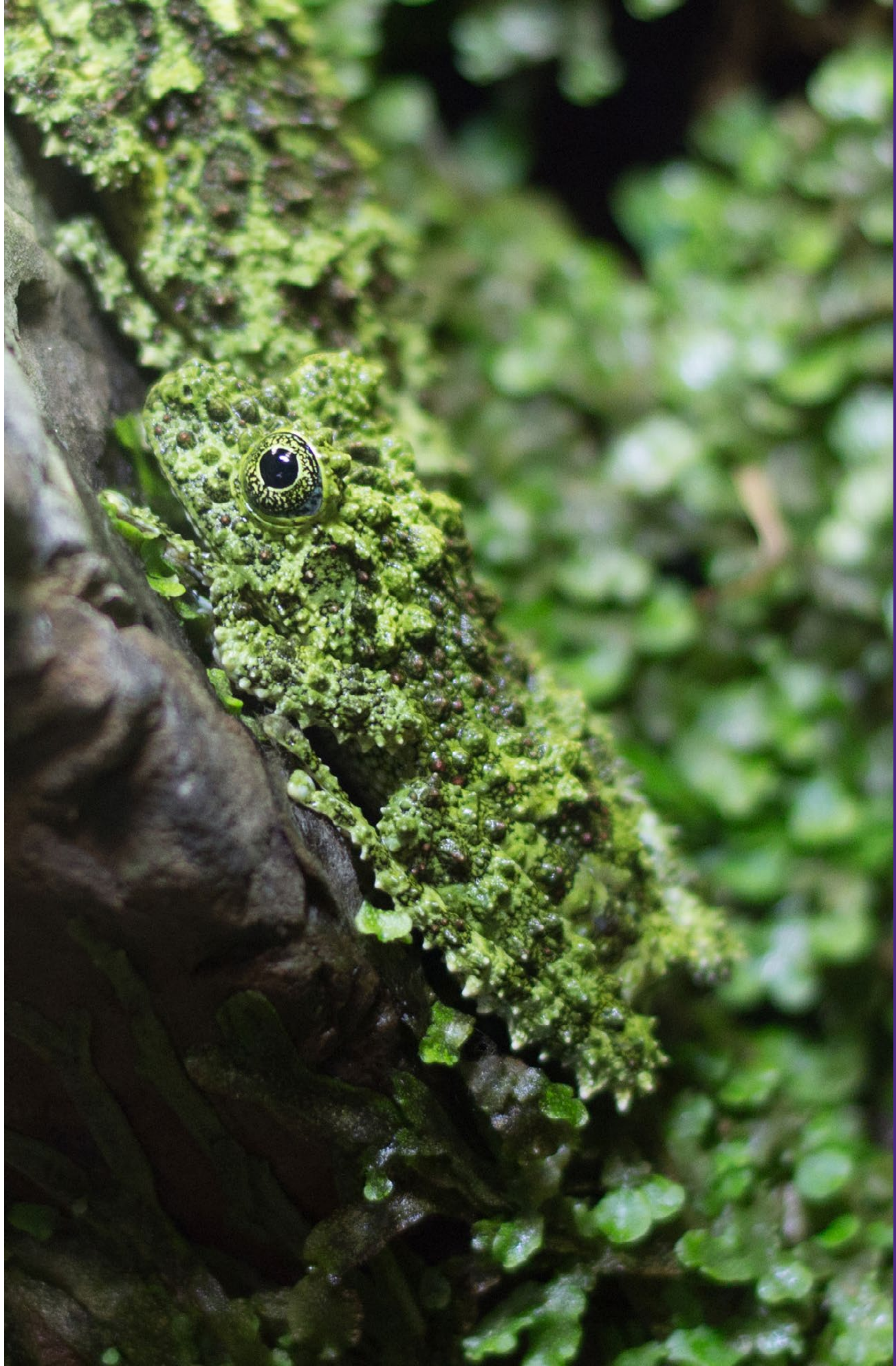
- Insurance companies performed well in establishing risk management practices in the following areas:
- Risks have been considered in an integrated manner to incorporate strategic planning developments, forecasting, scenario analysis and business planning.
- The Board has been regularly informed of material or top-of-mind enterprise-wide risks.
- A risk management framework has been developed and approved which articulates the various roles and responsibilities at a management and governance level.
- Risk has been a recurring agenda item for governance committees and risk is part of ongoing discussions.
- The Governance Committee responsible for risk has received and discussed risk reporting information on a regular basis and are well informed in respect of risk profiles within the organisation.
- Roles and responsibilities relating to risk and assurance activities have been defined and formulated as per the various committee charters and mandates.
- **And in which areas of risk management could South African insurers do better?** More transparent alignment between strategic objectives and the risk profile.
- Incorporating risk management roles and responsibilities into personal goal setting and performance appraisals of management/ individuals responsible for risk management will promote better accountability at all levels.
- Aligning the maximum risk tolerance levels per individual risk in the appetite statement to the qualitative residual risk ratings determined for the risk to improve the overall monitoring of risks.

- The use of dashboard reporting to create a holistic overview of actions taken and proposed monitoring interventions to promote risk mitigation at all levels.
- The formal implementation of risk aggregation techniques on a regular basis and the interdependency between risks to promote the assessment of risks and create a better understanding of risk exposure levels.
- The introduction of a co-ordinated combined assurance approach to reduce duplication of risk mitigation efforts and ensure cost-effective assurance at all levels.
- Extending risk training for management and those charged with governance to increase risk awareness.
- Reviewing, and if necessary, revising the risk reporting to the various risk oversight forums to introduce a sharper focus on risk monitoring and reporting.
- Expanding the utilisation of risk management software tools within all levels of the organisation to promote and improve risk information, understanding, monitoring, and reporting.

Conclusion

Any company's risk management competency evolves over time and this is certainly the case in our insurance industry. A company's risk management strategy must be shaped by its risk profile, its appetite for risk and the future strategic intent and direction of the organisation as defined by the Board of Directors.

Over the past two years the insurance industry has been challenged with many emerging and unexpected risk exposures, the most obvious being COVID-19, civil unrest and related risks. In order to reap the benefits of effective risk management practices, those insurers that continually evaluate and enhance risk management practices by being agile and informed will be rewarded.



Why did traditional risk management tools and methods miss the global financial crisis, Brexit and COVID-19?

You may find that your current risk management and compliance processes are input heavy and insight light.

The world is changing… indeed pivoting, and so must risk management. The time has come for insurers to rethink risk!

KPMG's unique dynamic risk assessment (DRA) methodology recognises the non-stationary nature of risks and that more is needed to identify and understand their true nature. The methodology adds to and supplements the traditional outputs of quantification of severity and likelihood of discrete risks.

DRA can assist your organisation with the increased needs and expectations from the risk function and supports the board and management in:

- generating a system-wide or network view of your organisation's risks;
- identifying the most expected scenarios for your organisation, including their aggregated severities;
- determining the velocity or speed of impact of risks on your organisation;
- detecting the long-term risk trajectory of your organisation's current strategy and ways of working; and
- identifying the most influential intervention and mitigation points in your organisation's network of risks to reduce its systemic risks at the lowest cost with maximum effect.

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Insurance in the Land of Gold

Current Ghanaian market

There are six primary insurance regions in Africa. Ghana forms part of the Anglophone West African region, with 1.4% of the continent's GWP coming from the country.

The country has two main classifications of insurance, which are Government or state insurance and private insurance. Few Ghanaians have insurance at present; however, the market is growing.

The insurance industry in Ghana is regulated by the National Insurance Commission (NIC) while the Ghana Insurers Association (GIA) is the trade association for all companies licensed and registered to transact insurance and reinsurance business in Ghana.

29 Non-life companies

95 Broking companies

22 Life companies

3 Reinsurance companies

7000 Insurance agents

5 Reinsurance Broker

Over the years, the industry has experienced growth and rapid increase of private companies and brokers. According to the NIC 2019 Annual Report, it is estimated that the industry currently employs over 12,000 people comprising of agents, brokers, insurers and reinsurers.

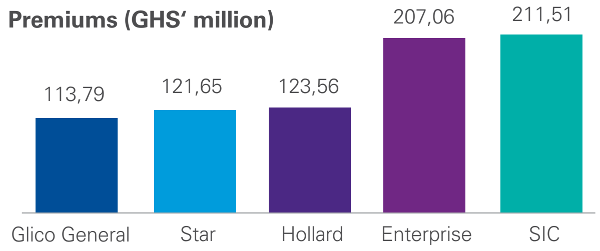
Insurance penetration as at December 31, 2019 stood at approximately 1% which excluded health insurance and pensions. Including these would increase the penetration to about 3%.

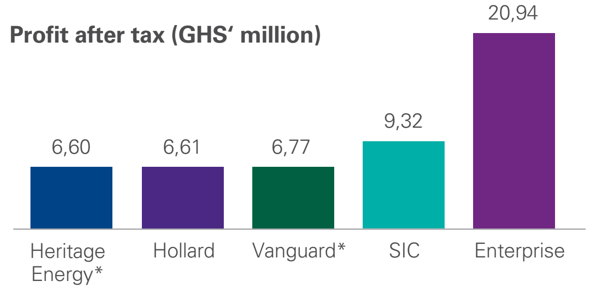
Market growth

The insurance market in Ghana has seen steady growth and change over the last number of years, with a GHS 515 million increase in premiums between the 2019 and 2020 financial years.

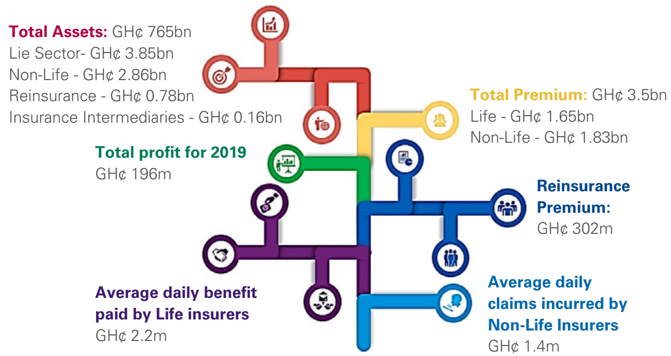
The growth in the life insurance sector, has narrowed the gap between gross premiums in the life and non-life industries. This indicates a significant improvement in the awareness of the benefits of purchasing life insurance products in the market.

The industry experienced a marginal decrease of 3.4% in total profit after tax from GHS 203 million earned in 2018 to GHS 196 million in 2019. Total gross premiums for insurance was GHS 3.5 billion in 2019; growth of approximately 21% from GHS 2.9 billion in 2018 while total reinsurance premium amounted to GHS 302 million.





Key metrics within the Ghanaian insurance market



*Sources: NIC report, 2019 (*2019 Audited Accounts unavailable at the time of publishing) KPMG analysis*

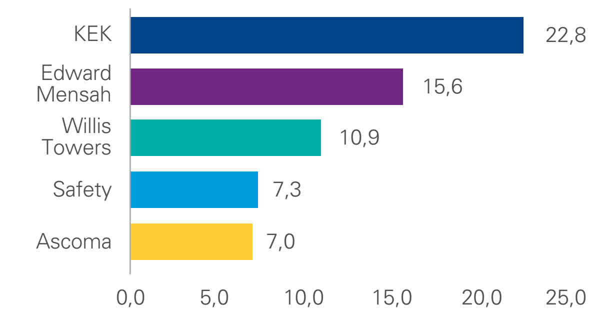
According to the latest published NIC report (2019 Annual report), five non-life insurers contributed more than 50% of the sector's total assets in 2019. Similarly, five life insurers contributed more than 70% of the sector's total assets.

The non-life sector accounted for 52.3% or GHS 1.83 billion, of the total industry premiums. The two largest insurers in Ghana, SIC Insurance Limited and Enterprise Insurance Company, contributed the highest volumes of business with premium contributions of GHS 212 million and GHS 207 million respectively. The top five non-life insurers contributed about GHS 1.53 billion to the industry's total assets, equivalent to 53%; with the top ten contributing GHS 2.05 billion representing 72% of the total assets.

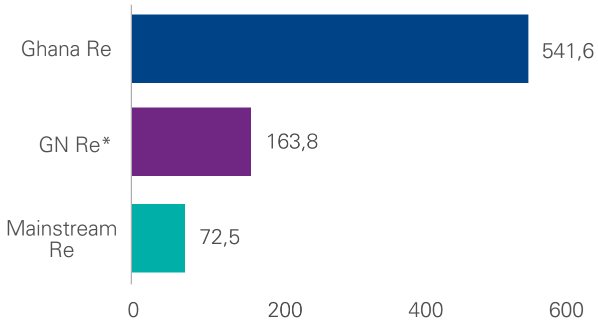
The life sector contributed GHS 135 million; approximately 69% of the total industry profit of GHS 196 million. The life sector's share of the industry's total premium was GHS 1.65 billion (47.4%). Enterprise Life led the chart in terms of premium volume with a total of GHS 437 million in 2019, closely followed by SIC Life with GHS 355 million. Contributions from the top 10 life insurance market leaders in terms of premiums amounted to GHS 1.53 billion representing 93% of the sector's total premium. The top life insurers accounted for about GHS 2.90 billion to the industry's total assets, equivalent to 75%; with the top ten contributing GHS 3.52 billion representing 92% of the total assets for that sector.

Ghana Re continues to be the market leader in reinsurance with total assets of GHS 541.6 million representing 70% of the total reinsurance assets. Insurance brokers contributed GHS 138 million representing 86% of the total assets of insurance intermediaries of GHS 160.7 million whilst reinsurance brokers contributed GHS21.4m representing 13% of the market share.

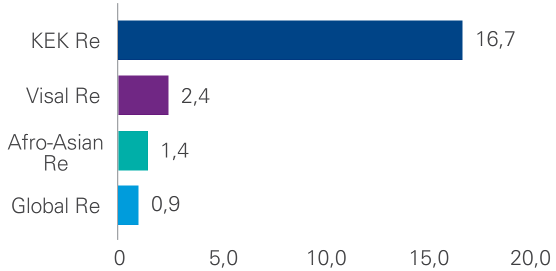
Total Assets - Top 5 Insurance Brokers (GHS' million)



Total Assets - Reinsurers (GHS' million)



Total Assets - Reinsurance Brokers (GHS' million)



Change and Innovation

"The pace of change and challenges facing the Ghanaian insurance players means the future is now more uncertain than ever. Customer experience transformation and insights from data and analytics will be a key differentiator for winners" - Frederick Dennis – Head of Financial Services Audit, KPMG in Ghana.

Industry and products

The number of participants in the industry has increased steadily over the last number of years; the market saw a total of 20 industry entries/registrations in 2019. These comprise of ten new insurance intermediaries; nine insurance brokers and one reinsurance broker, in contrast with only five new insurers in 2018.

Thirty-nine new products and product enhancements were approved by the National Insurance Commission in 2019 compared to thirty-five in 2018; thirty relating to the life insurance sector and the remaining nine to the non-life sector. One of the nine new non-life sector products offers cyber-risk cover.

The regulator implemented the Motor Insurance Database (MID) on 1 January 2020, which is providing a centralised system from which security agencies and the general public, including passengers of vehicles, can check the validity of vehicle insurance instantaneously using mobile phones.

Challenges impeding insurance

The public's mistrust of the industry is a key challenge. The recent banking crisis in Ghana has also contributed to this to a certain extent. Bad claims experience encountered by policyholders and a lack of clarity and understanding of insurance policy documents contributes to the negative perceptions.

One of the main challenges in the Ghanaian insurance industry is premium undercutting. Insurance companies may offer clients unrealistically low premiums in order to gain a competitive advantage. This denies well-meaning companies of quality premium charges. Premium undercutting results in the inability of insurance companies to pay claims promptly and an increase in clients' dissatisfaction and a loss of confidence in the industry. This translates into slow growth for the industry.

The slow development of product distribution channels has hindered the growth of the industry. There has been a low adoption of technology and online channels to allow customers to purchase cover without meeting an agent in person.

Most Insurance companies in the country are still small by international standards. Large risks tend to be reinsured outside of Ghana. Reinsurance premium transfers overseas have surged almost 400% from 2016 to 2019. As a result, the weak financial capacity and reinsurance premium flight hinders the growth of the industry in the country.

Opportunities for growth

The future on the insurance industry in Ghana will continue to be shaped by several megatrends; regulatory developments, technology, digitization and customer experience; and data and analytics.

Regulations Developments

In February 2021, a new Insurance Bill was passed, which includes the introduction of three additional compulsory covers: group life for employees, public liability, and professional indemnity. This is expected to increase the total premiums for the sector in the coming year.

In 2019, the minimum capital requirement (MCR) increased effective June 2021. This has been extended to January 2022 to accommodate for the impact of the COVID-19 pandemic.

To promote access to the industry to the informal sector and low-income earners, the regulator has introduced micro-insurance licences which come with reduced regulatory requirements.

Technology, digitization and customer experience

Insurtech is gradually gaining ground as insurers are digitizing processes and looking to automate core operational areas e.g. know-your-client (KYC) compliance and underwriting. Insurers are exploring partnerships to deploy mobile insurance products to deepen mass market penetration. Digitisation is top of mind for insurers with mobile solutions offering viable channels. Given the very low average age in Ghana, an increase in social and digital channels is expected. To differentiate on customer experience, insurers need to understand this younger generation by leveraging data and analytics capabilities.

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Do or die...its crunch time in the IFRS 17 world!

Benjamin Franklin once said, "failing to plan, is planning to fail..."

IFRS 17 Insurance Contracts is imminent as it is effective for year-ends commencing on or after 1 January 2023. What once seemed many reporting periods away is now becoming more of a reality for insurers - the countdown has begun. The dilemma for many insurers currently is how they are going to get there? Are they going to be ready?

Transition - all great changes are preceded by chaos

IFRS 17 needs to be applied retrospectively unless this is impracticable, or the risk mitigation option[1] has been chosen for insurance contracts with direct participation features. The transition approach is determined for each group of contracts. To the extent that full retrospective application is impracticable, an insurer applies either the modified retrospective approach or the fair value approach.

The big unknown at transition date is the Contractual Service Margin (CSM) which represents the unearned profit for future services to be provided by that specific group of contracts. In essence, the starting point will be to determine the group of insurance contracts based on historical issue dates. The next steps are as follows:

- determine fulfilment cash flows and CSM at the date of initial recognition of the contracts in the group before transition.
- revise fulfilment cash flows using current assumptions as at each reporting date prior to transition to identify CSM and other adjustments for each period prior to transition.
- roll forward the CSM to the transition date to reflect interest accretion, changes in assumptions and foreign exchange rates, changes in the variable fee for VFA contracts and release the CSM to profit or loss.

The requirement to apply the standard retrospectively at a level not previously required from insurers, has resulted in the complex transition calculations.

"You can have data without information, but you cannot have information without data"- Daniel Keys Moran

In order to apply the standard fully retrospectively, historic data at a granular level is required and this is where insurers are having difficulties. On initial recognition, at a minimum an insurer needs the following data:

- Contract related data which includes start dates and premiums and claims information which should be in the insurer's policy administration system.
- A full set of demographic and economic assumptions used.
- Actual premium data for changes in premiums related to future services.
- Data on insurance acquisition cash flows.
- Data and related assumptions to determine the risk adjustment.

In certain instances, the fully retrospective approach will be impracticable for longer duration contracts that were issued long before the transition date. For example, where it is not possible to obtain the historic data or determine assumptions without the use of hindsight.

[1] The risk mitigation option in IFRS 17 permits an entity to recognise immediately in profit or loss some or all of the changes in the effect of financial risk on insurance contracts with direct participation that usually adjust the contractual service margin

Data cavities need to be assessed based on the facts and circumstances of the entity. The more common data pitfalls arise because of information that is now required by IFRS 17 that was not required by IFRS 4. For example, historic interest rate data that now needs to be available for the CSM determination (i.e. yield curve reflecting the current market rates of returns of a reference portfolio of assets or a risk-free yield curve). IFRS 17 requires a company to discount the cash flows from insurance contracts using discount rates that reflect the characteristics of the cash flows and the liquidity characteristics of the insurance contracts. Fulfilment cash flows, including expense allocations may be required at a disaggregated level not previously captured under IFRS 4 which poses an additional hurdle.

Data cavities which are impracticable to remedy must be used to articulate why the fully retrospective approach will not be adopted after every reasonable effort to do so has been made. Insurers will also need to be continuously mindful of not using hindsight as part of their transition calculations.

Once the extent of existing historical data has been identified, including resolution of the data cavities, data integration becomes the next challenge. For many insurers data is captured and stored on different platforms. IFRS 17 requires aggregation at a portfolio and grouping level of similar contracts or similar risks. If the insurer underwrites contracts from the same portfolio in two different systems, there is a data quality risk when trying to merge the data into one system.

It is therefore important that management has an effective, integrative system to support IFRS 17. Entities will have to make decisions on how to manage and integrate the data from source system through to disclosure in the financial statements. A very detailed IFRS 17 solution / system needs to accommodate multiple data sources including actuarial, finance, policy and administration, and economic data. The system will need to be set up to do the following at a minimum:

- To analyse data in sufficient granularity to identify and maintain consistent groups of contracts.
- Be able to trace and follow information about the inception dates and the coverage period of those group of contracts.
- To calculate the CSM using all the required information, accrete interest on the contractual service margin at year end and release a portion of the contractual service margin for each group of contracts in profit or loss.
- Store information on historical, current, and future cash flows, discount rates and risk adjustments for each group of contracts.

An IFRS 17 solution / system can look perfect on paper, but will need to be tested from start to finish and adequate time needs to be put aside by management to do this.

There is no doubt that this exercise will come at an extensive cost to the insurer, but it is a critical component for determining an efficient operating system to incorporate all the data required for a successful IFRS 17 implementation.

Extract from Effects Analysis accompanying IFRS 17 *Insurance Contracts* published by the International Accounting Standards Board

Entities transitioning to the final standard [IFRS 17] may incur significant costs to comply with the new requirements. However, we believe the need for a comprehensive standard for the accounting for insurance contracts outweighs these costs.

Normally, when an accounting standard is updated, all companies have costs that are somewhat comparable. However, the current IFRS 4 is not a comprehensive model and the cost for companies to implement any update to IFRS 4 will be impacted by the information that they maintain today to prepare their financial statements.

The implementation of new systems and data requirements will have a knock-on impact on the entity's processes and day-to-day activities including a revamp of the end-to-end processes, risks, and controls. This in turn impacts the people element of an organisation – current staff may need to undergo training to understand the new systems and requirements and additional resources may be required specifically to support the transition activities and potentially for BAU purposes.

Insights from KPMG's benchmarking of leading insurers' readiness for IFRS 17 [2]

1. Half of the leaders have fully updated IT systems which have either been tested or are ready for testing.
2. One third of the leaders have tested new data feeds.
3. One and a half of the leaders have completed updating the actuarial models.
4. 40% of the leaders are developing new KPIs to support this new accounting standard.
5. Nearly 80% of the leaders are still developing their approach to transition and opening balance sheet while a third are still collating the different data requirements.

[2] These insights were obtained from 'Testing times: Feedback from leading insurers on the front line of IFRS 17 implementation' published by KPMG International in February 2021 where 18 insurers in the Forbes 2020 Global 2000 from around the world which have had IFRS 17 implementation programs running for several years were surveyed.

Most insurers are currently in the thick of IFRS 17 implementation, performing the balancing act of making decisions and taking action against the ever-running clock, while remaining agile enough to switch tactics and limit backtracking when implementation problems are encountered. However, insurers need to start considering and contemplating the way forward with regards to transition. Time is running out, and significant deliberation on transition is still to take place before insurers are in a position to release results to the market. A detailed gap analysis or financial impact assessment may still need to be performed and the most appropriate action needs to be taken to ensure all the factors important for the transition have been considered.

Conclusion

To sum up in a single paragraph: IFRS 17 implementation and transition is challenging. There is a significant impact on systems, processes, and people within an entity. A key aspect of any project’s success will be the availability of data. There is no one size fits all approach. Transition decisions are complex and not straightforward, even with planning there will be pitstops and detours on the journey.

“The only way to make sense of the change is to plunge into it, move with it and join the dance"
- Alan Watts

IFRS 17 outsourced: An end-to-end managed solution for small and medium-sized insurers

IFRS 17 outsourced using a single, integrated and end-to-end KPMG managed solution – from data quality to reporting

Challenging times call for automation, digitisation and innovative solutions. What if you could run your entire IFRS 17 process – from data quality to reporting – within one integrated, centrally managed, traceable platform hosted by KPMG and a global IFRS 17 software provider at a fraction of the cost you would incur to do it yourself? What if you could benefit from secure, best-in-class modelling and reporting from a team of actuaries and accountants that can do it all for you, without having to invest in additional finance and actuarial staff, systems and training?

KPMG Managed IFRS 17 Services is designed for our small and medium-sized insurance clients. Let KPMG take you on the finance and risk transformation journey required under IFRS 17.

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Overview of the Kenyan insurance industry

Vision 2030 is Kenya's long-term development plan whereby the government has embarked on a journey to implement a series of programmes that seek to promote socio-economic development and raise Kenya's status to a middle income country. To support Vision 2030, government introduced its Big 4 development plan in 2018 which aimed to address issues relating to affordable housing, universal healthcare, food security, and continued promotion of financial inclusion efforts including insurance.

Improving Kenya's socio-economic status will aid in raising the insurance penetration levels which have remained for a long time below global averages which indicates a large, uninsured customer base. At 3%, Kenya has the third lowest insurance penetration rate in Sub-Saharan Africa with South Africa leading at 17%. This is due to most of Kenya's population perceiving insurance as a "nice-to-have/easy to discard" product rather than one that is essential.

There are 58 insurers and reinsurers in Kenya and the market is dominated by CIC, Jubilee, Britam, ICEA, Lion General and APA Insurance. General insurance dominates the industry, accounting for 60% of industry gross written premiums.

Areas of growth opportunity

Until recently, most insurers have heavily relied on face-to-face distribution and have legacy systems that do not accommodate the changing needs of consumers. In a world where consumers are clued up on technology and prefer to have their world revolve around their smart phones, there is an opportunity for insurers to digitize customer engagement through software applications. Increasingly, Kenyan insurers are following suit and offering self-service options through smart phone technology and only facilitating interaction with an agent when the client needs advice.

Prioritizing the development of micro-insurance products such as livestock and crop insurance would appeal to a large portion of the population in Kenya as much of the population works in the agriculture sector. Heavy rains in Kenya regularly cause floods destroying crop, farmland and property and food insecurity is exacerbated by locust invasions which devastate the agricultural industry and continue the cycle of poverty.

With most insurers updating their policies to exclude catastrophic events such as these and the impacts of COVID-19 and business interruption, local consumers' distrust of insurers continues to increase.

Despite the low insurance penetration rate, the Kenyan government has been proactive when it comes to educating the population about the benefits of insurance products. The IRA, Kenya's insurance regulator conducts a number of consumer education programmes around the country on an annual basis.

Areas of challenge

Like many countries in Africa, Kenya is faced with high volumes of fraud and corruption and the insurance industry is not any different. It is estimated that 25% of claims costs of insurers in Kenya are a result of fraudulent claims. In recent years, Kenya has seen an increase in cyber-attack cases with 29% of corporate users experiencing malware attacks in just the first half of 2021. This calls for more effort and investment to be put into cyber security.

Outlook

Companies offering insurtech services such as mobile claims and policy payment services and micro-insurance companies offering low cost products such as funeral and livestock insurance are most likely to succeed in the Kenyan market.

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Life insurance industry results

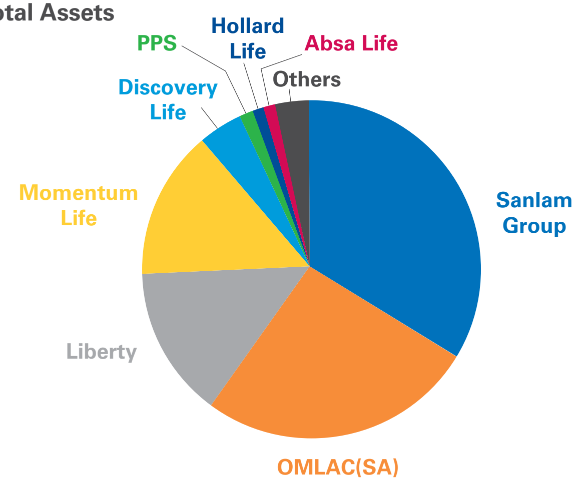
Our life insurance industry analysis includes 21 of the major life insurance licenses in South Africa. As far as possible we have tried to include the licensed entities' results, rather than those of the group.

This makes the results more comparable but was not always possible. Eleven of these entities have a June year-end, and the information included (being June 2020) does not fully reflect the impact of the COVID-19 pandemic on the economy and peoples' lives. Unfortunately, many of these entities are not listed and their results for 2021 are not published at the time of preparing our survey. Nine of the entities have a December year-end and AIG Life stands alone as the only entity with a November year-end.

According to the Prudential Authority statistics published for the period ended 31 March 2021, there are sixty primary life insurers, five life cell insurers and two micro-insurers. This license count is down nine from the year before, as ten primary life entities having been deregistered and one new micro-insurer has been registered.

Whilst, by count, the survey only covers 32% of the licensed entities, by total assets it covers 88% of the market. It is interesting to note that the top five life insurers[1] (by assets) are all listed and account for 82% of the market's total assets. These assets grew by 3.5% for the surveyed entities as a whole, which is fairly consistent with the performance of the JSE All Share Index (ALSI) over the same period. The ALSI has recovered somewhat since December 2020 and we would expect to see that feeding through into the results of the larger life insurance companies. For the larger entities, this has a direct impact on the asset-based fees earned over the period. Whilst the listed entities represent the norm here, the smaller remaining entities outgrew their larger counterparts with a 9.3% growth in their assets.

Total Assets



The sheer variety of scale in insurers is itself remarkable; from the Big 5 life insurers each with hundreds of billions of Rands in assets to small and niche players with assets in the hundreds of millions. This is no doubt a sign of the health of the industry; smaller and specialist players can continue to contribute and participate in this market.

Net premiums reflecting risk and FIDP[2] business for these entities grew by a meagre 2.2%, which does not include investment business flows as this is not taken through the income statement. Again, the performance of the smaller life insurers was quite different with an overall average growth closer to 8%, leading to a slight shift in the share of premium. Despite this, the Big 5 still consist of over 87% of the total premium written by the market. As reported by many entities, the hard lockdown had a direct impact on the ability to make sales, especially for those entities that operate largely through a branch network. However, even for others, the impact was felt during the initial phase of transition to remote working. Reporting during 2021 has suggested that this has turned slightly, but the recent civil unrest has put another smaller dent in the ability to engage directly with the customer.

Investment returns on investment assets averaged around 2.7%, with outliers of -2.3% and 23% excluded. Considering the muted growth in total assets and gross premium this is not surprising, but again is expected to improve somewhat post 1 January 2021.

1 Sanlam, Old Mutual Life Assurance Company (OMLAC(SA)), Liberty, Momentum Life, Discovery Life

2 Financial instruments with discretionary participation features (FIDP)

Claims experience was understandably poor, but the many moving parts in the reported claims information (provisions, reinsurance recoveries, assumption changes) make it hard to unpack the impact from the financial statements alone. Excess deaths as reported according to the South African Medical Research Council (SAMRC), was close to 245 000 to March 2021[3] – well above the official COVID-19 numbers. The Association for Savings and Investment South Africa (ASISA) has also reported that death benefits were 64% more than the previous year[4] to March 2021.

In the context of poor premium growth, mediocre investment performance and significant claims, the industry has moved from a total industry profit of close to R22.1bn in the 2019 period to a loss of R2.6bn in 2020. The Big 5 bore the burden of this overall loss with a move from R17.8bn profit in 2019 to a loss of R5.7bn in 2020, whilst the smaller entities maintained their overall profits moving from R4.2bn to R3.0bn. A major and direct contributor to these results was the reported R9.9bn in COVID-19 pandemic related provisions raised. The reporting on these provisions was generally quite transparent, with listed and non-listed insurers alike including fairly comprehensive disclosures on the quantum and thinking behind the COVID-19 provisions raised. These provisions averaged around 5% of net written premium and 7% of NAV.

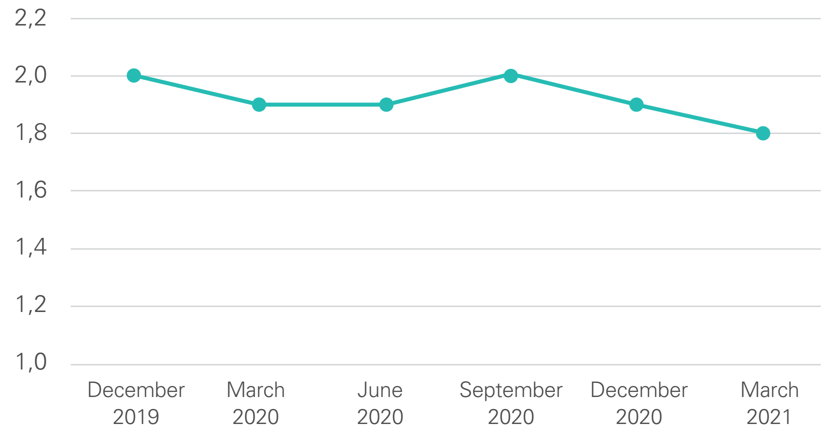
From a review of publicly available information at 30 June 2020, the financial impact of COVID-19 was generally understated. Many insurers increased their COVID-19 provisions at December 2020 and some have even indicated further increases at June 2021. This is not surprising as few people anticipated multiple waves of the pandemic back in June 2020.

The COVID-19 impact is not only reflected in the COVID-19 provisions though. Most reporters included commentary on the impact on expenses, as the business moved to remote working, the impact on premium collections (through premium holidays, non-collection and lapses) and the financial impact of voluntary funding provided to various elements within the insurance value chain.

Despite these losses, dividends for the surveyed entities increased from R16.1bn to R18.5bn, excluding the dividend in specie issued by Old Mutual's life insurance entity upwards within the Old Mutual group. This represents a 9.5% return on IFRS net asset value which is up from 7.2% for the comparable period. Whilst some reporting entities held back on dividends in the earlier part of 2020 this was not sustained. Similar to the profitability, the smaller entities' overall dividend yield on IFRS NAV was higher at 12.1% (2019: 17.1%) compared to 9.2% (2019: 6.2%) for the larger insurers.

Overall, the life insurance industry remains well capitalised. SCR cover remains well over the statutory minimum. Not all entities include solvency information in their financial statements and therefore we have used the industry statistics published by the Prudential Authority to compare the results over the period. It is interesting to note that the Big 5 all maintain a coverage ratio in excess of 1.6 times, suggesting that the losses experienced and the dividends declared are not in any meaningful way placing these entities under undue pressure. We have included only the primary insurers below as the cell captive insurers' SCR will always tend toward 1 due to the fungibility adjustments processed for own funds in the cells.

Primary Life SCR cover



Subsequent results commentary from the market has not painted a much brighter picture, with the June year-ends continuing to report strain in their half-year results.

[3] One million SA policyholders died in a year - 300 000 more than usual, insurers report | Fin24 (news24.com)

[4] Beneficiaries receive R47.58 billion from life insurers for more than a million death claims in 12 month period (asisa.org.za)

Looking forward there appears to be mixed sentiment on the outlook for the industry. Whilst lapse experience has potentially been better than expected over the period of the pandemic when referencing a loss of business in-force, this has been offset to some extent by policyholders using other contractual options, such as premium holidays and adjusted cover. There are some concerns that once the vaccination rollout has achieved some scale, policyholders may decide that life cover is now less of a priority than other basic needs.

Whilst for many the COVID-19 pandemic has confirmed the value and need for life insurance, the state of the economy could well override this. The unrest and economic struggles of the country are well documented and consequently the short-term outlook on lapses is generally unfavourable. On the mortality side, whilst many of the more recent reports from life insurers suggest that vaccine rollouts and vaccine efficacy could reduce the impact of fourth and fifth waves of the COVID-19 pandemic materially, there is also a growing consideration of the potential long term impact on base mortality rates if COVID-19 continues and becomes like the annual flu cycles we already experience.

The next few months also hold some challenging moral decisions for life insurers as they debate vaccine mandates for employees, vaccine premium adjustments for policyholders and questions of repricing policies to recoup some of the losses incurred over the recent period.

LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Jun-20	Jun-19	Dec-20	Dec-19	Nov-20	Nov-19	Jun-20	Jun-19	Jun-20	Jun-19
Group/Company	**1Life Insurance (RF) Limited**		**ABSA Life Limited**		**AIG Life South Africa Limited**		**Assupol Life Limited**		**AVBOB Mutual Assurance Society**	
FSB classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Traditional*	
Share capital and premium	398 000	398 000	24 000	24 000	10 000	10 000	490 019	490 019	-	-
Retained earnings/(deficit)	1 286 009	1 200 043	1 093 476	1 515 296	261 769	230 793	3 683 549	3 445 142	6 192 859	6 185 740
Other reserves	-	-	1 154	6 798	-	-	244 752	210 464	-	-
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
Total shareholders' funds	**1 684 009**	**1 598 043**	**1 118 630**	**1 546 094**	**271 769**	**240 793**	**4 418 320**	**4 145 625**	**6 192 859**	**6 185 740**
Policyholder liabilities under insurance and reinsurance contracts and contracts with DPF's	285 442	222 778	1 594 658	1 552 953	43 666	57 997	-	-	12 371 975	11 212 995
Policyholder liabilities under investment contracts	2 102 996	1 157 160	24 698 775	27 462 270	-	-	3 376 877	2 775 940	-	-
Preference share liability	-	-	-	-	-	-	-	-	-	-
Linked liability	-	-	-	-	-	-	-	-	-	-
Reinsurance contract liability	-	19 758	-	-	-	-	-	-	-	-
Cell owners' interest	-	-	130 541	102 477	-	-	-	-	-	-
Current tax payable	15 464	10 000	-	-	-	-	9 437	26 312	-	-
Deferred tax liability	354 930	369 620	193 180	83 232	-	-	807 856	859 737	39 223	188 525
Other liabilities	153 816	149 411	420 146	400 804	4 056	112 429	891 096	767 299	2 595 042	888 781
Total liabilities	**2 912 648**	**1 928 727**	**27 037 300**	**29 601 736**	**47 722**	**170 426**	**5 085 266**	**4 429 288**	**15 006 240**	**12 290 301**
Total investments	**2 681 313**	**1 705 746**	**27 266 551**	**30 296 393**	**140 472**	**163 173**	**5 646 691**	**4 727 520**	**17 218 546**	**15 981 034**
Assets arising from insurance contracts	1 485 217	1 523 616	-	-	-	-	2 953 399	2 994 440	-	-
PPE; goodwill and intangible assets	-	-	22 949	5 435	-	-	340 645	350 590	273 992	221 652
Reinsurers' share of policyholder liabilities	170 333	123 724	93 060	88 780	-	-	22 514	2 891	17 185	17 688
Deferred acquisition costs	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	224 069	142 092	317 430	286 518	103 954	168 303	391 634	376 005	2 980 431	1 614 153
Other assets	35 725	31 592	294 086	378 270	61 261	46 583	148 703	123 467	704 881	580 679
Income/Deferred tax asset	-	-	161 854	92 434	13 804	33 160	-	-	4 064	60 835
Deposits held with cell option	-	-	-	-	-	-	-	-	-	-
Total assets	**4 596 657**	**3 526 770**	**28 155 930**	**31 147 830**	**319 491**	**411 219**	**9 503 586**	**8 574 913**	**21 199 099**	**18 476 041**
Total assets/Total liabilities	158%	183%	104%	105%	669%	241%	187%	194%	141%	150%
Increase in shareholders' funds	5%		(28%)		13%		7%		0%	

LIFE INSURERS | Statement of Financial Position | R'000

Accounting Year end	Dec-20	Dec-19	Jun-20	Jun-19	Jun-20	Jun-19	Jun-20	Jun-19	Jun-20	Jun-19
Group /Company	**Centriq Life Insurance Company Limited**		**Clientele Life Limited**		**Discovery Life Limited**		**Guardrisk Life Limited**		**Hollard Life Assurance Company Limited**	
FSB classification	*Cell captive*		*Traditional*		*Traditional*		*Cell captive*		*Traditional*	
Share capital and premium	15 000	15 000	4 853	4 853	1 416 000	1 416 000	70 000	70 000	20 000	20 000
Retained earnings/(deficit)	18 085	13 357	693 518	765 321	25 869 000	25 787 000	270 016	221 192	1 475 290	1 224 876
Other reserves	-	-	17 858	16 312	(27 000)	4 000	-	-	-	-
Non-controlling interests	-	-	-	-	-	-	-	-	-	-
Total shareholders' funds	**33 085**	**28 357**	**716 229**	**786 486**	**27 258 000**	**27 207 000**	**340 016**	**291 192**	**1 495 290**	**1 244 876**
Policyholder liabilities under insurance and reinsurance contracts and contracts with DPF's	120 916	82 007	733 103	618 120	74 030 000	67 375 000	4 306 768	3 089 022	1 553 227	1 287 935
Policyholder liabilities under investment contracts	-	1 898	7 392 569	6 865 129	5 890 000	3 840 000	5 228 459	1 718 814	23 660 062	17 029 164
Preference share liability	-	-	-	-	-	-	-	-	-	-
Linked liability	-	-	-	-	-	-	-	-	-	-
Reinsurance contract liability	160 597	179 587	-	-	4 595 000	5 275 000	1 690 937	1 321 202	219 800	243 740
Cell owners' interest	680 078	423 888	-	-	-	-	3 301 627	2 878 619	-	-
Current tax payable	3 324	-	4 122	2 607	123 000	-	122 379	41 631	-	20 643
Deferred tax liability	358	181	52 798	70 518	8 319 000	8 550 000	-	-	631 971	444 821
Other liabilities	224 996	130 147	535 845	362 521	2 110 000	1 684 000	330 305	237 525	2 462 047	1 845 178
Total liabilities	**1 190 269**	**817 708**	**8 718 437**	**7 918 895**	**95 067 000**	**86 724 000**	**14 980 475**	**9 286 813**	**28 527 107**	**20 871 481**
Total investments	**868 330**	**429 836**	**8 188 368**	**7 912 956**	**79 190 000**	**72 093 000**	**10 650 215**	**6 475 932**	**24 233 370**	**17 958 285**
Assets arising from insurance contracts	-	-	-	-	31 992 000	33 873 000	1 736 038	1 369 908	-	-
PPE; goodwill and intangible assets	-	-	303 318	62 505	18 000	20 000	79	130	437 127	195 435
Reinsurers' share of policyholder liabilities	26 426	21 173	38 738	2 868	173 000	145 000	678 958	572 531	621 827	611 057
Deferred acquisition costs	-	-	-	-	-	3 000	-	-	-	-
Cash and cash equivalents	97 266	150 738	394 687	175 225	1 694 000	1 108 000	1 367 643	562 928	3 081 187	2 519 439
Other assets	70 735	63 558	287 379	308 250	7 986 000	5 596 000	465 380	440 315	691 713	832 143
Income/Deferred tax asset	-	1 173	222 176	243 577	1 272 000	1 093 000	422 178	156 261	957 173	-
Deposits held with cell option	160 597	179 587	-	-	-	-	-	-	-	-
Total assets	**1 223 354**	**846 065**	**9 434 666**	**8 705 381**	**122 325 000**	**113 931 000**	**15 320 491**	**9 578 005**	**30 022 397**	**22 116 359**
Total assets/Total liabilities	103%	103%	108%	110%	129%	131%	102%	103%	105%	106%
Increase in shareholders' funds	17%		(9%)		0%		17%		20%	

LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Jun-20	Jun-19	Dec-20	Dec-19	Jun-20	Jun-19	Dec-20	Dec-19	Dec-20	Dec-19
Group/Company	**Hollard Specialist Life Assurance Company Limited**		**Liberty Group Limited**		**Momentum Metropolitan Life Limited**		**Nedgroup Life Assurance Company Limited**		**Nedgroup Structured Life Limited**	
FSB classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Traditional*	
Share capital and premium	94 687	94 687	141 000	58 000	1 041 000	1 041 000	55 000	55 000	26 351	26 351
Retained earnings/(deficit)	808 614	661 122	15 708 000	18 984 000	6 340 000	8 614 000	1 595 571	1 289 996	65 998	60 451
Other reserves	-	-	610 000	694 000	5 427 000	5 656 000	-	-	-	-
Non-controlling interests	39 332	77 507	6 487 000	7 878 000	-	-	-	-	-	-
Total shareholders' funds	**942 633**	**833 316**	**22 946 000**	**27 614 000**	**12 808 000**	**15 311 000**	**1 650 571**	**1 344 996**	**92 349**	**86 802**
Policyholder liabilities under insurance and reinsurance contracts and contracts with DPF's	246 559	(117 093)	216 574 000	215 449 000	120 062 000	128 865 000	2 165 078	1 499 544	-	-
Policyholder liabilities under investment contracts	(318 251)	141 018	104 466 000	104 750 000	241 658 000	234 948 000	8 043 035	9 268 588	12 824 552	15 302 442
Preference share liability	-	-	-	-	-	-	-	-	-	-
Linked liability	-	-	-	-	-	-	-	-	-	-
Reinsurance contract liability	(3 074)	(13 806)	206 000	246 000	-	-	-	-	-	-
Cell owners' interest	-	-	-	-	-	-	-	-	-	-
Current tax payable	-	26 580	178 000	205 000	41 000	276 000	-	18 032	-	-
Deferred tax liability	149 302	141 179	2 115 000	2 999 000	981 000	1 399 000	10 653	5 736	-	-
Other liabilities	171 578	228 527	59 061 000	47 753 000	28 225 000	23 209 000	136 593	185 371	1 640	1 445
Total liabilities	**246 114**	**406 405**	**382 600 000**	**371 402 000**	**390 967 000**	**388 697 000**	**10 355 359**	**10 977 271**	**12 826 192**	**15 303 887**
Total investments	**591 559**	**619 741**	**382 737 000**	**375 414 000**	**378 787 000**	**382 265 000**	**11 336 525**	**11 773 922**	**12 905 082**	**15 361 954**
Assets arising from insurance contracts	-	-	5 050 000	7 017 000	-	-	-	-	-	-
PPE; goodwill and intangible assets	5 288	10 531	2 241 000	2 484 000	3 652 000	3 419 000	1 345	914	-	-
Reinsurers' share of policyholder liabilities	126 305	141 579	2 539 000	1 939 000	2 156 000	2 131 000	269 822	176 272	-	-
Deferred acquisition costs	-	-	761 000	766 000	-	-	-	-	-	-
Cash and cash equivalents	413 209	432 479	7 286 000	7 543 000	15 112 000	12 478 000	232 718	177 901	2 430	16 629
Other assets	35 492	35 393	4 885 000	3 734 000	4 068 000	3 715 000	160 977	193 258	11 029	9 434
Income/Deferred tax asset	16 893	-	47 000	119 000	-	-	4 543	-	-	2 672
Deposits held with cell option	-	-	-	-	-	-	-	-	-	-
Total assets	**1 188 746**	**1 239 723**	**405 546 000**	**399 016 000**	**403 775 000**	**404 008 000**	**12 005 930**	**12 322 267**	**12 918 541**	**15 390 689**
Total assets/Total liabilities	483%	305%	106%	107%	103%	104%	116%	112%	101%	101%
Increase in shareholders' funds	13%		(17%)		(16%)		23%		6%	

LIFE INSURERS | Statement of Financial Position | R'000

Accounting Year end	Dec-20	Dec-19	Dec-20	Dec-19	Jun-20	Jun-19	Dec-20	Dec-19	Dec-20	Dec-19
Group /Company	**Old Mutual Alternative Risk Transfer Limited**		**Old Mutual Life Assurance Company (South Africa) Limited**		**OUTsurance Life Insurance Company Limited**		**Professional Provident Society Insurance Company Limited**		**Sanlam Limited**	
FSB classification	*Cell captive*		*Traditional*		*Traditional*		*Traditional*		*Traditional*	
Share capital and premium	12 425	12 425	6 423 000	6 423 000	445 002	435 002	10 000	10 000	12 784 000	13 452 000
Retained earnings/(deficit)	40 560	42 105	27 621 000	47 732 000	182 360	298 049	491 032	460 310	51 323 000	59 851 000
Other reserves	70	(117)	(536 000)	(167 000)	(197)	1 577	-	-	605 000	(5 986 000)
Non-controlling interests	-	-	-	-	-	-	-	-	12 512 000	12 043 000
Total shareholders' funds	**53 055**	**54 413**	**33 508 000**	**53 988 000**	**627 165**	**734 628**	**501 032**	**470 310**	**77 224 000**	**79 360 000**
Policyholder liabilities under insurance and reinsurance contracts and contracts with DPF's	1 312 520	1 248 109	317 600 000	309 025 000	535 528	487 942	33 684 577	31 768 286	240 695 000	231 019 000
Policyholder liabilities under investment contracts	4 308 824	4 428 681	317 786 000	299 018 000	23 508	-	3 224 457	2 604 273	434 584 000	401 481 000
Preference share liability	-	-	-	-	-	-	-	-	-	-
Linked liability	-	-	-	-	-	-	-	-	-	-
Reinsurance contract liability	-	-	-	-	-	-	22 447	62 383	-	-
Cell owners' interest	631 417	403 782	-	-	-	-	-	-	4 226 000	3 935 000
Current tax payable	13 092	9 228	201 000	1 229 000	-	-	-	-	2 542 000	2 327 000
Deferred tax liability	-	-	3 388 000	2 362 000	29 947	39 904	314 977	137 564	5 810 000	5 766 000
Other liabilities	229 848	246 001	54 869 000	41 981 000	205 562	61 069	497 182	478 436	178 715 000	176 341 000
Total liabilities	**6 482 609**	**6 326 573**	**693 844 000**	**653 615 000**	**794 545**	**588 915**	**37 743 640**	**35 050 942**	**866 572 000**	**820 869 000**
Total investments	**5 285 151**	**5 220 474**	**693 959 000**	**675 395 000**	**1 117 220**	**1 111 149**	**35 953 779**	**33 335 204**	**814 074 000**	**770 995 000**
Assets arising from insurance contracts	-	-	-	-	-	-	-	-	19 976 000	18 934 000
PPE; goodwill and intangible assets	-	-	7 463 000	7 275 000	-	-	533 569	513 349	23 449 000	25 261 000
Reinsurers' share of policyholder liabilities	657 430	571 570	3 366 000	1 424 000	118 501	104 617	-	-	2 258 000	2 042 000
Deferred acquisition costs	-	-	1 219 000	1 283 000	-	-	-	-	3 374 000	3 505 000
Cash and cash equivalents	411 054	372 600	5 840 000	6 784 000	141 167	68 496	922 192	1 058 080	30 094 000	30 369 000
Other assets	181 722	215 933	14 926 000	15 405 000	8 645	15 549	759 974	414 462	46 786 000	46 339 000
Income/Deferred tax asset	307	409	579 000	37 000	36 177	23 732	75 158	200 157	3 785 000	2 784 000
Deposits held with cell option	-	-	-	-	-	-	-	-	-	-
Total assets	**6 535 664**	**6 380 986**	**727 352 000**	**707 603 000**	**1 421 710**	**1 323 543**	**38 244 672**	**35 521 252**	**943 796 000**	**900 229 000**
Total assets/Total liabilities	101%	101%	105%	108%	179%	225%	101%	101%	109%	110%
Increase in shareholders' funds	(2%)		(38%)		(15%)		7%		(3%)	

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LIFE INSURERS | Statement of Financial Position | R'000

Accounting year end	Jun-20	Jun-19
Group/Company	**The Standard General Insurance Company Limited**	
FSB classification	*Traditional*	
Share capital and premium	26 500	26 500
Retained earnings/(deficit)	152 754	151 908
Other reserves	-	-
Non-controlling interests	-	-
Total shareholders' funds	**179 254**	**178 408**
Policyholder liabilities under insurance and reinsurance contracts and contracts with DPF's	109 476	111 848
Policyholder liabilities under investment contracts	-	-
Preference share liability	-	-
Linked liability	-	-
Reinsurance contract liability	-	-
Cell owners' interest	-	-
Current tax payable	2 545	-
Deferred tax liability	-	-
Other liabilities	90 457	106 367
Total liabilities	**202 478**	**218 215**
Total investments	**10 392**	**10 758**
Assets arising from insurance contracts	-	-
PPE; goodwill and intangible assets	11 773	16 361
Reinsurers' share of policyholder liabilities	23 486	5 656
Deferred acquisition costs	105 772	67 078
Cash and cash equivalents	189 631	266 516
Other assets	14 300	11 200
Income/Deferred tax asset	26 378	19 054
Deposits held with cell option	-	-
Total assets	**381 732**	**396 623**
Total assets/Total liabilities	189%	182%
Increase in shareholders' funds	0%	

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-20	Jun-19	Dec-20	Dec-19	Nov-20	Nov-19	Jun-20	Jun-19	Jun-20	Jun-19
Group/Company	**1Life Insurance (RF) Limited**		**ABSA Life Limited**		**AIG Life South Africa Limited**		**Assupol Life Limited**		**AVBOB Mutual Assurance Society**	
FSB classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Traditional*	
Recurring premiums	1 441 756	1 386 956	4 352 852	4 084 799	344 100	371 336	3 041 490	2 549 189	4 738 964	4 158 073
Single premiums	-	-	-	-	-	-	958 248	872 409	-	-
Other premiums	-	-	-	-	-	-	3 882	36 568	-	-
Reinsurance premiums	160 051	161 809	782 364	729 317	26 286	27 641	122 411	101 417	1 945	1 948
Net premium income	**1 281 705**	**1 225 147**	**3 570 488**	**3 355 482**	**317 814**	**343 695**	**3 881 209**	**3 356 749**	**4 737 019**	**4 156 125**
Service fees from investment contracts	**-**	**-**	**49 190**	**68 350**	**-**	**-**	**60 946**	**54 176**	**-**	**-**
Total net investment income	**55 510**	**44 173**	**1 458 981**	**2 074 590**	**14 140**	**19 351**	**239 559**	**304 257**	**220 576**	**863 718**
Commission received	-	-	-	-	-	-	6 783	3 154	-	-
Other unallocated income	15 620	29 730	-	-	-	-	10 309	7 000	778	2 197
Total income	**1 352 835**	**1 299 050**	**5 078 659**	**5 498 422**	**331 954**	**363 046**	**4 198 806**	**3 725 336**	**4 958 373**	**5 022 040**
Death/Disability			1 658 454	1 336 701			647 872	548 343	1 387 555	1 243 779
Maturities			59 768	48 858			98 881	94 370	558	648
Annuities	473 628	541 579	-	-	82 101	108 415	24 160	125	-	-
Surrenders			101 990	144 034			35 560	36 963	210 484	201 304
Withdrawals and other benefits			302 908	99 617			382 769	394 039	288 346	255 710
Reinsurance recoveries	(154 914)	(131 911)	(303 305)	(318 505)	(7 849)	(9 777)	(97 814)	(88 605)	(1 087)	(1 219)
Net policyholder benefits under insurance contracts	**318 714**	**409 668**	**1 819 815**	**1 310 705**	**74 252**	**98 638**	**1 091 428**	**985 235**	**1 885 856**	**1 700 222**
Change in cell owners' liability	-	-	(46 725)	(45 053)	-	-	-	-	-	-
Change in assets arising from insurance contracts	(54 191)	(239 732)	-	-	-	-	-	-	-	-
Change in policyholder liabilities under insurance contracts	88 887	6 305	(140 667)	(85 794)	(14 330)	(2 832)	21 418	(568 835)	1 159 987	1 461 583
Fair value adjustments on policyholder liabilities under investment contracts	409	(104)	1 260 925	1 697 846	-	-	191 247	186 445	-	-
Acquisition costs	167 902	147 487	689 772	605 328	83 909	96 831	823 150	827 288	640 925	681 967
Administration, management and other expenses	708 464	673 039	580 164	587 346	75 825	130 742	1 275 074	1 129 409	1 221 113	1 102 012
Total expenses	**1 230 185**	**996 663**	**4 163 284**	**4 070 378**	**219 656**	**323 379**	**3 402 317**	**2 559 542**	**4 907 881**	**4 945 784**
Equity-accounted earnings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit/(Loss) before tax	**122 650**	**302 387**	**915 375**	**1 428 044**	**112 298**	**39 667**	**796 489**	**1 165 794**	**50 492**	**76 256**

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-20	Jun-19	Dec-20	Dec-19	Nov-20	Nov-19	Jun-20	Jun-19	Jun-20	Jun-19
Group/Company	**1Life Insurance (RF) Limited**		**ABSA Life Limited**		**AIG Life South Africa Limited**		**Assupol Life Limited**		**AVBOB Mutual Assurance Society**	
Tax	36 684	78 285	333 195	523 742	31 322	11 048	221 924	243 290	43 109	73 391
Profit/(Loss) after tax	**85 966**	**224 102**	**582 180**	**904 302**	**80 976**	**28 619**	**574 565**	**922 504**	**7 383**	**2 865**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(264)**	**(497)**
Total comprehensive income/ for the year	**85 966**	**224 102**	**582 180**	**904 302**	**80 976**	**28 619**	**574 565**	**922 504**	**7 119**	**2 368**
Other transfer to/(from) retained income (including IFRS 9 adjustments)	-	(389)	-	-	-	-	-	-	-	-
Other comprehensive income not charged against retained earnings	-	-	-	-	-	-	(20 000)	(41 048)	-	-
Ordinary dividends	-	-	1 004 000	975 000	50 000	50 000	316 159	303 542	-	-
Allocated to preference shareholders	-	-	-	-	-	-	-	-	-	-
Allocated to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Change in retained earnings	**85 966**	**223 713**	**(421 820)**	**(70 698)**	**30 976**	**(21 381)**	**238 406**	**577 914**	**7 119**	**2 368**
Management expenses to net premium and service fees on investment contracts	55%	55%	16%	17%	24%	38%	32%	33%	26%	27%
Tax as a % of NIBT	30%	26%	36%	37%	28%	28%	28%	21%	85%	96%
Comments	Company		Company		Company		Company		Society	

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-20	Dec-19	Jun-20	Jun-19	Jun-20	Jun-19	Jun-20	Jun-19	Jun-20	Jun-19
Group/Company	**Centriq Life Insurance Company Limited**		**Clientele Life Limited**		**Discovery Life Limited**		**Guardrisk Life Limited**		**Hollard Life Assurance Company Limited**	
FSB classification	*Cell captive*		*Traditional*		*Traditional*		*Cell captive*		*Traditional*	
Recurring premiums					176 000	60 000	7 595 147	6 734 877	6 793 748	6 584 080
Single premiums	2 594 508	1 553 256	1 755 622	1 826 111	10 799 000	9 623 000	-	6 275	-	68
Other premiums					17 813 000	16 799 000	-	-	147 927	145 000
Reinsurance premiums	2 578 730	1 545 555	125 566	136 730	2 566 000	2 411 000	6 299 783	5 646 920	1 632 125	1 704 257
Net premium income	**15 778**	**7 701**	**1 630 056**	**1 689 381**	**26 222 000**	**24 071 000**	**1 295 364**	**1 094 232**	**5 309 550**	**5 024 891**
Service fees from investment contracts	**-**	**-**	**39 583**	**32 146**	**2 542 000**	**2 265 000**	**-**	**-**	**-**	**-**
Total net investment income	**48 049**	**37 726**	**875 623**	**766 910**	**1 877 000**	**3 155 000**	**814 359**	**408 286**	**175 403**	**254 177**
Commission received	104 352	114 868	-	-	-	-	45 307	18 888	-	-
Other unallocated income	75	181	119 840	138 609	15 000	20 000	-	-	268 155	426 763
Total income	**168 254**	**160 476**	**2 665 102**	**2 627 046**	**30 656 000**	**29 511 000**	**2 155 030**	**1 521 406**	**5 753 108**	**5 705 831**
Death/Disability			187 691	191 281	6 573 000	7 080 000			2 937 886	2 864 969
Maturities			-	-	-	-			18 043	1 156 365
Annuities	1 196 831	501 669	-	-	558 000	475 000	2 295 774	1 909 275	1 734	18 807
Surrenders			181 243	184 713	9 927 000	8 455 000			20 678	31 706
Withdrawals and other benefits			25 132	34 719	1 487 000	1 208 000			63 301	43 852
Reinsurance recoveries	(1 191 355)	(495 991)	(110 173)	(110 070)	(1 847 000)	(2 169 000)	(2 284 329)	(1 895 329)	(1 154 019)	(1 079 041)
Net policyholder benefits under insurance contracts	**5 476**	**5 678**	**283 893**	**300 643**	**16 698 000**	**15 049 000**	**11 445**	**13 946**	**1 887 623**	**3 036 658**
Change in cell owners' liability	31 680	28 581	-	-	-	-	207 758	(124 687)	-	-
Change in assets arising from insurance contracts	-	-	(35 870)	57	(1 585 000)	(3 485 000)	(645 695)	(260 746)	-	-
Change in policyholder liabilities under insurance contracts	-	-	114 983	(2 555)	9 131 000	7 696 000	680 549	(28 388)	892 720	(946 701)
Fair value adjustments on policyholder liabilities under investment contracts	(2 724)	(983)	832 722	828 346	188 000	86 000	-	-	-	-
Acquisition costs	79 595	94 771	868 384	1 013 181	2 790 000	2 958 000	1 575 596	1 424 236	459 949	525 695
Administration, management and other expenses	29 113	13 970	195 429	175 288	3 453 000	3 230 000	159 842	106 038	2 595 926	2 341 360
Total expenses	**143 140**	**142 017**	**2 259 541**	**2 314 960**	**30 675 000**	**25 534 000**	**1 989 495**	**1 130 399**	**5 836 218**	**4 957 012**
Equity-accounted earnings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit/(Loss) before tax	**25 114**	**18 459**	**405 561**	**312 086**	**(19 000)**	**3 977 000**	**165 535**	**391 007**	**(83 110)**	**748 819**

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-20	Dec-19	Jun-20	Jun-19	Jun-20	Jun-19	Jun-20	Jun-19	Jun-20	Jun-19
Group/Company	**Centriq Life Insurance Company Limited**		**Clientele Life Limited**		**Discovery Life Limited**		**Guardrisk Life Limited**		**Hollard Life Assurance Company Limited**	
Tax	7 032	5 110	118 150	(47 747)	99 000	(908 000)	40 712	32 646	(528 256)	179 526
Profit/(Loss) after tax	**18 082**	**13 349**	**287 411**	**359 833**	**80 000**	**3 069 000**	**124 823**	**358 361**	**445 146**	**569 293**
Other comprehensive income	**-**	**-**	**-**	**-**	**33 000**	**3 043 000**	**-**	**-**	**-**	**-**
Total comprehensive income/ for the year	**18 082**	**13 349**	**287 411**	**359 833**	**113 000**	**6 112 000**	**124 823**	**358 361**	**445 146**	**569 293**
Other transfer to/(from) retained income (including IFRS 9 adjustments)	-	-	786	(3 099)	2 000	216 000	-	-	-	-
Other comprehensive income not charged against retained earnings	-	-	-	-	(33 000)	(3 043 000)	-	-	-	-
Ordinary dividends	13 354	15 300	360 000	373 385	-	-	76 000	-	194 732	688 660
Allocated to preference shareholders	-	-	-	-	-	-	-	-	-	-
Allocated to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Change in retained earnings	**4 728**	**(1 951)**	**(71 803)**	**(16 651)**	**82 000**	**3 285 000**	**48 823**	**358 361**	**250 414**	**(119 367)**
Management expenses to net premium and service fees on investment contracts	185%	181%	12%	10%	12%	12%	12%	10%	49%	47%
Tax as a % of NIBT	28%	28%	29%	(15%)	(521%)	(23%)	25%	8%	636%	24%
Comments	Company		Company		Company		Company		Company	

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-20	Jun-19	Dec-20	Dec-19	Jun-20	Jun-19	Dec-20	Dec-19	Dec-20	Dec-19
Group/Company	**Hollard Specialist Life Assurance Company Limited**		**Liberty Group Limited**		**Momentum Metropolitan Life Limited**		**Nedgroup Life Assurance Company Limited**		**Nedgroup Structured Life Limited**	
FSB classification	*Traditional*		*Traditional*		*Traditional*		*Traditional*		*Traditional*	
Recurring premiums										
Single premiums	737 178	728 262	38 339 000	38 820 000	23 811 000	27 693 000	2 257 760	2 171 744	-	-
Other premiums										
Reinsurance premiums	4 003	7 162	1 723 000	1 597 000	2 615 000	2 405 000	99 981	102 760	-	-
Net premium income	**733 175**	**721 100**	**36 616 000**	**37 223 000**	**21 196 000**	**25 288 000**	**2 157 779**	**2 068 984**	**-**	**-**
Service fees from investment contracts	**-**	**-**	**1 289 000**	**1 382 000**	**2 740 000**	**2 498 000**	**-**	**-**	**5 675**	**6 321**
Total net investment income	**66 535**	**71 153**	**17 505 000**	**32 717 000**	**5 355 000**	**20 495 000**	**753 500**	**725 483**	**4 771**	**6 079**
Commission received	-	-	-	-	-	-	-	-	-	-
Other unallocated income	12 101	49 070	-	466 000	595 000	590 000	27 976	36 752	14 803	16 145
Total income	**811 811**	**841 323**	**55 410 000**	**71 788 000**	**29 886 000**	**48 871 000**	**2 939 255**	**2 831 219**	**25 249**	**28 545**
Death/Disability	11 612	6 198			9 774 000	9 243 000	998 882	668 772		
Maturities	10	-			4 550 000	4 893 000	-	1 092 799		
Annuities	-	-	38 119 000	39 021 000	4 580 000	4 312 000	1 878	27 185	-	-
Surrenders	-	-			2 977 000	2 460 000	39 587	37 246		
Withdrawals and other benefits	249 689	291 532			1 776 000	1 996 000	-	-		
Reinsurance recoveries	(24 339)	(37 691)	(1 715 000)	(1 697 000)	(2 433 000)	(2 112 000)	(98 676)	(68 071)	-	-
Net policyholder benefits under insurance contracts	**236 972**	**260 039**	**36 404 000**	**37 324 000**	**21 224 000**	**20 792 000**	**941 671**	**1 757 931**	**-**	**-**
Change in cell owners' liability	-	-	-	-	-	-	-	-	-	-
Change in assets arising from insurance contracts	-	-	1 967 000	-309 000	-	-	-	-	-	-
Change in policyholder liabilities under insurance contracts	(65 100)	165 180	510 000	5 689 000	(8 828 000)	5 001 000	192 937	(1 006 561)	-	-
Fair value adjustments on policyholder liabilities under investment contracts	-	-	5 065 000	8 835 000	5 616 000	8 855 000	526 960	443 638	-	-
Acquisition costs	70 886	103 970	3 428 000	3 497 000	3 156 000	3 104 000	138 133	144 292	-	-
Administration, management and other expenses	240 995	238 078	11 012 000	11 023 000	7 297 000	6 639 000	366 416	421 882	2 824	3 112
Total expenses	**483 753**	**767 267**	**58 386 000**	**66 059 000**	**28 465 000**	**44 391 000**	**2 166 117**	**1 761 182**	**2 824**	**3 112**
Equity-accounted earnings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit/(Loss) before tax	**328 058**	**74 056**	**(2 976 000)**	**5 729 000**	**1 421 000**	**4 480 000**	**773 138**	**1 070 037**	**22 425**	**25 433**

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-20	Jun-19	Dec-20	Dec-19	Jun-20	Jun-19	Dec-20	Dec-19	Dec-20	Dec-19
Group/Company	**Hollard Specialist Life Assurance Company Limited**		**Liberty Group Limited**		**Momentum Metropolitan Life Limited**		**Nedgroup Life Assurance Company Limited**		**Nedgroup Structured Life Limited**	
Tax	96 187	113 566	132 000	2 381 000	903 000	1 537 000	217 563	286 501	16 878	18 746
Profit/(Loss) after tax	**231 871**	**(39 510)**	**(3 108 000)**	**3 348 000**	**518 000**	**2 943 000**	**555 575**	**783 536**	**5 547**	**6 687**
Other comprehensive income	**-**	**-**	**(4 000)**	**58 000**	**357 000**	**(203 000)**	**-**	**-**	**-**	**-**
Total comprehensive income/ for the year	**231 871**	**(39 510)**	**(3 112 000)**	**3 406 000**	**875 000**	**2 740 000**	**555 575**	**783 536**	**5 547**	**6 687**
Other transfer to/(from) retained income (including IFRS 9 adjustments)	-	(148)	186 000	(70 000)	81 000	61 000	-	-	-	-
Other comprehensive income not charged against retained earnings	-	-	-	-	(288 000)	203 000	-	-	-	-
Ordinary dividends	58 330	73 700	1 431 000	2 235 000	2 908 000	1 536 000	250 000	550 000	-	-
Allocated to preference shareholders	-	-	-	-	34 000	34 000	-	-	-	-
Allocated to non-controlling interests	(26 048)	(40 829)	(1 081 000)	497 000	-	-	-	-	-	-
Change in retained earnings	**147 493**	**(154 187)**	**(3 276 000)**	**604 000**	**(2 274 000)**	**1 434 000**	**305 575**	**233 536**	**5 547**	**6 687**
Management expenses to net premium and service fees on investment contracts	33%	33%	29%	29%	30%	24%	17%	20%	50%	49%
Tax as a % of NIBT	29%	153%	(4%)	42%	64%	34%	28%	27%	75%	74%
Comments	Company		Group		Company		Company		Company	

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-20	Dec-19	Dec-20	Dec-19	Jun-20	Jun-19	Dec-20	Dec-19	Dec-20	Dec-19
Group/Company	**Old Mutual Alternative Risk Transfer Limited**		**Old Mutual Life Assurance Company (South Africa) Limited**		**OUTsurance Life Insurance Company Limited**		**Professional Provident Society Insurance Company Limited**		**Sanlam Limited**	
FSB classification	*Cell captive*		*Traditional*		*Traditional*		*Traditional*		*Traditional*	
Recurring premiums										
Single premiums	1 223 588	1 144 634	55 806 000	55 324 000	551 308	503 297	4 939 042	4 605 942	95 645 000	87 276 000
Other premiums										
Reinsurance premiums	1 244 234	1 168 198	2 321 000	1 959 000	47 986	42 168	(382 492)	(333 049)	18 794 000	15 893 000
Net premium income	**(20 646)**	**(23 564)**	**53 485 000**	**53 365 000**	**503 322**	**461 129**	**4 556 550**	**4 272 893**	**76 851 000**	**71 383 000**
Service fees from investment contracts	**10 115**	**9 059**	**5 125 000**	**4 962 000**	**68**	**-**	**75 980**	**72 040**	**9 056 000**	**7 589 655**
Total net investment income	**510 446**	**482 901**	**37 292 000**	**59 005 000**	**(52 366)**	**94 421**	**1 258 095**	**2 253 456**	**42 880 000**	**76 067 000**
Commission received	-	-	-	-	-	-	-	-	2 929 000	2 676 000
Other unallocated income	7 154	1 201	1 907 000	1 461 000	-	-	2 002 148	1 183 786	1 535 000	-
Total income	**507 069**	**469 597**	**97 809 000**	**118 793 000**	**451 024**	**555 550**	**7 892 773**	**7 782 175**	**133 251 000**	**157 715 655**
Death/Disability										
Maturities										
Annuities	570 368	442 302	66 827 000	70 461 000	176 630	126 085	4 588 761	3 508 073	61 689 000	53 485 000
Surrenders										
Withdrawals and other benefits										
Reinsurance recoveries	(1 548 912)	(1 123 163)	(3 582 000)	(2 566 000)	(55 429)	(45 033)	(442 258)	(244 854)	(13 939 000)	(8 428 000)
Net policyholder benefits under insurance contracts	**(978 544)**	**(680 861)**	**63 245 000**	**67 895 000**	**121 201**	**81 052**	**4 146 503**	**3 263 219**	**47 750 000**	**45 057 000**
Change in cell owners' liability	663 835	428 635	-	-	-	-	-	-	-	-
Change in assets arising from insurance contracts	153 086	(89 468)	-	-	-	-	-	-	-	-
Change in policyholder liabilities under insurance contracts	64 410	95 840	-	-	33 703	122 571	1 577 544	2 255 377	1 500 000	6 963 000
Fair value adjustments on policyholder liabilities under investment contracts	70 561	367 504	22 231 000	27 398 000	-	-	177 542	169 491	26 646 000	39 506 000
Acquisition costs	163 500	103 579	6 311 000	7 127 000	(208)	9 399	-	-	14 319 000	13 246 000
Administration, management and other expenses	372 439	239 136	10 650 000	12 008 000	277 146	232 010	1 535 874	1 702 244	38 165 000	42 026 000
Total expenses	**509 287**	**464 365**	**102 437 000**	**114 428 000**	**431 842**	**445 032**	**7 437 463**	**7 390 331**	**128 380 000**	**146 798 000**
Equity-accounted earnings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2 568 000**	**2 989 000**
Profit/(Loss) before tax	**(2 218)**	**5 232**	**(4 628 000)**	**4 365 000**	**19 182**	**110 518**	**455 310**	**391 844**	**7 439 000**	**13 906 655**

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-20	Dec-19	Dec-20	Dec-19	Jun-20	Jun-19	Dec-20	Dec-19	Dec-20	Dec-19
Group/Company	**Old Mutual Alternative Risk Transfer Limited**		**Old Mutual Life Assurance Company (South Africa) Limited**		**OUTsurance Life Insurance Company Limited**		**Professional Provident Society Insurance Company Limited**		**Sanlam Limited**	
Tax	(673)	1 513	2 188 000	3 998 000	4 871	30 096	424 588	355 821	3 805 000	5 756 000
Profit/(Loss) after tax	**(1 545)**	**3 719**	**(6 816 000)**	**367 000**	**14 311**	**80 422**	**30 722**	**36 023**	**3 634 000**	**8 150 655**
Other comprehensive income	**-**	**-**	**(586 000)**	**(302 000)**	**(1 774)**	**(1 057)**	**(812)**	**8 295**	**3 143 000**	**(5 017 000)**
Total comprehensive income/ for the year	**(1 545)**	**3 719**	**(7 402 000)**	**65 000**	**12 537**	**79 365**	**29 910**	**44 318**	**6 777 000**	**3 133 655**
Other transfer to/(from) retained income (including IFRS 9 adjustments)	-	-	(36 000)	24 000	-	6 951	-	-	(4 453 000)	2 224 000
Other comprehensive income not charged against retained earnings	-	-	369 000	10 000	1 774	1 057	812	(8 295)	(3 914 000)	3 051 000
Ordinary dividends	-	-	13 042 000	2 439 000	130 000	-	-	-	6 938 000	6 500 000
Allocated to preference shareholders	-	-	-	-	-	-	-	-	-	-
Allocated to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Change in retained earnings	**(1 545)**	**3 719**	**(20 111 000)**	**(2 340 000)**	**(115 689)**	**87 373**	**30 722**	**36 023**	**(8 528 000)**	**1 908 655**
Management expenses to net premium and service fees on investment contracts	(3537%)	(1649%)	18%	21%	55%	50%	34%	40%	50%	53%
Tax as a % of NIBT	30%	29%	(47%)	92%	25%	27%	93%	91%	51%	41%
Comments	Company		Company		Company		Company		Group	

LIFE INSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Jun-20	Jun-19
Group/Company	**The Standard General Insurance Company Limited**	
FSB classification	*Traditional*	
Recurring premiums		
Single premiums	93 312	81 942
Other premiums		
Reinsurance premiums	6 791	4 234
Net premium income	**86 521**	**77 708**
Service fees from investment contracts	**-**	**-**
Total net investment income	**4 935**	**45 813**
Commission received	-	-
Other unallocated income	6 260	863
Total income	**97 716**	**124 384**
Death/Disability		
Maturities		
Annuities	19 709	22 633
Surrenders		
Withdrawals and other benefits		
Reinsurance recoveries	(4 238)	(1 355)
Net policyholder benefits under insurance contracts	**15 471**	**21 278**
Change in cell owners' liability	-	-
Change in assets arising from insurance contracts	-	-
Change in policyholder liabilities under insurance contracts	(20 203)	(10 391)
Fair value adjustments on policyholder liabilities under investment contracts	-	-
Acquisition costs	-	-
Administration, management and other expenses	105 560	132 110
Total expenses	**100 828**	**142 997**
Equity-accounted earnings	**-**	**-**
Profit/(Loss) before tax	**(3 112)**	**(18 613)**

Accounting year end	Jun-20	Jun-19
Group/Company	**The Standard General Insurance Company Limited**	
Tax	(3 959)	4 413
Profit/(Loss) after tax	**847**	**(23 026)**
Other comprehensive income	**-**	**-**
Total comprehensive income/ for the year	**847**	**(23 026)**
Other transfer to/(from) retained income (including IFRS 9 adjustments)	-	-
Other comprehensive income not charged against retained earnings	-	-
Ordinary dividends	-	350 000
Allocated to preference shareholders	-	-
Allocated to non-controlling interests	-	-
Change in retained earnings	**847**	**(373 026)**
Management expenses to net premium and service fees on investment contracts	122%	170%
Tax as a % of NIBT	127%	(24%)
Comments	Company	

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Non-life insurance industry results

What a year 2020 was! In all my years of analysing the South African non-life insurance industry results, never has there been an event which impacted so many aspects of the industry.

A once theoretical risk has materialised. The COVID-19 pandemic had a significant impact on our country. Lockdown measures, implemented by national government, resulted in an almost instantaneous impact on economic activity. Companies lost income, workers lost their jobs or a portion of their earnings, global supply chains were disrupted, and travel came to a halt. There was a sudden shift to working from home and daily life in general was severely disrupted.

These developments had a marked impact on the financial sector, and the economy at large. The pandemic raised some serious questions about traditional enterprise risk management processes, which failed to identify the full scale of the pandemic. Furthermore, these processes failed to identify the multiple downstream risks to organisations, which included liquidity risk, credit risk, the impact on human capital and accelerated rates of change.

Economic environment

The COVID-19 pandemic created considerable economic uncertainty, market volatility and societal need, against an already challenging economic backdrop. The already weak operating environment in South Africa deteriorated substantially in 2020, resulting in negative economic growth of 7%. This is the sharpest drop since the 2009 recession, partially due to lockdown restrictions on the movement of people and goods to combat the first wave of the COVID-19 pandemic and many sectors were slow to recover from this shock.

South Africa was experiencing poor economic growth well before the COVID-19 pandemic, with high economic inequality, as well as weak public finances, high fiscal deficits, a high debt burden and sizable contingent liabilities from weak state-owned enterprises (SOEs).

Moody's Investors Service (Moody's) and Fitch Ratings (Fitch) lowered South Africa's credit ratings in November 2020. The cut by Moody's took South Africa two levels below investment grade status, while Fitch's took it further to three levels. Both also maintained negative outlooks. S&P maintained its "junk" rating with a stable outlook. The cuts in ratings compounded pressure on government finances, over and above the economic recession caused by COVID-19.

Inflation was benign in 2020, averaging just over 3%, in light of sluggish aggregate demand, low oil prices, and a good agricultural harvest that lowered local food prices.

Profitability

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

	2020	2019	2018	2017	2016	2015
Increase in gross written premium[1]	4.93%	7.6%	8.1%	5.5%	4.2%	11.4%
Increase in net earned premiums	3.15%	4.7%	7.1%	3.1%	6.2%	8.8%
(Decrease)/Increase in investment income	(31.86%)	10.6%	(11.5%)	30%	(15.2%)	12.4%
Claims incurred	59.5%	59.0%	55.3%	57.3%	57.9%	57.1%
Combined ratio	96.7%	96.2%	92.2%	93.4%	93.6%	94.1%
Operating ratio[2]	90.1%	86.2%	82.2%	81.8%	84.6%	82.8%
Management expense ratio[3]	30.3%	30.5%	26.9%	26.4%	26.5%	27.2%

The non-life insurance industry reported gross written premiums (GWP) of R128 billion in 2020. This amounts to an increase of 5% when compared to the R122 billion recorded in 2019.

This is considered an acceptable result considering that before the COVID-19 pandemic struck, South Africa's insurance sector was already dealing with an ongoing economic recession and fierce competition. It appears the impact of the pandemic had not been as severe on the industry as expected. The result is even more commendable considering the premium relief measures many non-life insurers had provided to their customers. These relief measures included premium holidays, with a delayed pay-back over a set period, leniency on debit orders missed, reduced premiums by allowing customers to amend cover temporarily, allowing qualifying motor insurance customers a premium discount for a period of time, and committing to keeping premium increases low over the next twelve months. Many have applauded the industry's compassion for their policyholders. The ombudsman for Short-Term Insurance (OSTI) noted there was clear evidence of cohesion, togetherness, and empathy in response to the COVID-19 challenge and the operational performance during 2020 was testament to this. In 2020, the OSTI registered 11 095 new complaints, 7% more than in 2019, and closed 10 805 complaints, 17.9% more than in 2019. Of all the complaints registered in 2020, 786 complaints related to COVID-19, with 562 relating to business interruption insurance and 224 relating to travel insurance. COVID-19-related complaints comprised 7% of all the complaints registered in 2020. Most COVID-19 complaints were registered during June, July and August 2020.

The top five contributors to the GWP growth, in real terms, were Santam Limited (Santam), Guardrisk Insurance Company Limited (Guardrisk), King Price Insurance Company Limited (King Price), Discovery Insure Limited (Discovery) and OUTsurance Insurance Company Limited (Outsurance). Of the top five contributors to the growth, three achieved double-digit increases. King Price, Discovery and Guardrisk grew their top lines by 30.4%, 14.8% and 11.3% respectively.

- King Price had a stellar 2020 financial year on all key metrics. It was able to grow its revenue whilst managing favourable loss and management expenses ratios. Overall, King Price ended with an improved combined ratio of 70% versus 113% when compared to the 2019 financial year which resulted in an increase in its profit after tax of 250%.

- Discovery's GWP grew by 14.8% to R3.7 billion. According to Discovery, gross new business annual premium income grew by 5% to R1.1 billion which it attributed to its 'shared-value insurance' products where policyholders are rewarded for better driving. The loss ratio for good drivers was up to 45% lower than that of poor drivers and the lapse rate 9% lower than the prior year. In June 2020, the insurer recorded the highest gross new business annual premium income for any month since the inception of the business. This reflected a strong recovery through the easing of lockdown measures. It also appears that customers are seeking products where they are rewarded for good driving behaviour and travelling reduced distances following the initial hard lockdown period. Discovery also reported increased new business and positive lapse trends on their commercial insurance book.

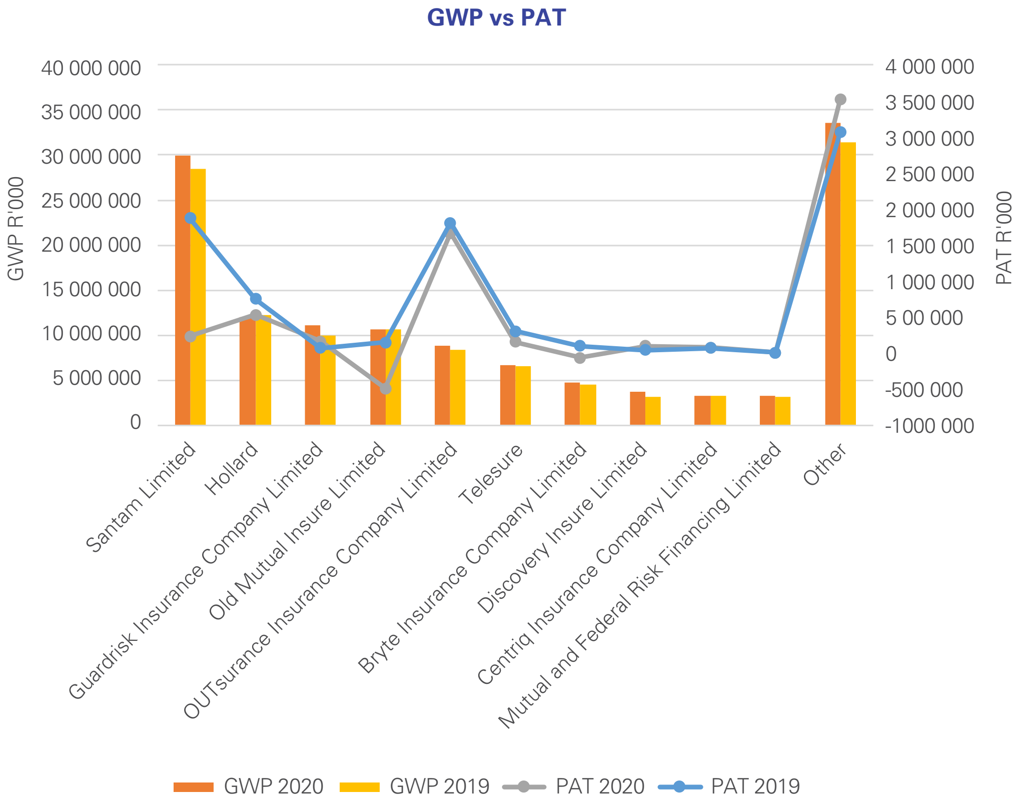
- Guardrisk continued to expand its sources of revenue from cell captive fees into underwriting income and continued to increase its non-life risk taking activities into specialist lines. Guardrisk General Insurance, the mid-tier corporate commercial offering in specific niche markets, launched in 2019 and grew its GWP by 32% to R2.35 billion in 2020 from R1.78 billion in 2019.

1 The gross written premiums of the companies featured in this publication approximate 85% of the industry's gross written premiums and based on that, the survey results are a fair representation of the results of the overall industry.

2 (Claims incurred + net commission incurred + management expenses – investment income)/net earned premium

3 Management and other expenses)/net earned premium

The chart below indicates profit after tax (PAT) compared to GWP for the ten largest non-life insurance companies over 2019 and 2020. PAT amounted to R6 billion in 2020, which represents a decrease of 28% from R8.3 billion in 2019.



Santam's PAT has been impacted by business interruption claims. Santam reported a R3 billion impact of COVID-19 related claims on the net underwriting result, including R1 billion already settled in August 2020. Santam made R1 billion interim relief payments to small and medium-sized businesses in the hospitality, leisure and non-essential retail services industries. These payments will be offset against valid claims arising from the business interruption claim assessment process. Santam commenced the process of assessing and settling valid claims for policies with contingent business interruption extensions early in 2021 after obtaining legal certainty on the proximate cause of business interruption losses. The court judgments on cases in South Africa and the United Kingdom resolved that there is cover for business interruption losses caused by COVID-19 itself and the government response through the national lockdown and related restrictions, provided that there was an occurrence of COVID-19 within the designated radius of the insured premises. At the time of performing our analysis, further clarity and finality on the interpretation and application of certain contingent business interruption policies had been provided by the Supreme Court of Appeal and the extent of losses to be covered can now be determined and concluded on.

Old Mutual Insure recorded a loss after tax of R483 million after muted year-on-year growth in GWP. The top line performance was exacerbated by premium relief measures and the discontinuance of the insurers' agricultural crop business during 2020. Old Mutual Insure also experienced adverse claims due to business interruption claims and lower investment income earned when compared to prior years. The insurer provided R460 million (net of reinsurance) for business interruption losses.

In contrast, there were some insurers that grew their profits. The most notable is Sasria SOC Limited (Sasria). Sasria recorded a profit of R332.8 million in 2020 compared to a loss of R1.3 million in the 2019 financial year. This was the state owned entity's first ever loss and is attributed to an influx in claims following political unrest. Sasria therefore recovered well post 2019, however still not to the same profit levels in 2018 and prior.

For the second time in its history, Sasria will make a loss in its 2022 financial year; this time a very significant loss following violent protests, civil unrest and looting in Gauteng and KwaZulu-Natal which occurred during July 2021. At the time of writing, Sasria estimated that the loss in terms of claims value would reach R25 billion. Sasria have been settling small claims and started making interim payments for large claims. Sasria settled nearly R6 billion in claims to businesses affected by these riots. According to Sasria, prompt responses have been received from reinsurers and upfront payment of reinsurance funds in certain instances, thus helping Sasria with much needed liquidity. National Treasury has also assisted Sasria with a capital injection of R3.9 billion to honour claims. Sasria is in the process of securing further financial assistance from National Treasury to recapitalise its balance sheet.

According to Allianz Global Corporate & Specialty (AGCS) in their latest issue of Global Risk Dialogue, business continuity planning across the world needs to proactively address political violence risks, particularly in highly exposed sectors such as retail. They noted that large scale terrorism events have declined drastically in the last five years. However, the number, scale and duration of riots and protests in the last two years is staggering and businesses have suffered significant losses. Civil unrest has soared, driven by protests on issues ranging from economic hardship to police brutality which have affected citizens around the world. The impact of the COVID-19 pandemic is making things worse and with little sign of an end to the economic downturn, the number of protests is likely to continue climbing.

Other key metrics explaining the industry results

Cost of reinsurance

Net written premium increased by 3.2% versus a 5% increase in GWP. The trend of increased 'pay away' to reinsurers is therefore continuing and suggests that reinsurance rates continue to harden. The reinsurance premium costs increased by 8.5% in 2020 when compared to 2019. The impact on profits before tax is a decrease of R2.3 billion, net of reinsurance commissions.

COVID-19 claims, high global natural and man-made catastrophe losses (e.g. US hurricanes and wildfires) and poor returns on investments, have led to widespread rate increases. Global reinsurer Munich Re recently reported that the combination of a hardening insurance market, 'lower for longer' interest rates and larger than forecasted pandemic and non-pandemic losses would make insurance covers more expensive, particularly for long-term risks in third-party liability and other lines.

The reinsurance market continues to harden into the 2021 calendar year which ultimately has a knock-on effect on the overall market. A reinsurer assesses its future risk premiums based on recent profitability and the outlook for its business, including potential claims liabilities, over the longer term. As reinsurance profit margins come under pressure, it is expected that the terms and conditions they offer to insurers will tighten. This will have a knock-on effect on policyholders as insurers seek higher premiums to recover this cost.

Increase in claims incurred

The net claims incurred for the non-life sector increased by R1.9 billion (4.1%) versus a R2.5 billion (3.2%) increase in net earned premiums. This resulted in the claims incurred ratio increasing from 59% in 2019 to 59.5% in 2020.

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

2020	2019	2018	2017	2016	2015
59.5%	59.0%	55.3%	57.3%	57.9%	57.1%

The loss ratio was adversely impacted by provisions for business interruption claims, but partly offset by fewer weather-related catastrophes and lower claims frequencies experienced over several insurance classes following the impact of the COVID-19 lockdown in South Africa. 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. Other factors such as the shift to working from home, alcohol bans and curfews also contributed to the reduction in the motor claims ratio. The motor class reported strong underwriting performance in the intermediated and direct distribution channels. Following the relaxing of lockdown regulations from 1 June 2020, claims started to increase in frequency and severity to some extent, however on an overall basis remained below expected levels for most of the year. The reduced claims and increased underwriting profits on motor insurance books is one of the reasons why premium relief was offered to customers by many motor insurers.

The trade and consumer credit class of business were impacted severely by the pandemic. Defaults on credit caused significant insurance losses.

Directors and officers liability insurance[4] claims have increased in claims frequency and severity. Events such as the #MeToo and Black Lives Matter campaigns and COVID-19 have led to specific claims against companies. According to a FAnews article, there was an increase in claims and regulatory enquiries and as a result there has been a marked increase in the number of claims and regulatory enquiries involving directors and officers. In South Africa, these trends are driven by several factors. These include exceptionally difficult trading conditions, a highly regulated environment which often comes with personal liability, an increase in stakeholder activism, new risks like COVID-19 and cyber liability, and finally, a shrinking pool of experienced non-executive directors.

[4] Which is designed to protect the people who serve as directors or officers of a company from personal losses if they are sued by the organization's employees, vendors, customers or other parties.

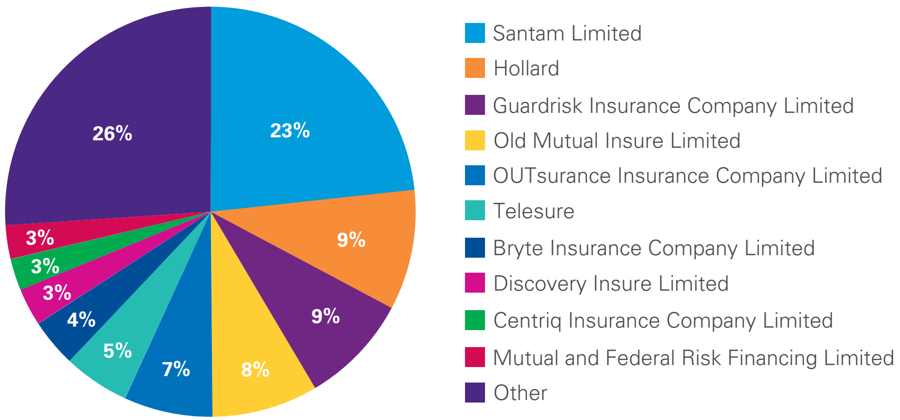
Investment income

Total investment income was down 31.9% from 2019. The lower interest rate environment and fair value losses on financial assets were the key contributors to the weaker investment performance. Generally, the industry invests in conservative and interest-bearing financial instruments, therefore a low interest rate environment result in low returns on capital. The South African Reserve Bank (SARB) made drastic interest rate cuts during 2020. The prime interest rate reduced by 300 basis points over 2020 and ultimately reduced the prime interest rate from 10% to 7%. The SARB key repo rate is currently 3.5%. This is South Africa's lowest rate since 1966.

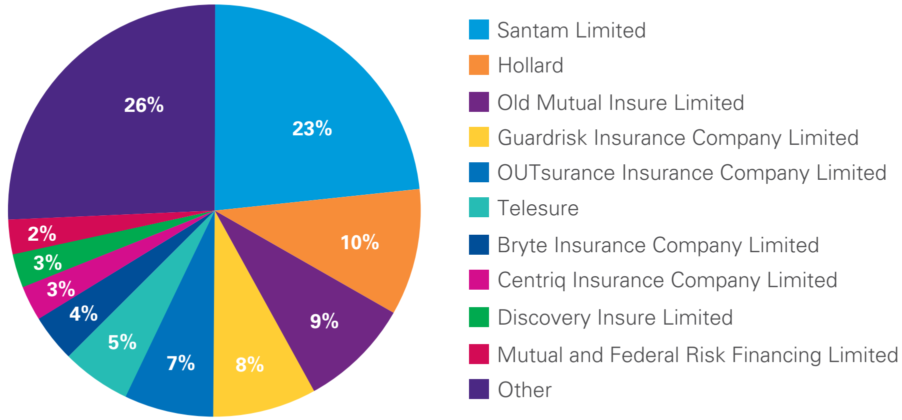
Investments and securities (including cash and cash equivalents) amounted to R119.4 billion, this represents an increase of 10.3% from 2019 where investments and securities (including cash and cash equivalents) amounted to R108.2 billion.

Gross insurance liabilities increased by 27.2% (increase net of reinsurance by 18%). The increase is partly driven by higher claim provisions raised for business interruption. The higher insurance liabilities resulted in increased capital requirements and therefore despite lower investment returns, investments and securities (including cash and cash equivalents) increased to meet these capital requirements. Dividends have also been held back due to uncertainty around business interruption claims. Solvency levels improved in 2020 for non-life insurers. The median minimum capital requirements for the industry was 4.6 times versus 4.0 times in 2019. The median solvency capital requirement for the industry was 1.8 times versus 1.7 times in 2019[5].

GWP 2020



GWP 2019



In 2020 the market share of the ten largest insurers by GWP amounted to 73.8% of total market share which is relatively consistent with 2019 at 74.4%.

Comparing the market share positions of 2020 to that of 2019, Guardrisk and Old Mutual Insure traded places in third and forth position. This is following a significant increase of 11.3% in Guardrisk's GWP. Discovery replaced Centriq Insurance Company Limited (Centriq) in eighth position in the current year. This is following a significant increase in Discovery's GWP by 30.4% for the 2020 financial year. Centriq moved to ninth position.

Corporate activity, new entrants, partnerships and products

McKinsey's quarterly Financial Insights Pulse Survey of South African financial decision makers, conducted in July 2020, reveals a sharp shift in consumer attitudes and behaviour: 45% of respondents expect to engage in fewer physical in-branch or face-to-face interactions, and 42% expect to make greater use of mobile and online channels. It is expected that insurers will continue prioritizing digital transformation for customers and intermediaries. Leading players have been seen moving decisively on their direct digital-sales channels while also boosting agent productivity through better digital tooling and customer self-service. Success has been seen with digital pure-play insurers, such as Naked, Pineapple, Simply, and Sanlam Indie.

[5] Per the Prudential Authority Annual Report 2021 and includes reinsurers

Some of the noteworthy activity in the industry:

- MiWay launched 'MiWay Blink', a fully digital car insurance app, with monthly cashback benefits to incentivise safe driving and reflect actual distance travelled. The app was developed in response to a rapidly evolving digital landscape driven by changing consumer needs and lifestyles.

- Discovery Business Insurance launched four new bespoke products tailored to the specific needs of restaurant owners, healthcare professionals, lawyers and accountants, as well as heavy commercial vehicle operators. Discovery Insure also launched a telematics-based warranty cover product, creating an avenue to gain new business from alternative parts of the automotive industry.

- SwiftVEE, an agritec start-up, partnered with Old Mutual Insure to launch an innovative product for buyers and sellers of livestock. Titled VeeSure, the digital insurance product is reportedly a first for the local agricultural sector.

- Guardrisk has been granted SA's first microinsurance cell captive licence by the Financial Sector Prudential Authority. Guardrisk's microinsurance licence is a composite insurance licence that allows life and non-life insurance products to be written out of the same licence and cell. Traditionally, the most significant barrier to entry in the insurance industry has been the minimum capital requirement of R15 million as well as the significant cost involved in running and managing an insurance company. For life and non-life cell captives, the required capital is reduced to R1 million and with cells in a microinsurance cell captive licence it reduces even further to R250 000. This means that entrepreneurs now have access to the benefits of owning, controlling and managing their own insurance facility, under the guidance of the cell captive insurer, with the economic benefits of the insurance business in the cell flowing directly to the cell owner.

- Auto & General Insurance (A&G) made a 'Service Pledge' which offers its broker partners the right to exceptional service. If, for whatever reason, A&G is unable to keep to a commitment they have made to their broker partners, they will pay them a self-imposed penalty fee. The Service Pledge includes, for example, dealing with a dedicated broker service team, that during quote and sales stage, all information is captured correctly the first time and that broker partners will be contacted 24 hours after their client has submitted a claim.

- Following the successful acquisition of Momentum Insurance Company Limited (Momentum Insurance), previously Alexander Forbes Insurance, by Momentum Metropolitan in July 2019, the Group has successfully completed the final step in the process of integrating it with its existing short-term insurance business – Momentum Short-Term Insurance. Although the two business have been operating separately under two different identities and offerings since the transaction became unconditional in January 2020, the intention has always been to integrate the businesses into a single entity and insurance license under the Momentum brand. Momentum Insurance increased its GWP and PAT by 26.0% and 101.5% respectively.

Other considerations

According to the tenth Allianz Risk Barometer for African companies, the top three risk concerns were COVID-19, business interruption and cyber incidents. What the COVID-19 pandemic had taught us is that these risks are strongly interlinked, reflecting the growing vulnerabilities of a highly globalised and connected world. Business interruption and cyber risk exposures are growing concerns among risk professionals, given the increasing reliance on technology, online sales and global supply chains.

Cyber has been a recurring theme over the past few years and remains at the top of the list of trends. It remains top of mind from both a policyholder and insurer perspective. Cyber security and privacy risks are being amplified by the pandemic with remote working and digitised workforces spurring a marked increase in cyber attacks and large-scale disruption. Cyber risk is a threat that is becoming increasingly sophisticated. A robust technical infrastructure and end-to-end digital processes are key elements to safeguard productivity. The lockdown has demanded new ways of doing business and the unprecedented shift to remote working since the start of the COVID-19 pandemic has increased the risk of cyber attacks, as hackers look to exploit security vulnerabilities. The reality is that cybercrime was already a fast-growing threat before the crisis, with major insurers in South Africa having already fallen victim to cyber attacks. As work-from-home models become the new norm, and insurers move more of their operations online, the industry has allowed for this increased risk in their risk management processes. Companies could invest in their defences and manage the risk through better monitoring of collaboration tools, networks, and end points. Leading players are already undergoing detailed reviews, including the performance of penetration testing, as well as investing in fraud detection and other operational-risk areas. Those that have been slow to act on the threat will now have to follow suit.

The Prudential Authority has also increased its oversight on operational, cyber-resilience and IT risks, with an emphasis on how related frameworks were implemented and embedded by the financial services sector.

As a consequence of the increased risk, cyber liability insurance has become more prominent. Cyber liability insurance does not replace cyber security. It is a non-life insurance solution that will protect policyholders against liabilities that may arise if they are exposed to cyber attacks. Cyber insurance is still in its infancy and according to Munich Re the market for cyber insurance was estimated at US$3.5 billion in premiums at the end of 2018 and it is predicted to grow to US$20 billion in premiums by 2025. Premium rates for cyber contracts rose by more than 50% in 2019, due to the WannaCry and NotPetya cyber attacks. One of the challenges for insurers is the lack of data around cyber-security incidents due to the unwillingness of companies to report cyber events as this opens them up to the potential for reputational risk which may lead to further loss.

With the current low growth markets, the industry may explore additional sources of revenue, which includes cyber liability insurance. This is an area that many local insurers and underwriting managers are pushing of late, and their reinsurance partners are no different. The market for cyber risks is therefore an important strategic growth area.

In closing

If I were asked to summarise the 2020 non-life industry results, I would reply ‘I expected worse’. The impact of COVID-19 and related lockdown measures have certainly tested the industry in almost all respects. And so while the industry experienced lower GWP growth when compared to the average of prior years, increases in reinsurance costs, low interest rates, volatile financial markets and significant business interruption claims, some lines of business loss ratios improved under the COVID-19 lockdown. But perhaps more importantly, the industry survived what could be considered a 1-in-100 year event and insurers and reinsurers protected their customers.

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

Accounting year end	Dec-20	Dec-19	Dec-20	Dec-19	Nov-20	Nov-19	Dec-20	Dec-19	Jun-20	Jun-19
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)	1 356 838	1 310 784	23 922	23 202	44 886	(5 916)	79 381	65 153	480 011	543 734
Reserves	1 706	7 257	-	-	-	-	-	-	-	-
Total shareholders' funds	**1 389 544**	**1 349 041**	**43 922**	**43 202**	**602 386**	**551 584**	**202 545**	**188 317**	**533 517**	**597 240**
Gross outstanding claims	399 894	443 271	31 324	68 175	2 855 490	1 184 257	1 274 394	1 211 876	328 179	365 694
Gross unearned premium provision	787 663	774 162	-	-	726 916	838 021	343 294	398 434	141 653	144 098
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	48 436	61 182
Owing to cell owners	-	-	59 071	40 312	-	-	-	-	-	-
Deferred reinsurance commission revenue	7 278	6 774	-	-	224 924	242 499	94 304	119 407	-	-
Deferred tax liability	-	-	-	2	-	-	-	-	-	-
Other liabilities (including lease liabilites)	332 608	387 732	22 840	29 639	1 073 801	1 319 765	449 245	476 568	675 237	529 714
Total liabilities	**1 527 443**	**1 611 939**	**113 235**	**138 128**	**4 881 131**	**3 584 542**	**2 161 237**	**2 206 285**	**1 193 505**	**1 100 688**
Total investments including investments in subsidiaries	**2 302 056**	**2 139 669**	**65 438**	**65 341**	**683 085**	**836 348**	**230 767**	**336 173**	**764 936**	**1 009 767**
Deferred tax asset, intangible assets, PPE and ROU assets	126 958	97 141	-	-	156 085	171 611	5 024	8 753	41 225	35 116
Reinsurers' share of outstanding claims	52 332	53 952	31 324	68 175	2 760 807	1 111 046	1 256 004	1 170 936	71 031	78 517
Reinsurers' share of unearned premium provision	72 969	67 631	-	-	616 701	726 640	340 998	397 954	-	-
Gross expected salvages and recoveries	-	-	-	-	-	-	-	-	70 677	81 094
Deferred aquisition costs	124 227	124 255	-	-	110 451	134 199	74 771	86 079	13 470	14 243
Cash and cash equivalents	96 704	210 732	60 395	47 063	730 517	598 009	120 418	54 229	543 592	258 212
Other assets	141 741	267 600	-	751	425 871	558 273	335 800	340 478	222 091	220 979
Total assets	**2 916 987**	**2 960 980**	**157 157**	**181 330**	**5 483 517**	**4 136 126**	**2 363 782**	**2 394 602**	**1 727 022**	**1 697 928**
International solvency margin	46%	46%	N/A	N/A	248%	235%	13 378%	(9 182%)	87%	98%
Total assets/Total liabilities	191%	184%	139%	131%	112%	115%	109%	109%	145%	154%
Change in shareholders' funds	3%		2%		9%		8%		(11%)	

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

Accounting year end	Dec-20	Dec-19	Jun-20	Jun-19	Dec-20	Dec-19	Dec-20	Dec-19	Jun-20	Jun-19
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)	1 227 758	1 295 444	327 481	254 886	333 571	274 088	129 300	122 715	172 383	185 886
Reserves	(23 204)	(27 835)	-	-	-	-	766	889	3 832	3 508
Total shareholders' funds	**1 209 204**	**1 272 259**	**407 482**	**334 887**	**388 571**	**329 088**	**245 066**	**238 604**	**218 715**	**231 894**
Gross outstanding claims	4 771 617	2 834 409	205 176	242 787	1 129 985	999 351	998 235	585 327	6 002	5 973
Gross unearned premium provision	735 973	711 448	41 482	42 963	5 124 064	4 409 693	345 413	252 756	2 633	3 469
Reinsurers' share of expected salvages and recoveries	-	-	44 795	44 509	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	2 068 288	1 674 811	-	-	-	-
Deferred reinsurance commission revenue	49 419	51 366	-	-	83 345	80 433	69 405	56 164	-	-
Deferred tax liability	-	-	-	-	-	-	-	25	-	-
Other liabilities (including lease liabilites)	1 685 189	1 802 830	353 464	445 104	1 463 401	1 092 057	191 226	124 957	133 449	42 545
Total liabilities	**7 242 198**	**5 400 053**	**644 917**	**775 363**	**9 869 083**	**8 256 345**	**1 604 279**	**1 019 229**	**142 084**	**51 987**
Total investments including investments in subsidiaries	**2 828 018**	**2 363 767**	**503 917**	**635 398**	**7 994 796**	**6 621 928**	**319 770**	**302 923**	**198 463**	**242 510**
Deferred tax asset, intangible assets, PPE and ROU assets	245 221	226 949	19 315	29 466	25 741	50 253	4 726	6 484	100 743	8 856
Reinsurers' share of outstanding claims	3 360 287	1 681 977	26 525	43 953	680 560	466 279	813 660	458 667	-	-
Reinsurers' share of unearned premium provision	227 440	214 804	-	-	282 191	261 779	261 255	186 126	-	-
Gross expected salvages and recoveries	-	-	64 151	62 332	-	-	-	-	-	-
Deferred aquisition costs	119 841	103 792	165	358	95 727	71 819	48 863	35 975	-	-
Cash and cash equivalents	978 254	838 748	370 635	262 998	485 073	492 915	209 730	90 227	56 057	28 345
Other assets	692 341	1 242 275	67 691	75 745	693 566	620 460	191 341	177 431	5 536	4 170
Total assets	**8 451 402**	**6 672 312**	**1 052 399**	**1 110 250**	**10 257 654**	**8 585 433**	**1 849 345**	**1 257 833**	**360 799**	**283 881**
International solvency margin	33%	35%	94%	79%	159%	64%	165%	217%	47%	52%
Total assets/Total liabilities	117%	124%	163%	143%	104%	104%	115%	123%	254%	546%
Change in shareholders' funds	(5%)		22%		18%		3%		(6%)	

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

Accounting year end	Dec-20	Dec-19	Mar-20	Mar-19	Jun-20	Jun-19	Jun-20	Jun-19	Mar-20	Mar-19
Group/Company	**Compass Insurance Company Limited**		**Corporate Guarantee (South Africa) (RF) Limited**		**Dial Direct Insurance (RF) Limited**		**Discovery Insure Limited**		**Escap SOC Limited**	
Share capital and share premium	114 284	114 284	42 900	42 900	20 001	20 001	2 402 000	2 315 000	379 500	379 500
Retained earnings/(deficit)	186 516	151 270	6 511	5 929	183 821	176 178	(479 000)	(582 000)	7 346 950	6 855 525
Reserves	5 670	253	-	-	-	-	1 000	-	-	-
Total shareholders' funds	**306 470**	**265 807**	**49 411**	**48 829**	**203 822**	**196 179**	**1 924 000**	**1 733 000**	**7 726 450**	**7 235 025**
Gross outstanding claims	652 143	522 608	15 776	13 918	88 090	99 847	353 000	334 000	7 220 417	5 267 865
Gross unearned premium provision	119 356	106 743	641 153	552 553	117 648	120 700	166 000	139 000	553 919	713 988
Reinsurers' share of expected salvages and recoveries	-	-	-	-	17 652	17 699	-	-	-	-
Owing to cell owners	-	-	-	-	-	-	-	-	-	-
Deferred reinsurance commission provision	36 574	32 914	-	-	-	-	-	-	-	-
Deferred tax liability	-	-	-	-	-	-	-	-	-	30 011
Other liabilities (including lease liabilites)	250 112	264 702	3 894	1 781	164 242	112 068	401 000	328 000	107 147	5 046
Total liabilities	**1 058 185**	**926 966**	**660 823**	**568 252**	**387 632**	**350 314**	**920 000**	**801 000**	**7 881 483**	**6 016 910**
Total investments including investments in subsidiaries	**492 288**	**496 313**	**634 356**	**492 980**	**328 907**	**386 898**	**1 974 000**	**1 668 000**	**14 589 286**	**12 143 774**
Deferred tax asset, intangible assets, PPE and ROU assets	20 099	24 219	2 892	3 098	10 594	14 346	380 000	462 000	96 795	-
Reinsurers' share of outstanding claims	585 668	465 050	-	-	12 473	18 393	8 000	12 000	560 454	595 057
Reinsurers' share of unearned premium provision	117 605	107 183	-	-	-	-	6 000	2 000	297 553	366 425
Gross expected salvages and recoveries	-	-	-	-	25 184	24 723	-	-	-	-
Deferred aquisition costs	34 250	30 154	-	-	26	72	39 000	36 000	-	-
Cash and cash equivalents	55 722	45 650	46 842	63 769	193 063	75 884	143 000	62 000	28 615	24 610
Other assets	59 024	24 204	26 144	57 234	21 207	26 177	294 000	292 000	35 230	122 069
Total assets	**1 364 656**	**1 192 773**	**710 234**	**617 081**	**591 454**	**546 493**	**2 844 000**	**2 534 000**	**15 607 933**	**13 251 935**
International solvency margin	147%	224%	398%	529%	120%	128%	52%	54%	295%	291%
Total assets/Total liabilities	129%	129%	107%	109%	153%	156%	309%	316%	198%	220%
Change in shareholders' funds	15%		1%		4%		11%		7%	

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

Accounting year end	Dec-20	Dec-19	Dec-20	Dec-19	Jun-20	Jun-19	Jun-20	Jun-19	Jun-20	Jun-19
Group/Company	**Exxaro Insurance Company Limited**		**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**	
Share capital and share premium	312 000	312 000	-	-	82 000	82 000	224 414	224 414	1 642 601	1 642 601
Retained earnings/(deficit)	385 182	311 590	3 914 000	3 531 000	141 182	71 088	286 690	349 594	1 158 293	1 293 002
Reserves	-	-	-	-	-	-	-	-	4 012	4 012
Total shareholders' funds	**697 182**	**623 590**	**3 914 000**	**3 531 000**	**223 182**	**153 088**	**511 104**	**574 008**	**2 804 906**	**2 939 615**
Gross outstanding claims	14 641	232 041	2 717 000	2 553 000	90 320	102 315	2 636 810	2 233 766	2 678 988	2 707 596
Gross unearned premium provision	148 285	123 432	656 000	685 000	50 048	50 675	5 016 007	4 078 400	2 225 979	2 131 625
Reinsurers' share of expected salvages and recoveries	-	-	-	-	20 905	21 653	-	-	-	-
Owing to cell owners	-	-	-	-	-	-	5 896 310	5 585 802	-	-
Deferred reinsurance commission revenue	24 831	19 351	-	-	-	-	184 077	161 034	-	-
Deferred tax liability	-	-	-	-	-	-	-	-	121 393	199 333
Other liabilities (including lease liabilites)	4 776	4 716	65 000	71 000	165 100	197 042	1 316 765	1 492 468	2 800 118	2 392 505
Total liabilities	**192 533**	**379 540**	**3 438 000**	**3 309 000**	**326 373**	**371 685**	**15 049 969**	**13 551 470**	**7 826 478**	**7 431 059**
Total investments including investments in subsidiaries	**-**	**-**	**7 188 000**	**6 684 000**	**270 530**	**339 539**	**10 166 561**	**9 368 466**	**3 160 490**	**3 238 387**
Deferred tax asset, intangible assets, PPE and ROU assets	6 953	5 418	88 000	80 000	7 687	15 574	58 903	40 974	621 661	404 943
Reinsurers' share of outstanding claims	3 135	174 183	3 000	4 000	11 983	18 985	1 860 556	1 725 579	611 747	985 753
Reinsurers' share of unearned premium provision	124 948	97 168	-	-	-	-	694 403	768 851	523 011	460 122
Gross expected salvages and recoveries	-	-	-	-	29 885	30 512	-	-	-	-
Deferred aquisition costs	-	-	-	-	59	152	146 176	143 659	113 681	109 765
Cash and cash equivalents	745 025	708 080	11 000	33 000	213 218	75 469	1 531 712	956 327	3 233 633	2 575 926
Other assets	9 654	18 281	62 000	39 000	16 193	44 542	1 102 762	1 121 622	2 367 161	2 595 778
Total assets	**889 715**	**1 003 130**	**7 352 000**	**6 840 000**	**549 555**	**524 773**	**15 561 073**	**14 125 478**	**10 631 384**	**10 370 674**
International solvency margin	1 378%	1 009%	637%	589%	100%	71%	13%	14%	33%	36%
Total assets/Total liabilities	462%	264%	214%	207%	168%	141%	103%	104%	136%	140%
Change in shareholders' funds	12%		11%		46%		(11%)		(5%)	

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

Accounting year end	Jun-20	Jun-19	Sep-20	Sep-19	Mar-20	Mar-19	Jun-20	Jun-19	Jun-20	Jun-19
Group/Company	**Hollard Specialist Insurance Company**		**Indequity Specialised Insurance Limited**		**Infiniti Insurance Limited**		**King Price Insurance Company Limited**		**Legal Expenses Insurance Southern Africa Limited**	
Share capital and share premium	400 503	200 503	14 470	14 470	187 230	187 230	730 400	730 400	16 634	16 634
Retained earnings/(deficit)	(117 363)	44 641	16 185	18 171	326 007	303 574	(256 437)	(447 424)	434 468	415 159
Reserves	245 006	659 914	(1 076)	(1 340)	-	-	24 060	-	9 602	9 710
Total shareholders' funds	**528 146**	**905 058**	**29 579**	**31 301**	**513 237**	**490 804**	**498 023**	**282 976**	**460 704**	**441 503**
Gross outstanding claims	212 178	270 018	3 980	4 675	373 816	303 636	168 318	172 319	243 494	251 792
Gross unearned premium provision	120 813	423 038	254	246	237 516	238 702	7 044	7 945	11 049	10 791
Reinsurers' share of expected salvages and recoveries	1 345	1 345	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	-	-	-	-	16 802	12 529	-	-	-	-
Deferred tax liability	-	-	-	-	12 525	14 925	-	-	7 475	10 874
Other liabilities (including lease liabilites)	132 947	224 415	8 660	6 550	247 066	202 616	282 073	168 966	60 186	68 020
Total liabilities	**467 283**	**918 816**	**12 894**	**11 471**	**887 725**	**772 408**	**457 435**	**349 229**	**322 204**	**341 477**
Total investments including investments in subsidiaries	**495 572**	**1 185 744**	**6 935**	**8 635**	**917 803**	**864 196**	**83 757**	**-**	**601 340**	**526 110**
Deferred tax asset, intangible assets, PPE and ROU assets	26 559	51 486	5 294	3 594	1 698	1 613	253 007	214 652	108 120	126 428
Reinsurers' share of outstanding claims	28 990	28 328	34	30	155 937	100 830	144 356	144 865	-	-
Reinsurers' share of unearned premium provision	104	5	-	-	64 897	49 072	6 323	7 175	-	-
Gross expected salvages and recoveries	-	-	1 455	2 116	-	-	-	-	-	-
Deferred aquisition costs	3 749	6 851	-	-	56 685	57 260	1 479	1 946	-	-
Cash and cash equivalents	412 548	496 151	23 968	28 040	92 112	65 932	330 671	229 236	63 942	113 365
Other assets	27 907	55 309	4 787	357	111 830	124 309	135 864	34 332	9 506	17 077
Total assets	**995 429**	**1 823 874**	**42 473**	**42 772**	**1 400 962**	**1 263 212**	**955 458**	**632 206**	**782 908**	**782 980**
International solvency margin	51%	66%	45%	50%	48%	51%	153%	118%	58%	55%
Total assets/Total liabilities	213%	199%	329%	373%	158%	164%	209%	181%	243%	229%
Change in shareholders' funds	(42%)		(6%)		5%		76%		4%	

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

Accounting year end	Jun-20	Jun-19	Dec-20	Dec-19	Fifteen months ended Jun-20	Year ended Mar-19	Jun-20	Jun-19	Dec-20	Dec-19
Group/Company	**Lombard Insurance Company Limited**		**Miway Insurance Limited**		**Momentum Insurance Company Limited***		**Momentum Short Term Insurance Company Limited**		**Mutual and Federal Risk Financing Limited**	
Share capital and share premium	189 050	189 050	250 101	250 101	67 915	67 915	863 713	863 713	4 550	4 550
Retained earnings/(deficit)	576 912	538 206	173 388	127 617	386 303	282 124	(260 409)	(277 525)	215 995	201 694
Reserves	-	-	-	-	11 563	-	-	-	-	-
Total shareholders' funds	**765 962**	**727 256**	**423 489**	**377 718**	**465 780**	**350 039**	**603 304**	**586 188**	**220 545**	**206 244**
Gross outstanding claims	1 792 358	1 124 255	182 770	113 522	256 314	276 787	219 418	199 346	787 303	696 418
Gross unearned premium provision	542 676	542 807	142 652	138 472	23 827	28 271	60 799	50 156	410 396	435 737
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	-	-	-	-	999 935	1 118 978
Deferred reinsurance commission revenue	59 501	58 745	-	-	4 774	5 533	-	-	63 348	68 529
Deferred tax liability	1 756	-	-	-	-	-	-	-	-	3 331
Other liabilities (including lease liabilites)	1 653 134	1 397 746	339 929	320 707	144 596	183 205	89 166	82 646	594 243	479 622
Total liabilities	**4 049 425**	**3 123 553**	**665 351**	**572 701**	**429 512**	**493 796**	**369 383**	**332 148**	**2 855 225**	**2 802 615**
Total investments including investments in subsidiaries	**1 139 390**	**1 214 208**	**533 639**	**412 029**	**1 134**	**1 078**	**749 931**	**678 565**	**1 614 236**	**1 298 158**
Deferred tax asset, intangible assets, PPE and ROU assets	60 146	40 633	181 253	186 445	31 809	31 193	110 600	117 557	9 734	-
Reinsurers' share of outstanding claims	1 356 798	776 155	155 022	95 995	193 004	209 741	1 308	482	552 117	543 710
Reinsurers' share of unearned premium provision	265 192	255 888	121 033	117 517	17 925	21 282	222	242	359 428	383 612
Gross expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Deferred aquisition costs	70 758	66 647	-	-	-	-	20 036	19 771	63 348	68 529
Cash and cash equivalents	1 484 432	1 028 234	50 535	63 517	585 286	442 113	58 255	72 790	194 269	395 675
Other assets	438 671	469 044	47 358	74 916	66 133	138 427	32 335	28 929	282 638	319 175
Total assets	**4 815 387**	**3 850 809**	**1 088 840**	**950 420**	**895 292**	**843 835**	**972 687**	**918 336**	**3 075 770**	**3 008 859**
International solvency margin	89%	87%	97%	93%	83%	79%	62%	68%	455%	449%
Total assets/Total liabilities	119%	123%	164%	166%	208%	171%	263%	276%	108%	107%
Change in shareholders' funds	5%		12%		33%		3%		7%	

** Previously known as Alexander Forbes Insurance Company Limited*

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

Accounting year end	Dec-20	Dec-19	Dec-20	Dec-19	Jun-20	Jun-19	Dec-20	Dec-19	Jun-20	Jun-19
Group/Company	**Nedgroup Insurance Company Limited**		**Old Mutual Insure Limited**		**OUTsurance Insurance Company Limited**		**Professional Provident Society Short-Term Insurance Company Limited**		**Renasa Insurance Company Limited**	
Share capital and share premium	5 000	5 000	1 797 000	1 797 000	25 000	25 000	388 501	364 463	197 407	197 407
Retained earnings/(deficit)	923 549	850 421	1 762 000	2 157 000	3 153 126	3 692 812	(209 801)	(207 597)	59 365	51 881
Reserves	-	-	-	90 000	2 386	10 529	-	-	-	-
Total shareholders' funds	**928 549**	**855 421**	**3 559 000**	**4 044 000**	**3 180 512**	**3 728 341**	**178 700**	**156 866**	**256 772**	**249 288**
Gross outstanding claims	204 243	169 481	7 353 000	2 607 000	1 083 360	949 030	50 530	31 009	313 658	396 394
Gross unearned premium provision	296 663	364 232	1 061 000	1 034 000	998 043	938 498	14 070	7 874	44 798	66 982
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	-	-	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	-	17	123 000	125 000	-	-	-	-	-	-
Deferred tax liability	16 140	14 587	-	-	-	-	-	-	-	-
Other liabilities (including lease liabilites)	62 862	106 778	3 064 000	2 736 000	864 450	472 486	51 277	46 601	226 190	164 659
Total liabilities	**579 908**	**655 095**	**11 601 000**	**6 502 000**	**2 945 853**	**2 360 014**	**115 877**	**85 484**	**584 646**	**628 035**
Total investments including investments in subsidiaries	**1 323 361**	**1 247 974**	**4 902 000**	**5 226 000**	**5 152 773**	**5 350 379**	**124 297**	**-**	**166 304**	**165 127**
Deferred tax asset, intangible assets, PPE and ROU assets	4 903	3 526	791 000	895 000	534 153	148 043	82 938	83 512	8 660	9 110
Reinsurers' share of outstanding claims	4 573	24 888	5 253 000	916 000	4 485	22 604	26 651	6 494	278 482	359 969
Reinsurers' share of unearned premium provision	495	2 792	472 000	505 000	-	-	11 523	6 179	40 300	60 489
Gross expected salvages and recoveries	-	-	191 000	222 000	-	-	-	-	-	-
Deferred aquisition costs	84 491	135 987	177 000	174 000	-	-	-	-	7 205	10 692
Cash and cash equivalents	48 644	35 057	755 000	283 000	185 268	177 881	25 290	126 914	287 224	216 448
Other assets	41 990	60 292	2 619 000	2 325 000	249 686	389 448	23 878	19 251	53 243	55 488
Total assets	**1 508 457**	**1 510 516**	**15 160 000**	**10 546 000**	**6 126 365**	**6 088 355**	**294 577**	**242 350**	**841 418**	**877 323**
International solvency margin	84%	76%	41%	45%	36%	45%	96%	85%	96%	116%
Total assets/Total liabilities	260%	231%	131%	162%	208%	258%	254%	284%	144%	140%
Change in shareholders' funds	9%		(12%)		(15%)		14%		3%	

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

Accounting year end	Mar-20	Mar-19	Dec-20	Dec-19	Mar-20	Mar-19	Dec-20	Dec-19	Six months ended Mar-20	Year ended Sep-19
Group/Company	**Safire Insurance Company Limited**		**Santam Limited**		**Sasria SOC Limited**		**Standard Insurance Limited**		**Unitrans Insurance Limited**	
Share capital and share premium	10 053	10 053	103 000	103 000	-	-	30 000	30 000	15 150	15 150
Retained earnings/(deficit)	208 029	188 867	7 779 000	8 398 000	6 958 209	6 625 406	2 135 490	1 859 652	372 031	355 411
Reserves	19 581	16 428	-	-	-	-	140	140	-	-
Total shareholders' funds	**237 663**	**215 348**	**7 882 000**	**8 501 000**	**6 958 209**	**6 625 406**	**2 165 630**	**1 889 792**	**387 181**	**370 561**
Gross outstanding claims	136 526	145 209	14 761 000	10 484 000	1 224 715	1 263 851	565 314	544 314	40 473	48 692
Gross unearned premium provision	92 641	85 391	4 309 000	3 801 000	471 797	416 988	77 835	68 290	108 749	167 498
Reinsurers' share of expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Owing to cell owners	89 836	107 068	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	-	-	442 000	408 000	10 236	8 850	-	-	3 023	2 952
Deferred tax liability	8 961	10 360	19 000	-	-	70 112	-	4 560	4 830	8 898
Other liabilities (including lease liabilites)	166 413	164 891	7 651 000	7 149 000	255 962	87 554	198 309	149 473	31 924	142 324
Total liabilities	**494 377**	**512 919**	**27 182 000**	**21 842 000**	**1 962 710**	**1 847 355**	**841 458**	**766 637**	**188 999**	**370 364**
Total investments including investments in subsidiaries	**237 348**	**258 163**	**18 546 000**	**16 155 000**	**4 190 416**	**3 842 110**	**2 378 956**	**2 128 237**	**417 611**	**421 726**
Deferred tax asset, intangible assets, PPE and ROU assets	85 428	85 312	794 000	935 000	92 749	64 909	22 781	1 392	-	14
Reinsurers' share of outstanding claims	70 348	73 298	6 195 000	4 212 000	600	8	58 865	39 812	6 101	6 294
Reinsurers' share of unearned premium provision	19 976	16 557	1 783 000	1 551 000	34 119	29 501	-	-	24 038	81 602
Gross expected salvages and recoveries	-	-	-	-	-	-	-	-	-	-
Deferred aquisition costs	17 334	15 909	732 000	639 000	69 405	61 325	8 834	7 689	35 676	35 808
Cash and cash equivalents	59 596	29 647	2 036 000	2 057 000	4 251 741	4 162 225	261 519	190 032	59 876	156 816
Other assets	242 010	249 381	4 978 000	4 794 000	281 889	312 683	276 133	289 267	32 878	38 665
Total assets	**732 040**	**728 267**	**35 064 000**	**30 343 000**	**8 920 919**	**8 472 761**	**3 007 088**	**2 656 429**	**576 180**	**740 925**
International solvency margin	71%	69%	34%	38%	319%	334%	78%	72%	581%	250%
Total assets/Total liabilities	148%	142%	129%	139%	455%	459%	357%	347%	305%	200%
Change in shareholders' funds	10%		(7%)		5%		15%		4%	

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

Accounting year end	Dec-20	Dec-19	Dec-20	Dec-19	Nov-20	Nov-19	Dec-20	Dec-19	Jun-20	Jun-19
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	3 108 139	3 093 306	-	-	1 750 795	1 995 913	1 115 480	1 116 843	3 029 635	2 993 006
Net premiums written	2 986 713	2 990 721	-	-	241 905	251 970	3 116	(1 964)	609 775	613 725
Earned premiums	**2 991 558**	**2 959 043**	**-**	**-**	**243 071**	**234 500**	**1 514**	**(2 051)**	**612 219**	**609 682**
Total net investment income	**143 396**	**193 807**	**4 927**	**7 236**	**80 428**	**79 805**	**20 269**	**17 554**	**79 977**	**97 334**
Reinsurance commission revenue	8 954	9 766	-	-	567 899	532 245	276 256	318 867	978 602	958 257
Other income	52 919	37 065	-	11	5 000	6 004	7 993	6 647	71 201	67 530
Total income	**3 196 827**	**3 199 681**	**4 927**	**7 247**	**896 398**	**852 554**	**306 032**	**341 017**	**1 741 999**	**1 732 803**
Net claims incurred	1 814 286	1 888 445	2 332	3 995	217 655	234 058	(21 947)	12 013	468 940	480 041
Acquisition costs	460 635	462 549	-	-	289 773	293 787	186 211	165 861	313 249	303 664
Cell owners' transactions	-	-	-	-	-	-	-	-	-	-
Management and other expenses	363 283	398 474	555	9 315	281 256	322 861	121 558	145 081	1 049 995	906 685
Total expenses	**2 638 204**	**2 749 468**	**2 887**	**13 310**	**788 684**	**850 706**	**285 822**	**322 955**	**1 832 184**	**1 690 390**
Net profit/(loss) before taxation	**558 623**	**450 213**	**2 040**	**(6 063)**	**107 714**	**1 848**	**20 210**	**18 062**	**(90 185)**	**42 413**
Taxation	(161 568)	(130 441)	(1 320)	(776)	(31 912)	1 413	(5 982)	(4 977)	26 462	(8 024)
Net profit/(loss) after taxation	**397 054**	**319 771**	**720**	**(6 839)**	**75 802**	**3 261**	**14 228**	**13 085**	**(63 723)**	**34 389**
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**397 054**	**319 771**	**720**	**(6 839)**	**75 802**	**3 261**	**14 228**	**13 085**	**(63 723)**	**34 389**
Transfer to/(from) retained earnings	-	-	-	-	-	-	-	-	-	457
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Dividends	351 000	459 000	-	-	25 000	-	-	-	-	256 000
Change in retained earnings	**46 054**	**(139 229)**	**720**	**(6 839)**	**50 802**	**3 261**	**14 228**	**13 085**	**(63 723)**	**(222 068)**
Net premium to gross premium	96%	97%	N/A	N/A	14%	13%	0%	(0%)	20%	21%
Claims incurred to earned premium	61%	64%	N/A	N/A	90%	100%	(1 450%)	(586%)	77%	79%
Management and other expenses to net earned premium	12%	13%	N/A	N/A	116%	138%	8 029%	(7 074%)	172%	149%
Combined ratio	88%	93%	N/A	N/A	91%	136%	632%	(199%)	139%	120%
Operating ratio	83%	86%	N/A	N/A	58%	102%	(707%)	657%	126%	104%
Return on equity	29%	24%	2%	(16%)	13%	1%	7%	7%	(12%)	6%

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

Accounting year end	Dec-20	Dec-19	Jun-20	Jun-19	Dec-20	Dec-19	Dec-20	Dec-19	Jun-20	Jun-19
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	4 723 796	4 528 179	1 853 682	1 827 702	3 359 348	3 292 415	761 180	571 083	465 149	450 200
Net premiums written	3 654 690	3 692 299	430 016	423 840	848 833	1 116 986	166 296	127 752	465 149	450 200
Earned premiums	**3 642 801**	**3 598 637**	**431 498**	**425 562**	**243 960**	**511 865**	**148 767**	**110 007**	**463 700**	**448 381**
Total net investment income	**386 598**	**329 900**	**52 155**	**61 990**	**536 852**	**441 577**	**17 726**	**21 973**	**(740)**	**14 300**
Reinsurance commission revenue	158 262	86 673	642 089	632 650	344 182	323 147	134 252	118 485	-	-
Other income	3 200	2 247	22 891	40 005	143 769	115 691	4 748	2 920	1 653	1 236
Total income	**4 190 861**	**4 017 457**	**1 148 633**	**1 160 207**	**1 268 763**	**1 392 280**	**305 493**	**253 385**	**464 613**	**463 917**
Net claims incurred	2 655 462	2 375 360	328 062	357 716	369 137	622 606	103 760	63 935	44 053	39 936
Acquisition costs	759 431	727 282	30 003	29 264	321 157	320 958	107 210	89 341	227 803	280 405
Cell owners' transactions	-	-	-	-	185 662	83 933	-	-	-	-
Management and other expenses	861 048	768 852	613 372	563 000	279 882	265 121	50 744	55 121	128 615	69 686
Total expenses	**4 275 941**	**3 871 494**	**971 437**	**949 980**	**1 155 838**	**1 292 618**	**261 714**	**208 397**	**400 471**	**390 027**
Net profit/(loss) before taxation	**(85 080)**	**145 963**	**177 196**	**210 227**	**112 925**	**99 662**	**43 779**	**44 988**	**64 142**	**73 890**
Taxation	27 394	(45 943)	(49 601)	(58 946)	(30 297)	(27 502)	(12 484)	(12 741)	(17 645)	(19 567)
Net profit/(loss) after taxation	**(57 686)**	**100 020**	**127 595**	**151 281**	**82 628**	**72 160**	**31 295**	**32 247**	**46 497**	**54 323**
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**(57 686)**	**100 020**	**127 595**	**151 281**	**82 628**	**72 160**	**31 295**	**32 247**	**46 497**	**54 323**
Transfer to/(from) retained earnings	-	-	-	(437)	-	-	-	-	-	21
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Dividends	10 000	50 000	55 000	420 000	23 145	28 400	24 710	20 060	60 000	45 000
Change in retained earnings	**(67 686)**	**50 020**	**72 595**	**(269 156)**	**59 483**	**43 760**	**6 585**	**12 187**	**(13 503)**	**9 344**
Net premium to gross premium	77%	82%	23%	23%	25%	34%	22%	22%	100%	100%
Claims incurred to earned premium	73%	66%	76%	84%	151%	122%	70%	58%	10%	9%
Management and other expenses to net earned premium	24%	21%	142%	132%	115%	52%	34%	50%	28%	16%
Combined ratio	113%	105%	76%	75%	257%	173%	86%	82%	86%	87%
Operating ratio	102%	96%	64%	60%	37%	87%	74%	62%	87%	84%
Return on equity	(5%)	8%	31%	45%	21%	22%	13%	14%	21%	23%

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

Accounting year end	Dec-20	Dec-19	Mar-20	Mar-19	Jun-20	Jun-19	Jun-20	Jun-19	Mar-20	Mar-19
Group/Company	**Compass Insurance Company Limited**		**Corporate Guarantee (South Africa) (RF) Limited**		**Dial Direct Insurance (RF) Limited**		**Discovery Insure Limited**		**Escap SOC Limited**	
Gross premiums written	1 639 378	1 496 467	101 029	38 169	885 988	824 615	3 706 000	3 228 000	3 162 224	2 721 598
Net premiums written	210 921	118 721	101 029	38 169	167 213	154 699	3 618 000	2 894 000	2 526 914	2 377 971
Earned premiums	**208 729**	**118 724**	**12 429**	**9 235**	**170 265**	**152 724**	**3 603 000**	**2 879 000**	**2 618 111**	**2 484 507**
Total net investment income	**56 661**	**56 953**	**47 586**	**48 168**	**33 555**	**36 895**	**162 000**	**158 000**	**604 707**	**799 216**
Reinsurance commission revenue	448 869	493 939	-	-	323 461	301 335	-	71 000	77 753	61 799
Other income	1 586	3 387	354	121	31 611	34 059	12 000	34 000	-	-
Total income	**715 845**	**673 002**	**60 369**	**57 524**	**558 892**	**525 013**	**3 777 000**	**3 142 000**	**3 300 571**	**3 345 522**
Net claims incurred	63 195	57 365	38 525	32 275	155 190	140 271	1 987 000	1 734 000	2 532 870	2 360 218
Acquisition costs	520 862	489 366	781	697	11 737	8 344	516 000	411 000	-	-
Cell owners' transactions	-	-	-	-	-	-	-	-	-	-
Management and other expenses	58 725	57 650	20 520	21 067	374 362	327 553	1 131 000	929 000	127 068	115 367
Total expenses	**642 782**	**604 381**	**59 826**	**54 039**	**541 289**	**476 168**	**3 634 000**	**3 074 000**	**2 659 938**	**2 475 585**
Net profit/(loss) before taxation	**73 063**	**68 621**	**544**	**3 485**	**17 603**	**48 845**	**143 000**	**68 000**	**640 633**	**869 937**
Taxation	(12 817)	(13 109)	38	(192)	(4 960)	(13 555)	(40 000)	(21 000)	(149 208)	(237 722)
Net profit/(loss) after taxation	**60 247**	**55 512**	**582**	**3 293**	**12 643**	**35 290**	**103 000**	**47 000**	**491 425**	**632 215**
Other comprehensive income	5 417	52	-	-	-	-	(4 000)	(1 000)	-	-
Total comprehensive income for the year	**65 664**	**55 565**	**582**	**3 293**	**12 643**	**35 290**	**99 000**	**46 000**	**491 425**	**632 215**
Transfer to/(from) retained earnings	-	-	-	-	-	(20)	-	-	-	-
Other comprehensive income	(5 417)	(52)	-	-	-	-	4 000	1 000	-	-
Dividends	25 000	40 000	-	25 000	5 000	140 000	-	-	-	-
Change in retained earnings	**35 247**	**15 512**	**582**	**(21 707)**	**7 643**	**(104 730)**	**103 000**	**47 000**	**491 425**	**632 215**
Net premium to gross premium	13%	8%	100%	100%	19%	19%	98%	90%	80%	87%
Claims incurred to earned premium	30%	48%	310%	350%	91%	92%	55%	60%	97%	95%
Management and other expenses to net earned premium	28%	49%	165%	228%	220%	214%	31%	32%	5%	5%
Combined ratio	93%	93%	481%	585%	128%	114%	101%	104%	99%	97%
Operating ratio	66%	45%	98%	64%	108%	90%	96%	99%	76%	65%
Return on equity	20%	21%	1%	7%	6%	18%	5%	3%	6%	9%

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

Accounting year end	Dec-20	Dec-19	Dec-20	Dec-19	Jun-20	Jun-19	Jun-20	Jun-19	Jun-20	Jun-19
Group/Company	**Exxaro Insurance Company Limited**		**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**	
Gross premiums written	300 237	247 294	870 000	857 000	983 555	952 433	11 112 844	9 983 925	11 051 009	10 856 041
Net premiums written	47 659	53 520	853 000	847 000	222 788	220 055	4 767 676	4 126 144	8 545 521	8 573 189
Earned premiums	**50 586**	**61 823**	**614 000**	**599 000**	**223 415**	**214 122**	**3 915 985**	**4 044 849**	**8 487 131**	**8 235 217**
Total net investment income	**36 305**	**30 989**	**569 000**	**674 000**	**28 245**	**28 493**	**725 591**	**804 517**	**285 066**	**456 288**
Reinsurance commission revenue	44 572	36 744	-	-	343 209	329 683	1 152 976	1 079 367	-	-
Other income	2 756	1 585	-	-	10 377	18 642	118 512	94 473	101 759	61 902
Total income	**134 219**	**131 141**	**1 183 000**	**1 273 000**	**605 246**	**590 940**	**5 913 064**	**6 023 206**	**8 873 956**	**8 753 407**
Net claims incurred	1 771	23 406	521 000	528 000	161 341	168 666	1 219 191	1 119 290	4 501 352	4 390 545
Acquisition costs	13 619	12 563	-	-	25 799	21 522	1 331 343	1 157 005	943 146	901 306
Cell owners' transactions	-	-	-	-	-	-	121 297	172 682	-	-
Management and other expenses	16 619	14 654	279 000	252 000	300 022	280 657	2 594 344	3 037 550	3 011 278	2 741 700
Total expenses	**32 009**	**50 623**	**800 000**	**780 000**	**487 162**	**470 845**	**5 266 175**	**5 486 527**	**8 455 776**	**8 033 551**
Net profit/(loss) before taxation	**102 210**	**80 518**	**383 000**	**493 000**	**118 084**	**120 095**	**646 889**	**536 679**	**418 180**	**719 856**
Taxation	(28 618)	(23 192)	-	-	(32 990)	(33 608)	(479 793)	(459 423)	(101 179)	(175 005)
Net profit/(loss) after taxation	**73 592**	**57 326**	**383 000**	**493 000**	**85 094**	**86 487**	**167 096**	**77 256**	**317 001**	**544 851**
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**73 592**	**57 326**	**383 000**	**493 000**	**85 094**	**86 487**	**167 096**	**77 256**	**317 001**	**544 851**
Transfer to/(from) retained earnings	-	-	-	-	-	(196)	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	15 000	120 000	230 000	102 583	451 710	414 089
Change in retained earnings	**73 592**	**57 326**	**383 000**	**493 000**	**70 094**	**(33 709)**	**(62 904)**	**(25 327)**	**(134 709)**	**130 762**
Net premium to gross premium	16%	22%	98%	99%	23%	23%	43%	41%	77%	79%
Claims incurred to earned premium	4%	38%	85%	88%	72%	79%	31%	28%	53%	53%
Management and other expenses to net earned premium	33%	24%	45%	42%	134%	131%	66%	75%	35%	33%
Combined ratio	(25%)	22%	130%	130%	64%	66%	102%	105%	100%	98%
Operating ratio	(97%)	(28%)	38%	18%	52%	53%	83%	85%	96%	92%
Return on equity	11%	9%	10%	14%	38%	56%	33%	13%	11%	19%

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

Accounting year end	Jun-20	Jun-19	Sep-20	Sep-19	Mar-20	Mar-19	Jun-20	Jun-19	Jun-20	Jun-19
Group/Company	**Hollard Specialist Insurance Company**		**Indequity Specialised Insurance Limited**		**Infiniti Insurance Limited**		**King Price Insurance Company Limited**		**Legal Expenses Insurance Southern Africa Limited**	
Gross premiums written	967 227	1 433 549	66 756	63 565	1 288 982	1 155 450	2 101 233	1 611 631	791 739	806 945
Net premiums written	957 148	1 418 331	65 175	62 180	1 053 740	971 696	325 441	240 819	791 739	806 945
Earned premiums	**1 034 642**	**1 372 988**	**65 167**	**62 227**	**1 070 750**	**968 111**	**325 490**	**240 219**	**791 739**	**806 945**
Total net investment income	**71 229**	**146 004**	**1 591**	**2 020**	**16 362**	**82 136**	**16 243**	**15 339**	**7 027**	**79 330**
Reinsurance commission revenue	-	-	-	-	58 114	44 625	819 292	576 813	-	-
Other income	15 729	16 680	253	87	-	-	44 543	35 105	12 073	15 759
Total income	**1 121 600**	**1 535 672**	**67 011**	**64 334**	**1 145 226**	**1 094 872**	**1 205 569**	**867 476**	**810 839**	**902 034**
Net claims incurred	437 649	586 000	22 445	26 215	550 086	480 469	102 922	81 493	111 867	123 040
Acquisition costs	124 903	181 981	4 597	4 377	197 547	180 676	471 780	396 185	93 410	77 519
Cell owners' transactions	-	-	-	-	-	-	-	-	-	-
Management and other expenses	267 704	437 413	22 308	20 594	316 561	316 988	471 922	370 363	525 454	536 682
Total expenses	**830 256**	**1 205 394**	**49 350**	**51 186**	**1 064 194**	**978 133**	**1 046 624**	**848 042**	**730 731**	**737 241**
Net profit/(loss) before taxation	**291 344**	**330 278**	**17 661**	**13 148**	**81 032**	**116 739**	**158 945**	**19 435**	**80 108**	**164 793**
Taxation	(74 789)	(117 524)	(4 945)	(3 803)	(23 599)	(29 696)	32 042	35 170	(20 806)	(31 099)
Net profit/(loss) after taxation	**216 555**	**212 754**	**12 716**	**9 345**	**57 433**	**87 043**	**190 986**	**54 604**	**59 302**	**133 694**
Other comprehensive income	-	-	264	925	-	-	24 061	-	(101)	(215)
Total comprehensive income for the year	**216 555**	**212 754**	**12 980**	**10 270**	**57 433**	**87 043**	**215 047**	**54 604**	**59 201**	**133 479**
Transfer to/(from) retained earnings	127 826	198 823	-	76	-	-	-	-	-	-
Other comprehensive income	-	-	(264)	(925)	-	-	(24 061)	-	101	215
Dividends	250 733	13 200	14 626	12 244	35 000	15 000	-	-	39 993	129 990
Change in retained earnings	**(162 004)**	**731**	**(1 910)**	**(2 975)**	**22 433**	**72 043**	**190 986**	**54 604**	**19 309**	**3 704**
Net premium to gross premium	99%	99%	98%	98%	82%	84%	15%	15%	100%	100%
Claims incurred to earned premium	42%	43%	34%	42%	51%	50%	32%	34%	14%	15%
Management and other expenses to net earned premium	26%	32%	34%	33%	30%	33%	145%	154%	66%	67%
Combined ratio	80%	88%	76%	82%	94%	96%	70%	113%	92%	91%
Operating ratio	73%	77%	73%	79%	92%	88%	65%	107%	91%	82%
Return on equity	41%	24%	43%	30%	11%	18%	38%	19%	13%	30%

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

Accounting year end	Jun-20	Jun-19	Dec-20	Dec-19	Fifteen months ended Jun-20	Year ended Mar-19	Jun-20	Jun-19	Dec-20	Dec-19
Group/Company	**Lombard Insurance Company Limited**		**Miway Insurance Limited**		**Momentum Insurance Company Limited***		**Momentum Short Term Insurance Company Limited**		**Mutual and Federal Risk Financing Limited**	
Gross premiums written	2 159 116	2 018 561	2 912 757	2 724 397			984 329	880 795	3 289 565	3 221 478
Net premiums written	851 276	826 043	437 693	409 740			967 998	869 744	47 285	46 311
Earned premiums	**855 893**	**832 644**	**436 775**	**408 191**	**558 161**	**443 047**	**965 768**	**865 929**	**48 442**	**45 983**
Total net investment income	**178 493**	**147 466**	**34 990**	**32 540**	**48 906**	**36 798**	**64 534**	**56 400**	**11 520**	**14 106**
Reinsurance commission revenue	495 946	351 663	1 110 945	953 455	593 900	412 982	-	-	562 326	570 129
Other income	13 921	9 462	94	523	3 704	53 172	-	-	-	-
Total income	**1 544 253**	**1 341 235**	**1 582 803**	**1 394 709**	**1 204 671**	**945 999**	**1 030 302**	**922 329**	**622 288**	**630 218**
Net claims incurred	419 773	337 588	222 235	221 754	308 312	275 391	576 321	554 242	508	4 566
Acquisition costs	516 618	482 242	-	-	117 858	95 986	137 350	112 736	562 329	570 134
Cell owners' transactions	-	-	-	-	-	-	-	-	-	-
Management and other expenses	543 510	427 834	951 649	864 940	452 080	413 075	292 859	238 584	41 297	31 017
Total expenses	**1 479 901**	**1 247 664**	**1 173 883**	**1 086 695**	**878 249**	**784 452**	**1 006 530**	**905 562**	**604 134**	**605 717**
Net profit/(loss) before taxation	**64 352**	**93 571**	**408 920**	**308 014**	**326 422**	**161 547**	**23 772**	**16 767**	**18 154**	**24 501**
Taxation	(25 646)	(26 381)	(113 149)	(83 061)	(92 242)	(45 337)	(6 656)	(4 695)	(3 853)	(9 574)
Net profit/(loss) after taxation	**38 706**	**67 190**	**295 770**	**224 953**	**234 179**	**116 210**	**17 116**	**12 072**	**14 301**	**14 927**
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**38 706**	**67 190**	**295 770**	**224 953**	**234 179**	**116 210**	**17 116**	**12 072**	**14 301**	**14 927**
Transfer to/(from) retained earnings	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Dividends	-	27 790	250 000	230 000	130 000	84 000	-	-	-	25 000
Change in retained earnings	**38 706**	**39 400**	**45 770**	**(5 047)**	**104 179**	**32 210**	**17 116**	**12 072**	**14 301**	**(10 073)**
Net premium to gross premium	39%	41%	15%	15%	-	-	98%	99%	1%	1%
Claims incurred to earned premium	49%	41%	51%	54%	55%	62%	60%	64%	1%	10%
Management and other expenses to net earned premium	64%	51%	218%	212%	81%	93%	30%	28%	85%	67%
Combined ratio	115%	108%	14%	33%	51%	84%	104%	105%	86%	77%
Operating ratio	94%	90%	6%	25%	42%	76%	98%	98%	63%	47%
Return on equity	5%	9%	70%	60%	50%	33%	3%	2%	6%	7%

** Previously known as Alexander Forbes Insurance Company Limited*

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

Accounting year end	Dec-20	Dec-19	Dec-20	Dec-19	Jun-20	Jun-19	Dec-20	Dec-19	Jun-20	Jun-19
Group/Company	**Nedgroup Insurance Company Limited**		**Old Mutual Insure Limited**		**OUTsurance Insurance Company Limited**		**Professional Provident Society Short-Term Insurance Company Limited**		**Renasa Insurance Company Limited**	
Gross premiums written	1 103 617	1 180 062	10 644 000	10 660 000	8 856 321	8 380 352	219 329	203 073	2 208 629	2 044 864
Net premiums written	1 030 777	1 092 816	8 706 000	9 015 000	8 729 504	8 251 617	186 739	185 274	264 965	216 759
Earned premiums	**1 100 643**	**1 130 733**	**8 718 000**	**8 978 000**	**8 723 230**	**8 241 685**	**185 887**	**184 852**	**266 960**	**214 997**
Total net investment income	**75 439**	**118 541**	**(294 000)**	**326 000**	**239 858**	**516 168**	**5 655**	**7 232**	**15 385**	**16 258**
Reinsurance commission revenue	730	3 661	429 000	376 000	-	-	6 779	2 749	616 550	514 697
Other income	30 378	34 490	-	-	-	-	405	1 129	-	-
Total income	**1 207 190**	**1 287 425**	**8 853 000**	**9 680 000**	**8 963 088**	**8 757 853**	**198 726**	**195 962**	**898 895**	**745 952**
Net claims incurred	568 257	598 262	5 591 000	5 788 000	4 295 846	4 104 481	95 941	128 170	214 228	159 823
Acquisition costs	219 851	212 157	1 935 000	1 588 000	36 189	35 737	14 104	13 589	340 766	307 175
Cell owners' transactions	-	-	-	-	-	-	-	-	-	-
Management and other expenses	248 513	249 396	1 839 000	2 060 000	2 291 440	2 105 476	91 647	93 889	334 541	264 392
Total expenses	**1 036 621**	**1 059 815**	**9 365 000**	**9 436 000**	**6 623 475**	**6 245 694**	**201 692**	**235 648**	**889 535**	**731 390**
Net profit/(loss) before taxation	**170 569**	**227 610**	**(512 000)**	**244 000**	**2 339 613**	**2 512 159**	**(2 966)**	**(39 686)**	**9 360**	**14 562**
Taxation	(47 441)	(60 076)	29 000	(94 000)	(671 328)	(704 866)	762	11 097	(3 053)	(4 192)
Net profit/(loss) after taxation	**123 128**	**167 534**	**(483 000)**	**150 000**	**1 668 285**	**1 807 293**	**(2 204)**	**(28 589)**	**6 307**	**10 370**
Other comprehensive income	-	-	(2 000)	8 000	(8 143)	(1 850)	-	-	1 177	22 993
Total comprehensive income for the year	**123 128**	**167 534**	**(485 000)**	**158 000**	**1 660 142**	**1 805 443**	**(2 204)**	**(28 589)**	**7 484**	**33 363**
Transfer to/(from) retained earnings	-	-	88 000	8 000	9 471	(76 700)	-	-	-	-
Other comprehensive income	-	-	2 000	(8 000)	8 143	1 850	-	-	-	-
Dividends	50 000	100 000	-	376 000	2 198 500	1 973 000	-	-	-	-
Change in retained earnings	**73 128**	**67 534**	**(395 000)**	**(218 000)**	**(539 686)**	**(89 007)**	**(2 204)**	**(28 589)**	**7 484**	**33 363**
Net premium to gross premium	93%	93%	82%	85%	99%	98%	85%	91%	12%	11%
Claims incurred to earned premium	52%	53%	64%	64%	49%	50%	52%	69%	80%	74%
Management and other expenses to net earned premium	23%	22%	21%	23%	26%	26%	49%	51%	125%	123%
Combined ratio	94%	93%	103%	101%	76%	76%	105%	126%	102%	101%
Operating ratio	87%	83%	106%	97%	73%	70%	102%	122%	96%	93%
Return on equity	13%	20%	(14%)	4%	52%	48%	(1%)	(18%)	2%	4%

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

Accounting year end	Mar-20	Mar-19	Dec-20	Dec-19	Mar-20	Mar-19	Dec-20	Dec-19	Six months ended Mar-20	Year ended Sep-19
Group/Company	**Safire Insurance Company Limited**		**Santam Limited**		**Sasria SOC Limited**		**Standard Insurance Limited**		**Unitrans Insurance Limited**	
Gross premiums written	498 849	469 399	29 976 000	28 431 000	2 416 914	2 168 955	2 923 713	2 758 516	68 198	270 355
Net premiums written	335 175	315 449	23 404 000	22 591 000	2 234 503	1 983 090	2 801 742	2 640 257	65 504	149 564
Earned premiums	**335 729**	**314 243**	**23 168 000**	**22 288 000**	**2 184 312**	**1 986 189**	**2 776 159**	**2 614 128**	**66 690**	**148 454**
Total net investment income	**11 615**	**28 767**	**603 000**	**1 433 000**	**256 556**	**271 059**	**155 266**	**179 834**	**(1 574)**	**39 629**
Reinsurance commission revenue	43 489	39 796	1 576 000	1 435 000	45 212	38 277	7 147	6 500	1 286	3 645
Other income	58 771	50 447	79 000	56 000	616	191	-	-	2 890	5 031
Total income	**449 604**	**433 253**	**25 426 000**	**25 212 000**	**2 486 696**	**2 295 716**	**2 938 572**	**2 800 462**	**69 292**	**196 759**
Net claims incurred	178 534	192 314	15 953 000	13 860 000	991 207	1 578 424	1 218 412	1 306 843	14 962	62 153
Acquisition costs	107 607	99 478	5 622 000	5 164 000	347 301	319 814	530 638	478 726	19 866	38 557
Cell owners' transactions	11 551	(1 122)	-	-	-	-	-	-	-	-
Management and other expenses	105 604	100 684	3 502 000	3 666 000	547 492	469 996	471 803	353 450	8 025	12 665
Total expenses	**403 296**	**391 354**	**25 077 000**	**22 690 000**	**1 886 000**	**2 368 234**	**2 220 853**	**2 139 019**	**42 853**	**113 375**
Net profit/(loss) before taxation	**46 308**	**41 899**	**349 000**	**2 522 000**	**600 696**	**(72 518)**	**717 719**	**661 443**	**26 439**	**83 384**
Taxation	(12 646)	(10 925)	(110 000)	(651 000)	(267 893)	71 135	(191 881)	(197 699)	(9 819)	(23 646)
Net profit/(loss) after taxation	**33 662**	**30 974**	**239 000**	**1 871 000**	**332 803**	**(1 383)**	**525 838**	**463 744**	**16 620**	**59 738**
Other comprehensive income	(88)	785	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**33 574**	**31 759**	**239 000**	**1 871 000**	**332 803**	**(1 383)**	**525 838**	**463 744**	**16 620**	**59 738**
Transfer to/(from) retained earnings	3 467	(1 268)	31 000	19 000	-	529 709	-	-	-	-
Other comprehensive income	88	(785)	-	-	-	-	-	-	-	-
Dividends	11 033	9 201	827 000	1 217 000	-	-	250 000	200 000	-	125 000
Change in retained earnings	**19 162**	**23 041**	**(619 000)**	**635 000**	**332 803**	**528 326**	**275 838**	**263 744**	**16 620**	**(65 262)**
Net premium to gross premium	67%	67%	78%	79%	92%	91%	96%	96%	96%	55%
Claims incurred to earned premium	53%	61%	69%	62%	45%	79%	44%	50%	22%	42%
Management and other expenses to net earned premium	31%	32%	15%	16%	25%	24%	17%	14%	12%	9%
Combined ratio	104%	112%	101%	95%	84%	117%	80%	82%	62%	74%
Operating ratio	100%	103%	99%	89%	73%	104%	74%	75%	65%	47%
Return on equity	14%	14%	3%	22%	5%	(0%)	24%	25%	4%	16%

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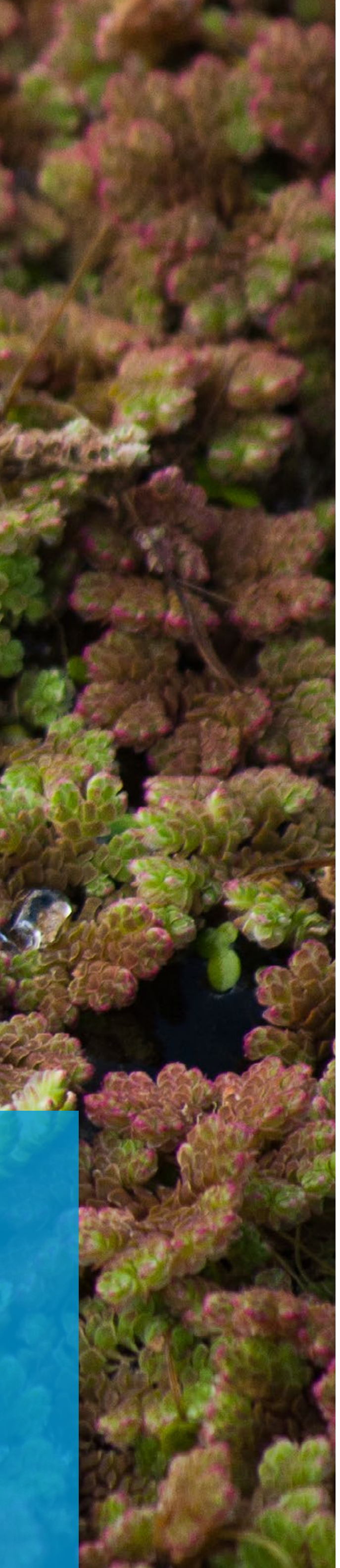


Reinsurance industry results

We are pleased to present and provide our observations on the financial results of the South African reinsurance industry for the 2020 financial year.

The results of the reinsurance industry need to be reflected on against the backdrop of the underlying South African non-life insurance and life insurance industry results as set out in this publication. In our 2020 survey we reported that 2019 was the year that reflected the lowest economic growth in more than ten years. Unsurprisingly, the impact of COVID-19 on the economic environment was expected to be detrimental, with 7% negative economic growth in 2020.

Both the life and non-life insurance industries reported premium growth rates of between 4% and 5% respectively over the course of 2020, a commendable feat in light of the cascading impacts of COVID-19 on the ability of insurers to make sales through traditional face-to-face mechanisms, like branch networks, and the various premium relief measures offered by many insurers over the period, which included premium holidays, leniencies on missed debit orders and premium discounts.

Conversely, the growth in premium did not translate into growth in profits whereby the life industry went from a profit of R22.1bn experienced in 2019 to a loss of R2.6bn in 2020. For the non-life industry profits after taxation decreased by 28% from R8.3 billion in 2019 to R6 billion in 2020. Profits were adversely affected by poorer investment performance and worsening loss ratios due to excess death claims relevant to life insurers and business interruption claims for non-life insurers. However, for non-life insurers this was partly offset by a claims environment characterised by lower levels of natural catastrophe events and lower claims frequencies experienced over several classes of business following the impact of the COVID-19 lockdown.

Financial indicators

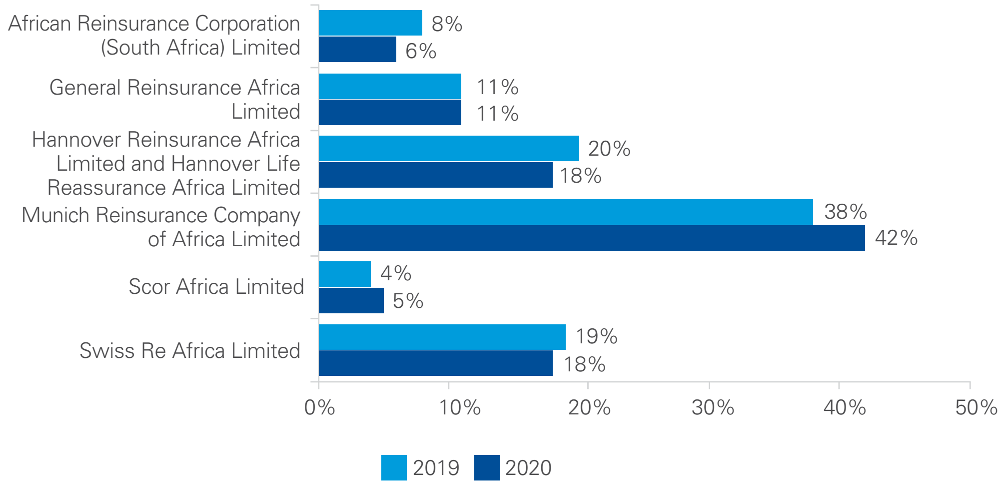
Our performance analysis is based on locally registered professional reinsurers participating in this survey; reflecting approximately 95% of the reinsurance market share in terms of gross written premium (GWP).

Growth

Growth in GWP of 8% (2019: 14%) showed a downward trend, reflective of the sustained repressed local and global economic growth. The results are also reflective of the fact that many insurers provided their policyholders with premium discounts or premium holidays to manage lapse experience and policy cancellations mainly during the level 5 lockdown period. Investment income growth remained respectable at 12%, albeit not at the same levels experienced in 2019 at 23%; again because of the impact of the COVID-19 pandemic.

The premium growth rate is still commendable in that it has exceeded the growth of between 4% and 5% experienced by life and non-life insurers respectively. This growth is likely attributable to the hardening of premium rates that continued into 2020 from 2019 due to the anticipation of increased losses arising 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.

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



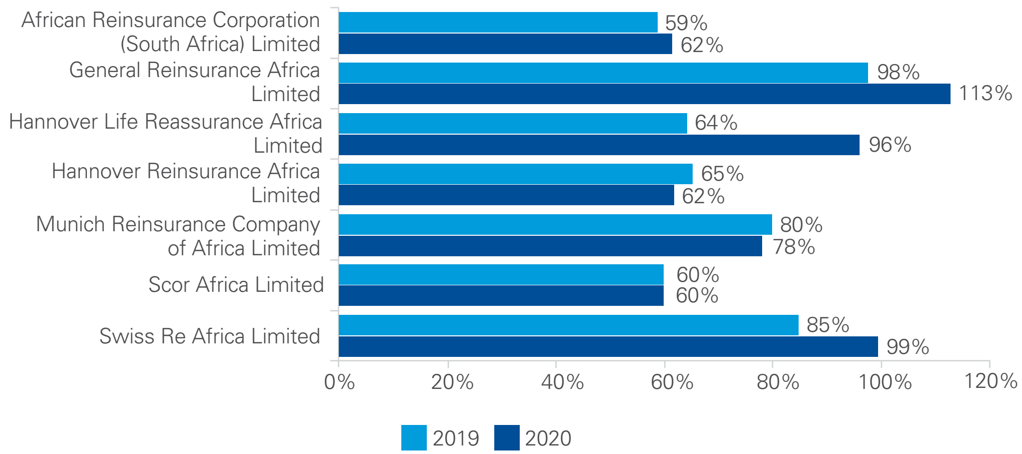
Munich Re and Hannover Re continue to dominate the local life and non-life reinsurance industries. Their combined market share accounts for 60% (2019: 58%) measured by GWP volumes. The market share distribution across reinsurers continues to remain relatively consistent moving from 2019 and 2020, with only marginal movements noted across industry players.

Other key performance indicators based on the results of the seven reinsurers participating in the 2020 KPMG survey are as follows:

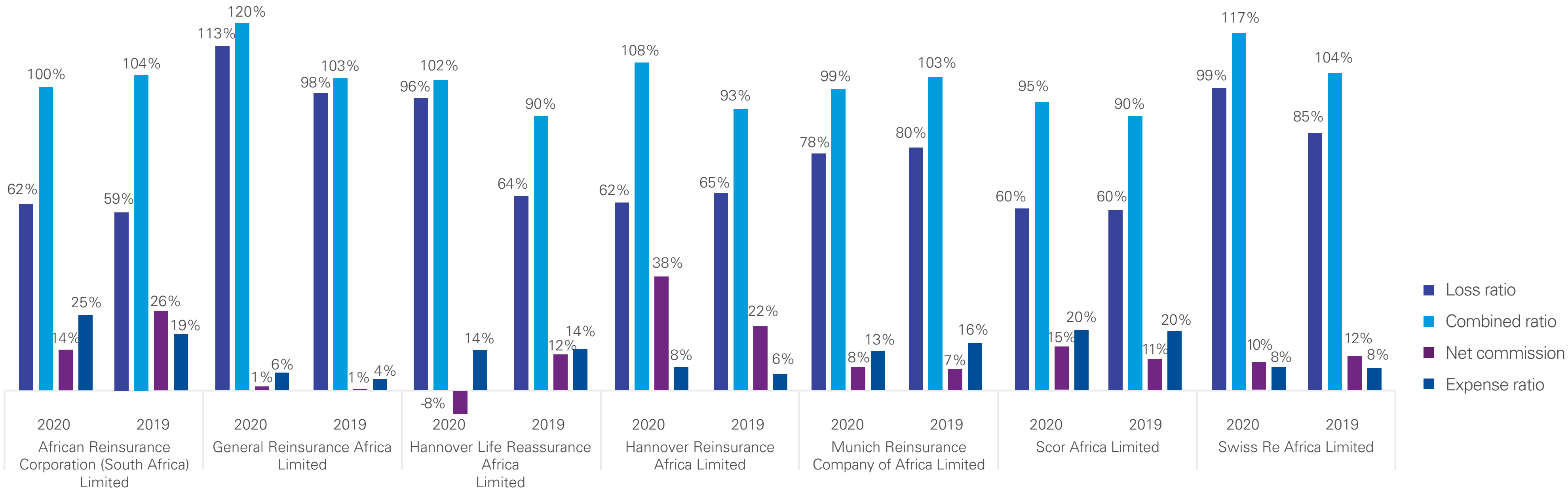
Performance indicator	2020	2019
Management and other expenses to earned premium	11%	11%
Policyholder benefits and entitlements to earned premium	90%	80%
Net commission to earned premium	8%	10%
Underwriting loss	R1 404 million	R156 million

The profit/loss performance of life and non-life insurers is reflective in the results of reinsurers where, for most reinsurers, profits deteriorated, profits turned into losses or losses further deteriorated. African Re's underwriting result improved from an underwriting loss in 2019 to an underwriting profit in 2020. Hannover Re and Hannover Life's underwriting result deteriorated from an underwriting profit to an underwriting loss in 2020, while Munich Re's underwriting result improved from an underwriting loss in 2019 to an underwriting profit in 2020. Scor Africa was able to continue to generate an underwriting profit into 2020, albeit lower than that in 2019, however Swiss Re generated sustained and higher underwriting losses from 2019 into 2020.

The graph included below illustrates the loss ratios across reinsurers which is a direct reflection of the performance of the life and non-life insurance industries. The movement in loss ratios from 2019 to 2020 is a mixed bag of performance across reinsurers with some reinsurers showing improved loss ratio results and other reinsurers showing declining loss ratios. The overall loss ratio for reinsurers participating in this survey declined from 80% in 2019 to 90% in 2020. The loss ratio performance of the industry is reflective of the lower occurrence of weather-related catastrophe events and lower claims frequencies experienced over several classes of business following the impact of the COVID-19 lockdown, offset by claims experience related to business interruption losses and increasing mortality experience from the COVID-19 pandemic.



Underwriting performance per reinsurer



African Re

African Re's GWP and net earned premium decreased by 18% and 20% respectively from 2019 to 2020, one of two reinsurers to have experienced a decline in these line items. The primary reason for the decrease is due to deliberate and strategic initiatives implemented by the reinsurer as part of a three-year turnaround strategy. African Re's loss ratio deteriorated marginally from 59% reported in 2019 to 62% reported in 2020, largely because of the downstream impact of the implementation of the reinsurer's strategic initiatives. The net commission ratio declined by 13% from 26% in 2019 to 14% in 2020, influenced by the performance of solvency relief initiatives put into place. The expense ratio of 25% (2019: 19%) also deteriorated, due to inflation, planned investment in additional human and material resources to support growth, improve client service and regulatory compliance obligations. The decrease in the net commission ratio offset by increases in the expense and loss ratios contributed to the overall improvement in the combined ratio of 100% (2019: 104%).

General Re

GWP grew by 7% over the year however, General Re experienced the highest combined ratio and highest deterioration in that ratio from 103% in 2019 to 120% in 2020. The primary driver of this performance is attributable to the 15% increase in loss ratio from 98% in 2019 to 113% in 2020.

Hannover Re and Hannover Life

Hannover Re and Hannover Life are the only two reinsurers whose underwriting experience declined from profits experienced in 2019 to losses experienced in 2020.

Hannover Re

GWP decreased by 14% while net earned premiums decreased by 31%. The loss ratio improved marginally from 65% in 2019 to 62% in 2020. This may be reflective of the lower occurrence of weather-related catastrophe events offset by claims experience related to business interruption losses from the COVID-19 pandemic. However, the 16% increase in the commission ratio from 22% in 2019 to 38% in 2020 contributes primarily to the 108% (2019: 93%) combined ratio.

Hannover Life

Hannover Life experienced GWP and earned premium growth of 9% and 10% respectively. The increase in the combined ratio by 12% (90% in 2019 to 102% in 2020) is driven by the 32% increase in loss ratio, due to claims experience related to increasing mortality experience from the COVID-19 pandemic.

Munich Re

GWP increased by 20% (2019: 9%), representing the highest premium increase across all reinsurers for 2020. Munich Re experienced an underwriting profit for 2020, after two years of underwriting losses experienced in 2019 and 2018, largely driven by improvements in the loss and expense ratios and earned premiums. Similar to Hannover Re, the improved loss ratio performance may be reflective of the lower occurrence of weather-related catastrophe events offset by claims experience related to business interruption losses and increased mortality experience from the COVID-19 pandemic.

Swiss Re

Swiss Re experienced marginal growth in GWP and earned premium at 5% and 4% respectively. The increase in the combined ratio from 104% in 2019 to 117% in 2020 can be largely attributable to the increase in loss ratio from 85% in 2019 to 99% in 2020.

Investment performance

Reinsurers achieved an average return on investments (including cash and cash equivalents) of 6.3% (2019: 6.4%) compared to an average prime rate of 7.9%[1] and the average 10-year government bond yield of 9.4%[2].

Swiss Re was the top performer in terms of investment returns in 2020 with 7.8% (2019: 4.2%). Munich Re, Hannover Life, Hannover Re and General Re followed closely with 7.1% (2019: 7.8%), 6.8% (2019: 7.2%), 6.7% (2019: 7.6%) and 6.3% (2019: 6.8%) respectively. All other reinsurers surveyed earned an average investment return of 3.9% (2019: 4.5%). Investment income in total increased by 12% (2019: 23%) year-on-year. Investment performance was reflective of the weaker and volatile investment market performance in South Africa and globally over the course of 2020 because of the effect of the COVID-19 pandemic on local and global economies.

What the future holds for reinsurance operations

According to S&P [3] and Fitch[4], the outlook for the reinsurance industry is positive with an improvement expected for 2022. It is expected that demand for reinsurance will increase as primary insurers plan against increased levels of uncertainty emanating from their experience from the pandemic. Closer to home, we can expect similar initiatives from South African insurers as it relates to the experience and uncertainty around increased incidences of civil unrest.

It is also expected that primary insurers will be able to afford increased levels of reinsurance as economic circumstances improve, coupled with lower levels of pandemic-related claims for the following reasons:

- As increased levels of populations are vaccinated, the risk of excess mortality claims for the life insurance industry reduces.
- As part of the annual renewal process, the exclusion of infectious disease in contingency and business-interruption contracts, will to a large extent eliminate the risk of new pandemic-related claims from these lines of business.
- Business-interruption losses reported in 2021 have been within expectations factored into claims provisions set aside in 2020.

As a result, we can expect a hardening in reinsurance rates resulting in higher premiums earned by reinsurers which will contribute to improved financial performance. However, as market economies struggle to regain momentum, is it expected that investment income will erode increased underwriting income. Coupled with the uncertainty around increasing natural catastrophe claims due to climate change, this may further contribute to reinsurers hardening rates.

The support provided by the reinsurance industry over the course of 2020 was unwavering, during what has been one of the most uncertain and devastating periods that humanity has experienced in recent history. The contribution of this industry to the stability and financial soundness of the South African economy once again demonstrates the capital strength, resilience and ability of the industry to adapt, innovate and show up when it matters, with the purpose of serving the public interest.

[1] https://www.absa.co.za/indices/prime-rate/

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

[3] https://www.spglobal.com/marketintelligence/en/news-insights/blog/a-prestigious-global-business-school-gains-a-competitive-edge

[4] https://www.fitchratings.com/research/insurance/global-reinsurance-sector-outlook-improving-for-2022-07-09-2021

REINSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-20	Dec-19	Dec-20	Dec-19	Dec-20	Dec-19	Dec-20	Dec-19
Group/Company	**African Reinsurance Corporation (South Africa) Limited**		**General Reinsurance Africa Limited**		**Hannover Life Reassurance Africa Limited**		**Hannover Reinsurance Africa Limited**	
Share capital and share premium	80 300	80 300	4 000	4 000	162 500	162 500	72 778	72 778
Retained earnings/(deficit)	768 993	684 309	1 975 881	2 141 477	843 220	707 655	630 332	591 293
Reserves	51 702	51 702	217 840	28 778	21 567	(5 751)	434 375	366 834
Total shareholders' funds	**900 995**	**816 311**	**2 197 721**	**2 174 255**	**1 027 287**	**864 404**	**1 137 485**	**1 030 905**
Gross outstanding claims	1 401 559	1 410 387	3 417 876	2 431 804	426 418	416 171	2 559 184	1 841 950
Gross unearned premium provision	146 860	160 351	406 711	301 192	14 780	13 480	469 028	494 214
Provision for profit commission	-	-	-	-	129 918	363 103	359 716	440 953
Policy holder liabilities under insurance contracts	-	-	2 900 195	2 604 277	4 585 639	3 933 943	-	-
Liabilities in respect of investment contracts	-	-	-	-	-	-	-	-
Deferred reinsurance commission revenue	35 055	38 760	-	-	20 873	25 066	122 266	115 437
Deferred tax liabilities / (assets)	1 802	2 502	(449)	19 031	5 416	(10 309)	(10 748)	(20 452)
Funds withheld	1 728 495	1 553 433	1 076	709	3 874	9 002	339 257	406 881
Other liabilities	179 030	127 125	1 639 312	641 427	589 487	726 383	547 557	514 161
Total liabilities	**3 492 801**	**3 292 558**	**8 364 721**	**5 998 440**	**5 776 405**	**5 476 839**	**4 386 260**	**3 793 143**
Total investments	**3 036 077**	**2 441 914**	**7 141 818**	**6 384 507**	**2 495 728**	**2 619 845**	**1 686 381**	**1 539 981**
Funds withheld	28 668	19 585	-	-	110 490	122 036	411 182	505 059
PPE, intangible assets and ROU assets	943	2 120	11 013	14 133	-	-	15 847	26 937
Retrocessionaires' share of outstanding claims	1 080 200	1 061 681	1 404 562	363 035	310 763	205 250	1 772 115	1 040 508
Retrocessionaires' share of unearned premium provision	100 642	111 340	165 364	78 115	-	-	400 332	386 090
Retrocessionaires' share of profit commissions	-	-	-	-	485	350	349 825	388 026
Retrocessionaires' share of liabilities under life insurance contracts	-	-	-	-	2 731 716	2 374 470	-	-
Deferred aquisition cost	39 422	44 036	-	-	179 660	136 582	144 305	141 799
Cash and cash equivalents	9 269	12 861	455 079	318 028	204 885	244 497	150 962	170 504
Other assets	98 575	415 332	1 384 606	1 014 877	769 965	638 213	592 795	625 144
Total assets	**4 393 796**	**4 108 869**	**10 562 442**	**8 172 695**	**6 803 692**	**6 341 243**	**5 523 744**	**4 824 048**
Return on equity	9%	10%	(8%)	12%	13%	28%	3%	20%
Total assets / Total liabilities	126%	125%	126%	136%	118%	116%	126%	127%
Change in shareholders' funds	10%		1%		19%		10%	

REINSURERS | Statement of Financial Position | R'000

Accounting year end	Dec-20	Dec-19	Dec-20	Dec-19	Dec-20	Dec-19
Group/Company	**Munich Reinsurance Company of Africa Limited**		**Scor Africa Limited**		**Swiss Re Africa Limited**	
Share capital and share premium	544 915	194 915	344 700	344 700	2 000	2 000
Retained earnings/(deficit)	2 951 956	2 916 067	138 313	70 124	484 676	726 386
Reserves	(60 190)	31 716	23 889	5 096	615	615
Total shareholders' funds	**3 436 681**	**3 142 698**	**506 902**	**419 920**	**487 291**	**729 001**
Gross outstanding claims	8 054 490	7 448 010	1 722 805	1 036 116	5 287 212	3 560 538
Gross unearned premium provision	2 444 843	2 201 810	231 059	286 565	-	-
Provision for profit commission	74 509	134 557	-	-	80 056	63 271
Policy holder liabilities under insurance contracts	3 400 090	2 494 615	583 740	270 771	5 811 910	4 821 909
Liabilities in respect of investment contracts	-	-	-	-	-	-
Deferred reinsurance commission revenue	634 304	461 028	70 651	73 243	169 714	153 983
Deferred tax liabilities / (assets)	251 191	197 862	(18 898)	(27 242)	(81 833)	(11 757)
Funds withheld	25 924	22 942	902 372	648 223	-	-
Other liabilities	2 814 480	3 110 698	950 452	1 232 803	1 288 079	1 021 885
Total liabilities	**17 699 831**	**16 071 522**	**4 442 181**	**3 520 479**	**12 555 138**	**9 609 829**
Total investments	**5 874 700**	**5 186 314**	**998 928**	**1 294 495**	**4 910 568**	**4 259 608**
Funds withheld	205 872	13 002	-	-	-	-
PPE, intangible assets and ROU assets	2 562 722	2 197 646	8 544	11 754	13 603	18 458
Retrocessionaires' share of outstanding claims	5 231 204	4 668 306	1 734 911	901 221	2 110 491	808 969
Retrocessionaires' share of unearned premium provision	2 200 757	1 933 604	163 829	184 515	634 223	560 887
Retrocessionaires' share of profit commissions	68 260	108 124	-	-	-	-
Retrocessionaires' share of liabilities under life insurance contracts	473 481	146	434 973	166 923	1 755 742	1 552 106
Deferred aquisition cost	704 300	504 944	166 412	141 695	306 419	248 037
Cash and cash equivalents	595 751	815 041	730 410	507 824	221 174	191 139
Other assets	3 219 465	3 787 093	711 076	731 972	3 090 209	2 699 626
Total assets	**21 136 512**	**19 214 220**	**4 949 083**	**3 940 399**	**13 042 429**	**10 338 830**
Return on equity	11%	8%	13%	19%	(50%)	(1%)
Total assets / Total liabilities	119%	120%	111%	112%	104%	108%
Change in shareholders' funds	9%		21%		(33%)	

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REINSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-20	Dec-19	Dec-20	Dec-19	Dec-20	Dec-19	Dec-20	Dec-19
Group/Company	**African Reinsurance Corporation (South Africa) Limited**		**General Reinsurance Africa Limited**		**Hannover Life Reassurance Africa Limited**		**Hannover Reinsurance Africa Limited**	
Gross premiums written	2 120 721	2 580 722	3 735 366	3 502 606	3 329 334	3 054 358	2 855 940	3 333 126
Net premiums written	586 541	717 652	3 092 745	3 117 623	1 420 817	1 293 093	1 104 395	1 523 225
Earned premiums	**589 334**	**732 660**	**3 074 639**	**3 093 234**	**1 418 288**	**1 291 574**	**1 143 870**	**1 659 313**
Total net investment income	114 618	134 820	479 904	453 566	183 768	207 493	123 823	130 648
Reinsurance commission revenue	555 246	826 067	184 045	94 659	120 890	94 781	498 833	687 471
Other income	-	350	9 067	25 890	36 198	533	11 734	8 557
Total income	**1 259 198**	**1 693 897**	**3 747 655**	**3 667 349**	**1 759 144**	**1 594 381**	**1 778 260**	**2 485 990**
Policyholder benefits and entitlements	362 447	429 997	3 471 537	3 022 072	1 362 815	829 847	706 334	1 081 933
Acquisition expense	635 317	1 018 245	226 543	114 296	13 519	252 804	930 755	1 045 829
Management and other expenses	145 545	138 755	189 562	130 948	193 533	179 516	95 150	96 538
Total expenses	**1 143 309**	**1 586 997**	**3 887 642**	**3 267 316**	**1 569 867**	**1 262 167**	**1 732 239**	**2 224 299**
Net profit/(loss) before tax	**115 889**	**106 900**	**-139 987**	**400 033**	**189 277**	**332 214**	**46 022**	**261 691**
Tax	(31 192)	(27 501)	(25 609)	(145 547)	(53 712)	(94 353)	(6 982)	(58 153)
Net profit/(loss) after tax	**84 697**	**79 399**	**(165 596)**	**254 486**	**135 565**	**237 861**	**39 039**	**203 537**
Other comprehensive income	-	-	189 062	44 247	27 318	10 791	67 541	54 378
Total comprehensive income for the year	**84 697**	**79 399**	**23 466**	**298 733**	**162 883**	**248 652**	**106 580**	**257 915**
Minority shareholders' interest	-	-	-	-	-	-	-	-
Transfer to/(from) retained earnings	-	-	(189 062)	(44 247)	(27 318)	(10 791)	(67 541)	(54 378)
Dividends	-	-	-	-	-	-	-	100 000
Change in retained earnings	**84 697**	**79 399**	**(165 596)**	**254 486**	**135 565**	**237 861**	**39 039**	**103 537**
Net premium to gross premium	28%	28%	83%	89%	43%	42%	39%	46%
Policyholder benefits and entitlements to earned premium	62%	59%	113%	98%	96%	64%	62%	65%
Management and other expenses to earned premium	25%	19%	6%	4%	14%	14%	8%	6%
Comments	Company		Composite company		Company		Company	

REINSURERS | Statement of Comprehensive Income | R'000

Accounting year end	Dec-20	Dec-19	Dec-20	Dec-19	Dec-20	Dec-19
Group/Company	**Munich Reinsurance Company of Africa Limited**		**Scor Africa Limited**		**Swiss Re Africa Limited**	
Gross premiums written	14 364 946	11 990 504	1 485 419	1 284 761	6 116 593	5 806 979
Net premiums written	5 119 954	4 992 065	479 524	428 931	4 360 851	4 254 873
Earned premiums	**5 141 185**	**4 978 315**	**514 853**	**430 466**	**4 195 834**	**4 017 519**
Total net investment income	460 669	469 609	69 224	62 414	401 348	185 695
Reinsurance commission revenue	3 017 544	2 173 690	167 357	191 121	399 096	371 343
Other income	12 845	-	-	2 862	-	-
Total income	**8 632 243**	**7 621 614**	**751 434**	**686 863**	**4 996 278**	**4 574 557**
Policyholder benefits and entitlements	4 015 827	3 976 642	308 403	256 816	4 171 278	3 408 555
Acquisition expense	3 427 058	2 541 467	243 631	237 637	815 854	846 605
Management and other expenses	675 408	796 370	103 561	85 694	330 915	307 595
Total expenses	**8 118 293**	**7 314 479**	**655 595**	**580 147**	**5 318 047**	**4 562 755**
Net profit/(loss) before tax	**513 950**	**307 135**	**95 839**	**106 716**	**-321 769**	**11 802**
Tax	(128 061)	(57 904)	(27 649)	(27 168)	76 328	(19 071)
Net profit/(loss) after tax	**385 889**	**249 231**	**68 190**	**79 548**	**(245 441)**	**(7 269)**
Other comprehensive income	(91 906)	(91 361)	17 248	3 233	3 731	2 043
Total comprehensive income for the year	**293 983**	**157 870**	**85 438**	**82 781**	**(241 710)**	**(5 226)**
Minority shareholders' interest	-	-	-	-	-	-
Transfer to/(from) retained earnings	91 906	91 361	(17 248)	(3 233)	-	-
Dividends	350 000	200 000	-	-	-	-
Change in retained earnings	**35 889**	**49 231**	**68 190**	**79 548**	**(241 710)**	**(5 226)**
Net premium to gross premium	36%	42%	32%	33%	71%	73%
Policyholder benefits and entitlements to earned premium	78%	80%	60%	60%	99%	85%
Management and other expenses to earned premium	13%	16%	20%	20%	8%	8%
Comments	Composite company		Composite company		Composite company	

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