



Africa Insurance Outlook 2022

2021 financial results of listed insurers - SA (Including
2021 short-term insurance industry results)

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With the 31 December reporting season for South Africa's large, listed insurance groups complete, we have an opportunity to take stock of the financial performance of the industry. At first glance it is easy to see an improvement in the financial results. For almost all metrics, whether earnings, headline earnings, underwriting margins, value of new business and embedded value, South African insurers reported improved results from the previous year. Shareholders should now be able to breathe easier looking forward to better dividend declarations and capital growth.

Presentations to investment analysts on last year's financial results were cautiously optimistic on both the industry's performance and what the future might hold. While life insurers underlined the adverse impact of excess deaths from the continuing COVID-19 pandemic (notably wave three), they were also able to show improved new business volumes, margins and asset-based fees. While experiencing headwinds to premium growth, short-term insurers were able to report improved underwriting margins that fit well within their target ranges.

The following will highlight key themes reported by the five largest listed insurance groups in South Africa. We refer to their International Financial Reporting Standards (IFRS) and embedded value (EV) results that collectively represent more than 80% of the local industry's premiums and assets. We analysed the results in aggregate to form an industry view, rather than comment on the results of the individual insurance groups.



Three of the five largest insurance groups have 31 December year-ends, and two of the groups have 30 June year-ends. For the two groups that have 30 June year-ends we used their 2021 interim results and historic announcements to calculate pro forma results for a 12-month period ending 31 December 2021. Where the article refers to "total" or "aggregated" it is the sum of the five insurance groups.

The South African equities market recovered as corporate profits increased with the relaxation of lockdown restrictions. The JSE SWIX was up 17% at the end of the year, positively impacting the average asset base of insurers. Although most foreign assets of the insurers also yielded good returns these were somewhat offset by the relative strength of the Rand in 2021. Overall, the total assets increased by 12.1% (2020: 3.8%) which led to higher asset-based fees earned by insurers on policyholder funds and other asset-backed products.

Total liabilities increased by 12.9% which is also mostly a function of the higher asset base. Another notable contributor is the strengthening short-term COVID-19 provisions.

The aggregated equity for the insurance groups increased by R7.6 billion, or 3.1%. The increase equity following aggregated profit after tax of R23.9 billion (2020: loss: R4.7 billion) reported by the insurance groups less the ordinary dividends paid of R21.1 billion (2020: R12.7 billion). The 2021 dividend declarations follow on from the improved profitability and balancing rewarding shareholders while keeping longer-term capital management objectives in mind. An outlier in the 2021 dividend payments is Old Mutual which, in addition to its normal dividend payments, distributed a portion of its stake in Nedbank, returning R10.7 billion to shareholders. An aggregate return on equity calculation for the current year shows 9.7% recovering from the negative return reported in the previous year.

Consolidated results of the five large listed insurance groups in South Africa as at and for the 12 months ended 31 December 2021.

As at and for the 12 months ended 31 December 2021

Rand million	Old Mutual			Sanlam			MMH		
	2021	2020	% change	2021	2020 (Restated)	% change	2021	2020 (Restated)	% change
Total assets	1 053 854	940 682	12,0%	1 056 178	942 670	11,9%	590 611	520 716	13,3%
Total liabilities	-988 553	-871 359	13,4%	-973 282	-865 446	12,3%	-568 038	-497 368	14,1%
Equity	65 301	69 323	-5,8%	82 896	77 224	7,3%	22 573	23 348	-3,3%
Profit/(loss) before tax	13 427	-3 272	>100%	17 502	5 207	>100%	3 284	1 890	73,8%
Tax	-5 964	-2 076	>100%	-6 152	-3 805	61,7%	-2 942	-2 202	33,6%
Profit/(loss) after tax	7 463	-5 348	>100%	11 350	1 402	>100%	342	-312	>100%

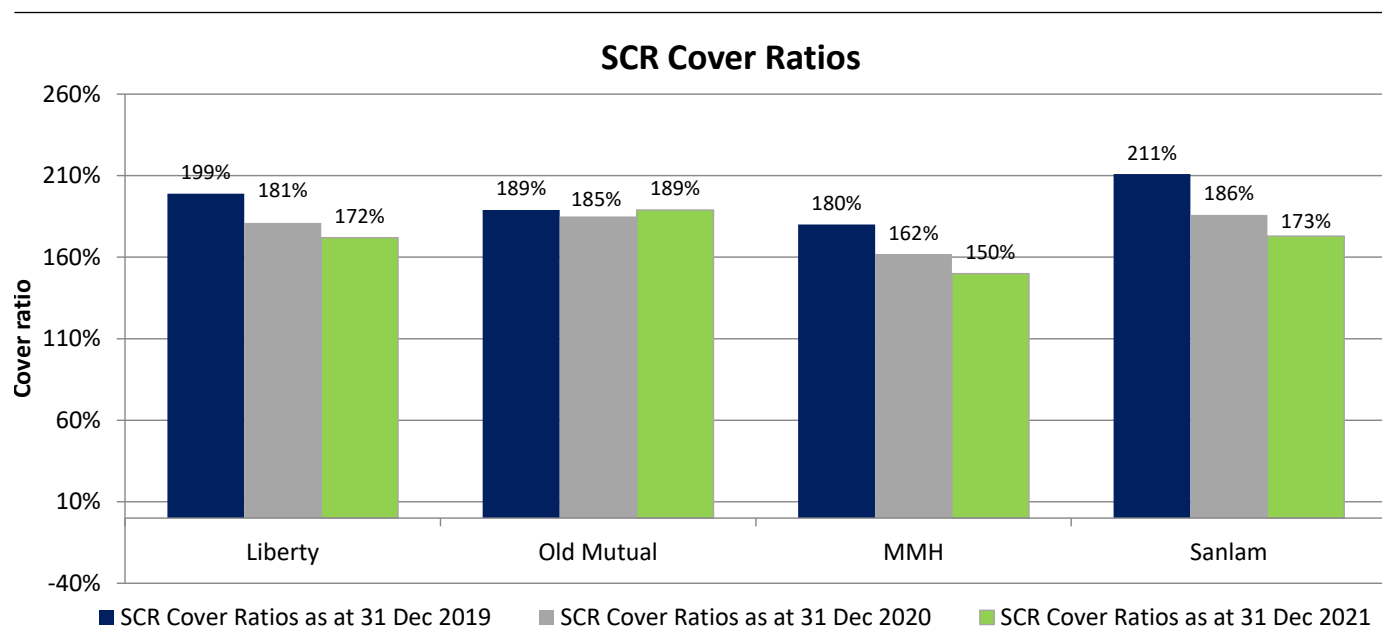
As at and for the 12 months ended 31 December 2021

Rand million	Liberty			Discovery			Total		
	2021	2020	% change	2021	2020	% change	2021	2020	% change
Total assets	510 551	475 598	7,3%	274 390	227 280	20,7%	3 485 584	3 108 565	12,1%
Total liabilities	-482 858	-447 601	7,9%	-222 215	-182 145	22,0%	-3 234 946	-2 865 538	12,9%
Equity	27 693	27 997	-1,1%	52 175	45 135	15,6%	250 638	243 027	3,1%
Profit/(loss) before tax	2 197	-2 219	>100%	6 313	434	>100%	42 723	2 040	>100%
Tax	-2 070	-403	>100%	-1 663	-461	>100%	-18 791	-8 947	>100%
Profit/(loss) after tax	127	-2 622	>100%	4 650	-27	>100%	23 932	-6 907	>100%

Insurance groups continued reporting relatively healthy regulatory Solvency Capital Requirement (SCR) cover ratios, although a general trend of reducing SCR ratios were observed over the past three years.

On an aggregated basis the insurance groups reported profit before tax of R42.3 billion which is a substantial improvement on the R2.0 billion profit reported in 2020 (restated). The financial results include the impact of:

- Improved investment returns on shareholder assets coupled with an increase in asset-based fees on customer assets;
- Healthier new business volumes as adviser productivity improved with increased face-to-face sales coupled with digital strategies becoming more effective. Sanlam, for instance, reported a 14% increase in new business volumes;
- Levels of death claims greater than normal – the Association for Savings and Investment South Africa (ASISA) noted that South African life insurers reported a 53% surge in death claims for the six months between 1 April 2021 and 30 September 2021 when compared to the same period in 2019. The Rand value of these claims increased by 127%. This period covered the third wave of COVID-19 transmissions from early May 2021 to the middle of September 2021;
- Improved persistency for life insurance policies – The ASISA statistics show that 7.4 million risk policies lapsed last year compared to 10.4 million in 2020. While the actual lapse experience in the current year tracked favourably against expectations as policyholders opted to hold onto their insurance policies in uncertain times, insurers have continued to adopt a conservative approach in their assumptions at 31 December 2021 for future terminations;
- Improved short-term insurance underwriting results – most of the conventional short-term insurance subsidiaries in the insurance groups reported only single digit premium growth although their profits showed an upward trend. Despite some large risk events, including the July 2021 civil unrest in KwaZulu-Natal and Gauteng, these subsidiaries recorded healthy underwriting margins well within their target ranges.



For example, Santam reported an underwriting margin for its conventional insurance business of 8.0% (2020: 2.5%); and

- Legal certainty and settlement of Business Interruption (BI) claims – 2021 brought further legal certainty as it relates BI claims reported during the pandemic with court processes ruling on the length of the indemnity to be applied. At the same time short-term insurers continued to make progress in settling BI claims and were, therefore, able to use the data that became available from the settlement process to revisit estimates for BI claims that remain open. Not unexpectedly, the gross liabilities and related reinsurance assets for BI claims reported at 31 December 2021 are substantially lower than the year before.

In response to COVID-19, insurers have set up various short-term provisions to offset the financial impact of the pandemic. With

the emergence of new variants throughout 2021 and low vaccine uptake, South Africa continued to experience elevated excess deaths. According to ASISA, excess deaths experience for assured lives was about 200% higher than the general population. The concentration by geographic locations and sub-populations resulted in many insurers recalibrating their COVID-19 provisions throughout 2021. However, the latest data suggest that Omicron and its subvariants, although more transmissible, are less severe compared to previous variants. This may be a turning point in the pandemic and could translate into reductions in various COVID-19 provisions, but considerations about long-term impact of the pandemic will emerge as topical discussion point.

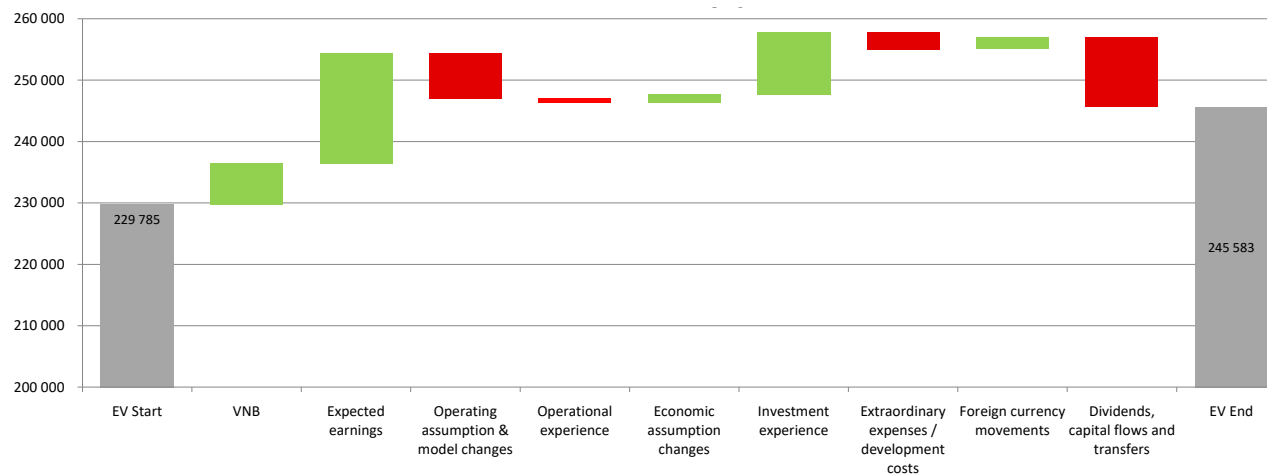
The impact of these COVID-19 assumptions and provisions is also evident in the disclosed Embedded Value (EV) results. 'Operating assumption and model changes' resulted in a significant decrease in EV across insurance groups, mainly driven by the need to strengthen mortality bases and provide for increased future claims due to COVID-19 and other pandemics in the future.

The aggregated EV (excluding Liberty) increased from R229.8 billion to R245.6 billion, or 7.0%. Following Standard Bank's buy-out of Liberty minority shareholders, Liberty has not published EV and VNB results as at 31 December 2021.

Insurance groups reported deteriorating 'operating experience variances' because of COVID-19 related claims in excess of COVID-19 provisions previously set up. This was partly offset by an improved persistency experience, significantly so for some insurance groups. Effective expense management also contributed to positive operating experience variances.

All insurance groups' EVs increased, benefiting from positive investment experience as a result of the recovery in investment markets.

**Aggregated change in EV for the 12 months ending 31 Dec 2021 (excluding Liberty)
R'millions**



Excludes Liberty

The EV results were further bolstered by a strong recovery in the Value of New Business (VNB) across the life insurance industry.

Despite a challenging economic and business environment, the new business volumes and VNB Margins recovered well and, in some instances, exceeded pre-COVID-19 levels. Although Liberty did not publish VNB results, the Standard Bank Annual Integrated Report as at 31 December 2021 stated that Liberty's "New business margin and value of new business improved but remained below pre-pandemic levels."

It was interesting to observe that the insurance groups' mass market product offerings contributed significantly to the increase in new business in terms of increased volumes and higher profit margins. This contrasted with muted or strained new business growth for the more affluent market offering. The trend of increased sales of conventional annuity business as observed in

the previous financial year continued for some insurance groups.

Sanlam, Old Mutual and MMH also reported pleasing new business growth in their portfolios pertaining to the rest of Africa.

If a label was to be placed on the 2021 financial year it would be that of a 'recovery period'. The industry has mostly returned to performance levels similar to those of 2019. While at the start of 2022 the global economic outlook remains uncertain, and the possibility still exists of increased claims through a continuing pandemic and catastrophe-related events the industry deserves much credit for how it was able to restore its operational environments while at the same time applying sound capital management practices. Even though the waters are by no means calm it is clear to see that the industry has reset its course to profitability and growth.

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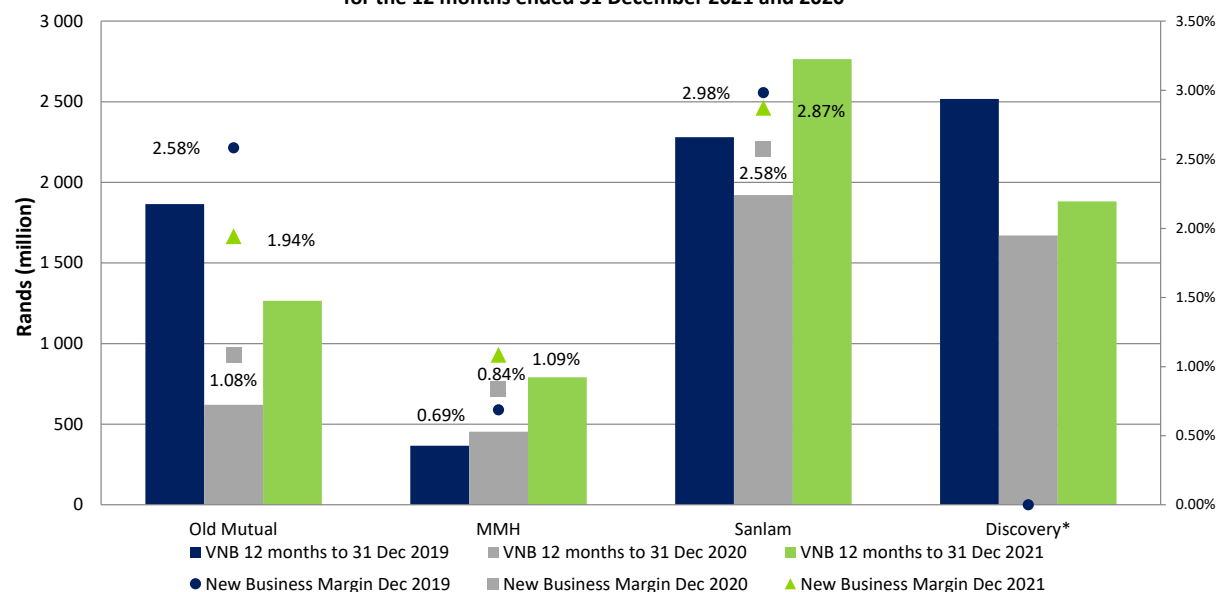
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Value of New Business and VNB Margins
for the 12 months ended 31 December 2021 and 2020



Discovery group VNB margin not disclosed



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