Insurance through challenging times

Insurance industry analysis

Analysis of major South African insurers' results for the year ended 31 December 2015

April 2016

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About this publication

We are pleased to present the fifth edition of PwC's analysis of major insurers' results, covering the year ended 31 December 2015. The results are a reflection of the financial performance of the South African insurance industry in a challenging economic environment.

Insurance groups analysed in this publication

Long-term insurers

- Discovery Holdings Limited (Discovery)
- Liberty Holdings Limited (Liberty)
- MMI Holdings Limited (MMI)
- Old Mutual plc (Old Mutual)
- Sanlam Limited (Sanlam)

Short-term insurers

- Mutual & Federal Limited (M&F)
- OUTsurance Holdings Limited (OUTsurance)
- Santam Limited (Santam)

Due to some differences in reporting periods and changes in presentation and accounting policies, the information is not always comparable across insurers. Areas where there are differences are highlighted in Section 10.

Content

1. *Industry overview* 3

2. *Long-term insurance* 8

3. *Short-term insurance* 19

4. *Investment performance* 24

5. *Capital and solvency* 29

6. *Growth ambitions beyond South African borders* 32

7. *Looking ahead* 35

8. *Navigation tools: PwC thought leadership* 38

9. *Key industry statistics* 42

10. *Basis of information provided* 46

11. *Contacts* 48

1. Industry overview

Long-term insurance

Key indicators – combined

Group IFRS earnings up **18%**

Group return on average equity of **21%**

Group embedded value profits down **16%**

Value of new business remains flat

Margin on new business decreases to **2.7%**

The year 2015 marked the end of 'business as usual' for South African long-term insurers. Global economic growth prospects continued to experience significant challenges. China's slowing growth, declining global commodity prices and the strengthening of the US dollar against emerging market currencies are threatening the growth prospects of economies like South Africa's.

The International Monetary Fund (IMF) noted that sub-Saharan Africa's growth has also started to weaken after over a decade of solid numbers. Declining global commodity prices have already had significant negative impacts on economies such as Nigeria, Angola and Namibia. Nevertheless, the IMF is still predicting a combined growth rate of around 4.5% for sub-Saharan Africa in 2016.

The South African economy continued its decline in 2015 as a result of factors ranging from rising interest rates, severe drought in most parts of the country that started impacting food prices, subdued growth in equity markets and continuing pressure on disposable household incomes. Furthermore, the deterioration of the rand, particularly in December; continuing energy constraints and costs; and the possibility of further downgrades to the country's sovereign ratings are negatively impacting investor confidence in South Africa.

The JSE all-share index closed off slightly better at the end of December after significant volatility during the year. The mining industry sector was negatively impacted by falling commodity prices. The telecoms sector also showed a decline, compounded by issues such as MTN's $3.9 billion fine in Nigeria.

In addition, the all-bond index yield increased following successive interest rate hikes of 25 basis points each, resulting in market value losses on fixed bond instruments.

All insurers' embedded value has been hit hard by the rise in interest rates, which negatively impacted their risk discount rate and their cost of capital. Those insurers with globally diversified portfolios enjoyed some relief from exchange gains as the rand depreciated. Insurers' IFRS earnings and return on equity remained stable from 2014 to 2015.

Despite the pressures on disposal household incomes, insurers had an overall positive experience variance on lapses. Some insurers strengthened their lapse assumptions, though, in view of the deteriorating economic outlook.

The regulatory environment continues to disrupt the 'business as usual' approach in the industry. The Solvency Assessment and Management (SAM) implementation date has been postponed to 1 January 2017. Insurers have begun their journey to change their capital structures to align with SAM principles. Where surpluses might result, some insurers have set aside the additional capital for strategic acquisitions. Some insurers have also launched a number of new investment products in response to the tax-free savings thresholds introduced in 2015.

Insurers continue to build capacity to deal with other significant evolving regulations in the South African market. These include binder and outsourcing arrangements; SAM, whose comprehensive parallel runs with existing requirements are currently underway; treating customers fairly (TCF); and the retail distribution review (RDR). In addition, long-term insurers have to contend with changes to the manner in which business will be taxed as from 1 January 2016.

Short-term insurance

Key indicators – combined

Group IFRS earnings up **32%** (excluding M&F)

Group return on average equity up **49%** (excluding M&F)

Group written premiums up **12%**

Claims ratio improvement to **59%**

Underwriting margin increase to **10.8%**

International solvency margin increase to **42%** (excluding M&F)

Insurance companies showed significant improvements in 2015 in their IFRS earnings and key ratios, continuing the trend from 2014. The results as analysed in this document continue to show that these companies are moving in the right direction. They are actively managing to reduce their claims handling costs as well as to improve the quality of their policyholder books.

There were again no major catastrophic events during the year, except for the severe drought which affected the majority of South Africa's farmers. This line of business' gross underwritten premiums decreased significantly due to the risks not attaching as farmers did not plant crops. This resulted in premiums being refunded and fewer claims being incurred on this line of business during the current year.

With the much discussed possible downgrading of South Africa's credit rating to 'below investment grade' and the ever-increasing inflationary pressure in the economy resulting in increasing living costs, insurance can be considered a luxury good. An estimated 65% of the country's vehicles and household items are not insured, and consumers are not expected to purchase new assets as a result of economic difficulties. This will affect the growth in gross written premiums going forward.

The effect of this is that it is likely that policyholders will rethink taking out insurance and rather spend their disposable income on other items they deem necessary. Alternatively, they will seek more affordable insurance solutions, which is likely to have an effect on the larger insurers within the industry if they are not able to make their offerings more efficient. This is due to the fact that they have been actively increasing their premiums in order to appropriately price or rid their books of high-risk policies.

In addition to the above, some of the smaller insurers, such as ABSA and Zurich, have been rationalising their businesses. This has had the effect of increasing policyholder churn, which would have contributed to the growth in combined GWP.

It is thus of the utmost importance that insurers continue to place emphasis on their pricing models to ensure that they remain competitive and do not lose policyholders who are considered to be good business due to the premiums becoming unaffordable.

When we consider OUTsurance's underwriting margin trend, for instance, which has decreased from 17.8% in 2014 to 15.9% in 2015, it is clear to see that this is already beginning to take effect. The company may well have started feeling the pressure of competitors who have similar direct distribution models but offer more affordable premiums. Concerted efforts by insurers with an intermediated model to become more efficient may also be paying off. Competition in the personal lines space remains very high.

Another factor playing a role in delivering the good industry results is the contribution made by OUTsurance's Australian business, Youi. The company contributed 47% of the group's gross written premium during this year, which can be ascribed to continued growth within Australia and the declining rand.

M&F showed an improvement in its claims ratio over the past three years. This is as a result of its gross written premiums increasing by 17% and its claims expense decreasing by 7%. The company implemented plans in the prior year whereby it reduced claims-handling costs and eradicated from its book of business those policyholders that were considered high risk – a move that clearly had a very good effect on underwriting profits.

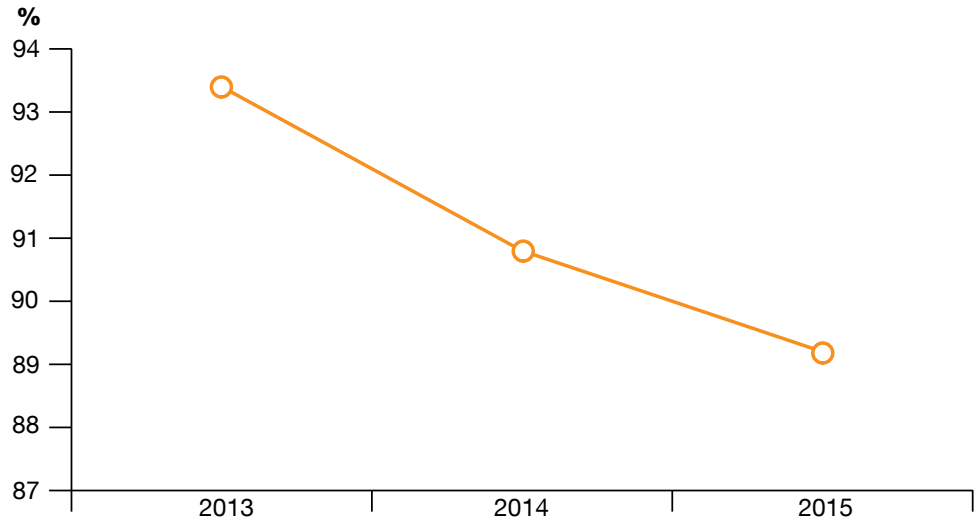
The same can be said of Santam, which showed similar improvements during the year – albeit not to the same extent.

OUTsurance has been less successful in decreasing its claims ratio, but it remains excellent at 54.6% after it was 52.3% in 2014. The slight decrease in OUTsurance's claims ratio is due to catastrophe claims experienced by Youi to the value of R405 million after taking reinsurance recoveries into account.

An area where insurance companies have been generating a lot of growth is the commercial lines within the industry. Santam alone has already grown its commercial lines by 15% in the current year. It is expected that a lot more focus will be placed on generating growth in this line of business in the coming years, as almost all of the companies analysed have seen the growth in their personal lines stagnate at a level only marginally above the consumer price index (CPI) of 4.5%, due to intense competition.

All of the above have resulted in the industry experiencing a very good combined ratio this year, decreasing from 90.8% to 89.2%. This is indicative of players in the industry improving their efficiency and selectively repricing their policyholder books. The challenge remains for them to continue stimulating local growth in a difficult economy, with insurance companies' day-to-day costs and claims costs expected to rise due to inflation and the weakened rand.

Figure 1.1 Industry combined ratio



Source: PwC analysis

Judging from the current economic environment in South Africa, we can expect 2016 to be a challenging year for short-term insurers.

It will be important to strike the right balance between the retention of policyholders and the repricing of premiums. Insurers can expect the cost of claims to rise in the coming year, which will have a negative impact on their claims ratios. A lot of focus will have to be placed on pricing risks effectively in order to provide value to customers.

Santam has indicated that it intends to expand its direct insurance distribution channel, adding to its subsidiary Miway, which underwrites according to the direct insurance model. They will start selling more direct insurance themselves – a step which is indicative of the industry moving towards this model. This brings the future of brokers of smaller policies in the personal line space into question, as they will be utilised less to underwrite personal risks.

Whilst this pessimistic outlook does not bode well for the year ahead, it is still evident from the 2015 results that a well-implemented diversification strategy is important for the financial wellbeing of an insurer.

The effects of technology also need to be considered in that it could disrupt the age-old pooling of risks. New technological advances will allow insurers to analyse policyholders on a more granular level. This could assist with the underwriting and pricing process, especially in terms of how to identify good and poor risks. Insurers that adapt to these changes in an efficient and effective manner will in all likelihood place themselves in a better position than the rest of the industry, as they will be able to make better decisions and create savings to a certain extent.

2. Long-term insurance

Group IFRS earnings

	Combined results				
	2015 Rm	2014 Rm	2013 Rm	2015 vs 2014	2014 vs 2013
Total comprehensive income	33 427	28 347	24 267	18%	17%
Return on average equity	21%	21%	20%		

Combined IFRS earnings of R33.4 billion were up 18% on 2014. The all-share index closed only 1.9% higher than in 2014. Despite the increased volatility and depressed equity market sentiment, insurers were able to consolidate consistent returns year on year. The resilience that insurers have shown is in part due to their product, industry and geographical diversification and their ability to link economic factors to product design, thereby matching price to risk.

Insurers had to deal with a year of ongoing instability in the equity markets, rising interest rates and a volatile yet consistently depreciating South African rand. Market volatility was more prevalent in the second half of the year, and due to the sharp rise in interest rates at year end, the risk discount rate for insurers increased on average by 200 bps.

Long-term insurers continue to manage shareholder market risk exposures conservatively and within predetermined ranges. Shareholder investment allocations were largely consistent with those in the prior year. This is evident in the consistency of earnings over the last three years. Shareholder investment portfolios remain invested in low-risk, diversified mandates, helping to reduce volatility. Insurers continue to focus on strategic growth opportunities, core operations and writing good quality insurance business. Long-term insurers are managing their underwriting risks well in line with assumptions set in the prior year. Overall positive operating experience variances and assumption changes created R2.8 billion and R189 million in embedded value earnings respectively. These profits are mostly driven by positive mortality and morbidity experience.

Sanlam posted a 26% return on average equity, partly due to its strong performance and its overall geographic diversification, thus capitalising on the depreciating rand. Sanlam was followed closely by Discovery at 23%. Old Mutual and Liberty were at 19%, while MMI came in at 14%.

Group embedded value

Embedded value

	Combined results				
	2015 Rm	2014 Rm	2013 Rm	2015 vs 2014	2014 vs 2013
Embedded value	298 153	277 111	249 118	8%	11%
Embedded value earnings	33 097	39 427	39 207	-16%	1%
Return on embedded value	12%	16%	18%	-25%	-11%

Combined group embedded value earnings were 16% lower than in 2014. Return on embedded value is lower for all companies except Old Mutual Emerging Markets.

The most significant drivers of covered EV earnings for 2015 were expected return on value of in-force business, value of new business, economic assumption changes and exchange rate movements. The impact of economic assumption changes (including the effect of higher risk discount rates) reduced EV earnings by R7 billion and was the predominant reason for the decline in covered EV earnings. EV earnings benefited from an increase in the expected return on value of in-force business as well as exchange rate fluctuations, which had a net positive impact of R3 billion.

On a combined basis the long-term insurers continue to manage their mortality and morbidity risks very well, with total experience variance and assumption changes creating an additional R2.9 billion in EV earnings. The declining economic environment and increasing costs had a negative effect on expenses, resulting in a reduction in embedded value of R1 billion. Despite these pressures, insurers did not suffer losses from lapses and surrenders.

Embedded value of SA new business

Value of new business

	Combined results				
	2015 Rm	2014 Rm	2013 Rm	2015 vs 2014	2014 vs 2013
Present value of new business premiums (PVNBP)	218 853	206 447	172 650	6%	20%
Embedded value of new business (VNB)	5 921	5 933	5 318	-0.2%	11.6%
Value of new business margin	2.7%	2.9%	3.1%	-7%	-6%
Average payback period (years)	6.1	6.4	6.3		

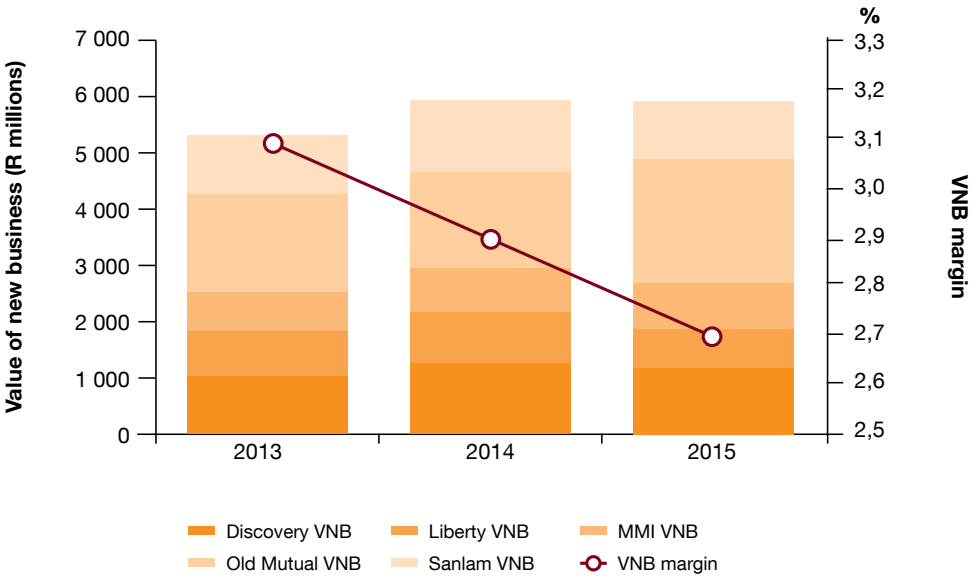
Combined present values of new business premiums (PVNBP) written by the long-term insurers reflect fair results in a challenging environment. The 6% year- on-year increase is in line with CPI for the period.

The continued competitive environment and the economic pressure on consumers took their toll on the embedded value profit margins achieved on new business written. The VNB margin of 2.7% reduced by 6% compared to 2014, following the previous 7% decline in 2014. The PVNBP is marginally up and the VNB is flat on the prior year. The VNB margin has thus declined. This VNB margin decrease is partly due to changes in product mix and pressure on risk premium pricing.

The combined average payback period decreased to 6.1 years due to the impact of increased discount rates on PVNBP.

This is a calculated crude measure to determine the period over which the majority of the VNB will be earned (PVNBP divided by annual premium equivalent).

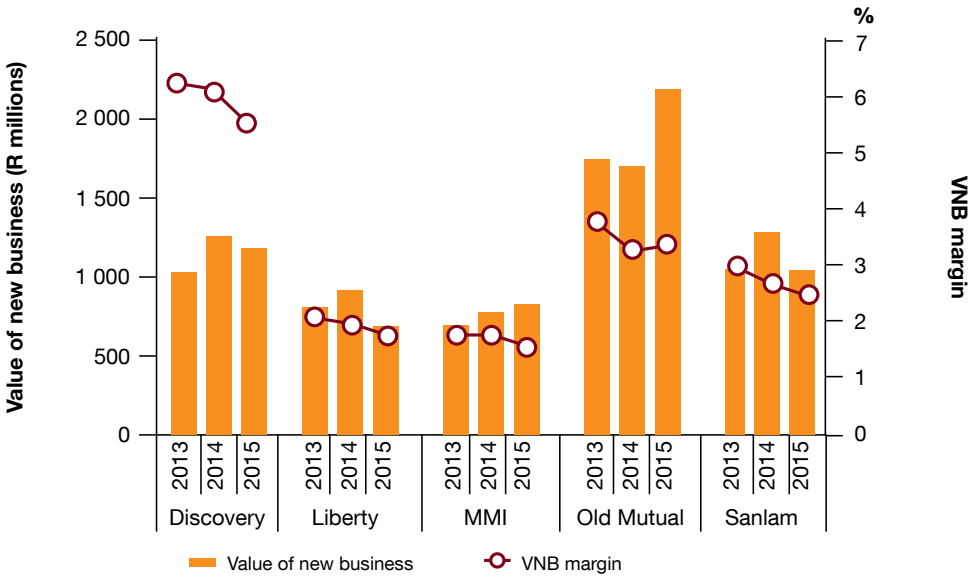
Figure 2.1 Industry value of new business (VNB) and VNB margin



Source: PwC Analysis

Growth in both recurring and single premiums was noted for the majority of insurers except Liberty, which declined 14% on its single premium business.

Figure 2.2 Value of new business (VNB) and VNB margin



Source: PwC Analysis

Discovery

Discovery grew its PVNBP by 4.8% to R21.1 billion. The VNB margin decreased to 5.6% from 6.2%. This can be attributed to the decrease in the VNB margin on the higher-yielding Discovery Life risk business, which reduced from 9.5% to 9.1% in the period.

Discovery's VNB margin continues to reflect the impact of a change in product mix brought about by writing lower-margin investment business. The growth in investment new business continues to outperform the growth in risk new business. The investment new business margins are improving through product innovation.

Discovery's expected payback period has decreased to 8.1 years from 8.6 years, compared to the industry average of 6.1 years.

Liberty

Liberty's PVNBP declined by 13% to R38.9 billion as a result of being impacted by reduced single premium business in Liberty Corporate. This was off the back of a record single premium sales figure in 2014. The group's Evolve product and linked-life annuities continued to deliver good sales growth. Recurring-premium-risk product sales were consistent with 2014.

Liberty attributed the decline in its 1.8% new business margin to a change in product mix as well as the increase in the discount rate by 200bps.

Overall, the group embedded value of new business decreased by 25.2% to R684 million. Liberty's expected payback period is 5.4 years, compared to the industry average of 6.1 years.

MMI

MMI's PVNBP grew by a noteworthy 19% to R51.5 billion. The Momentum Corporate and Public Sector segment continued the strong new business growth that was seen in 2014 and supported the bulk of the group's growth in PVNBP. The acquisition of Guardrisk made a strong positive contribution to the growth in the corporate and public sector segment. The combined growth of PVNBP for Momentum and Metropolitan retail was only 4%; however, this low growth was in favour of higher-quality business.

MMI's VNB margin declined from 1.8% to 1.6%. The embedded value of new business written increased by 6.5% to R825 million.

Metropolitan Retail, which focuses on the lower- to middle-income market segment, continues to struggle. For the six months to December 2015, VNB decreased by 36% and its VNB margin reduced to 2.8% (six months to December 2014: 4.0%). Momentum Retail's VNB margin reduced to 1.0% in the latter half of 2015, with improved PVNBP growth of 7%; however, the VNB decreased by 1%.

MMI's expected payback period is 7.9 years, slightly up from the 7.7 years in 2014. MMI was the only insurer to see this figure increase in 2015. Its payback period is above the combined average of 6.1 years.

Old Mutual

Old Mutual increased its PVNBP by 24.7%, to R64.4 billion. This accounts for more than a quarter of the combined PVNBP of all the insurers included in this analysis. Its VNB margin remained resilient and increased slightly to 3.4%. As expected, the value of new business increased substantially by 28.7% to R2.1 billion in 2015.

Old Mutual reported strong growth across its South African product range. In particular, the Corporate Cluster, which comprises 44% of total PVNBP, grew new business single premiums by 82%, resulting in total PVNBP growth of 43% for this cluster. Mass Foundation and Retail Affluent contributed growth of 19% and 3% respectively towards total PVNBP. Despite the pressures experienced by the market, the VNB margin on Retail Affluent and Mass Foundation increased by 30% to 2.6% and 12% to 10.3%, respectively. The Corporate VNB margin remained static at 1.2%.

Old Mutual's expected payback period is 6.7 years, which is consistent with 2014.

Sanlam

Sanlam's PVNBP declined by 8.2% to R42.9 billion in 2015. In 2015, the VNB margin reduced from 2.7% to 2.4%. The net result was a VNB decrease of 19% to R1.04 billion.

Sanlam Sky, the business unit that targets the lower end of the market, which struggled in 2014 due to the labour disputes in the Rustenburg area, showed a recovery with an 8% growth in PVNBP. However, the VNB margin declined sharply from 9.5% to 6%, thus resulting in a 33% decline in VNB. The Sanlam Individual Life cluster showed strong guaranteed product sales as well as market-linked product sales, thus also affecting the mix of product sales and putting pressure on the VNB margin. It also experienced various once-off events which had a negative effect on new business volumes.

Sanlam's expected payback period is 4.4 years, the lowest in the analysis, declining from 5.3 years in 2014.

Operating experience variances and assumption changes

Experience variances	Expenses			Lapses and surrenders			Mortality and morbidity		
	2015 Rm	2014 Rm	2013 Rm	2015 Rm	2014 Rm	2013 Rm	2015 Rm	2014 Rm	2013 Rm
Discovery	46	12	3	14	108	328	76	149	94
Liberty	0	0	0	143	119	195	130	185	155
MMI	-82	100	87	-178	-10	129	267	469	302
Old Mutual	-196	-302	-257	59	-198	-136	472	761	604
Sanlam	-16	22	165	174	-64	211	816	842	645
Combined	-248	-168	-2	212	-45	727	1 761	2 406	1 800

The majority of the industry struggled to manage actual expenses within the range of the projected actuarial assumptions set at the end of 2014. Liberty and Sanlam were very close to expectations again this year. Old Mutual continues to incur unexpected expenses. The negative experience variances for MMI and Old Mutual have affected the future expense assumptions, an indication that these higher levels are expected to persist.

Except for MMI, the insurers reported better-than-expected results on their lapse and surrender assumptions. The tough economic environment would have been expected to impact on the persistency for insurers. The actuarial assumptions appear to have adequately provided for this as, overall, a positive experience variance has been recorded. MMI includes policy alterations in its lapses and surrenders data. It experienced higher-than-expected loyalty reward discounts and clients choosing lower-fee products.

Assumption changes	Expenses			Lapses and surrenders			Mortality and morbidity		
	2015 Rm	2014 Rm	2013 Rm	2015 Rm	2014 Rm	2013 Rm	2015 Rm	2014 Rm	2013 Rm
Discovery	0	-54	-34	0	-78	-312	17	0	0
Liberty	0	0	-217	-111	-62	0	0	0	60
MMI	-285	469	276	24	4	126	249	158	245
Old Mutual	-474	-4	143	8	-593	-376	52	1,489	47
Sanlam	-3	32	26	-60	88	13	810	167	655
Combined	-762	443	194	-139	-641	-549	1,128	1,814	1,007

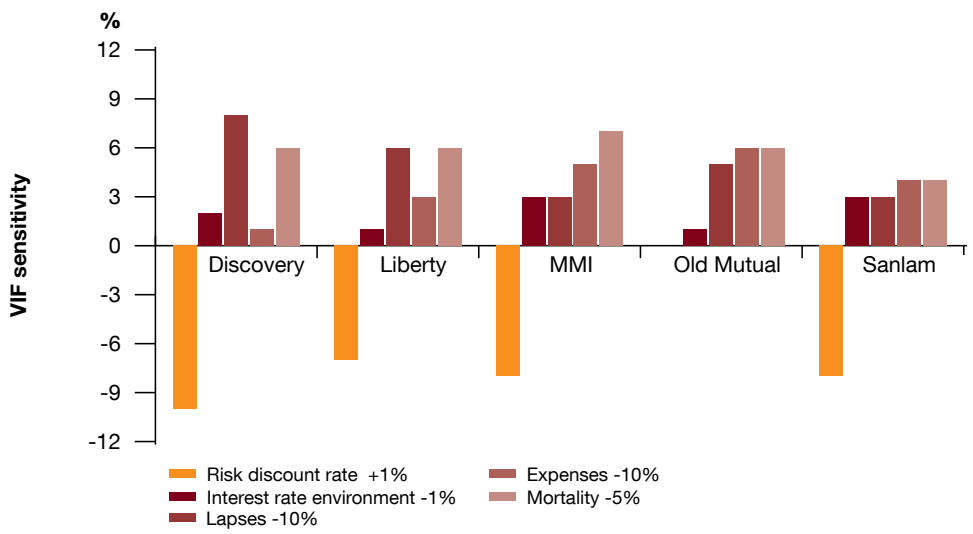
MMI and Old Mutual have strengthened their expense assumptions on the back of operating expense variances. The inflationary pressures and increased cost of product development and similar internal costs are coming through for MMI and Old Mutual. Discovery, Liberty and Sanlam are expecting assumptions set in 2014 to remain appropriate. MMI has targeted expense savings of R750m by FY 2019. This may assist in improving the operating expense variance going forward.

Liberty and Sanlam strengthened their lapse assumptions to reflect uncertainty around future persistency. Sanlam relaxed its persistency assumption slightly in 2015 after it had been constant for the previous five years. Liberty strengthened assumptions due to policyholder behaviour on investment products.

Following the significant mortality and morbidity experience profits of the past three years, the combined industry continued to capitalise expected profits, being R1.1 billion, in 2015 (R1.8 billion in 2014). Old Mutual recognised its mortality and morbidity assumption change in 2014. Sanlam and MMI have followed suit in 2015.

Sensitivity of value of in-force and value of new business written

Figure 2.3 Value of in-force (VIF) sensitivity



***Note**: Old Mutual does not provide a comparable sensitivity to change in risk discount rates as part of its market consistent embedded value (MCEV) information.*

Source: PwC analysis

Discovery's embedded value of in-force business continues to be the most sensitive to changes in discount rate. Discovery's business is also the most sensitive to lapse risk. The reason for these sensitivities could be the effect of writing more age-rated, increasing-premium business with the consequence that more profit is expected to be realised at later durations compared to the more immediate future. Discovery manages this risk in part through its successful Vitality programme, which aims to keep policyholders actively engaged to mitigate the lapse risk.

Discovery's VIF is least sensitive to expense risk and it has recorded positive experience variances in this regard. Discovery has not changed its related assumptions, and this could be primarily due to expected benefits of economies of scale in the future.

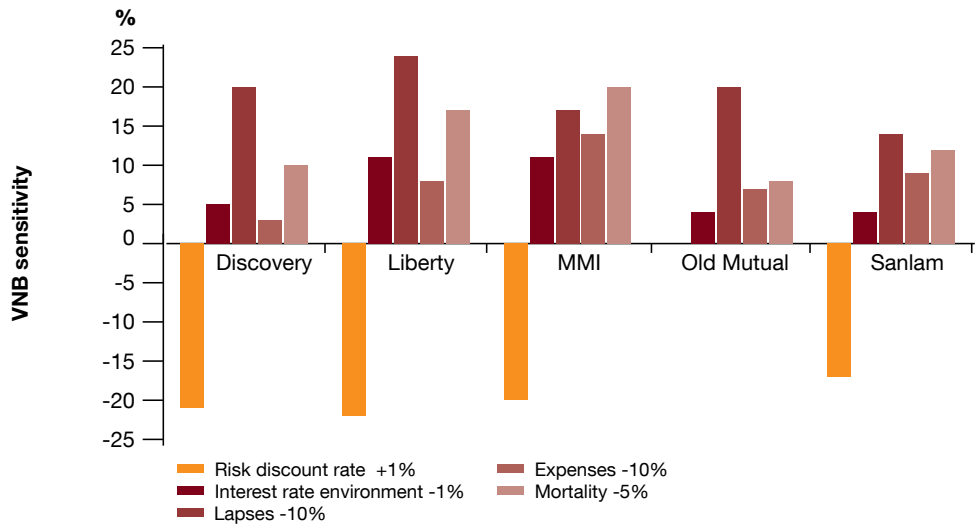
Liberty's VIF continues to be highly sensitive to lapse risk, following closely behind Discovery's. Liberty has, however, strengthened its lapse assumption significantly in 2015, which makes sense given the current economic conditions in South Africa. This has also caused a slight decrease in the sensitivity of their lapse risk.

MMI has the VIF most sensitive to mortality risk in the industry and has had a less positive experience variance in this area compared to the prior years. MMI was comfortable, however, that the worsened lapse experience was not due to high fraud risk or any operational risk, in most instances finding the mortality to be driven by natural death.

Old Mutual's VIF continues to be the most sensitive with regard to expenses. While expense efficiencies are expected after the planned unbundling of the Old Mutual Group post-2018, there has been a significant strengthening of the expense assumption in 2015.

Sanlam has continued to be the insurer least sensitive to mortality risk and continues to experience strong positive gains in this area.

Figure 2.4 Value of new business (VNB) sensitivity



Source: PwC analysis

Old Mutual does not provide a comparable sensitivity to the change in risk discount rates as part of its market consistent embedded value (MCEV) information.

Liberty continues to experience strong growth in its single premium investments, in particular the Evolve investment product. The sensitivity of Liberty's new business to risk discount rate has also increased from the prior year, which is likely due to the impact of selling more guaranteed products such as Liberty Agile.

MMI's new business continues to be dominated by single premium business growth with decreasing margins. In contrast to VIF sensitivity, MMI's new business is more sensitive to lapse risk.

MMI has experienced significant growth in the recurring-premium business in its Corporate and Retail sector.

Old Mutual's new business is less sensitive to lapses in the current year than it was in the prior year. Old Mutual's increasing profits in new business can largely be attributed to continued profitable risk business in the Mass Foundation cluster.

Sanlam and Discovery's new business sensitivities remain largely comparable to those of 2014.

Costs

	Combined results				
	2015 Rm	2014 Rm	2013 Rm	2015 vs 2014	2014 vs 2013
Acquisition costs	18 199	16 917	14 482	8%	17%
General marketing and administration costs*	40 349	37 248	32 913	8%	13%
Annual premium equivalent (APE)	35 634	32 086	27 479	11%	17%

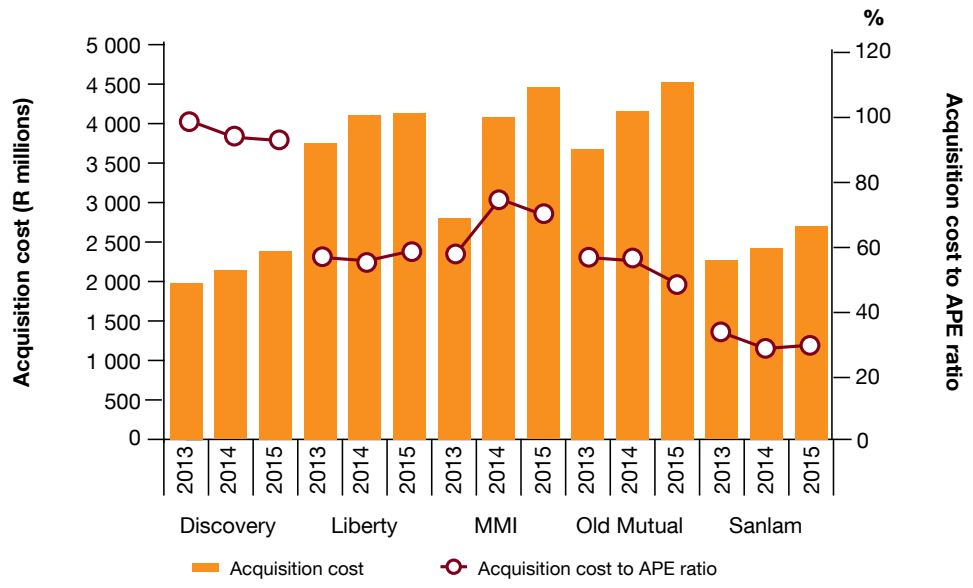
**The reported segments disclosed in the Liberty Group Financial Statements for 2015 include a portion of the health and short-term insurance business. The comparative information for 2014 has been restated to align with this new disclosure, as the long-term insurance business could not be isolated.*

The growth in the annual premium equivalent of the industry was less than last year, impacted by the economic environment in South Africa.

General marketing and administration costs increased slightly above inflation, as insurers increased their spending on IT infrastructure and big data projects.

MMI alluded to its strategic focus on achieving savings of R750 million by FY 2019. Action plans that are already in motion to optimise its client-centric business model are starting to reflect in reduced general marketing and administration costs.

Figure 2.5 Acquisition cost and acquisition cost to annual premium equivalent (APE) ratio



Source: PwC analysis

Most insurers' acquisition cost to APE ratio is reducing, with a slight increase for Sanlam. Insurers like Old Mutual continue to optimise their distribution channels through the use of tied advisers and other mechanisms to build efficient distribution capabilities ahead of the implementation of the South African retail distribution review. These measures are yielding improved efficiencies in limiting the increase in acquisition costs relative to the increase in annual premium equivalent.

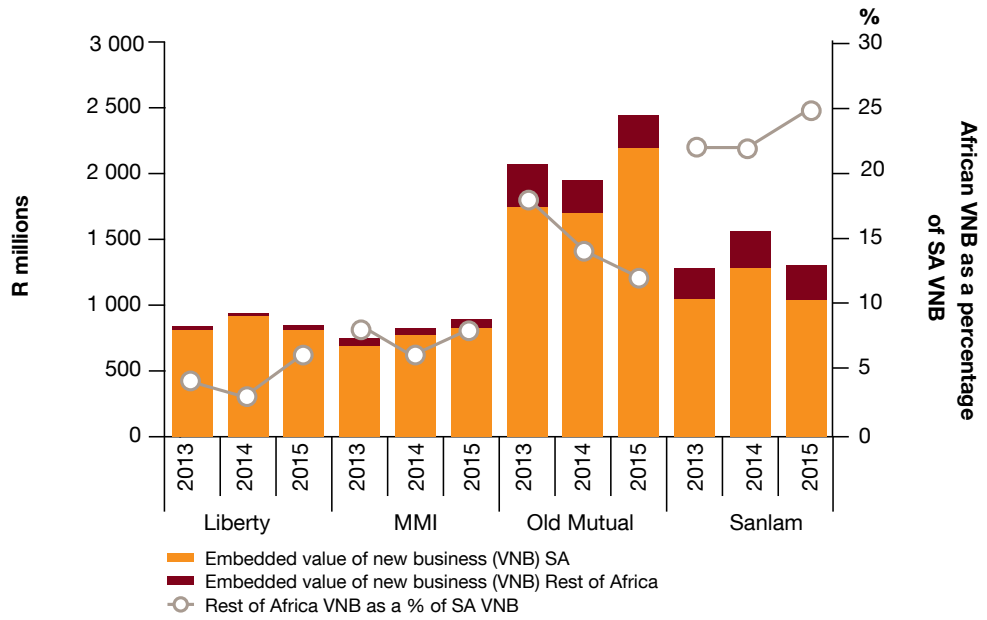
Discovery's acquisition costs to APE ratio continues to be the highest in the industry, although it has been gradually decreasing since 2013.

Liberty's acquisition costs had the lowest increase in the industry. The primary driver of this is the reduction in the level of new business written.

MMI's acquisition costs are starting to normalise following the Guardrisk acquisition in 2014. MMI has embarked on a project to optimise its agency productivity by reducing the size of its agency force and sizing it up again, together with a restructure of the remuneration model.

Rest of Africa's contribution

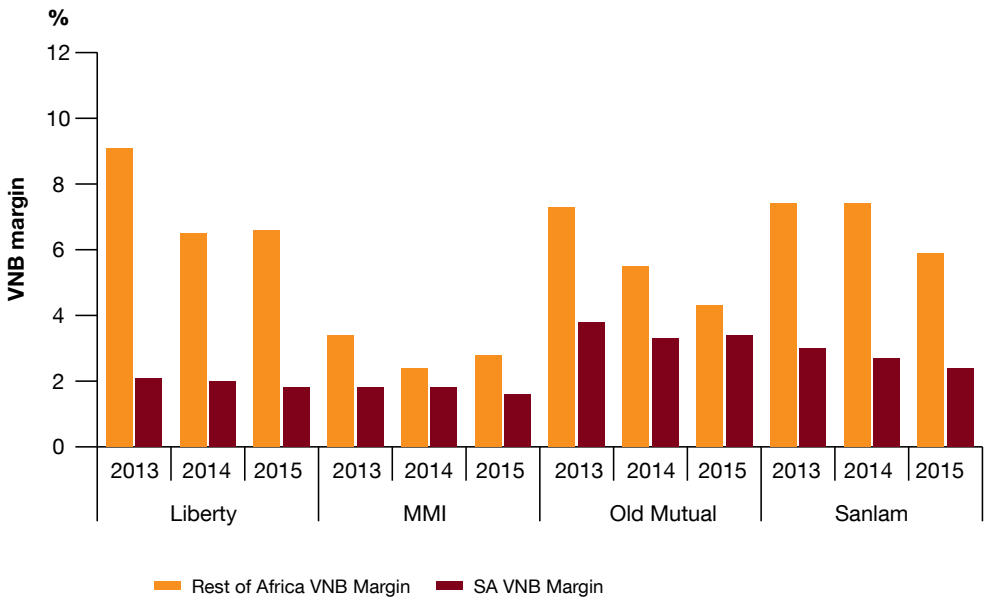
Figure 2.6 Rest of Africa VNB vs South African VNB



Source: PwC analysis

The VNB in the Rest of Africa grew from 2014 to 2015 for each insurer except Sanlam. Sanlam achieved strong annuity sales in Botswana, coupled with growth in per policy premium size in Namibia and positive investment business inflows within the Rest of Africa. This growth was partly offset by declines in the unit trust inflows in Namibia and other declines in new business sales experienced in Zambia.

Figure 2.7 Rest of Africa VNB margin vs South Africa VNB margin



Source: PwC analysis

The value of new business margins for the Rest of Africa remains higher than that of South Africa for all insurers. The margins in the Rest of Africa have decreased for Sanlam and Old Mutual.

The value of new business margins for the insurers' South African business has decreased from last year, except for Old Mutual. This is because Old Mutual's South African new business margins grew in both the Retail Affluent and Mass Foundation clusters.

While Sanlam's new business margin for its Personal Finance segment has been declining since 2013, the margin for its Employee Benefits segment increased from 2014 to 2015.

3. Short-term insurance

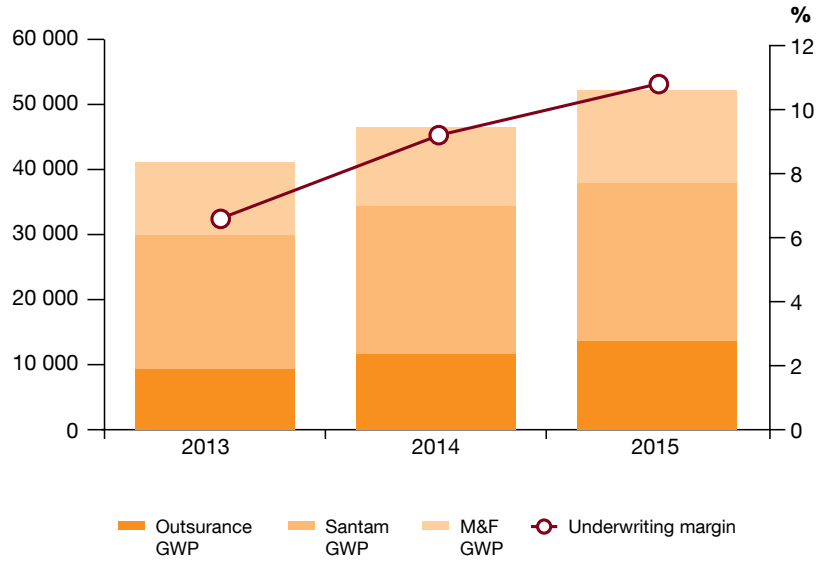
Gross written premiums

	Combined results				
	2015 Rm	2014 Rm	2013 Rm	2015 vs. 2014	2014 vs 2013
Gross written premiums	52 165	46 486	41 198	12%	13%
Net earned premiums	41 207	37 029	33 704	11%	10%
IFRS earnings (excluding M&F)	4 140	3 131	2 767	32%	13%

The combined IFRS earnings for the year of R4.1 billion (excluding M&F) increased by 32% on 2014. This is due to the improved underwriting margin experienced in the market during the last calendar year, which increased from 9% in 2014 to 11% in 2015.

The industry posted a strong underwriting result due to M&F's considerably improved ratio from 1.5% in 2014 to 7.4% in 2015, Santam's steadily growing ratio from 8.3% to 9.4% in 2015 and the fact that OUTsurance has maintained a strong underwriting margin despite it decreasing slightly from 17.8% to 15.9%. The lack of noteworthy catastrophic events combined with the benefit from improved investment returns further contributed to this strong result.

Figure 3.1 Industry gross written premiums (GWP) vs underwriting margin

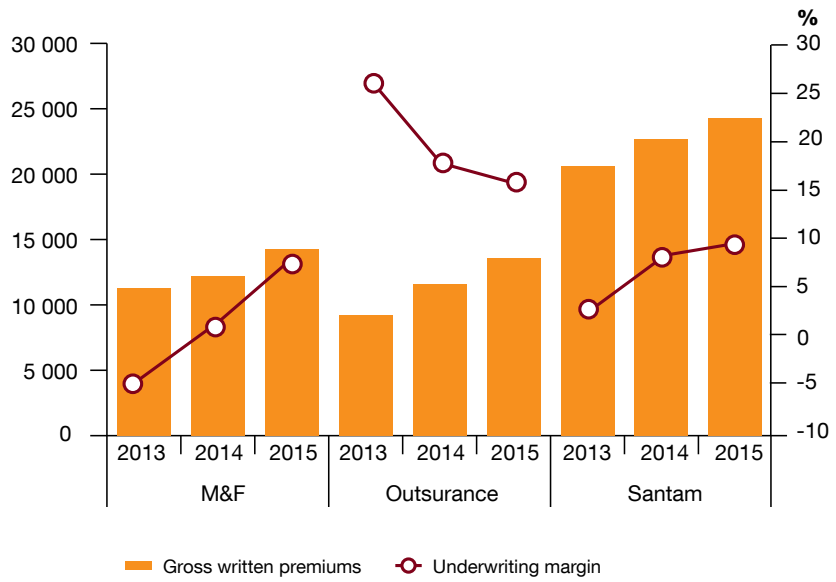


Source: PwC analysis

The combined gross written premiums have increased by 12% to R52.2 billion in 2015. This increase has again been in excess of the consumer price index (CPI) , which is consistent with the prior year's analysis. This is mainly due to insurers continuing to increase rates in order to mitigate rising insurance costs as well as to ensure that the quality of the policyholder books is maintained. With companies like Zurich being in decline, these insurers have taken up additional policyholders, which contributed to the increase in gross written premiums.

OUTsurance's Australia-based business, Youi, continues to show significant growth in its gross written premiums, contributing nearly 50% of the group's GWP. Youi experienced growth of 28% in its gross written premium for the calendar year ended 31 December 2015. This contributed 2% of the 12% growth in GWP.

Figure 3.2 Gross written premiums (GWP) vs underwriting margin



Source: PwC analysis

Mutual & Federal (M&F)

The company's gross written premiums increased from R12.2 billion in 2014 to R14.3 billion in 2015. This increase of 17% is above the industry average of 12% as well as the CPI.

OUTsurance

OUTsurance has continued to show good growth in its gross written premiums during 2015 with an increase from R11.6 billion in 2014 to R13.5 billion in 2015. This growth is largely attributable to Youi increasing its gross written premiums by 28% in 2015. The increase should continue for the foreseeable future, considering the success of the company in Australia as well as the weakening rand.

The company's South African business grew by 9% which is in excess of inflation and the growth was from R6.6 billion in 2014 to R7.2 billion in 2015.

Santam

Santam has shown growth of 7% in its gross written premiums to R24.3 billion in 2015. Major factors contributing to the increase are the growth of the commercial lines as well as the strong contribution by MiWay and Centriq to the gross written premium.

This growth was somewhat muted, however, by the crop insurance segment. Gross written premiums have decreased by 19% on this line. The decline in the crop line of business is as a result of the severe drought experienced in the country over the past year. Santam had to refund certain policies due to the risk never attaching on these policies.

Key insurance ratios

Key ratios

	Combined results		
	2015	2014	2013
Claims ratio	58.7%	61.5%	66.6%
Acquisition cost ratio	9.1%	9.3%	10.3%
Expense ratio	21.4%	20.0%	16.5%
Combined ratio	89.2%	90.8%	93.4%
Underwriting margin	10.8%	9.2%	6.6%
Total	100.0%	100.0%	100.0%

The past year was a very successful one for the short-term insurance industry, building on the good results from the prior year. The majority of the companies under review have improved their claims ratios, largely due to the lack of severe catastrophes during the year. The major players in the market continue to improve the quality of their books of business.

The combined claims ratio for the industry decreased from 61.5% in 2014 to 58.7% in 2015. This can be ascribed to the following factors, amongst others.

There were no major catastrophic events during the year, compared to prior years.

The severe drought suffered in the country also did not affect insurers, due to farmers not being able to plant and insure their crops.

The improved scale in growth ventures such as Miway and Youi has assisted in the strong showing of the industry as a whole.

Efficiencies measures such as savings on claims handling costs and re-ratings to improve the quality of the books of business proved to be successful and came through in the current year's results.

The above has also resulted in the market's underwriting margin improving from 9.2% in 2014 to 10.8% in 2015.

M&F

M&F's key ratios have remained consistent when compared to the prior year, except for its claims ratio and, as a result, its underwriting margin. The strategic pricing changes implemented in 2014 are paying dividends, with a strong turnaround in underwriting margins. The company has significantly improved this from 1.5% in 2014 to 7.4% in 2015. This is mainly due to the fact that the company has continued to increase its rates during the year and to the strategy of reducing its claims cost implemented in prior years proving to be successful – claims decreased from R6.5 billion in 2014 to R6.1 billion in 2015. This has directly resulted in the underwriting margin improvement from 2014 to 2015.

OUTsurance

The company had a good year in which it managed to grow the premiums of the South African business by 9% compared to 6% in the prior year. This is mainly due to the commercial book of business showing good growth, with an 11% increase in the gross written premiums.

Youi's gross written premiums increased by 28% in rand terms, mainly as a result of good growth being experienced within the Australian market and the declining rand. The company continues to be the group's main source of growth in gross written premiums.

The group's claims ratio has increased slightly from 52.3% to 54.6%. This can be ascribed to the cost of claims rising and Youi incurring catastrophe claims of R405 million after taking reinsurance recoveries into account.

Santam

Santam again had a good year despite its gross written premiums increasing by only 7% compared to 10% in the previous year. After implementing procedures to reduce the handling cost of claims in 2014, they achieved a claims ratio of 62.1% in 2015 compared to 63.2% in the prior year. This is a good result for an intermediary-dominated distribution model insurer. The claims expense decreased from R14.3 billion in 2014 to R14.0 billion in 2015, which further illustrates the success that the company has had in reducing these costs by investing in enhanced claims processing systems.

The droughts experienced in the country during 2015 did have a negative impact on Santam's underwriting results, but this has been offset by a strong performance in the motor and property segments.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4. Investment performance

Market performance

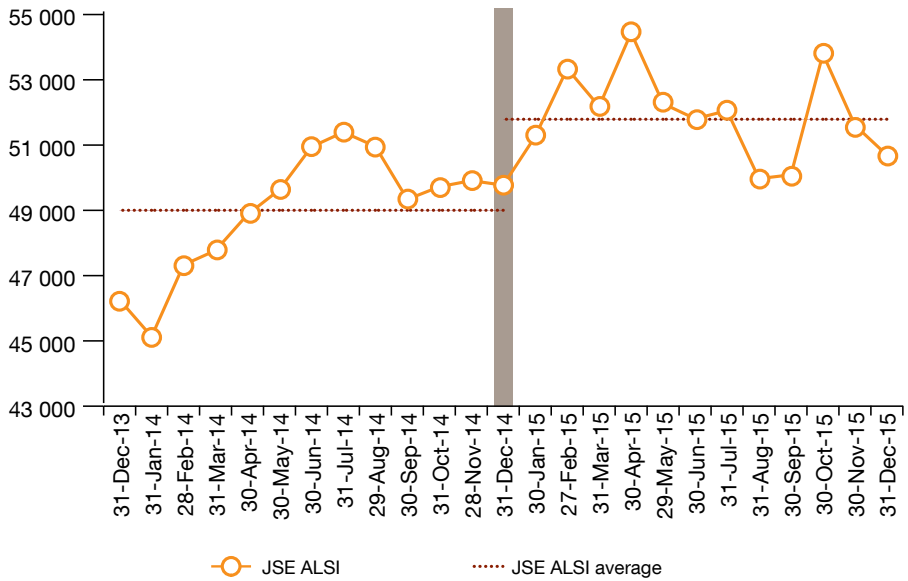
The level of investment returns continued to decline during most of 2015, primarily driven by growth uncertainties in large economies such as China, declining commodity prices and political concerns in Europe, where the UK is considering exiting from the European Community. South Africa continued to experience a difficult environment. This was compounded by rising interest rates, fears of possible further sovereign rating downgrades and declining GDP growth rates.

When analysing the performance of the investment markets and their impact on insurers, it is important to consider the JSE all-share index and all-bond index. The performance of the JSE all-share index was rather subdued, largely as a result of poor performance in the mining and telecom sectors. While the depreciating rand may have had a positive effect on export proceeds for the mining sector, this was largely offset by declining global commodity prices.

The all-bond yield index closed higher in 2015 compared to 2014, mainly due to increases in prime interest rates totalling 50 basis points. The significant increase in the yield curve in December 2015 was driven by political uncertainty caused by the changes to the country's finance minister. The increases negatively impacted the balance sheets of insurers.

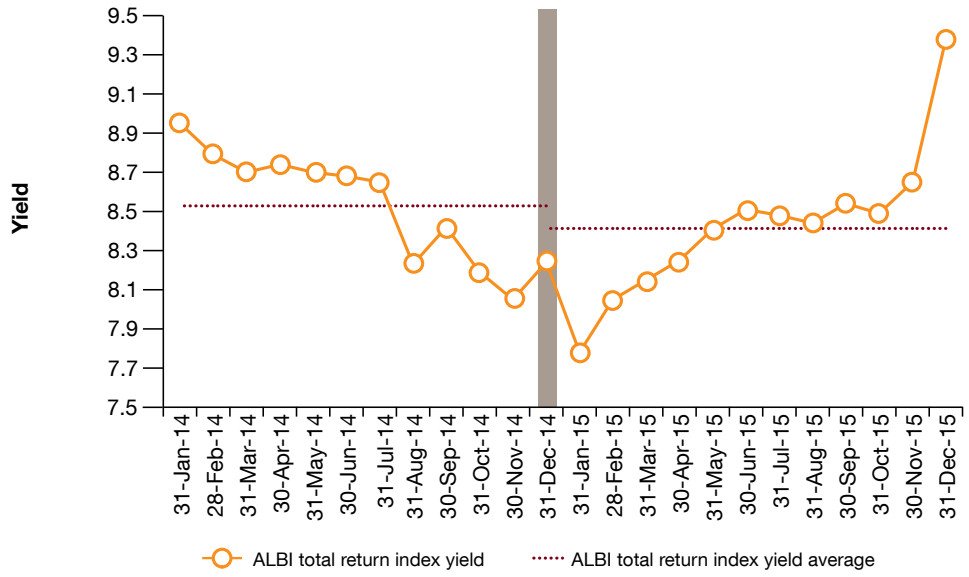
The decline in the JSE all-share index continued to the end of February 2016, after which it recovered slightly in March 2016 following a partial recovery of the rand.

Figure 4.1 JSE all-share index



Source: McGregor BFA

Figure 4.2 All-bond index yield



Source: McGregor BFA

Industry investment performance

Long-term insurers

	Combined results			
	2015 Rm	2014 Rm	2013 Rm	2015 vs 2014
Total invested assets[1]	2 144 613	1 955 528	1 771 643	8%
Income on invested assets	154 559	186 761	244 293	-17%
Return on average invested assets	7.5%	10.0%	14.9%	

Source: PwC analysis

Short-term insurers

	Combined results			
	2015 Rm	2014 Rm	2013 Rm	2015 vs 2014
Total invested assets[2]	27 601	23 682	21 145	17%
Income on invested assets	1 797	1 403	1 573	28%
Return on average invested assets	7.0%	5.1%	6.3%	

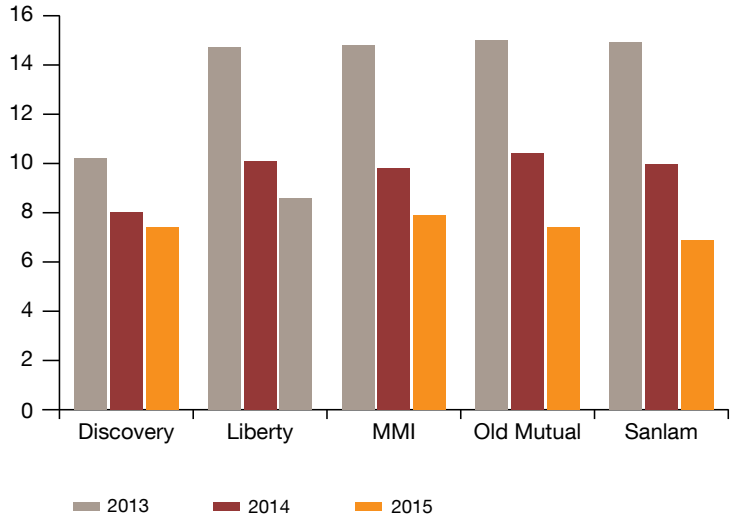
Source: PwC analysis

[1] Invested assets comprise the group financial assets as well as the cash and cash equivalents of the insurers (for Old Mutual the emerging market segment information was used, which for 2014 and 2015 includes M&F). This includes all policyholder and shareholder assets.

[2] Invested assets comprise the group financial assets as well as the cash and cash equivalents of the insurers. It excludes M&F for all years presented, as separate segment information is no longer available.

Income from invested assets of long-term insurers declined, while the income from the invested assets of short-term insurers increased. Long-term insurers invest predominantly in longer-term investments such as equities, particularly domestic equities, which performed poorly relative to previous years. The JSE all-share index closed 2% higher in 2015 than in 2014.

Figure 4.3 Return on invested assets: Long-term insurers



Source: PwC analysis

Discovery grew its invested assets by 30%, from R49 billion in 2014 to R63 billion in 2015. Investment returns decreased marginally from 8% to 7.4%.

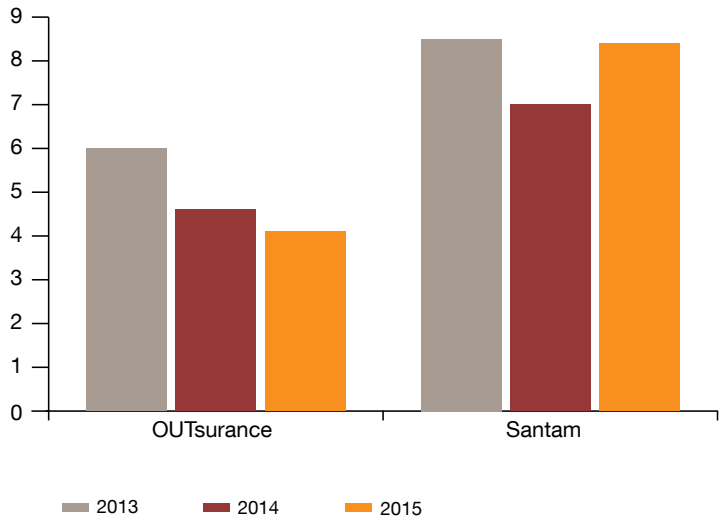
Liberty's invested assets grew by 11% from R365 billion in 2014 to R407 billion in 2015. Liberty's shareholder investment portfolio includes a 24% exposure to equities (local and foreign) and exposures of 25% to other assets and 23% to bonds. Liberty's shareholder asset allocation remained comparable to 2014, with only marginal increases in the other assets and decreases in equities.

MMI's invested assets grew by 6% from R404 billion in 2014 to R427 billion in 2015. MMI's most significant change in invested assets was an increase in foreign listed equities. The lack of investment performance was as a result of the poorly performing equity markets, particularly in the second half of 2015.

Old Mutual Emerging Markets' invested assets increased by 9.7%, from R595 billion in 2014 to R652 billion in 2015. The decrease in investment return was attributable to poor market performance in local equities, partially offset by positive returns on certain equity instruments that were not severely impacted by the negative trend of the JSE all-share index in the second half of 2015.

Sanlam's invested assets grew by 10% from R543 billion in 2014 to R595 billion in 2015. During 2015, Sanlam made major strategic changes to its asset allocations from unhedged to hedged equity securities, resulting in improved investment returns. The timing of the change in the allocation was favourable to Sanlam, coming before the significant reversal of the equity gains which had been achieved in the first half of 2015. Sanlam also achieved positive investment returns in its international assets, partly due to the depreciation of the rand. These positive investment returns were in large part offset by declines in the fair values of bond instruments.

Figure 4.4 Return on invested assets: short-term insurers



Source: PwC analysis

Santam's invested assets increased from R16 billion in 2014 to R18 billion in 2015. Investment returns also increased from 7% to 8.4%. The investment returns benefited from the gains in its offshore investments as the rand weakened. Santam holds dollar assets for possible dollar-based claims. Santam has also tactically reduced its equity instruments and converted these to US dollars ahead of the acquisition of SAHAM, based in Morocco.

OUTsurance's invested assets increased from R7.5 billion in 2014 to R9.5 billion to 2015. Returns on investments reduced marginally from 4.6% in 2014 to 4.1% 2015.

5. Capital and solvency

Long-term insurance

Capital adequacy requirement cover

	2015	2014	2013	2015 vs. 2014
Discovery	3.9	3.5	3.9	11%
Liberty	3.0	3.1	2.6	-2%
MMI	2.8	2.7	2.6	4%
Old Mutual South Africa	3.2	3.1	3.3	3%
Sanlam	5.8	4.5	4.5	29%

Discovery Life's capital adequacy requirement (CAR) cover increased by 11%, from 3.5 times in 2014 to 3.9 times in 2015. Discovery raised R5 billion additional capital in 2015 through a rights issue. Discovery Group's borrowings increased during the year following the drawdown of £73.6 million (R1.6 billion) on an HSBC Plc loan facility to fund operations in Vitality Life in the UK. Discovery Group also borrowed short-term bridging finance of R2.6 billion from RMB Limited to fund subscription of the FirstRand Bank Limited redeemable preference shares in order to increase Discovery's profit share in the DiscoveryCard business.

Liberty's CAR cover decreased by 2% from 3.1 times in 2014 to 3 times in 2015. Liberty expects to be able to exceed the SAM capital requirements when these are introduced as expected in 2017.

MMI's CAR cover increased by 4% from 2.7 times in 2014 to 2.8 times in 2015. While MMI has set aside R2.7 billion for strategic initiatives, it still has R4 billion in capital for further deployment.

Old Mutual South Africa's CAR cover marginally increased from 3.1 times in 2014 to 3.2 times in 2015. Excess assets of Old Mutual Emerging Markets were partly used to fund the acquisition of UAP in Kenya.

Sanlam's CAR cover increased by 29% from 4.5 times in 2014 to 5.8 times in 2015. The single largest contributor to the growth in Sanlam's CAR cover was the inclusion of up to R2.5 billion of its investment in Santam to form part of its CAR cover. Sanlam previously followed a conservative approach of excluding this investment from its CAR cover due to lack of clarity on whether the inclusion would be allowed under SAM. Following SAM clarification in 2015, Sanlam has now included the Santam investment as part of its CAR cover for Sanlam Life, resulting in the increased CAR cover. Sanlam has also earmarked R4.2 billion of its discretionary capital for the acquisition of SAHAM Finances.

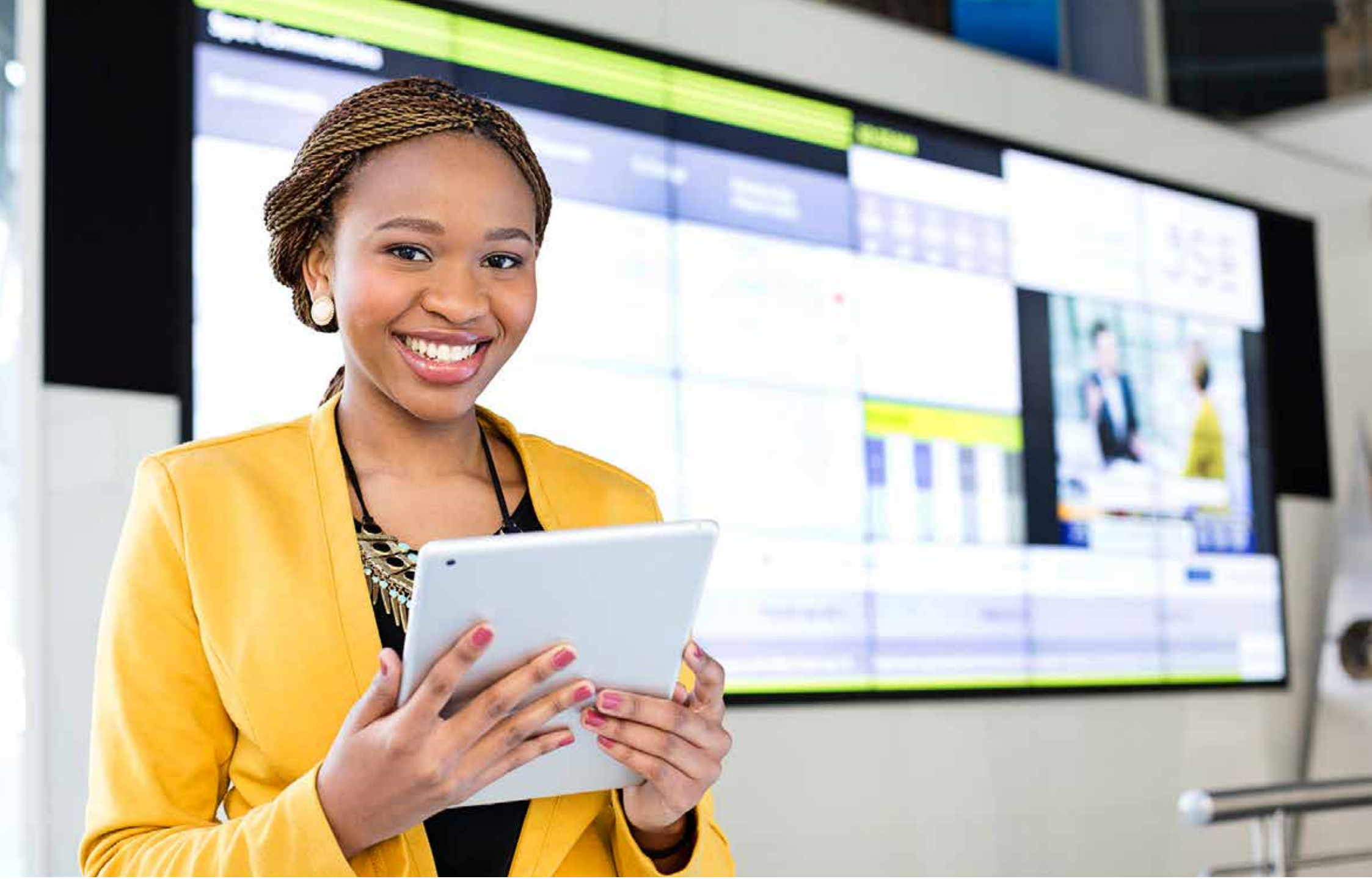
Short-term insurance

International solvency margin

	2015	2014	2013
OUTsurance	42%	40%	43%
Santam	48%	45%	42%

OUTsurance's solvency margin increased from 40% in 2014 to 42% in 2015. The increase in gross written premiums from 2014 to 2015 was approximately 10% less than the increase achieved from 2013 to 2014. The increase in its solvency margin was largely due to foreign exchange gains achieved in 2015 on the Australian business.

Santam's solvency margin increased from 45% in 2014 to 48% in 2015. While the growth in Santam's net premiums was only 7%, total comprehensive income grew by 45%. Ordinary shareholder's equity grew by over 15% after taking into account the share buyback in 2015.



6. Growth ambitions beyond South African borders

The IMF expects the South African GDP growth rate to be less than 1% in 2016. This dampened expected growth rate and the highly penetrated insurance market in South Africa are strong incentives for insurance industry players to continue to look for growth beyond the South African boundaries.

Insurers are expected to be cautious as they continue to look for growth outside South Africa. The IMF's outlook on the global economy also indicates an expected contraction of the global economy by 0.2%. Advanced economies are expected to grow at 2.1% in 2016 while sub-Saharan Africa is expected to grow by 4.3% in 2016. The US dollar performance against the currencies of developing markets will continue to be impacted by the US monetary policy.

Against this backdrop, South African insurers are adopting different strategies to diversify their businesses in order to mitigate the impact of the expected slow growth in the country.

Discovery

Discovery's approach of diversifying its business and entering into other developed insurance markets does not entail starting insurance businesses in these markets; rather, it aims to partner with established insurers to offer the Vitality programme. These insurers benefit from this partnership by being able to use the Vitality programme to change their policyholders' behaviour.

Discovery's partnership with one of the largest insurers in the US, John Hancock, has led to positive results for 2015. Discovery has announced an extension of this partnership through a new partnership with Manulife in Canada, John Hancock's holding company.

This extended partnership is part of Discovery's growth initiatives for 2016.

Discovery also announced its intension to extend its model and venture into retail banking. It has an existing joint venture with FirstRand in respect of the DiscoveryCard business. Discovery has recently acquired an additional 54.99% share in this business.

In the UK, Discovery has been granted its own life insurance licence. Discovery previously ran its life and health insurance businesses in the UK using the Prudential license through a partnership between the two.

Liberty

Liberty acquired a 51% equity stake in East Africa Underwriters Limited, a short-term insurer in Uganda, for R45 million in January 2016. Liberty remains committed to exploring further opportunities for growth in sub-Saharan Africa, including West Africa, but is primarily focused on pursuing the right opportunity.

Liberty launched a real estate investment trust (REIT), the Stanlib Fahari I-REIT, in Kenya in October 2015. This REIT was the first in Kenya, coinciding with the Nairobi Stock Exchange's launch of the REIT market.

MMI

MMI acquired CareCross, a health administrator, for R300 million in order to further diversify its revenue. MMI's performance in India was below expectations in 2015, but it remains optimistic about achieving growth above 8%. MMI will also strategically be increasing its presence in the UK while focusing on growth in sub-Saharan Africa, in particular in the non-life sector in Kenya, Nigeria and Ghana.

Old Mutual

Old Mutual has announced its intention to separate its four large business segments into separate businesses to extract greater value for its shareholders and to allow greater access to capital for each separate business. Old Mutual's distinct businesses include the Old Mutual Emerging Markets (covered in this publication), Nedbank, Old Mutual Wealth and Old Mutual Asset Management business segments.

Old Mutual Emerging Markets also completed its 60.7% acquisition of UAP in East Africa in June 2015. The integration of this business with Old Mutual's business in Kenya has progressed above expectations, and Old Mutual will be looking to list the integrated business on the Nairobi Stock Exchange.

Old Mutual has experienced fast growth in Nigeria and Ghana through the Ecobank distribution channel. Old Mutual also increased its distribution force in West Africa to 670 advisors by December 2015.

Domestically, Old Mutual entered into a new partnership with Telkom. This gives Old Mutual access to Telkom subscribers to offer them funeral cover. This partnership has allowed the Mass Foundation Cluster to increase its base to three million customers.

Sanlam

The Sanlam Group and Santam completed the acquisition of a 30% interest in Saham Insurance in Morocco in March 2016. This is Sanlam's largest acquisition yet. This acquisition is aimed at providing Sanlam with access to Saham's existing market share in Côte d'Ivoire, Gabon, Senegal, and Cameroon in West Africa, as well as Morrocco, Lebanon, Angola and the Middle East. The Saham acquisition increases Sanlam's operating businesses to 60. Sanlam expects to enhance the product offerings in these markets.

Sanlam also increased its interest in Shiram General Insurance in India by 23%. Domestically, MiWay Life insurance was launched and will be written on the Sanlam Life insurance licence.

7. Looking ahead

Given the difficult environment described above, it has become clear that insurers have to quickly break away from 'business as usual' and find new ways to achieve growth. Our PwC 19th Annual Global CEO survey also confirmed other medium- to long-term trends that will disrupt the insurance industry by 2020, more so than most other industries. Chief among these longer-term trends are developments such as FinTech, changing demographics, regulation, the rising significance of emerging-market economies in the longer term, and changing climate and sustainability issues.

FinTech is a dynamic new segment at the intersection of the financial services and technology sectors, where technology-focused start-ups and new market entrants innovate the products and services currently provided by the traditional financial services industry. FinTech is gaining significant momentum globally, using digital technologies to cause significant disruption to traditional value chains in financial services, including insurance. Funding of FinTech start-ups more than doubled in 2015, from R5.6 billion in 2014 to R12.2 billion in 2015. Cutting-edge FinTech companies are redrawing the competitive landscape, blurring the lines that define players in the FS sector. Insurers participating in our 19th PwC Global CEO survey see up to 22% of insurance business being lost to FinTech companies by 2020.

UN population estimates suggest that another 1.15 billion people will be added to the world's population by 2030, bringing the total to 8.5 billion people. Of this growth, 97% will come from emerging markets, including those in Africa. In addition, there will be 390 million more people over 65 by 2030, compared to 2015. This age group will grow by 67% in Africa alone, compared to the 49% increase in the 15–64 age group. The increasing-longevity trend will bring new challenges or opportunities for insurers to adapt and create tailored retirement solutions. It could also split the industry between those focused on serving young consumers and those serving the older ones. Either way, insurers will need to adapt their digital and data analysis capabilities in order to respond quickly to the need for new outcome-based products across the new demographic spectrum.

According to the IMF World Economic Outlook for 2015, the GDPs of the E7 countries grew at an average of 6% per annum between 1994 and 2014, while the G7 average was 2%. We expect emerging markets to continue to grow strongly, buoyed by a growing and more skilled workforce and increasing inflows of capital and technologies. By 2030, seven of the world's top 12 economies will come from emerging markets, compared to 5 in 2011. The majority view in our analyses suggests that insurers will grow their local presence in emerging markets to meet the growing demand from emerging urban middle classes.

Unfortunately, 94% of insurance CEOs surveyed see over-regulation as a threat to their growth prospects, more than any other sector. The majority view was that regulators are becoming more intrusive, demanding detailed insight into operational processes and customer propositions. This could force traditional insurers to exit selected industry segments deemed too risky or complex. New entrants with alternative insurance solutions and customer-centric models could fill this gap.

Scientists predict that average temperatures will increase by well over 2 degrees Celsius in the twenty first century. Yields from rain-fed agriculture will drop by 50% in sub-tropical regions by 2020. The sea level is expected to rise by 23 inches by the end of the century, with a four-inch rise swamping large parts of South East Asia. Total property and infrastructure exposure will rise to $35 trillion by 2070 – an increase of 9%. By 2050, 15% of the world's population would have had to move because of climate change. Already, globally insured natural catastrophe losses have increased from $3.4 billion per year in 1970 to $32.7 billion a year in 2010.

While FinTech, demographic changes and the increasing significance of emerging markets are seen as potentially driving up the growth and profitability of insurers, the increased burden of regulation and the unpredictability of catastrophic events are seen as potentially negative. Insurers who can adapt to use sophisticated analytics and accurately predict their exposure to the increasing frequency and severity of catastrophic events will be better able to manage the negative effects thereof.

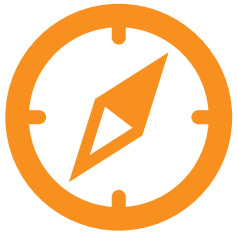
South African insurers are already engaging in projects to improve their technology, not only in order to support and optimise their current business operations but also to support customer-centric projects. Digital technology and data analysis ability will be significant not only to facilitate more real-time engagement with consumers but also to anticipate their changing needs and to manage risks more proactively rather than reactively. Client centricity is in large part supported by advancements in technology.

Discovery is already making strides in using technology to further enhance client engagement. Discovery launched its active rewards programme in partnership with Apple, using the Apple watch to monitor and reward client health improvement as part of the Discovery Vitality programme. The uptake of this programme by over 17 000 of its clients within three months of the launch date is a clear demonstration of changing customer behaviours and their desire for real-time engagement with their insurers.

While insurance penetration levels appear to be relatively high in South Africa, this is concentrated towards the top end of the market. Insurers remain committed to capturing the large uninsured segment of the population and grow their market share. Insurers with a presence in the Rest of Africa continue to be committed to remaining and growing in these markets and looking beyond the short-term challenges experienced. The IMF's outlook on sub-Saharan African economic growth of 4.3% in 2016 and 4.7% in 2017 remains higher than the global forecasted growth of 3.4% in 2016 and 3.6% in 2017.


THE
NEW
ECONOMIC
POLICY
AND
HUMAN RIGHTS

8. Navigation tools: PwC thought leadership



Seizing the future

19th Annual Global CEO Survey

PwC is pleased to share with you a copy of the *Seizing the future – 19th Annual Global CEO Survey*. This report is a summary of our survey findings in the insurance sector. One hundred and one insurance CEOs in 55 countries were interviewed for PwC's 19th Annual Global CEO Survey.

Like many industries, the insurance industry is grappling with rapid technological change, shifts in customer behaviour, and growing competition from new market entrants.

However, change also offers huge opportunities, as other industries will be looking to insurers to help manage increasingly complex and uncertain business and geopolitical risks.

To capitalise on these opportunities, insurers need to embrace new ways of working, novel ways of interacting with customers, and alternatives to traditional products and services.

Key findings

- Insurance is one of the most disrupted sectors (CEOs seeing significant threats to growth from over-regulation, speed of technological change, shifts in consumer spending and behaviour, and new market entrants). Only the entertainment and media industries are facing more disruption.
- 64% of insurance CEOs are changing the way they define and manage risk in the face of significant changes in their own and their clients' risk profiles – with cyber risk and geopolitical risk being high on the list of concerns.

https://www.pwc.com/gx/en/ceo-survey/2016/industry-focus/insurance-key-findings-global-ceo-survey-2016.pdf

Wearable technology survey

This survey focuses on the willingness of respondents to share their information with others, including health information. One of the most enticing benefits for the willingness of respondents to wear such devices and share their information with others would be the reduction of their insurance premiums and the use of the information for faster processing of insurance claims.

While the survey was mainly focused on wearables for employees, the data generated by these personal wearable devices can also help insurers get to know their customers' health in real time and manage the risks faced by policyholders on a real-time basis. This is becoming increasingly important as insurers are exploring the use of Big Data as a pillar of client centricity.

http://www.pwc.co.za/en/assets/pdf/wearables-in-the-workplace.pdf

Blurred lines: How FinTech is shaping Financial Services

FinTech is changing the Financial Services (FS) industry from the outside in. We estimate that within the next three to five years, cumulative investment in FinTech globally could well exceed $150bn, and financial institutions and tech companies are stepping over one another for a chance to get into the game. The result is a new competitive landscape and playing field. As the lines between traditional finance, technology firms, e-commerce and telecom companies are blurring, many innovative solutions are emerging and there is clearly no straightforward solution to navigate this FinTech world.

The insights shared in this report are based on a unique and comprehensive global survey of over 500 senior FS and FinTech executives from 46 countries, looking at the current and emerging trends in FinTech. We complemented the study with our own insight and analysis into why FinTech is disruptive and how different organisations can and should respond to its challenges.

Some headlines:

- Traditional FS firms fear almost a quarter of their business is at risk from FinTechs.
- FinTech companies are more bullish, believing they could capture a third of incumbents' business.

The survey covers both incumbent FS institutions and FinTech companies, assessing their attitudes, current and emerging trends associated with FinTech and mobile technology, and the implications for FS incumbents. It looks at consumer behaviour trends, disintermediation of the FS industry, threats to incumbent revenue, blockchain, fund transfers and payments, cost savings, and how FS firms must adapt to FinTechs (and not the other way round). The report is complemented by proprietary research from DeNovo, a new platform powered by Strategy& and PwC, which provides insights and intelligence on where and how innovations are happening (or not).

http://www.pwc.com/fintechreport

Insurance Banana Skins 2015

PwC is proud to present the results from our biennial survey: *Insurance Banana Skins*, which examines risks facing the insurance industry and identifies those that appear most urgent to insurance practitioners and close observers of the insurance scene around the world. The survey was conducted between March and April 2015, and is based on 806 responses from 54 countries.

Nearly two thirds of the respondents were from the primary insurance industry. There were also contributions from the reinsurance and broking sectors, and non-practitioners such as regulators, consultants, analysts and professional services.

http://www.pwc.com/gx/en/insurance/banana-skins/assets/pwc_insurance_banana_skins_2015.pdf

Insurance 2020 & beyond: Necessity is the mother of reinvention

In 2010, we began carrying out scenario analyses around the trends reshaping insurance and what the industry would look like by 2020. Our ideas drew on interviews with more than a thousand executives worldwide. We've released several publications over the last four years that describe our findings.

Insurers and industry stakeholders have been using *Insurance 2020* to help them judge the implications of these trends for their particular organisations and determine the strategies needed to respond. Insurance 2020's central message is that whatever organisations are doing in the short term – whether dealing with market movements or just going about day-to-day business – they need to be looking at how to keep pace with the sweeping social, technological, environmental, economic and political (STEEP) developments ahead.

Now that we're at the mid-point between 2010 and 2020, we thought it would be useful to review the developments we've seen against our initial projections and look ahead to the major trends that we're likely to see over the next five years and beyond.

http://www.pwc.com/gx/en/insurance/publications/assets/pwc-insurance-2020-and-beyond.pdf

Insurance 2020 & beyond: Reaping the dividends of cyber resilience

Businesses across all sectors are beginning to recognise the importance of cyber insurance in today's increasingly complex and high-risk digital landscape. In turn, many insurers and reinsurers are looking to take advantage of what they see as a rare opportunity to secure high margins in an otherwise soft market. Yet many others are still wary of cyber risk. But, how long can they remain on the side lines?

Cyber insurance could soon become a client expectation, and insurers that are unwilling to embrace it risk losing out on other business if cyber products don't form part of their offering. In the meantime, many insurers face considerable cyber exposures within their technology, errors and omissions, general liability and other existing business lines.

Cyber criminals are constantly probing for weaknesses and adapting their tactics. And while our image of the perpetrators often centres on activists or organised gangs, they could just as easily be employees. The targets are also broadening. A clear example came from the insurance sector itself when a company was hacked for the tracking data they held on cargo shipments.

These factors make cybercrime a costly threat that is hard to detect and difficult to combat. From an insurance perspective, while analogies are often made with terrorism or catastrophe risks, cyber risk is in many ways a risk like no other.

http://www.pwc.com/gx/en/insurance/publications/assets/reaping-dividends-cyber-resilience.pdf

Insurance 2020 & beyond: Equipping your business for the global tax revolution

Insurance 2020 & beyond: Equipping your business for the global tax revolution is the latest in a series of viewpoints exploring the megatrends that are reshaping the commercial and operating environments for insurers worldwide. The transformational developments stretch from hyper-connectivity to more exacting customer expectations, and from the shifts in public attitudes to the increasing cost and complexity of regulation.

Our clients are using the *Insurance 2020* materials to help them judge the implications of these trends for their particular organisations and determine the strategies needed to respond. The central message from *Insurance 2020* is that whatever organisations are doing in the short term – be this dealing with market instability or just going about their day-to-day business – they need to be looking at how to keep pace with the sweeping social, technological, economic, environmental and political (STEEP) developments that are transforming the world.

http://www.pwc.com/gx/en/insurance/publications/assets/pwc-insurance-2020-tax.pdf

Turning disruption to your advantage

18th CEO insurance industry survey summary

The disruptive forces facing the insurance sector could jeopardise profitability and growth, but they could also create valuable new openings. Are insurers focusing closely enough on the emerging threats and opportunities? Are they moving quickly enough to keep pace with the changing market realities?

http://www.pwc.com/gx/en/ceo-survey/2015/industry/assets/ceo-survey-2015-indepth-analysis-insurance.pdf

9. Key industry statistics

Long-term insurers

R millions	Discovery				Liberty				MMI				Old Mutual (Emerging Markets)				Sanlam				Combined		
	2015	2014	2013	2015 vs 2014	2015	2014	2013	2015 vs 2014	2015	2014	2013	2015 vs 2014	2015	2014	2013	2015 vs 2014	2015	2014	2013	2015 vs 2014	2015	2014	2013
Group consolidated IFRS earnings																							
Total comprehensive income attributable to equity holders	6 073	5 157	3 161	17.8%	4 010	3 864	3 936	3.8%	3 414	2 874	3 021	18.8%	7 067	7 059	5 119	0.1%	12 863	9 393	9 030	36.9%	33 427	28 347	24 267
Equity attributable to equity holders of parent	31 311	20 599	16 332	52.0%	21 739	19 487	17 654	11.6%	24 838	24 023	24 191	3.4%	41 186	34 722	28 829	18.6%	53 621	46 037	40 965	16.5%	172 695	144 868	127 971
Return on average equity	23.4%	27.9%	21.0%	-16.2%	19.5%	20.8%	23.8%	-6.5%	14.0%	11.9%	12.8%	17.2%	18.6%	22.2%	18.8%	-16.2%	25.8%	21.6%	23.3%	19.6%	21.1%	20.8%	20.0%
Group consolidated embedded value																							
Group embedded value	56 525	45 454	39 782	24.4%	41 635	40 024	36 067	4.0%	40 176	39 753	37 388	1.1%	56 311	55 944	51 472	0.7%	103 506	95 936	84 409	7.9%	298 153	277 111	249 118
Group embedded value profit	6 535	6 551	6 145	-0.2%	4 120	6 031	5 281	-31.7%	2 885	5 472	5 971	-47.3%	7 331	5 790	8 463	26.6%	12 226	15 583	13 347	-21.5%	33 097	39 427	39 207
Return on group embedded value	14.4%	16.5%	18.4%	-12.7%	10.3%	16.7%	16.1%	-38.4%	7.3%	14.6%	17.8%	-50.4%	13.1%	11.2%	18.6%	16.5%	12.70%	18.5%	17.7%	-31.2%	11.9%	15.8%	17.8%
Embedded value of South African new business																							
Present value of new business premiums (PVNBP)	21 132	20 167	16 426	4.8%	38 886	44 916	37 753	-13.4%	51 513	42 957	37 708	19.9%	64 417	51 664	46 292	24.7%	42 905	46 743	34 471	-8.2%	218 853	206 447	172 650
Embedded value of new business (VNB)	1 182	1 260	1 028	-6.2%	684	914	806	-25.2%	825	775	691	6.5%	2 190	1 702	1 746	28.7%	1 040	1 282	1 047	-18.9%	5 921	5 933	5 318
Value of new business margin	5.6%	6.2%	6.3%	-10.5%	1.8%	2.0%	2.1%	-11.5%	1.6%	1.8%	1.8%	-11.2%	3.4%	3.3%	3.8%	3.2%	2.4%	2.7%	3.0%	-11.6%	2.7%	2.9%	3.1%
Average payback period (years)	8.1	8.6	8.1	-6.4%	5.4	5.9	5.6	-9.1%	7.9	7.7	7.3	3.1%	6.7	6.7	6.9	0.1%	4.4	5.3	4.9	-15.9%	6.1	6.4	6.3

R millions	Discovery				Liberty				MMI				Old Mutual (Emerging Markets)				Sanlam				Combined		
	2015	2014	2013	2015 vs 2014	2015	2014	2013	2015 vs 2014	2015	2014	2013	2015 vs 2014	2015	2014	2013	2015 vs 2014	2015	2014	2013	2015 vs 2014	2015	2014	2013
Embedded value of Rest of Africa new business																							
Embedded value of new business (VNB)	N/A	N/A	N/A	N/A	45	27	33	66.0%	69	46	58	50.0%	257	246	320	4.5%	263	280	234	-6.3%	633	599	645
Value of new business margin	N/A	N/A	N/A	N/A	6.6%	6.5%	9.1%	1.0%	2.8%	2.4%	3.4%	16.0%	4.3%	5.5%	7.3%	-1.2%	5.9%	7.4%	7.4%	-20.3%	4.5%	5.7%	6.7%
Present value of new business premiums (PVNBP)	N/A	N/A	N/A	N/A	679	413	363	64.4%	2 454	1 898	1 704	29.3%	6 011	4 463	4 365	34.7%	5 004	3 797	3 172	31.8%	14 148	10 571	9 604
Costs																							
Acquisition costs	2 383	2 139	1 979	-4.5%	4 130	4 109	3 754	-1.4%	4 457	4 088	2 803	2.1%	4 523	4 157	3 681	-3.6%	2 706	2 424	2 265	4.2%	18 199	16 917	14 482
General marketing and administration expenses	1 993	1 827	1 540	9.1%	7 854	7 064	6 569	11.2%	5 661	5 898	4 080	-4.0%	19 938	17 898	16 456	11.4%	4 903	4 561	4 268	7.5%	40 349	37 248	32 913
Annualised Premium Equivalent (APE)	2 617	2 337	2 035	12.0%	7 211	7 570	6 789	-4.7%	6 523	5 606	4 962	16.4%	9 627	7 731	6 709	24.5%	9 656	8 842	6 984	9.2%	35 634	32 086	27 479
Investment performance																							
Invested assets	63 264	48 787	38 512	29.7%	406 713	365 116	339 308	11.4%	426 982	404 278	361 379	5.6%	652 618	594 828	546 274	9.7%	595 036	542 519	486 170	9.7%	2 144 613	1 955 528	1 771 643
Investments	55 886	44 129	35 888	26.6%	387 408	351 131	329 438	10.3%	395 133	378 269	339 514	4.5%	627 792	576 396	534 038	8.9%	574 895	526 260	467 770	9.2%	2 041 114	1 876 185	1 706 648
Cash and cash equivalents	7 378	4 658	2 624	58.4%	19 305	13 985	9 870	38.0%	31 849	26 009	21 865	22.5%	24 826	18 432	12 236	34.7%	20 141	16 259	18 400	23.9%	103 499	79 343	64 995
Income on invested assets	4 145	3 492	3 424	18.7%	32 059	35 070	46 774	-8.6%	32 749	37 471	49 941	-12.6%	46 423	59 346	77 116	-21.8%	39 183	51 382	67 038	-23.7%	154 559	186 761	244 293
Return on average invested assets	7.4%	8.00%	10.2%	-7.5%	8.31%	10.0%	14.7%	-16.6%	7.9%	9.8%	14.8%	-19.5%	7.4%	10.4%	15.0%	-28.4%	6.9%	10.0%	14.9%	-31.0%	7.54%	10.02%	14.90%
Capital and solvency																							
Capital adequacy requirement cover	3.9	3.5	3.9		3.0	3.1	2.6		2.8	2.7	2.6		3.2	3.1	3.3		5.8	4.5	4.5				

Short-term insurers

R millions	M&F				Outsurance				Santam				Combined Results			
	2015	2014	2013	2015 vs 2014	2015	2014	2013	2015 vs 2014	2015	2014	2013	2015 vs 2014	2015	2014	2013	2015 vs 2014
Revenue																
Gross written premiums	14 297	12 189	11 315	17.3%	13 549	11 587	9 252	16.9%	24 319	22 710	20 631	7.1%	52 165	46 486	41 198	12.2%
Movement in unearned premium liability	N/A	N/A	-383		-733	-858	-677	-14.5%	-528	-532	-334	-0.8%	-1 261	-1 390	-1 394	-9.2%
Outward reinsurance	N/A	N/A	-2 265		-711	-379	-289	87.6%	-5 435	-5 075	-3 731	7.1%	-6 146	-5 454	-6 285	12.7%
Movement in reinsurance unearned premiums	-	-	-		-	-	-	-	167	119	185	40.3%	167	119	185	40.3%
Net earned premiums	10 579	9 457	8 667	11.9%	12 105	10 350	8 286	17.0%	18 523	17 222	16 751	7.6%	41 207	37 029	33 704	11.3%
Fee and commission income	N/A	N/A	378		57	-	-	100.0%	1 236	1 119	600	10.5%	1 293	1 119	978	15.6%
Expenses																
Claims and benefits	-6 072	-6 499	-8 396	-6.6%	-7 199	-5 707	-4 611	26.1%	-13 980	-14 315	-13 807	-2.3%	-27 251	-26 521	-26 814	2.8%
Reinsurance recoveries	N/A	N/A	1 842		586	296	318	98.1%	2 470	3 437	2 200	-28.1%	3 056	3 733	4 360	-18.1%
Acquisition costs	-1 783	-1 526	-1 706	16.8%	-40	-30	-20	32.8%	-3 240	-2 983	-2 721	8.6%	-5 063	-4 539	-4 447	11.5%
Operating and administrative expenses	-1 946	-1 294	-1 163	50.4%	-3 584	-3 065	-1 829	16.9%	-3 277	-3 050	-2 562	7.4%	-8 807	-7 409	-5 554	18.9%
Key ratios																
Claims ratio	57.4%	68.7%	75.6%	-16.5%	54.6%	52.3%	51.8%	4.5%	62.1%	63.2%	69.3%	-1.6%	58.7%	61.5%	66.6%	-4.6%
Acquisition cost ratio	16.9%	16.1%	15.3%	4.7%	-0.1%	0.3%	0.2%	-147.4%	10.8%	10.8%	12.7%	0.0%	9.1%	9.3%	10.3%	-1.0%
Expense ratio	18.4%	13.7%	13.4%	34.3%	29.6%	29.6%	22.1%	0.0%	17.7%	17.7%	15.3%	-0.1%	21.4%	20.0%	16.5%	6.8%
Combined ratio	92.6%	98.5%	104.4%	-5.9%	84.1%	82.2%	74.1%	2.3%	90.6%	91.7%	97.2%	-1.1%	89.2%	90.8%	93.4%	-1.7%
Underwriting margin	7.4%	1.5%	-4.4%	390.3%	15.9%	17.8%	25.9%	-10.7%	9.4%	8.3%	2.8%	12.6%	10.8%	9.2%	6.6%	16.8%
Investment performance																
Invested assets	N/A	N/A	N/A		9 518	7 496	6 060	27.0%	18 083	16 186	15 085	11.7%	27 601	23 682	21 145	16.6%
Investments	N/A	N/A	N/A		3 981	3 838	3 692	3.7%	14 734	13 625	12 742	8.1%	18 715	17 463	16 434	7.2%
Cash and cash equivalents	N/A	N/A	N/A		5 537	3 657	2 368	51.4%	3 349	2 561	2 343	30.8%	8 886	6 218	4 711	42.9%
Income on invested assets	N/A	N/A	N/A		352	310	342	13.6%	1 445	1 093	1 231	32.2%	1 797	1 403	1 573	28.1%
Return on average invested assets	N/A	N/A	8.5%		4.1%	4.6%	6.0%	-9.5%	8.4%	7.0%	8.5%	20.6%	7.0%	6.3%	14.9%	12.0%
International solvency margin																
Equity attributable to equity holders of parent	N/A	3 406	3 190		5 359	4 471	3 853	19.9%	8 081	7 010	6 132	15.3%	13 440	14 887	13 175	-9.7%
Total comprehensive income attributable to equity holders	N/A	N/A	166		1 532	1 544	1 338	-0.8%	2 608	1 587	1 263	64.3%	4 140	3 131	2 767	32.2%
Return on average equity	N/A	N/A	-4.9%		31.2%	37.1%	36.3%	-16.0%	34.6%	24.2%	21.7%	43.1%	33.2%	22.3%	42.0%	48.9%
International solvency margin	N/A	36.0%	35.0%		41.7%	40%	43.0%	4.6%	48.0%	45.4%	42.2%	5.6%	45.4%	37.9%	40.3%	19.9%

10. Basis of information provided

The aim of this publication is to consider the results of the South African insurance businesses of the companies listed in Section 9 for the calendar year ended 31 December 2015. Where companies have 30 June year ends, the financial information has been reconstituted to reflect the calendar year ended 31 December.

The embedded value information for Discovery represents the Discovery Life and Invest segments and excludes the Health, Vitality, VitalityHealth and VitalityLife segments, which do not represent South African life insurance operations.

Old Mutual changed its segments in 2014. The Emerging Market segment, which primarily included Old Mutual South Africa, but also developing markets in the rest of Africa, Asia and Latin America (for which separate information is not available), now also includes M&F. Information for Old Mutual and M&F were separated where possible. However, group IFRS earnings and investment performance provides a combined view for Emerging Markets and cannot be separated due to insufficient information.

The embedded value new business information included in this publication relates to South African business only. Old Mutual is the only company in this publication that follows the Market Consistent Embedded Value (MCEV) principles as published by the European CFO Forum. The other companies apply the principles set out in APN107, as published by the Actuarial Society of South Africa.

Other pertinent matters to note regarding the information presented:

- Return on average equity has been calculated as total comprehensive income attributable to the equity holders of the parent divided by the average shareholders' equity (opening equity plus closing equity divide by two).
- The return on average invested assets has been calculated from the information provided by the insurers as income on invested assets divided by the average total invested assets (opening invested assets plus closing invested assets divide by two).
- The return on embedded value is calculated as embedded value earnings divided by the opening embedded value.
- Where companies have classified some of their financial assets as 'available for sale financial assets', the fair value gains and losses recognised in 'other comprehensive income' have been reclassified in the income statement for companies to be comparable with their peers.
- The international solvency margin has been calculated from the information provided by the short-term insurers as follows: shareholders' equity divided by gross written premium net of reinsurance. The only exception is Santam, whichincludes its long-term debt as part of share capital for purposes of this calculation.

11. Contacts

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