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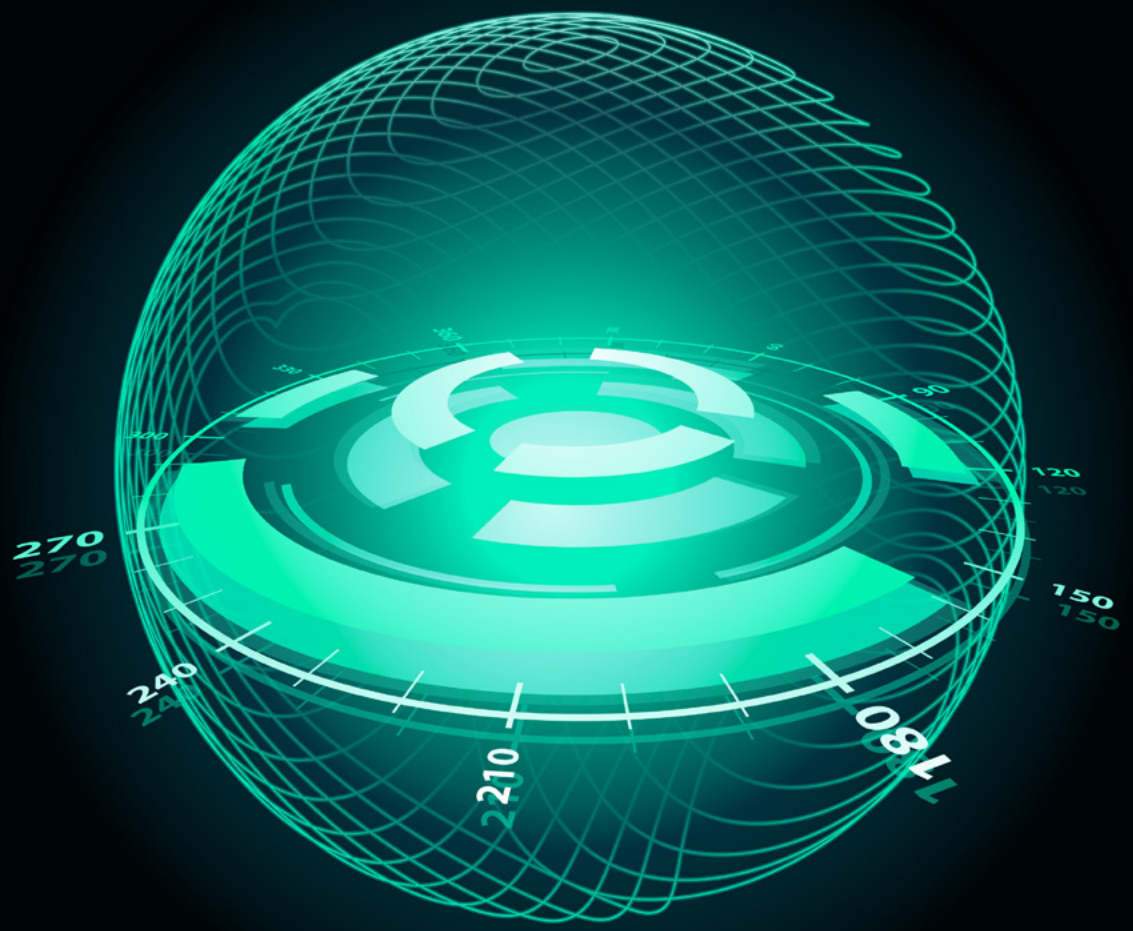
Overview of the 2020 financial and embedded value results of the largest five listed insurance groups in South Africa



South African Insurance Outlook 2021 | Navigating the insurance landscape

Overview of the 2020 financial and embedded value results of the largest five listed insurance groups in South Africa

The completion of the 31 December 2020 financial reporting cycle by the listed insurance groups in South Africa offers an opportunity for reflection. Their results, achieved against the backdrop of a global pandemic, are scattered with references to muted new business volumes, increased claims and short-term COVID-19 related provisions for poorer expected persistency and mortality.

While these features were an unavoidable reality for the 12-month reporting period ended 31 December 2020, the same results also point to an industry that delivered for its policyholders and the broader economy in uncertain times. The results show the impact of premium holidays and reductions, significant business interruption (BI) claims and interim relief payments to policyholders. These customer relief measures, coupled with the wider assistance offered by the industry in the form of relief funds, had a positive impact in South Africa, as well as the other countries where the groups have a foothold.

In this article we comment on themes evident in the International Financial Reporting Standards (IFRS) results, regulatory capital position and embedded value (EV) results of the largest five insurance groups 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.

IFRS results and regulatory capital position

Three of the five insurance groups referenced in this article 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 2020 interim results and historic announcements to calculate pro forma results for a 12-month period ended 31 December 2020. The adjacent table summarises the IFRS results for the five insurance groups, on the basis described. Where the article refers to "total" or "aggregated" it is the sum of the five insurance groups.

Despite the local equity markets drop in value in March 2020 the markets recovered during the remainder of the year to end relatively unchanged compared to the start of 2020 (using SWIX as a reference). That recovery allowed insurance groups, on an aggregated basis, to report a respectable 3.8% increase in **assets**. Insurance groups are also impacted by the value of assets throughout the year though. Old Mutual points out in their results commentary that the average market levels during 2020 were 6.7% lower than the prior year, which negatively impacted asset-based fees for insurance groups that manage and administer customer assets.

The aggregated **equity** for the insurance groups decreased by R15.6 billion, or 6.0%. The lower equity is mostly a function of the aggregated **loss after tax** of R4.7 billion reported by the insurance groups as well as ordinary dividends paid of R12.7 billion (2019: R16.2 billion). The dividend declarations during 2020 and into 2021 were a mixed bag ranging from some groups withholding dividends to maintaining past dividend policies, but with a downward adjustment for specific uncertainties.

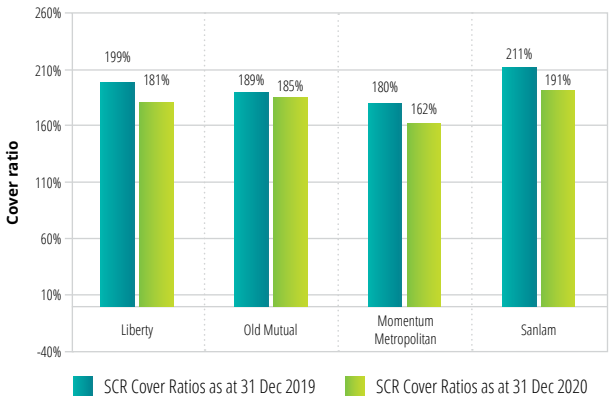
Consolidated results of the five large listed insurance groups in South Africa as at and for the 12 months ended 31 December 2020

Rand million	**Old Mutual**			**Sanlam**			**Momentum Metropolitan**		
	2020	2019	*% change*	2020	2019	*% change*	2020	2019	*% change*
Total assets	940 682	910 902	*3.3%*	943 796	900 229	*4.8%*	521 209	511 369	*1.9%*
Total liabilities	-871 359	-832 977	*4.6%*	-866 572	-820 869	*5.6%*	-497 861	-486 956	*2.2%*
Equity	69 323	77 925	*-11.0%*	77 224	79 360	*-2.7%*	23 348	24 413	*-4.4%*
Profit/(loss) before tax	-3 272	13 900	*-123.5%*	7 439	14 561	*-48.9%*	1 890	5 885	*-67.9%*
Tax	-2 076	-4 245	*-51.1%*	-3 805	-5 756	*-33.9%*	-2 202	-3 224	*-31.7%*
Profit/(loss) after tax	-5 348	9 655	*-155.4%*	3 634	8 805	*-58.7%*	-312	2 661	*-111.7%*

Rand million	**Liberty**			**Discovery**			**Total**		
	2020	2019	*% change*	2020	2019	*% change*	2020	2019	*% change*
Total assets	475 598	461 674	*3.0%*	227 280	210 328	*8.1%*	3 108 565	2 994 502	*3.8%*
Total liabilities	-447 601	-429 285	*4.3%*	-182 145	-165 775	*9.9%*	-2 865 358	-2 735 862	*4.7%*
Equity	27 997	32 389	*-13.6%*	45 135	44 553	*1.3%*	243 027	258 640	*-6.0%*
Profit/(loss) before tax	-2 219	6 297	*-135.2%*	434	7 615	*-94.3%*	4 272	48 258	*-91.1%*
Tax	-403	-2 662	*-84.9%*	-461	-1 249	*-63.1%*	- 8 947	-17 136	*-47.8%*
Profit/(loss) after tax	-2 622	3 635	*-172.1%*	-27	6 366	*-100.4%*	- 4 675	31 122	*-115.0%*

Despite the reduction in equity the insurance groups still reported relatively healthy regulatory Solvency Cover Ratios (SCRs). Refer to the graph below illustrating some of the insurance group's SCR ratios:

SCR Cover Ratios



It is not always easy to make direct comparisons between the IFRS results of the individual insurance groups as their accounting policies for the recognition of negative reserves and revenue are often not consistent, and the level of prudence applied in setting policyholder liabilities varies. For example, in the current year Sanlam reported that it had previously created a pandemic reserve of R760 million that was now to be utilised. By contrast, most other insurers did not previously hold any such reserve. Suffice to say that even if pandemic reserves were commonplace these reserves would unlikely have been sufficient to absorb all that 2020 brought to bear.

The current year's results were achieved against the backdrop of muted economic activity in Africa, even before the pandemic hit. South Africa's Gross Domestic Product contracted by 7% in 2020, and more severely in some other African countries.

On an aggregated basis the insurance groups' **profit before tax** of R48.3 billion reported in 2019 reduced to R4.3 billion in 2020 (-91%). The financial results reflect the impact of:

- *Lower new business volumes* as adviser productivity, in the absence of face-to-face sales, was significantly impacted during the initial lock down period
- *COVID-19 customer support mechanisms,* such as premium holidays, and other direct financial support
- *Increased death claims* – the Association for Savings and Investment South Africa (ASISA) noted that the South African life assurance industry recorded 116 774 more death claims in 2020 than it did in 2019, an increase of 37%
- *Poorer persistency for life insurance policies* – while most insurers commented that the actual lapse experience in the current year tracked favourably against expectations as policyholders opted to hold onto their insurance policies in uncertain times, the assumptions for short-term future terminations have been bolstered
- *Significantly lower investment returns on shareholder assets* coupled with a *reduction in asset-based fees on customer assets* (following on from lower assets under management during the year)
- *Improved non-life personal lines underwriting results* – lower personal lines claims volumes, particularly for motor vehicles, in the first half of the year during the extended national lockdown enforced by government
- *Relief payments to clients in the hospitality and leisure sector coupled with significant liabilities created to settle BI claims.*

  For example, Santam as the largest short-term insurer in the country established a claims provision of R3 billion, net of reinsurance for its BI exposure. The industry's accounting for BI claims at 31 December 2020 followed the rulings in both South Africa and the United Kingdom courts that addressed the uncertainty around the application of BI clauses. These proceedings confirmed that cover should be provided for BI losses caused by the government enforced national lockdown, provided there was an instance of COVID-19 within the defined radius of the policyholder's business. Insurers have accepted the decisions of the courts, although further legal processes afoot to confirm the length of the indemnity period that applies.

A key feature of many of the results announcements is the short-term provisions created for the anticipated impacts of worsening mortality, morbidity and persistency experience related to COVID-19. The provisions for those groups that disclosed them explicitly total more than R10 billion at 31 December 2020. Some groups noted that their provisions needed to be bolstered in the second part of 2020 as the actual experience was more severe than their initial modelling, or additional information had become available. For example, Momentum Metropolitan Holdings note in their interim results announcement: *"Mortality data from the South African Medical Research Council, indicates that recorded Covid-19 deaths are understating the full mortality impact of the pandemic. In line with the SAMRC data, our mortality claims experience to date has been more severe than our initial modelling. We therefore increased our COVID-19 provision...".*

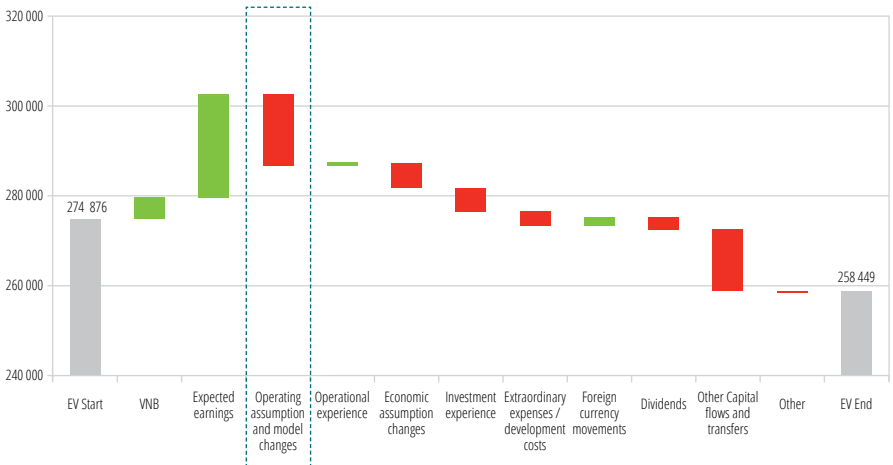
The short-term provisions generally allow for increased mortality claims, higher terminations, reduced return-to-work experience on disability income claims in payment, as well as BI claims.

Embedded Value results

The impact of these short-term COVID-19 assumptions and provisions is also evident in the disclosed **embedded value** results, as can be seen in the graph below under the *'Operating assumption and model changes'*. The graph presents the aggregated position for the insurance groups. The negative impact was observed in both the adjusted net worth (as described in the paragraphs above) and value of in-force business (VIF).

The aggregated EV decreased from R274.9 billion to R258.4 billion, or 6.0%. In addition to the impact of the short-term COVID-19 assumptions, economic/investment variances had a significant impact on reducing the aggregate VIF and therefore EV.

Aggregated change in EV for the 12 months ending 31 Dec 2020
R'millions



The **Value of New Business (VNB)** made a smaller contribution to the aggregate VIF compared to previous years, with most insurance groups suffering a decrease in VNB, some significantly so.

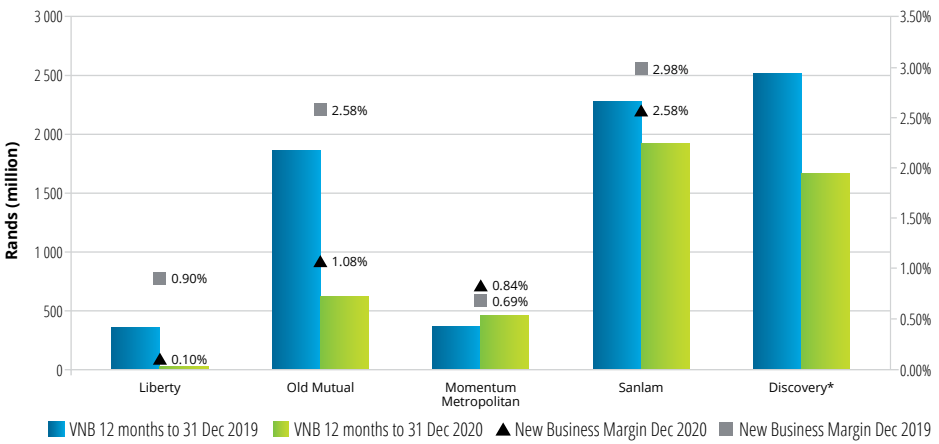
New business volumes deteriorated as traditional face-to-face distribution channels took strain in generating sales, with mixed success in transitioning to digital channels.

The slowdown in the economy and the pressure on household incomes further added to lower new business volumes, although arguably the increased need for life and disability insurance during a pandemic may have had an offsetting impact. Several insurers indicated marked increases in the sale of conventional annuity business.

VNB margins also decreased, with most insurers indicating higher per policy expenses being the key driver. Insurers with fixed distributions costs (e.g. workforce agents) were harder hit due to their inability to reduce these costs as sales volumes reduced. Some insurance groups observed a shift towards more affordable products, as well as policyholders reducing their cover or benefits, generally resulting in lower margins for new and exciting policies.

While there is largely consistency in how insurance groups went about setting up their short-term COVID-19 provisions/reserves, it is unclear to what extent it pulls through to the VNB assumptions. For example, there are limited disclosures on the extent to which insurance groups allowed for changes in future mortality and persistency experiences, related to COVID-19, in the VNB numbers.

Value of New Business and VNB Margins
for the 12 months ended 31 December 2020 and 2019



**Discovery group VNB margin not disclosed.*

In summary

The record books may show 2020 as a year in which reported financial results were well below expectations, it is by no means the full story. It was a year where the industry again showed its resilience, while at the same time positively impacting the lives of its customers at a time of great financial need. Perhaps less obvious, it was also a year where the industry made meaningful strides in changing its operating model through introducing digital capabilities that will transform the industry for many years to come. While it might be somewhat difficult for the authors of this article to say, being an accountant and an actuary, but perhaps 2020 is a year in which we need to look beyond just the numbers to see the full picture.

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