

An overview of the experience of long-term insurers in South Africa for 2015



FINANCIAL
SERVICES
BOARD

Introduction

- Representative South African Statutory Valuation Method bases reported in 2015, including the following:
 - Valuation assumptions
 - Actual experience for certain key elements
 - Stress test results
 - CPR 2015 Q2 – 2016 Q2 results





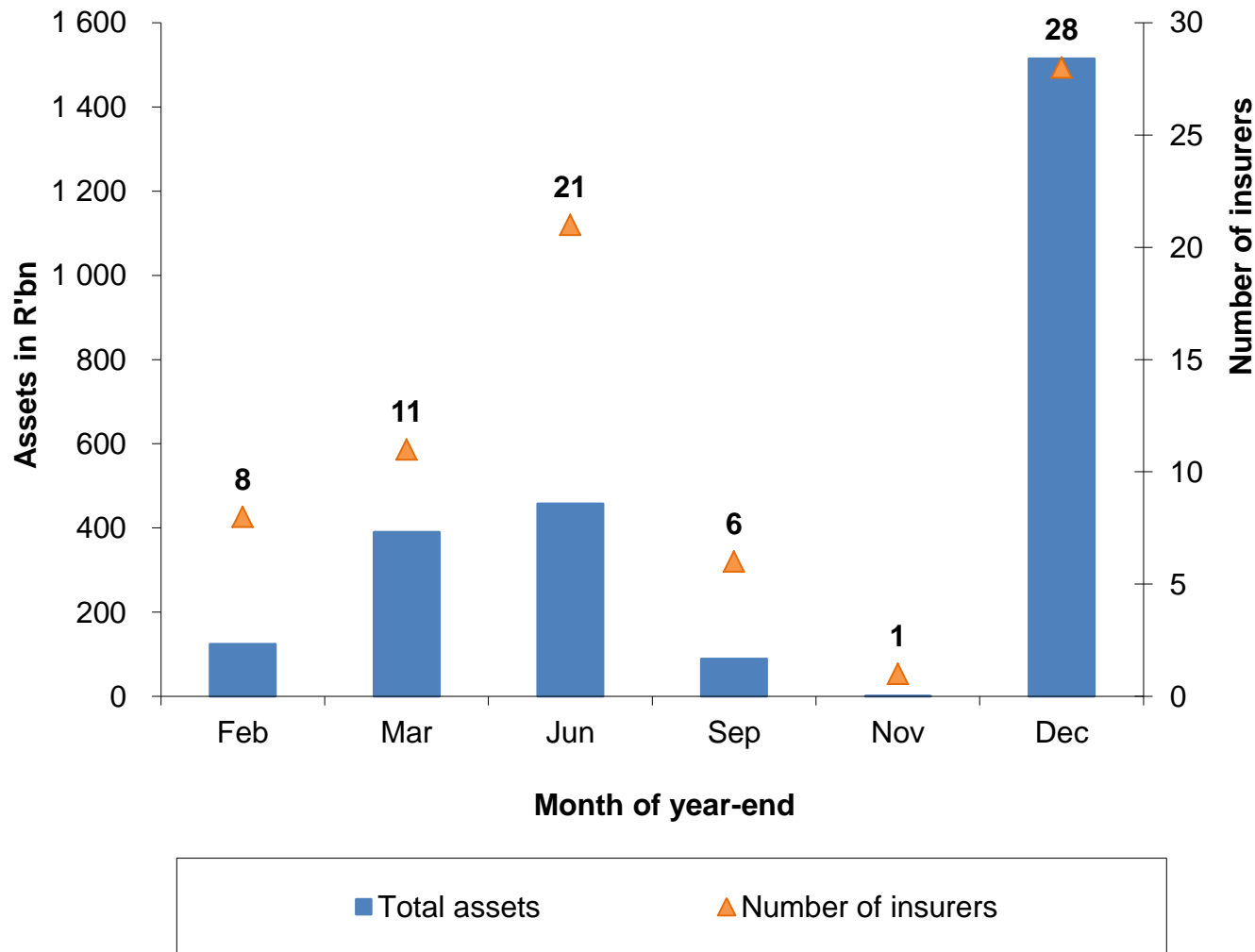
Overview of the long-term insurance market in 2015

Rankings by Assets

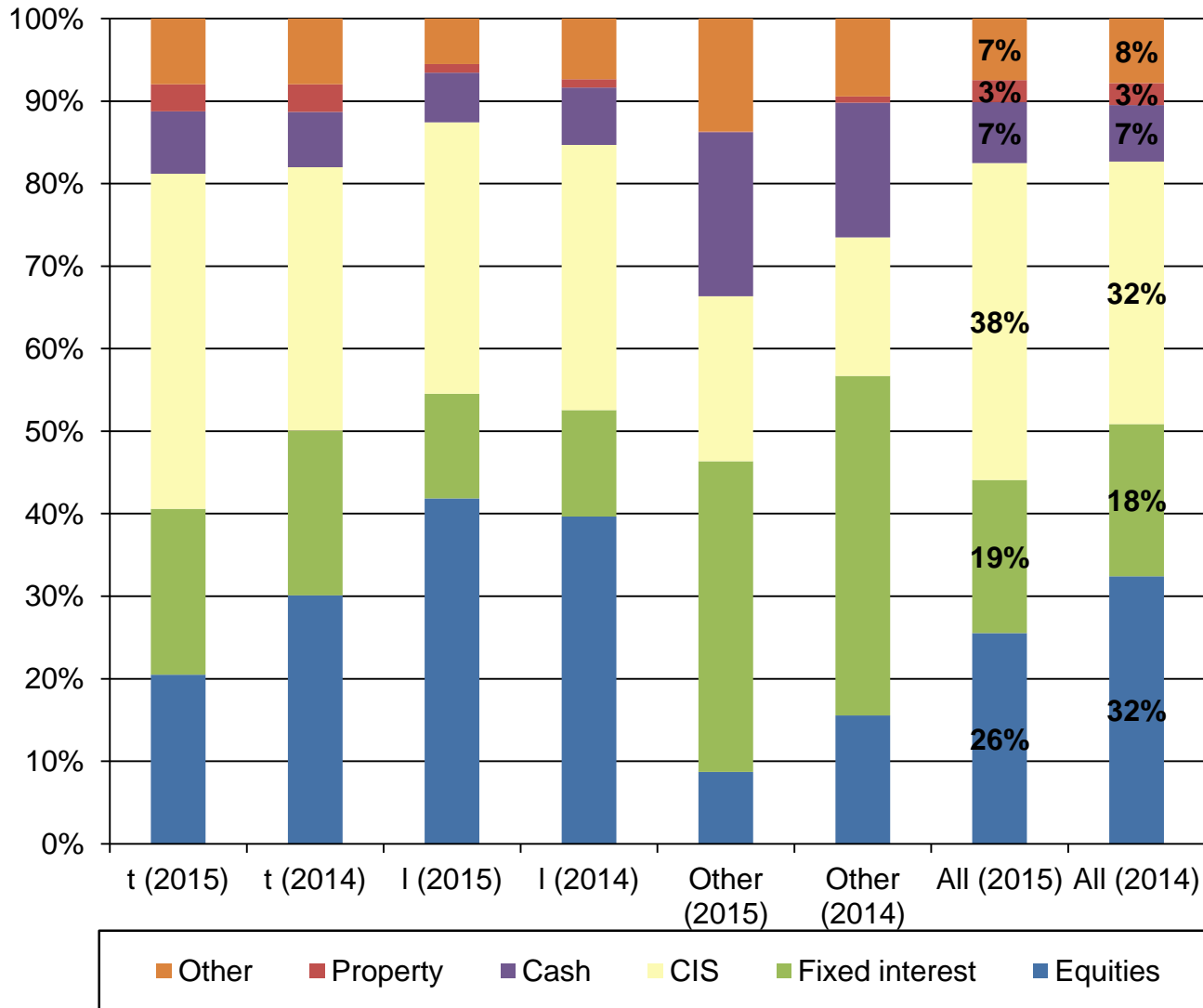
Rank	Insurer	Industry	% of market assets
1	Old Mutual Life	Typical	23.6%
2	Sanlam Life	Typical	15.7%
3	MMI Group	Typical	14.2%
4	Liberty	Typical	13.6%
5	Investment Solutions	Linked	9.8%
6	Investec Assurance	Linked	4.4%
7	Allan Gray	Linked	4.2%
8	Coronation Life	Linked	2.3%
9	Discovery Life	Typical	1.7%
10	PPS	Typical	1.1%



Number of insurers per year-end



Total Asset composition

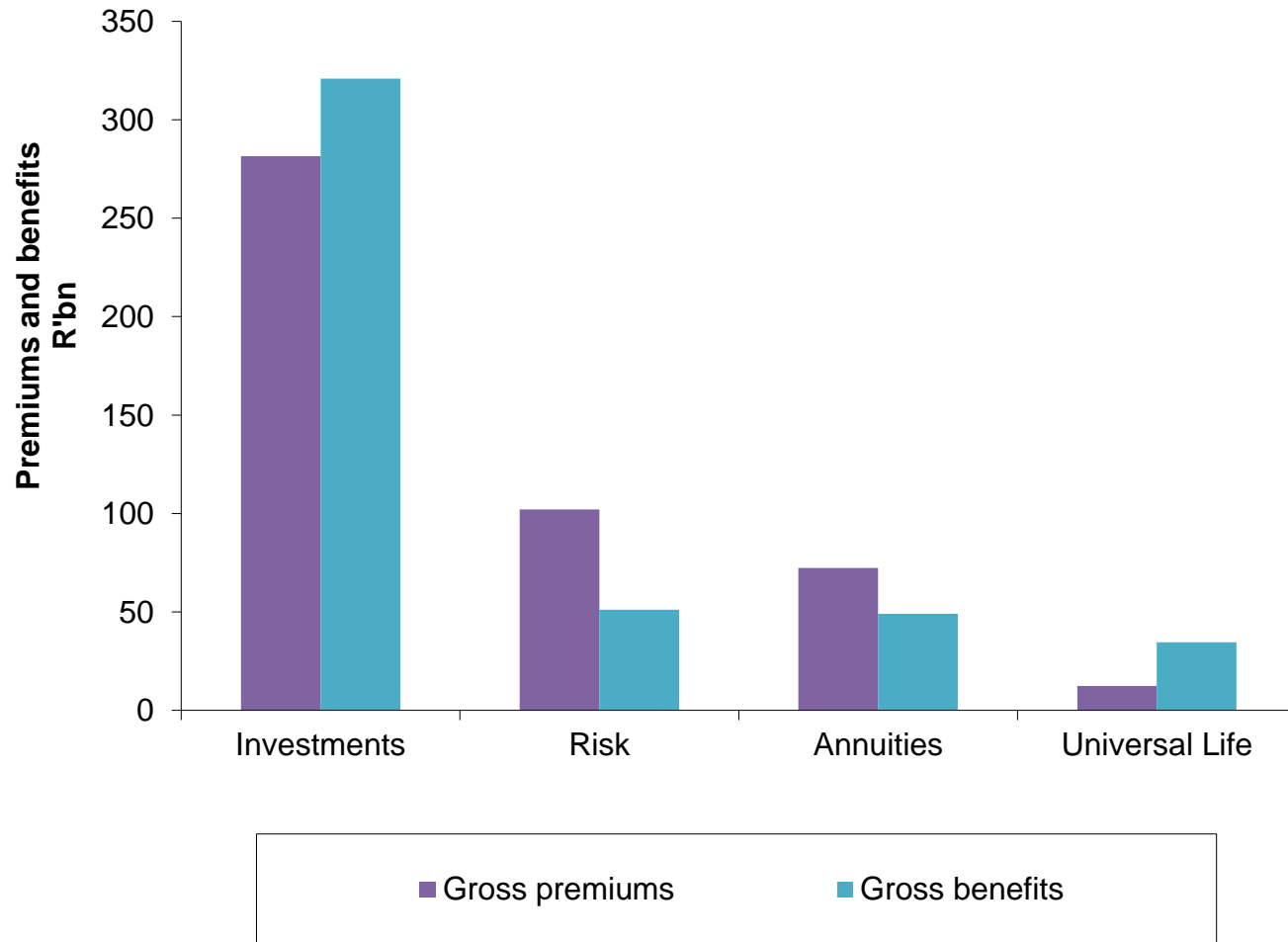


Key indicators - CAR

	2015	2014	2013
Total assets (R'bn)	2 575.8	2 430.0	2 135.8
Total liabilities (R'bn)	2 422.5	2 286.6	2 005.1
Excess assets (R'bn)	153.3	143.5	130.7
CAR BMA (R'bn)			
	86.6	69.4	64.4
CAR AMA (R'bn)			
	40.4	41.1	37.3
CAR AMA/ CAR BMA			
	47%	59%	58%
CAR Cover (Average)			
	3.80	3.49	3.50
CAR Cover (Median)			
	2.67	2.85	2.73

Premiums and Benefits by Business class

R468bn premiums | R456bn benefits



Key indicators – Premiums and Benefits

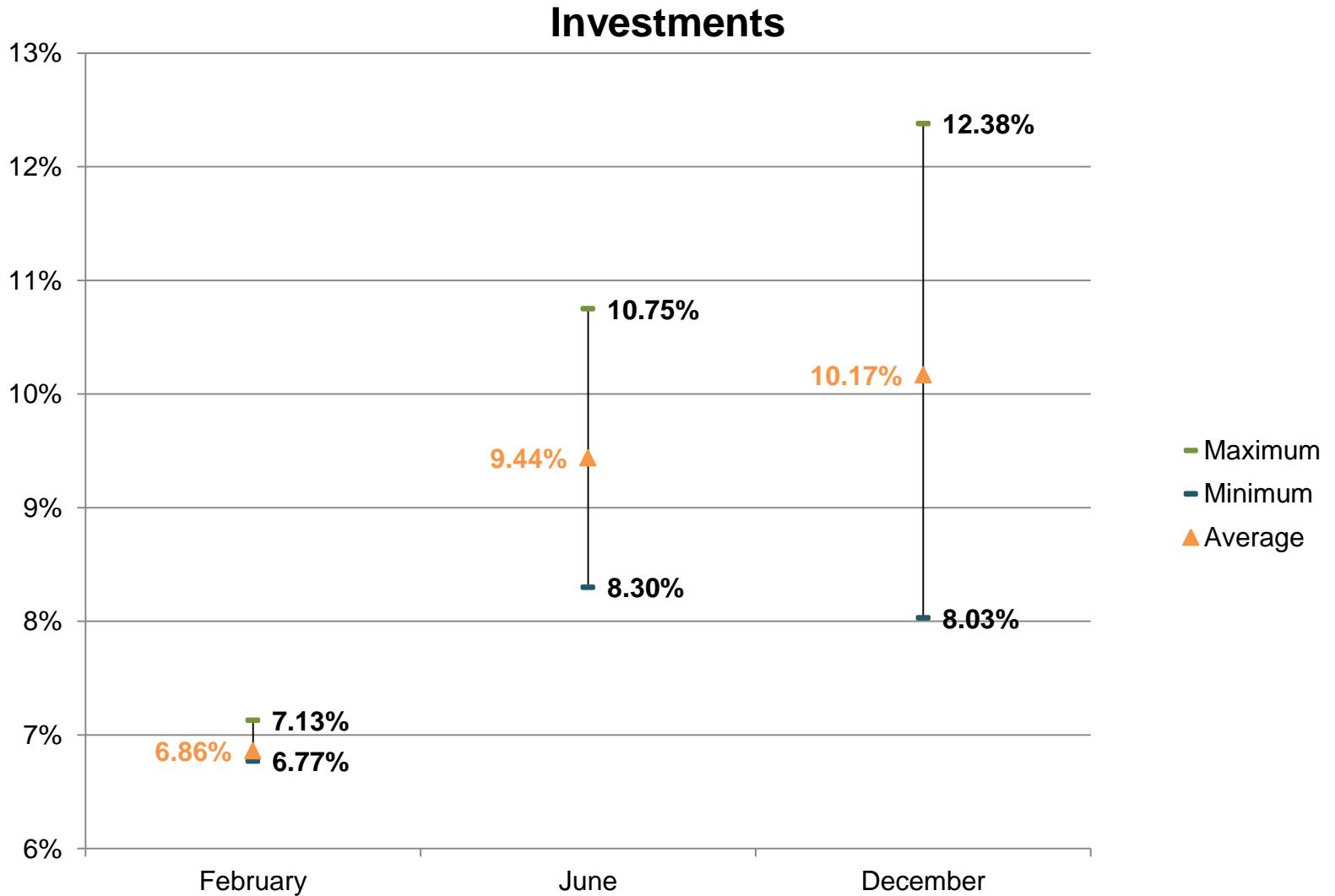
	Industry						Total		
	t	l	r	a	n	c	2015	2014	2013
Number of active insurers	32	14	7	8	8	6	75	72	72
Net new premiums received	46.5%	50.8%	1.2%	0.6%	0.1%	0.9%	R216bn	R225bn	R214bn
Net total premiums received	65.2%	30.4%	1.9%	0.6%	0.2%	1.7%	R456bn	R419bn	R381bn
Net benefits paid	59.7%	38.0%	1.5%	0.3%	0.2%	0.4%	R440bn	R361bn	R330bn



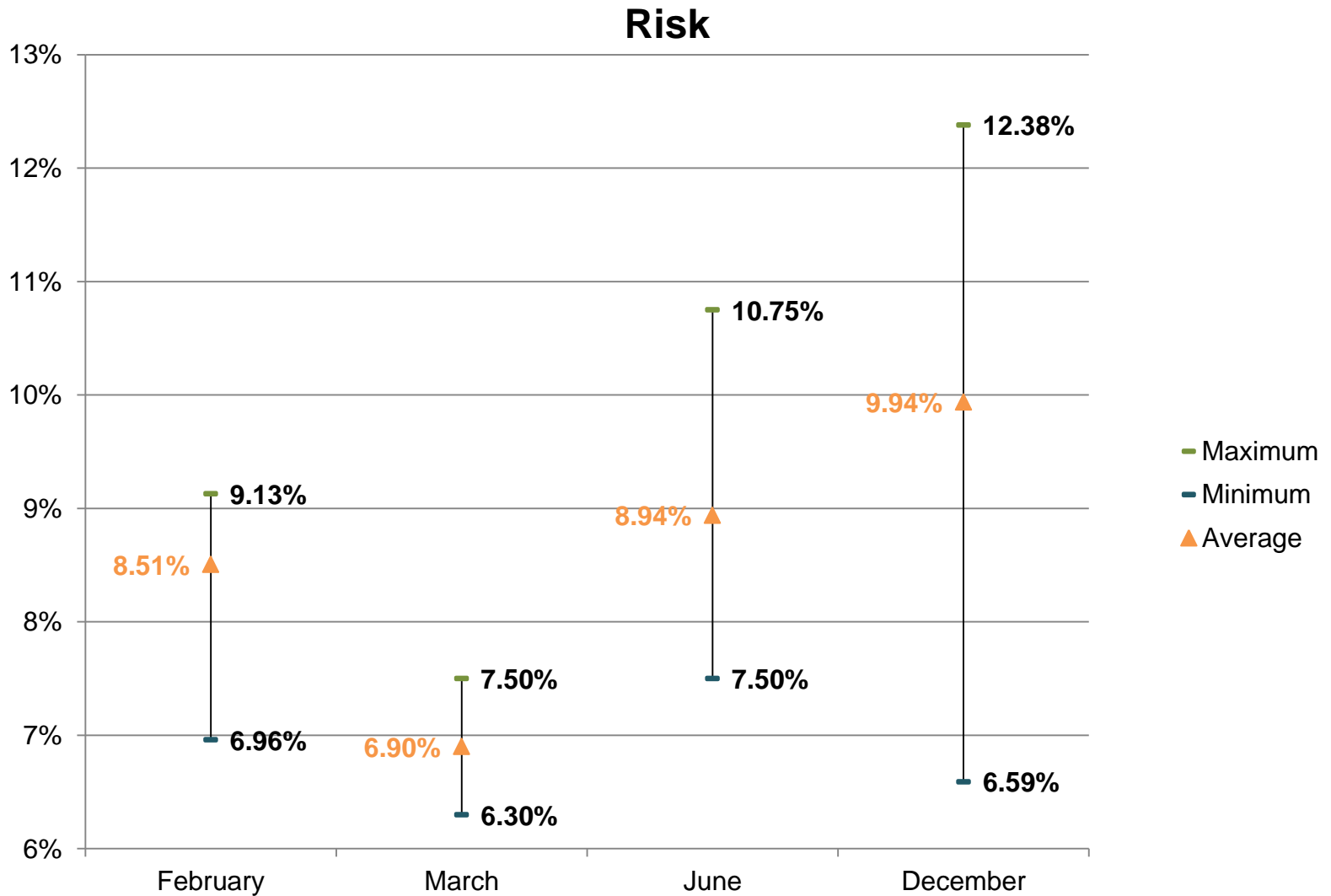


Discount rates

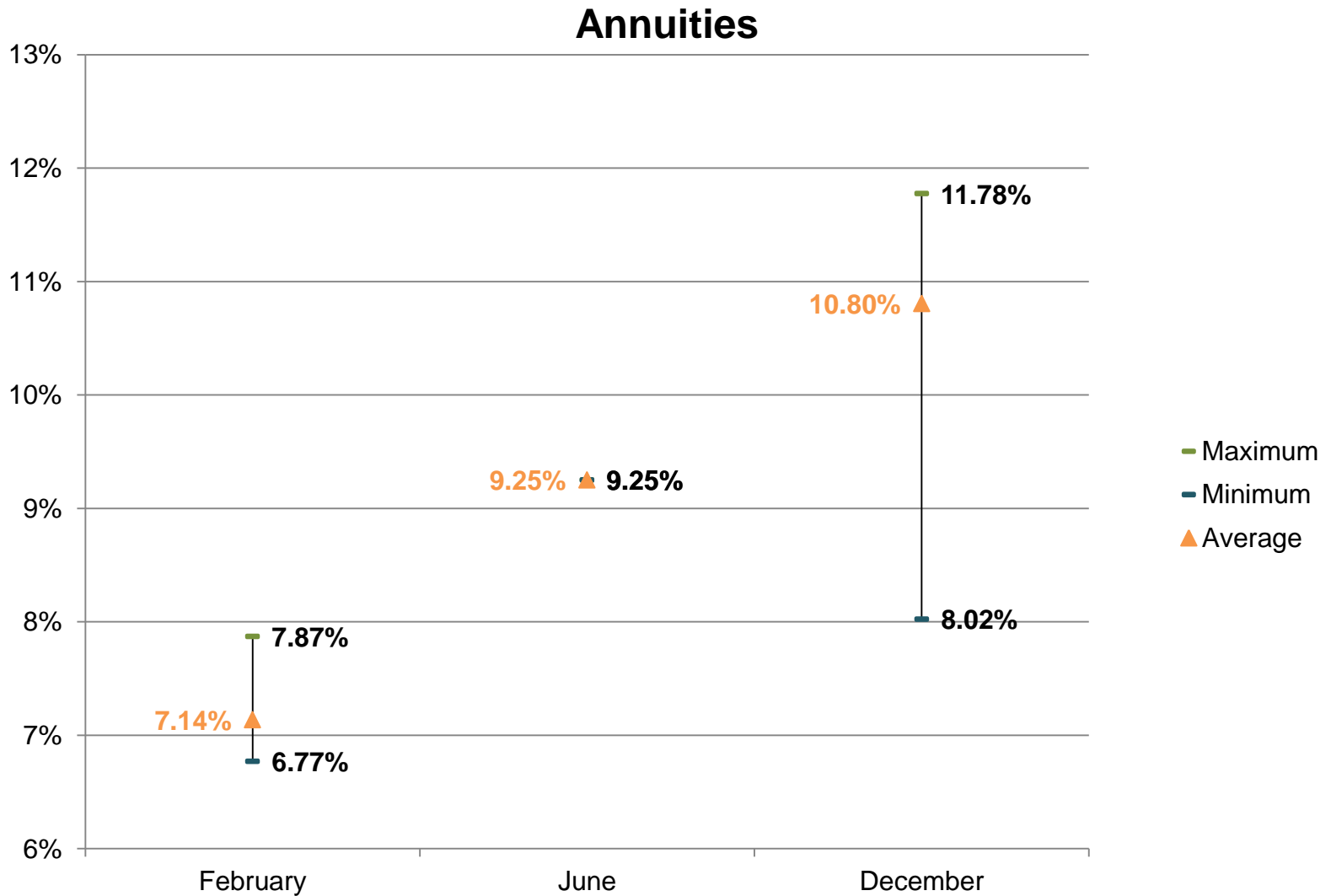
Assumed central discount rate



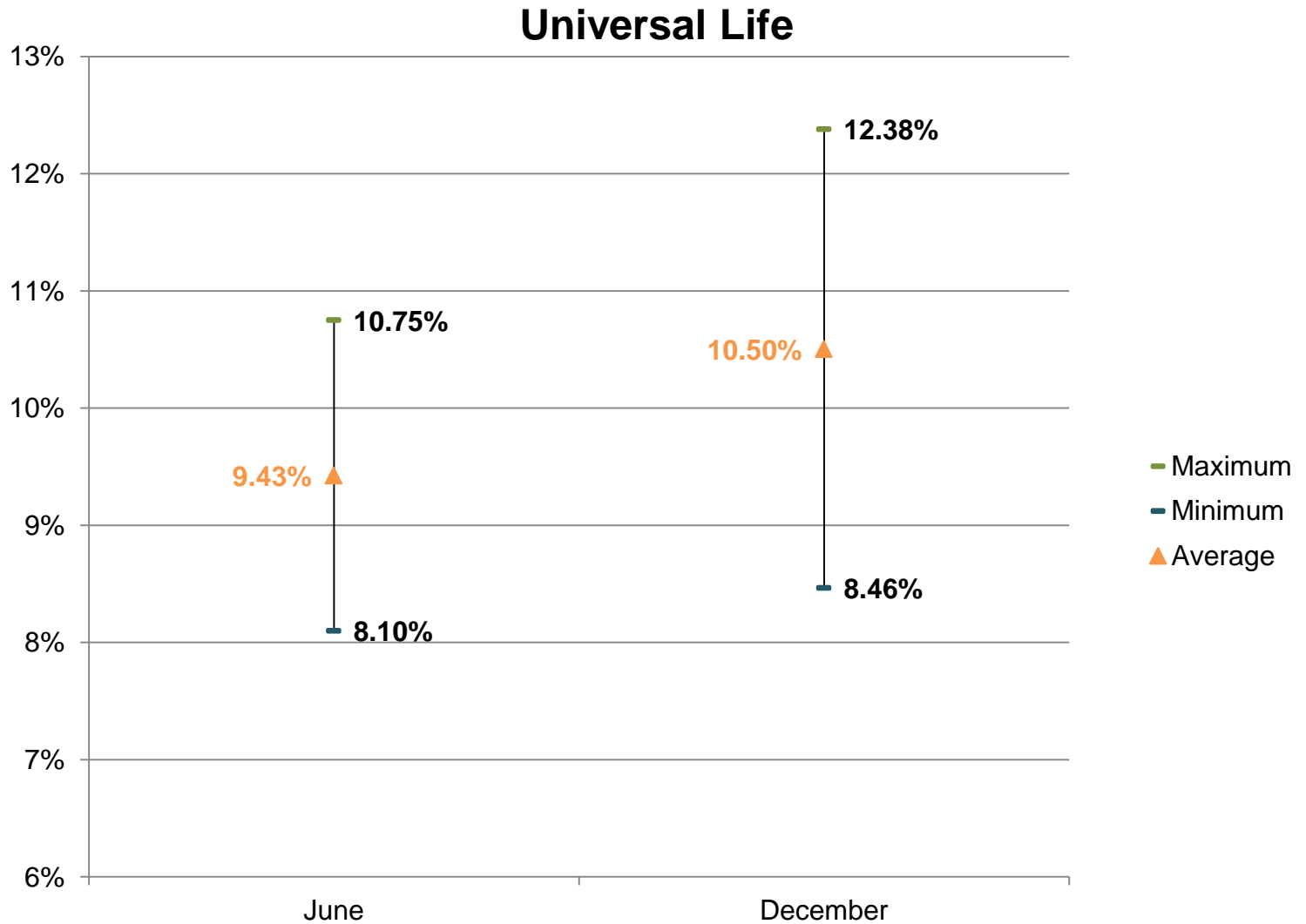
Assumed central discount rate



Assumed central discount rate



Assumed central discount rate





Mortality and morbidity

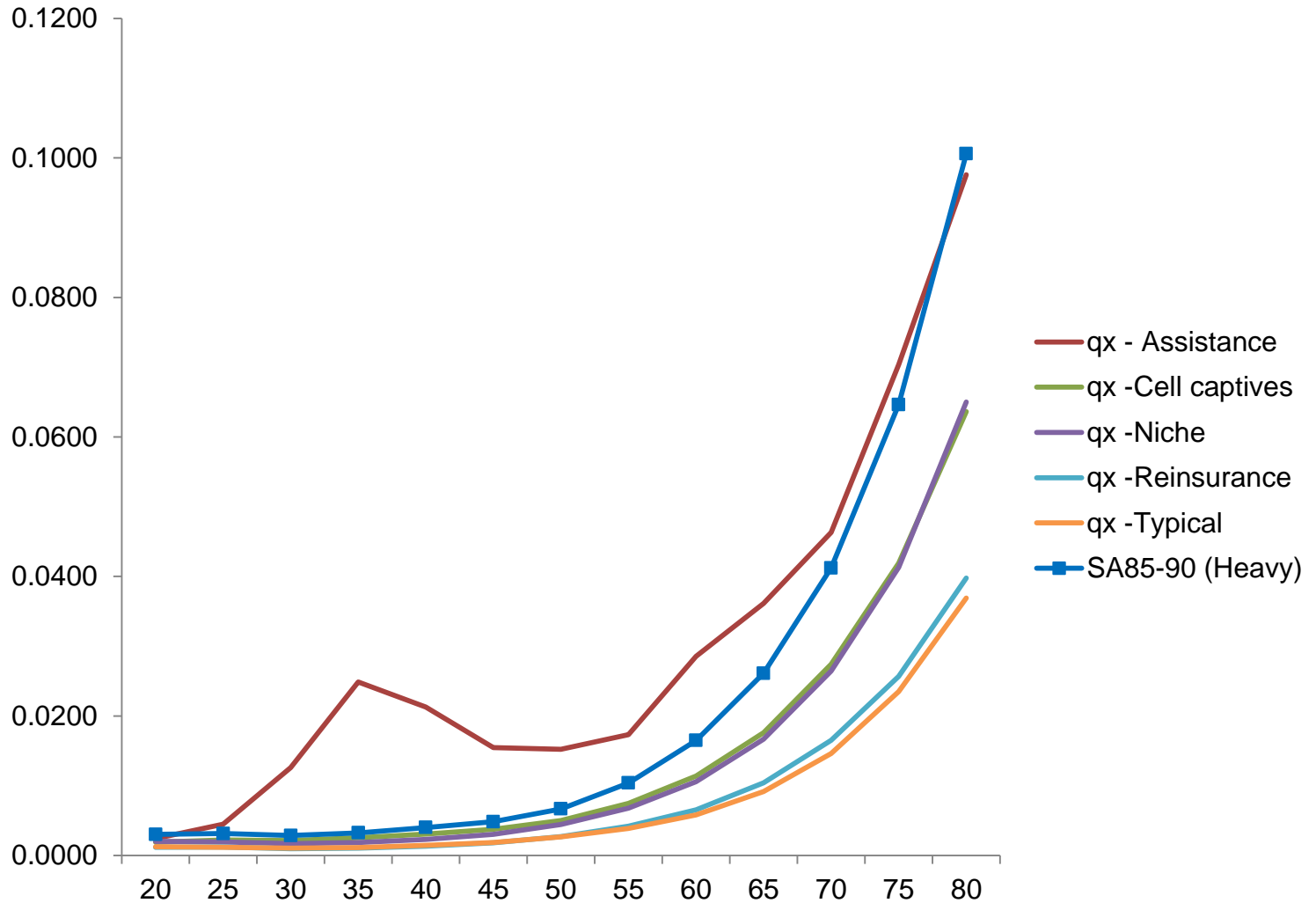
Mortality

- Representative assumptions for mortality rates
- For **assured lives**, 100% of the SA85/90 (heavy) ultimate table was used to place weighted rates into perspective
- For **annuitants**, 100% of the PA(90) table was used to place weighted average rates into perspective



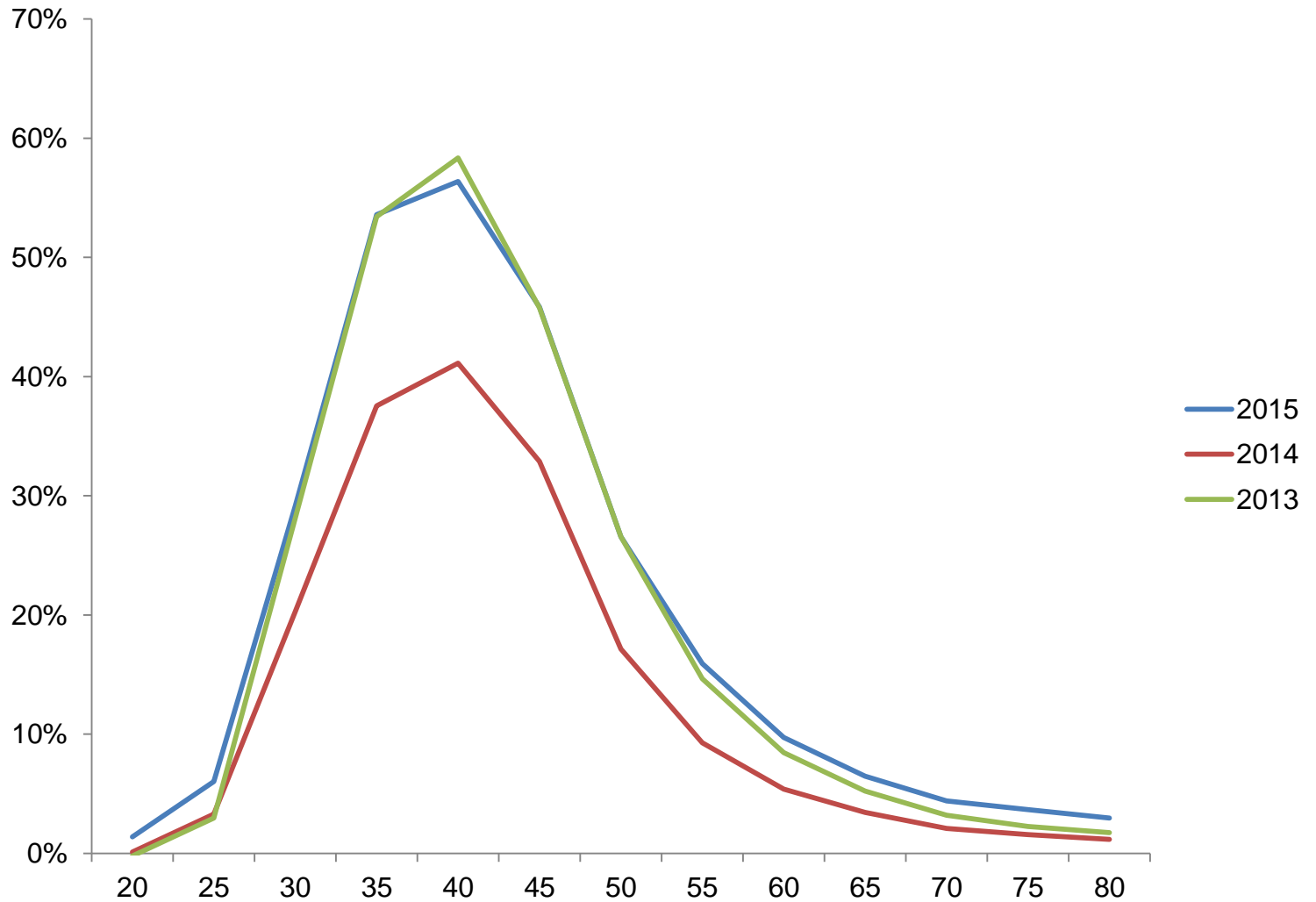
Assurance mortality

Male Non-smokers without AIDS loading

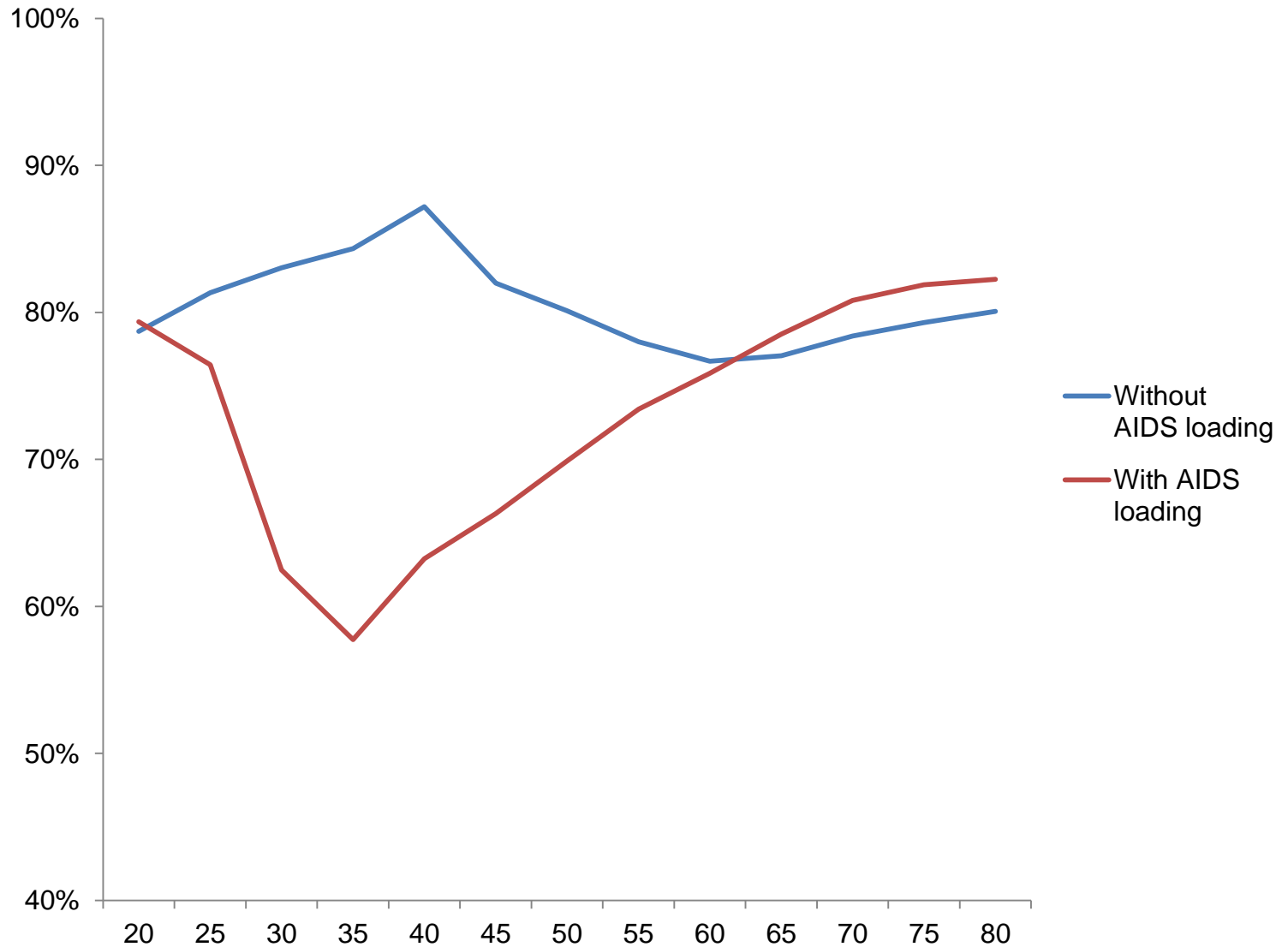


AIDS loading per year

Male Non-smokers

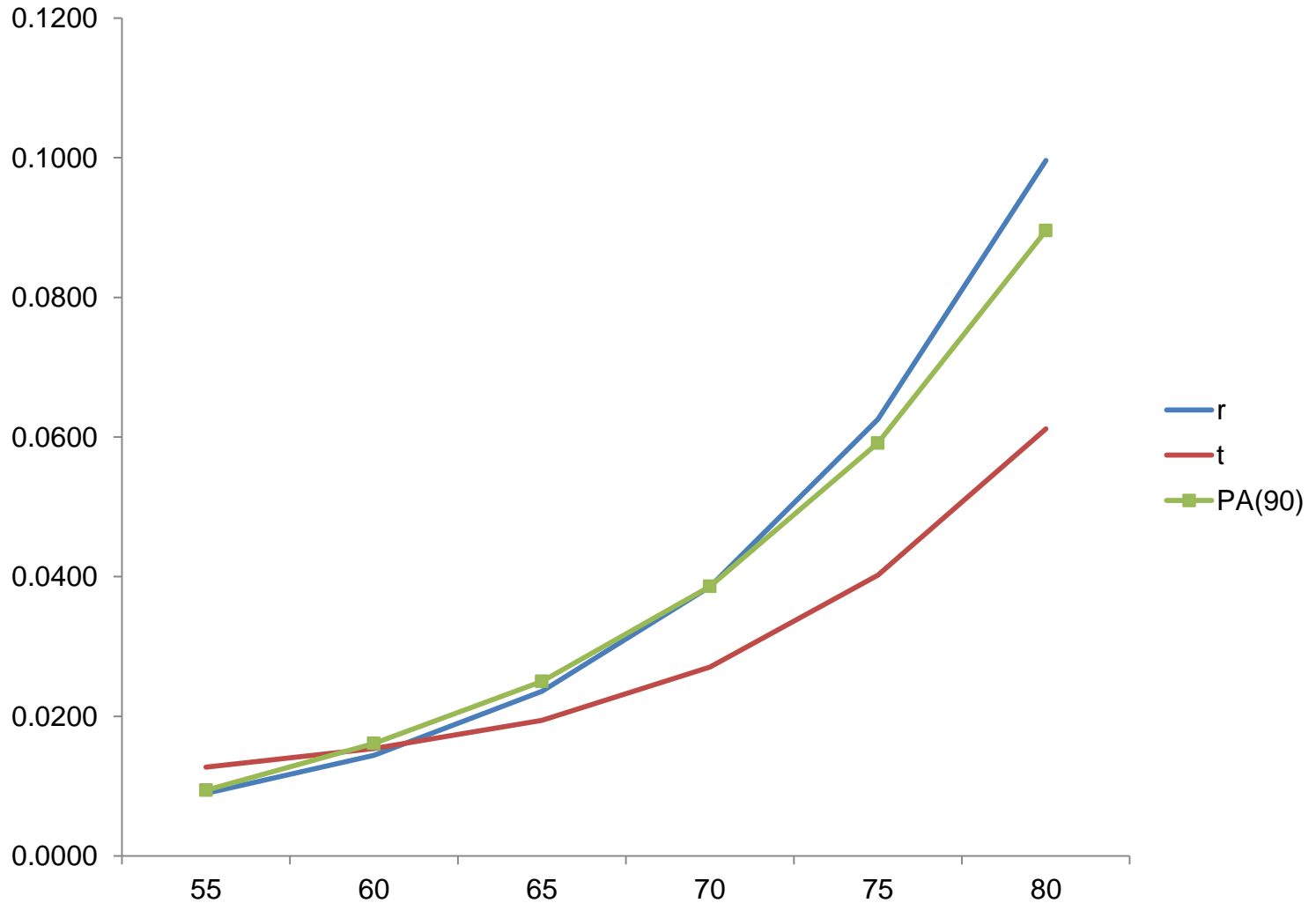


Change in assurance mortality (from 2010 to 2015)

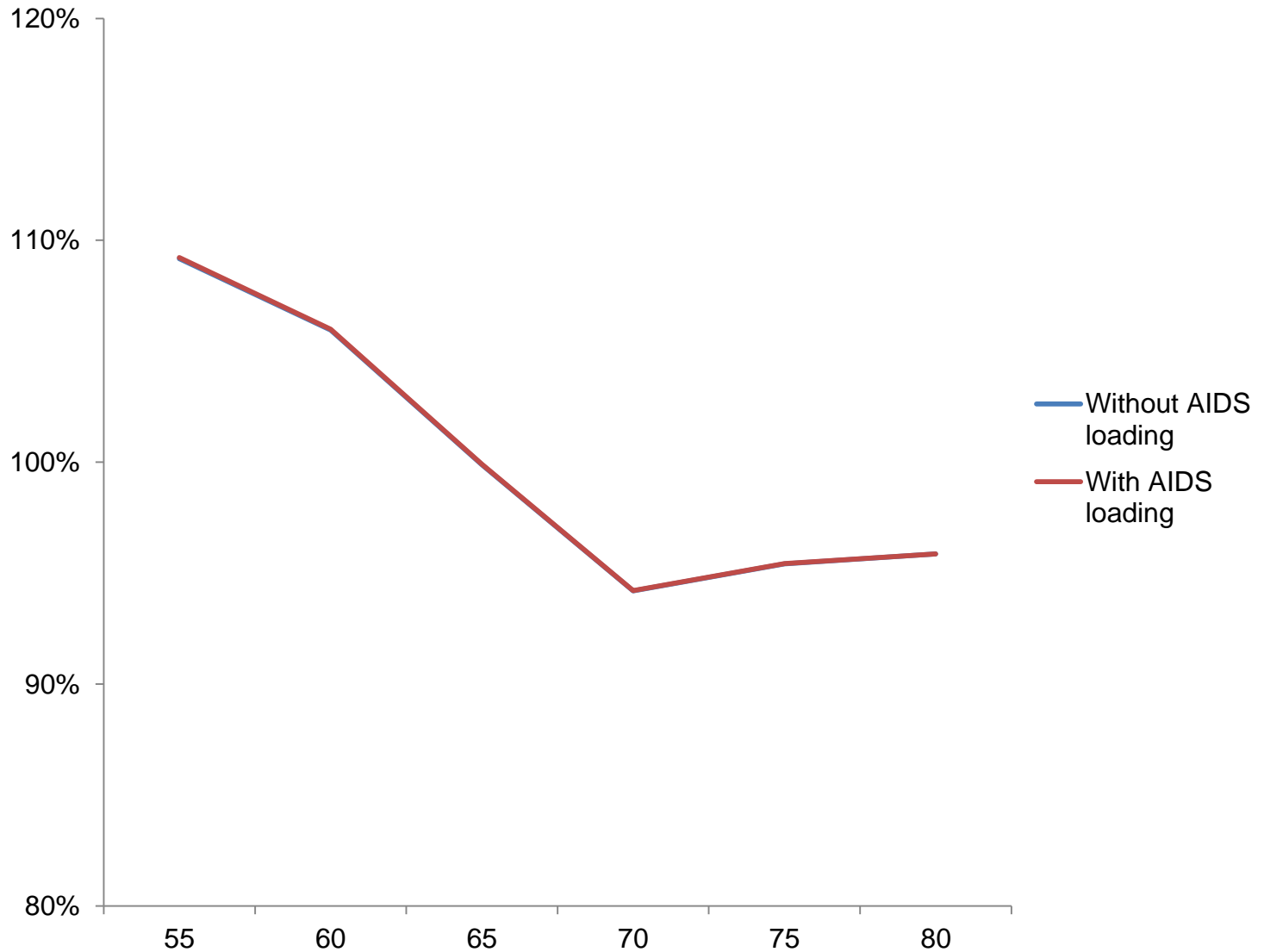


Annuitant mortality

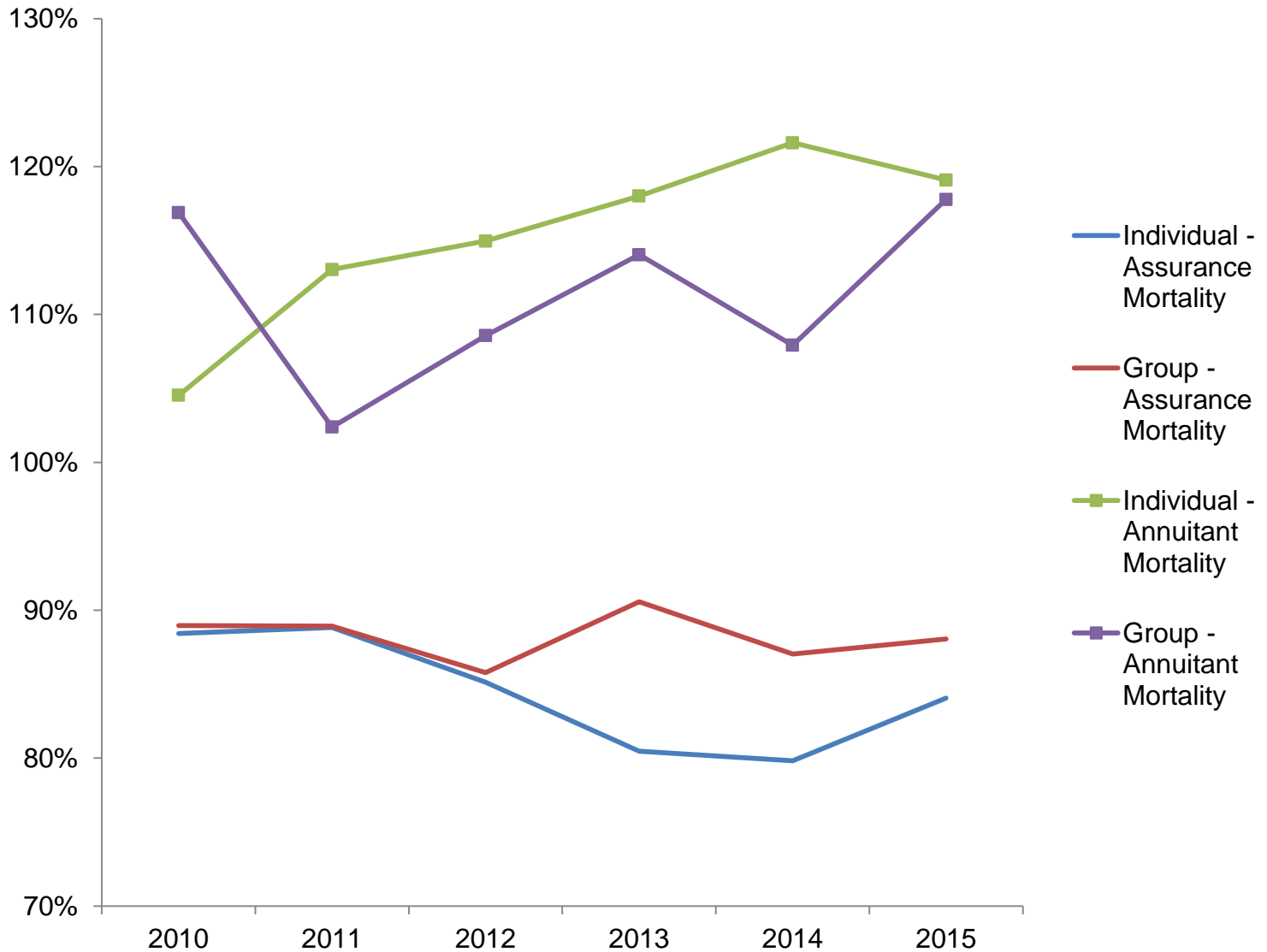
Male Non-smoker without AIDS loading



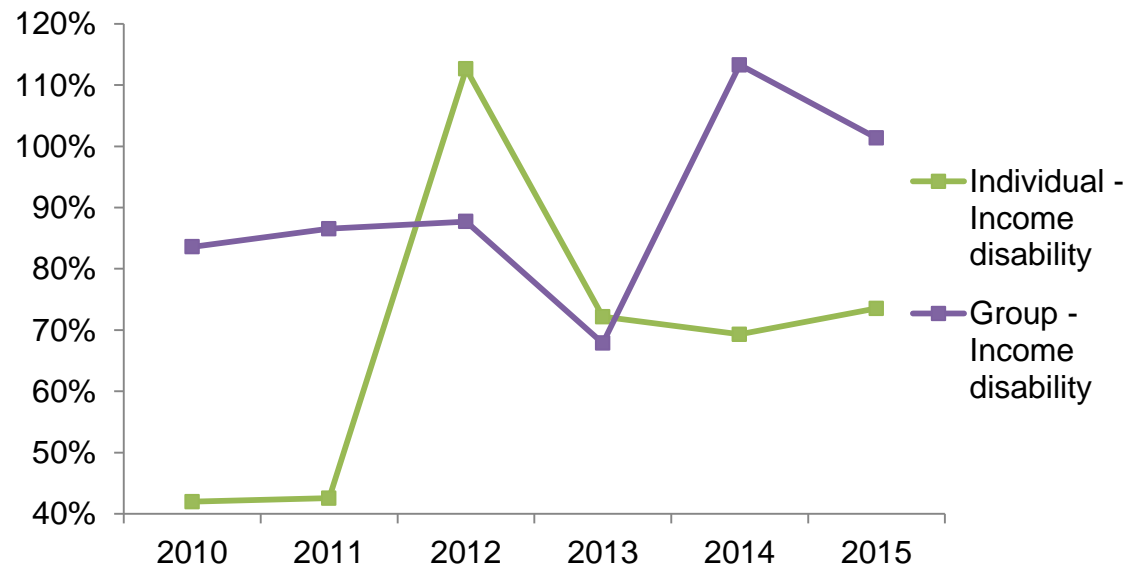
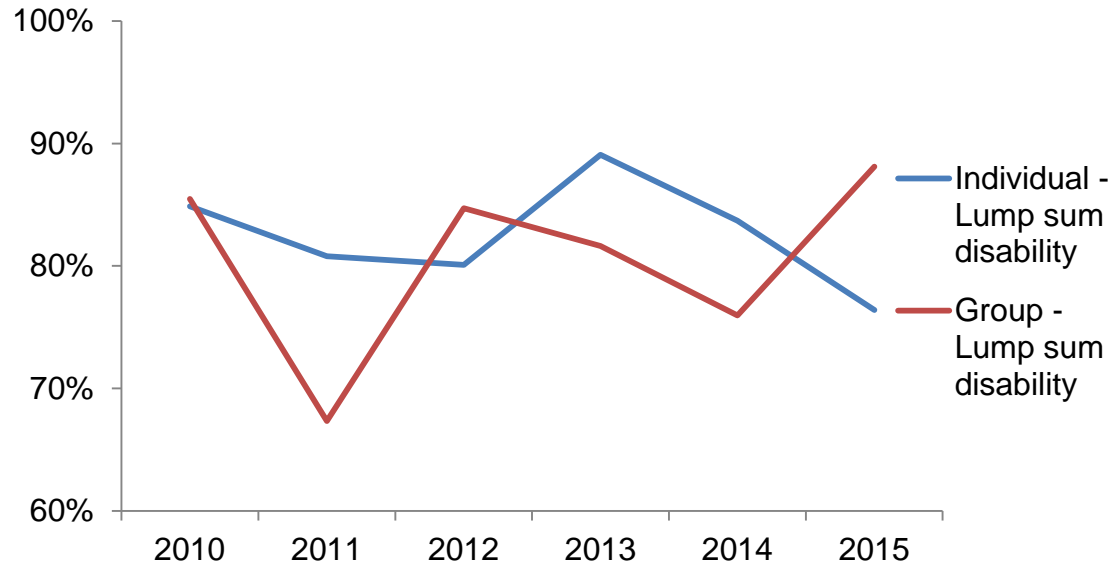
Change in annuitant mortality (from 2010 to 2015)



Mortality: actual vs. expected



Morbidity: actual vs. expected





Expenses

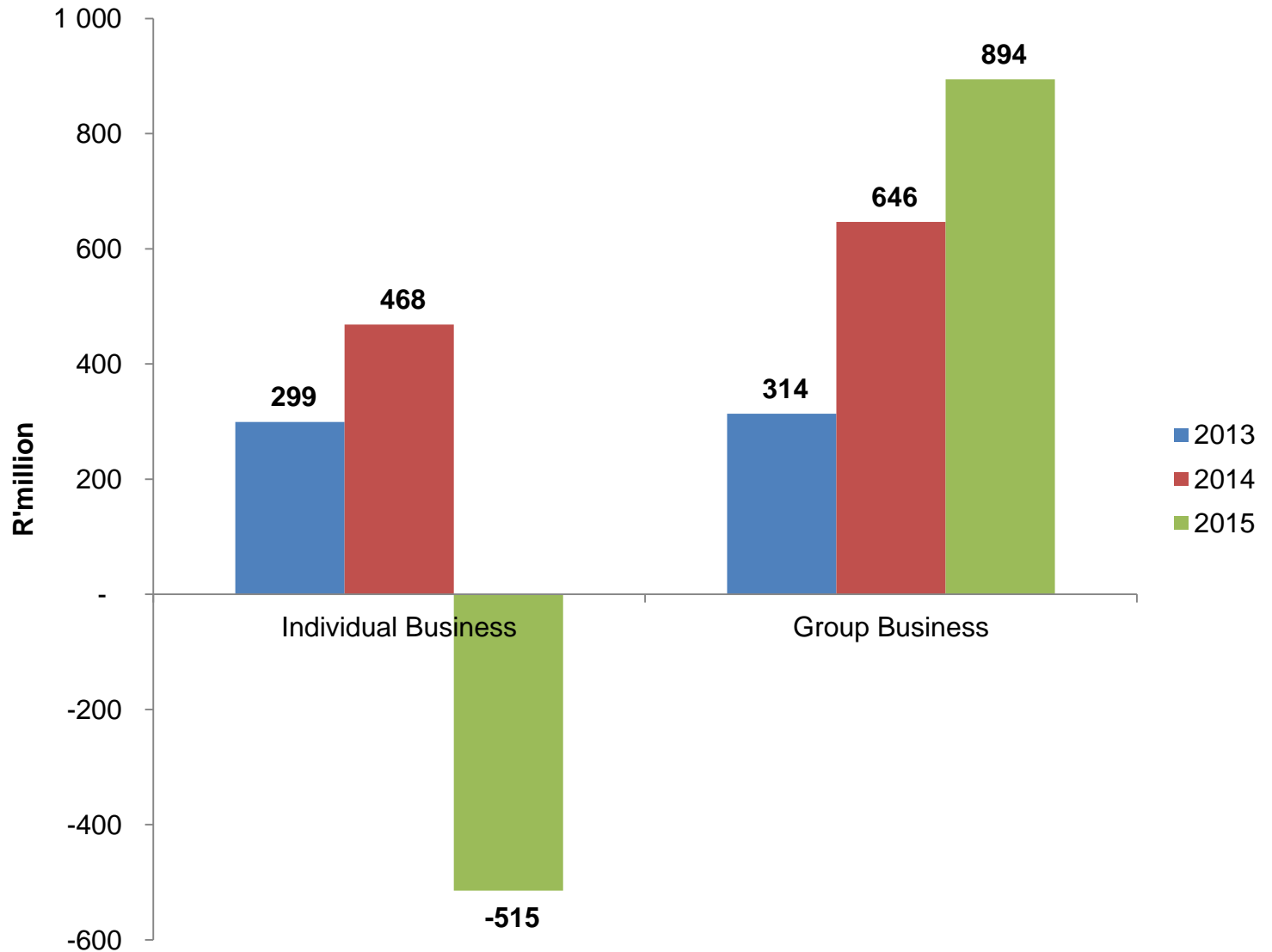
Expense ratio

Total Expenses as a % of Total Liabilities

Industry	2015	2014	2013
Assistance	95.6%	86.3%	90.7%
Cell Captive	17.1%	13.8%	17.8%
Linked	0.4%	0.4%	0.4%
Niche	7.8%	5.9%	5.0%
Reinsurer	12.5%	9.7%	9.6%
Typical	3.3%	3.2%	3.4%

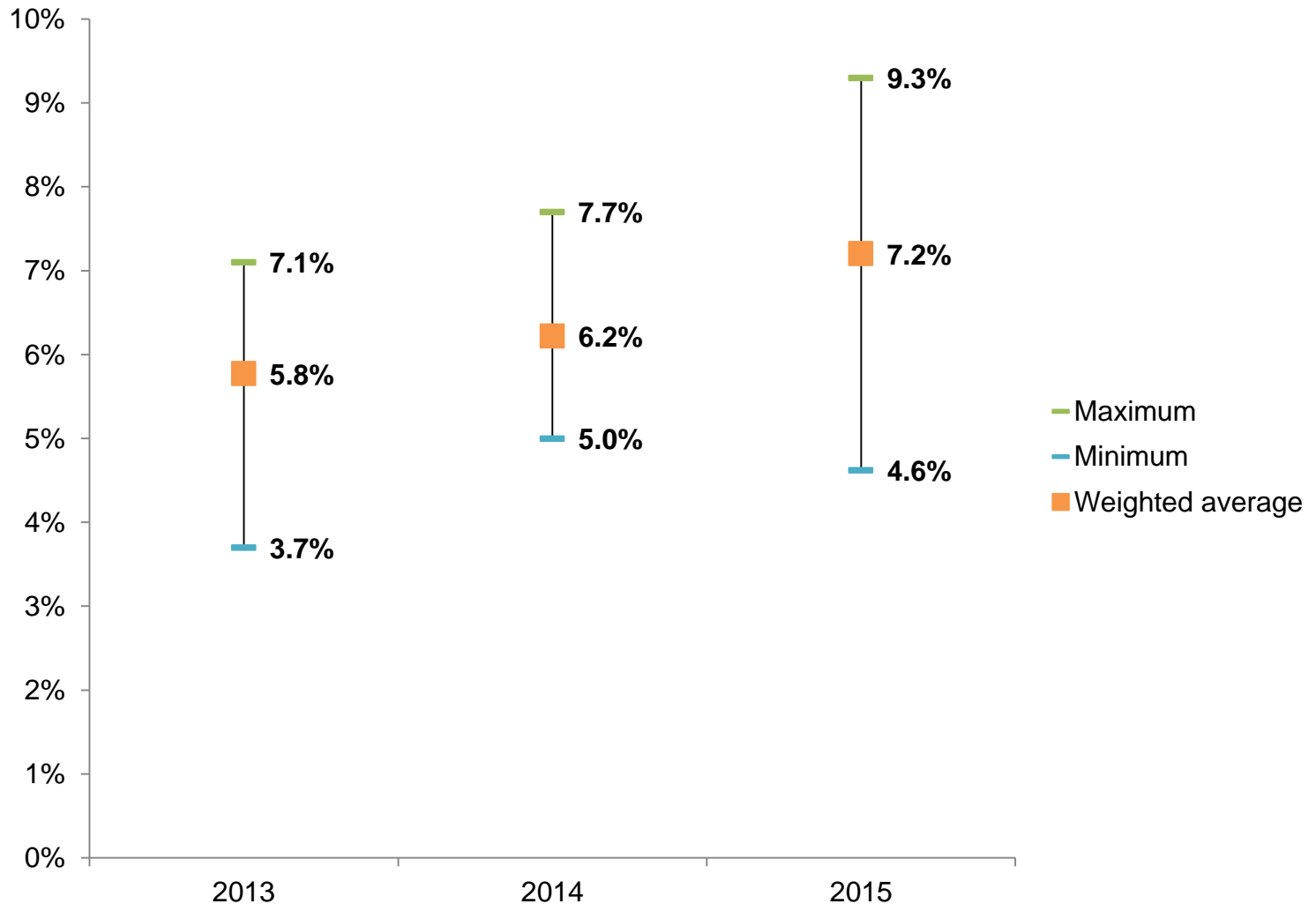


Expense experience

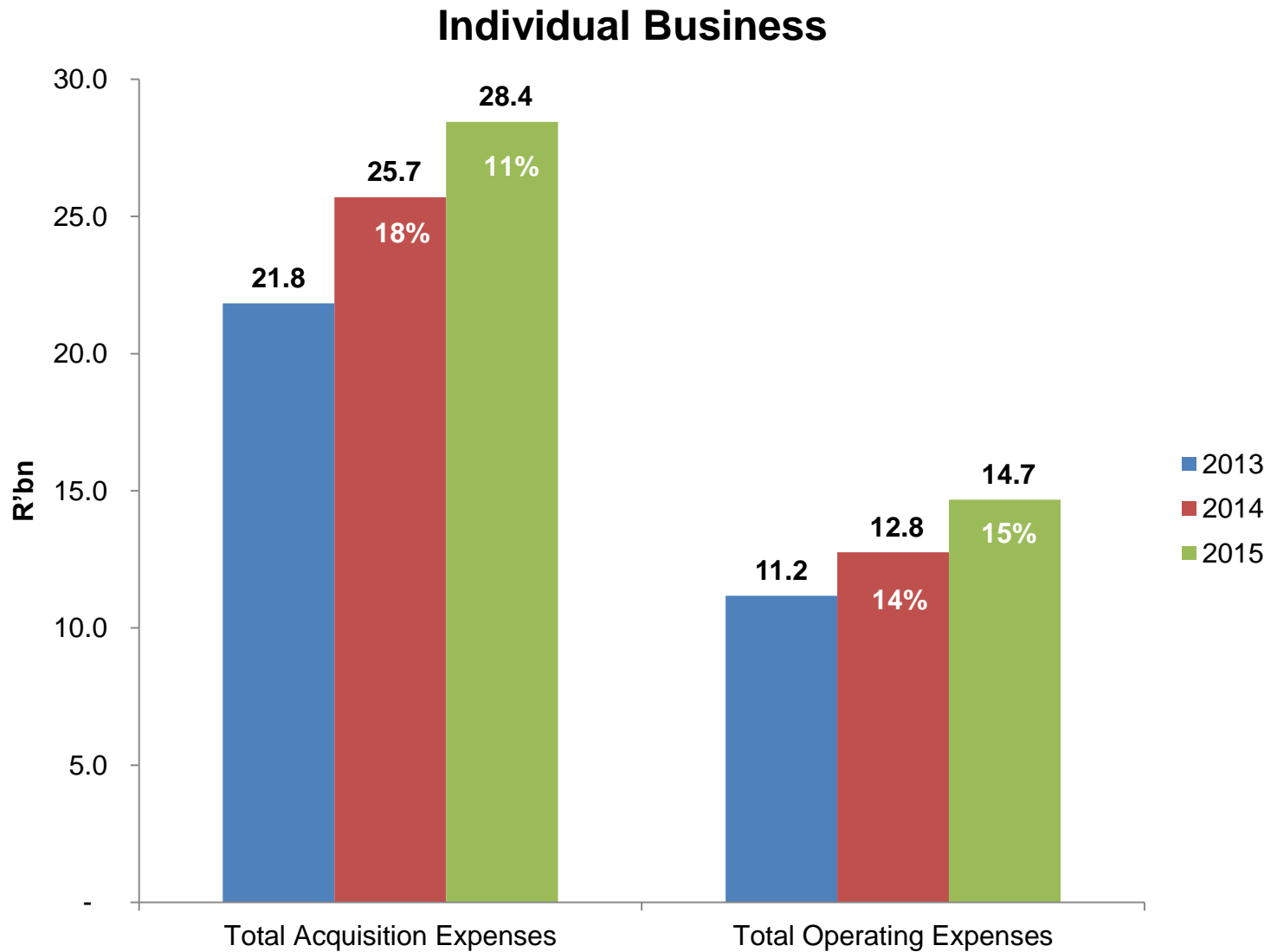


Expense inflation assumption

Individual Business



Actual expenses



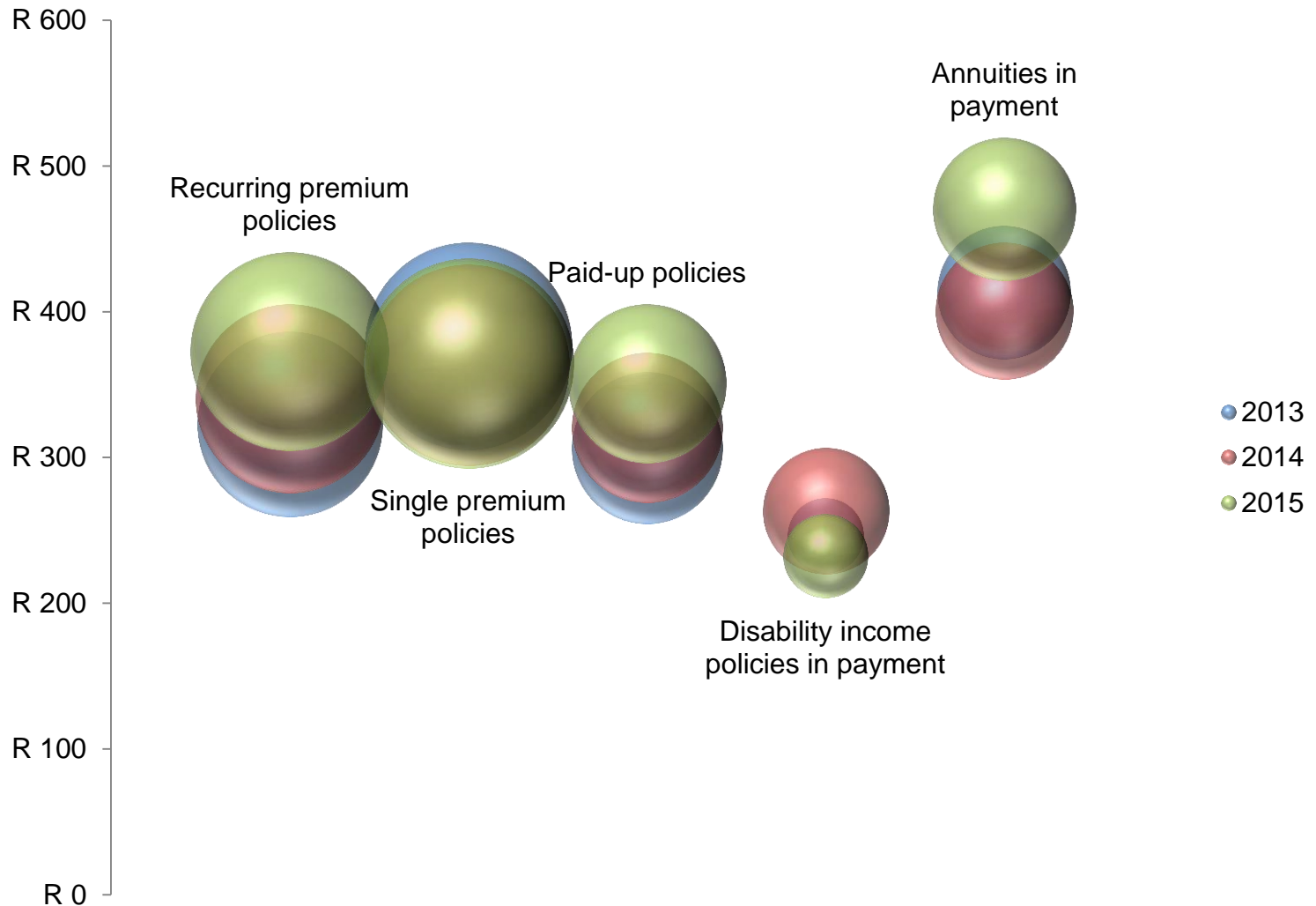
Actual operating expense (Individual business)

Industry	Average Operating Expense per policy		
	2015	2014	2013
Assistance	R 95	R 62	R 73
Cell captive	R 163	R 126	R 110
Linked	R 223	R 166	R 444
Niche	R 164	R 160	R 136
Typical	R 335	R 283	R 265
All	R 322	R 272	R 253



Renewal expense assumption (per policy)

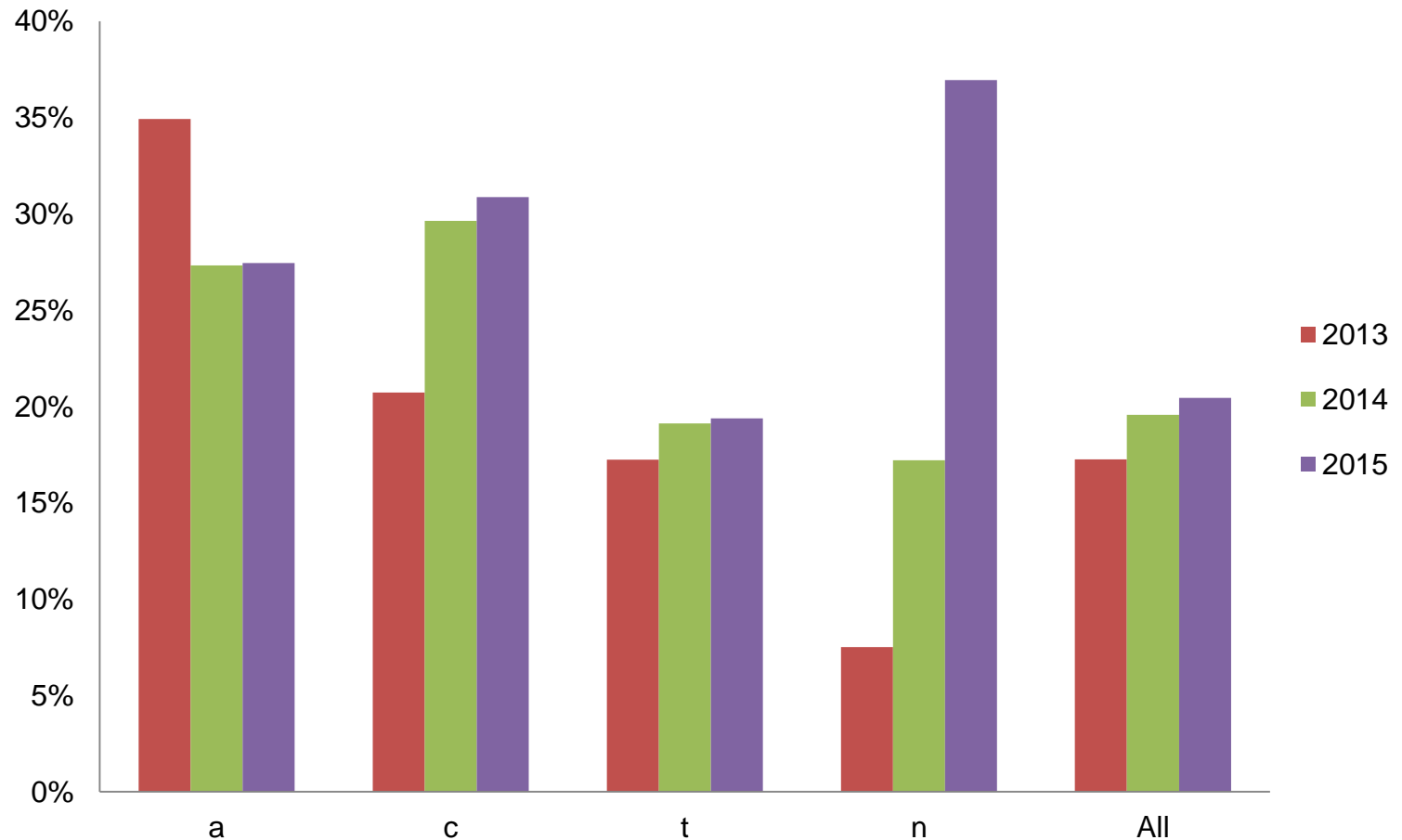
Individual Business



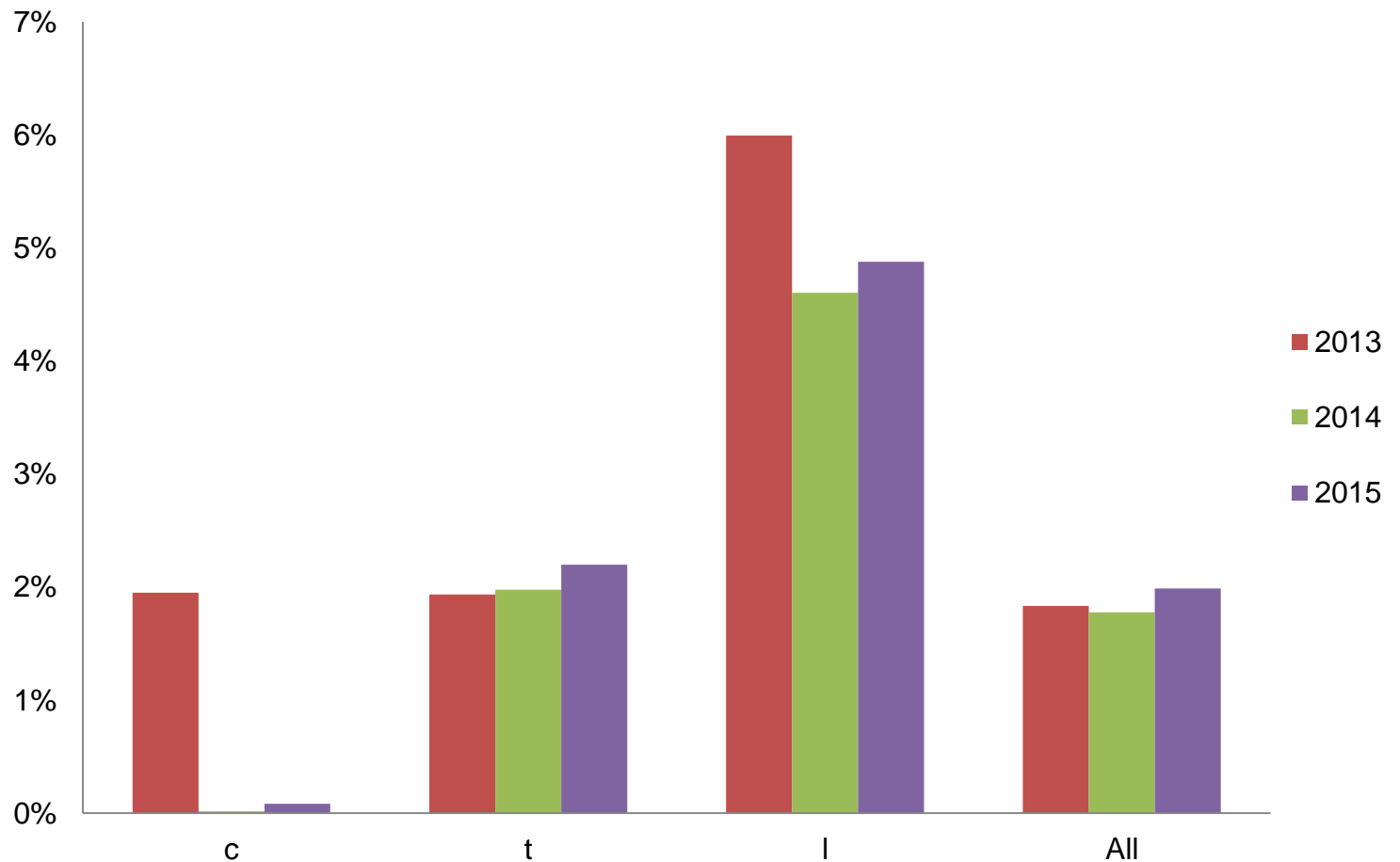


Withdrawal Rates

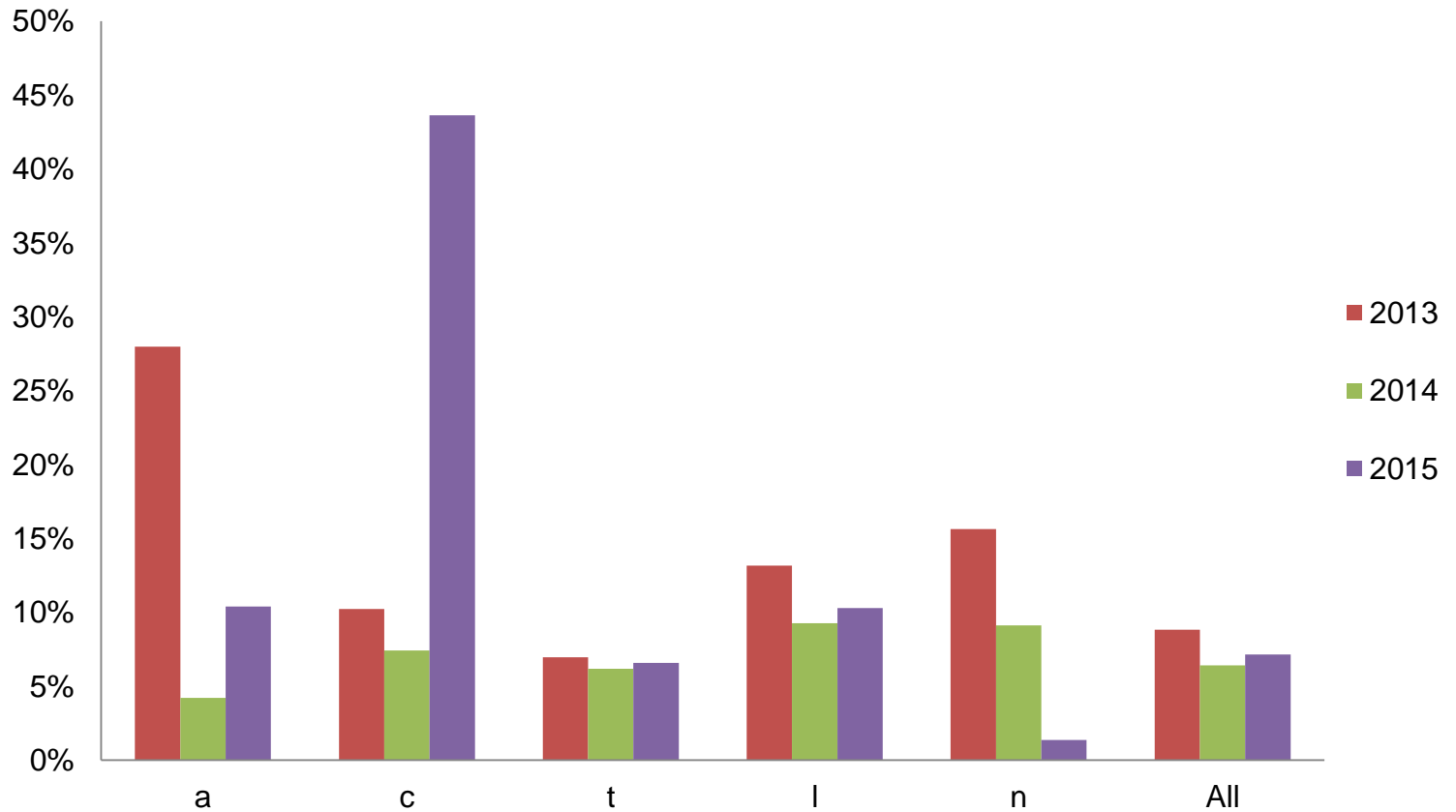
Observed lapse rates (Individual business)



Observed surrender rates (Individual business)



Observed withdrawal rates (Group business)





Analysis of Surplus (AOS)

Analysis of Surplus: Overview

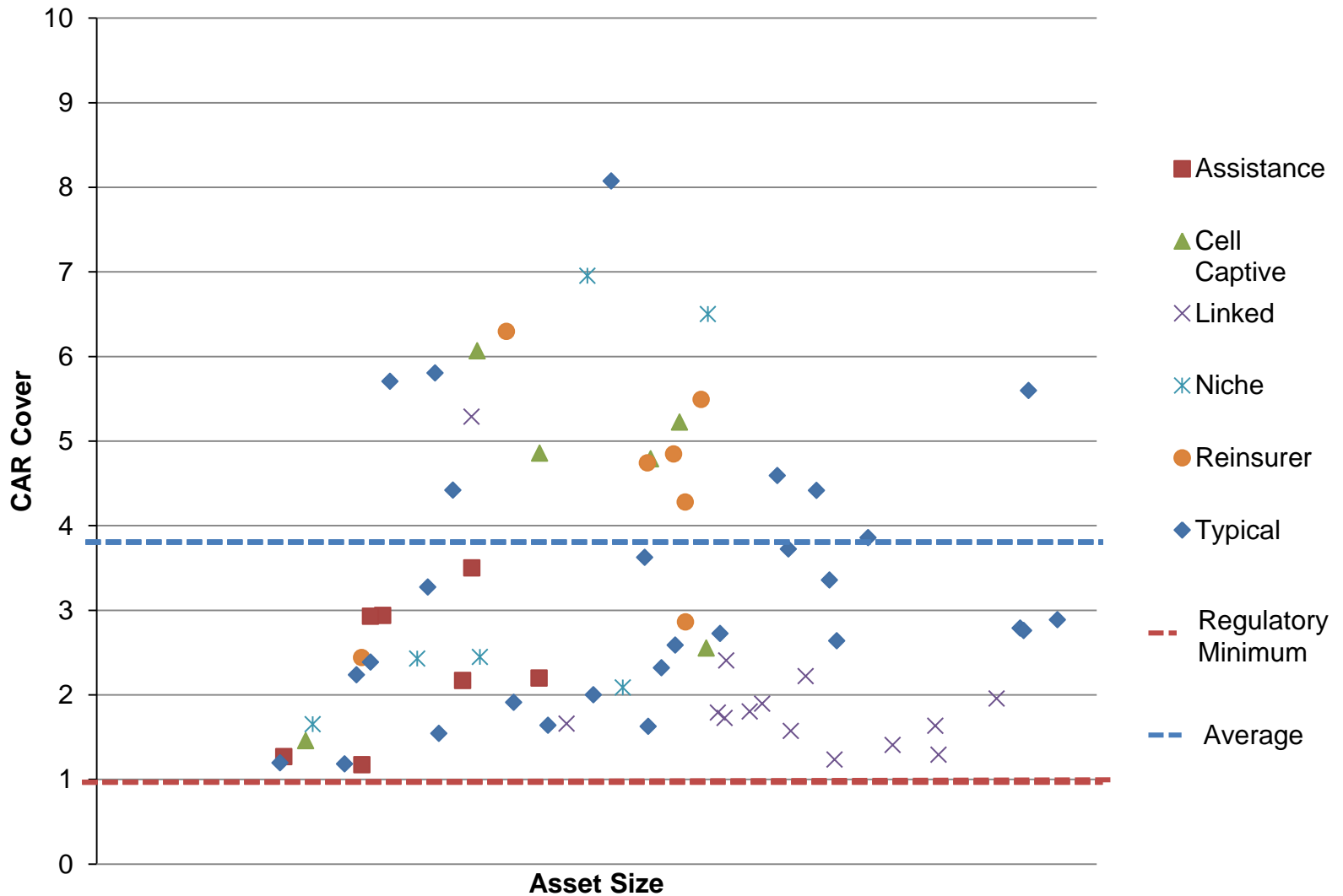
<i>(R'bn)</i>	2015	2014	2013
Excess assets at start	143.6	131.7	127.2
New business	(9.2)	(8.2)	(6.6)
Change in valuation basis	(4.9)	(0.7)	(1.9)
Alterations	(0.2)	(0.1)	(0.2)
Adjustment to asset values	0.2	(4.8)	(3.0)
Adjustment to capital	0.4	1.2	(0.1)
Release of margins	27.3	24.4	21.4
Investment experience	14.4	33.0	26.8
Mortality experience	4.8	6.4	6.5
Morbidity experience	0.6	0.3	1.0
Expense experience	(1.5)	0.3	(1.3)
Early withdrawals	0.1	(0.6)	(0.9)
Tax	(5.6)	(9.1)	(9.9)
Other	1.7	(7.8)	14.4
Income from subsidiaries	0.8	0.3	0.6
Dividends paid	(19.3)	(22.8)	(43.1)
Excess assets at end	153.3	143.5	130.7



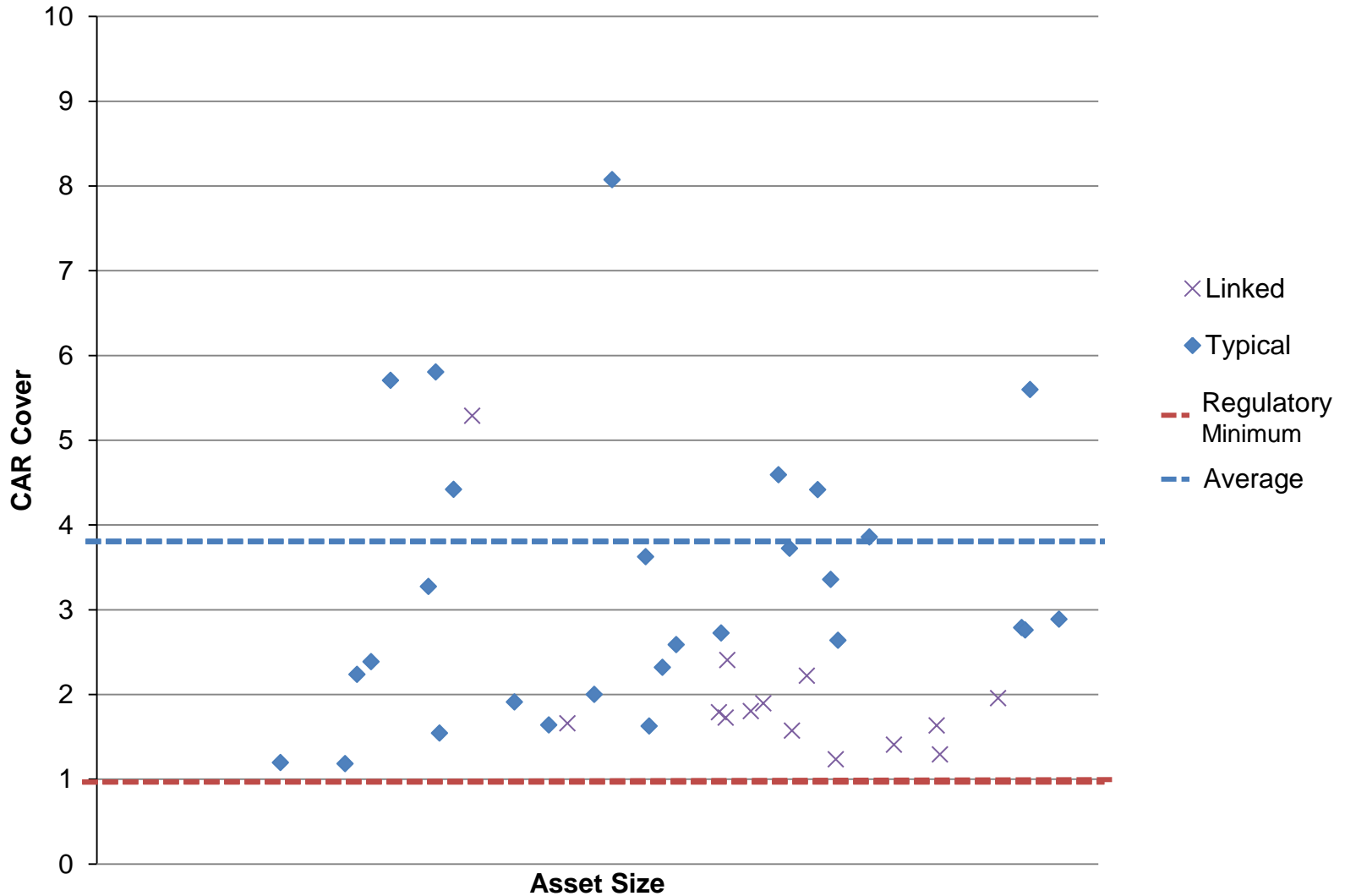


Capital Adequacy Requirement (CAR)

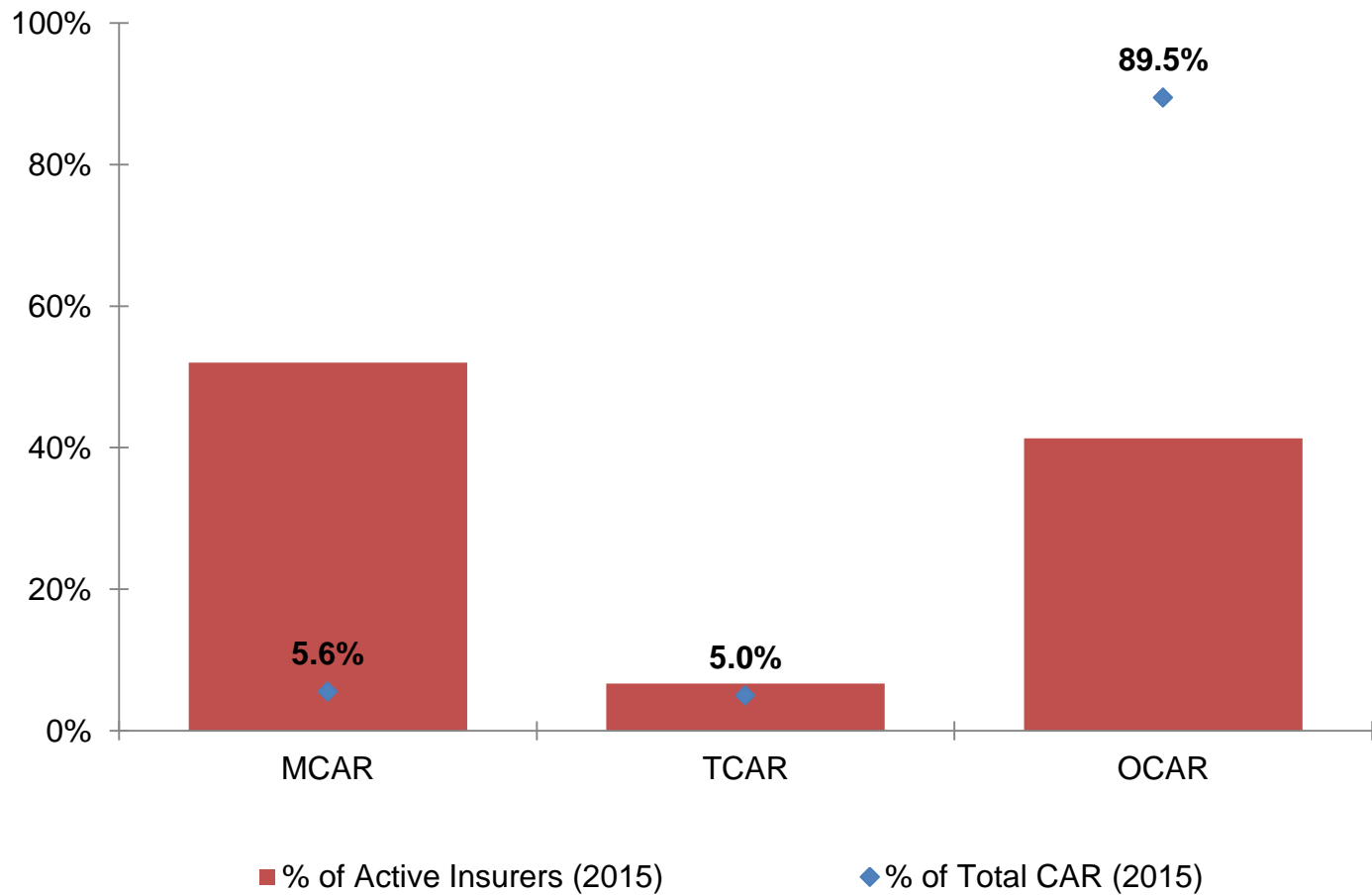
CAR Cover



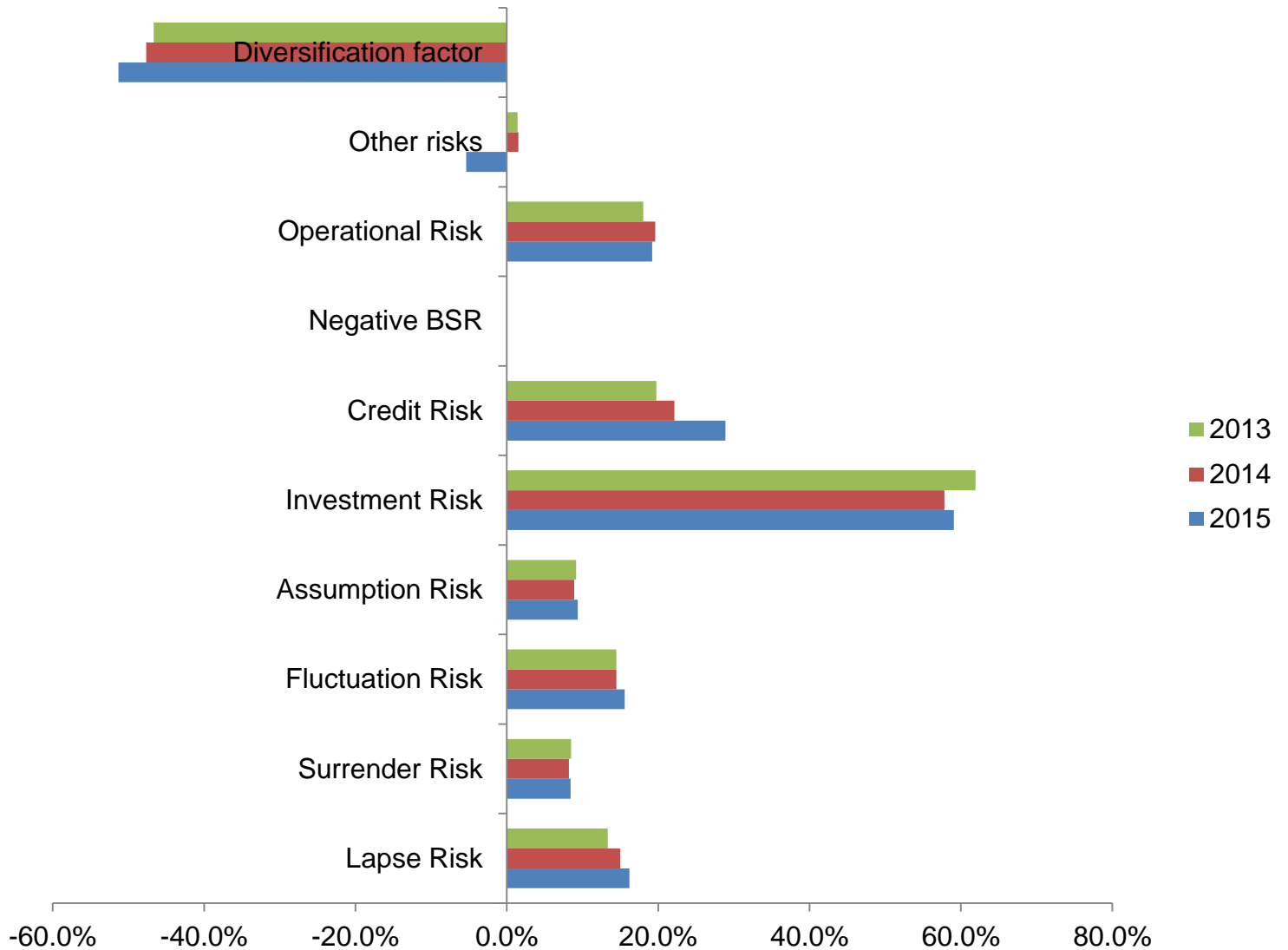
CAR Cover (Linked and Typical insurers)



Distribution of CAR



IOCAR



Proportion of insurers using management action

Industry	Proportion of insurers using management action
Assistance	13%
Cell Captives	50%
Niche	25%
Linked	0%
Typical	31%
Reinsurers	0%
Total	21%





Stress Test Results

Stress test results

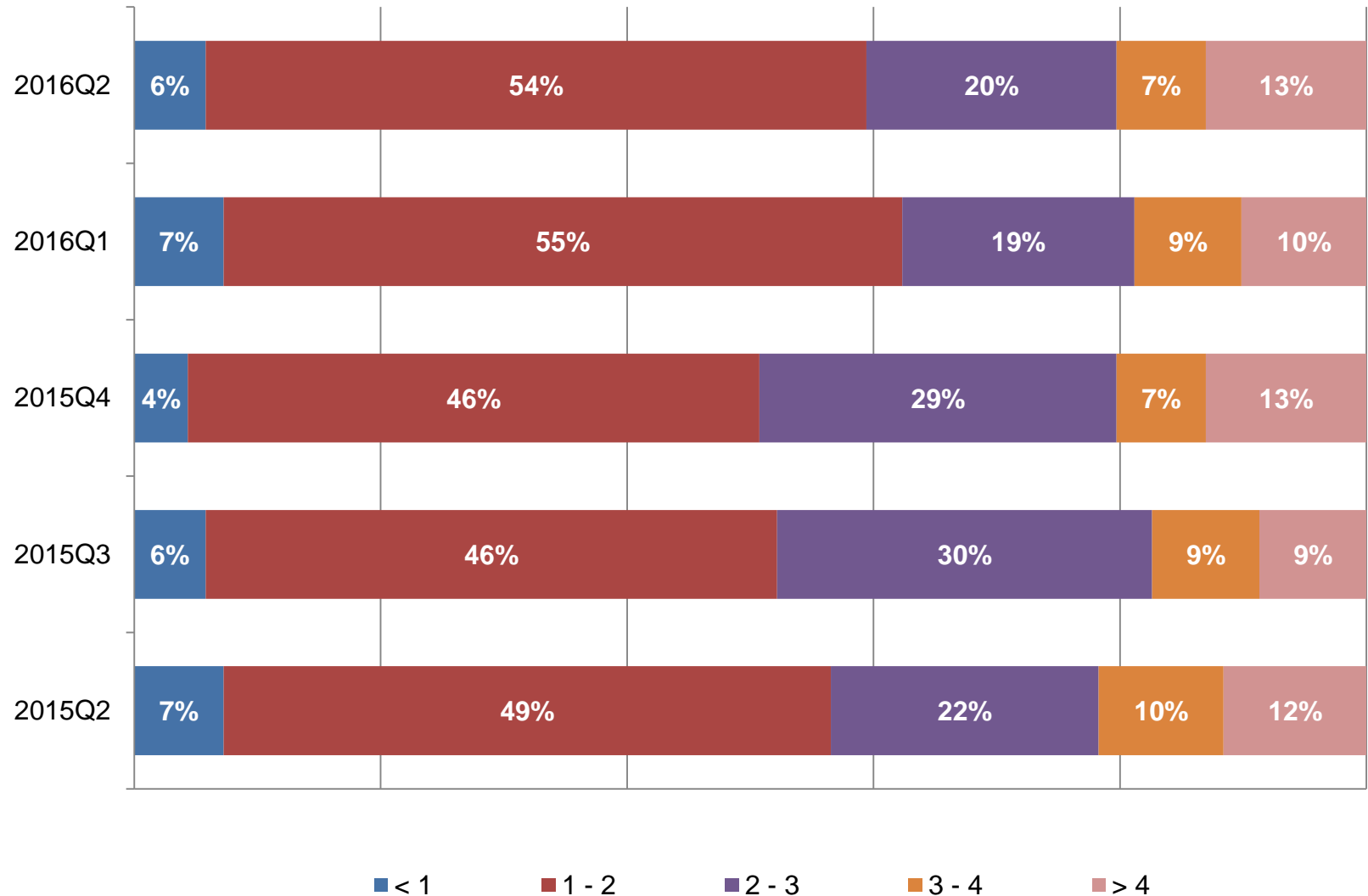
	CAR Cover	% Change
Base CAR Cover	4.02	
Interest Rate Up	4.03	0.2%
Interest Rate Down	3.80	-5.6%
Equity Shock	3.47	-13.7%
Property Shock	3.93	-2.2%
Exchange Rate Appreciation	3.97	-1.3%
Exchange Rate Depreciation	4.06	1.0%
Volatility Shock	3.81	-5.3%
Credit Risk Shock	3.86	-4.0%
Economic Scenario	3.14	-21.8%
Mortality and Morbidity Shock	2.90	-28.0%
Expense Shock	3.42	-14.8%
Withdrawals Shock	4.13	2.6%



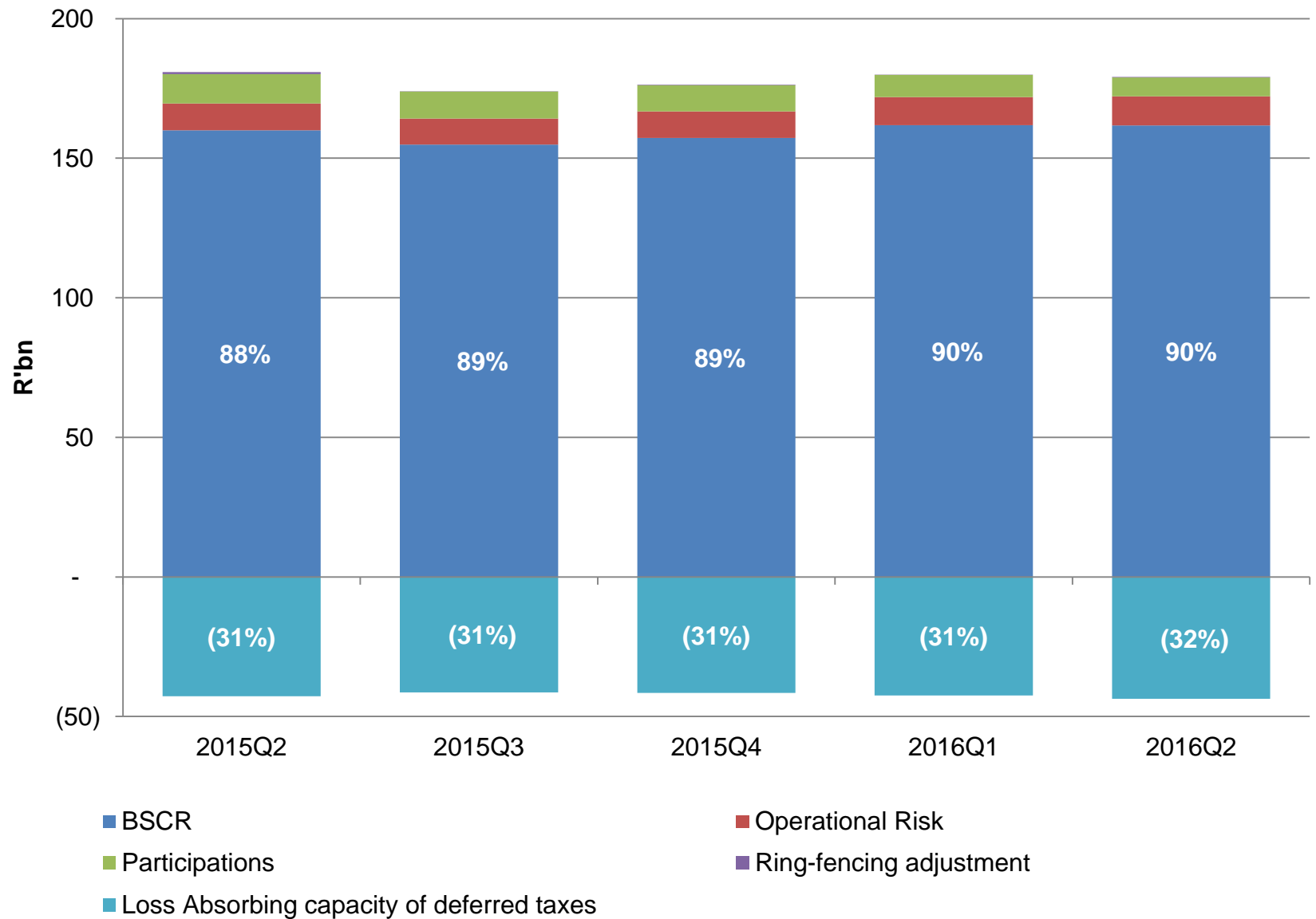


SAM: CPR 2015 Q2 – 2016 Q2

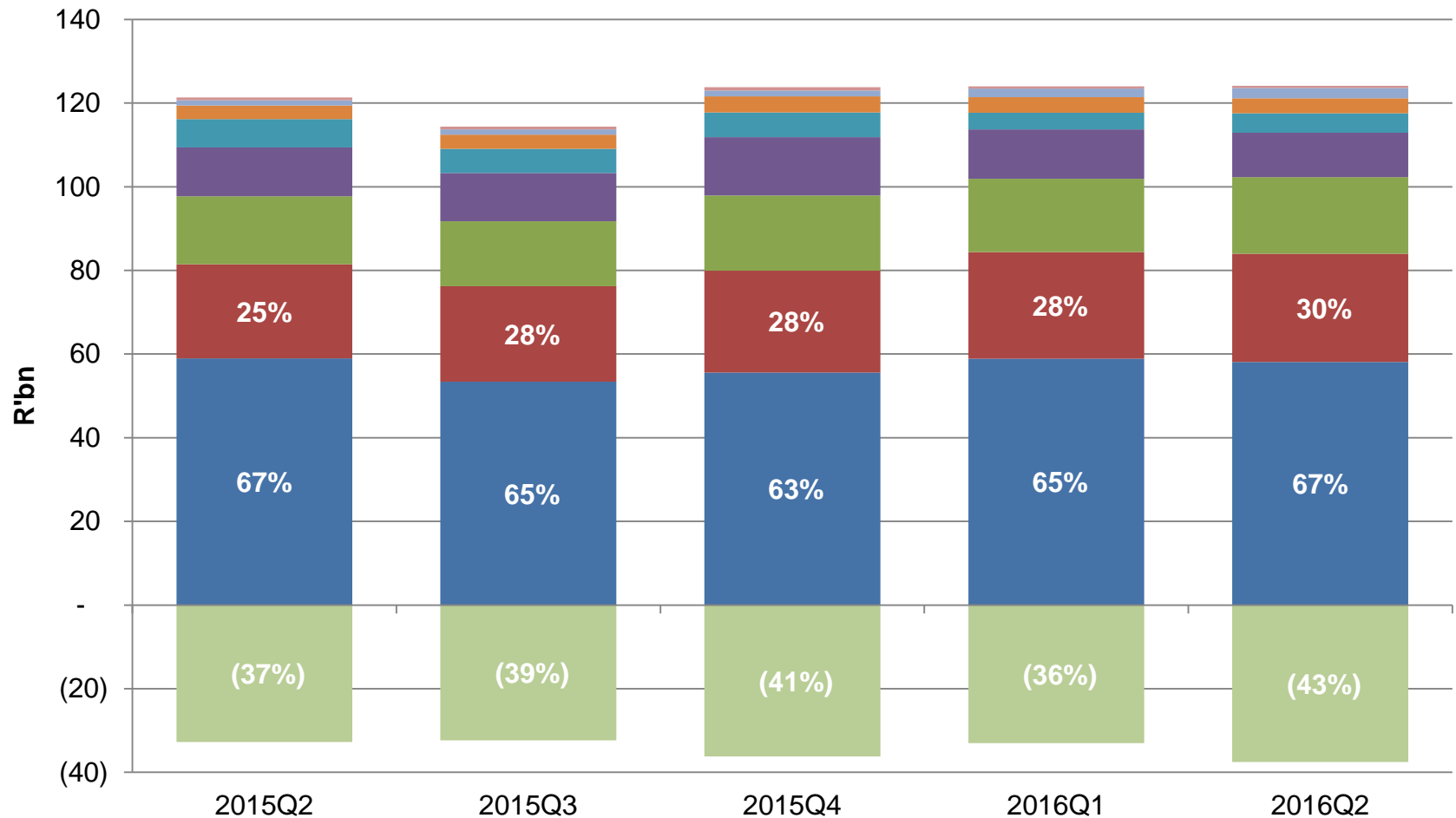
SAM – SCR Cover



SAM – SCR Components



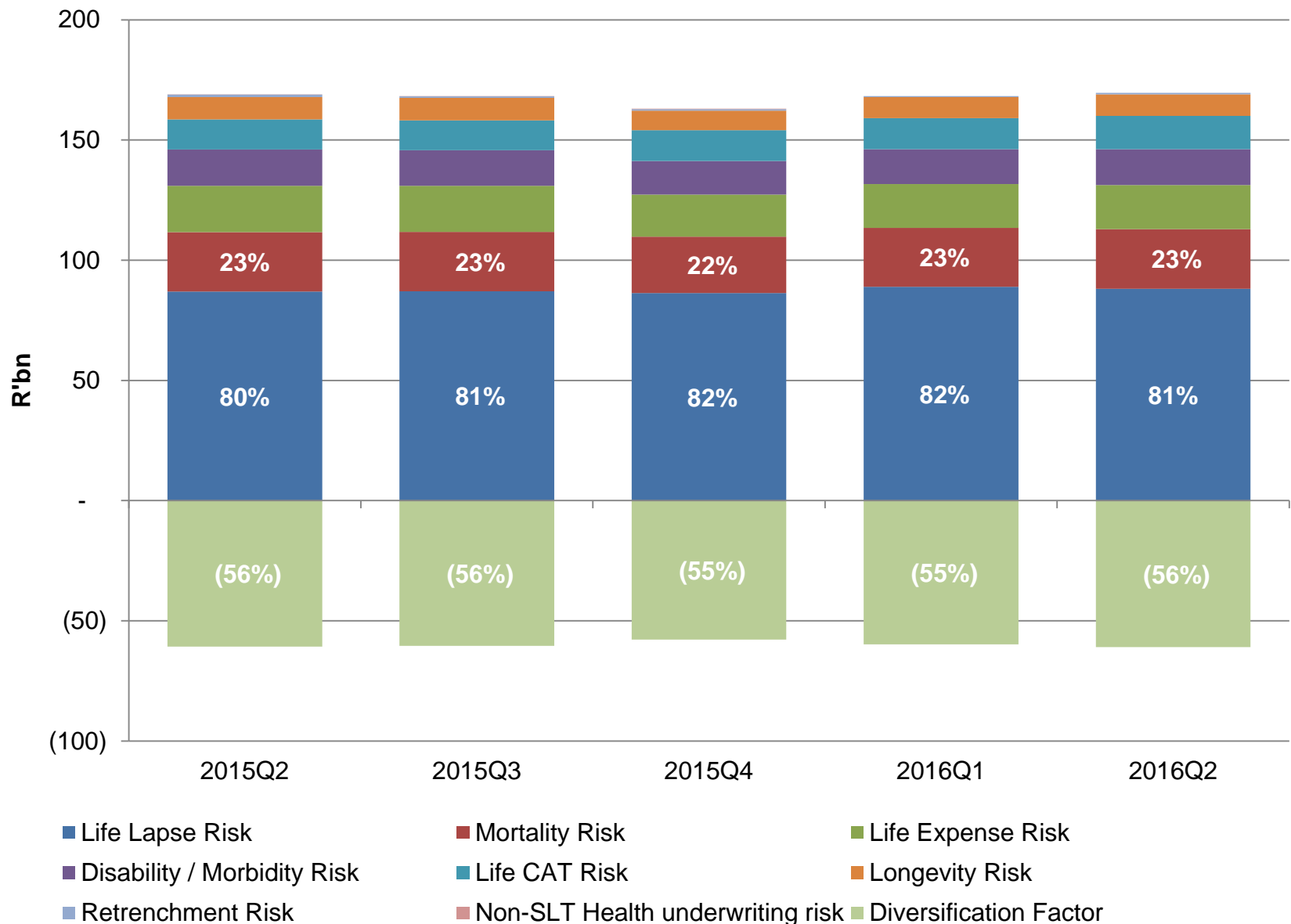
SAM – SCR: Market Risk



- Equity Risk
- Interest Rate Risk
- Spread & Counterparty Default Risk
- Currency Risk
- Concentration Risk
- Property Risk
- Illiquidity Premium Risk
- SES Adjustment
- Diversification Factor



SAM – SCR: Life Underwriting Risk



Thank you

Christiaan.Ahlers@fsb.co.za

Iwona.Smit@fsb.co.za

Yolisa.Ncwana@fsb.co.za



**FINANCIAL
SERVICES
BOARD**