

An overview of the experience of long-term insurers in South Africa for 2012



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Introduction

- Representative South African Statutory Valuation Method bases reported in 2012, including the following:
 - Valuation assumptions
 - Actual experience for certain key elements
 - AOS results
 - Stress test results
 - Top risks (Qualitative return)



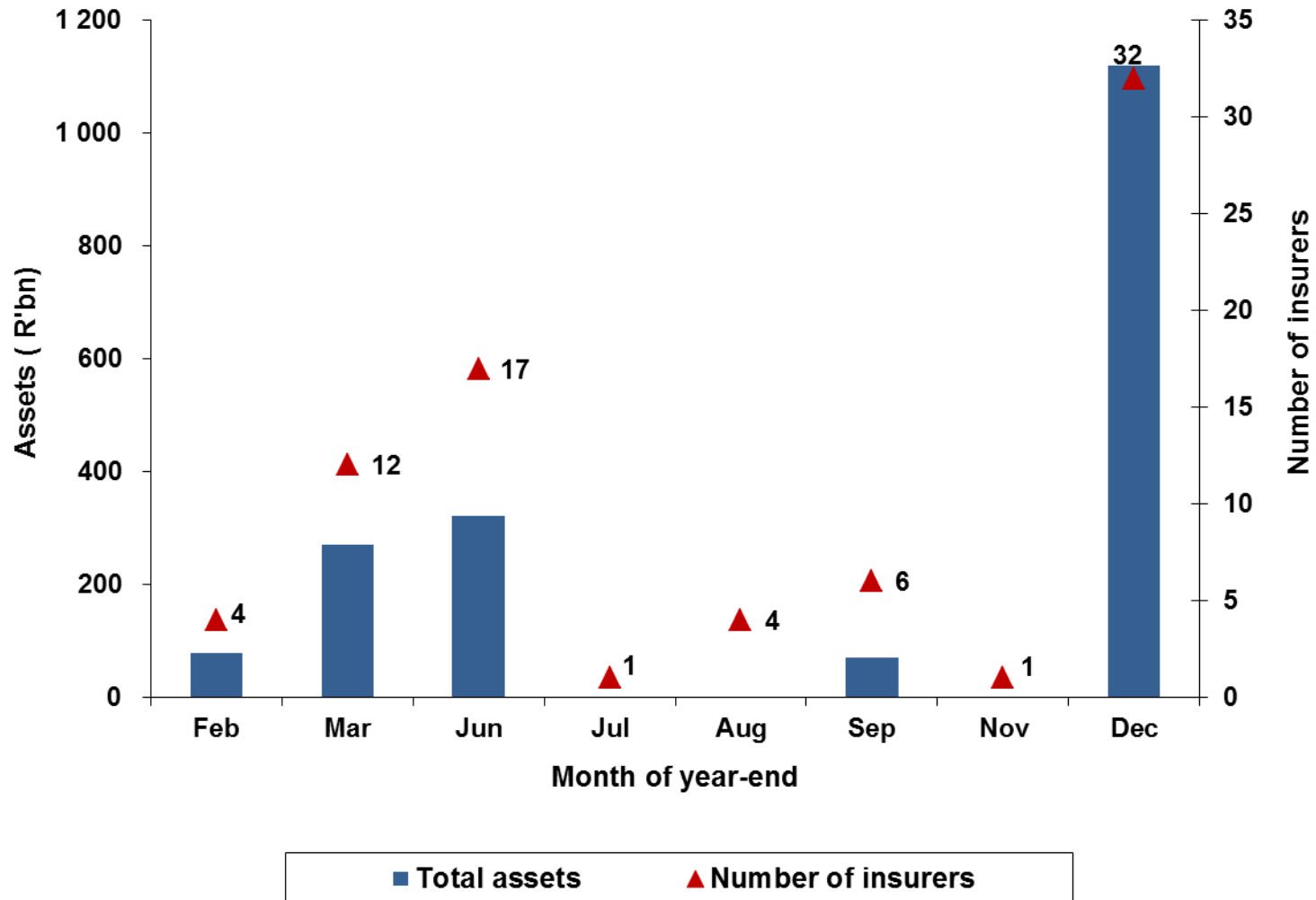
Overview of the long-term insurance market in 2012

Rankings

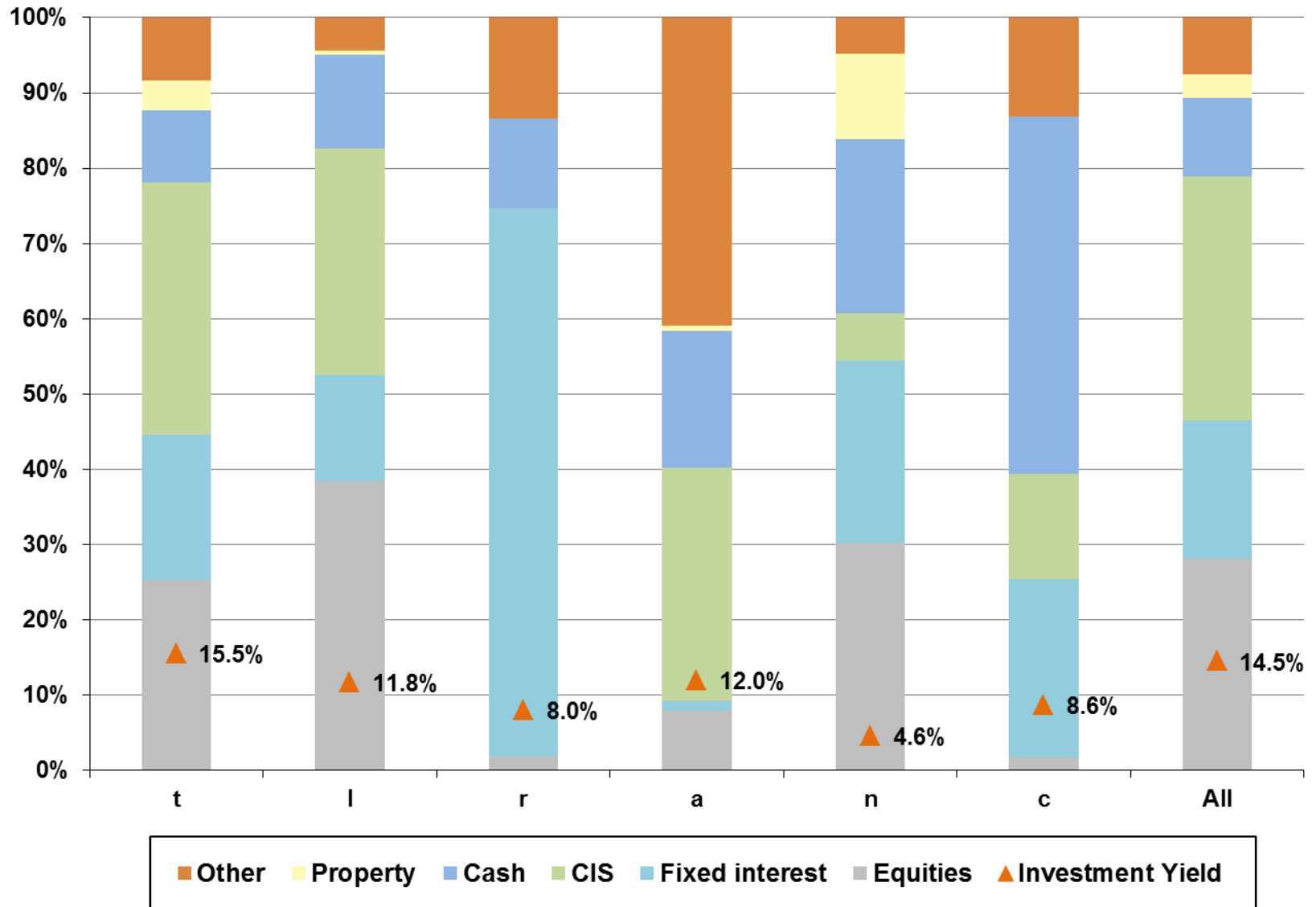
Insurer	Industry	% of market assets (2012)	Rank based on Assets		
			2012	2011	2010
Old Mutual Life	Typical	25%	1	1	1
Sanlam Life	Typical	16%	2	2	2
Momentum Group	Typical	11%	3	3	3
Liberty Life	Typical	11%	4	4	4
Investment Solutions	Linked	9%	5	5	5
Metropolitan Life	Typical	4%	6	6	6
Allan Gray	Linked	4%	7	7	7
Investec Assurance	Linked	4%	8	8	8
Coronation Life	Linked	3%	9	9	9
Liberty Active	Typical	1%	10	11	12



Number of insurers per year-end



Asset composition



Key indicators

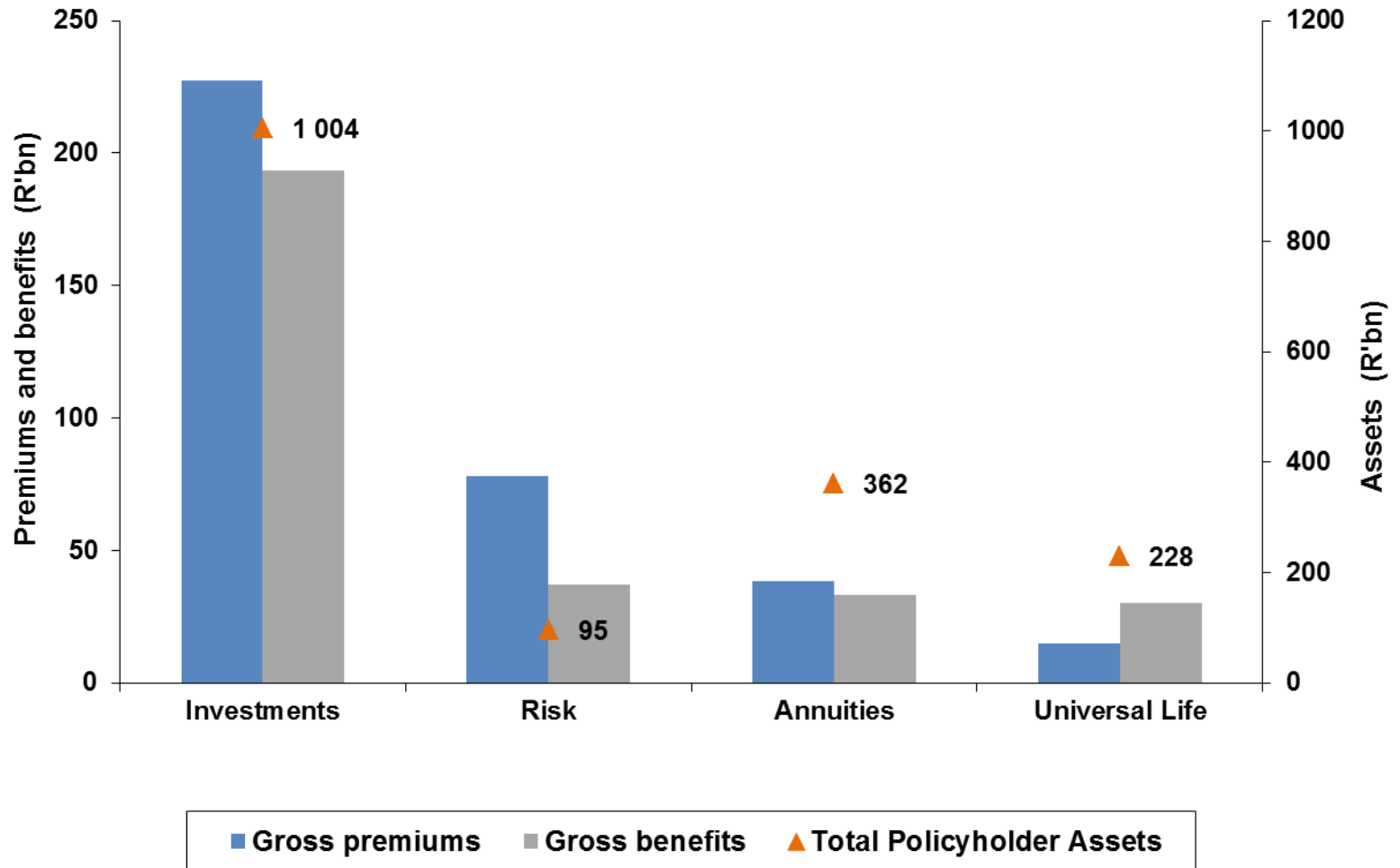
<i>(R'bn)</i>	2012	2011	2010
Total assets	1,861	1,652	1,530
Total liabilities	1,730	1,529	1,416
Excess assets	131	123	114
CAR before management action	65	74	82
CAR after management action	36	36	33
Funding factor (excl. CAR)	1.08	1.08	1.08
CAR Cover	3.64	3.45	3.46
CAR after MA/ CAR before MA	56%	48%	40%

Key indicators

	CAR before MA / Total Liabilities	CAR after MA / Total Liabilities
Assistance	10.8%	8.8%
Cell Captive	6.9%	4.7%
Linked	0.2%	0.2%
Niche	9.4%	7.3%
Reinsurers	5.3%	5.3%
Run-offs	83.5%	83.5%
Typical	5.0%	2.7%
Total	3.8%	2.1%

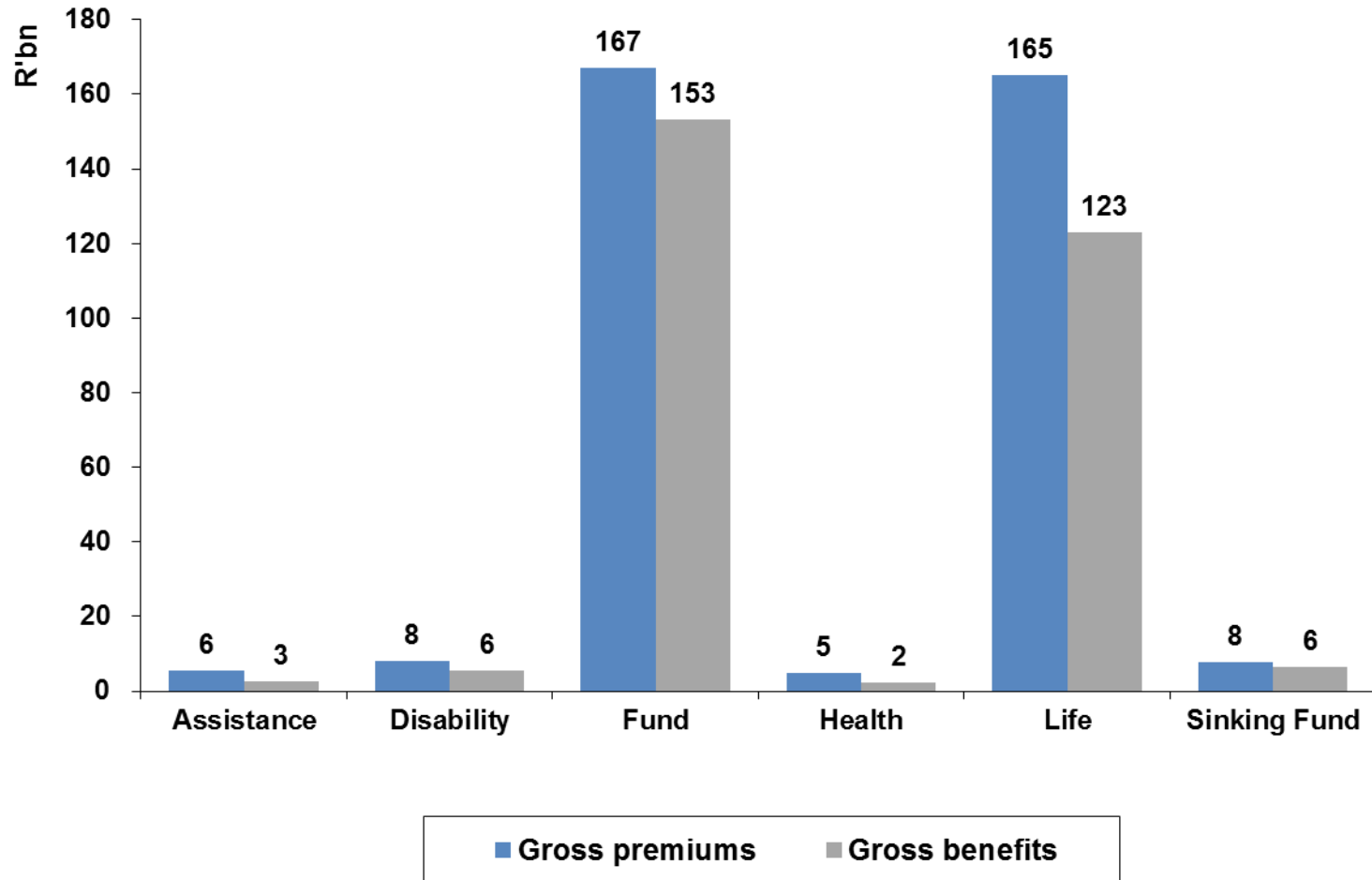
Business class

R359bn premiums | R293bn benefits

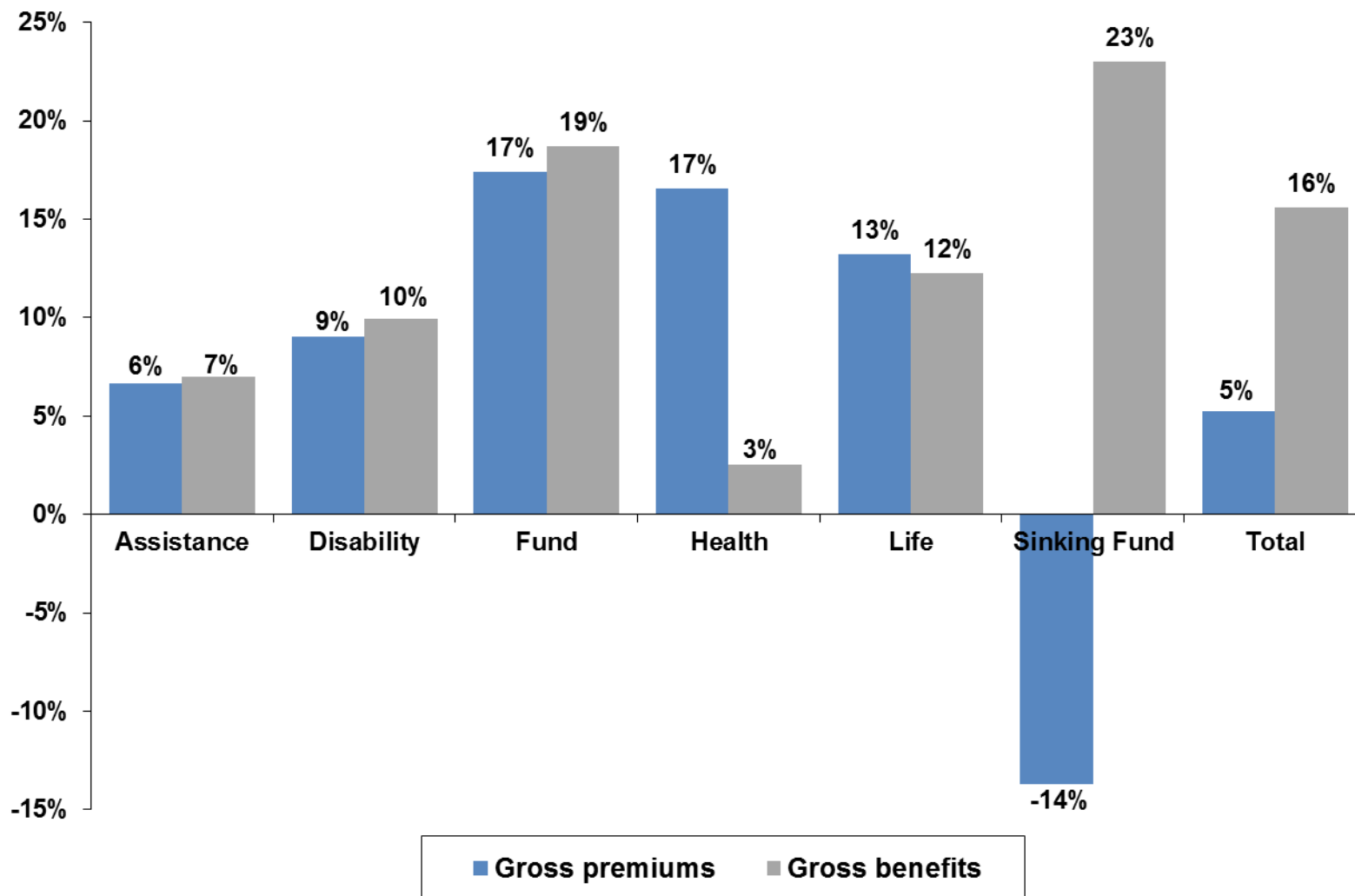


Insurance licence

R359bn premiums | R293bn benefits | 92% retention



Growth per licence



Key indicators

	Industry						Total		
	t	l	r	a	n	c	2012	2011	2010
Number of active insurers	28	15	7	7	10	7	74	74	75
Net new premiums received	45.9%	50.5%	1.1%	0.7%	0.5%	1.3%	185	156	147
Net total premiums received	62.7%	32.9%	2.1%	0.5%	0.6%	1.2%	331	289	268
Net benefits paid	65.7%	31.6%	1.8%	0.2%	0.3%	0.4%	279	240	247



Mortality and morbidity

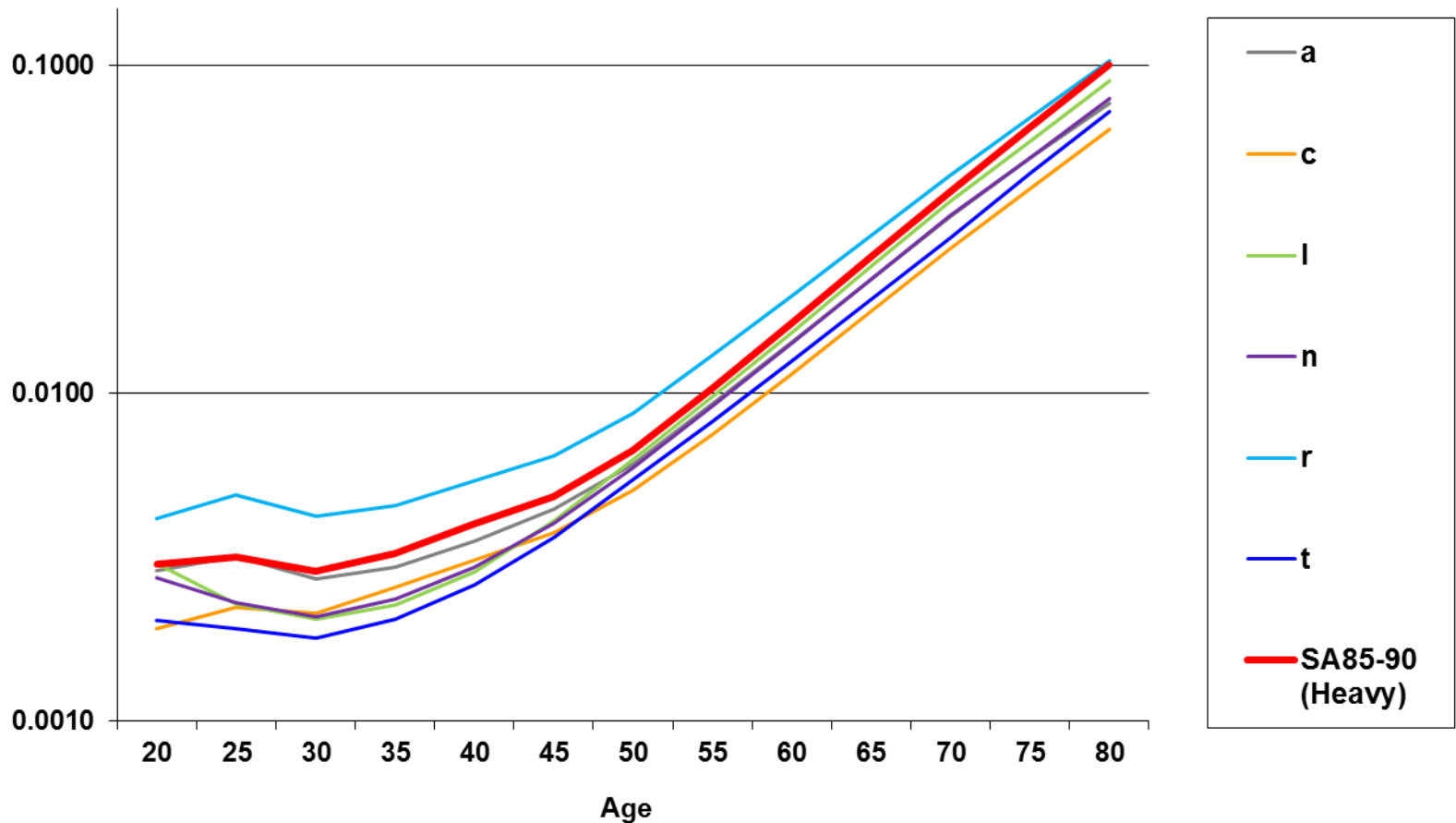
Mortality

- 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 put weighted average rates into perspective



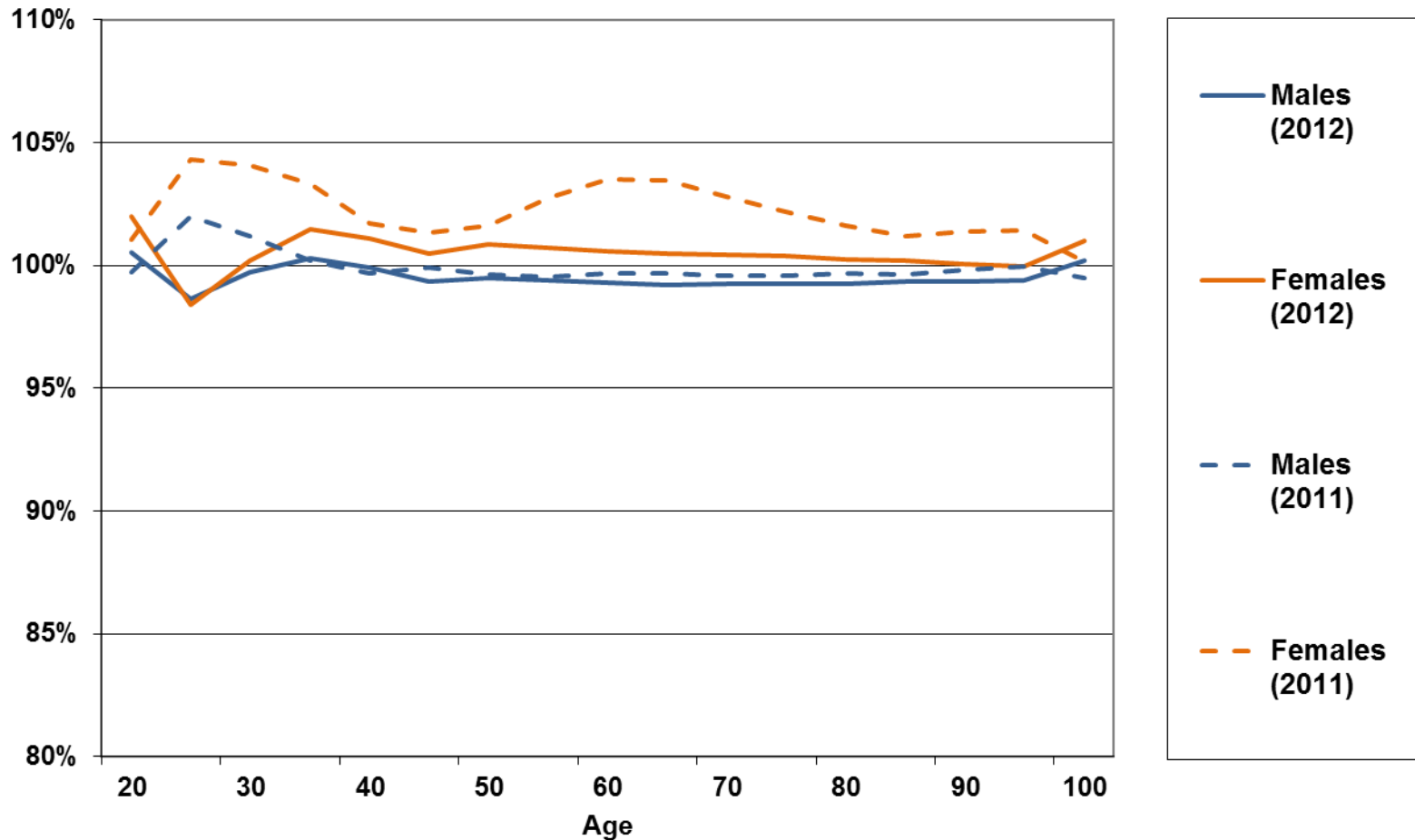
Assurance mortality

Male smokers without AIDS loading

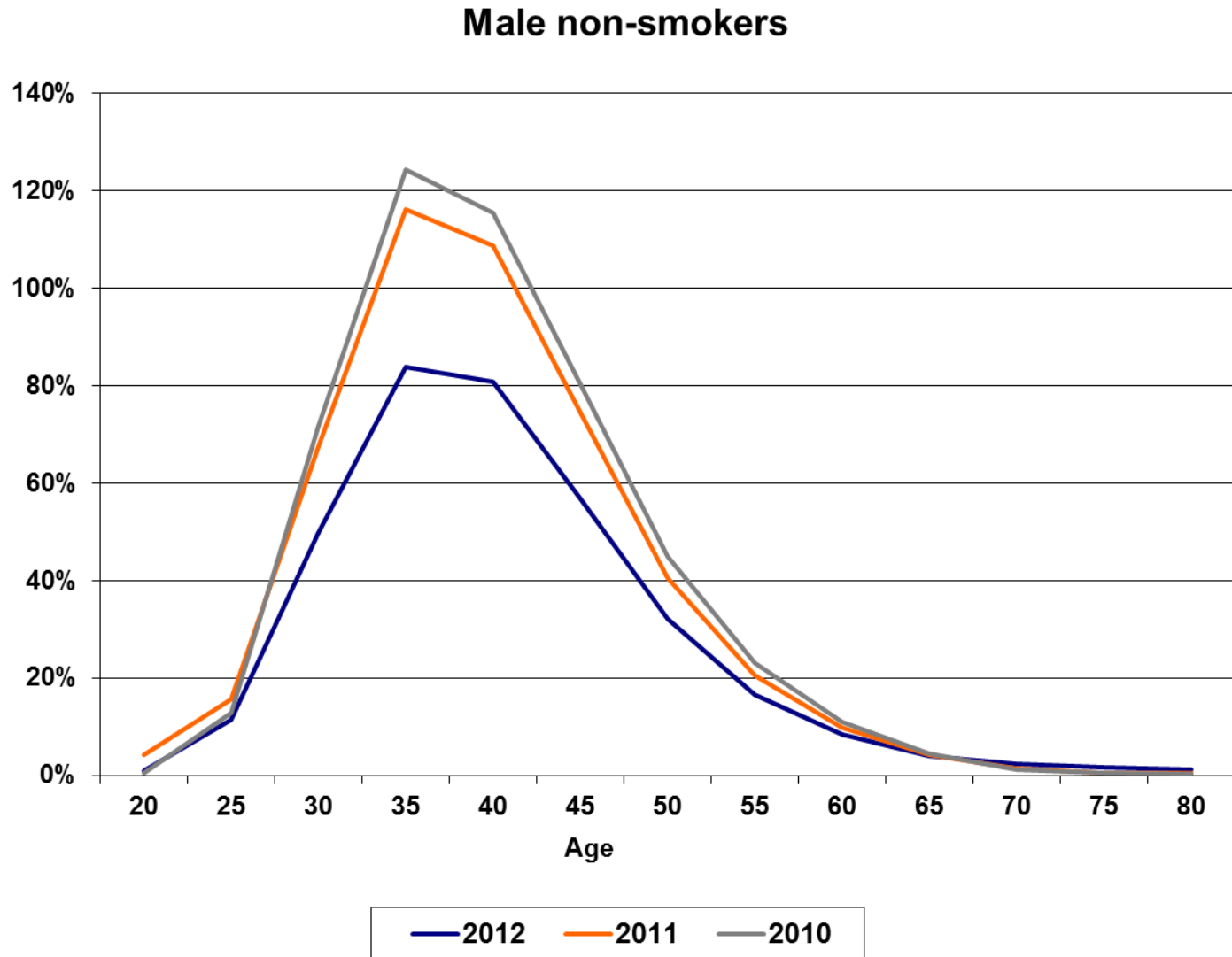


Change in mortality of assured lives

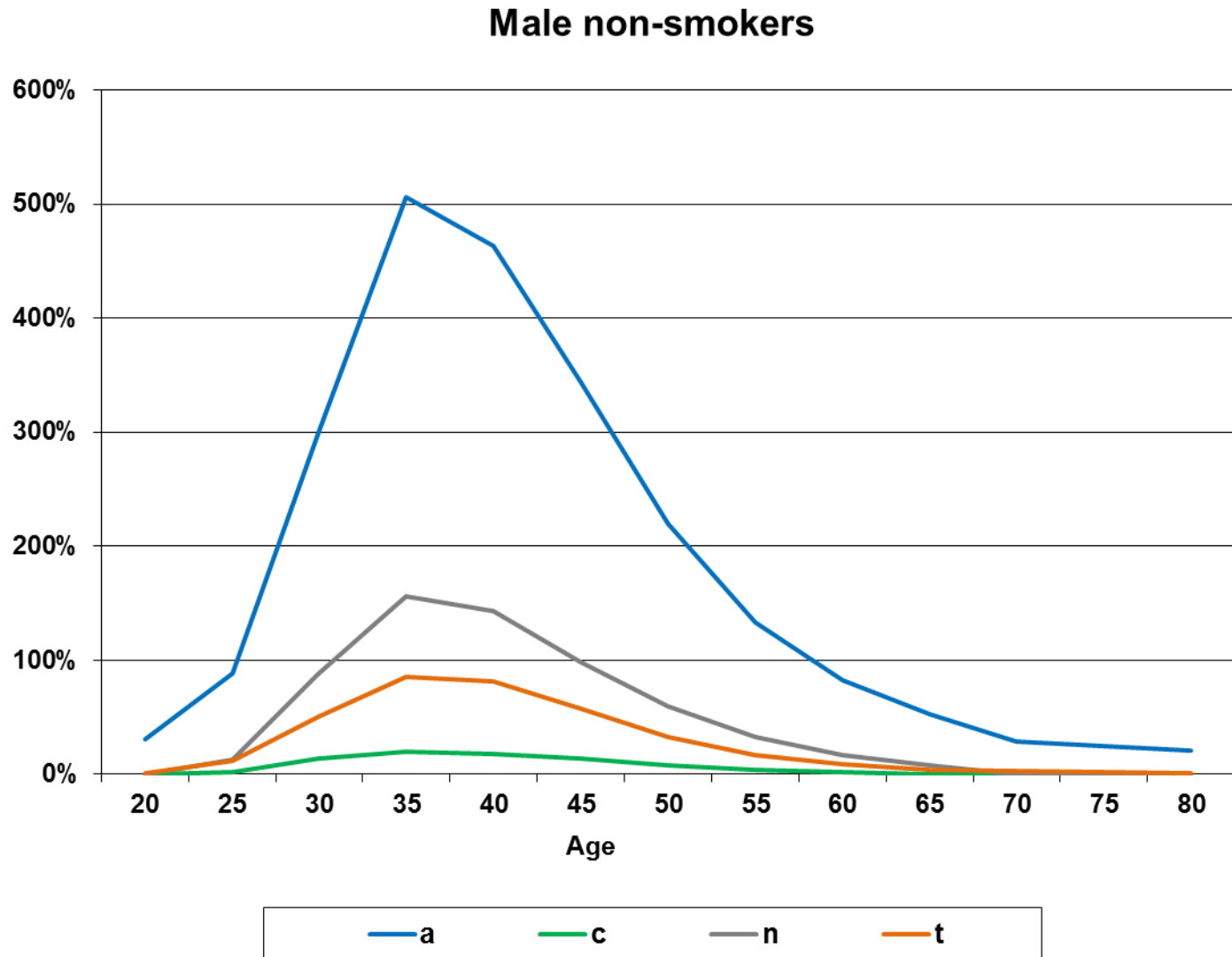
Smokers without AIDS loading



AIDS loading per year



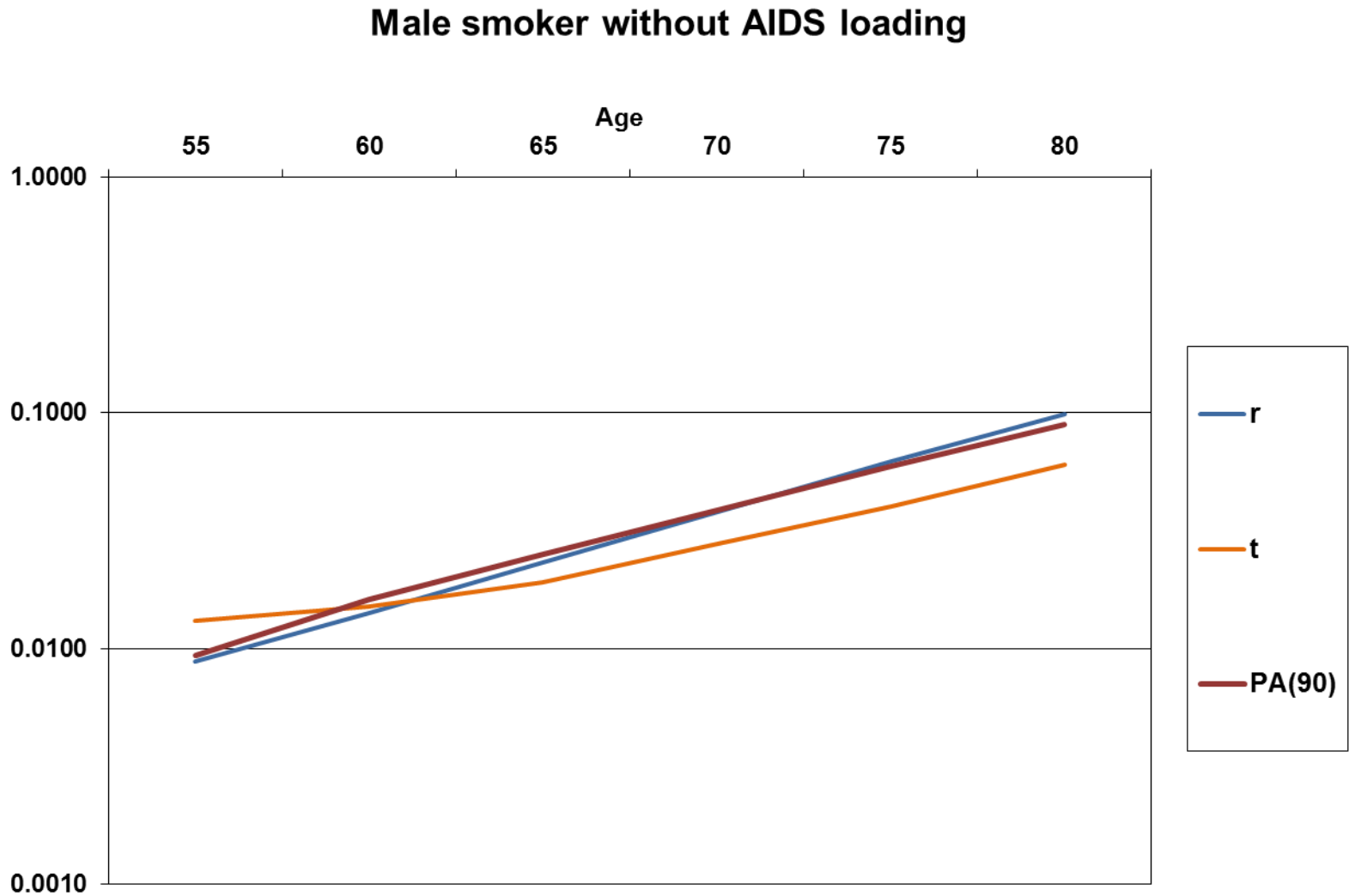
AIDS loading per industry



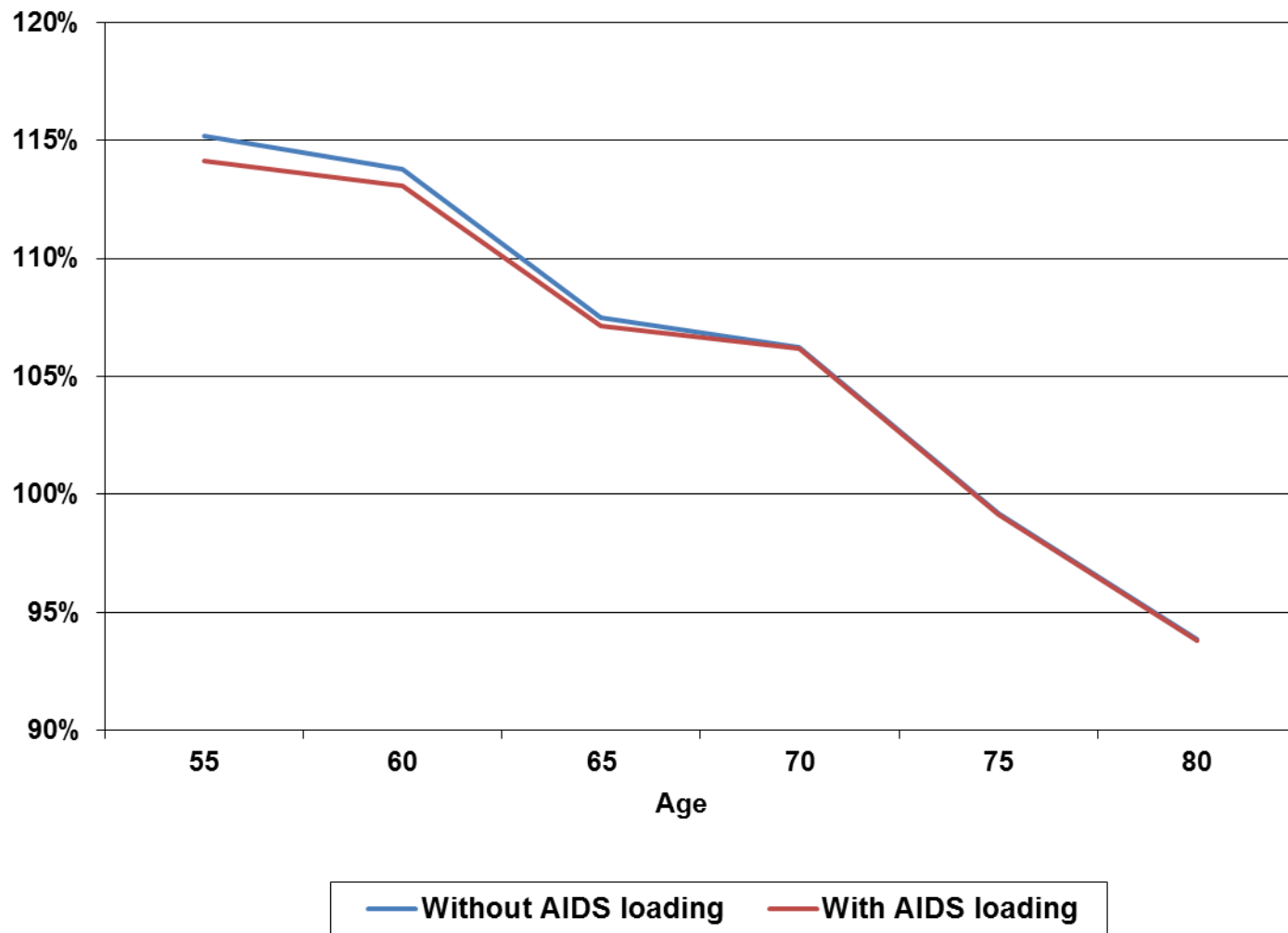
Change in assurance mortality (2007 - 2012)



Annuitant mortality



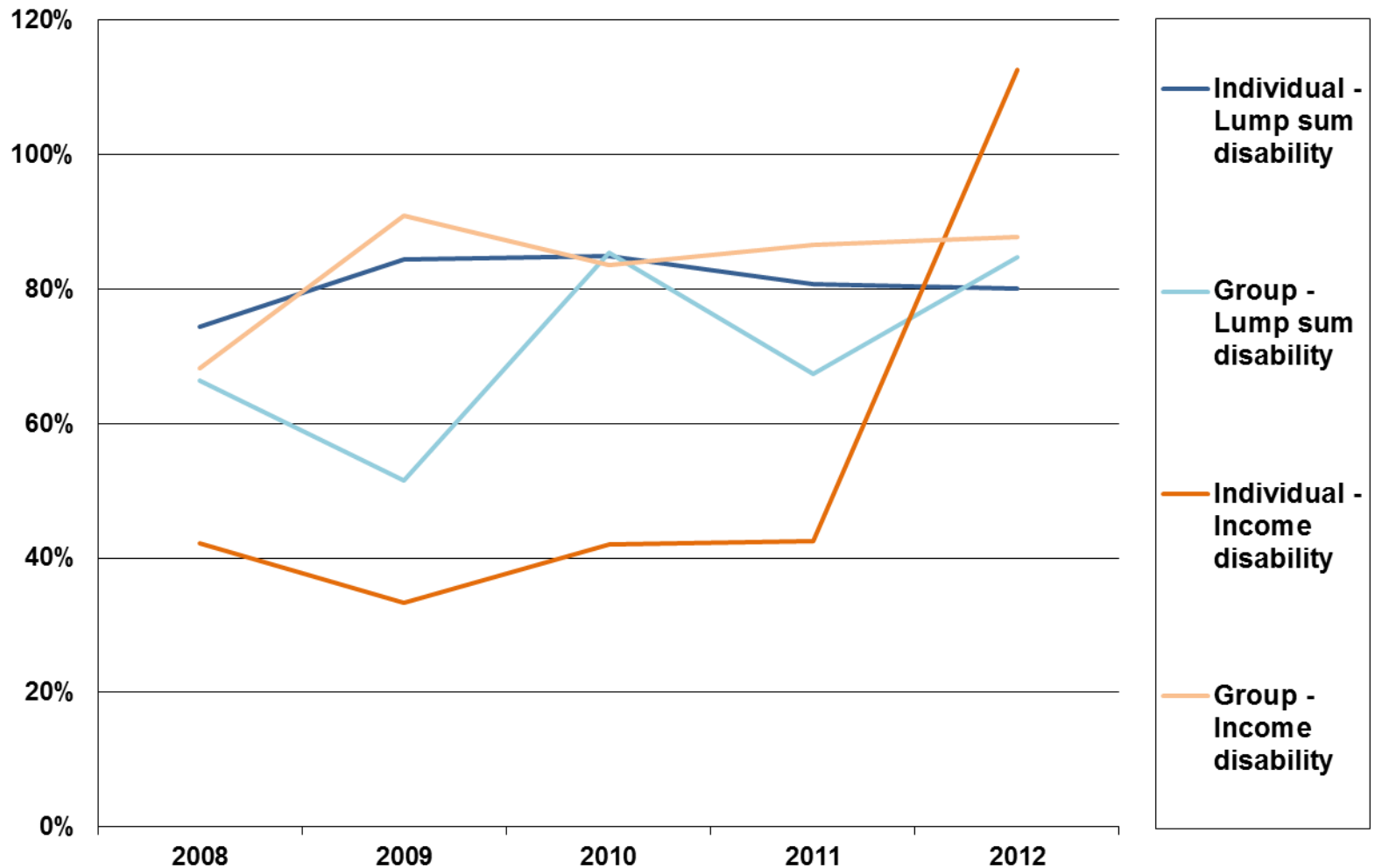
Change in annuitant mortality (2007 - 2012)



Mortality: Actual vs. expected

- Assurance products
 - Individual: 85% (89%)
 - Group: 86% (89%)
- Annuity products
 - Individual: 115% (113%)
 - Group: 109% (102%)

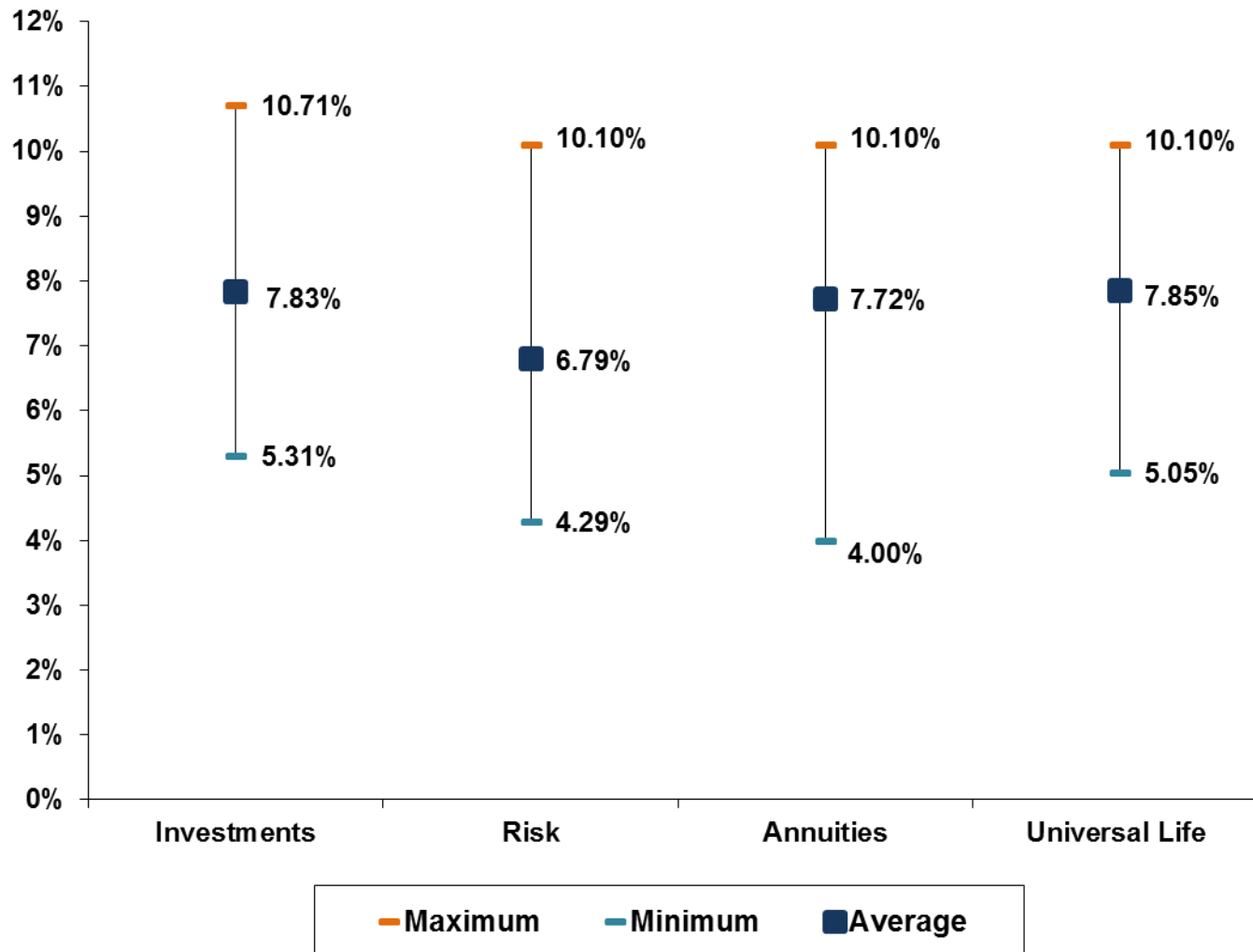
Morbidity: Actual vs. expected





Discount rates

Assumed central discount rate





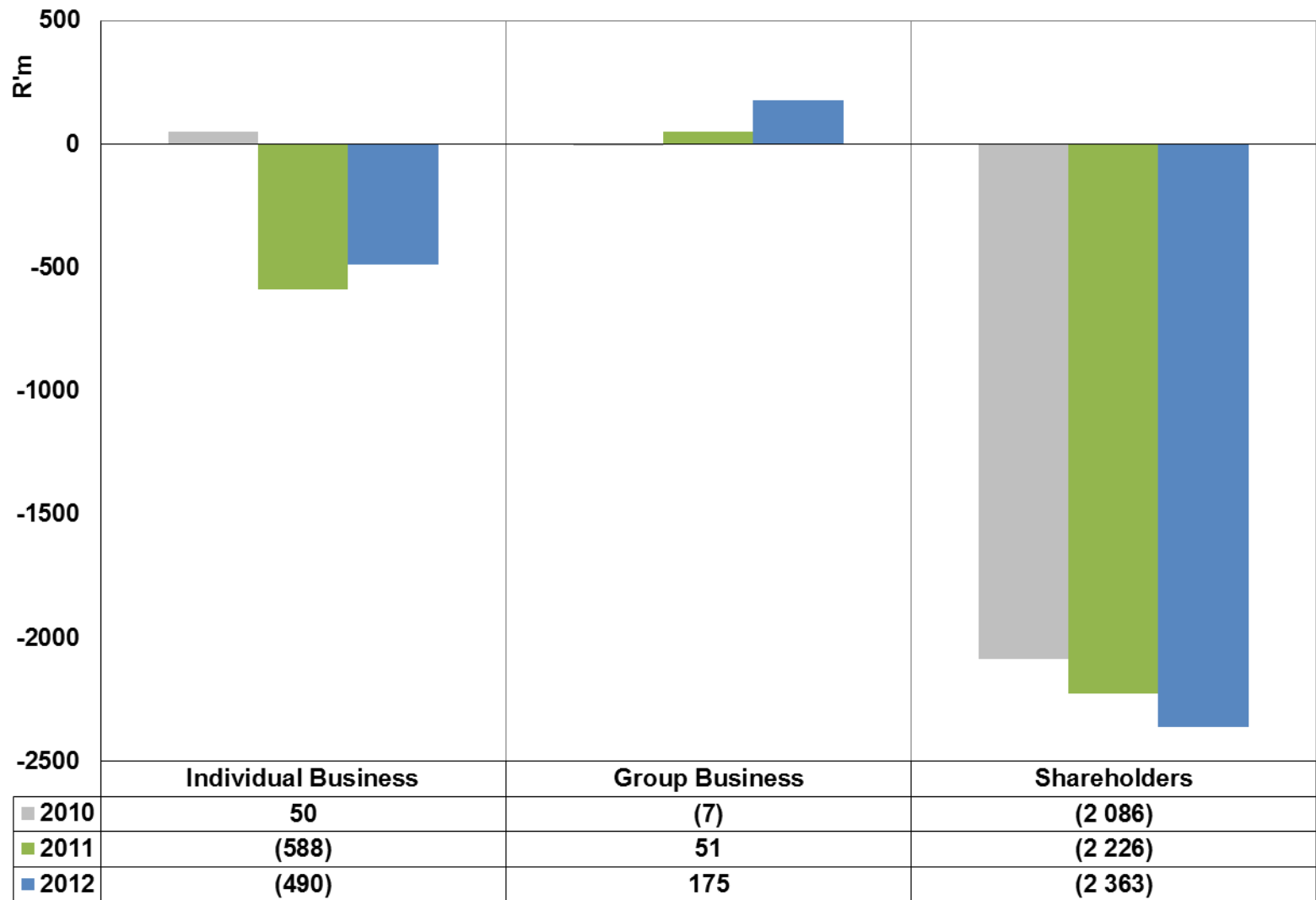
Expenses

Expense ratio

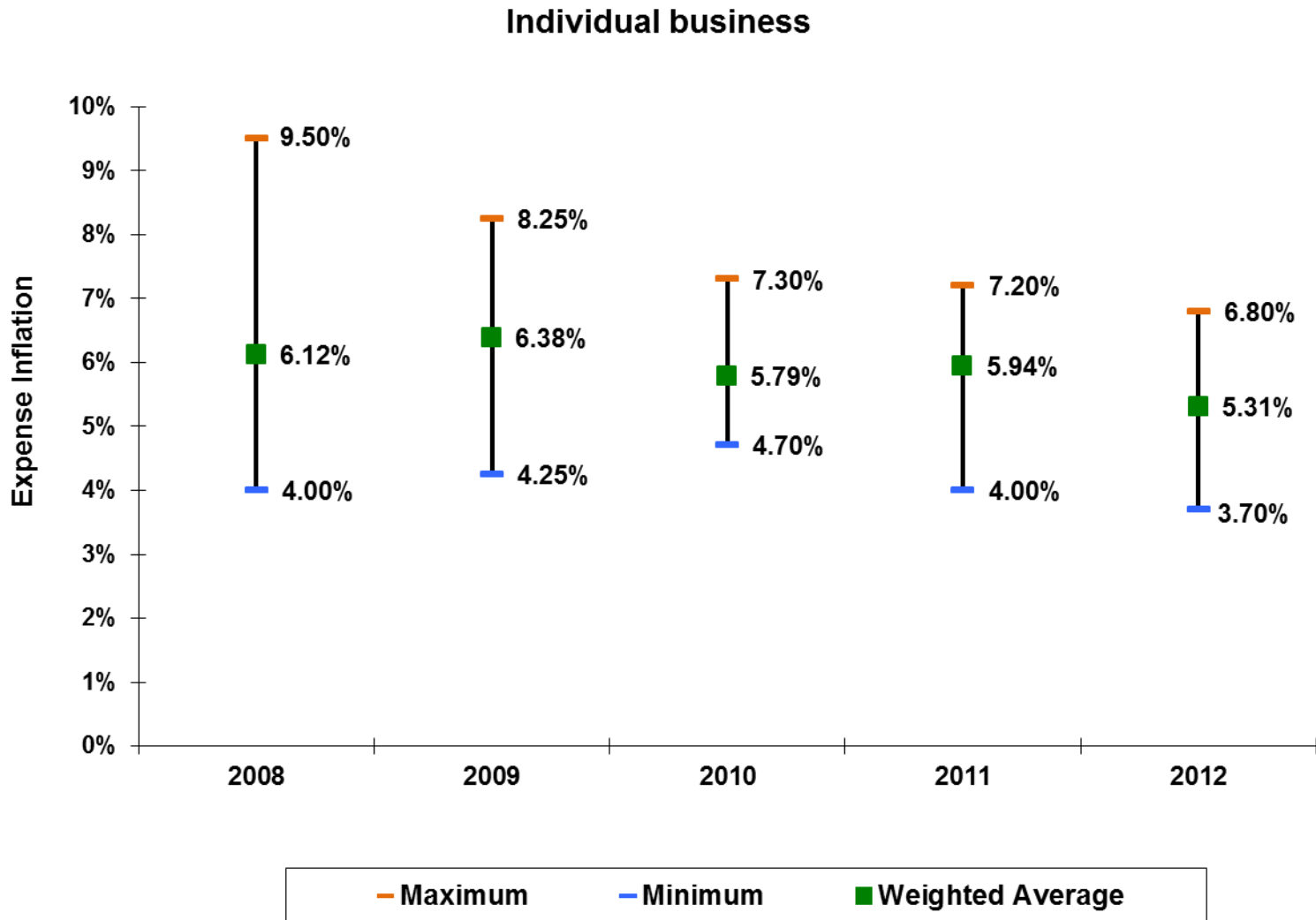
Total Expenses as a % of Total Liabilities			
Industry	2012	2011	2010
Assistance	50.8%	49.6%	41.6%
Cell Captive	17.5%	17.6%	15.5%
Linked	0.4%	0.7%	0.5%
Niche	4.0%	3.7%	2.7%
Reinsurer	7.4%	7.5%	6.4%
Typical	3.5%	3.3%	3.5%
All	2.8%	2.9%	2.9%



Expense experience

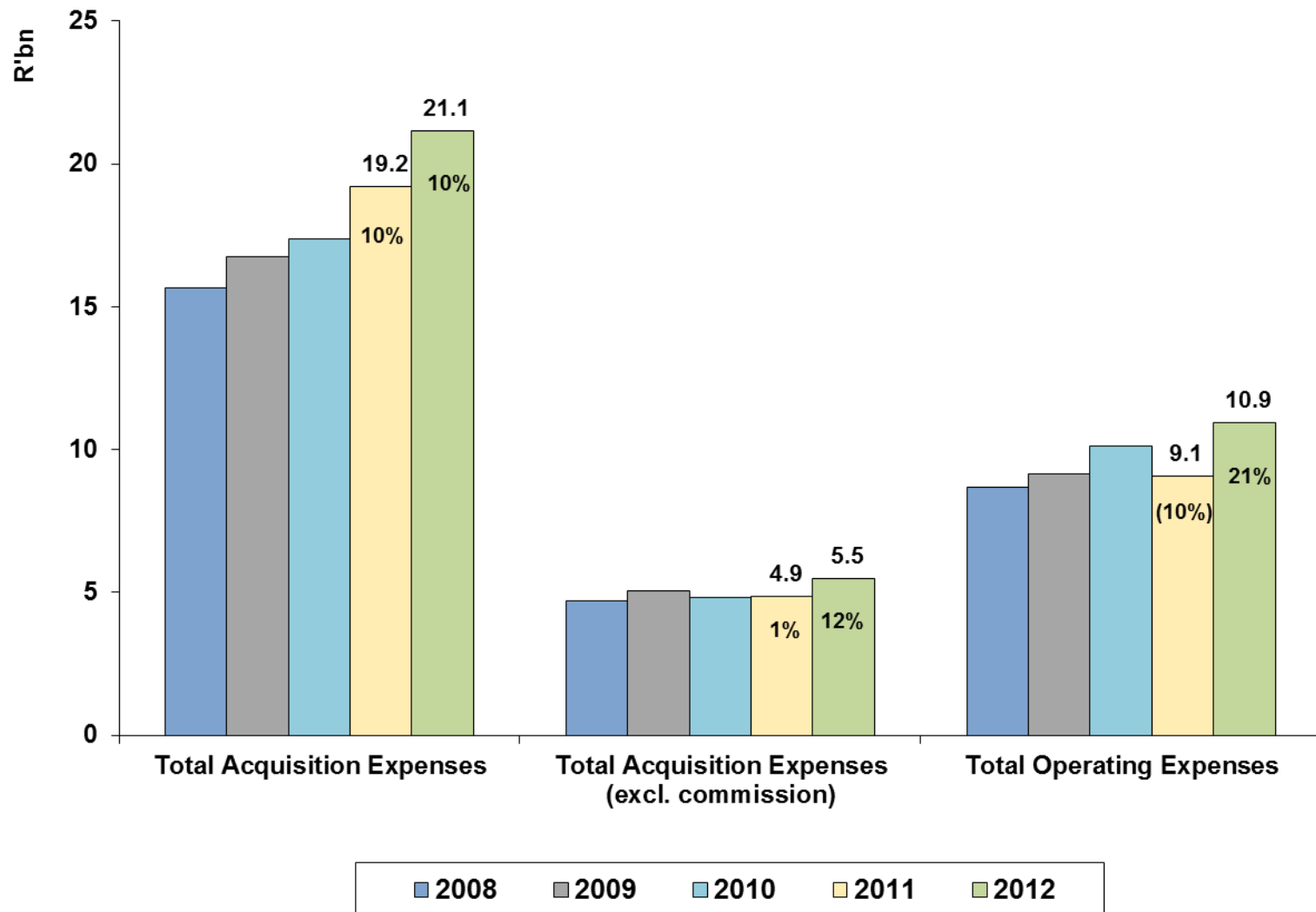


Expense inflation assumption



Actual expense inflation

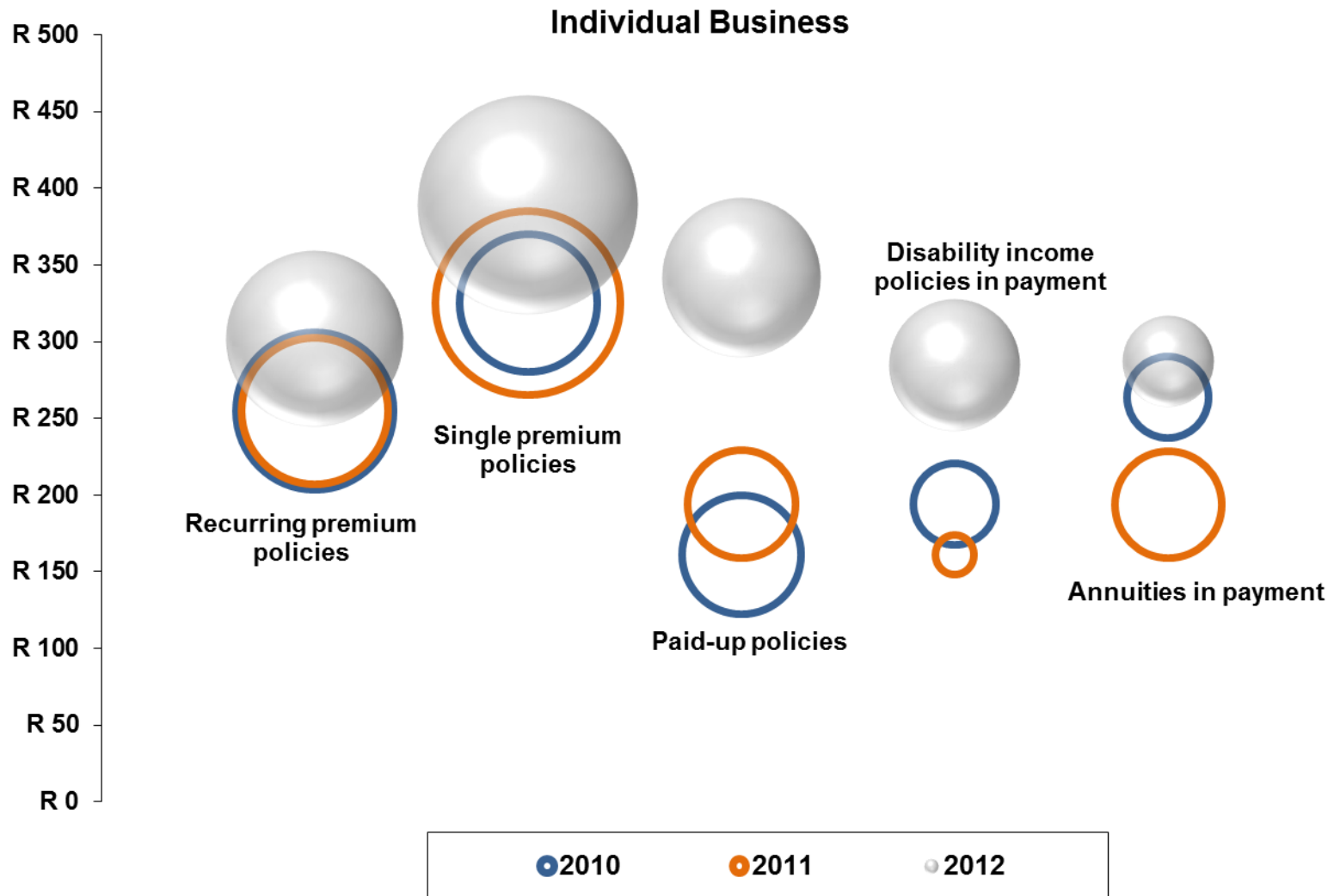
Individual Business



Actual initial expense (individual business)

Average initial expense per new policy			
Industry	2012	2011	2010
Assistance	R 290	R 328	R 399
Cell Captive	R 727	R 1,146	R 852
Linked	R 10,041	R 13,219	R 14,013
Niche	R 98	R 82	R 138
Typical	R 1,645	R 1,803	R 1,870
All	R 1,457	R 1,597	R 1,723

Renewal expense assumption (per policy)



Actual operating expense (individual business)

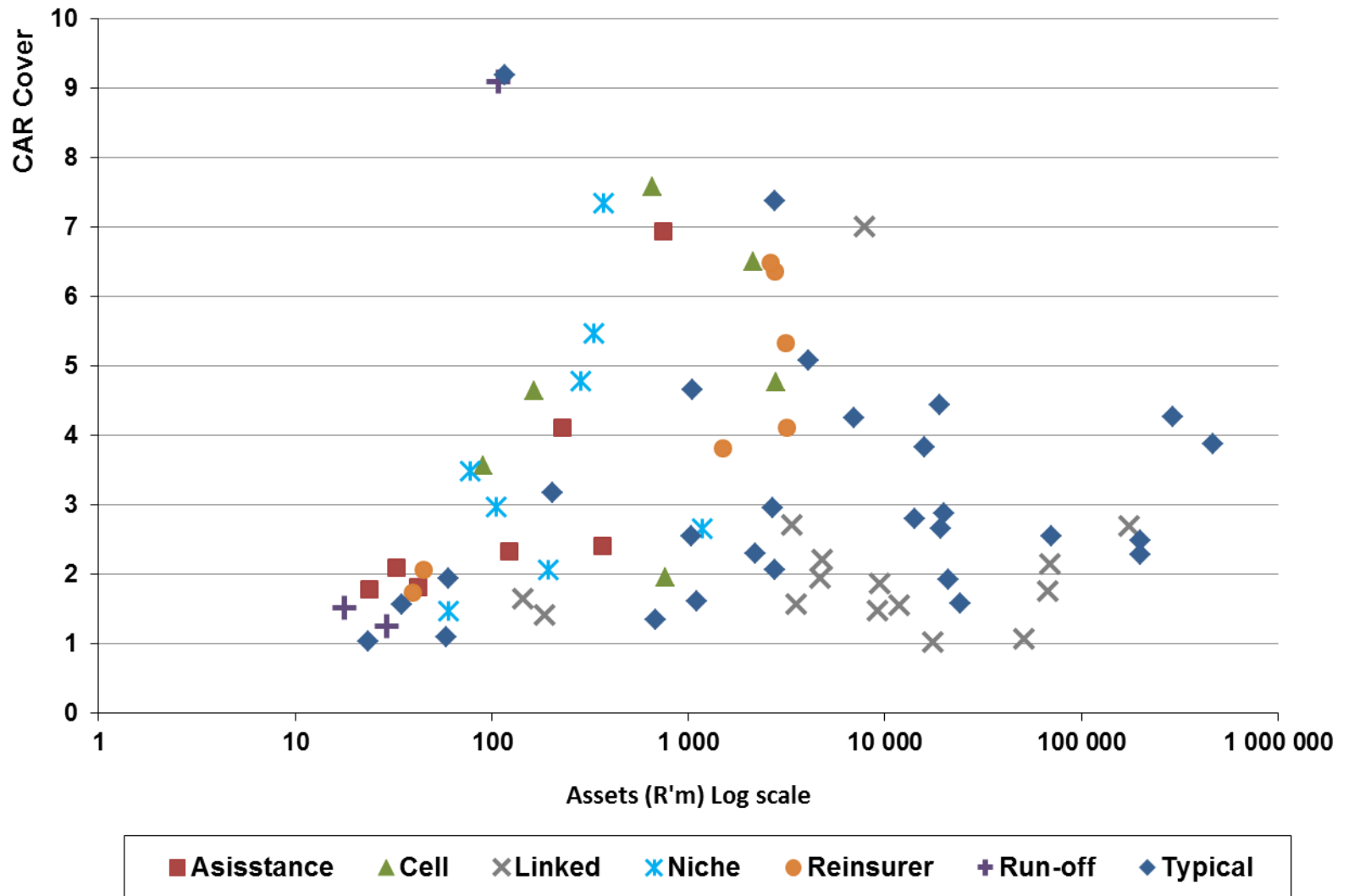
	Average Operating Expense per policy			Operating Expenses as a % of Total Net Premium		
	2012	2011	2010	2012	2011	2010
Assistance	R 58	R 116	R 152	8%	13%	17%
Cell captive	R 112	R 82	R 68	10%	10%	10%
Linked	R 473	R 223	R 269	0.3%	0.5%	0.2%
Niche	R 109	R 115	R 101	12%	11%	11%
Typical	R 254	R 212	R 256	7%	6%	8%
All	R 242	R 206	R 246	7%	6%	7%



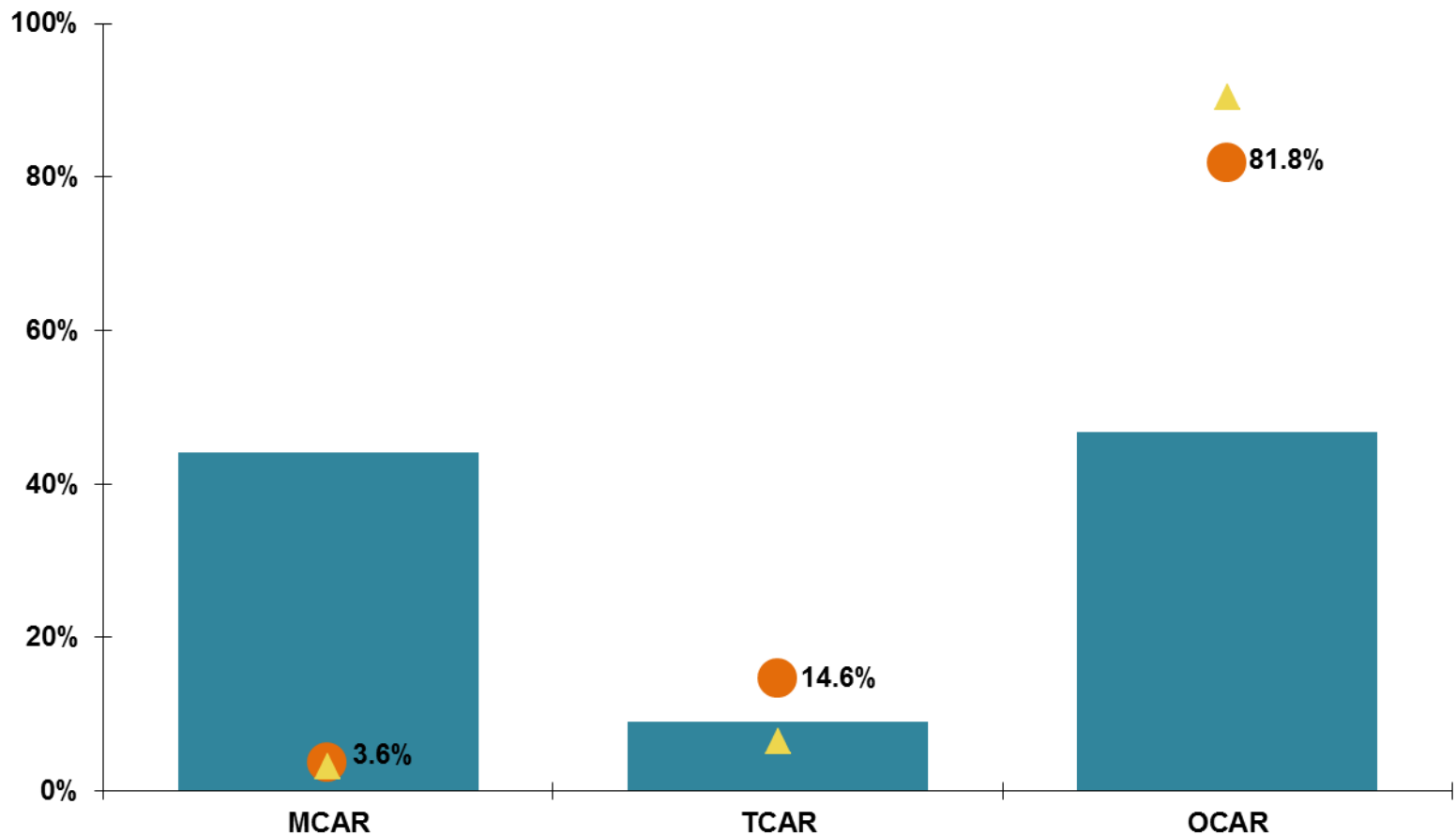


Capital Adequacy Requirement (CAR)

CAR Cover

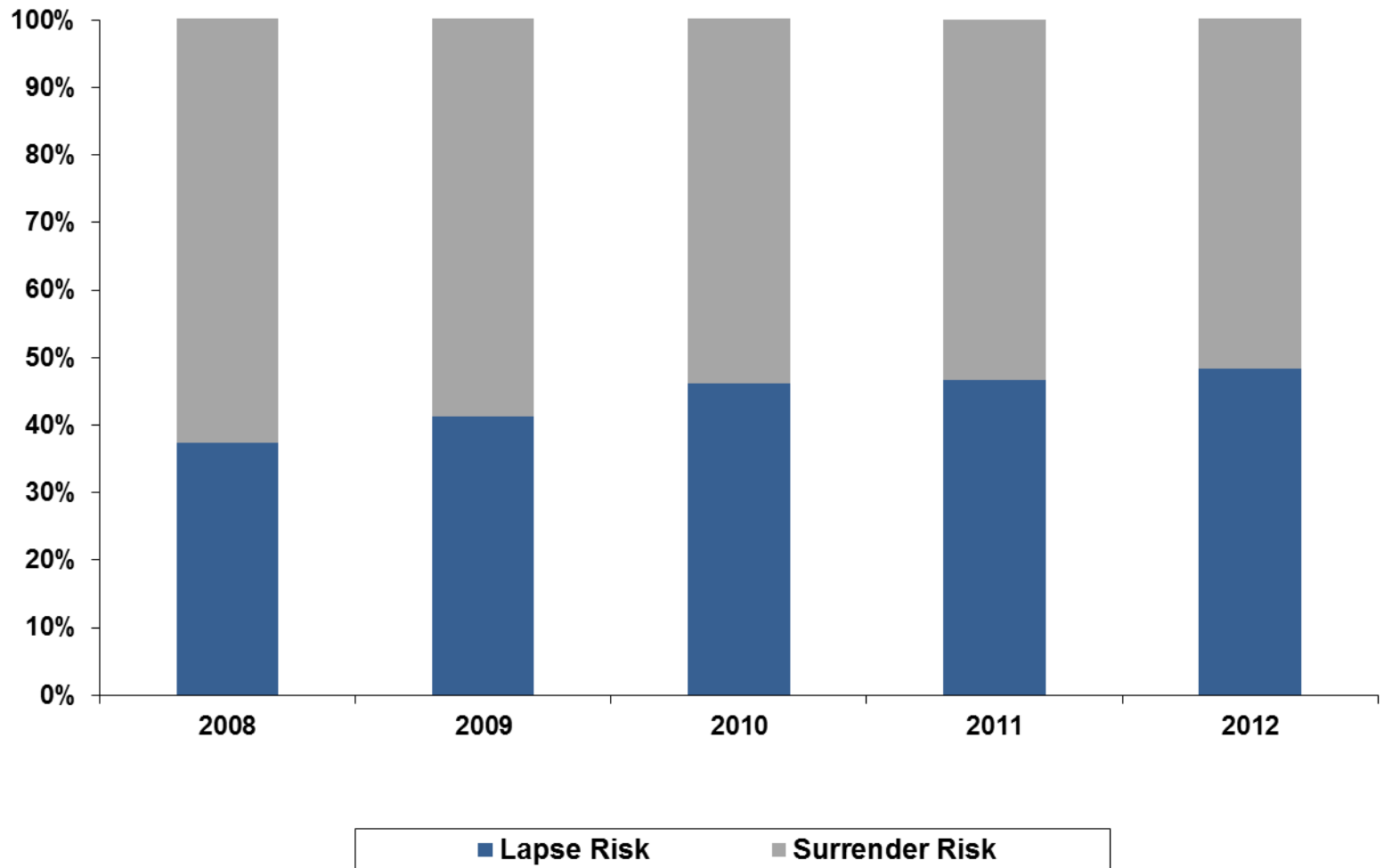


Distribution of CAR

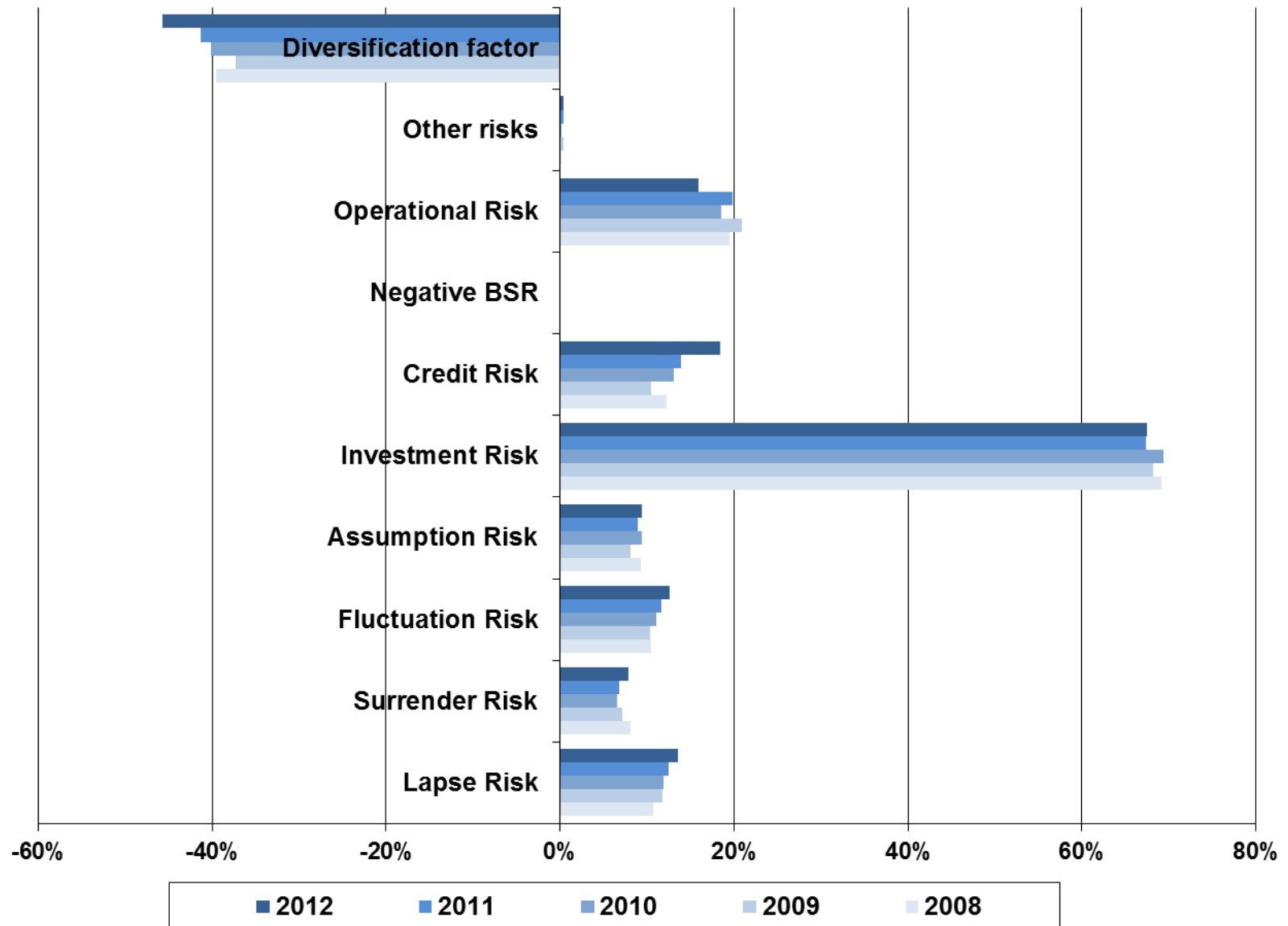


■ % of Active Insurers (2012) ● % of Total CAR (2012) ▲ % of Total CAR (2011)

TCAR



IOCAR



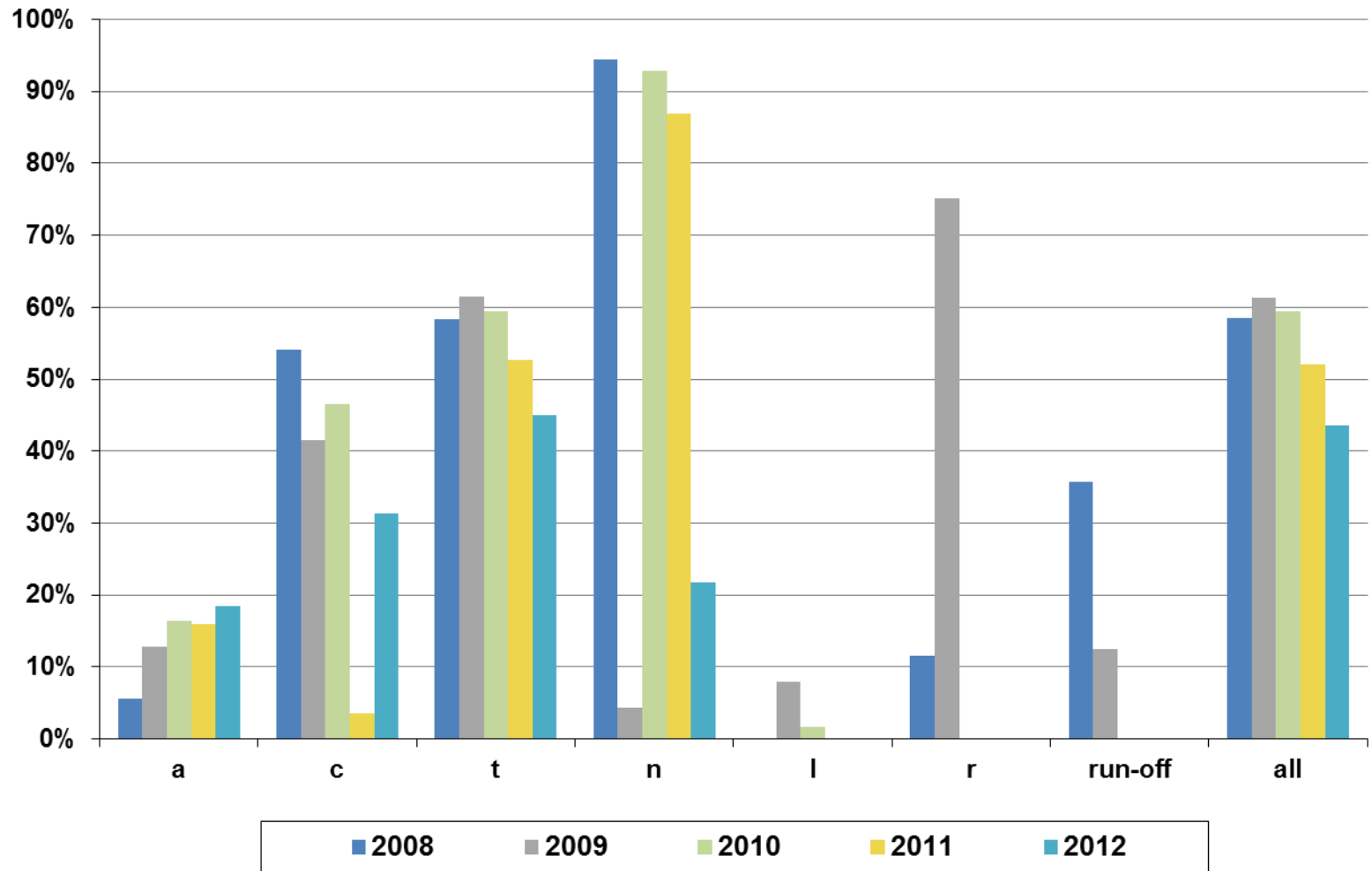
Proportion of insurers using management action

Industry	Proportion of insurers using management action
Assistance	14%
Cell Captives	29%
Niche	10%
Linked	0%
Typical	43%
Reinsurers	0%
Run-off	0%
Total	21%

Effect of management action

- Overall CAR was reduced by 44%
- TCAR was reduced by 8%
- Elements of OCAR reduced:
 - Investment risk: 57%
 - Annuitant mortality fluctuation risk: 11%
 - Morbidity fluctuation risk: 13%
 - Credit risk: 12%

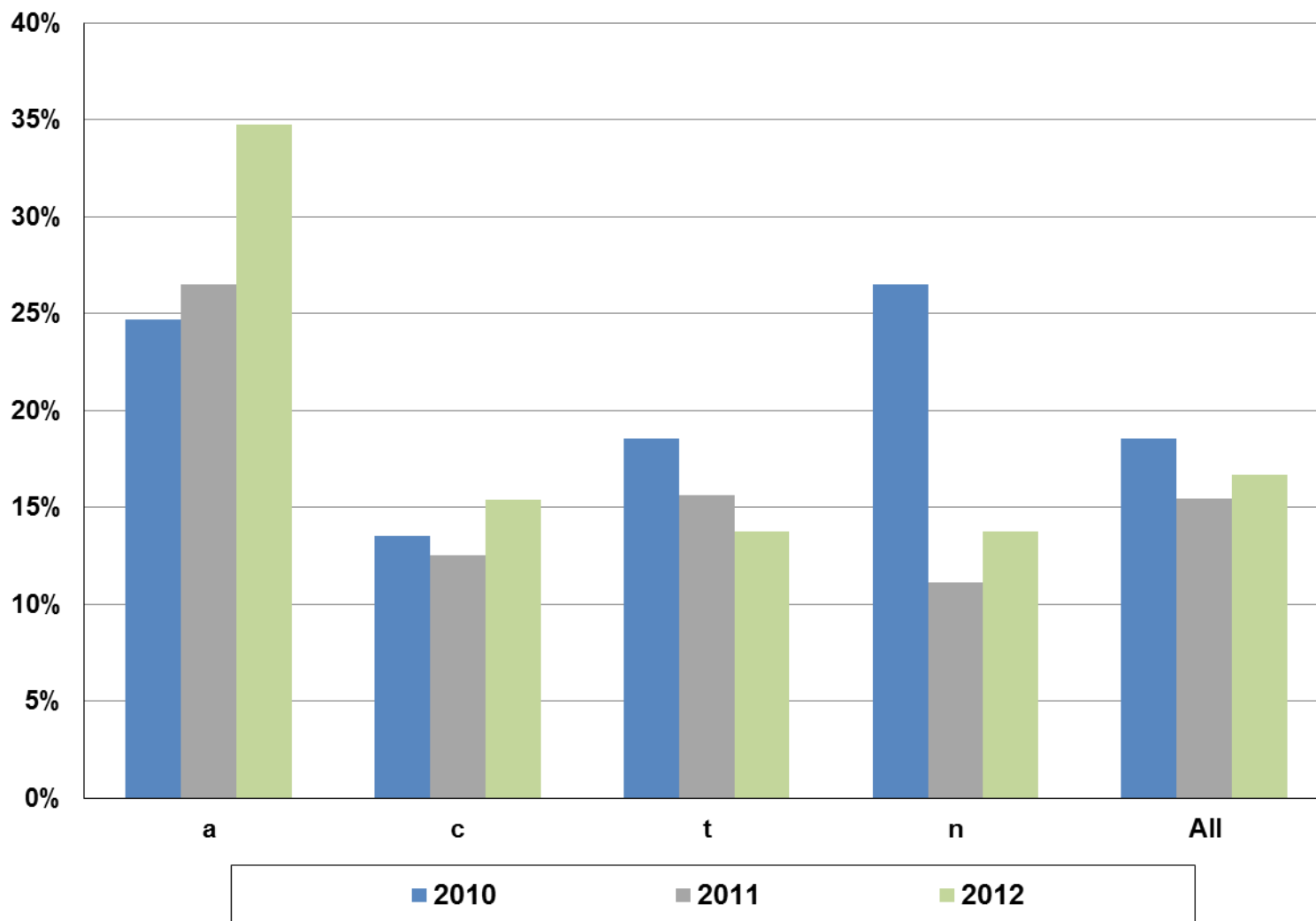
Effect of management action



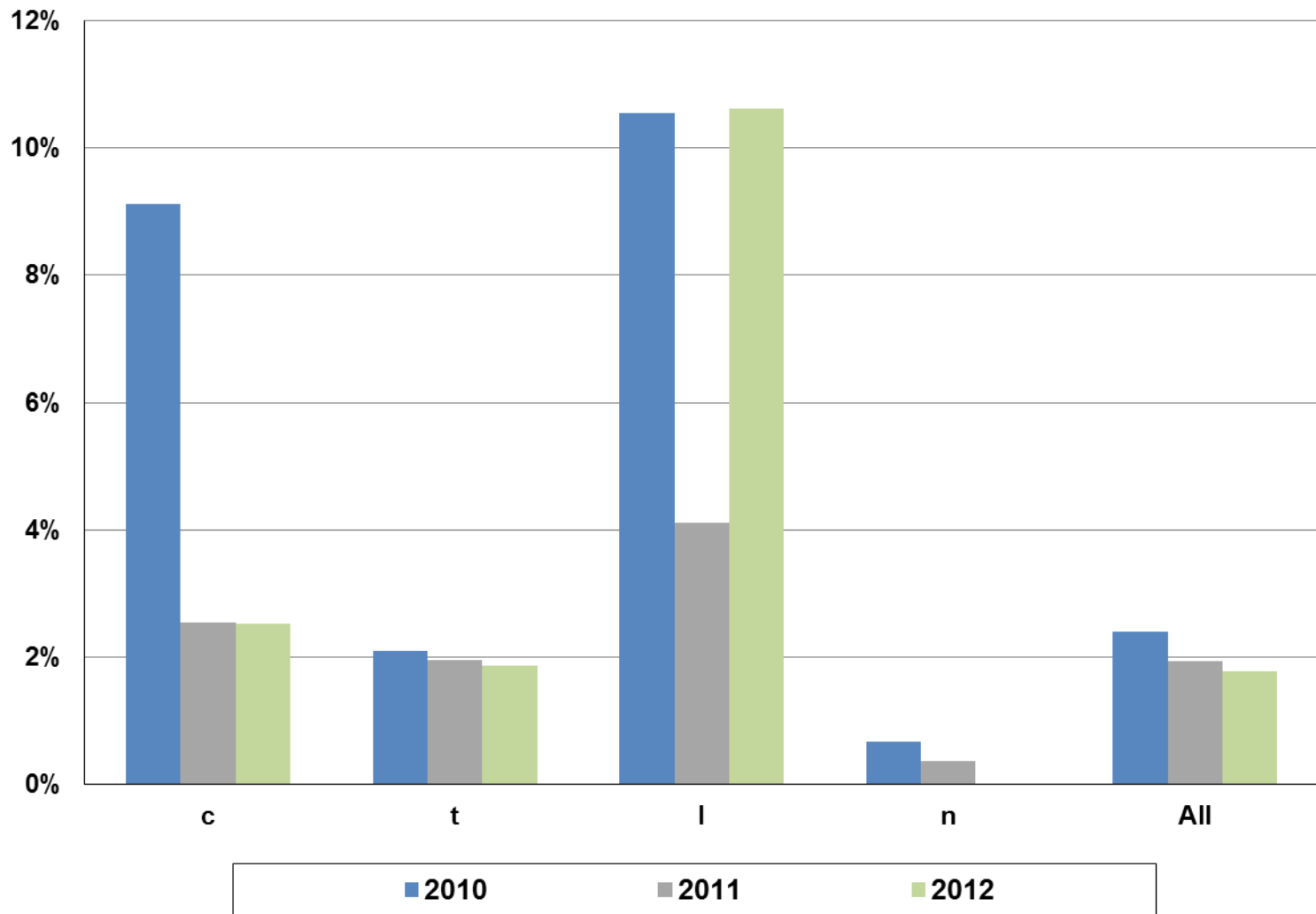


Withdrawal Rates

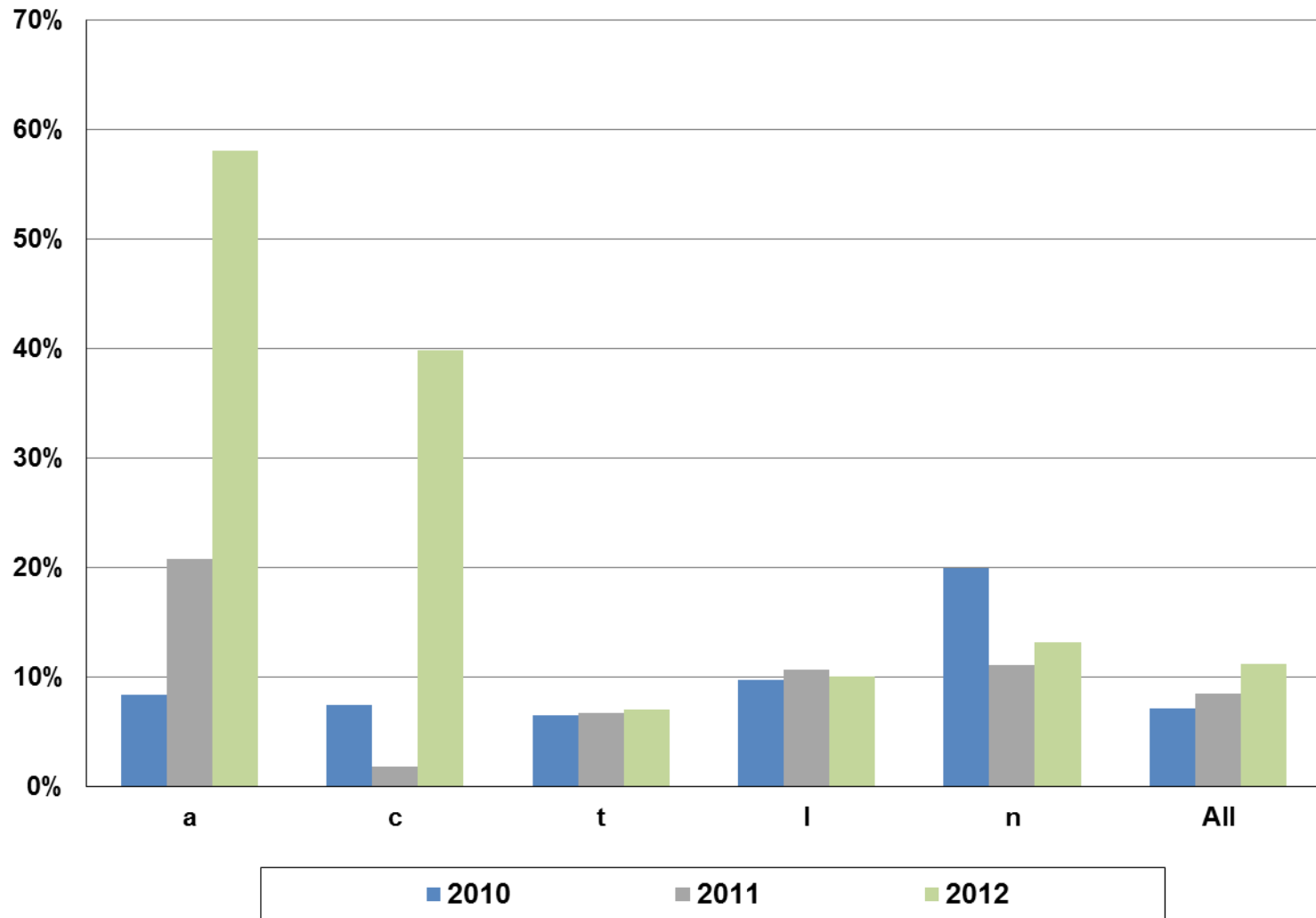
Observed lapse rates



Observed surrender rates



Observed withdrawal rates (group business)





Analysis of Surplus (AOS)

Analysis of Surplus (Overview)

(R'bn)	2012	2011	2010
Excess assets at start	123.1	114.0	108.3
New business	(6.3)	(4.3)	(5.3)
Change in valuation basis	0.5	(0.1)	(0.7)
Alterations	(0.6)	(0.0)	NA
Adjustment to asset values	(6.8)	(2.2)	NA
Adjustment to capital	0.9	0.2	NA
Release of margins	17.6	13.1	10.4
Investment experience	32.4	16.9	16.4
Mortality experience	5.6	3.4	2.9
Morbidity experience	0.7	0.8	1.0
Expense experience	(2.7)	(2.8)	(2.0)
Early withdrawals	0.4	1.2	0.5
Tax	(6.4)	(3.9)	(4.2)
Other	(4.2)	(1.6)	(1.8)
Income from subsidiaries	0.8	0.7	0.7
Dividends paid	(23.6)	(12.3)	(12.1)
Excess assets at end	131.5	123.1	114.0

Analysis of Surplus (Per industry)

(R'm)	a	c	l	n	r	t
Excess assets at start	261	1 174	1 523	4 135	1 773	114 074
New business	28	83	(5)	225	(132)	(6 528)
Change in valuation basis	1	90	(4)	129	(104)	392
Alterations	0	0	(1)	6	0	(571)
Adjustment to asset values	1	(13)	0.02	1	94	(6 865)
Adjustment to capital	0	47	2	43	55	775
Release of margins	44	127	211	42	295	16 860
Investment experience	41	132	209	88	505	31 380
Mortality experience	48	806	0	165	114	4 504
Morbidity experience	(0.22)	310	0	115	122	121
Expense experience	(17)	(30)	462	(11)	(19)	(3 059)
Early withdrawals	0.05	0	1	29	87	281
Tax	(29)	(432)	(420)	(238)	(161)	(5 077)
Other	12	(72)	309	75	52	(4 520)
Income from subsidiaries	1	0	0	0	0	820
Dividends paid	(56)	(854)	(137)	(674)	(363)	(21 533)
Excess assets at end	335	1 367	2 151	4 131	2 319	121 053



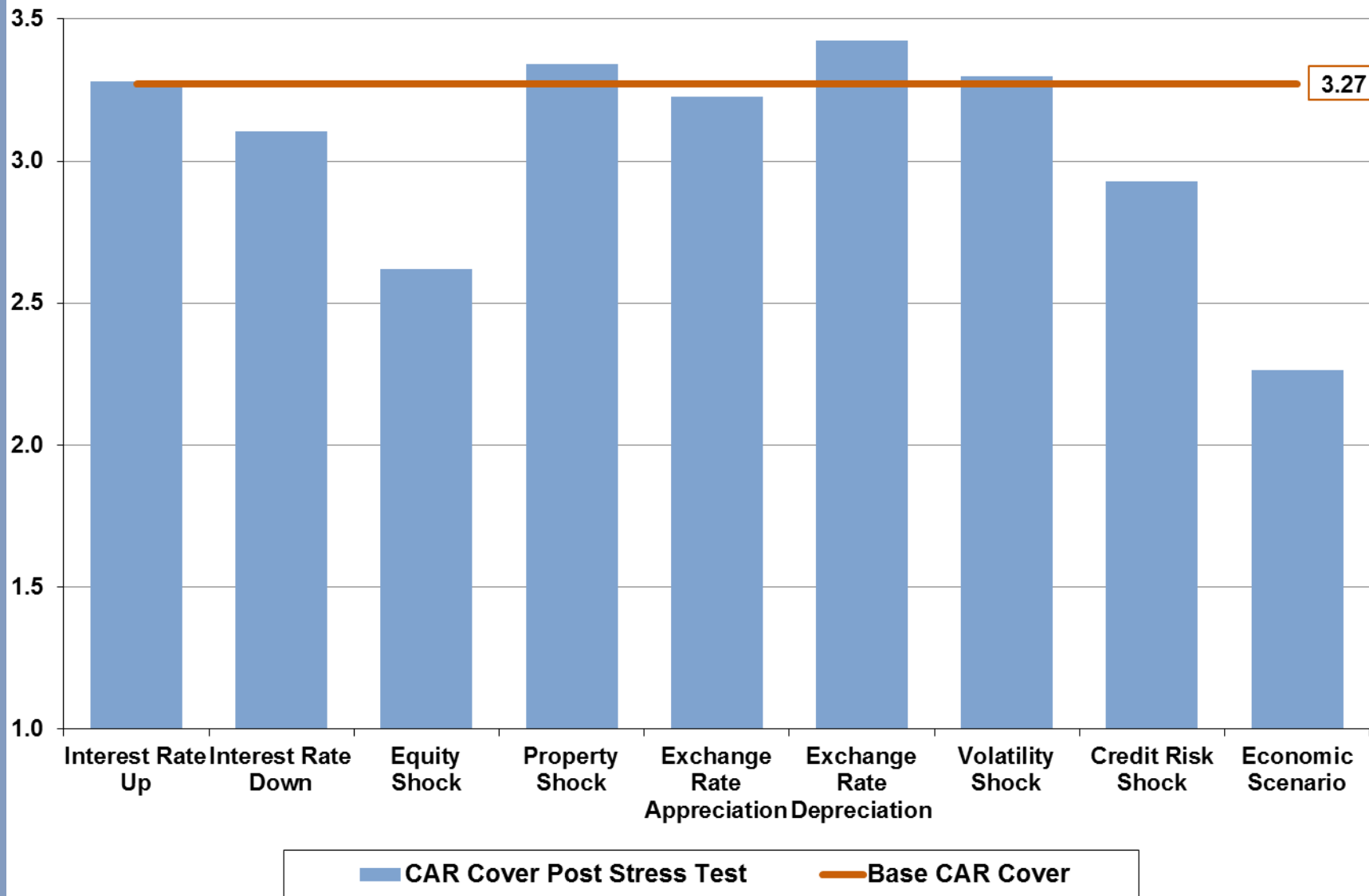
Stress Test Results

Stress test results

	CAR Cover	% Change
Base CAR Cover	3.50	
Interest Rate Up	3.49	-0.4%
Interest Rate Down	3.61	3.0%
Equity Shock	3.08	-12.2%
Property Shock	3.53	0.7%
Exchange Rate Appreciation	3.48	-0.7%
Exchange Rate Depreciation	3.57	1.9%
Volatility Shock	3.51	0.2%
Credit Risk Shock	3.31	-5.5%
Economic Scenario	2.84	-19.0%
Mortality and Morbidity Shock	2.42	-31.1%
Expense Shock	3.38	-3.6%
Withdrawals Shock	3.63	3.5%



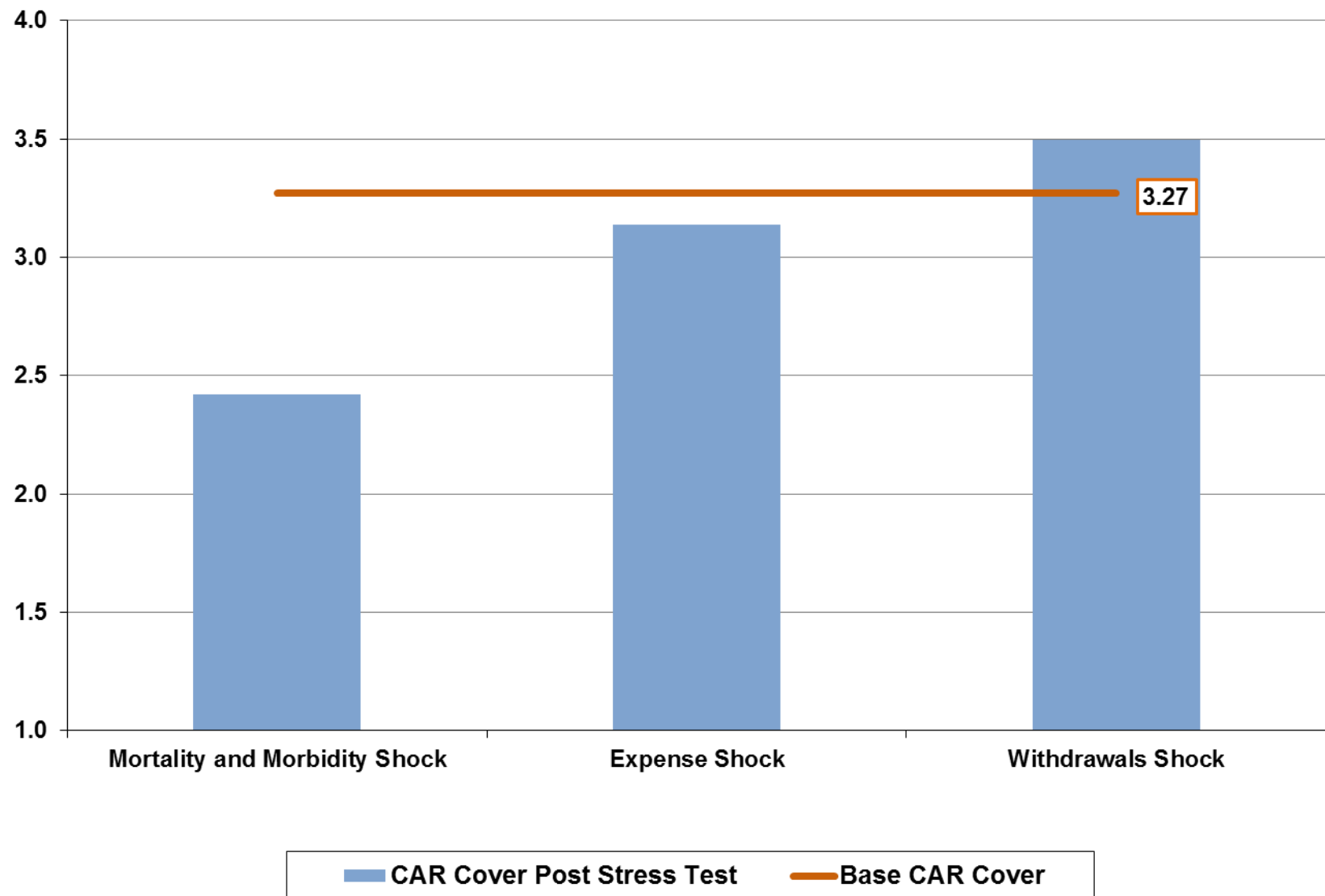
Typical insurers: Economic stress tests



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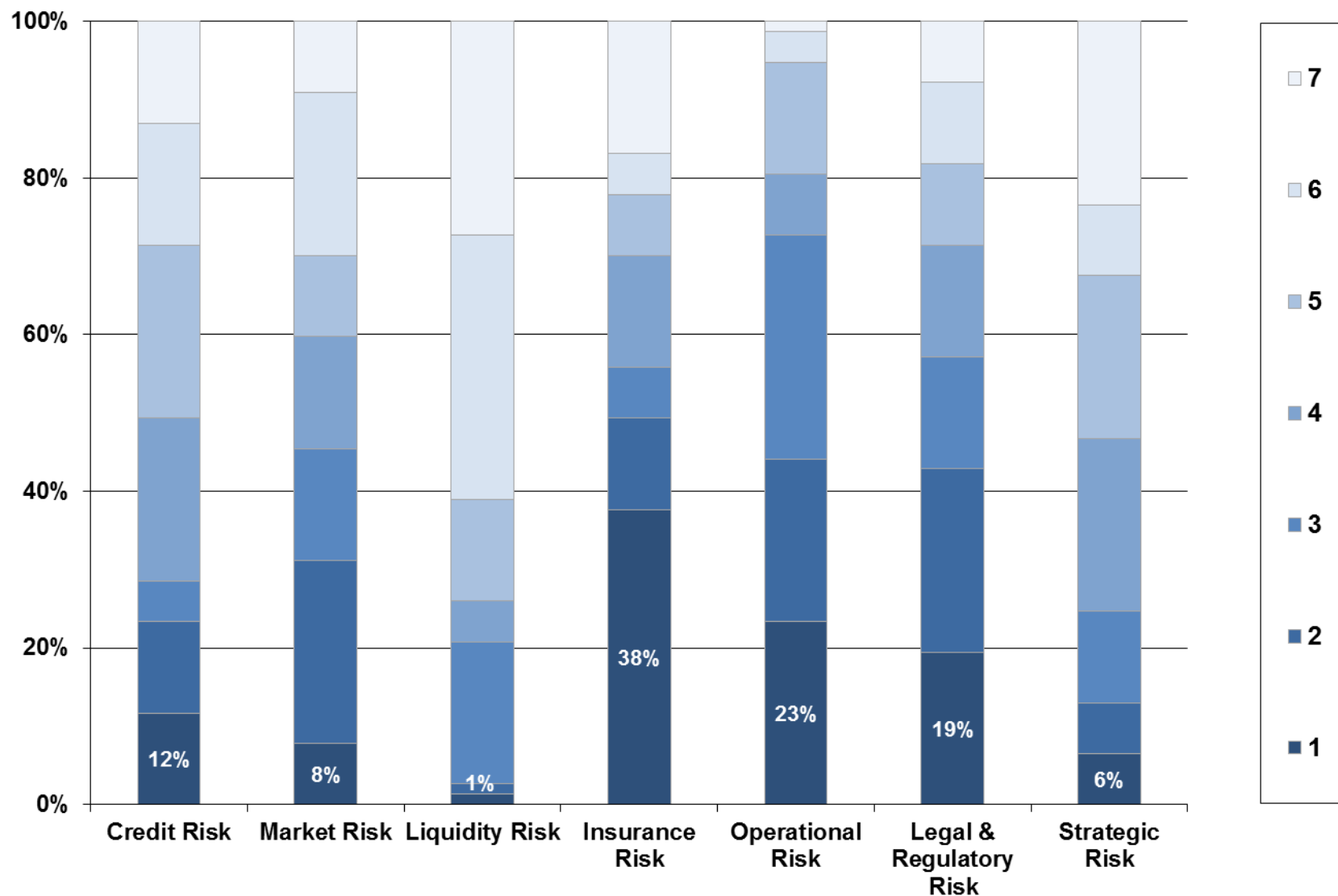
Typical insurers: Non-economic stress tests



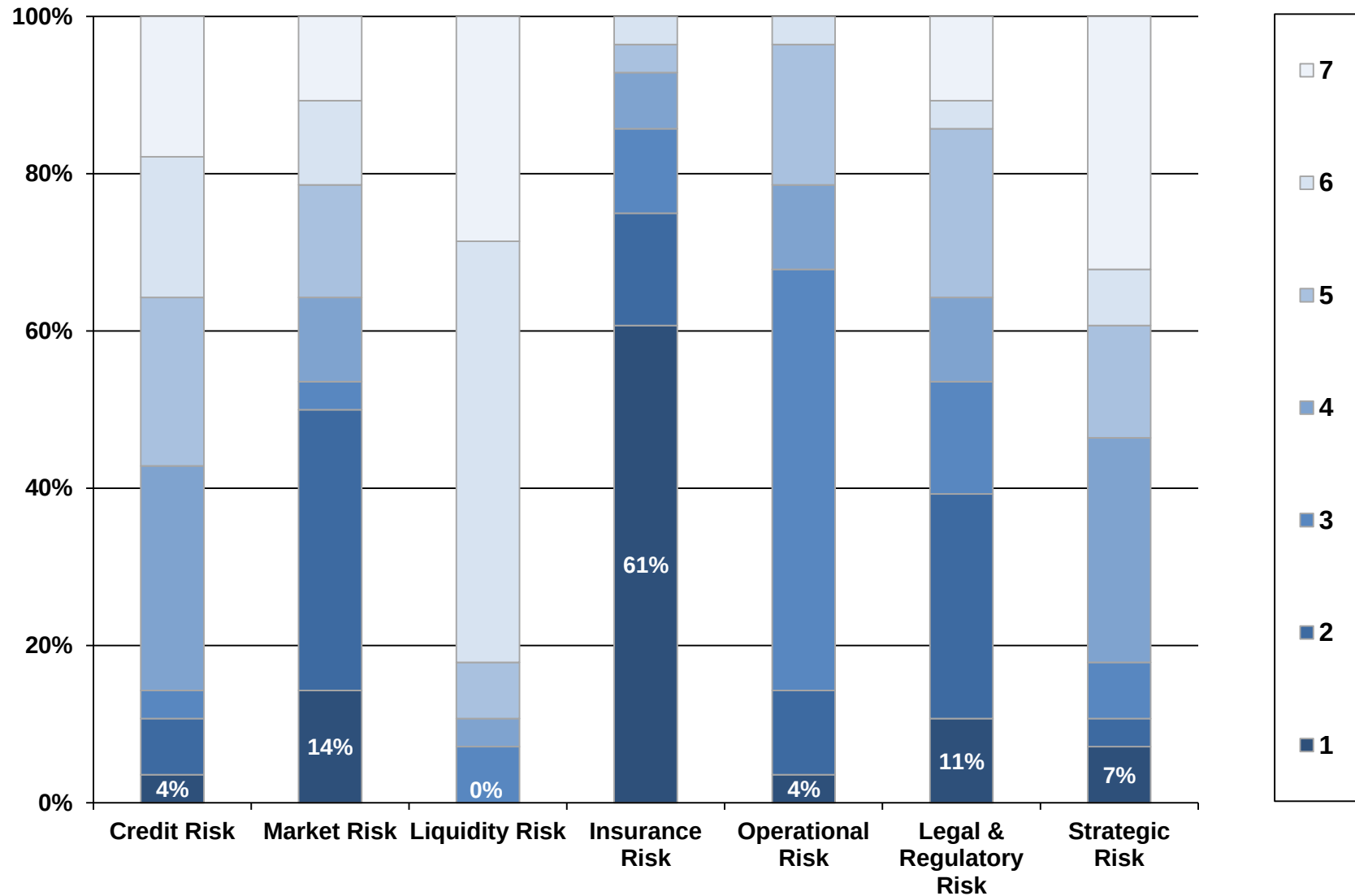


Top Risks

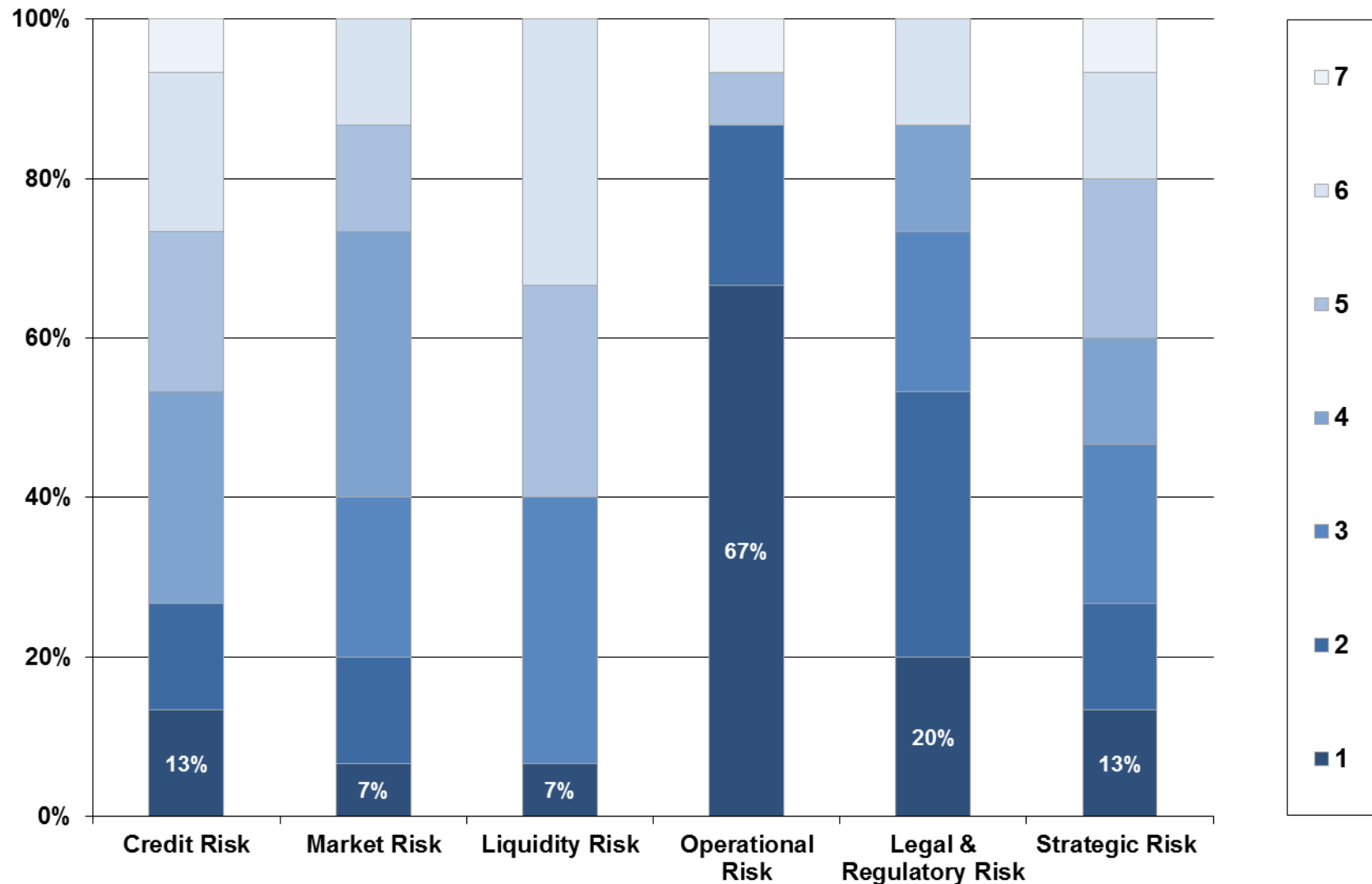
Top Risks: Industry



Top Risks: Typical insurers



Top Risks: Linked insurers



Top Risks: SA vs. International

Risk category	Five largest Typical insurers	Five largest Linked insurers	Insurance Banana Skins 2013 (CSFI Survey)
Insurance risk	3		4, 5, 7, 12
Market risk	1	3	2
Operational risk	5	1	25
Capital-related risk	2	2	16
Regulatory risk	4	4	1
New business risk	7	7	20
Economic environment	9		3
Reputational risk	6	6	14
Key-man risk	8	5	19

Thank You

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