



# SA Life Assurance Sector

Assessing the performance of a life assurer  
- An overview

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# Summary

- The Players
- Business Units
- Macro Drivers
- Drivers of Value/ How We Value an Insurance Company
- How Profits are Made Up
- Key Industry Trends

# The Players - Market shares in South Africa

## Market shares (%)

Company	Life assets	Premium	Retail new business (APE)**
Old Mutual	33%	22%	21%
Sanlam	25%	21%	20%
Liberty	17%	17%	19%
MMI	20%	27%	21%
Discovery	1%	6%	8%
Other	5%	7%	12%

Source: Company data, Nedbank Capital

\*\*APE = annual premium equivalent new business (= recurring premium + 10% of single premiums)

- Size can be measured in different ways

# Main business units

- Life
  - Individual life
  - Employee benefits
- Financial services
  - Asset Management
  - Unit trusts
  - Linked products
- Banking
  - Nedcor in Old Mutual
- Short term insurance
  - M&F in Old Mutual, Santam in Sanlam
- Health insurance

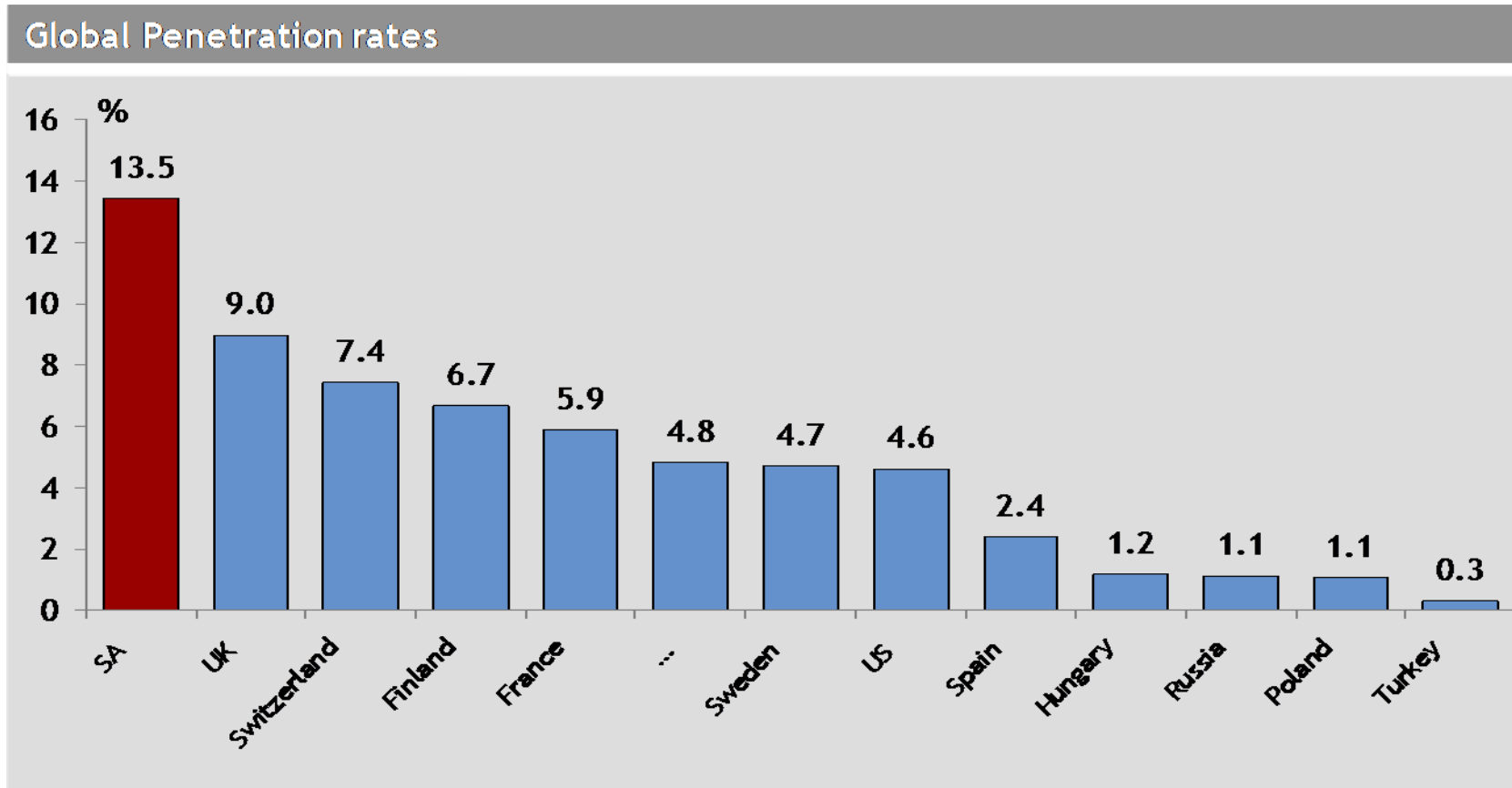
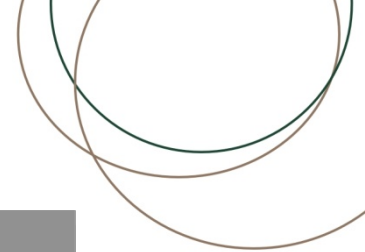
# Macro drivers

- Consolidation
  - Capital Alliance/ African Life/ Sage/ MMI
- Capital efficiency focus
  - Capital reductions/ Buy-backs
  - Improving solvency management
- Cost cutting / control
  - Benefits likely to be passed on to policyholders
- Mature life sector
  - Premiums/GDP = 13%, highest in the world
  - Low net inflows into asset management

## – BUT...

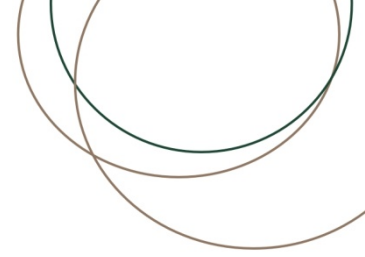
- Low savings rate/ Emerging market
- Offshore growth (?)

# Macro drivers



Source: Swiss Re Sigma (2003)

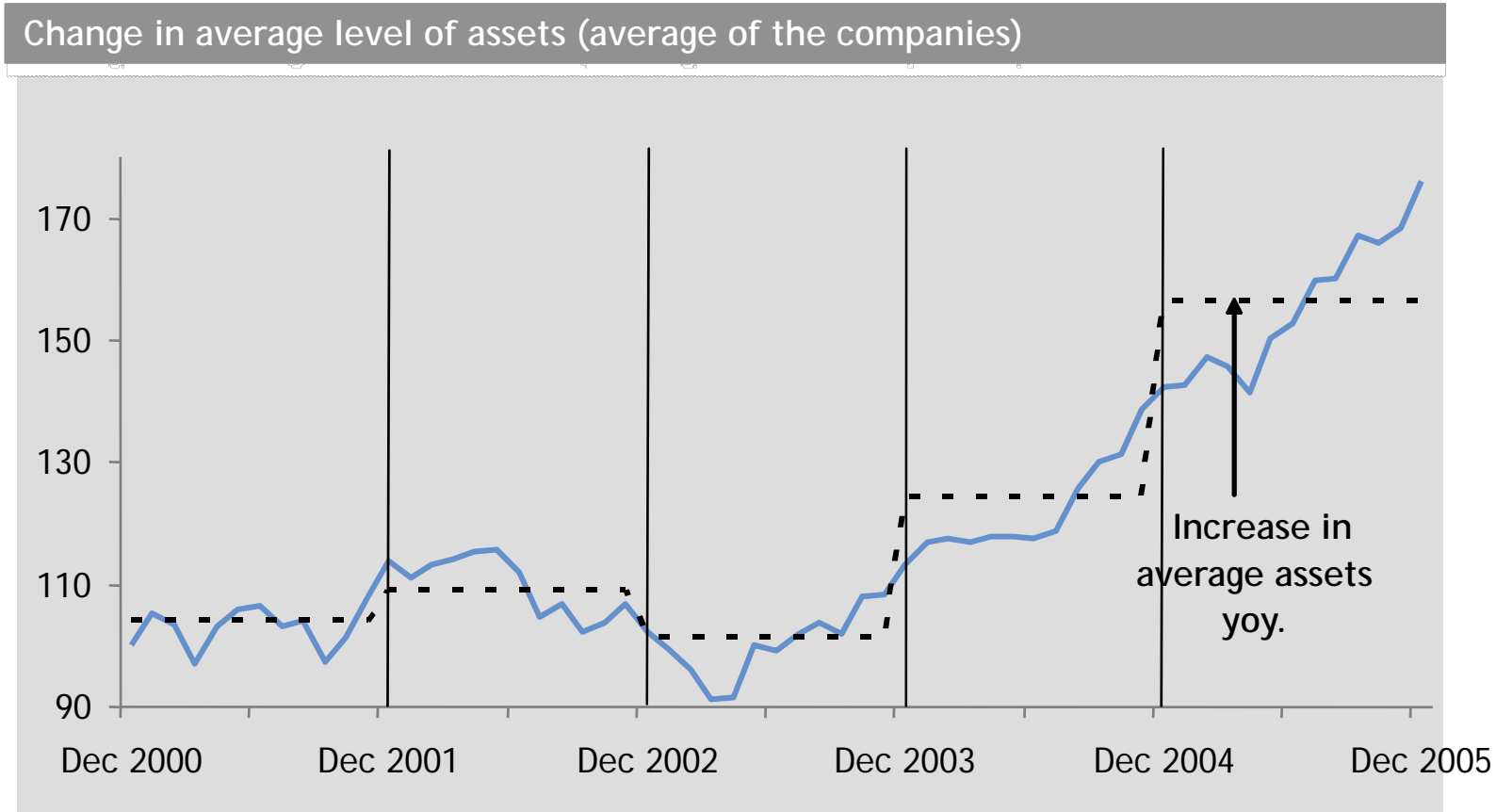
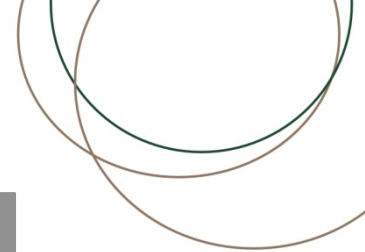
# Valuations / drivers of value



# Drivers of value

- In the long term life assurers have similar drivers to asset managers
  - Asset levels
    - Investment markets
  - Net inflows = Premiums less benefits less expenses
    - Churn
      - Pensions, life and unit trusts
    - Leakages occur
      - Offshore, repayment of debt, consumption
- **PLUS**
  - Risk profits
  - Administration profits

# Average asset levels



Source: Nedbank Capital

**Average asset levels are key as insurers charge a monthly fee**

A BOOST TO REVENUE AND MARGINS.

# How profits are made up

- Total profits can be broken down into 2 levels:
  - Operating profits
  - Return on shareholder's funds
  
- Operating Profits
  - This is insurance income plus income of financial services companies
  
- Return on shareholder's funds
  - Investment income plus capital gains earned on investible shareholder funds
  - To smooth results, some companies have applied a long-term rate of return to the shareholder funds

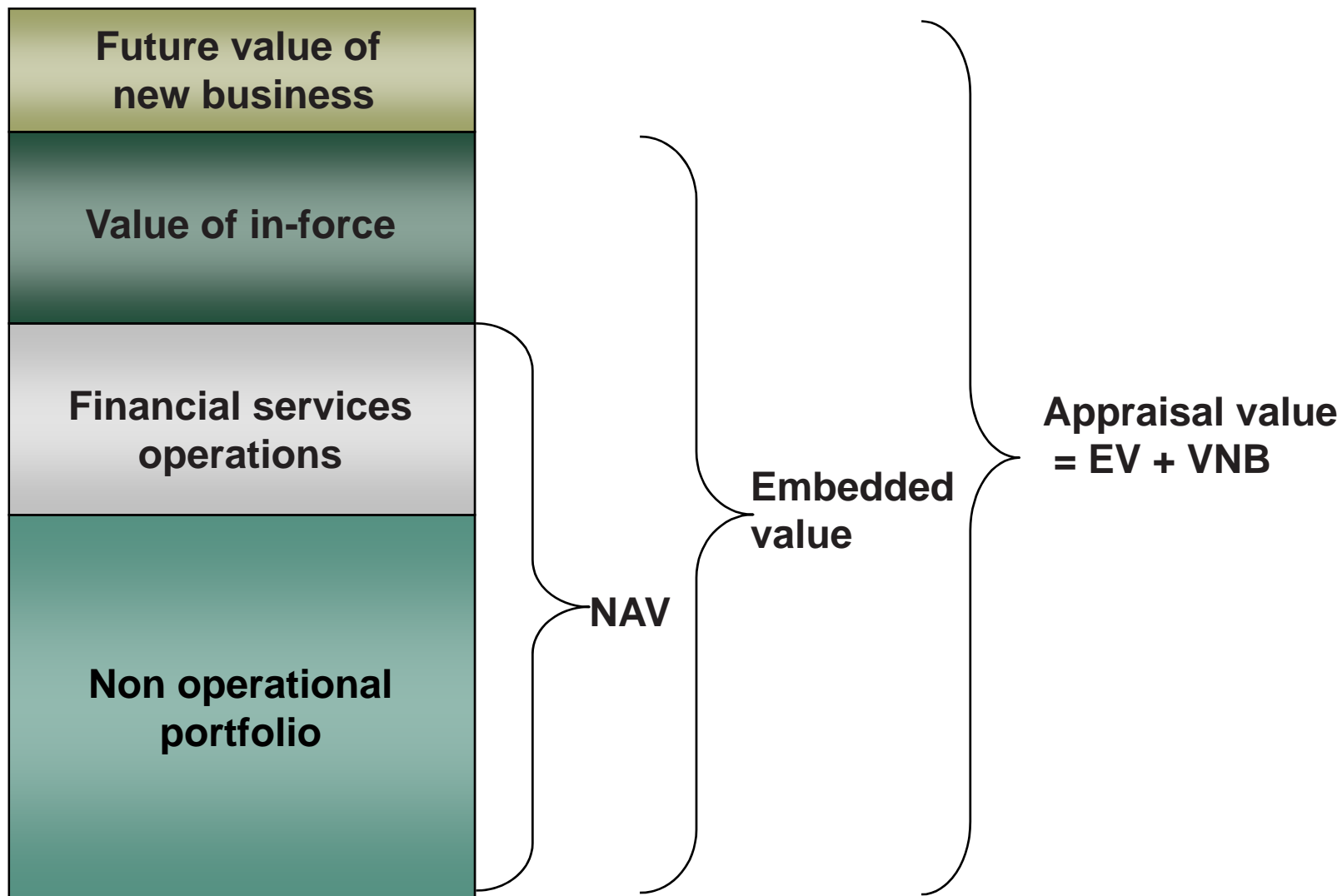
# How we value an insurance company?

- Why not P/E or earnings projections?
  - Different methods of profit recognition
  - Volatile capital growth or smoothed
  - Different profile of business eg term and maturity
  - Not enough information
- Use an embedded value method

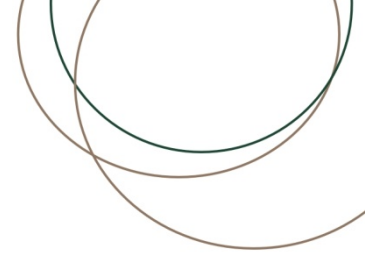
BUT...

- We believe earnings/cashflow projection methods are becoming bigger
  - Information is improving
  - IFRS is standardising some areas of concern
  - Life is becoming small proportion

# How we value an insurance company



# How we value an insurance company?

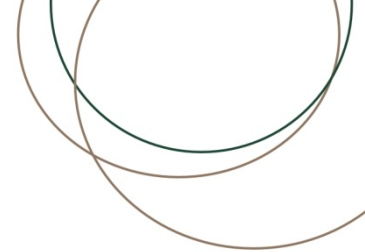


- Shareholder's net assets (free assets / NAV)
  - The surplus of assets over the actuarially determined value of liabilities
  - Includes NAV of operating subsidiaries
    - Eg Asset management
  
- Value of in-force business (VIF)
  - The net present value of profits expected to be earned on policies which are currently on the books
  
- The value of future new business (VNB)
  - The net present value of profits expected to be earned on business assumed to be written in the future

## Profits vs embedded value

- In force + value of new business..... Life operating profit
- NAV of other operations..... Other operating profit
- Portfolio ..... Investment return on shareholder funds

# Trends



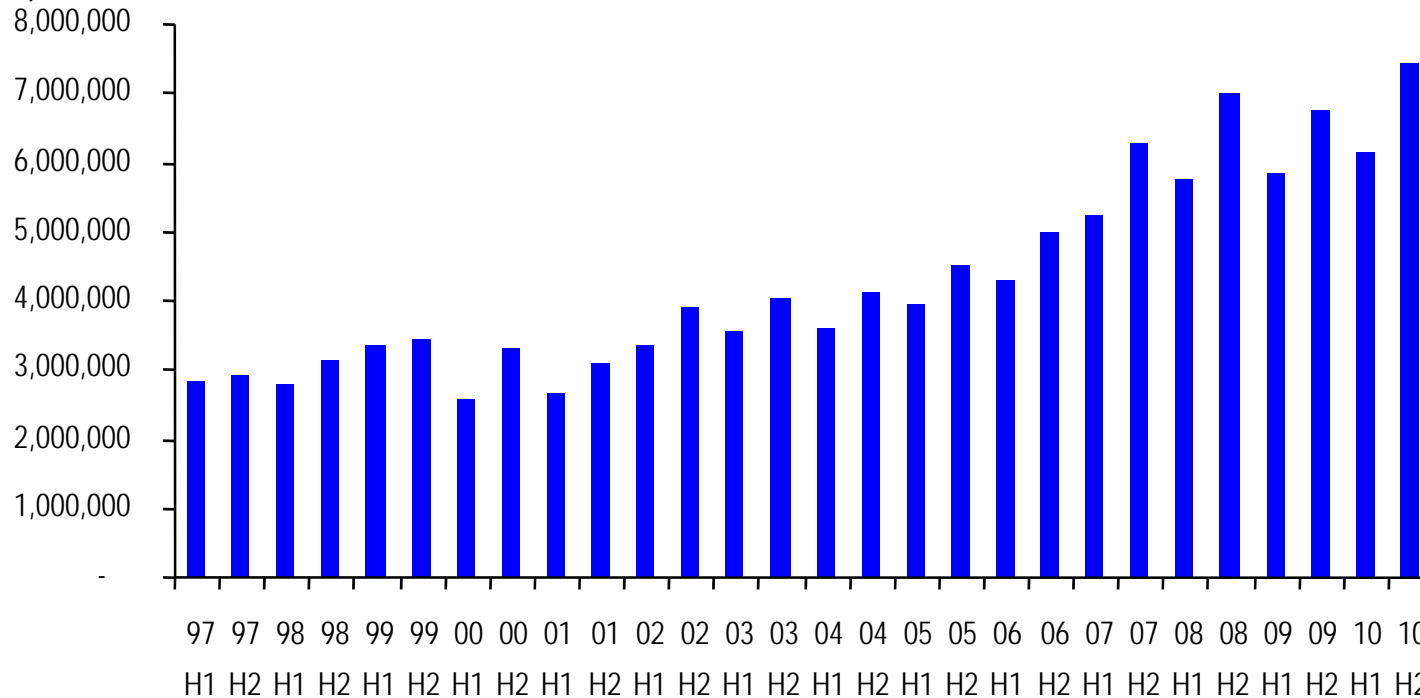
# Key life industry issues

- Improving growth in individual life sales
  - After years of slow growth
- Increased Regulation
  - Solvency 2
  - Market conduct: Commission regulations/ conflicts of interest
  - Social Security and Pension Fund Reform
- Competition and pressure on fees
  - Retail fees are c3% of assets
  - Low inflation
- Distribution
  - Consolidation of brokers – growing agency force
  - Emerging market
  - Alternative channels (e.g. Direct)

## Individual life new business

### Individual Life Recurring Premium New Business

(R 000)

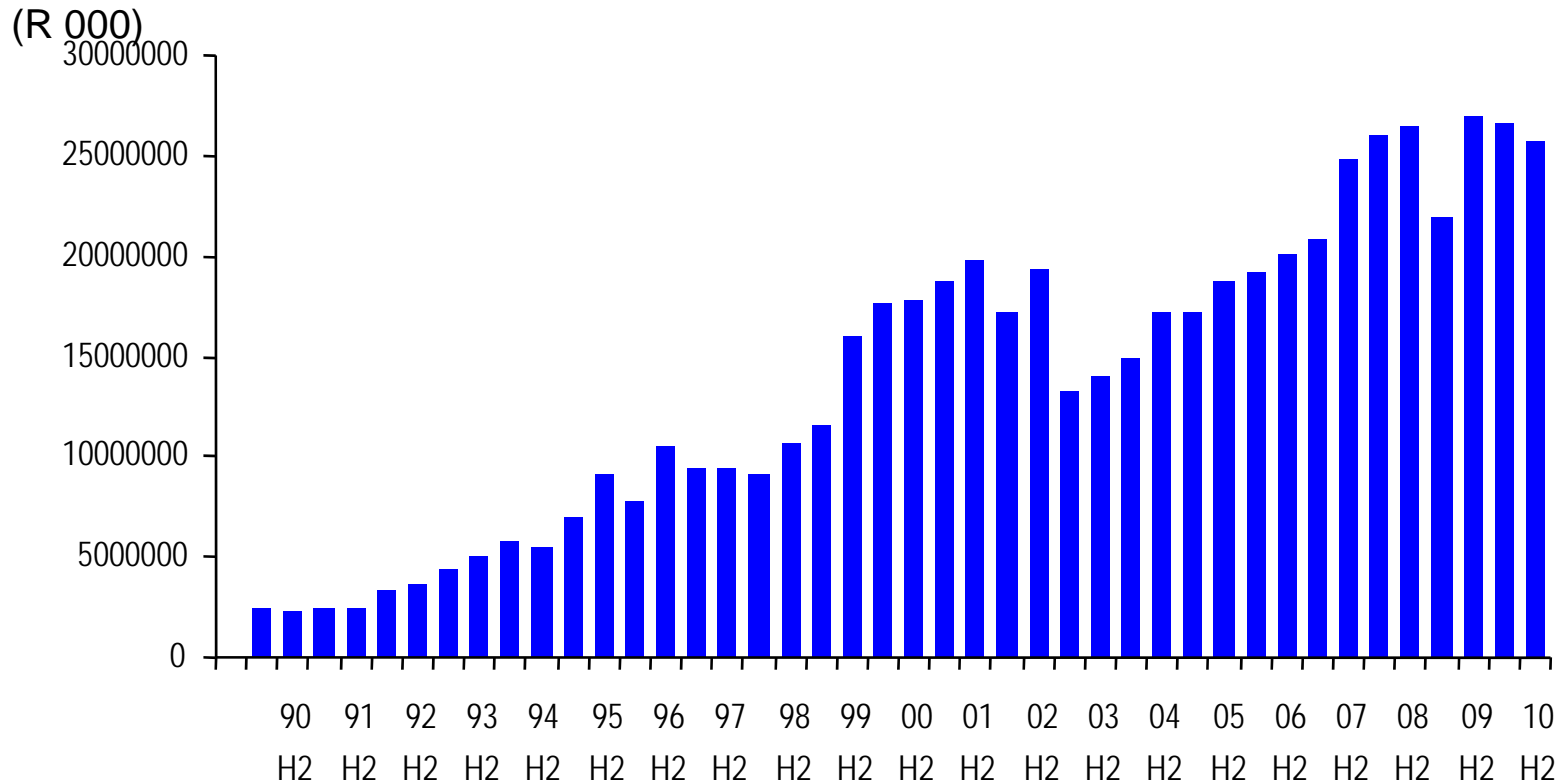


Source: LOA

Recurring premium growth has been solid despite slower economic growth

# Individual life new business

## Individual Life Single Premium New Business



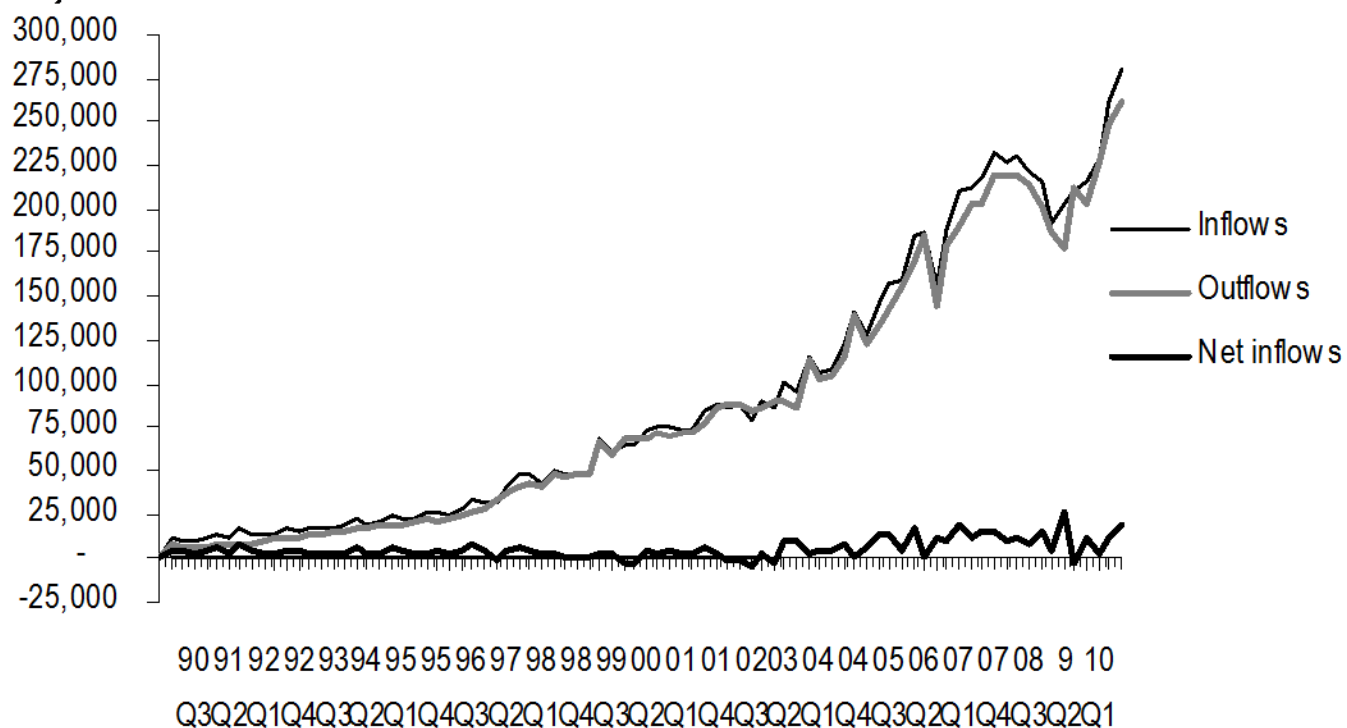
Source: LOA

Single premium sales move in line with market levels

# Asset management flows

## Quarterly Flows into SA Asset Management

(R millions)



**Note:** These flows are net of expense deductions

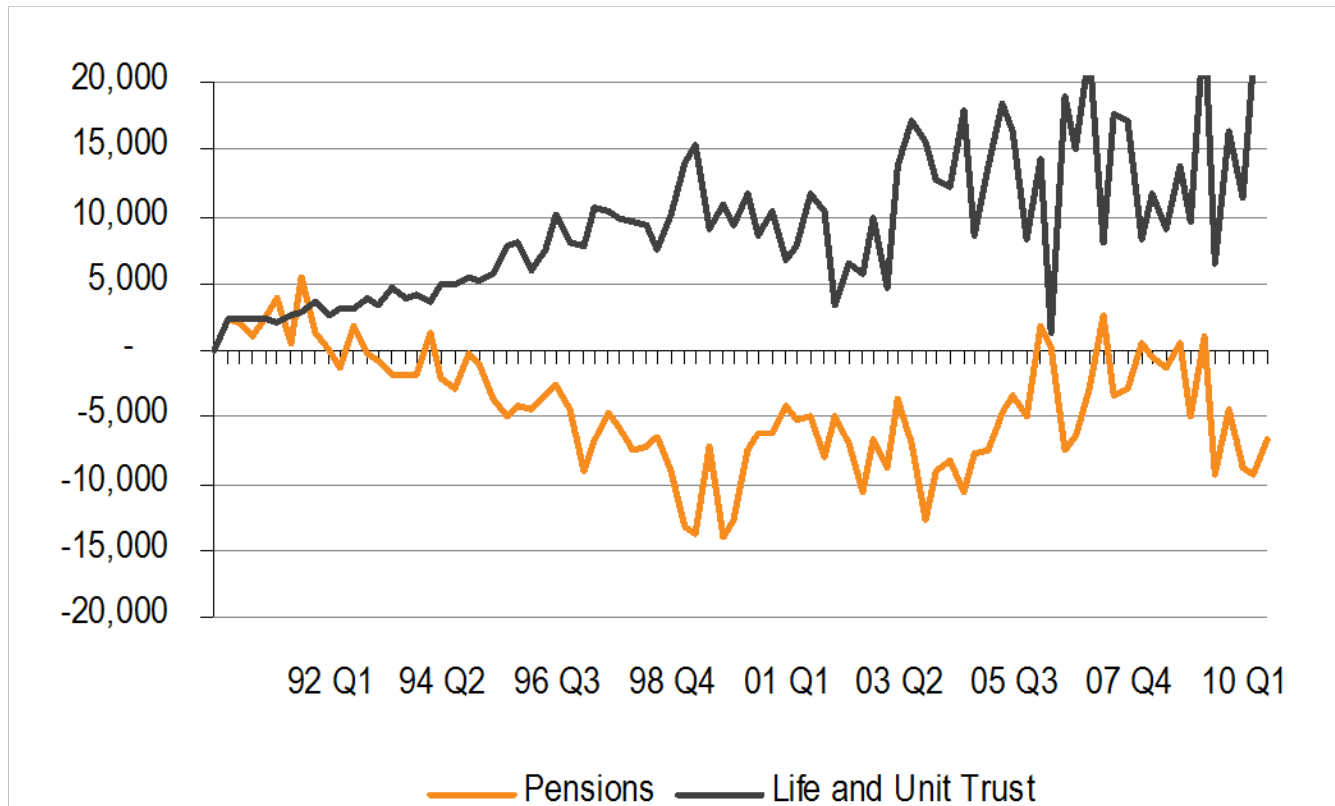
**Source:** SARB Quarterly Bulletin

Some improvement in net flows

# Asset management flows

## Quarterly Flows into SA Asset Management

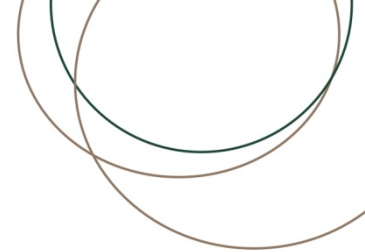
(R millions)



Source: SARB Quarterly Bulletin

Pension outflows from unemployment can drive retail inflows

# Appendix



# Main products of SA Life Assurers ?

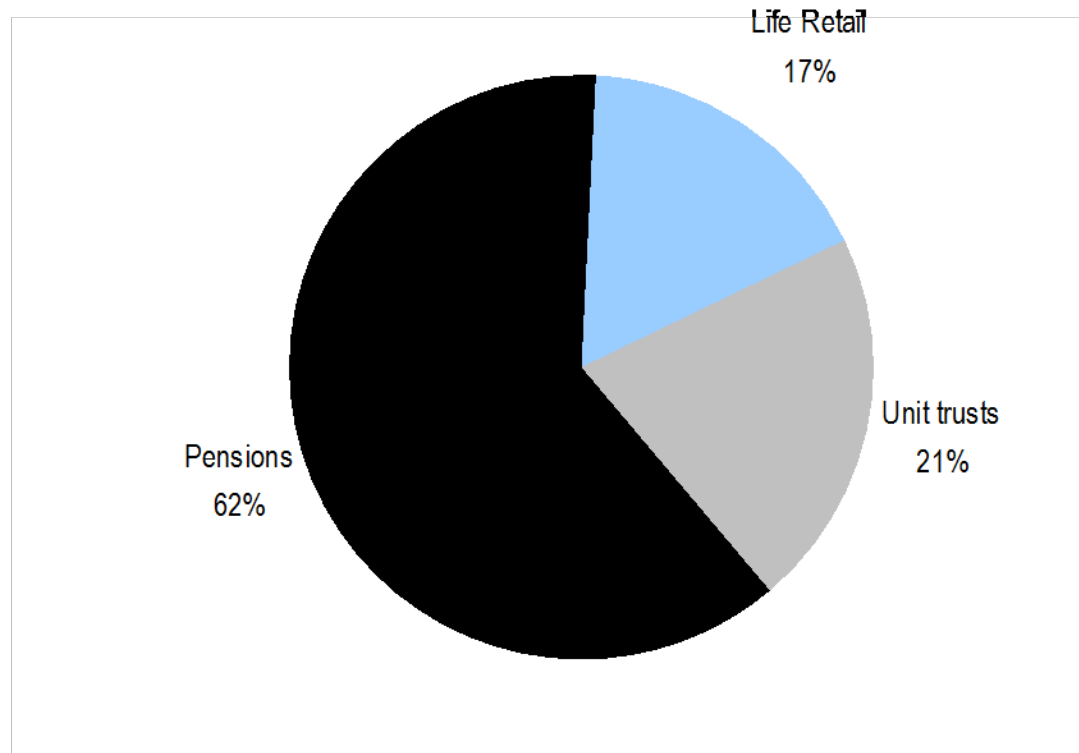
- Needs and products
  - Savings
    - Unit trusts/linked products
    - Guaranteed/linked
    - 55% new business recurring premium
  - Insurance (life, disability)
    - 45% new business recurring premium
  - Wealth preservation
    - Single premium
    - Guaranteed/linked
    - Unit trusts/linked products
- Customers
  - Retail (individuals)
  - Corporate (mainly pension funds)

# Distribution of new business

- Retail
  - Brokers [32.5%]
  - Tied Agents [45%]
  - Bancassurance (branches and bank brokers) [15%]
  - Other (direct) [7.5%]
  
- Corporate
  - Employee Benefits Brokers (large schemes) [75%]
  - Tied Agents (smaller schemes) [15%]
  - Bancassurance [5%]
  - Direct (larger schemes) [5%]

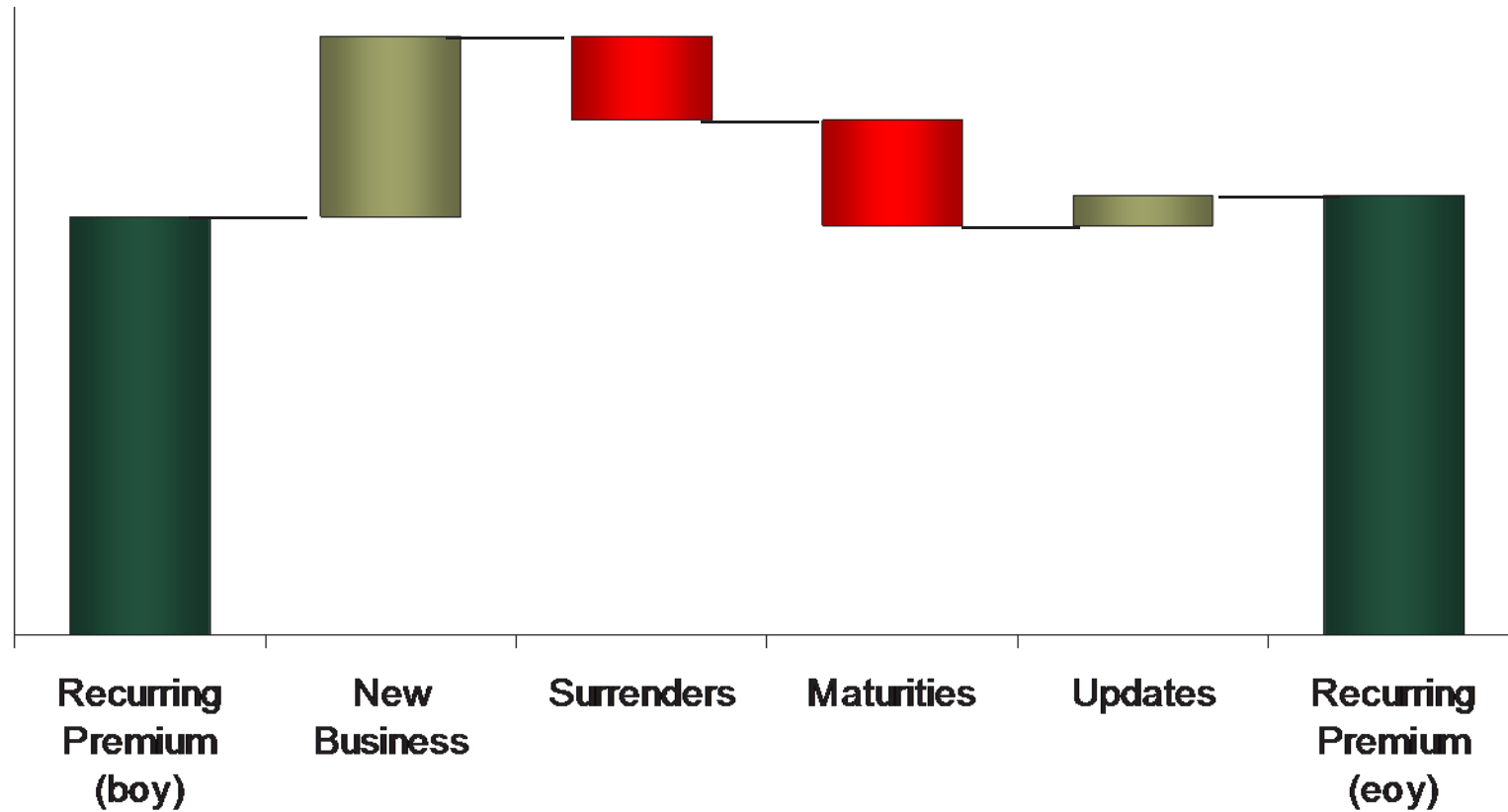
## Appendix – split of assets

### Total Institutional Assets in SA



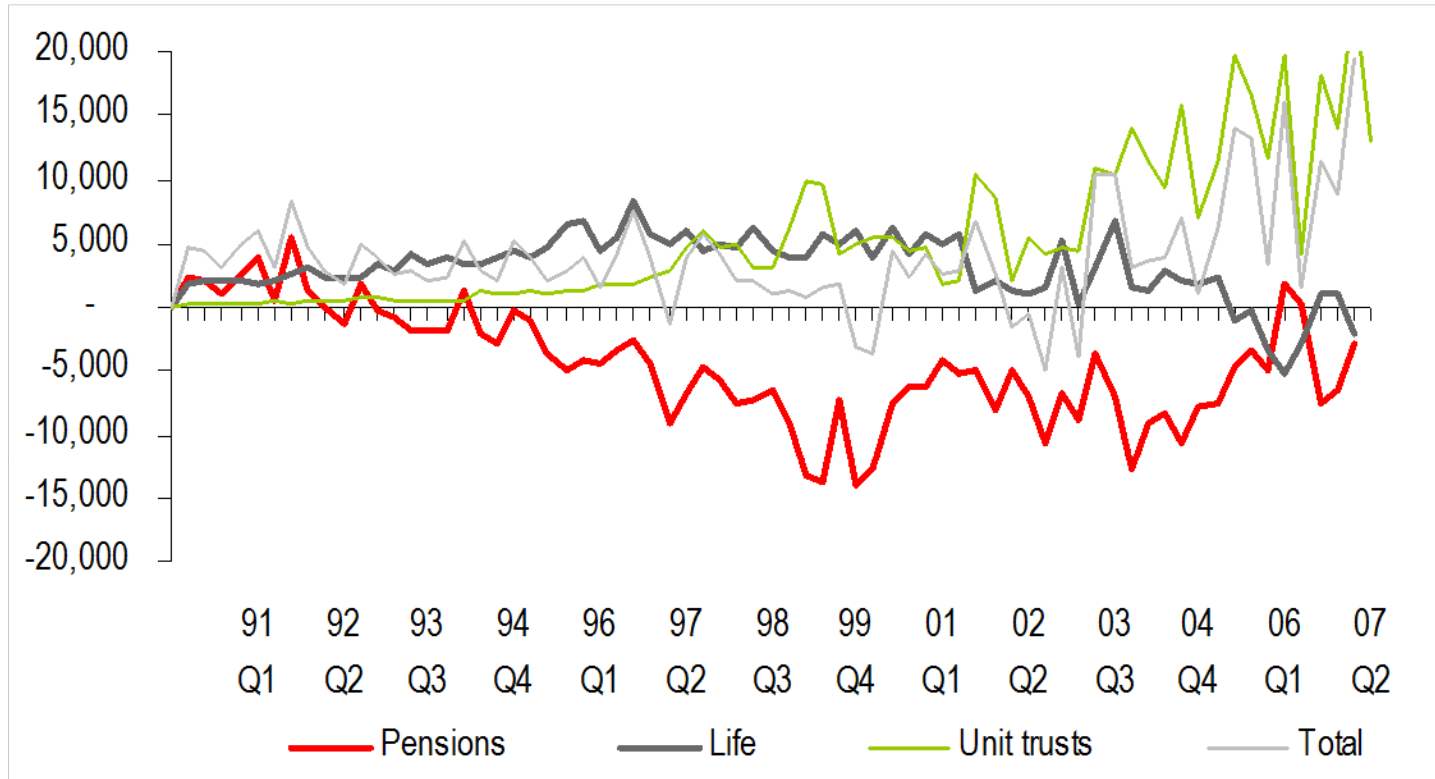
**Total = R2.6 trillion**

## Appendix – Build up of recurring premium



# Appendix – Asset management flows – split of net inflows

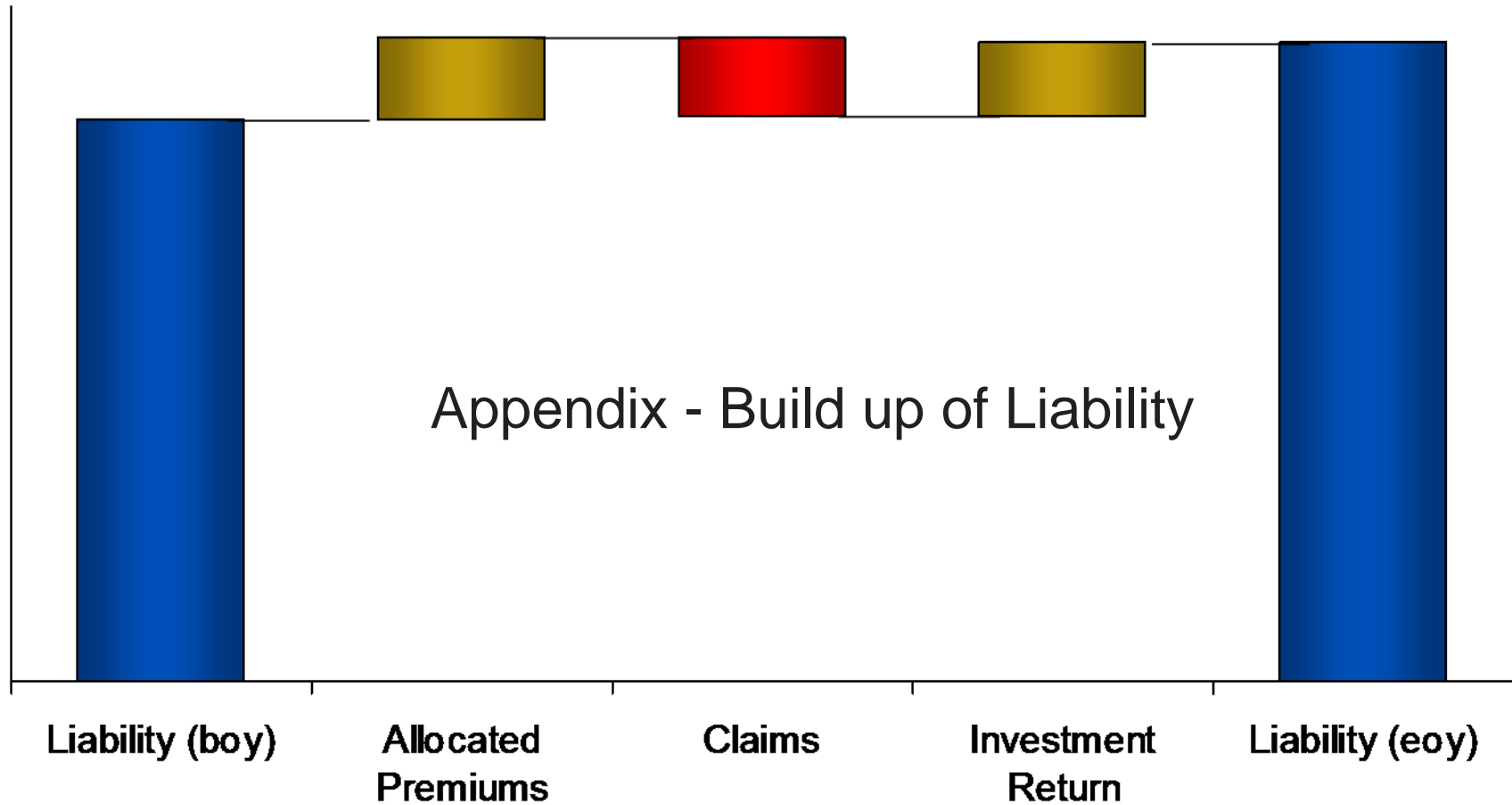
## Annual Net Inflows into the Main Asset Categories as a % of GDP



Note: These flows are net of expense deductions

Source: SARB Quarterly Bulletin

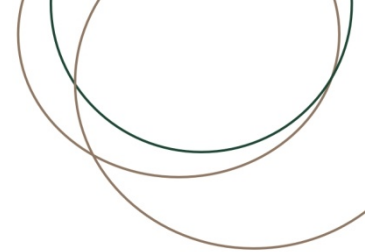
## Appendix - Build up of Liability



# Glossary of important terms

- Annual premium equivalent (APE)
  - The total of the recurring premium business plus 10% of the single premium business for the financial year
  - May include or exclude increases on existing policies
- Broker
  - Brokers sell the insurance and investment products of a number of insurance companies. Brokers may be independent or belong to corporate brokerages
- Capital Adequacy Requirement (CAR)
  - The minimum amount of capital that a life office must hold to prove solvency
- Capital Adequacy Cover
  - The ratio of shareholder's funds to the capital adequacy requirement
- Embedded Value (EV)
  - A determination of the economic value of a company of a life office excluding any value that may be attributable to future new business. It is the present value of the projected income and outgo of the office based on a set of assumptions. This is made up of the following constituents:
    - Shareholder's net assets
    - Value of in-force business
    - Less : Cost of solvency capital (CAR)

# Glossary of important terms continued



- **Embedded Value Profits**
  - The growth in the embedded value from year to year excluding capital raising and dividend payments
  
- **Recurring premium policies**
  - Policies where premiums are paid monthly/annually (over say a five year term). This includes the following:
    - Business sold in previous years that is still on the books
    - The increase of premiums on behalf of business written in previous years
    - New business written for that year
  
- **Employee Benefits**
  - Business sold to corporates on behalf of their employees incorporating the following main lines:
    - Investment products
    - Insurance products
    - It could also incorporate administration of retirement funds and consulting services to trustees and/or the sponsoring employer of retirement funds
  
- **Individual Life**
  - Business sold to individuals incorporating the following main lines:
    - Investment products
    - Insurance products

## Glossary of important terms continued

- Return on Embedded Value (ROEV)
  - The ratio of embedded value profits to the embedded value at the beginning of the year
- Single Premiums
  - The premiums received once-off for policies written in that year
- Employee Benefits
  - A sales and service representative of an insurance company who deals directly with clients. Agents are employees of insurance companies and typically sell only the products of their employer. General agents may place a percentage of their business with other insurers.



# Thank you

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