Santam pays unprecedented R14.2bn in first half claims

Following one of the most challenging underwriting periods in the company's history, Santam, South Africa's largest short-term insurer, today announced an acceptable set of results that saw it achieve 7% (June 2021: 5%) gross written premium (GWP) growth and maintain an economic capital-coverage ratio of 157% (December 2021: 169%), well within the 145% to 165% target range.

Source: Supplied.

The net underwriting margin for conventional insurance was 2.3% (June 2021: 6.7%), below the group’s target range of 5% to 10%.

A significant contributor to the underwriting results were the devastating floods that affected KwaZulu-Natal (KZN) during April 2022. These were, however, offset to some extent by a reduction in the Covid-19 related contingent business interruption (CBI) claims provisions.

The current estimate of Santam’s gross exposure to the KZN floods is R4.4bn, however, significant adjustments to gross exposures may still occur. The company’s reinsurance programme has provided effective protection against this natural catastrophe, limiting the net impact to R566m, including reinsurance reinstatement premiums.

The KZN floods were the most significant natural catastrophe in Santam’s history.

During the period, headline earnings decreased to 409 cps (June 2021: 863cps), due to weaker operating results and lower investment income attributable to shareholders.

The alternative risk transfer (ART) business, comprising Centriq and Santam Structured Insurance, reported satisfactory operating results, net of non-controlling interests, of R111m (June 2021: R140m), positively impacted by excellent growth in fee income despite weaker investment performance.

The net insurance result from Santam's share of Sanlam Emerging Markets general insurance businesses (excluding the investment in SAN JV) increased by 18% to R85m (June 2021: R72m).

MiWay's Leaders in the Making programme for 2022 kicks off

MiWay 20 Apr 2022

Net investment income attributable to shareholders, inclusive of the investment return on insurance funds, amounted to R225m (June 2021: R355m). Cash generated from operations increased to R4.6bn (June 2021: R2bn), mainly due to growth in premiums received on ART business and dividends received during this period.

“We had a turbulent market environment during the first half of 2022. Our expectation is that economic activity will, in the short to medium term, be constrained by weak consumer spending.

"The high inflation environment also puts pressure on claims costs, while loadshedding in the first half resulted in increased power-surge claims. In addition, there has been a significant increase in reinsurance premium rates, following several large global and local catastrophe events,” Tavaziva Madzinga, the Santam group chief executive officer said.

“Despite these headwinds, we are confident that the corrective actions we have implemented will start to show a positive impact towards the latter part of 2022.

"These are primarily in the form of underwriting actions to address the impact of increased claims costs and reinsurance rates. They include procurement efficiencies, segmented premium increases, and higher claim excesses,” he added.

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Santam has made good progress in finalising the remaining CBI claims and associated reinsurance recoveries relating to the Covid-19 lockdown.

As at, 30 June 2022, Santam had effected gross CBI payments of R4.3bn, which equates to more than 70% of projected eligible claims. Considering the claims payment experience, Santam reviewed its provisions for CBI claims at the end of June 2022, the level of claims aggregating for reinsurance recovery purposes, as well as expected recoveries from applicable reinsurance contracts.

Following this review, Santam has reduced its net provision for CBI claims by R397m.

Conventional insurance: gross written premium growth

The Santam commercial and personal intermediated business reported improved growth in GWP compared to 2021, specifically in commercial lines and Santam Direct.

Overall, the Santam specialist business achieved good growth, with the liability and travel insurance businesses the main contributors. The corporate property business recovered from a slow start to the year and recorded improved GWP growth compared to 2021.

MiWay achieved subdued growth of 3%, following an increase in premium defaults and lower new business volumes. The impact of low premium increases during 2021 also contributed to lower growth in the existing book of business.

Management is maintaining a strong focus on growth initiatives.

Santam Re achieved excellent growth in its third-party business, positively impacted by new business written during the reporting period and an increase in reinsurance premium rates.

Gross written premiums from outside South Africa, written on the Santam Ltd and Santam Namibia Ltd licences grew by 8% to R2,976m (June 2021: R2,766m). Strong growth was achieved by Santam Re in the Middle East, offset to some extent by lower engineering business flows from the rest of Africa.

Conventional insurance: underwriting performance

The underwriting results were significantly impacted by adverse weather conditions. Claims trends for the motor class have normalised with an increase in vehicle accidents compared to the experience during the various levels of lockdown in 2020 and 2021.

The higher motor-claims ratio was also impacted by the adverse weather conditions, an increase in the severity of motor claims combined with higher instances of vehicle theft.

Underwriting actions to address the increase in claims frequency and claims inflation have been implemented since the start of 2022 and include procurement efficiencies, segmented premium increases, and higher claim excesses.

MiWay recorded a loss ratio of 61.3% (June 2021: 58.2%) and an underwriting profit of R122m (June 2021: R159m). The necessary underwriting actions to improve the loss ratio are being implemented.

The underwriting performance of the property class was severely impacted by the KZN floods. This was partially offset by the release of CBI claims provisions of R397m, resulting in an underwriting loss of R328m (June 2021: loss of R109m).

Santam joins Sanlam as co-sponsor of Financial Journalist of the Year awards
15 Aug 2022

Capital

Santam's group economic capital amounted to R12.5bn (December 2021: R13.9bn) compared to the requirement of R7.9bn (December 2021; R8.3bn) based on the internal model. This equates to an economic capital-coverage ratio of 157% (December 2021: 169%), well within the capital target range of 145% to 165%.

Prospects

Santam believes that globally the insurance industry has evolved, and in order to remain relevant to the needs of clients, intermediaries and other stakeholders, the company is responding positively to these changes.

"While we continue to steadfastly drive our 2025 FutureFit strategy, it is important that we continuously and objectively examine the robustness of our strategy, operating model, and organisational culture, and whether these appropriately position us for the future. We need to ensure we run an efficient, nimble business, which is digitally enabled," Madzinga said.

Trading conditions in South Africa and globally remain very competitive. Higher interest rates and significant inflationary pressures continue to decrease disposable incomes, and investment markets are likely to remain uncertain and volatile.

Santam's investment income is expected to benefit from the higher interest-rate environment.

"More importantly we will continue to access new markets, to strengthen ecosystems and partnerships with non-traditional players, as we have identified these as key growth opportunities. We also continue to partner with Sanlam and other industry innovators to unlock cross-selling opportunities and to meet our clients' evolving needs," added Madzinga.

Santam's board declared an interim dividend of 462 cps.