Media release from Insurance Claims Africa

ICA: New research shows short-term insurers cashed in during Covid crisis whilst clients made to beg for payments

- *Record financial year for insurers in stark contrast to financial devastation faced by their customers.*
    - *Total short-term insurance (STI) premiums received increased by 2.2% to more than R130-billion.*
    - *Unappropriated profits increased by more than 20% to a new record of R53.5 billion.*
    - *Total assets of STI industry increased 12% to a level of more than R220-billion.*
    - *Value of unpaid STI claims rose by more than 17% to a record high of R49.4-billion in 2020.*
- *ICA calls on insurers to make urgent interim payments on claims while they resolve current bottlenecks and sort out their own internal administrative shortcomings.*

Johannesburg, 6 July 2021 -- It is clear from new research released today, that the short-term insurance industry (STI) earned record profits during the pandemic, and has no reason to further delay settlement of all outstanding Covid-19 business interruption claims. This is according to Ryan Woolley, CEO of Insurance Claims Africa (ICA), who is representing over 850 claimants in their ongoing fight to receive final payments from insurers.

The research, conducted by Dr Roelof Botha, Economic Advisor to the Optimum Investment Group, and Keith Lockwood from the Gordon Institute of Business Science, exposes the vast disparity between the substantial financial gains achieved over the past year by short term insurers, and their customers, who because of non-payment of claims, are desperate for any lifeline that will allow them to survive and retain thousands of jobs. Many of these businesses have already closed, resulting in a negative impact on the economy, and adding to an already alarming unemployment rate.

Ryan Woolley, CEO of Insurance Claims Africa says: "The gross inequity of the situation is blatantly prejudicial to claimants who are still awaiting settlement more than one year after the start of the pandemic. We believe that insurers are ignoring their clients extreme financial anguish and are underestimating the level of dissatisfaction and loss of trust from the delays in settlement.

"It is not too late for insurers to redeem themselves by finalising these claims quickly, ethically and fairly. We are urging insurers to make interim payments to customers while they resolve the current bottlenecks within their systems that are preventing payments. For too long now we have watched claimants struggle to survive financially, and I can only hope that the board members and shareholders of these insurers are alive to the difference between their financial positions compared to that of their customers."

According to Woolley, insurers continue to frustrate the process. "We are finding that insurers are adopting long, overly pedantic processes, and doing everything in their power, it seems, to delay payments. We are very concerned about some insurers attempting to limit the quantum that is due to policyholders yet they have been sitting on the funds for over 14 months earning interest.

"We have had positive interaction with Hollard South Africa and Old Mutual Insure. However, with Santam the process continues to be frustrating, Santam is working through its lawyers (Norton Rose Fulbright) to avoid liability for large claims in its Hospitality & Leisure Division. On our information H&L had serious administrative issues, to the extent that they cannot identify which policy wordings were issued for their clients. They are currently arguing that the brokers who moved their books of business from previous insurers, did so to achieve less cover and more expensive premiums.

"We have proposed a sensible solution to their problem but this appears to be frustrated by their attorneys, and we have now taken the decision to correspond directly with the Santam Board and its major shareholders.

"Insurers need to stop greenwashing their response to this crisis. They are not the angels that they purport to be, and have done very little to demonstrate that they have their customers' interests, and not their own profit margins, at the heart of their decisions. After all, companies are judged not on what they say, but on what they do," concludes Woolley.

Ends

Please find below a summary of the research and related commentary from Dr Roelof Botha, Economic Advisor to the Optimum Investment Group and Keith Lockwood, Faculty member, Gordon Institute of Business Science

NEW RECORD FOR PREMIUMS RECEIVED BY THE SHORT TERM INSURANCE INDUSTRY

While the short-term insurance (STI) industry agreed to relief payments for cash-strapped claimants with Business Interruption policies to relieve the financial pressure that many households have experienced during the pandemic, it needs to be extremely cautious not to damage its credibility by resorting to continued legal appeals over claims related to Covid-19.

Following a large number of requests from small and medium sized enterprises (SMEs), Insurance Claims Africa (ICA) decided to commission research aimed at establishing whether the STI industry at large enjoyed a sufficiently sound financial disposition to afford business interruption claims (BICs). It is important to note that prompt payment of such claims is crucial to the very existence of smaller businesses, some of which will be forced into bankruptcy in the event of lengthy court cases that follow the route of appeal. A summary of the results of this study follows.

Swift and pronounced recovery for South Africa's economy

Hardly any sector of economic activity has remained unscathed by the extraordinary socio-economic disruption caused by the Covid-19 virus. Businesses around the globe were confronted with a sudden upheaval and sharp contraction in output.

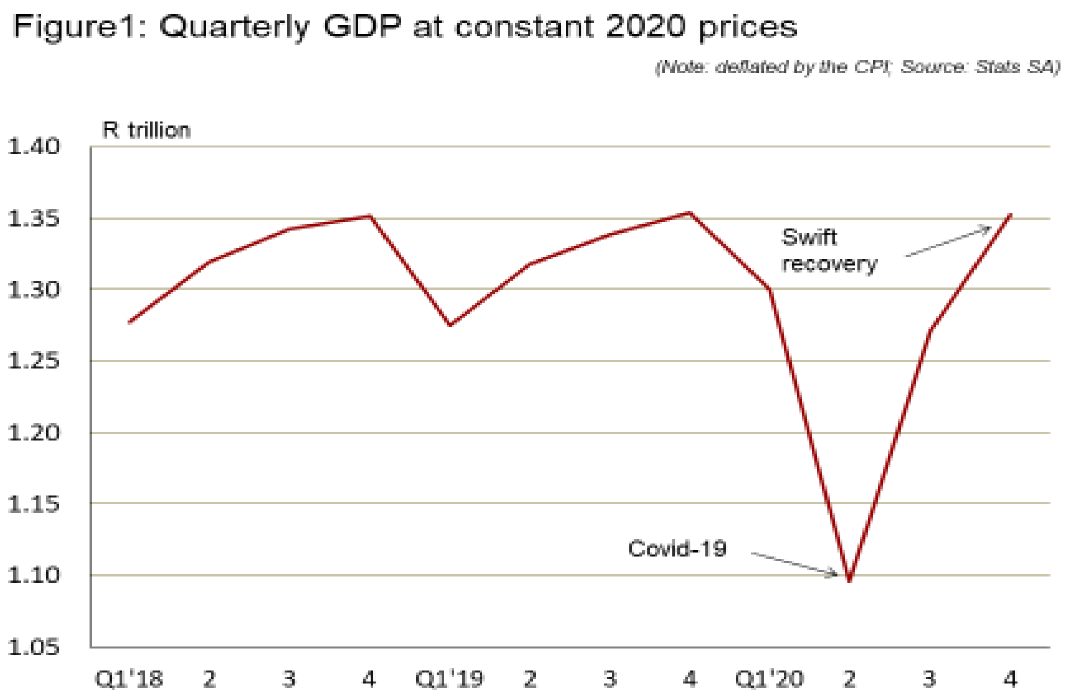
Fortunately, however, the worst of the macroeconomic effects of the pandemic were over in a matter of months. The composite purchasing managers' indices (PMIs) of 23 of the 25 countries tracked by TheGlobalEconomy.com are currently above the neutral level of 50 and nine of the ten largest economies in the world returned to expansionary mode as early as the third quarter of 2020.

Substantial fiscal, monetary and financial support measures; progress with mass vaccinations; the enforcement of health protocols; and e-commerce being thrust into fast forward mode, have all contributed to a V-shaped economic recovery in most countries, including South Africa.

The global economic recovery is clearly gaining momentum, with the IMF recently having raised its forecast for world growth in 2021 from 5.5% to 6%, stating that prospects for a stronger recovery continue to emerge. The two largest economies in the world, the US and China, are now expected to grow at 6.4% and 8.4%, respectively, in 2021.

It has become clear that the damage inflicted on the South African economy in 2020 as a result of the Covid-19 pandemic turned out to be less severe than generally anticipated, with a swift rebound occurring during the 2nd half of 2020, as illustrated by figure 1.

South Africa's growth forecast for 2021 has been upgraded to 3.1% by the IMF, with low interest rates; stellar growth in digital communication & retail logistics; and signs of a new super-cycle for commodity prices, having contributed to exceptionally strong growth prospects for 2021 and beyond.



According to Stats SA, the country managed to produce goods and services valued at close to R5-trillion during 2020, which was only 2% less than the GDP recorded during 2019 (at current prices).

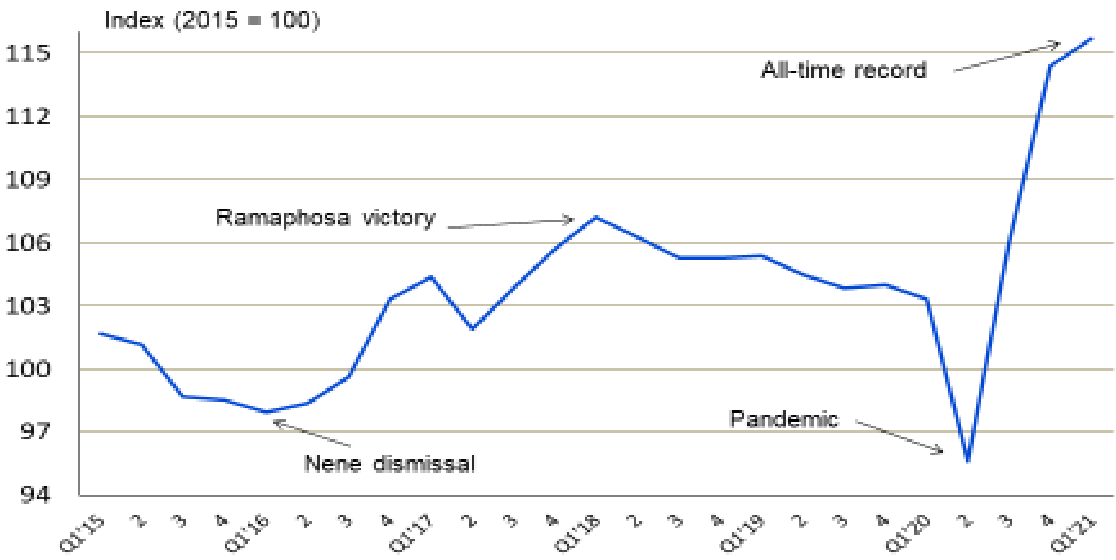
Thanks to a remarkably swift recovery of economic activity for most key sectors, the economy managed to produce 3% more during the 4th quarter of 2020 than in the same period a year earlier (at current prices), which translates into a virtually full year-on-year recovery in real terms.

In announcing their most recent financial results, several large corporations have acknowledged that the swiftness of the economic recovery came as a bit of a surprise. These include banks and real estate investment trusts, some of which continue to pay dividends to their shareholders.

Prospects for GDP growth well in excess of 3% have been boosted by the all-time record high for South Africa's composite leading business cycle indicator (BCI). The February index for this key indicator of future economic growth prospects stood at 116.8, a full 25% higher than the value recorded a year ago.

Figure 2: South Africa's leading business cycle indicator

(Note: Quarterly average; Source: SARB)



Misleading comments on short-term insurance

In contrast to quantifiable evidence of a return to positive economic growth and renewed business confidence, spokespersons for some short-term insurance companies and so-called industry experts have been down-playing the extent of the recovery and the sound financial disposition of the short-term insurance industry.

In one particular case, a spokesperson for one large STI company recently referred to trading conditions in 2021 remaining competitive in a "…negative economic growth environment…", which is in sharp contrast to the reality identified above.

In an article published in November 2020, McKinsey & Company also grossly exaggerated the impact of Covid-19 on the non-life segment of South Africa's insurance sector. At the time, the researchers at McKinsey predicted gross written premiums for general insurance (essentially short-term) to decline by 5%, in line with a forecast drop in GDP of between 8% and 10% (which was also an exaggeration, as South Africa's GDP shrank by 7% in real terms & only 2% in nominal terms in 2020).

The resilience of South Africa's STI industry made a mockery of the McKinsey forecast, with premium growth of 5% in 2020.

Sound financial performance of STI during 2020

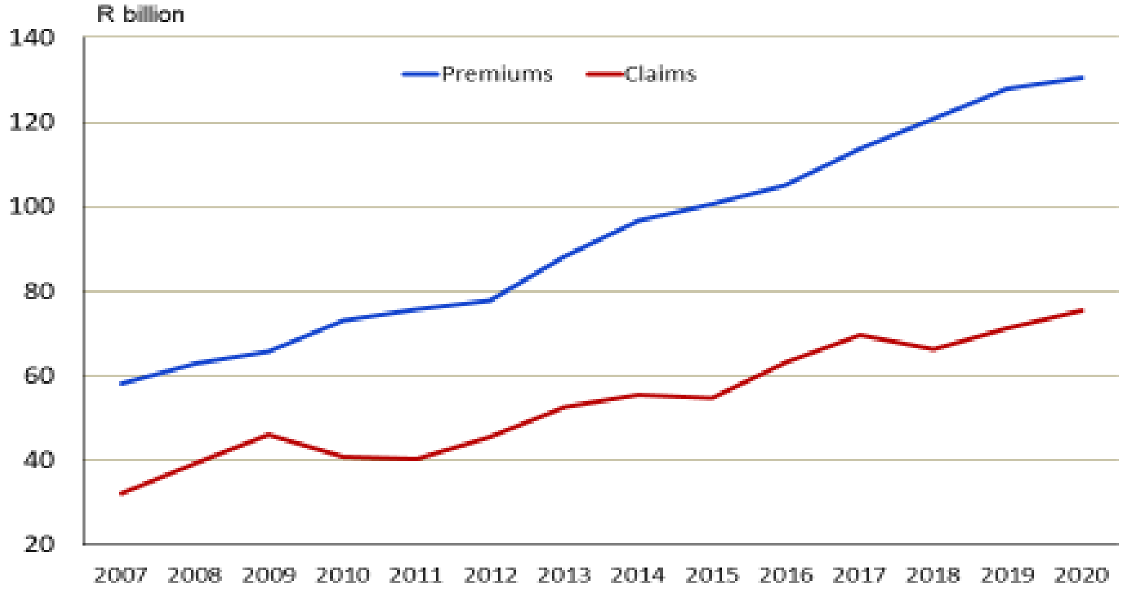
Although the national lockdown impacted negatively on the operational performance of most businesses, the speed and extent of economic recovery has ensured a relatively short spell of business interruptions. The short-term insurance (STI) industry as a whole benefited from a combination of lower alcohol consumption, curfews and the decline in road traffic.

As a result of the latter trends and the rapid return to pre-pandemic economic activity, the STI sector performed exceptionally well during 2020. Figures 3 & 4 and the table illustrate the sound performance of the STI sector during 2020. These trends and data sets confirm the strong financial disposition of South Africa's highly competitive and sophisticated STI industry.

Unlike long-term insurance, which experienced a decline of 39.4% in its current account income surplus, the STI segment recorded positive growth for virtually all of the key indicators of financial performance, with its current account income surplus increasing by 19.4%.

Figure 3: Short-term insurers - premiums received & claims paid

(Note: excluding reinsurance; Source: SARB)



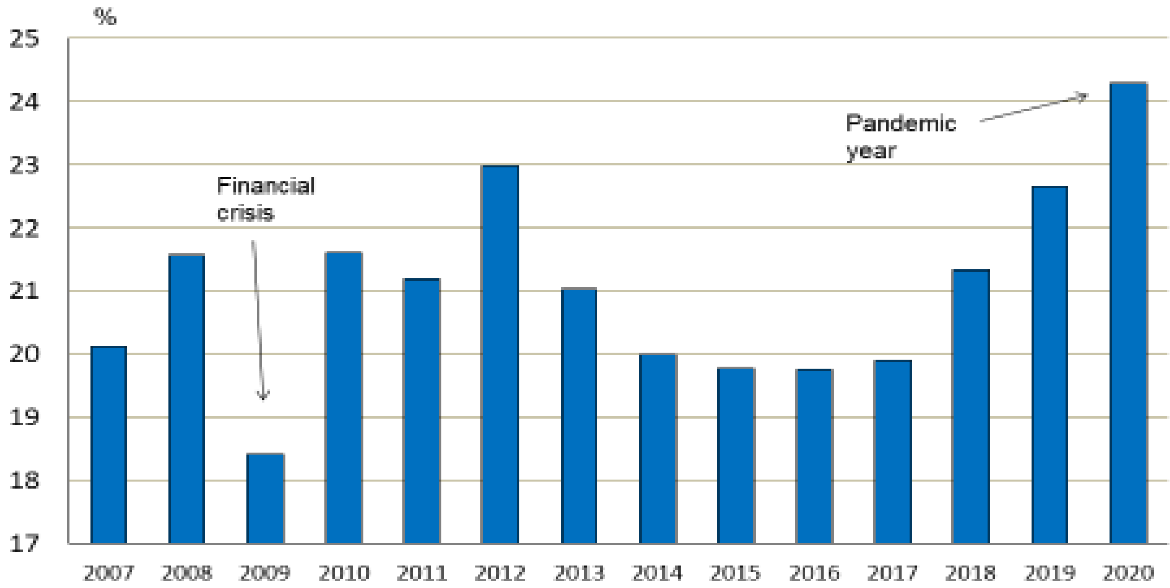
Short term insurers - key financial performance indicators
2007 to 2020 (excluding reinsurance) - R billion (Source: SARB)

	Premiums received	Claims paid	Current acc. surplus	Unappropriated profits	Total assets
2007	58.1	32.1	4.5	14.8	73.4
2008	62.9	39.1	7.3	17.3	80.3
2009	65.8	46.1	4.7	16.3	88.4
2010	73.0	40.9	7.6	18.4	85.2
2011	75.8	40.2	12.1	20.1	94.8
2012	77.9	45.6	6.9	24.5	106.8
2013	88.3	52.5	7.6	23.8	113.3
2014	96.6	55.5	11.1	25.1	125.4
2015	100.6	54.7	13.6	29.3	148.3
2016	105.0	63.2	15.4	30.8	155.7
2017	113.8	69.7	17.7	33.9	170.2
2018	120.8	66.4	15.9	39.2	183.6
2019	127.8	71.3	13.2	44.6	196.7

2020	130.5	75.4	15.8	53.5	220.3

Figure 4: Short term insurers – ratio of unappropriated profits to total assets

(Sources: SARB; own calculations)

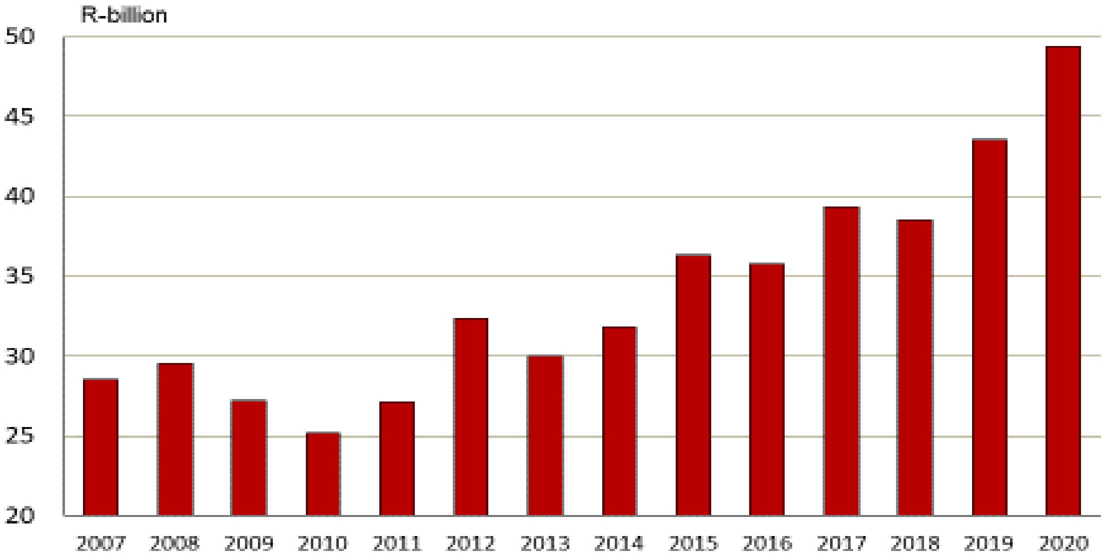


Total STI premiums received increased by 2.2% to a new record of more than R130-billion, whilst unappropriated profits increased by more than 20% to a new record of R53.5 billion. Total assets of the STI industry followed the record-breaking trend by increasing 12% to a level of more than R220-billion.

Arguably the strongest vindication of ample scope for settling CBI claims without unnecessary delay can be found in the decline of the claims ratio for STI during the first three quarters of 2020, namely to a level of 51%, compared to a significantly higher ratio of 63% for the same period in 2019 (this ratio represents the percentage of premium income which insurers pay out in claims).

It is also a point of concern to clients facing unnecessary delays in the settling of claims that the value of unpaid STI claims rose by more than 17% to a record high of R49.4-billion in 2020.

Figure 5: Short term insurers – value of unpaid claims at constant 2020 prices *(Source: SARB)*



Concluding remarks

The key conclusions drawn from the above analysis of prospects for the global and South African economies and trends relating to the short term insurance sector, are as follows:

- Global economic recovery is gaining considerable momentum and the South African economy is no exception. The lowest interest rates in 50 years, stellar growth in digital communication & retail logistics, signs of a new super-cycle for commodity prices and a resumption of formal sector employment creation are bound to lead to exceptionally strong growth in 2021.
- A review of data pertaining to the financial performance of short term insurers during 2020 reveals positive growth for virtually all of the key indicators of financial performance, with investment income and dividend payments the only exceptions.
- The key indicator of STI premiums received, increased by 2.2% to a new record of more than R130-billion, whilst unappropriated profits increased by more than 20% to a new record of R53.5 billion. Total assets of the STI industry followed the record-breaking trend by increasing 12% to a level of more than R220-billion.
- Covid-induced changes to consumer behaviour have led to substantially lower mileage being driven, resulting in a sharp reduction in the claims ratio for STI. Although a temporary increase in claims related to business interruption occurred in the fourth quarter of 2020, a strong likelihood exists of a structural reduction in the STI claims ratio.
- Due to the strong financial disposition of the STI industry, augmented by an increase in the ratio of unappropriated profits to total assets to a new record of above 24% in 2020, no doubt exists over the affordability to remit claims for CBI, which may be on the verge of ceasing in the wake of an imminent full reopening of the economy.

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