Santam reports strong underwriting results in low-growth economic environment

Santam, South Africa's largest general insurer, today reported strong underwriting results for the year ended December 2015, with a net underwriting margin of 9.6%. The results were positively impacted by disciplined underwriting actions and a relatively benign claims environment. The group reported gross written premium growth of 8% (excluding cell captive insurance business) in the current low-growth economic environment.

- Growth of 8% in gross written premium (excluding cell captive insurance business)
- Gross written premium from outside SA up to R2.4 billion
- Net underwriting margin of 9.6% compared to 8.7% in 2014
- Paid R14 billion in claims
- Return on capital of 32.5%
- Final dividend of 528 cents per share
- MiWay gross written premium up 19% to R1.8 billion
- Group solvency ratio at 48.1%
- Headline earnings per share of 1 844 cents, 28% above headline earnings reported for prior year
- Cash generated by operations R3.7 billion (compared to R2.4 billion in 2014)

In announcing the results, Santam noted that investment income was positively impacted by foreign exchange gains and solid investment performance in volatile markets. Headline earnings per share increased by 28%, while a return on capital of 32.5% on a rolling 12-month basis was achieved. The solvency margin of 48.1% was higher than the target range of 35% to 45%.

Santam chief executive Lizé Lambrechts said Santam's underwriting results were achieved in competitive market conditions. "We continue to operate in a tough general economic environment with low GDP growth and a weakening currency."

The insurer's 8% gross written premium growth, excluding cell captive insurance business, was lower than the 12% achieved in the 2014 reporting period – reflecting the impact of competitive market conditions and the downturn in the economic environment. "Growth in the crop insurance business was negatively impacted by the strong El Niño weather system and the consequential drought conditions in South Africa. The drought resulted in significantly less crops being planted, reducing gross written premium for the crop insurance class by 19% compared to 2014," Lambrechts said.

The property and motor classes achieved solid growth, notwithstanding the cancellation of specific unprofitable books of business on outsourced platforms. The motor class benefited from the 19% growth reported by direct insurance business MiWay. The engineering and transportation classes were under pressure due to competitive market conditions. Growth of 15% was achieved in the alternative risk class.

Santam's focus on international diversification gained momentum with gross written premium from the rest of Africa (excluding Namibia), India, South-East Asia and China of R1.4 billion (2014: R1.1 billion). Santam Namibia reported gross written premium in excess of R1 billion for the second consecutive year, resulting in total gross written premium outside South Africa increasing to R2.4 billion (2014: R2.1 billion).

Lambrechts said the underwriting results in the motor and property classes of business improved substantially compared to 2014 on the back of lower claims frequencies and sustained corrective underwriting actions. The loss ratio was negatively impacted by the catastrophic hail events mainly in February and November 2015, with gross claims amounting to R290 million (2014: R187 million). The underwriting profit of the engineering class of business showed a significant increase compared to 2014, following fewer large claims reported. The contribution from the liability class also improved.

The crop insurance business achieved solid underwriting results despite the severe drought conditions which resulted in gross drought claims of more than R230 million being paid during the period January to June 2015. However, the lack of rainfall also resulted in lower exposure to hail damage. The net underwriting profit of R131 million is significantly lower than the exceptional results of R251 million in the comparative period, following the favourable weather conditions experienced in 2014.

Commenting on the investment income for the year, Lambrechts said the weakening of the Rand during 2015 resulted in significant foreign currency gains of R362 million compared to R71 million in 2014.

Positive fair value movements of R152 million (2014: R93 million) in Santam's interest in Sanlam Emerging Market's (SEM's) general insurance businesses in Africa, India and South-East Asia enhanced the investment performance. At year-end the SEM investments had a fair value of R1 005 million (2014: R807 million) which accounted for 12.4% of the group's shareholder funds at 31 December 2015.

Net earnings from associated companies of R53 million was slightly less than the R58 million reported in 2014, following the sale of the key contributor, Credit Guarantee Insurance Corporation of Africa Ltd, for R602 million in October 2015. A profit of R392 million before tax was realised from this sale.

During November 2015 agreements were concluded whereby SEM and Santam will jointly acquire an effective 30% interest in Saham Finances, the insurance arm of the Saham Group, for a total cash consideration of US$400 million (including transaction costs). Saham Finances operates in 26 countries across North, West and East Africa, and the Middle East. It is the largest insurer in Africa, excluding South Africa. The transaction is expected to be finalised during the first quarter of 2016. Santam's share of the purchase consideration (including transaction costs) of US$100 million will be funded from internal cash resources.

On 31 December 2015 Santam sold 76% of its shareholding in Indwe Broker Holdings Group (Indwe) for R208 million to African Rainbow Capital, a wholly-owned subsidiary of Ubuntu-Botho Investments (51%) and Sanlam (25%), realising a profit of R15 million. Santam retained the remaining 24% interest in Indwe. The transaction will establish Indwe as a leading black-owned insurance brokerage firm in South Africa with direct ties to Santam and Sanlam.

Looking ahead, Lambrechts said trading conditions in the South African insurance industry remain very competitive in a difficult economic environment. "Real annual GDP slowed to 1.3% for 2015, which equates to low growth of insurable assets for the insurance industry. The Rand depreciated by 25% against the US Dollar during 2015, following the 10% depreciation in 2014, which has an on-going negative impact on the group's insurance results as it directly affects the claims cost (mainly imported motor parts). We will continue to focus on the optimisation of the claims and procurement value chains to increase efficiency and counter the impact of the weakening Rand.”

She said the group’s focus in 2016 will be to maintain its profitable growth momentum in South Africa and increase its international diversification through the Santam specialist lines and Santam Re. “A strategic focus area will be to support the development of the SEM general insurance businesses in emerging markets by allocating appropriate technical resources. In South Africa, focus areas include growing the business in new segments, developing Santam’s full multichannel capability and enhancing risk assessment,” Lambrechts concluded.

The Santam board has declared a final dividend of 528 cents per share, up 10% on the dividend of 480 cents per share declared on 2 March 2015.