Santam's 2023 performance highlights: Resilience, growth, and strategic interventions

Santam has achieved a resilient performance for the 2023 financial year, with the group recording a 6% Net Earned Premium growth rate, an increase of 64% in net income attributable to equity holders and a 28.5% return on capital.

Source: Supplied. Santam group chief executive officer, Tavaziva Madzinga.

The group's diversification across market segments, insurance classes and geographies enabled it to grow shareholder value in excess of its 24% hurdle rate and also saw Gross Written Premium (GWP) growth of 6%.

The group also maintained its market share off the strength of its broker network.

"This is despite the overall operating environment, with headwinds within the insurance industry. Weak economic growth in South Africa, our largest market, and elevated levels of inflation and interest rates dented any prospects of a meaningful improvement in consumer disposable income.

"We faced adverse weather- and fire-related claims, exposure to the Türkiye earthquake losses and elevated claims inflation, among others. The cost of reinsurance has also increased substantially following the significant losses experienced globally and in the South African market since 2020," said Tavaziva Madzinga, the Santam group chief executive officer.

To navigate the challenging environment, Santam has introduced a number of strategic and operational interventions, including the launch of a refreshed strategy, FutureFit2030, inclusive of a new multi-channel operating model targeting particular client segments.

Furthermore, the company implemented several underwriting actions that include enhanced risk assessments, segmented premium increases, changes to excess amounts and increased security requirements for high-risk vehicles.

Santam has also made good progress in driving value through the better use of data, with several data-based use cases in the implementation phase. Among these is an expansion of the geocoding initiative, which creates a comprehensive risk-based view of property locations in South Africa.

"We also continue to drive diversified growth. The benefits are evident in our results, with a substantial profit contribution from the Specialist Solutions business providing welcomed relief to the adverse claims experience in the broker solutions, client solutions and Santam Re businesses, enabling us to deliver a 6.1% net insurance margin," added Madzinga.

Santam ART boosts performance

The resilient earnings performance was further supported by the Santam Partner Solutions' Alternative Risk Transfer (ART) businesses, which reported strong results of R516m (2022: R368m). The strong performance is the combination of 33% growth in operating earnings to R443m (2022: R332m) and 103% growth in investment return earned on capital to R73m (2022: R36m).

Investment return on capital increased from R585m in 2022 to R1.1bn in 2023. This is mainly attributable to improved investment market performance, with unrealised fair value adjustments on equities and bonds turning around from a net loss in 2022 to a net gain in 2023.

Santam power surge insurance claims reduce by 80% thanks to consumers
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During the period Headline Earning Per Share increased to 2 310c (2022: 1 817c), a 27% surge, and gross claims paid amounted to R29.9bn (2022: R29.8bn).

The group and all of its principal subsidiaries remain well-capitalised with the group economic capital requirement at 31 December 2023, amounting to R8.8bn (December 2022: R8.6bn) compared to the actual capital of R13.7 bn (December 2022: R13.4bn). This equates to an economic capital coverage ratio of 155% (December 2022: 156%), at the midpoint of the capital target range of 145% to 165%.

Conventional insurance: growth

Growth of 6% was achieved in GWP. In line with Santam's philosophy to focus on profitability and return on capital, unprofitable business of more than R1bn was not renewed during the year. Excluding this business, GWP growth amounted to a healthy 9%.

Broker Solutions, Santam's most mature business, achieved good growth, with the unit realising targeted premium increases in response to high claims inflation and frequency.

The Client Solutions business recorded acceptable growth, albeit lower than expectations. The business remained focused on managing the quality of business written with the Partner Solutions business witnessing a substantial increase in its contribution, mainly due to the MTN partnership.

A total of 151,339 policies have been sold since the partnership launch in April 2023.

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MiWay's monthly growth almost doubled towards the end of the year compared to the first-half 2023 results, ending at a 5% growth for 2023.

The motor class recorded growth of 4% in GWP (7% excluding cancelled business), while the property class grew by 7% (11% excluding cancelled business).

The engineering class achieved excellent growth of 15%, recovering well from 2022, due to solid growth at Santam Re and new business at Mirabilis from outside South Africa.

Transportation GWP increased by 17%, with Santam Re and the Specialist Solutions heavy haulage business being the main contributors.

Underwriting performance

Underwriting profit declined by 26% at a margin of 3.5% (2022: 5.1%), below the group's target range of 5%-10%, for 2023. This was due to a variety of factors that include the floods in the Western Cape and hailstorm in Gauteng, that respectively cost Santam R403m and R180m.

Fire claims, which are a concern for the company, amounted to R422m (2022: R388m). Had these catastrophes and hazards not occurred, Santam would have achieved an underwriting margin of 8.4% (2022: 6%).

For 2024, the issue of fires will be a particular focus, with the company looking at how this hazard can be better prevented and mitigated against.

Prospects

Economic growth and employment levels will remain under pressure in South Africa, given structural limitations, in particular electricity supply and transport constraints that place severe pressure on economic activity and investor confidence. Santam is supportive of the joint effort between government and the private sector to resolve these impediments.

Personal disposable income should find some relief as both inflation and monetary interest rates have peaked by all indications. A decline in interest rates in the medium term would be supportive of GWP and NEP growth prospects.

"We remain confident in the group's prospects and the potential to deliver enhanced growth and profitability through several strategic initiatives," said Madzinga.

A final dividend per share of 905c (2022: 845c) has been declared, with cumulative dividends declared amounting to 3,180c.