

Claims hurt Santam's results

New Santam finance director Hennie Nel could not have timed his entry into the job any worse.



Up to the half-year there was just one event in which insurance claims exceeded R200m - floods in Mpumalanga in January 2012 following a cyclone.

But in the second half of the year there was a hailstorm in Edenvale - the first hailstorm with claims in excess of R1bn since 1985. And there were three other events with claims above R200m - more hailstorms in Gauteng on 9 November and two major fires, in St Francis Bay in the Eastern Cape.

As Santam has a 25% market share of short-term insurance and a national footprint, it is hard for it not to pay handsomely every time there is a major catastrophe. Its total claims payouts for the year increased by R1,2bn to R10,7bn.

Santam was boasting an underwriting ratio of 6% at its June interim results, well within its target range of between 5% and 7%.

But in the second half, this fell to 1,6%. Santam chief executive Ian Kirk says the insurer benefited from diverse sources of income. Its investment income more than doubled to R787m on the back of a strong stock exchange and it exceeded the R623m earned from underwriting.

And in spite of lower interest rates, the income on the free float - interest earned on client premiums - was up 7% to R415m.

Catastrophes

Within the insurance classes the catastrophes led to a R158m loss on the motor book and R133m in property claims, but in the second half there was also a doubling of surplus from engineering to R110m, which tied with liability to be the biggest contributor.

Kirk says the main barrier to entry to the sector is the quality of the people at Santam, particularly in specialist areas such as liability and engineering, in which Santam operates through specialist underwriting managers such as Emerald, Stalker

"We see our competitors are trying to creep into our space, but I am not too concerned," says Kirk.

Santam has further strings to its bow through Santam Re, Centriq and MiWay Reinsurer Santam Re enjoys an A-minus credit rating and written premiums from outside the Santam group increased by 23% to R536m.

Centriq, which helps corporates self-insure, doubled pretax profit to R70m.

Direct insurer MiWay, after five years, writes R1bn in premiums a year and has 166,000 clients. It made a small R37,1m loss last year but should soon generate strong cash for the group, in line with rivals such as Outsurance and Dial Direct

Santam's results remained significantly better than main rival Mutual & Federal (M&F), which had a negative underwriting margin of 1,7% for the year.

This was considerably better than Zurich SA, which had a negative underwriting margin of 8,8% and a 3% drop in premiums.

Santam executives don't lose much sleep over Zurich but will admit that M&F, under Peter Todd, is beginning to look more like a serious competitor again. M&F's gross premiums increased by 9% to R9,7bn - making it half the size of Santam. M&F has woken up late to the importance of niche underwriting agencies, but is finally starting to bring them into the fold.

M&F's negative underwriting result of R132m is explained primarily by the start-up losses of R161m from its start-up direct insurer iWyze. Unlike MiWay and Outsurance, iWyze operates primarily in the mass market. A large portion of its customers have never held short-term insurance before.

Source: *Financial Mail* via I-Net Bridge