Impact of COVID-19 and ensuring sustainable pricing in Group Risk

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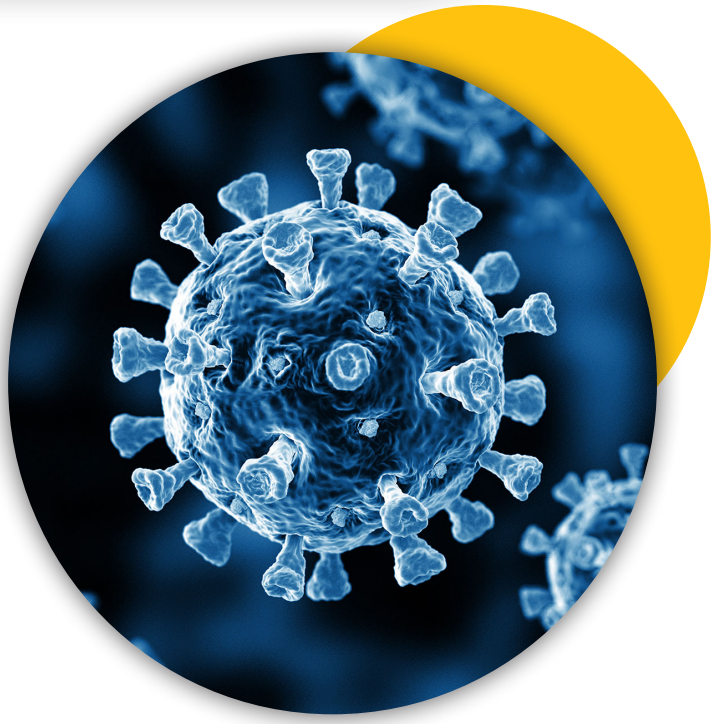
Life insurers, like everybody else, have had a challenging year with COVID-19, going through the almost overnight restructuring of the business model to work from home, economic uncertainty, extremely high claim levels and, just as importantly, the critical actions required to care for and protect our own employees.

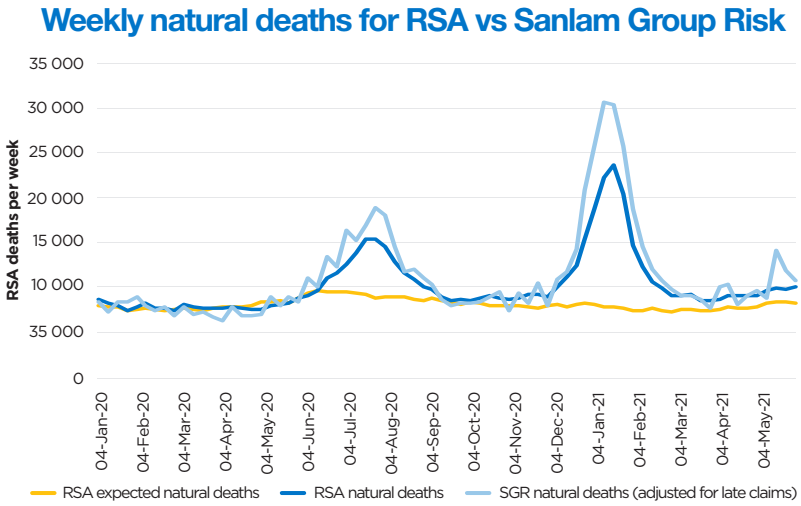


COVID-19 has impacted everyone. In Sanlam, almost 1 200 of our colleagues have tested positive, 20 of whom have succumbed to the virus, along with many more family members and friends.

Our goal is to highlight that with these pressures our industry has had no alternative other than to evolve to survive because, and I admit it freely, like many other businesses Sanlam Group Risk has struggled with profitability and service delivery during the pandemic.

By now most people are familiar with the South African Medical Research Council's weekly mortality statistics, which compare actual deaths with the projected mortality numbers. Below, we have the national and Sanlam Group Risk experience in one graph with the expected deaths reflected in the yellow line.

Sanlam Group Risk's actual weekly mortality experience continues to follow the same trend as SA experience



The national graph reflected by the dark blue line with the axis on the left, reflects the total South African deaths. The pale blue line, with the axis on the right, reflects the Sanlam Group Risk total deaths (by date of death) adjusted for claims Incurred But Not Reported (IBNR) for the same period.

In this graph it is evident that Sanlam's mortality experience has mirrored that of South Africa, except for the second wave where the insured population mortality was higher than that of the national trend. According to ASISA, this is consistent across all the major insurers and is 400% greater than expected mortality.

Between March 2020 and the first week of February 2021, South Africa recorded more than 137 000 excess deaths due to natural causes — substantially higher than the 44 500 confirmed COVID-19 deaths reported by the Minister of Health.

Based on research, the South African Medical Research Council estimates that 85-95% of the excess natural deaths are attributable to COVID-19, with the remaining excess deaths deemed attributable to collateral causes, probably due to overwhelming the health services during surges in the pandemic.

The true purpose of an insurer is to deliver on the promise made to clients to support them in their time of need. COVID-19 is a global crisis, and I am sure the intermediaries, brokers and consultants will all agree that our clients have REALLY needed us during this pandemic.

The true purpose of an insurer is to deliver on its promise to support customers in their time of need...

- What do customers need?
- How well did insurance companies meet these needs?
- Are we ready for the next crisis?

But what did they need? How well did insurers do in meeting these needs? And are insurers ready for the next wave or crisis?

Guidewire commissioned research during COVID-19 to examine client perspectives on insurers, with the objective to gain insight into how insurers can improve client relationships and enhance their products

and services, and this aligned very closely with Sanlam Corporates own internal findings on what our clients say they need.

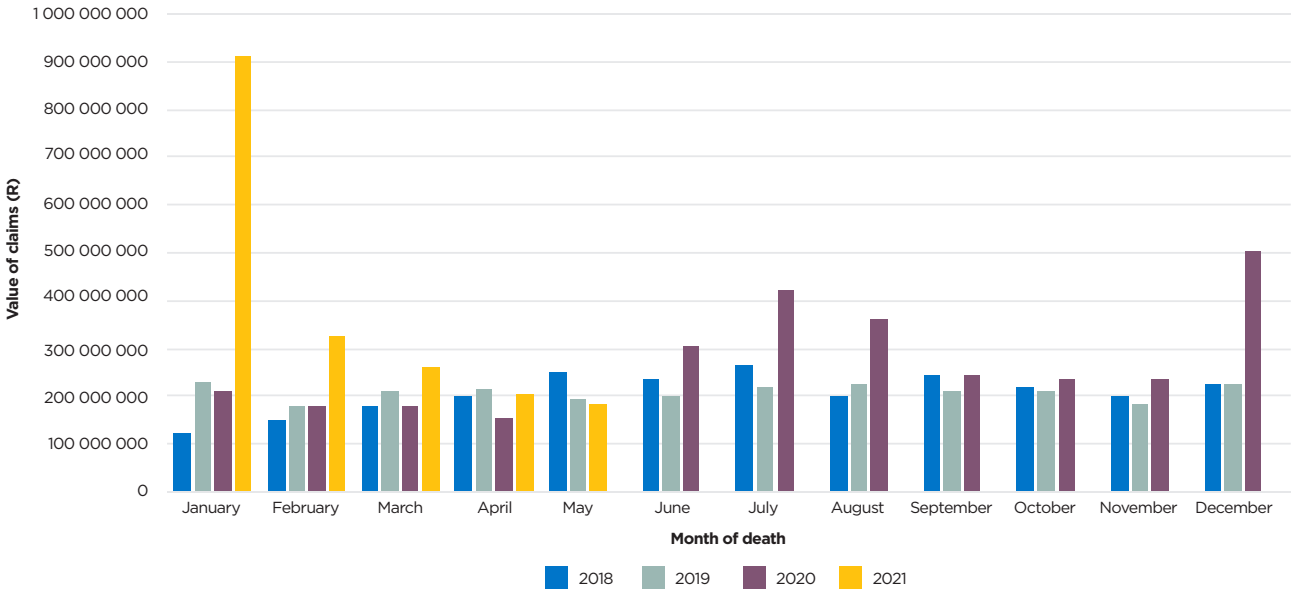
With regard to service, the top qualities UK clients required were to pay claims quickly (at 40%), to keep data safe, having the option to speak to a person, followed by low premiums, clear terminology and the ability to communicate online.

The UK survey also highlighted that clients value other important non-service-related factors, including innovating around products and processes while maintaining the highest levels of operational efficiency, and availability.

With regard to the top service requirements for insurers to pay claims quickly, clearly South African insurers stepped up and paid claims. Old Mutual reported that they had paid R1,9bn in death claims in January and February of 2021, and MMI reported that they had paid R3,9bn, and Sanlam Life R3,8bn for Q1 of 2021.

This graph below reflects the Sanlam Group Risk value of claims by date of death by month and year. The COVID peaks are evident in the purple bars in July, August and December of 2020, in the region of 30-50% higher than the expected volumes for those periods. The yellow bar of January 2021 reflects an astounding 300% of the expected values. Had we looked at this graph using the total number of claims paid in this period, the January 2021 yellow bar would reflect a value at 250% of historical volumes.

Weekly natural deaths for RSA vs Sanlam Group Risk



Many of the insurers have published their own experiences similar to this, reflecting a drastic increase in both the volumes and values of claims during the COVID peaks. The increase in values has been attributed to the increase in claims for members 45 years and older, who are usually the higher-income earners.

The pandemic has resulted in all insurers processing unprecedented volumes, and as a result we have all experienced operational challenges. So, as insurers, we certainly did pay claims, but we all acknowledge that we didn't always pay them quickly.

Therefore, given the start of the third wave and the threat of possible a 4th COVID wave, there are a few actions we as an industry can, and need to take.

From an insurer perspective, our goal is sustainability for the long haul and not just one or two years through COVID. Sanlam is once again in the fortunate position of being an insurer with one of the highest levels of capital and reserves. Rest assured that with a Group Solvency Capital Requirement ratio of 242% Sanlam Life has sufficient reserves and capital to pay claims through these next COVID waves or the next crisis.

But to pay claims quickly, group insurers also need to make operational changes, which will require a combination of adding resources and investing in digital, and although most are on this journey, we are at varying stages and quality of doing so.

Our Claims team provided guidance on the top few items they felt would reduce claim payment delays, and I am sure these apply to other insurers too. Their response is included in the checklist on the right.

Given the third and possible fourth wave- what can be done to pay claims more quickly?

Insurer

- Adequate capital / reserves
- Fast premium processing
- Cross-team support
- Increased capacity
- Invest in Digital
  - Self service MBS
  - Claim forms and validations
  - Robotics

Customer

- Complete BI 1663 form
- Complete claim form
- Recently certified Documents
- Premiums paid up to date and at correct level TIMEOUSLY
- Membership records up to date
- Updated beneficiary nomination form for approved vs unapproved business

A noteworthy point is that as a result of the new Insurance Act of 2017, employers, insurers and intermediaries can no longer under any circumstances apply their discretion in determining the correct beneficiaries for unapproved business, which includes funeral business.

In the absence of a beneficiary nomination form for unapproved business, even a funeral benefit will be paid to the member's estate. Numerous articles have been published about corruption at the Master's offices, with a recent report in Business Day headlined "Legal fraternity up in arms over chaotic backlog at Master's Offices". None of us want our clients to go through that, so it is critical that as in industry we help to drive the updating of our own, our clients' and our staff members' beneficiary nomination forms.

I have provided my perspective on insurers' delivery during the COVID-19 crisis, and I thought it important to get an independent view, so I reflected on the recent report of the Ombudsman for Long-term Insurance. This report released late in May highlights poor service, communication and claims declined as the main reasons for the complaints that reached their offices.

They noted that service-related complaints most likely increased due to remote working conditions, resulting from difficulty in contacting and communicating with insurers. This led to complaints particularly when claimants were desperate to have claims paid, e.g. under funeral policies.

Understandably some of the service complaints were attributable to the large volumes of claims and queries submitted to insurers during the pandemic.

The Ombudsman's report also noted that insurer relief packages were not all equally generous, resulting in cover being reduced or lapsed, which is terribly unfortunate during a pandemic when cover is so crucial.

I am once again proud to report that the Sanlam Life complaints that reached the Ombudsman were proportionately very low, and the number of cases resolved wholly or partially in favour of the complainant was the lowest of all the insurers.

2021 Benchmark Research on POPIA impact of awareness on:

- Employer 92%
- Service providers 82%

56% Will rely on consultants to monitor service providers

35% Will rely on reports in the BOT pack

Clients have "keep my data safe" as a very important service consideration, which is something we too believe is critically important, and now, especially with so much being done online and with the Protection of Personal Information Act (POPIA) deadline looming, it is more important than ever.

Our Benchmark research shows that the awareness of the impact of POPIA on service providers is 80 to 90% there, although from some of the interactions I have had so far I am not totally convinced that employers or funds fully understand their own roles as responsible parties under POPIA.

Interestingly, in the Benchmark research, 56% of the respondents stated they would rely on their consultants to monitor the service provider's compliance with POPIA. Perhaps they feel consultants are a little bored now because the Policyholder Protection Rules and T-Day have passed.

Clients have also highlighted their need for human service consultants as well as online engagement platforms. I suspect this is because members want access to online platforms for self-service capabilities, but when they need technical, non-standard or escalated support, they want to talk to a person.

Looking purely at digital developments in Sanlam Group Risk, many of you will already be aware of Sanlam Corporate's best-in-industry retirement fund administration digital capabilities. Well, based on your feedback, we are starting to introduce some of these initiatives into our business too. These new digital touch points aim to speed up service delivery, such as the online portal for submitting death claims and a fully digital, PPR-compliant member benefit statement.

Only 13% of Benchmark respondents said they rely on the insurer to deliver on PPR rule 11, which requires the insurer to keep members informed of their insurance benefits.

So, to the respondents who said they will rely on their own communication departments or their own retirement fund administrators to perform this function, please ensure you or your retirement fund administrator is fully compliant with the PPR rules regarding member communication. We are performing due diligences on the large retirement fund administrators.

Personal engagement is something we have focused on in Sanlam Corporate. The new digital solutions are never at the expense of a human touch when it is needed. For example, we offer client solutions specialists, call centre agents, client relationship managers, senior managers, and even our executives are available to assist you when needed.

Reality Access for SGR (which is an integrated offering and not a separate paid-for loyalty benefit) is a perfect example of where we strive for balance between human connection and digital interactions. We found that the members who gave us permission to include them in the Reality Access service offering, made extensive use of the personal benefits offered during the pandemic. Obviously, burial repatriation usage was higher than normal, but we also saw an increase in legal aid, and we were pleased to see that the Shoprite and Dis-Chem vouchers were in very high demand.

Our Benchmark research shows that the remuneration of two thirds of our members was negatively impacted during COVID and the lockdown. It is not surprising that our client experience research identified that members want more relevant value-added services and holistic integrated offerings. This, together with COVID realities, really requires insurers to step up their product and process innovation.

Within Sanlam Corporate, we are pleased to have added IVY Online to our menu of Reality Access value-added services. It will provide much-needed education and tutor support to children who are struggling in this new pandemic environment.

Furthermore, we are also piloting virtual nurse and doctor consultations among some of our Umbrella Fund clients. Virtual healthcare has surged during the pandemic, particularly benefiting low-income

employees, with 40% of them more likely to say they received the care they needed when using virtual care. So, rolling this out to our extremely broad base of clients would enable access to nurses, doctors and scripts at minimal cost and without long queues or travelling times — really adding significant value in our clients lives.

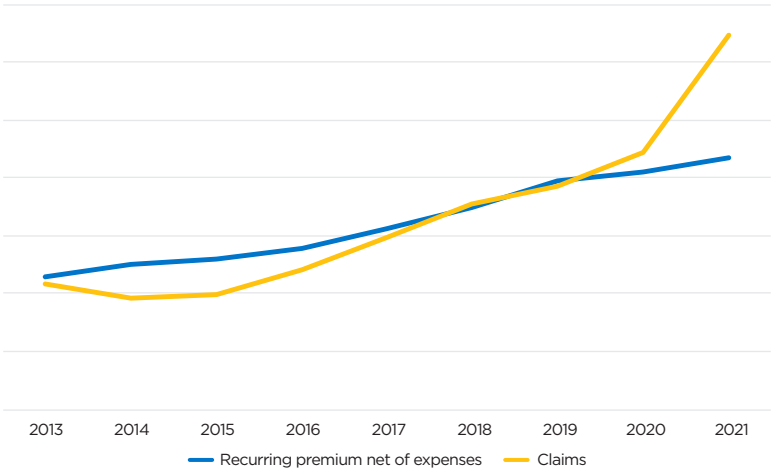
We also made some changes that were extremely meaningful to a few people, where, rather than using existing policy conditions as a means to repudiate claims, we waived some conditions in policies to enable claims to be paid. For example, as a result of COVID we sadly saw entire families dying within a couple of days of each other, and instead of immediately ceasing cover for spouses or children when the main member dies, we changed this to at least provide cover for the full month the premiums were paid, and we also extended our Universal Educator Product to pay for home schooling, which was not previously part of the product offering.

Although it was 4th on the list of priorities in the Guidewire research, the requirement for lower pricing is obviously a big concern for insurers at this stage. On the one hand, members are under extreme financial pressure, and on the other hand, it is not sustainable for insurers to continue to carry the extensive burden of claims that far exceed the value of premiums they have received, as reflected by the yellow claims line on this graph where it runs above the blue premium line.

Group Risk Pricing

- Goal is sustainability
- Annually renewable-priced according to future risk factors
- Market pressures ensure that excessive premiums are not sustained
- Insurer sustainability requires price adjustments when claims are excessive

Mortality: Claims vs net premiums



Group risk insurance is annually renewable, and market forces and competitors ensure that insurers do not generate excessive profits, and regulators and auditors ensure premiums are adequate for the future sustainability of the insurer. In other words, the net premium and claims lines on this graph are driven by market forces to be very close to each other.

In the past, approximately five years of years of experience and trends were used to project the next 12 months of experience; however, under the current circumstances with COVID, the past 12 months are the closest proxy we have for projecting the next 12 months.

All the insurers are struggling with these projections; different industries have shown unexpected claims experience, and our pricing basis has had to be adjusted regularly to accommodate this. However, the good news is that as time progresses and we get through the waves and closer to the real deployment of the vaccine, projected claims will decrease, and our models and basis will be updated. Therefore, once experience improves, mortality rates will decrease again.

We also remain hopeful of improved economic recovery, as current projections do not bode well for the future of PHI and its pricing. A lot of our time is spent doing research, analysis, and building models to try to project the future impact of COVID and the economy on mortality and morbidity, and at this stage a lot of the information is conflicting, so we continue to monitor it closely.

Well, for many COVID-19 has been "the unthinkable", and as an insurer we are proud that we have been able to provide support to so many during this crisis.

We thank our clients and stakeholders for being patient and understanding.