

# Impact of Covid19 on group insurance premiums

It has been more than a year since the start of the Covid-19 pandemic and the financial and emotional impact has touched every one of our lives. At Sanlam, we are truly saddened by the tragic loss of life and financial burden experienced by many during this time, and extend our sincere condolences to every person that has been impacted.

## Impact on the business sector and employees

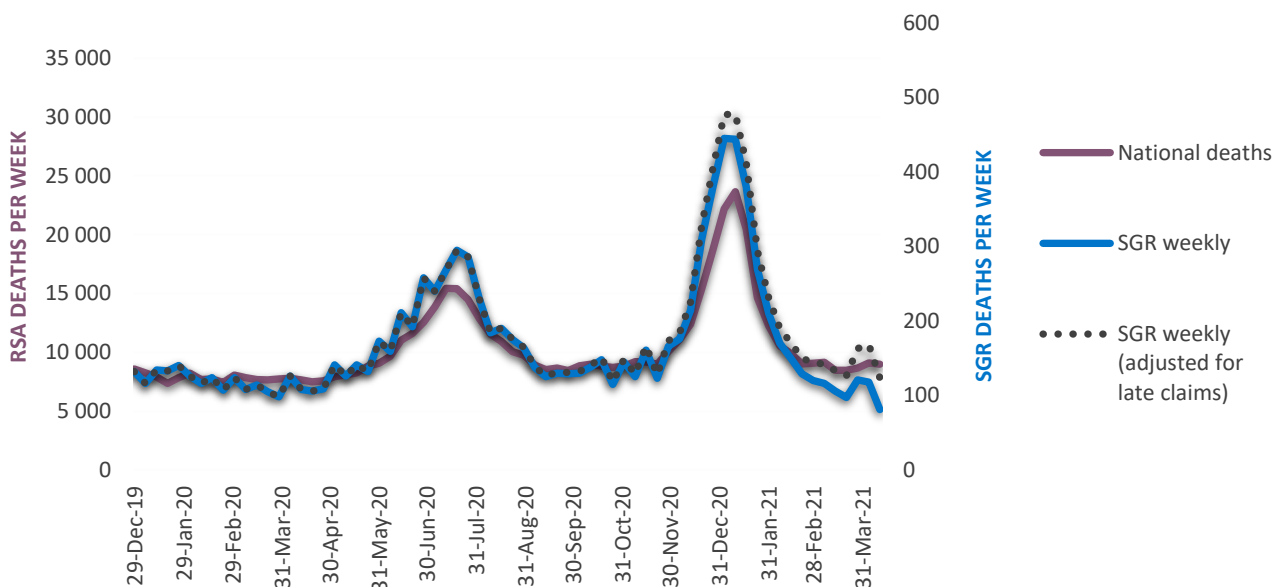
The various stages of the economic lockdown have had a devastating impact on the South African economy, with many businesses forced to shut-down and many others forced to reduce headcount or salaries in order to survive. This has resulted in an increased financial burden on the employed population, many of whom now provide financially for additional family members or cope with reduced family incomes.

## Impact on the group insurance business

Sanlam has not been immune to the impact of the pandemic. In addition to the personal impact on our employees, the insurance business has seen a significant increase in death claims, including those of a number of our own valued employees.

In line with the increased mortality experienced across the country, South African insurance companies experienced the first clear wave of infections and increased mortality between June and August 2020, and a second clear wave between late-November to January 2021. The South African Medical Research Council's (SAMRC) statistics on weekly deaths, reflects that deaths peaked during mid-January at almost the same time as the UK and USA third wave peaks.

## Weekly natural deaths for RSA vs Sanlam Group Risk (SGR)



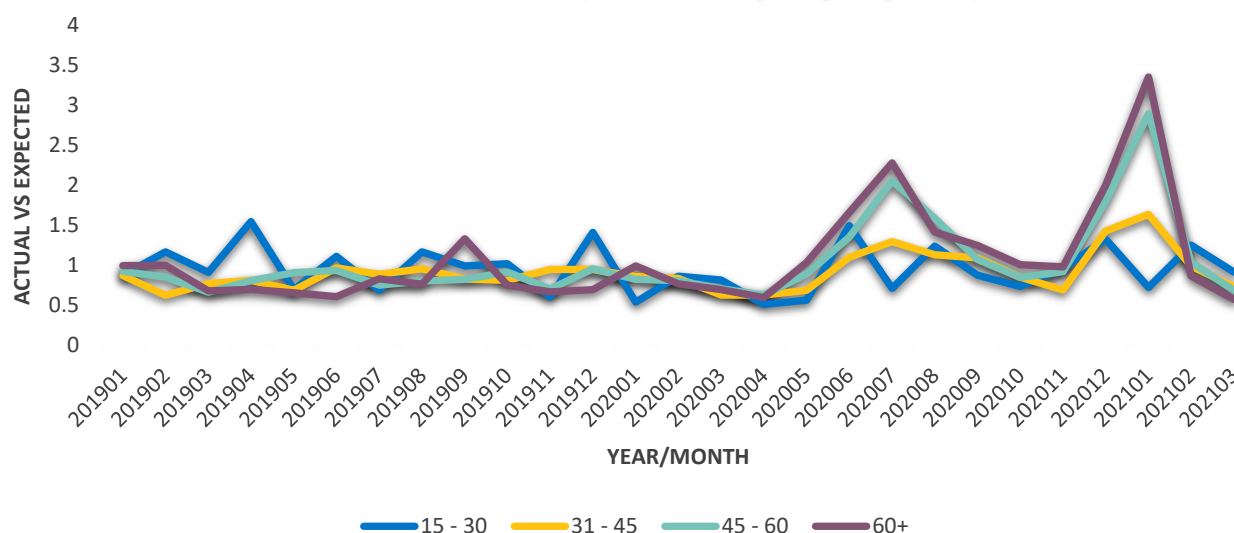
The graph above reflects South Africa's mortality experience as reported by the SAMRC and the Sanlam Group Risk mortality experience for the same period.



It is notable that the global “January peak” hugely exceeded any prior Covid-19 wave experience, which has been attributed to the prevalence of a mutated strain locally. In the 45 weeks from 3 May 2020 to 13 March 2021, South Africa recorded about 148 000 (35%) additional deaths with the majority of these being directly or indirectly attributable to Covid-19.

These excess deaths severely affected the insurance industry, with significant increases in both the volume and values of claims reported by all major insurers over this period. Sanlam, being one of the largest underwriters in the South African group risk market, experienced drastically increased excess mortality claims, with claim patterns that mirror the national experience.

## Deaths: Actual vs Expected by age groups



The graph above reflects the SGR multiple of claims relative to expected claims (i.e. a number equal to 1 means that the claims were exactly as expected, however, a number equal to 4 means that the claims were 4 times more than expected). It is evident that 15 – 30 year-olds had similar claim levels to pre-Covid periods, 30 – 45 year-olds had slightly elevated claims experience, and members older than 45 years of age experienced a significant increase in claim levels.

Older members typically hold more senior positions and earn higher salaries, which has resulted in higher claim values in addition to the higher claim numbers resulting from Covid-19.

### ⦿ Impact on the death benefit premiums

Although there is much uncertainty and many conflicting opinions around Covid-19 expectations, in South Africa the slow roll-out of the vaccine and uncertainty around the protection offered by population immunity against future mutations of the virus, has resulted in South Africans expecting at least one or two more waves before the mitigating effects of the vaccine and population immunity are realized.

SGR is constantly modelling these changing expectations in an attempt to project the level of claims for the next 12 months. Although the exact extent of the future impact is unknown, there is sufficient evidence based on the previous year's experience, and the various scenarios modelled, to support a substantial increase in mortality risk compared to years preceding Covid-19.

Sanlam has utilized some of its strong balance sheet and reserves to pay all valid claims during this crisis, however it is not sustainable for the business to continue absorbing excess claims from reserves alone, and it is therefore necessary to increase death benefit premiums to match the expected change in mortality risk.

Premium rate changes will be different for each scheme depending on the scheme's renewal date, size, membership profile and past claims experience. Sanlam is committed to the principles of Treating Customers Fairly, so as mortality risk returns to lower or normalised levels, so the death benefit premiums will be appropriately reduced at the next scheme renewal date.



⌚ **Impact on other benefits**

It is widely known that a poor economy has a negative impact on disability claims experience, and this together with the uncertainty over the impacts of long-Covid, raise concerns that there may be significant impacts on disability and critical illness risks in the near future. SGR is starting to see some signs of this, however it is still too early to establish the impact, and we are therefore monitoring the situation very closely to ensure that we are appropriately prepared.

Sanlam is resolute in enabling financial confidence for our clients through these challenging times. Built on over 100 years of institutional memory, our business is robust, with extensive experience and strong capital and reserves to ensure that we are fully capable of delivering on our commitments.