The factors affecting premium increases

Dear Intermediary

Thank you for your support in helping us realise and retain significant premium increases in a particularly challenging environment. We acknowledge and value all you do.

This communication sets out the reasons why the premium increases are necessary.

The past few years have been a period of immense economic hardship, which has adversely impacted countless households and businesses. To help alleviate this hardship experienced by so many, we implemented very low premium increases, provided premium relief, and relaxed many underwriting conditions. We also paid record levels of claims, making an invaluable difference to the lives of so many of our policyholders.

During this period, claims inflation continued to grow at levels much higher than premium increases. The higher costs of individual claims were, however, offset by a lower claims frequency, and we are pleased that the low premium increases effectively passed the benefit of the lower risk environment on to clients. But, due to a multitude of drivers, the risk environment and frequency of claims have changed significantly, regrettably resulting in the need to now implement the incremental premium increases.

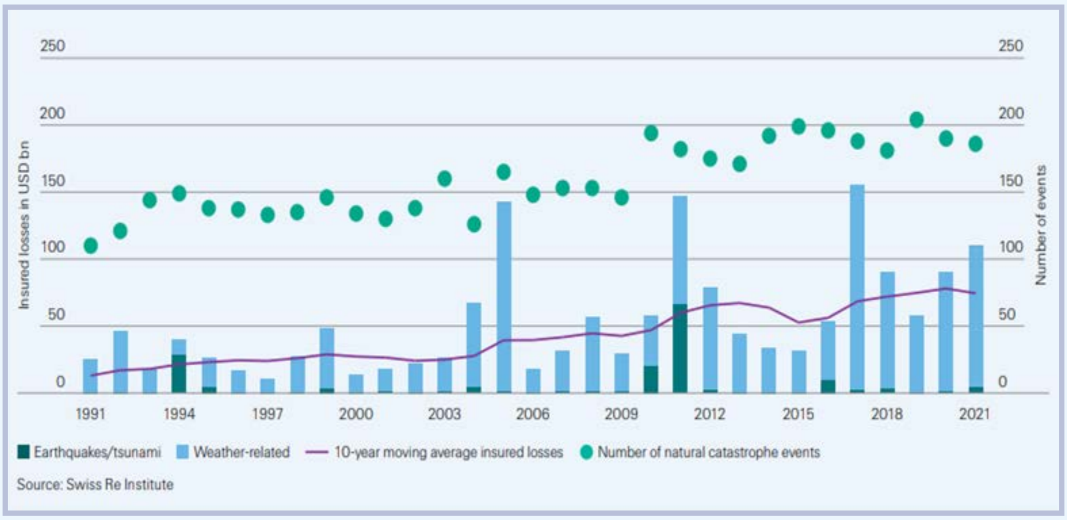
The factors driving the premium increases are set out below and we trust you will find these valuable in your engagements with clients. We remain absolutely committed to doing everything possible to ensure we keep increases to a minimum in the circumstances, to segment them to reflect the underlying risk, and to actively manage exceptions with you.

THE DRIVERS OF PREMIUM INCREASES

1. Climate change reality

An uncertain "new normal"

- Number of natural catastrophes increasing
- Costs growing – 10-year moving average increase of **5 – 7%** annually



Source: Swiss Re Institute

Drivers of the increase in catastrophe losses

- Increased frequency of catastrophic events caused by climate change
- Increased cost of catastrophic events caused by exposure accumulation due to economic and population growth and urbanisation
- Lack of risk and flood control measures

SA is not exempt

- Extreme weather claims in Q4 2021 and Q1 2022
- KZN floods in April and May 2022
- SASRIA looting claims in July 2021

2. Cybercrime, an emerging risk we cannot escape

- Internet users in South Africa to increase by 12% to 65% by 2030
- Digital channels to increase in demand
- Data to become an individual's and a business's greatest asset
- SA most affected country for cybercrime in Africa in 2021, with 230 million cyber-threat detections.

A challenging economic environment, both locally and internationally, further impacts the increase in baseline levels of risk. While economies move in cycles, current economic conditions create a perfect storm.

3. The SA economy under pressure

- CPI (7,8%) and PPI (18%) at 30-year record levels
- Rand devaluation greater than 20%
- Persistent load shedding
- Key supply chain disruptions

4. Fuelled by global factors

- Slowdown in global growth
- Surging inflation driven by food and energy scarcity
- War in Ukraine

The combined effect of increasing risk and challenging economic conditions has resulted in an unprecedented impact on insurance costs, reflected in substantial shifts in claims frequency, claims severity and average cost of claims.

5. Claims frequency incrementally higher than pandemic years, above 2019 levels

- Year-on-year increase in road traffic volumes
- Power surge claims
- Significantly higher rainfall

6. Severity a growing concern

- Spike in high-value vehicle theft
- Higher average speed collisions
- Decline in fire protection services
- Road and rail infrastructure declining
- Reduced compliance with building regulations
- Decline in storm water management infrastructure

7. Surge in average cost per claim

- Supply chain disruptions
- Increases in second-hand car values
- Extended average car-hire days
- Equivalent rand cost of imported car parts and imported electronics, plant and machinery
- Increase in fraudulent claims - syndicates as well as opportunistic inflation of claims

While systemic risk is growing, reinsurance capacity is decreasing as reinsurers seek to manage increasing volatility, global and local political uncertainty, presence of inflation and sanctions following the war in Ukraine.

8. Increased cost of reinsurance and reduced capacity

- Premium increases
- Higher attachment points
- Narrowing of cover
- Review of occurrence definitions

The significant increase in the complexity of risk necessitates the need for advice, the effective selection of cover to manage cost, and the management of risk. The purpose and value of insurance have never been more real or more valuable. The substantial challenges presented by an increasing risk environment form the foundation for providing incremental client value and realising the incremental growth of our intermediated insurance value proposition. We thank you for walking this road with us.