

SA short-term insurers' resilience pays off after years of big claim events

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South African short-term insurers' fortunes are improving following a challenging few years characterised by significant claim events, including the Covid pandemic, extreme natural disasters, and the 2021 KZN riots, all of which considerably impacted profitability.

However, the sector is seeing a turnaround thanks to companies' strategic initiatives aimed at risk reduction, premium increases, and larger insurance floats. The Stonehage Fleming Equity Prescient fund managers identified three companies that offer exposure to these evolving market dynamics, companies with strong capital positions that will enable them to navigate adverse claims environments effectively and deliver attractive and sustainable organic growth.

Santam

Santam has a resilient position in its core South African market. It has operated for over 100 years and has proven its ability to run a top-class short-term insurance operation. Santam has strong brand recognition and high service and customer satisfaction levels, as indicated in their results presentation. Key contributors to the Santam investment case are its traditionally strong balance sheet and conservative culture, which allow it to weather challenging periods and benefit as cycles turn.

Underwriting actions the group has been driving over the past 18 to 24 months (such as predictive analytics, geocoding and advanced technology scenario analysis) are starting to bear fruit, resulting in much improved underwriting margins. Lifting their premium base with better customer selection and underwriting will allow them to weather the volatility that may come through.

OUTsurance

OUTsurance participates in the direct motor and property insurance industry in South Africa, with its stake in Youi, which operates out of Australia. Youi's business also focuses on motor vehicle and property insurance and, more recently, its commercial lines of business. Indicative of the quality and competitive advantage of the business, OUTsurance SA's underwriting profit margins are regarded as among the highest in the world.

The direct model (as opposed to the broker model) pioneered by OUTsurance is more efficient at the point of sale (with no commission costs) and at the claims stage (direct to consumer). It also provides the company with better customer intelligence during quoting, enabling it to "beat any quote." OUTsurance's rewards model, the Outbonus, reduces the frequency of small claims, which often incur disproportionately high assessment costs.

Despite a competitive market, where externalities can have a material impact on short-term profits, OUTsurance has maintained market dominance in core segments while being innovative enough to achieve growth over and above the externalities. OUTsurance's new entry into the Irish market and long-term growth and diversification optionality are key strategic levers for the Group.

PSG Financial Services

PSG has developed sizable businesses in its wealth, asset management, and insurance divisions; however, its market share is under 5% in each segment. Consolidation is a prevalent theme across all three industry segments, with scale becoming progressively more important to remain competitive. This positions PSG advantageously as it plays a crucial role as a leading consolidator.

The PSG Insure business incorporates short-term insurance distribution and administration, holding 60% of Western National's shares, while Santam owns the remaining 40%. It is a highly profitable insurer focused on

commercial insurance. The advisory-led, complex commercial product offerings are sticky and enable the business to generate attractive margins.

Western National has established an impressive track record in underwriting, with margins consistently reported to be in double digits. The flat management structure and decentralised servicing model of Western National facilitate swift and effective decision-making, which is advantageous in the highly competitive short-term insurance market.

PSG Insure accounted for 37% of the PSG group's top-line revenue in the first half of the 2025 financial year and contributed 16% to recurring headline earnings.

The bottom line

Although South Africa's operating environment remains challenging, the reduction in load-shedding, a well-anchored inflation rate, interest rate cuts, and the establishment of the Government of National Unity have instilled optimism among businesses and market participants. We believe these well-capitalised insurers are in a strong position to effectively navigate adverse claims environments and deliver attractive and sustainable organic growth. Investors can access these and other best-in-class JSE-listed companies through the Stonehage Fleming Equity Prescient Fund.

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