

# Discovery Insure



## WHO WE ARE

**Discovery Insure is a provider of short-term vehicle and home insurance, insuring assets of R175 billion, including over 172 000 vehicles. Our innovative driver-behaviour programme, Vitality drive, encourages safer driving by measuring driver behaviour and rewarding good driving.**

Motor insurance currently represents the greatest segment of the Discovery Insure portfolio. The business also offers comprehensive building, household content and portable possessions insurance with unique safety benefits and quick, fair and efficient claims processing. During the year, significant progress was made with the development of a commercial insurance offering.

Since founding the business in 2011, data relating to driving behaviour has been gathered through our continually evolving telematics technology. This represents over 5.4 billion kilometres of data and forms the basis of our efforts to improve driver behaviour. We measure the frequency and severity of accidents based on driver performance and awareness as well as vehicle condition. Clients receive regular feedback and improved driver behaviour is rewarded.

Discovery Insure offers rewards of up to 50% of fuel and Johannesburg-based Gautrain travel costs in cash back. This enables clients to benefit from rewards that are underpinned by better driving behaviour, rather than price competition alone.

Telematics technology is also used to safeguard clients by alerting emergency services in the event of an accident and ensuring emergency support, where necessary. Similarly, in the case of a vehicle hijacking, call centres can detect abnormal driving patterns, based on recorded data. It can also alert owners to the potential theft of their vehicles. A vehicle panic button is also enabled on clients' smartphones.

Improvements in driver behaviour have a broader societal impact as it reduces both the human and economic cost of road accidents and fatalities.

# Performance highlights

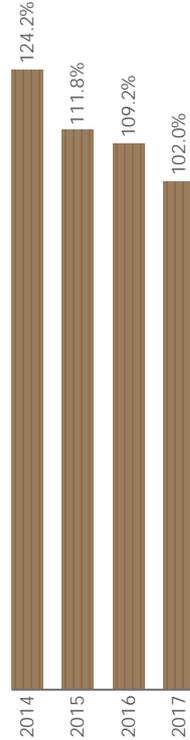
DISCOVERY INSURE SHOWED SIGNIFICANT GROWTH AND CONTINUED ITS STRONG PERFORMANCE BY ACHIEVING A CUMULATIVE PROFIT, FOR THE HALF-YEAR PERIOD FROM JANUARY TO JUNE 2017. NEW BUSINESS ANNUALISED PREMIUM INCOME INCREASED TO R895 MILLION (19% YEAR-ON-YEAR GROWTH). DRIVEN BY SIGNIFICANT SALES INCREASES ACROSS ALL INTERMEDIATED CHANNELS.

This has brought the in-force premium to just short of the R3 billion mark in the period under review. Improvements in expense efficiencies, loss ratio and driver behaviour moved the business towards profitability. Achieving monthly breakeven within the second half of the year is indicative of the rapid scaling of the business and support for mainstream adoption of telematics insurance by the market.

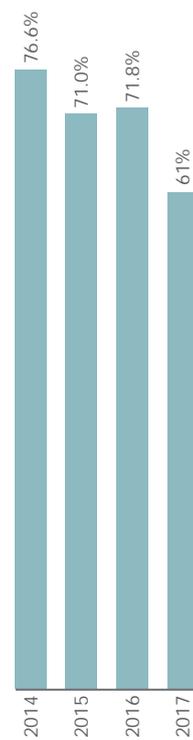
The combined ratio for the core personal lines business improved over the period to 102%, despite pressure on the loss ratio caused by catastrophe-level events taking place in the past six-month period. The loss ratio (including rewards) ended on 61%, with the expense ratio at 38%.

NEW BUSINESS ANNUALISED PREMIUM INCOME INCREASED TO **R895 million** (19% year-on-year growth)

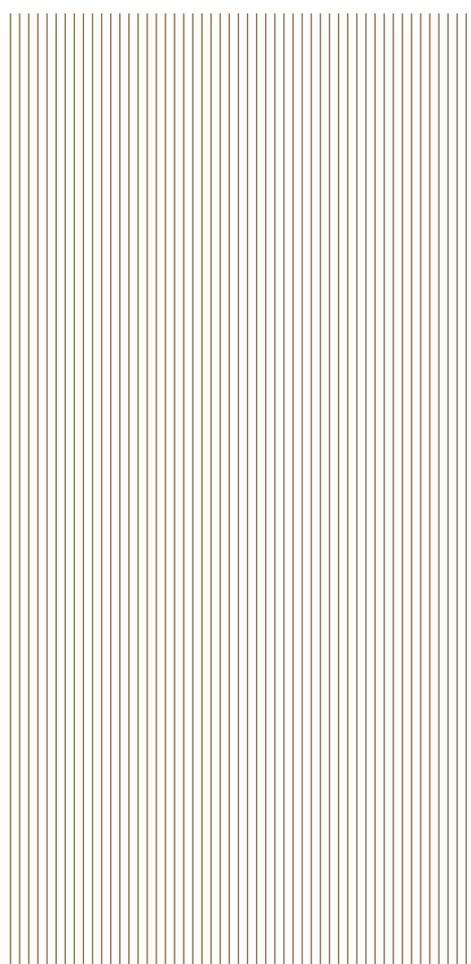
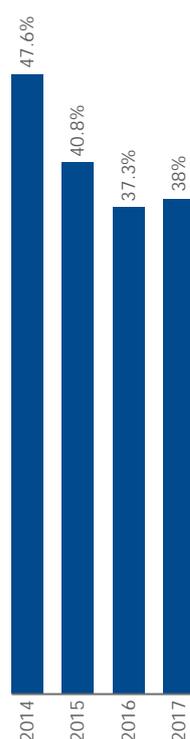
Combined ratio over time



Loss ratio (including rewards)



Combined expense ratio over time



## PARTNERSHIPS THAT PROMOTE NATIONAL AND GLOBAL ROAD SAFETY

Cambridge Mobile Telematics (CMT), our telematics partner, continued to roll out their Drivewell app, which is based on Discovery Insure technology. The Drivewell app is now available in 14 countries globally, and is helping to increase driver behaviour and road safety awareness.

### A WORLD FIRST IN THE CAR RENTAL INDUSTRY

During the period, Discovery Insure concluded a partnership with Avis to extend the reach of the Vitality drive programme on changing driver behaviour.

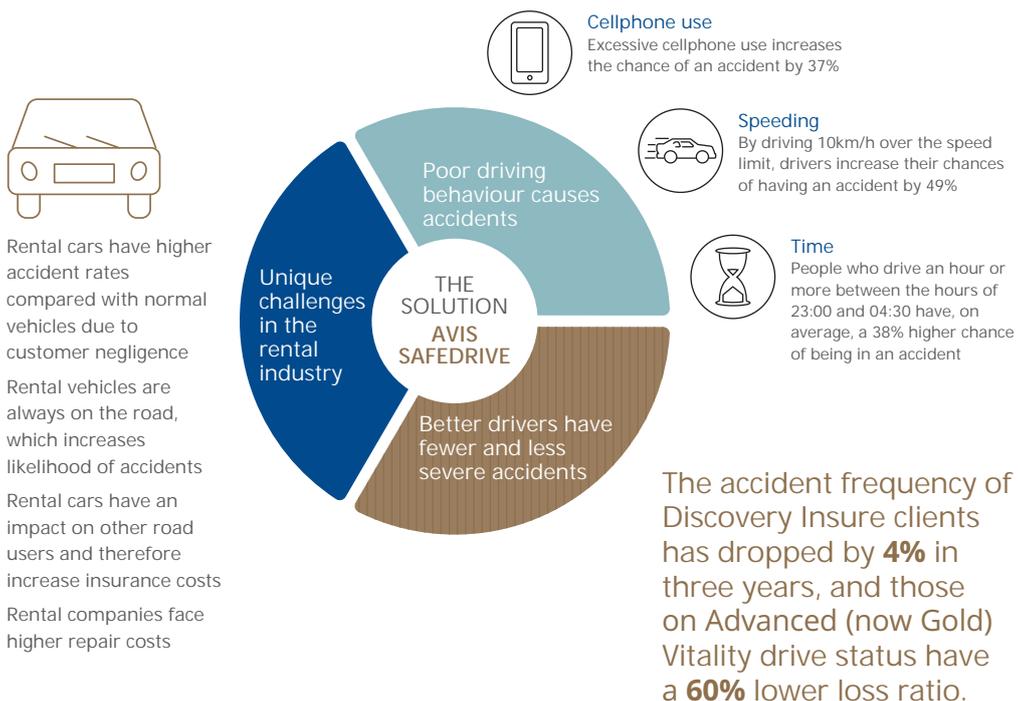
#### How it works

With the Vitality drive Sensor mounted on the windscreen of the rental car, clients can download the Avis SafeDrive app to view trip data and driving scores.

They receive daily rewards and other incentives for good driving. Included in this, is access to the compelling safety features of Discovery Insure, including ImpactAlert, a vehicle panic button, and it offers trauma counselling following a severe event.

This initiative is set to have a major bearing on the safety of our roads, particularly during busy travel seasons. The accident frequency of Discovery Insure clients has dropped by 4% in three years, and those on Advanced (now Gold) Vitality drive status have a 60% lower loss ratio. By rating and incentivising better driving behaviour in partnership with Avis SafeDrive, we hope to have a similar impact in this segment.

Innovation that solves real problems

# Material issues

This section outlines key issues and focus areas Discovery Insure managed during the year.

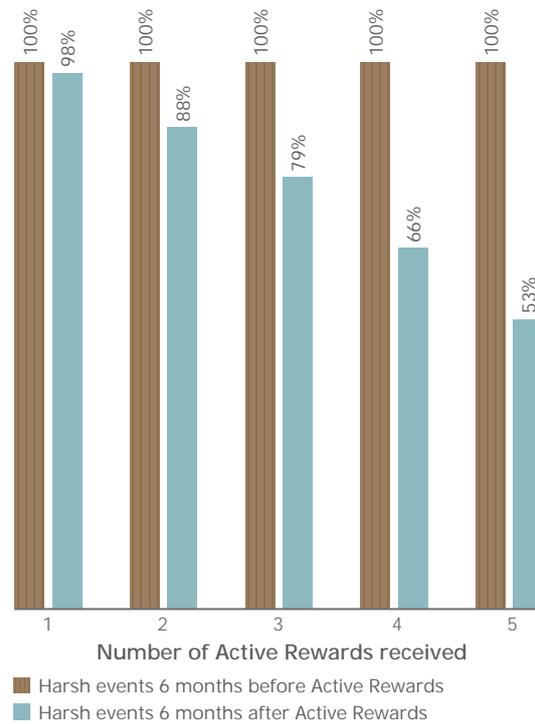
## 01 IMPROVING CLIENT ENGAGEMENT LEVELS

Client engagement has been a key focus area for us during the year. Effective client engagement has been shown to lead to better driving behaviour and lower claims rates. Vitality drive clients with higher engagement and Vitality drive status are also less likely to lapse and they improve the risk on the insurance book. Early-engagement campaigns during the year were successful in improving driving behaviour and participation among our clients. Some engagement campaigns involved giving new clients with good driving behaviour a fuel reward to encourage them to link and swipe their Vitality drive card when refuelling. This campaign was effective in reducing lapses and increasing engagement.

We also reminded clients to have their Annual MultiPoint check done for the period. In the first four months, the number of clients completing this check doubled. An SMS campaign over the period to increase awareness of bad driving behaviour also helped to engage clients, who showed an improvement in their driving behaviour over the course of the next three months. Following in-depth interviews with various stakeholders, including financial advisers, partners and employees, we updated our communication, welcome packs and training strategies for more effective client engagement and understanding of their cover and benefits.

Engagement in Vitality Active Rewards, as part of Vitality drive, improved overall driving behaviour by reducing the number of times clients brake harshly, take corners at high speeds, drive at night and use cellphones while driving.

Reduction in harsh events



## 02 MANAGING HIGH CLAIMS VOLUMES CAUSED BY EXTREME CONDITIONS

The period saw significant weather- and fire-related events, which led to a substantial number of claims across our client base. Extreme events included flooding in Gauteng, hail in KwaZulu-Natal, severe storms in Cape Town, and devastating fires in Knysna. During these events, we developed robust processes and systems to ensure we could efficiently manage a higher incidence of claims. These processes ensure we maintain exceptional service standards and help our clients to repair or replace their damaged possessions as soon as possible. Through structured reinsurance, operational efficiencies and the positive effects of our model, the impact of catastrophic events over the period on loss ratios was somewhat buffered.



*Case study*

# RAPID RESPONSE TO THE FIRES IN KNYSNA

## THE BIGGEST RESCUE OPERATION IN SOUTH AFRICA'S HISTORY:

- Over 20 suburbs were destroyed
- More than 440 properties were destroyed
- As many as 26 fires burned over an area of 300 kilometres
- More than 10 000 people were evacuated from the area

DISCOVERY INSURE WAS THE FIRST INSURER ON THE SCENE

DISCOVERY SET UP AN EMERGENCY OPERATION CENTRE WITH NETCARE 911 TO ASSIST ALL DISCOVERY CLIENTS

### Timeline from 7 to 12 June 2017



### Claims processing and service

Teams in the area assisted all Discovery Insure clients and were commended by clients from other insurers for their emergency assistance.	ASSESSMENT OF <b>96%</b> of all claims were completed within <b>72 hours</b>
THE FIRST CLAIM FOR TOTAL LOSS OF PROPERTY AND POSSESSIONS WAS SETTLED WITHIN <b>60 hours</b>	<b>70%</b> of all claims were paid within <b>40 days</b>
THE AVERAGE NON-MOTOR CLAIM WAS PROCESSED AND COMPLETED WITHIN <b>7.9 days</b>	THE LARGEST CLAIM PAID <b>R16.3 million</b>

#### What a Discovery Insure client said:

"From the moment you called, I felt that you understood what we were going through and had an understanding of my needs. The fact that my claim was sorted out within a day showed your exceptional service."

## 03 CONTINUED PRODUCT DEVELOPMENT

Discovery Insure is now in the top ten short-term insurance companies by market share and is the fastest-growing short-term insurer in South Africa to date. Through continued product diversification and increased client value, we have achieved growth of our insured assets to R175 billion. Significant work has been done to develop a distinctive commercial insurance offering, combining it with our shared-value model.

Our extensive data and analytics capabilities are powerful drivers of our strong performance. We continue to boost growth and client experience through innovative services and products, and the application of technology, data and analytics to create a fully digital customer journey. From the moment our clients join Discovery Insure, they can use digital applications and technology to access various safety features, store information, and submit and view the progress of claims. System integration with our partner network also ensures our clients can easily claim their discounts and rewards for good driver behaviour.

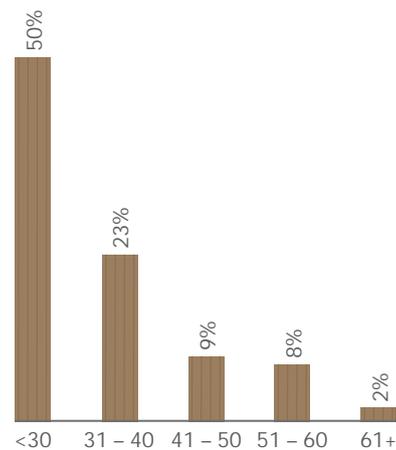
Discovery Insure continues to operate on a hybrid distribution model incorporating both direct and intermediated sales. The direct channel has developed into a significant base and the intermediated channel has grown significantly over the past two years. Both channels have proved critical in sustaining new business growth and the scaling of the business in a short space of time. We continue to invest in both segments to yield a strong and sustainable portfolio of clients.

During the year, Discovery Insure broadened access to reward partners and saw even greater engagement in earning fuel rewards with the inclusion of Shell in our partner network. Our fuel partners, BP and Shell, give clients greater opportunity to earn rewards, with one in every three filling stations in South Africa now partnering with Vitality drive.

Late-night driving is seven times more risky and young adults account for 50% of life insurance claims due to motor vehicle accidents. During the period, we have also increased rewards to address high-risk behaviour categories, such as driving at night, with an update to the Young Adult benefit (now known as Smart Insurance), which offers younger clients an upfront discount of 20% on their motor insurance premiums. These clients also receive a 25% discount on Uber when travelling at night. Alternatively, they pay for each kilometre of night driving based on their Vitality drive status.

These and other developments enable ongoing improvements in driver behaviour, vehicle recovery and client persistency.

Motor vehicle life claims by age



In line with our vision to create a nation of great drivers by rewarding good driving behaviour, our latest product updates focus on offering even better rewards for the very best drivers. Manifestations of this include the new Diamond status for clients who have been claim free for a year and have more than 1 000 Vitality drive points. These clients will have no increases on their comprehensive vehicle premium at policy anniversary and will get richer rewards. We will also refine our offers for particular segments across the age and income spectrum going forward. The new Purple Plan will replace our existing Executive Plan. The Purple Plan offers higher cover limits, greater flexibility and a tailored service experience.

## 04 MANAGING TOUGH ECONOMIC MARKET CONDITIONS

Despite difficult market conditions, we experienced a 17% year-on-year growth in net new business over the period. For us, the record sales numbers in this challenging environment signifies the value clients receive from our comprehensive cover and the savings from good driving behaviour. In current market conditions, clients not only become price sensitive but also rely on exceptional product value and services. Our Shared-Value Insurance model enables us to price risk accurately based on driver behaviour data so that clients receive premium discounts when lowering their risk for accidents or other events.

The vehicle insurance market is becoming increasingly digital. Our implementation of technology makes it possible to meet client expectation through fast claims assessments and payment decisions. Notably, the cost of telematics has decreased over the years as more of our clients use the app and sensor technology. Combined with this, our model of employing behavioural economics has continued to prove itself in a challenging environment through better upfront selection of risk, ongoing risk improvement through incentives, and the retention of good risk by improving the quality of the book over time.

Expanding our model and identifying other sectors where we can play a significant role to contain repair, and insurance- and accident-related costs through improved driver behaviour has been another focus area. This manifested in our partnership with Avis and the introduction of the Avis SmartDrive app.

A great contributor to insurance costs, often in challenging economic times, is the occurrence of insurance fraud. Our application of telematics technology and other digital assets across the business enables us to assess all claims against an algorithm that determines the possibility of a false claim being submitted. Our processes to prevent fraud have enabled Discovery Insure to save significantly in possible payments towards actual fraudulent claims submitted during the period. We also ensure sustainable growth and high-quality service through our crucial partnerships with various suppliers in the industry. Our remuneration agreements with partners across the industry incentivise fast, high-quality service and removes any inefficiencies or waste from the procurement cycle.

## 05 MANAGING REGULATORY DEVELOPMENTS

We actively worked with the South African regulator to monitor changes in our business environment to meet the requirements of the Solvency Assessment and Management (SAM) framework. Even though implementation of the SAM framework was postponed until July 2018, we have been running a comprehensive parallel framework during the past three years. We remain confident that our business will meet all requirements of the framework when it is implemented. In our experience of working within the SAM framework, it adds rigour and relevance to all the required capital management calculations.



### OUTLOOK

In the coming financial year, our key focus will be on applying our Shared-Value Insurance model to commercial insurance.

We will continue to invest in technology and developments to offer a fully digital and superior customer experience across the points where clients interact with us.

The personal lines business and its profitability will be a key part of our performance in the next year as the business continues to increase in scale and become more efficient.

We will continue to look for opportunities to extend the value of the Vitality drive model in the South African market and in our international markets through Vitality Group.