

Discovery Life



WHO WE ARE

Discovery Life provides individual and business clients with comprehensive life, capital disability, income protection, severe illness, funeral and other risk protection cover. The business now has more than 413 000 individual policyholders and approximately 500 000 Group Life policyholders.

We use data on clients' health, wellness and driving behaviour to dynamically underwrite client risk. This results in clients paying dynamic premiums that reflect the changing nature of their personal risk profiles, while Vitality engagement enables clients to manage their health and life insurance premiums over time. Premiums are offered at the lowest price at policy inception for healthy clients, with upfront discounts of up to 31% on the standard rate, and further financial incentives (Discovery Life PayBack) through client engagement in Vitality and improvements in health and driving behaviour.

Over time, providing incentives to promote healthy lifestyles and good driving behaviour has resulted in a significantly positive change in the underlying health of the risk pool and policy persistency of clients insured by Discovery Life. Improved health, as reflected through higher Vitality statuses, has a correlating positive impact on claims, while the rewards incentivising this behaviour also result in lower lapses as clients perceive more value in their product.

Discovery Life plays a key role in Discovery's portfolio of businesses, generating significant financial value, and building a platform for the development of a growing network of financial advisers.

Performance highlights

DISCOVERY LIFE DELIVERED A STRONG PERFORMANCE IN GROWTH AND PROFIT.

Discovery Life delivered a strong performance in growth and profit. Earnings increased by 10% to R3 588 million under challenging economic conditions. The value of in-force (VIF) for individual lives increased by 12% to R16 851 million from 2016. Discovery Life remains well-capitalised and generated over R3.16 billion in cash from the total existing book. This cash flow was largely utilised to continue funding further growth of the Discovery Life and Discovery Invest businesses through new product innovation and new business acquisition.

New business grew by 17% (API including servicing and ACIs) to R2 175 million, compared with the same period in the year before. Group Risk new business performed well, increasing by 96%, supported by the acquisition of a single large employer group, which had a material positive impact on this result. Individual new business increased by 12% to R1 970 million. New business margin for individual life business also grew by 8.8% to 11.2% for the period.

The new business market share in the affluent insurance segment (intermediated) grew from 28.8% in the previous period to 29.7% (NMG Life Insurance New Sales report first quarter 2017). Discovery Life is now significantly ahead in this segment in new business market share, and has the largest sum assured in the affluent life insurance segment.

EARNINGS
 $\Delta 10\%$

TO R3 588 MILLION

under challenging economic conditions

GROUP RISK NEW BUSINESS

$\Delta 96\%$

supported by the acquisition of a single large employer group, which had a material positive impact on this result.

INDIVIDUAL NEW BUSINESS

$\Delta 12\%$

TO R1 970 MILLION

NEW BUSINESS MARGIN FOR INDIVIDUAL LIFE

$\Delta 8.8\%$

TO 11.2% FOR THE PERIOD

NEW BUSINESS MARKET SHARE IN THE AFFLUENT INSURANCE SEGMENT (INTERMEDIATED) GREW FROM 28.8% TO

$29.7\%*$

* NMG Life Insurance New Sales report Q1 2017.



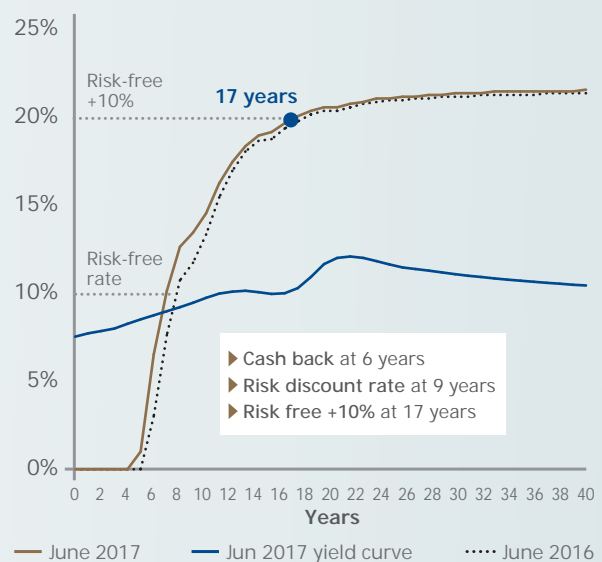
Return on capital profile over time

The internal rate of return (IRR) of new business exceeds the targeted return of risk-free +10%.

Higher-than-expected claims were experienced in the period under review. However, long-term claims continue to remain below the embedded value expectation.

The graph below illustrates Discovery Life's return on capital over time.

Life and Invest December 2016 internal rate of return



Material issues

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

01 PRODUCT INNOVATION TO OFFER VALUE IN CHALLENGING MARKET CONDITIONS

Discovery Life places a high emphasis on product innovation. This strategy aims to achieve a more precise approach to segmenting clients, meeting their unique needs, and stratifying risk. This results in the development of customised clinical pathways for individual clients who are at risk due to non-communicable diseases, while also offering value to healthy clients through unique lifestyle rewards and financial incentives. This approach has manifested in market-leading new business, and mortality and persistency metrics that deliver superior, sustainable margins and value of new business (VNB) over the long term.

New products that expanded revenue streams and improved the margin were introduced during the current period, including:

- An enhanced Severe Illness Benefit to meet the needs of patients with a relapse in illness, especially cancer.
- The implementation of Vitality Rating, which gives clients a premium discount upfront or during the policy term based on their key health metrics (done during a Vitality Health Check). This offers the lowest-cost entry point in the market for healthy clients on a fully reinsured proprietary basis.
- The Managed Care Integrator, which offers clients with health risks, pathways and guidelines for improved health management that enable them to reach standard rates for life cover and severe illness cover based on their engagement and health management.
- Medicals on Demand, which reduces the activation time by up to 75% for applications through real-time scheduling of medical underwriting appointments in a fully digitised client journey.

To maintain the momentum of new-business growth, a suite of products addressing specific life-stage needs within the retail affluent space was launched after the financial year end. The suite includes:

- **The Smart Life Plan:** A tailored product for young professionals, at a competitive rate (from R100 a month), which includes comprehensive income protection, funeral cover for family members and premium PayBack.
- **The Global Education Protector:** Protects children's education funding, while using the surplus generated by Vitality engagement to fund their tertiary education.
- **The Purple Life Plan:** Offers unique protection for high-net-worth clients.


02 CONTINUED DEVELOPMENT OF THE SHARED-VALUE APPROACH AND INTEGRATION

The Vitality Shared-Value Insurance model continued to deliver encouraging results, both for Discovery Life and its policyholders. The impact of Discovery Life's incentives for healthy lifestyle behaviours and outcomes have translated into exceptional levels of engagement in Vitality.

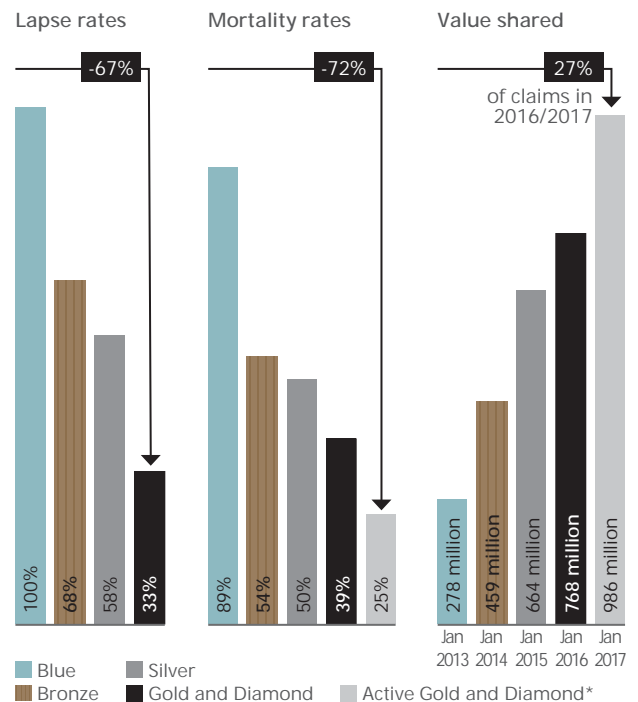
This engagement in Vitality has positively influenced the Discovery Life claims and lapse rates over time, with lapses at 83.6% (lower than the expected lapse rate) of the embedded value expectation, despite the challenging current economic climate.

Lapse rates for Vitality members on Gold and Diamond Vitality status are 67% lower than for those policyholders who do not engage with Vitality, while mortality risk is 72% lower for Vitality members on Gold and Diamond Vitality status who are physically active at least twice a week.

Policyholders benefited from Life PayBack benefits equivalent to 27% of individual premiums with R986 million in PayBack being paid to policyholders in the financial year. This highlights the value derived by healthier clients and the benefits of the Shared-Value Insurance model to both the insurer and policyholders.

 Read the Vitality Business Review on **page 34**.

Shared-Value Insurance model



* Active = physically active >2 times per week (2008 – 2015 mortality data).

03 REGULATORY AND COMPLIANCE REQUIREMENTS

We indicated in last year's integrated annual report that we were well-advanced in preparing the business for the new Solvency Assessment and Management (SAM) framework, as well as the outcome of the Retail Distribution Review (RDR).

The RDR process continues and Discovery Life is an active participant in engagement between the industry and the Financial Services Board.

The SAM implementation was postponed to July 2018. Discovery Life has engaged with the regulator and will be ready to implement the required changes when the framework is finalised.

We are in the process of ensuring compliance with the Anti-Money Laundering Act by the due date of 1 October 2017.

The effective implementation date for IFRS17: Insurance contracts has been confirmed for reporting periods beginning on or after 1 January 2021. This implementation will affect Discovery Life's reporting for the financial year ending June 2022. We are assessing the potential impact of IFRS17: Insurance contracts and have started specific initiatives to ensure complete compliance with the reporting requirements by the implementation date.



OUTLOOK

Discovery Life is well-capitalised and has taken steps to mitigate the direct impact of the sovereign credit rating downgrade during the year under review. The Capital Adequacy Ratio was at 3.9 at the end of June 2017, and management will continue to monitor the impact of current market conditions on the business to effectively manage possible impacts going forward.

During the coming year, we will focus on the following areas:

- Growing our market share through increased investment in product innovation.
- Growing Discovery Life's distribution channels.
- Exercising prudent financial management.