



FACT SHEET

DISCOVERY INSURE



Discovery Insure provides personal and commercial short-term insurance. Motor insurance currently represents the greatest segment of our portfolio. We also offer comprehensive building, household content and portable possessions insurance with fair and efficient claims processing. During the year, we launched the commercial insurance business. It is based on Discovery Insure's philosophy of using the latest technology to cover clients against modern and emerging insurance risks.

Discovery Insure's innovative driver-behaviour programme, Vitality Drive, encourages safer driving behaviour and rewards good driving. Since founding the business in 2011, data relating to driving behaviour has been gathered through our continually evolving telematics technology. Clients receive regular feedback and rewards for their improved driving behaviour.

Key data in our business

8 billion kilometres
of driving data gathered since 2011

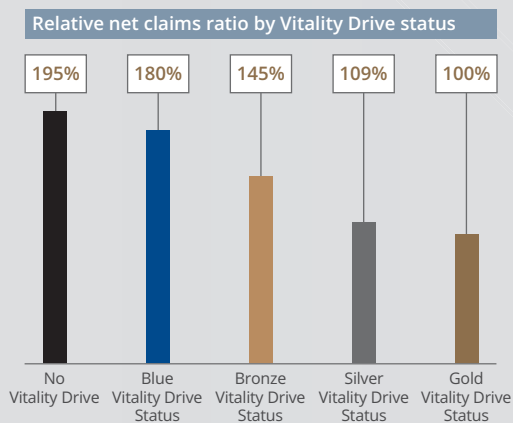
828 000 kilometres
of free Uber rewards over four years, equivalent to 40 trips around the world

R550 million in fuel cash back over seven years

MORE THAN R5 billion in claims settled over seven years

500 000 Active Rewards claimed over three years

The net claims ratio of clients who are not on Vitality Drive is 95% higher than that of Gold status clients.



DURING THE YEAR, WE BUILT ON OUR MODEL BY INTRODUCING SHARED-VALUE COMMERCIAL INSURANCE

In the first month of operation, we received just over

700 unique quote requests

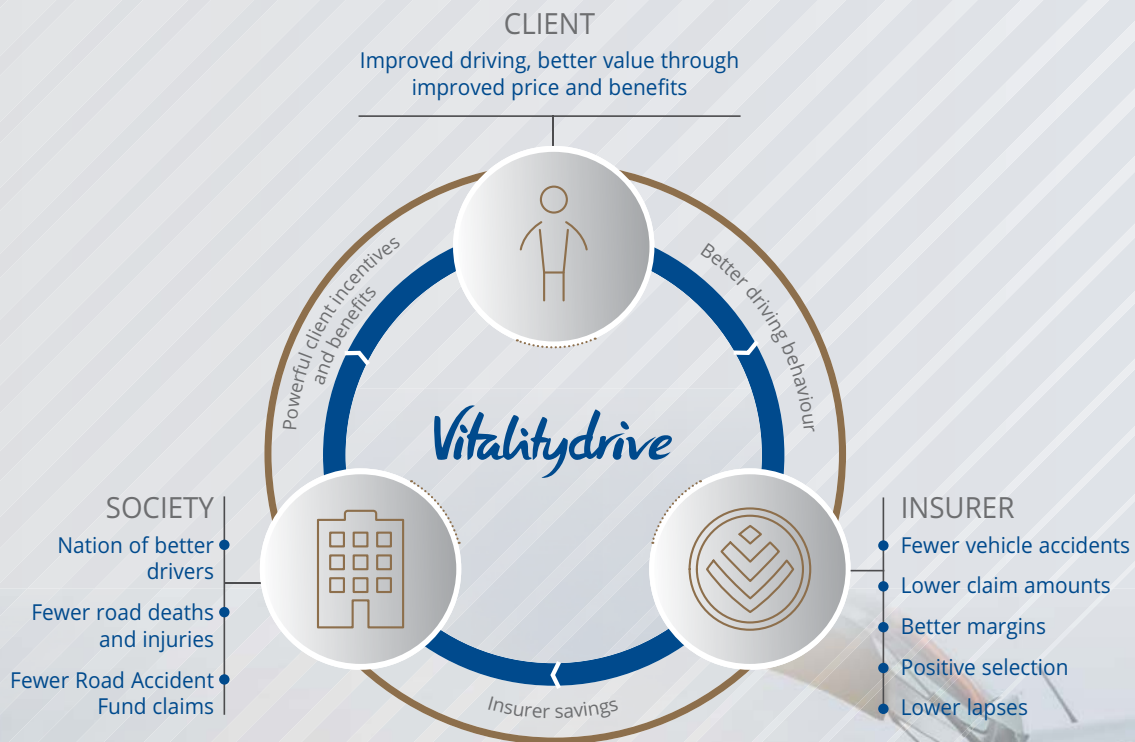
How shared value is implemented in Discovery Insure

Our ambition is to create a nation of great drivers by using our Shared-Value Insurance model. The model is differentiated in the market through offering a competitive premium and using telematics to retrospectively reward good driving. Telematics data is also used to safeguard clients by alerting emergency services of an accident or abnormal driving patterns, and sending emergency support where necessary.

This model works through:

- Improving the driving **behaviour** of clients who are engaging with Vitality Drive, with an average improvement of 17% in driving behaviour over one month.
- Experiencing 40% lower **lapses** for good drivers compared with those who are not.

These factors result in a 25% lower absolute loss ratio of clients who remain on our books compared with those who leave. This also results in a 17% lower loss ratio of our matured book compared with our top four comparable personal lines short-term insurance competitors.

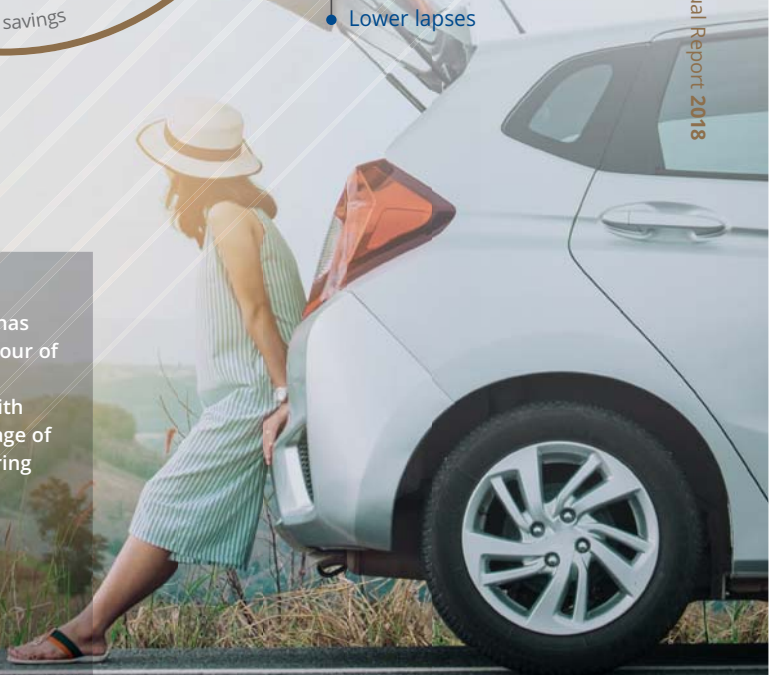


MAKING OUR ROADS SAFER

As part of creating a nation of great drivers, Discovery has partnered with ChildSafe to improve the driving behaviour of child-transporters. We recognise the best driver for the month and the best driver of the year. By competing with each other, the child transporters have shown an average of 10% improvement in their acceleration, braking, cornering and speeding scores over three years.



Read more about this initiative in our Sustainable Development report on our website, www.discovery.co.za.





DISCOVERY INSURE

OPERATIONAL REVIEW



BUSINESS REVIEWS

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Discovery Integrated Annual Report 2018

2018 performance

R2.7 billion
(excl. VAT) in gross premium income

R55 million
profit for the personal lines business

↑ 228%
year on year

The maiden full-year profit was

R68 million

(Including Cambridge Mobile Telematics)

R1.05 billion
(excl. VAT) new business API –

↑ 17%
year on year

Covers approximately

200 000
vehicles

R213 billion
in assets covered

R39 million
invested in setting up the commercial insurance business offering

Our strategy and differentiators

Since founding the business in 2011, data relating to driving behaviour has been gathered through our continually evolving telematics technology. We offer competitive premiums, telematics and unique rewards for good driving behaviour.

This has resulted in the selection of better risk and behaviour change in our client base. We have seen a significant improvement in driver scores, lower claims frequency, accident severity and selective lapsation. Our technology offering includes a number of safety features and regular rewards also continue to drive improved behaviour and create client loyalty.

Digital innovation is at the core of our business and we continue to develop new offers and integrate technology into our business to improve the client experience. These factors result in a low loss ratio and appealing value of new business. Our product and strategy also resonate well with financial advisers and tied agents because of the rich benefits.

During the year, we extended our model into the commercial and fleet insurance market.

We are also pursuing a strategy of expanding internationally, and to this end, partnered with Cambridge Mobile Telematics (CMT) who are leaders in smartphone telematics. The work we do with CMT continues to add value to both our businesses.





The key issues that impacted our business this year

1

Ensuring continued improvement in client engagement

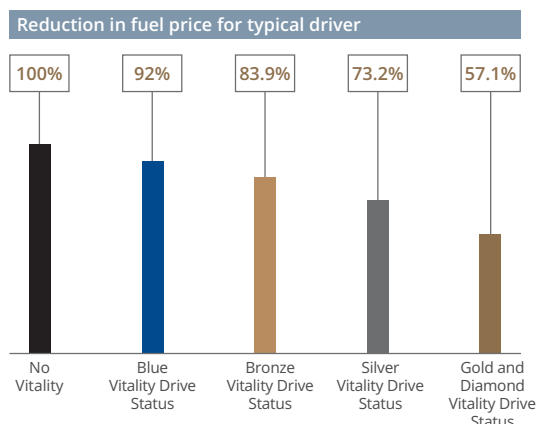
Engagement has been identified as a significant lever to improve lapse rates. A segmental analysis of clients (based on engagement levels) was completed and we developed a strategy in response. As phoning clients has been the most successful method of getting them engaged, a call centre was established that contacts clients who have a good driving score but are not receiving the fuel cash back. So far, results from these initiatives have shown a 17% improvement in driving behaviour of clients who started engaging in Vitality Drive. We will use the performance of existing campaigns to determine additional engagement initiatives.

2

Operating in tough market conditions

We are currently operating in tough market conditions in South Africa. Pleasingly, even in these conditions, we have seen 17% year-on-year growth in new business.

One development that poses a threat to affordability of insurance has been the fact that the South African driver has experienced several fuel price increases between 1 July 2017 and 30 June 2018. Our Vitality Drive fuel cash back has protected our clients from the full effects of these fuel increases.

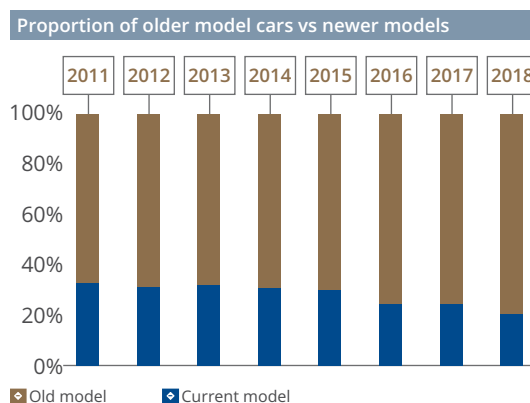


The effect of cash back on fuel cost for a Discovery Insure client who:

- Has car and home contents cover
- Had their car inspected at Tiger Wheel & Tyre
- Has a car with a 60 litre fuel tank; and
- Fills up twice a month.

The fuel price used of R15.54 per litre was the price of 93 octane petrol in June 2018.

During challenging times, people tend to cancel or lapse their insurance policies because they don't see insurance as an essential product. Although our lapse rates have remained stable due to our appealing product, we have seen that clients tend to keep their existing cars for longer. Below is a graph showing how the proportion of older model cars has been increasing over time.



Continued product improvement

During the year, a key progression was the launch of our commercial insurance offering. The primary industries covered are manufacturing, business and personal services, retail and wholesale trades, construction and associated risks, transport, storage and communication risks.

In addition to a best-of-breed core insurance product, innovations such as cyber insurance, cover for crisis and reputational issues, and enhanced cover for business interruption will play a part in disrupting what has been a fairly stagnant industry. This offering also includes Vitality Drive to provide a comprehensive fleet management platform and safety features for small, medium and large businesses.

We have appointed critical skills in the areas of pricing, underwriting, risk management, operations and distribution to ensure the successful implementation of commercial insurance.

In addition, we continued to enhance our core product and Vitality Drive. For example, we introduced HomeSafe, which allows clients to alert family when they are travelling. We have also successfully implemented CrowdSearch Stolen Vehicle Recovery. This does not only involve the recovery of vehicles, but also allows for perpetrators to be arrested using Discovery's unique assets.

OUTLOOK

Looking ahead, we aim to:

- Grow our international business with CMT.
- Invest further in technology to enhance the digitisation of our client on-boarding and ongoing servicing. We expect to have a higher expense ratio than the market average, as the rest of the market is not investing as much in technology.
- Manage our expense ratio to be below 30% over the next two years. We expect the business to continue to grow with a reduction in the loss ratio.
- Target new business API market share of between 10% and 15% in the next financial year by continuing to leverage our Shared-Value Insurance model and Vitality Drive.
- Focus on growing Discovery Insure for Business, our newly-launched commercial insurance offering.



INVESTOR Q&A

Q What is your market share? Given your rapid growth since launch, what growth can be expected going forward and how will you achieve this?

A We estimate our market share by gross written premium to be 5% of the personal lines short-term insurance market in South Africa, and we are targeting new business API market share of between 10% and 15% in the next financial year. Over the next two years, we expect the business to continue to grow with a reduction in the loss ratio.

Q Provide more details on the Business Insurance rationale and the product offering.

A Please refer to point 3 (on this page) under key issues that impacted our business during the year.

Q Do you have plans to expand internationally?

A We are pursuing a strategy of expanding into international markets. We have partnered with CMT who are leaders in smartphone telematics.