



# FACT SHEET

# DISCOVERY LIFE



Discovery Life has been a pioneer in applying the Group's Shared-Value Insurance model. The business provides individual and business clients with comprehensive life, capital disability, income protection, severe illness, funeral and other risk protection cover. By integrating Vitality with life insurance, Discovery Life clients pay more accurate premiums that reflect the dynamic nature of their health and their risk profiles. Clients improve their health and other risks, which positively affect lapse and claims rates for Discovery Life. The business now has more than 420 000 individual policyholders and over 500 000 Group Life policyholders.

## Key data in our business

**DISCOVERY LIFE IS SOUTH AFRICA'S largest pure risk writer in the intermediary channel**

**DISCOVERY LIFE WAS THE first South African insurer to separate risk from investment, which led significant changes in the industry**

**IT HAS A 31% new business market share of the South African protection market**  
(intermediated retail affluent)

**IN THE PAST FINANCIAL YEAR, DISCOVERY LIFE HAD AN OPERATING PROFIT OF**

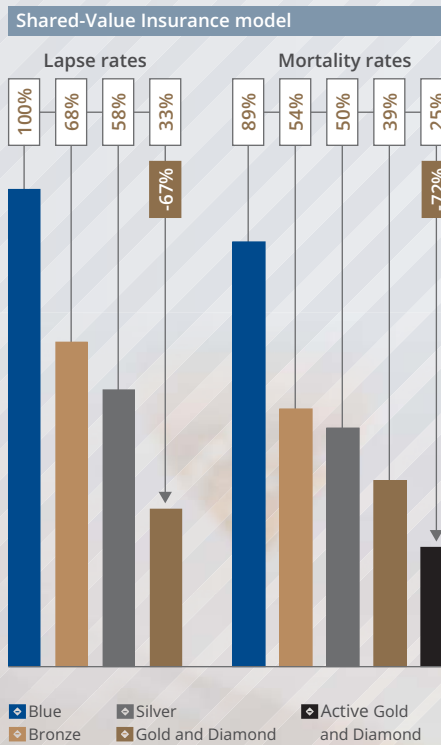
**R3 837 million**



## How shared value is implemented in Discovery Life

Discovery Life addresses the problem of underinsurance and helps clients lower their morbidity and mortality through its Shared-Value Insurance model and unique product range. The impact of Discovery Life's incentives for healthy lifestyle behaviour and outcomes have translated into exceptional levels of engagement in Vitality. This engagement has positively influenced the Discovery Life claims and lapse rates over time, despite the challenging economic climate.

Lapse rates for Vitality members on Gold and Diamond Vitality status are as much as 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.



**DURING THE YEAR,  
DISCOVERY LIFE HAS PAID  
R973 million**  
to clients who have engaged  
in Vitality and managed their  
health and insurance risks

This highlights the value derived by healthier clients and the benefits of the Shared-Value Insurance model to both the insurer and policyholders.



DISCOVERY LIFE

# OPERATIONAL REVIEW



BUSINESS REVIEWS

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Discovery Integrated Annual Report 2018

## 2018 performance

Over the period, Discovery Life continued to utilise the Shared-Value Insurance model to maintain its market-leading position

New business API increased to

R2 188 million

Earnings

↑ 7%

to R3 837 million, benefiting from a strong second half of the financial year

New business market share

↑ 31%<sup>1</sup> in the retail affluent protection segment while the value of individual life new business margin grew by 8%, reflecting a continued focus on quality of new business

Discovery Life remains well capitalised at

3.5x capital adequacy ratio (CAR) cover and generated cash of

R3 519 million (including Discovery Invest) from the in-force book over the period

The majority of this was invested in profitable new business growth, ending in a net cash generation of

R539 million

<sup>1</sup> NMG Life Insurance New Sales Report Q2 2018.

# Our strategy and differentiators

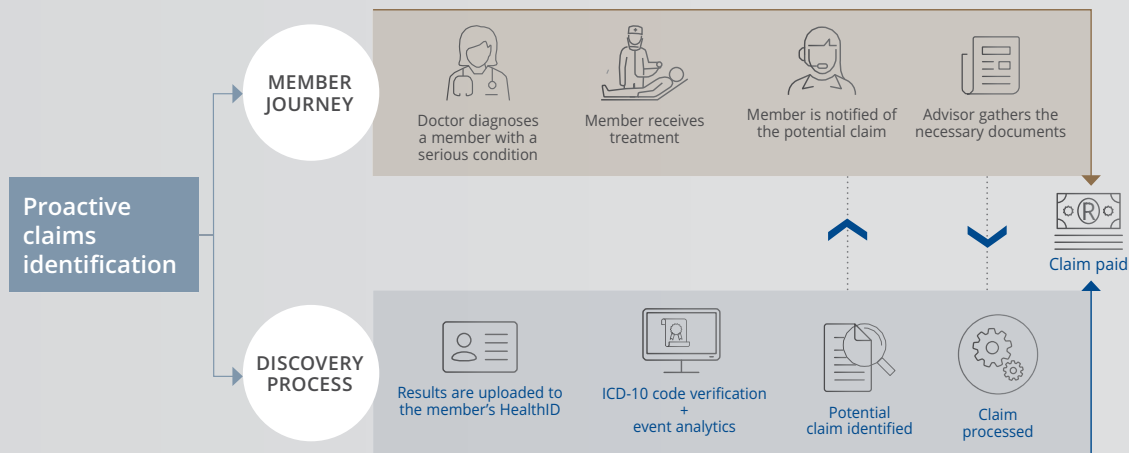
## PRODUCT INNOVATION

Discovery Life has a deep focus on innovation. The research and development team adheres to a six-monthly launch cycle to maintain momentum and ensure continuous product development. The focus on constant innovation is evident in a simultaneous growth in market share and VNB margin. The September 2017 product launch focused on creating a tailored product offering to each client segment, which was well received. The Global Education Protector, focused on young families, was ranked as one of the most innovative life insurance products globally in June 2018<sup>2</sup>; the new Purple Life plan offering bespoke benefits to high-net-worth-individuals resulted in a 23% increase in policies over R10 million, and the launch of the Smart plan for under-30-year-olds saw a 16% increase in policies sold to this segment.

## ADVANCED ANALYTICS AND ARTIFICIAL INTELLIGENCE

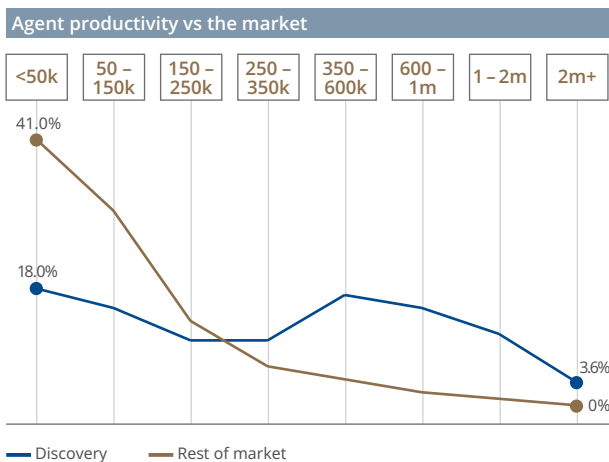
Discovery Life continues to invest in advanced analytics to improve the client experience and better understand and incentivise healthy behaviour. Client health data is used to dynamically underwrite clients, offering up to 30% lower premiums at inception. Clinical data is also used to help policyholders with chronic health conditions to manage their health and reduce their premiums over time.

Discovery Life also proactively identifies potential claims where clients are DHMS members and have given consent through integration. During the year, many claims were paid to policyholders through this proactive process. In addition, to also manage risk, a proprietary fraud identification system has been developed that uses a combination of internal and external data to identify potentially fraudulent claims.



## WORLD-CLASS DISTRIBUTION FORCE

A cornerstone of our strategy is to attract high-calibre financial advisers in all channels capable of meeting the requirements of our clients in the retail-affluent segment. Discovery Life's advisers are on average 3.8 times more productive<sup>3</sup> than the market average, driven by the high distribution of highly productive advisers when compared to the market. Discovery Life continues to invest in its tied adviser force – the Discovery Financial Academy recruits university graduates and develops them into world-class Discovery Financial Advisers. There are currently 111 financial advisers in training.



<sup>2</sup> EFMA Accenture Global Innovation in Insurance Awards, Paris 2018.  
<sup>3</sup> NMG Q1 2017 retail affluent market share report.



# The key issues that impacted our business this year

1

## Claims volatility

The higher-than-expected claims experience for the six months to 31 December 2017 was mainly due to suicides occurring in October and November 2017. Suicides accounted for 16% of claims in the first half of the year compared with 7% for 2016/17. The claims experience normalised in the second half of the financial year, resulting in actual claims being 99% of our actual expectation for the full year.

To manage the long-term claims experience, we have also made good progress in embedding fraud detection models in our claims management process.

Against the high claims experience, the business delivered a positive lapse experience variance, with policy lapses at 84% of our expectation. This again proves the value of our Shared-Value Insurance model and integration with the rest of Discovery's products.

2

## Negative policy alterations experience

A growing net negative variance on policy alterations was observed. An initial set of actions was taken in the previous financial year, and a more comprehensive set of actions was implemented in the first half of the current financial year. These interventions ranged from systems and process changes to improved risk rating practices. As a result of these management interventions, Discovery Life experienced a positive variance on policy alterations for the second half of the financial year.

Although the results for the second half of the financial year were encouraging, there was still uncertainty, with management expecting a smaller negative variance to remain. For this reason, in addition to the management interventions, a change in assumption was also implemented to explicitly allow for the impact of policy reductions in the long-term assumptions.

3

## Regulatory and compliance requirements

A number of regulatory requirements came into effect during the financial period:

- The new Fit and Proper requirements for financial services providers were published in December 2017. Discovery has updated its product training courses and invested in a strong digital capability to ensure financial advisers meet the new requirements.
- The SAM framework is in effect from 1 July 2018. The implementation of SAM in 2018/19 is expected to release significant capital from Discovery Life, resulting in lower assets being held with lower associated investment income and improved return on capital.
- Discovery Life has a well-defined project plan in place to meet the implementation date for *IFRS17: Insurance Contracts*.



## OUTLOOK

**Discovery Life has performed strongly over the financial period and has largely met its goals in terms of Ambition 2018. In the coming year, we will finalise the strategy for the next five years and focus on:**

- Growing market share through a continued focus on product innovation and our distribution channels.
- Improving operational efficiency through automation and increased use of advanced analytics.

### INVESTOR Q&A

**Q How will you grow market share in what has been a relatively stagnant market?**

**A** Discovery Life has consistently grown its market share over the years. New business market share increased to 31% (retail affluent market).

The business consistently launches new products and leads innovation in the insurance industry. The Global Education Protector saw a 135% increase in take-up following this innovation to increase access to tertiary education by monetising policyholders' health. Similarly, with the launch of Purple Plan, there was a 23% increase in the number of policies sold with a value over R10 million.

**Q How does the SAM framework affect your business?**

**A** Please refer to regulatory and compliance requirements under key issues.

**Q Please explain negative experience variances and how these are being mitigated?**

**A** Please refer to negative policy alterations experience under key issues.



Read Discovery Life and Discovery Invest Experience variances on [www.discovery.co.za](http://www.discovery.co.za) under Investor relations.



We have placed additional technical information about our accounting policies, cash-flow generation and our application of cashless FinRe on [www.discovery.co.za](http://www.discovery.co.za) under Investor relations.