

SWAZILAND ROYAL INSURANCE CORPORATION

***Financial Highlights for the Year Ended 31 December 2014***

**Short-Term Insurance Business Movements**

Gross Written Premium (GWP)	↑	6.83%
Investment Income short-term funds	↓	14.09%
Net Earned Premium (NEP)	↑	13.07%
Underwriting Profit	↑	19.18%

	2014	2013	2012	2011	2010
	<b>E000</b>	<b>E000</b>	<b>E000</b>	<b>E000</b>	<b>E000</b>
Gross Written Premium	394 410	369 180	322 065	320 241	324 766
Net Earned Premium	267 045	236 179	226 102	222 163	226 589
Claims net of reinsurance	83 697	67 103	90 776	91 753	99 698
<b>Underwriting profit</b>	<b>111 132</b>	<b>93 246</b>	<b>67 752</b>	<b>68 470</b>	<b>71 937</b>
Investment income	26 851	31 254	48 565	27 426	47 177
Expenses of management	53 449	52 862	46 945	42 065	40 274
<b>Profit before taxation</b>	<b>137 983</b>	<b>124 500</b>	<b>116 317</b>	<b>95 896</b>	<b>119 113</b>
Taxation	(37 066)	(30 038)	(35 036)	(28 919)	(35 848)
<b>Net income after taxation</b>	<b><u>100</u></b>	<b><u>94</u></b>	<b><u>81</u></b>	<b><u>66</u></b>	<b><u>83</u></b>
	<b><u>917</u></b>	<b><u>462</u></b>	<b><u>281</u></b>	<b><u>977</u></b>	<b><u>265</u></b>
Dividend short-term business	87 000	140 000	90 000	149 000	41 500

***Long-Term Assurance Business Movements (Life and Pension)***

	2014	2013	2012	2011	2010
	<b>E000</b>	<b>E000</b>	<b>E000</b>	<b>E000</b>	<b>E000</b>
Gross premium- Risk Products	166 514	139 546	122 228	131 638	89 673
Gross premium-Investment Products	34 319	27 699	19 235	22 173	19 540
Net earned (Risk & Investment)	200 833	167 245	141 463	153 811	109 212
<b>Investment income</b>	<b>108 678</b>	<b>109 960</b>	<b>159 005</b>	<b>81 426</b>	<b>114 478</b>
Expenses of management	32 062	28 730	24 848	21 589	20 313
<b>Profit for the year before tax</b>	<b>34 992</b>	<b>71 384</b>	<b>73 111</b>	<b>32 252</b>	<b>37 865</b>
<b>Taxation</b>	<b>(8 025)</b>	<b>(25 896)</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>
<b>Net income after taxation</b>	<b><u>29 967</u></b>	<b><u>45 488</u></b>	<b><u>73 111</u></b>	<b><u>32 252</u></b>	<b><u>37 865</u></b>
Dividend long-term business	28 000	23 000	40 000	11 000	18 500
<b>Total dividend declaration</b>	<b>115 000</b>	<b>163 000</b>	<b>130 000</b>	<b>160 000</b>	<b>60 000</b>
<b>Total assets</b>	<b>1 821 653</b>	<b>1 770 997</b>	<b>1 616 166</b>	<b>1 482 354</b>	<b>1 363 225</b>

## **THE CHAIRMAN'S REPORT 2014**

### ***Introduction and overview of 2014***

The Swaziland Royal Insurance Corporation's (The Corporation) main business activity is the provision of short-term insurance, life assurance to individuals and pension administration in Swaziland.

For the year 2014, the Corporation reported consistent performance overall, notwithstanding the lethargic performance of the national economy. The Corporation adopted a strategy to focus on classes of business which are attaining risk-adequate premiums. This in the long run has paid off. Since 2004 the Corporation has achieved an unbroken record of profitability through often turbulent market conditions.

The Corporation's delivery of service focuses on the client; an assurance that all legitimate claims shall be paid promptly. A Customer Service Charter was introduced which will enhance management capability of understanding the customer needs and assist us better serve the client. The Corporation intends to increase its range of services with the aim of responding to the changing needs of our clients.

### ***Operating results***

#### ***Non-Life (short-term) business***

During the year to 31 December 2014, The Corporation showed an increase in operating profits before tax compared to the year to 31 December 2013. Profit before tax was E138 million compared to E125 million in the previous year (10,40 percent increase). This increase in operating profit before tax was mainly driven by good underwriting results due to the improvement in cost containment and increased reinsurance commission.

The non-life (short-term) business continued to deliver profitable results in the face of worsening market conditions and achieved an underwriting profit of E111,1 million (2013:E93,2 million). These results were in the main influenced by the following drivers:

- A 6,83 percent increase in Gross Written Premiums from E369,1 million in the previous year to E394,4 million in the year under review.
- A 37,69 percent increase in commission received from E24,1 million previous year to E33,2 million in the year under review.
- A 1,11 percent increase in the management expenses. This increase was due to the continued management effort in ensuring that expenditure is properly controlled.

#### ***Life (long-term) business***

The life insurance business published operating profit for the year under review stood at E27,0 million compared to E45,5 million in the previous year before payment of dividend. The primary reason for the decrease in the published operating profit from life

insurance business was the poor performance of the investment markets during the year under review.

Although the Retirement Funds Act 2005 requires that a statutory actuarial valuation be performed on retirement funds, no methodology is prescribed. The statutory valuation basis has therefore been set so that it is equivalent to the published reporting basis.

The excess of the value of assets over liabilities on the published basis for the year under review stood at E15,5 million compared to E62,1 million in the previous year. This change in the excess assets can be analyzed as follows:

	<b>31 Dec -14</b>	<b>31 Dec -13</b>
	<b>E'm</b>	<b>E'm</b>
Excess assets as at end of reporting period	242,5	238,6
Excess assets as at beginning of reporting period	238,6	223,1
<b>Change in Excess Assets over reporting period</b>	<b>4,0</b>	<b>15,5</b>

The change in excess assets is analyzed as follows

Changes in valuation method assumption	(17,1)	(3,1)
Other operating profit	44,1	48,6
Dividend paid	(23,0)	(30,0)
<b>Change in Excess Assets over the reporting period</b>	<b>4,0</b>	<b>15,5</b>

### ***Solvency levels and capital adequacy***

The Corporation non-life (short-term) insurance business remains well capitalized with strong solvency levels. As at 31 December 2014 the non-life solvency levels stood at **E201,6** million (2013:E265,1 million) compared to the minimum industry standard of E138,0 million (50 percent of net written premium).

The life insurance business is also well capitalized with excess assets over liabilities of E242,5 million (2013:E238,6 million). As at 31 December 2014 the SRIC's Capital Adequacy Requirement (CAR) was E93,4 million (2013:E97,3 million).

In line with industry's best practice, the Corporation has a policy of maintaining CAR of at least twice the Ordinary Capital Adequacy Requirement (OCAR) i.e. free assets of at least E186,8 million (2013:E194,6 million) and to pay up to a maximum of 50 percent as dividend of the surplus assets over and above twice OCAR. For the year under review E28,0 million (2013:E23,0 million) was paid as dividend from the life insurance business.

### ***Dividend Declaration***

I am pleased that the Corporation's improved capital position has enabled the Board to recommend a dividend of E115 million for the year ended 31 December 2014, (2013:E163 million) for payment on 6 July 2015 to holders of Ordinary Shares on the register at close of business on 18 June 2015. The total dividend of E115 million is made up of:

- Normal dividend of E87 million non-life (short-term), (2013:E140 million) and E28 million from life business (long-term), (2013: E23 million).

### ***Valuation of the Life Fund***

The Actuarial valuation of the life (long-term) insurance business as at 31 December 2014 shows that the value of assets exceeds the value of liabilities by E242,5 million (2013:E238,6 million). The excess of assets over liabilities of E242,5 million (2013:E238,6 million) gives a realistic and also prudent picture of the accumulated profits of the Corporation's life operations from inception to the valuation date including the effect of capital injections and transfers to shareholders.

### ***Summary of assets and liabilities: Statutory Basis***

	31 Dec -14	31 Dec -13
	<b>E'm</b>	<b>E'm</b>
Total value of assets, net of reinsurance	1 316,0	1 223,5
Total value of liabilities as per balance sheet	1 073,5	985,0
Value of policy liabilities as per balance sheet, net of reinsurance	1 033,6	930,0
Current and other liabilities as per balance sheet	39,9	55,0
<b>Excess Assets</b>	<b>242,5</b>	<b>238,6</b>
Capital Adequacy Requirement (CAR)	93,4	97,3
Ratio of Excess Assets to CAR	2,6	2,5

The Published liabilities are split between Investment business and Insurance business, as per IFRS4 guidelines, in the case of Swaziland Royal Insurance Corporation, the only Investment business is the Employee Benefit Deposit Administration business. The split is as follows:

	31 Dec -14	31 Dec -13
	<b>E'm</b>	<b>E'm</b>
Gross Actuarial Liabilities - Investment Business	228,6	205,5
Gross Actuarial Liabilities - Insurance Business	807,6	726,8
<b>Total Gross Actuarial Liabilities</b>	<b>1 036,2</b>	<b>932,3</b>
Less Reinsurance	-2,6	-2,3
Total Net Actuarial Liabilities	1 033,6	930,0
Current Liabilities	39,9	55,0
<b>Total Liabilities</b>	<b>1 073,5</b>	<b>985,0</b>

### ***Bonus Declaration to Policyholders and Pension Schemes***

The bonus recommendation is a significant part of the responsibility of the actuary. The factors which need to be taken into account include:

- Bonus supported by current year surplus.

- Policyholder expectations of current and future bonus.
- Company policy regarding stabilization of bonus rates; and
- Solvency position.
- Pension schemes should receive a return that is a fair reflection of the investment return achieved on their funds.
- Charges should be made to the fund to allow for investment management, any subsidization of administration costs and any cost of investment guarantees.
- It is desirable to build up a non-vested account and a bonus stabilization reserve to control the cost of guarantees.
- Comparison is also made with other providers of Deposit Administration (DA) contracts to ensure that rates declared are competitive.

Bonus rates declared for policy holders were in line with the investment returns achieved over the year. The bonus rates declared for 2014 were as follows.

- Pension Funds (Deposit Administration contract) 10 percent (2013: 15 percent).
- Lilunga and Insika Savings policies 10,0 percent (2013: 10,0 percent)

### ***Embedded Value***

The Embedded Value of an insurance Company is a commonly used calculation to estimate the economic value for monitoring or sale. It is comprised of two major components:

- The Net Asset Value of the Corporation
- The Value of the In Force Business

The Net Asset Value of the Corporation is derived from the financial statements.

**The Value of In Force Business (VIF)** of the Corporation represents the present value of the future profits arising from existing in-force insurance business of the Corporation. The present value of future profit is stated net of tax and the cost of holding the minimum prescribed CAR. The VIF excludes any goodwill that may be attributable to the Corporation as a result of the value of future new business or the expectation of the achievement of additional operational efficiencies in future years.

The total embedded value of SRIC's Life business as at 31 December 2014 was E300 million, compared to E292,9 million in the previous year. This calculation was conducted broadly in accordance with the general guidance contained in PGN107 issued by the Actuarial Society of South Africa (a standard which does not yet obtain in Swaziland).

### ***Risk Management (external)***

The Corporation's overriding business objective is to provide insurance services to the business community, the general public, as well as create value for Shareholders. The executive team closely monitors macro economic developments in Swaziland to assess the inherent market and industry risks that may impact our business. The Corporation therefore derives its approach to risk management and control from a non-banking financial service provider and shareholder perspective. Our approach to managing risk

is on an enterprise-wide risk basis. Periodic review of the top ten risks is carried out periodically.

A dedicated Risk Management, Quality Control Department and Compliance Department are in place, with clearly defined responsibilities for risk management and compliance. The Risk Management and Quality Control and Compliance Departments report on all risks and compliance matters respectively at each quarterly meeting of the Audit Committee and Board respectively.

### ***Corporate Governance***

Collectively, the Corporations' Directors have a wide range of business-related expertise, as well as significant experience in insurance, financial and commercial related activities. Directors are appointed on the basis of skill, acumen, experience and actual level of contribution on the activities of the Corporation.

Sound governance principles remain one of the top priorities of the Corporation's Board and Management. All directors are non-executives. The Board has set-up sub-committees comprising Board Members to which Management reports. The Board and the sub-committees meet at least once every quarter or more regularly as the business of the Corporation may demand. The sub-committees are: the Audit Committee, Investment Committee, Executive Committee and the Remuneration Committee. Various external experts are also engaged to provide additional independent expertise to the Board. These experts include auditors; both external and internal, actuaries, risk managers, reinsurance consultants and investment managers.

### ***Corporate Code of Conduct***

The Corporation is committed to:

- Trading with customers and intermediaries who subscribe to good ethical business practices.
- The highest standards of integrity in all its dealings with its stakeholders and society at large.
- Carrying-on business through fair commercial competitive practices.
- Being responsive towards environmental and social sustainability programmes.
- Social responsibility programmes.

### ***A Word of Appreciation to SRIC's Intermediaries***

We continue to benefit from the expertise and intermediary services of our Brokers and Agents. About 85% of our business is transacted via Brokers. We thank them for their support.

### ***Transparent selling of SRIC's products***

The Corporation markets and sells a wide range of different products and services. These products include:

- Life assurance, pension and investment savings.
- Fire and Engineering.
- Marine.
- Motor, House Owners and House Holders.

Our philosophy is to sell and market these products in an honest and transparent way, which will build trust with our customers, and thereby promote customer loyalty. Our more than adequate capitalization ensures that policy holders will have a peace of mind that the Corporation will be able to meet their claim in the event of a loss. The promise for prompt settlement of claims is the promise we have been able to meet over the years irrespective of the size and value of claim. Where a customer can demonstrate that the product he bought was not what he intended, we invoke remedial processes to assuage the complaint.

### ***A Word of appreciation to the Insuring Public***

A special word of appreciation goes to all our valued clients for their trust, partnership and patronage.

### ***The Board***

I am privileged to have been part of Swaziland Royal Insurance Corporation Board and its Chairman in the last five years and also at a time when the landscape in the insurance industry in Swaziland has changed. Consumers now have a wider choice of insurance service providers. I wish to assure members of the insuring public and confirm that I, and my fellow Board Members and management have been focusing our attention in ensuring that the Corporation delivers a world class service to our customers at competitive prices and provide value to our shareholders and we shall continue to do so in the future.

### ***Retirements and New appointments***

#### ***Retirements***

Mr. Chris Kemp representing Zurich Insurance Company	:	March 2014
Mr. Victor Nxumalo representing Swaziland Government	:	March 2014
Mr. Chris Kemp representing Mutual & Federal Insurance Company	:	November 2014

#### ***Appointments***

Mr. Chris Kemp representing Mutual & Federal Insurance Company	:	June 2014
Mr. Pieter Bezuidenhout representing Zurich Insurance	:	June 2014
Ms. Fanisile Mabila representing Swaziland Government	:	August 2014

I would like to congratulate all the Board Members on their appointments to the Board of Swaziland Royal Insurance Corporation particularly during a period of a competitive insurance environment, fragile global economy and highly volatile global financial markets.

The Directors and Management are confident that the Nation's Insurer (SRIC) has a good strategic plan and has adequate resources to deliver good results on both long-term and short-term sections of the insurance industry in the foreseeable future.

### ***Tribute***

We pay special tribute to the retired Board Members Mr. Kemp and Mr. Nxumalo for their enormous contribution during their tenure having served for more than 12 years as Board Members. It is also acknowledged that during their tenure, the Corporation declared profits on a number of occasions.

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**Mr. Kenneth Mbuli**  
**Chairman**

**29 May 2015**