Bryte EDITION

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FOREWORD

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Dear Business Partner

After a few extraordinarily tumultuous years, as a global community, we welcomed 2022, anticipating an accelerated socio-economic recovery — for both businesses and consumers. Countries all over the globe seemed poised to leave the vestiges of the 2020 great global lockdown behind.

The tragedy that has befallen the millions of people directly impacted by the Russia-Ukraine conflict offered no respite. Worldwide supply chain disruptions have met higher volumes of demand, battering business and economic recovery. Inflation reached record highs across the globe, but also within South Africa. The South African Reserve Bank recently increased interest rates which took the repo rate to 7%, while the prime lending rate also went up to 10.5%. The trend is expected to continue well into 2023.

In the face of continued business challenges and these record levels of inflation, big tech players globally have moved to make significant reductions in their workforces, most notably Meta (Facebook), Amazon and Twitter, accounting for almost 25,000 job losses in a very short timeframe.

2022 has been another eventful year across Bryte's business. Despite all the ubiquitous challenges presented to the business, we have emerged stronger thanks to our partnerships, resilience and disciplined strategy. In this latest Bryte Edition, we will present our most prominent business updates. Additionally, we can all appreciate just how uniquely challenging the last few years have been across the globe. We thus also look at the risks that need to be considered going forward, along with the opportunities that our partners, customers and the Bryte businesses will be able to capitalise on while navigating a hard market that affects rate increases, which could impact premiums.

We hope you find this Bryte Edition to be a compelling and valuable read. For any questions, please feel free to contact your Bryte representative.

With the year drawing to a close, I hope that you and those closest to you have a fantastic festive season and start to 2023.

Stay well.

Regards

Edwyn

INSURANCE AND REINSURANCE REALITIES

The unprecedented, cumulative impact of global risk events in recent years placed unparalleled pressure on the insurance industry. COVID, lockdowns, civil unrest and natural disasters and volatile equity and bond markets are just some of the realities that have forced difficult decision-making aimed at ensuring the insurance industry can continue to serve the interests of the collective and remain sustainable.

Nat CAT events driving policy and premium adjustments

Reinsurers continue to revisit how they approach and underwrite risks. This, of course, has characterised fundamental changes. Among these is the discontinuation of certain covers for non-physical damage for business interruption covers and the application of liability limits, where these were not prescribed. Reinsurers have been crucial partners for insurers, helping the industry to cover significant losses. However, the effects of the pandemic have significantly worsened the impacts of various systematic risks such as inflation, weather events and natural disasters. Today, the global insurance and reinsurance industry manages an unparalleled level of risk, supporting more customers more frequently in times of severe impact and high losses.

The increasing frequency and severity of natural catastrophes are leading the sector's push to review cover and premiums. Extreme weather events are also impacting different kinds of insurance, such as flooding, building and contents cover, which are all going to be affected as a result of their exposure to physical perils. This includes a significant rise in rebuilding costs in the aftermath of the KwaZulu-Natal floods.

Naturally, insurers continue to look at ways to absorb some of these costs, but the reality is that the scale of natural catastrophes and other loss events contributes to the unavoidable increase in insurance premiums. The rising costs of reinsurance premiums are prompted not just by the loss ratios but also by the industry's obligation to make the market sustainable to facilitate effective levels of financial security for customers.

Reinsurers play a pivotal role in supporting the solvency and capital efficiency of the insurance risk appetite. And with new risks becoming more prominent and global macroeconomic conditions growing increasingly complex, to ensure its relevance, an accelerated evolution of the insurance industry is necessary to keep pace with shifting dynamics.

It's a hard market and rate increases are anticipated to be multiple times higher than inflation levels, which could translate to premium increases in excess of 20%.

Motor

While big loss events will always grab headlines, other dynamics progressively present enormous challenges. One such example has played out within the automotive industry. The sector has endured a discord of supply challenges, ranging from production shutdowns and shortages in labour and global supply chain bottlenecks. Considering this, the local market continues to experience increased inflation and consequently increased vehicle repair costs, which remains the leading cause of motor claims cost escalation. In fact, a double-digit increase in parts and repair costs is potentially a future scenario.

STATE OF THE SOUTH AFRICAN ECONOMY

The era of hyperinflation firmly established itself all around the globe in 2022.

The International Monetary Fund forecasted that global inflation would rise to 8.8% during the year, nearly double the previous year's figure (4.7%). Closer to home, the South African Reserve Bank increased rates by 75 basis points in November (3rd increase in a row), resulting in interest rates now being at their highest level since 2016. The move brings the repo rate to 7% and the prime lending rate to 10.5%, which means that customers pay significantly more for their debt.

Naturally, these hikes have had a more adverse impact on vulnerable communities — many of whom spend a large portion of their income on food and transportation. In South Africa, these costs increased substantially by 17.9% and 11.9% year-on-year, respectively. Moreover, South Africa's debt looks set to increase from 60.8% of GDP in the current budget to 76%. Consumers are under financial pressure, with household debt levels also incredibly high: Recent data from FNB showed that it takes around an average of five days for middle-income consumers to spend up to 80% of their monthly salary.

South Africa faced a barrage of recovery challenges and associated risks — from the July riots last year to the KZN floods (the largest insurance loss in the country's history) in April of this year. The current state of the economy is characterised by a significant number of companies that have gone out of business. In fact, in South Africa, the total number of liquidations increased by 9.8% year-on-year during June 2022.

Others, including SMMEs, have shown resilience by cutting costs in the short term, which remains an unsustainable operating model. However, aggravated by rising inflation, we are likely to see more costs transferred to customers who are struggling to afford essential goods and services. Moreover, traditional growth sectors of the local economy, such as manufacturing, agriculture and mining, are at greater risk in terms of business interruption due to geopolitical developments such as the Russia-Ukraine conflict and global supply chain disruption, as well as local factors such as load shedding, civil unrest and water interruptions, etc.

A silver lining within this economic cloud is that the local travel sector is expected to get a much-needed boost next year from international travellers. Morocco, Saudi Arabia, and South Africa are predicted to be the largest source markets for travellers from Europe during 2023.

SOME OF THE RISKS THAT NEED TO BE MORE CAREFULLY CONSIDERED GOING FORWARD

Climate (in)action

As many as 118 million Africans find themselves navigating extreme poverty and an unprecedented vulnerability to severe weather conditions such as drought, floods and heatwaves. Moreover, reports estimate that climate change may negatively impact GDP in the region by as much as 3% by 2050.

Flood and fire dominating

Closer to home, this year has been particularly challenging for South Africa, which was hit by the worst natural disaster ever. The KwaZulu-Natal flash floods tragically claimed 461 lives, displaced more than 85,000 people and cost the economy in excess of R30 billion in damage to the insurance sector. Another notable risk event was the Kleinmond fire in the Western Cape, which blazed for four days, destroying 5,400 hectares of plantations and commercial fynbos farms.

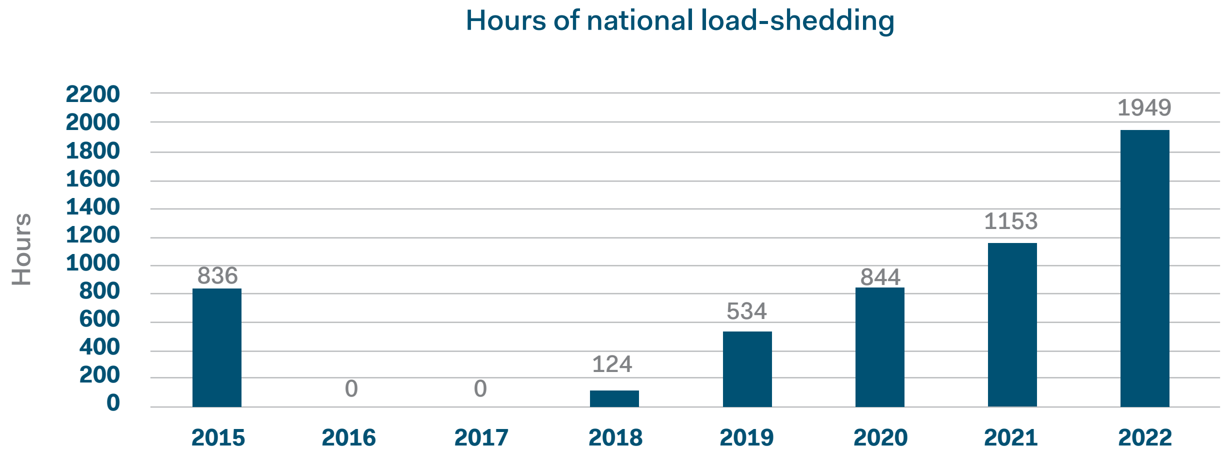
COP27

Encouragingly, world leaders from almost 200 countries converged in Egypt recently for the all-important COP27 discussions, making commitments to increase their use of clean energy sources and strengthen measures to combat the rising average global temperature.

South Africa was among the countries announcing their new, ambitious, long-term Just Energy Transition plans. With the goal to accelerate the decarbonisation of the economy — as set out in South Africa's updated Nationally Determined Contributions emissions goals — achieving this will require robust risk management at every stage. Undoubtedly, the insurance industry will play an even more significant role in this journey.

Supply deficiencies

Since the inception of load shedding in 2008, this year marked the worst interruptions to the energy supply. The pain of load shedding was felt across the board, impacting business productivity, inconveniencing everyday South Africans and debilitating economic growth. By some estimates, as of early October 2022, the country had experienced close to 2,000 hours (approximately 81 days) of load shedding. Compared to 2021, this is almost double. Key factors worsening the availability of supply included old and unreliable coal-burning power stations, little or no maintenance of power stations and sabotage.



Source: *BusinessTech*

Geopolitical conflicts

In addition, geopolitical conflicts such as the Russia-Ukraine war resulted in supply chain issues driving shortages. Some industries — oil and gas, transport, agriculture — were worse affected than others. With both Russia and the Ukraine being big ammonia suppliers — the main ingredient of nitrate fertiliser, which many countries depend on for growing food — the spikes in global prices for food and other essentials has been debilitating. Compounding the adverse effects on the global supply chain has been the ongoing US-China trade war (and resultant sweeping microchip sanctions) and renewed COVID-19 lockdowns in China. Globally, the logistics sector will likely have to contend with increased risk factors, such as restrictions to airspace, unpredictable consumer demand, and ongoing bottlenecks related to China's heightened COVID-19 response.

Digital (dis)ablement

Since the onset of COVID, the acceleration of digital migration — which has dominated business and public sector institutions' agendas, has not been without increasing risk. The 2022 State of Email Security report from Mimecast revealed that more than 75% of local organisations were receiving increased email-based threats. Reassuringly, close to 7 out of 10 companies are bracing themselves for an email-borne attack.

But, on the continent, South Africa had the highest number of targeted ransomware attacks (230 million) — this is more than three times when compared to Kenya (72 million) and Morocco (71 million), which place second and third, respectively. In an interesting turn of events, various news outlets are reporting that the Australian federal government may make ransomware-related payments illegal. If this becomes law, it will be interesting to see if South Africa follows suit. Nonetheless, this is a potential development we will be closely watching.

Other forms of cyber-attacks that are gaining prominence in South Africa include phishing and business email compromise attacks (BEC) — both of which exploit the propensity for human error (which IBM suggests as the leading cause for 95% of all cyber-attacks). Phishing aims to fraudulently source personal, sensitive data, while BEC aims to steal corporate data for financial gain. Again, South Africa accounts for the highest BEC attempts on the continent.

Appreciating the risks arising from the intensity and frequency of cyber-attacks over the years, we have strengthened our cyber risk response through solutions from our UMA partners.

Phishield offers diverse cover extending to Business Interruption, Data Restoration and Cyber Extortion for SMMEs

Camargue, an underwriter of financial and liability (casualty) insurance products, provides a range of cyber insurance solutions, including professional indemnity

THE ROAD AHEAD

Hyperinflation is likely to persist in 2023 with significantly higher, insurance premium income growth anticipated. According to Deloitte, insurers will need to continue surmounting a range of macroeconomic and geopolitical challenges which will adversely impact profitability. The report states that the industry will need to "pivot towards longer-term reinvention to enhance its relevance, competitiveness and ultimately, profitability".

At Bryte, we pride ourselves on our ability to be forward looking and our agility in ensuring responsiveness to the changing risk landscape. Our significant investments into our digital transformation journey, talent development, product reviews and the enhancements to our products, services and partnerships will continue in 2023.

Tipping point

The insurance industry is at its tipping point, which has been accelerated by several defining risk and disruptive events. Customers face increased pressure to do more with less, with many not having the capacity/headspace to effectively understand and mitigate against exposures. Insurers and intermediaries thus have an important role to play in nurturing a risk mindset but also to create opportunities that can allow for more innovation and growth in the context of these shifting paradigms. Hence, improving clients' consciousness and understanding of risk trends and their vulnerability, has to take centre stage during this hard market.

Advisors as catalysts

As intermediaries, it is pivotal that you have a good understanding of the evolving risk landscape in order to contemplate how it will impact your clients and the industries their businesses operate within. While there are various risks we cannot predict, we can anticipate many of the effects, promptly engaging clients. With underinsurance being a chronic issue, what's also important is ensuring your clients are adequately insured, understand what their policy covers and are aware of the applicable limits and deductibles.

You remain uniquely placed to drive behaviours that see our mutual clients invest in scenario planning and assessing strategy resilience to build more robust businesses. We encourage you to ensure policyholders effectively articulate risks and that complete disclosure is provided — at every stage. It is critical that policies are accurately underwritten, and that cover and policy limits continue to be clearly communicated. This is vital in avoiding any scenario in which policyholders face the risk of having claims rejected.

To navigate the risk landscape and this hard market requires partnering with experts with deep insight, foresight and a pragmatic approach to resilience. Bryte takes its role in supporting the ecosystems that strengthen socio-economic stability and ensure livelihoods, very seriously. As insurance advisors, we deeply value your role in strengthening these efforts to benefit wider society.

REFLECTING — BRYTE BUSINESS UPDATES

Looking back on the achievements, challenges, and changes we have successfully navigated, these speak very highly of our company culture and relationships with our valued partners. Here is a reminder of some of the key developments announced in 2022.

Senior leadership team changes

Change remains a natural part of every business' evolution. Aligned to our purpose of protecting our customers' businesses and ensuring their livelihoods, we undertook to structure our business more closely around our core propositions, gearing the Bryte Group for even greater successes.

We announced exciting changes to our senior leadership teams, with JP Blignaut and Wim Morland appointed as CEO to head up Bryte Insurance and Bryte Life, respectively.

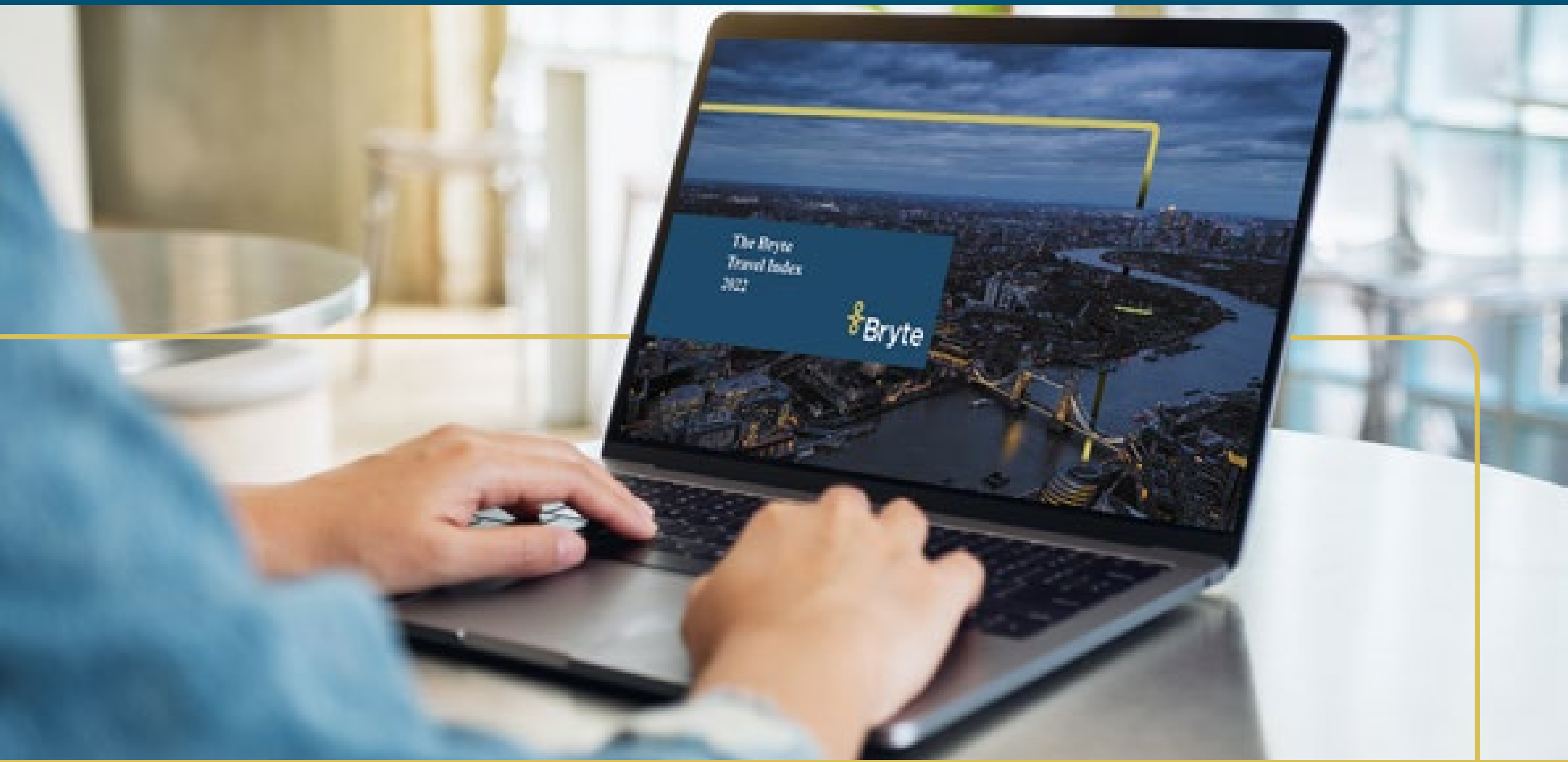
Concluding our migration to TIA

Motivated to transform our business digitally, we were compelled to replace our underwriting and claims administration platform. Consequently, we transitioned to TIA.

The process, which began in 2017 and was undertaken in phases, prompted our rapid adoption of advanced digital technologies. TIA became fully operational in October 2022. This technological evolution has enabled us to enhance our business processes, to better cater to evolving customer needs and provide a higher degree of personalisation for the benefit of our customers. For our broker partners, the benefits have been quicker turnaround times, significantly improved efficiencies, and substantial time-saving on routine tasks.

Bryte Travel Website

We celebrated another important milestone by the roll-out of our new transactional website focused on our travel business. Launched in July 2022, Bryte's travel website is delivering more seamless services (obtaining quotes, buying travel insurance, submitting claims, all online) to customers. For all our registered broker partners, this website is available as a white-label option, allowing you to enhance your service offering and more effectively engage with clients on their holistic needs.



Inaugural Bryte Travel Index 2022

Recently, we also announced the launch of our inaugural Bryte Travel Index, which leverages our data and provides unique insights into the international travel preferences of travellers and the risks they face. As one of the country's most prominent travel insurance providers, we are delighted to present this compelling read, which makes sense of the wealth of data on hand in a manner that captures the risks associated with travel but also the thrill of adventure. If you haven't already indulged in this fun and insightful Index, click here to access a copy.

Asset recovery — Partnership with Pendragon

We recently shared that we have formed a risk management partnership with Pendragon Management Services. Amongst other benefits, Pendragon's enhanced offering will provide clients with services that respond to theft/robbery notifications and help recover stolen goods, including cargo. Pendragon offers comprehensive cover that is currently being rolled out to our Marine and Jewellery & Precious Assets customers, with other business areas to follow.

Enhanced cyber protection through Phishield

With cyber threats looming larger than ever before, our UMA partner, Phishield, launched its Cyber Protect Personal product, which offers end-to-end support services to customers who may be affected by the rapidly growing number of cybersecurity exposures. Among the key solutions are covers against online shopping, internet and mobile banking, data breaches, and identity theft fraud.

Strengthened focus on public sector risk management — TUM

We also entered into a Tied Agent agreement with Territory Underwriting Managers (TUM) — specialists in innovative and responsive risk management solutions tailored for public sector entities in South Africa. TUM's bespoke products and services are designed to support these organisations by helping them meet regulatory requirements and effectively respond to the unique challenges facing public entities, such as municipalities, on a regular basis.