From our **Fund Manager's Desk**

Author: Khumbelo Nevhorwa / Senior Equity Analyst

OUTsurance

As reflected in their tagline, "You always get something OUT," OUTsurance continues to deliver value not only to its customers but also to its shareholders. This success stems from solid operational growth and consistently achieving risk-adjusted returns above hurdle rate and better than peers over time.

Founded in 1998 in South Africa, OUTsurance disrupted the short-term insurance market, which was traditionally dominated by the broker distribution channel for underwriting. By utilising a direct-to-market approach, OUTsurance reduced distribution costs, built a strong reputation for claims management, and refined pricing accuracy through their proprietary price rating model.

Despite challenges such as intense competition in a fragmented market and rising catastrophic events, OUTsurance's management has demonstrated adaptability, innovation, and resilience. The company's organizational culture aligns closely with the qualities we seek in investments, and their strategic initiatives have created a formidable competitive advantage—a true "moat." This article explores the factors behind their success.

Overview

OUTsurance operates primarily as a short-term insurance provider under the "OUTsurance" brand in South Africa, "Youi" in Australia, and the recently launched "OUTsurance Ireland" in May 2024. Their short-term insurance offerings include personal (car, home, and compulsory third-party insurance) and business insurance. They also provide funeral, life, and pet insurance, although these represent smaller portions of their revenue and profits.

GEOGRAPHICAL EXPOSURE MAP

Source: OUTsurance integrated report 2024

INSURANCE RISK EXPOSURE

South Africa	
Gauteng	47%
Western Cape	24%
Kwazulu-Natal	10%
Other	18%
Australia	
Queensland	20%
New South Wales	30%
Victoria	34%
Other	17%

Why short-term insurance?

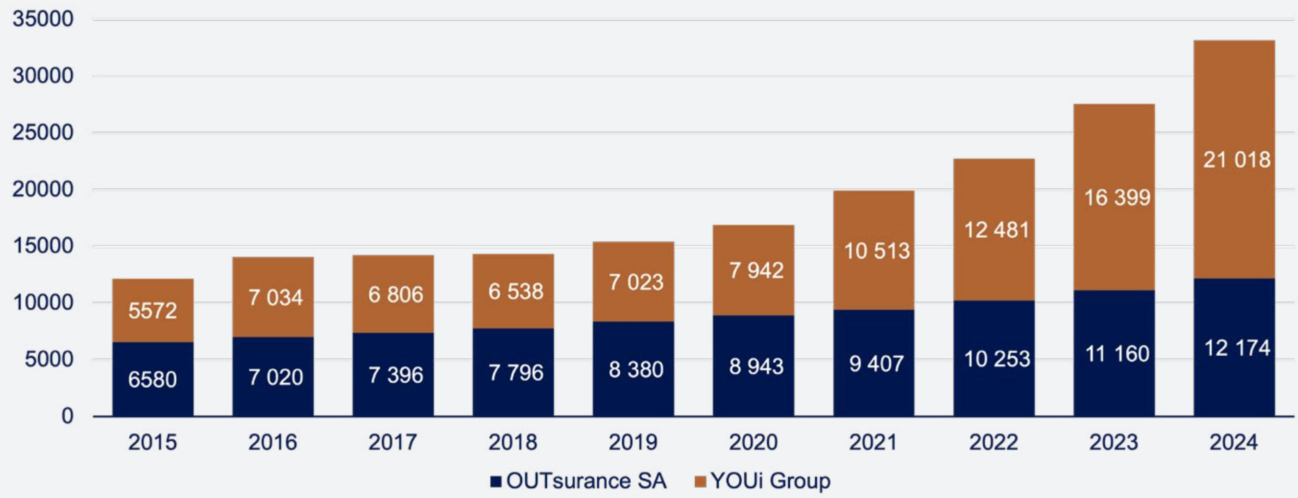
Short-term insurance is inherently cash-generating. Profits are earned through underwriting margins—the difference between premiums collected and claims paid—while premiums are invested to generate returns during the waiting period for claims or profit recognition, often referred to as "float returns."

Companies also earn returns on equity capital buffers, which are typically invested in interest-bearing or higher-risk assets, depending on their risk tolerance. Short-term insurance stands out for its frequent cash flow, as premiums are paid monthly or annually, and claims for most lines (e.g., motor, home, and business insurance) are settled within 12 months. Even for claims with longer durations (e.g., accidental bodily harm or business liability), investment returns can be achieved over extended periods.

Insurers that excel in underwriting, investment management, and shareholder fund returns can generate profits exceeding internal rate of return (IRR), with cash flows as the backbone of this profitability. OUTsurance embodies these strengths.

01 / Strong Premium Growth:

P&C GROSS PREMIUM WRITTEM (R'MILLION)



Source: OUTsurance annual financial statements 2024

OUTsurance's Property and Casualty insurance business has consistently achieved robust premium growth, driven by inflationary pricing adjustments and increased volumes from new product lines and expanded market penetration.

In South Africa, premium growth has averaged an annualized rate of 6.3% over the past 10-years, primarily fueled by inflation-driven price adjustments in their mature personal line business. Management is actively expanding into the business insurance market, supported by the OUTsurance Business Brokers initiative. This strategy has proven effective, with volumes growing and profits entering a positive trajectory on the J-Curve.

In Australia, premium growth has been exceptional, reaching an annualized rate of 12.93% over the past 10-years. This growth is attributed to market penetration and favorable exchange rates from a weaker ZAR relative to the AUD. Despite higher catastrophic events (e.g., floods, storms, and wildfires), OUTsurance's ability to reprice policies promptly has mitigated claims impact, while YOUi continues to expand market share.

02 / Claims:

A best insurer knows how to price correct for the appropriate risk being underwritten. OUTsurance is a great example of that, they always underwrite well using their internally built system for pricing, claims process and telematics. Therefore, when it comes to claims process, it limits reputational risks:

	OUT SA 2023	Industry 2023	OUT SA 2022
Number of personal lines complaints received by OSTI per thousand claims	**1.08/ 1 000**	1.86/ 1 000	1.07/ 1 000
Overturn rate[1]	**4.5%**	13.1%	8.0%
Number of overturned per 10 000 claims[2]	**0.41/ 10 000**	2.12/ 10 000	0.72/ 10 000

1. Number of complaints resolved with benefit of the insured divided by total finalised matters.
2. Company calculated number, derived from expressing the OSTI complaints overturn rate per 10 000 claims.

The below statistics are compiled for Youi for the financial year spanning from 1 July 2023 to 30 July 2024 in line with the AFCA's reporting period.

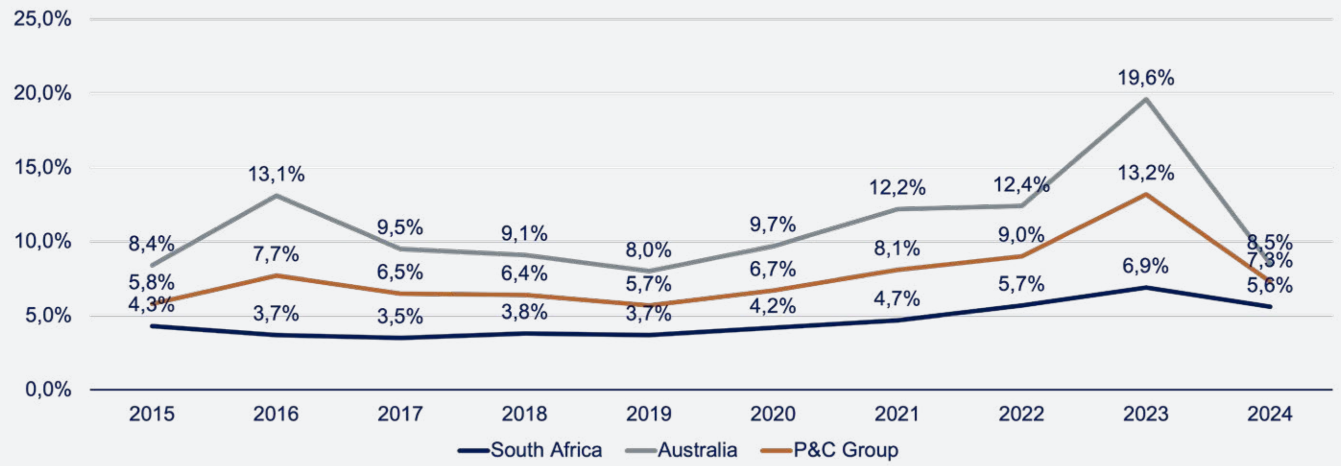
	2024	2023
Number of complaints received by AFCA per thousand claims	**1.76/ 1 000**	2.03/ 1 000
Overturn rate[1]	**16.1%**	21.1%
Number of claims decision overturned per 10 000 claims[2]	**4.23/ 10 000**	6.67/ 10 000

1. Number of complaints resolved with benefit of the insured divided by total finalised matters.
2. Company calculated number, derived from expressing number of AFCA complaints overturned rate per 10 000 claims.

03 / Natural Perils: Addressing Increased Frequency

The global increase in natural disasters, exacerbated by climate change, poses challenges for all property and casualty insurers, including OUTsurance. Such events lead to insurable losses exceeding normal claims expectations, potentially impacting earnings and capital reserves.

NET RETAINED PERILS LOSSES AS % OF NET PREMIUM



Source: OUTsurance annual financial statements 2024

Above graph shows the net claim costs that were retained by OUTsurance over the past 10 years as a percentage of net earned premium.

OUTsurance employs several strategies to limit the impact of natural disasters:

- Diversifying underwriting across product lines, geographies, and client profiles.
- Repricing policies frequently to reflect evolving risks while maintaining minimal client churn.
- Utilizing reinsurance to transfer a portion of catastrophic losses, including purchasing coverage for claims exceeding acceptable thresholds.

Despite the ongoing challenges of climate change, OUTsurance's robust capital buffers, strategic reinsurance, and proactive repricing provide a strong foundation for generating attractive risk-adjusted returns. Initiatives like the OUTbonus in South Africa further help retain clients during repricing periods.

04 / Growth Initiatives:

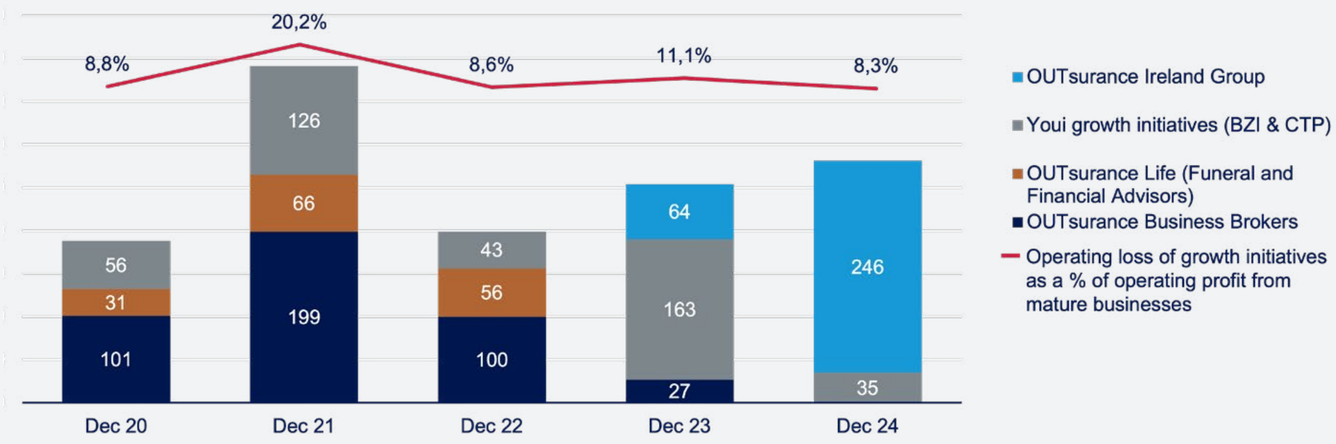
	South Africa		Australia		Ireland[2]
Types of insurance contract written	Personal	Commercial	Personal	Commercial	Personal
Liability	-	6%	-	39%	-
Miscellaneous	1%	-	-	-	-
Motor	65%	57%	54%	31%	50%
Personal accident[1]	-	0%	5%	-	-
Property	34%	33%	41%	30%	50%
Transportation	-	4%	1%	-	-

1. Personal accident includes CTP in Australia.
2. Ireland is at start-up phase with operation started in May 2024. Gross written premium is only at R80 million as at December 2024.

Source: OUTsurance annual financial statements 2024

At just 27 years since inception, OUTsurance has reached maturity in the South African personal insurance market, where it leads in motor insurance within the direct channel. However, there is significant growth potential in business insurance (via direct and broker channels), in Australia outside Queensland, New South Wales, and Victoria, and in Ireland, where their operations launched in May 2024.

OPERATING LOSSES GENERATED BY GROWTH INITIATIVES AS % OF PROFIT FROM MATURE BUSINESS UNITS (R'MILLION)



Source: OUTsurance interim results presentation 2025

OUTsurance adopts a prudent approach to new ventures, limiting losses to 10% of operational profits. This strategy:

- Protects capital buffers, reducing the need for equity raises.
- Allows exits from ventures with unfavorable risk-reward profiles.
- Ensures efficient resource allocation, focusing on organic growth rather than high-cost mergers and acquisitions with limited synergies.

This disciplined approach has proven effective, enabling OUTsurance to prioritize sustainable growth while maximizing operational efficiency.

Conclusion

Through strategic innovation, operational resilience, and prudent capital management, OUTsurance demonstrates qualities for a long-term earnings compounder, with better risk adjusted return. Their ability to adapt to market dynamics, address challenges proactively, and capitalize on growth opportunities makes them a compelling investment case.

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