SA·EAGLE
A member of the Zurich Financial Services Group
ISSUE 1
PERSPECTIVE

SUCCESSFUL PARTNERSHIPS

"We look forward to working together and building effective and successful partnerships into the future."

Reporting on our year-end results, we were delighted to announce a significant underwriting profit of R127,7 million (2002: R21,3 million loss). Growth in gross written premiums continued and reflected an increase of 8.9%. Real growth however, after taking into account the unpredictable premium flows of alternative risk transfer business and action taken to cancel poor performing accounts was 16.5%.

Headline earnings increased by 135.1% to 1,475.5 cents per share.

This excellent result has been largely attributable to the Company's strategic focus on adherence to stricter underwriting principles and addressing pricing levels through appropriate rating initiatives. This focus together with improved claims management and the absence of major weather related losses was the main contributor to the improved performance of the underwriting account.

While all underwriting accounts produced a profit in the second half of 2003, the motor account continues to under-perform. Further remedial action will be taken to improve the performance of this account. This will include a combination of rating initiatives and proactive measures aimed at reducing the cost of accident repairs.

Investment income increased by R23,5 million to R152,8 million (2002: R129,2 million). This increase reflected improved cash flows resulting from the improved underwriting performance. The equity disposal programme continued, resulting in a surplus on these disposals of R49,9 million (2002: R54,8 million).

The Company's solvency margin improved to 47.1% (2002: 43.3%), having been positively influenced by premium growth and the strong underwriting result.

Taking the above into account, the Directors declared a final dividend of 300 cents per share, making the total dividend for the year 450 cents per share (2002: 400 cents per share).

Given the continuation of the current underwriting experience as well as general market investment conditions, together with the opportunities afforded to SA Eagle by the recent transformation of its business, we aim to sustain our profitable performance going forward.

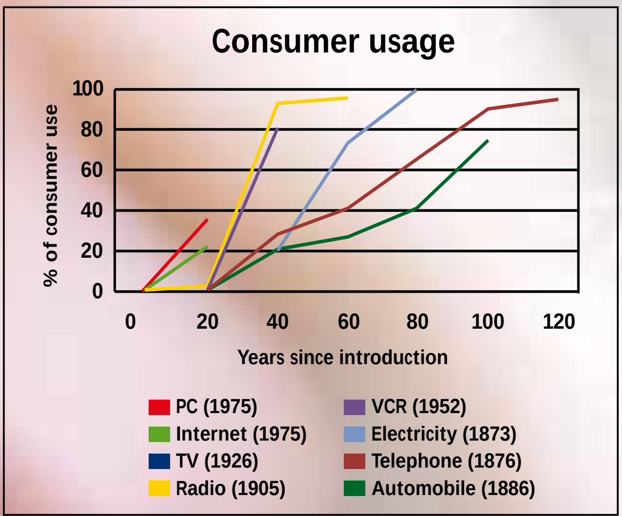
As we move into 2004 our focus will be on the fundamentals of our business i.e. disciplined underwriting, growing our profitable business segments and at the same time maintaining strong claims and financial management discipline in the form of rigorous cost and expense control.

I would like to take this opportunity to thank you for your loyalty and continued support. SA Eagle remains committed to the broker market as its principal distribution arm and to facilitating better communication and greater efficiency in support of our business partners. We look forward to working together and building effective and successful partnerships into the future.

e-BUSINESS IN THE INSURANCE INDUSTRY

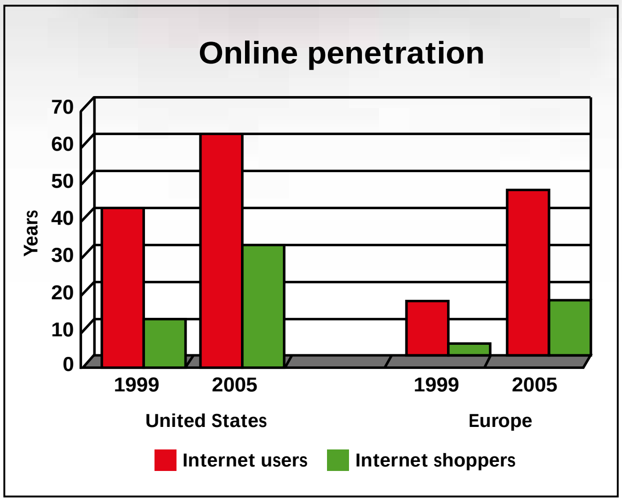
The effects of e-business are the subject of intense debate in the insurance industry, although actual translation into solutions is still in its infancy. Newly established internet insurers are in the process of implementing new possibilities provided by technology and testing innovative business models.

Many established insurers have also begun to restructure their business systems and set up additional online sales channels. However, re-engineering traditional business processes is expensive and often meets with considerable opposition from within the company itself. The adoption of technology for the web lifestyle is happening faster than the adoption of electricity, cars, TV and radio as is shown in the diagram below.



Adoption of new technologies

According to the NUA internet surveys, around 300 million people have access to the internet, most of them living in industrialised countries. Around 40 – 45% of North Americans and roughly 15 – 20% of Japanese and Western Europeans currently use the internet. According to estimates, this rate will double or possibly even triple in Western Europe and Japan by the year 2005. In North America, this percentage is to climb to 60 – 70% in the same time frame.



Online penetration

The first generation of internet users mainly consisted of young people with high incomes who were inspired by the new technology. Now a second wave of users has emerged: people less interested in the technology, who use the internet mainly because it is convenient and saves time.

As a result both the expectations placed on the internet and the pattern of usage are starting to change. In the financial sector, the marketing of products via the internet has presented a number of difficulties, one being the significant differences in some national regulations. Clients also appear to have reservations about data security, particularly since financial transactions contain extremely sensitive data.

In stark contrast, it is in the financial sector that e-business technologies promise substantial improvements in the utilisation of client information and the enhancement of service quality. The procurement, analysis and delivery of information are all crucial elements for financial service providers seeking to create value. New opportunities in this domain will therefore inevitably have a major impact on almost all areas of the business.

To date insurers have regarded the internet mainly as a further channel of distribution for their products. Compared to online banking, development of the internet in the insurance industry has been somewhat cautious. Websites mainly serve to provide information about the company and its products. The opportunities created by e-business for making business processes more efficient have not been seized by established insurers. According to NUA Internet Surveys, internet insurers are expected to gain substantial market share, especially through Personal Lines. By 2005 this market segment will represent a 5 – 10% share of the US market and around 3 – 5% in Europe.

Market potential

The use of internet technologies in the insurance industry is not just limited to a different and new distribution channel, but also has a fundamental impact on almost all other production areas. The integration of all business processes in a unified information flow significantly reduces the cost of gathering and analysing information.

Since the efficient processing of information is a key factor for insurers in the creation of value, the use of new information and communication technologies enables them to revamp

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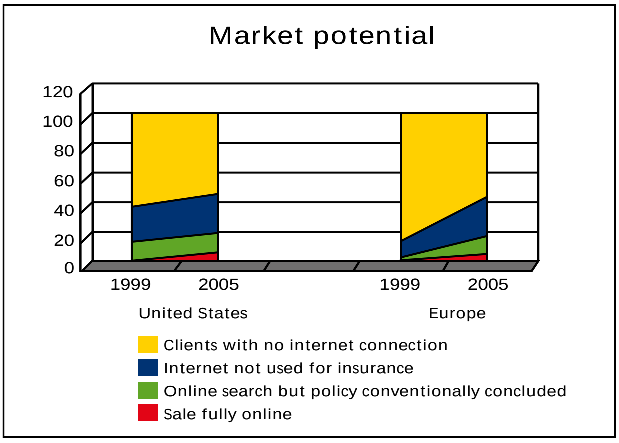


and rationalise key links in the value chain. The most important pro-competition feature of the internet is the reduction in fixed costs and transaction costs and this allows new competitors to the financial system. The two major entry barriers for virtual companies, however, are reputation and large funds to pool risks. At first glance there is no way for an entrant to overcome these barriers and be able to compete with those long established and well trusted traditional companies.

Researchers have noticed that large, non-financial firms with a high reputation among customers and an existing, large customer base may be potential entrants. Entry barriers can be overcome by large firms with large initial investment. With large funding, virtual companies can gradually build up their customer base and reputation. Due to the significant operating cost reduction, virtual companies can offer more attractive rates to their customers.

Since most financial services offered by companies are standardised, it is not possible that virtual companies can build a customer base large enough to be viable. The equity of these companies will help them provide liquidity to their customers.

While such business may emerge and survive, the more successful strategies for financial institutions in the internet age will depend on how they can find competitive edges over others in fully utilising the existing systems and endless new opportunities the technologies have brought.

Not only should electronic companies differentiate themselves from brick-and-mortar companies, each company should demonstrate convincingly how its operations, products and services are creating value for customers that others cannot provide.

The advances in information technology have not only reduced transaction costs, but are also changing the way financial products and services are provided. Innovation in organisation and mechanism may be the key for financial institutions to provide value added products and services and differentiate themselves.

In particular, developments in electronic commerce have enabled more customised services to customers and 'customisation' may be one of the most important competition strategies that financial institutions will adopt in the foreseeable future.

Insurers pay around half-a-billion rand a year to replace stolen cellphones

Recent media reports suggest that cellphone theft is costing the insurance industry dearly with payouts on claims escalating to around half-a-billion Rand this year.

At an average replacement cost of R2 000 a phone, for around 20 000 units a month, it's said that at least 30 percent of the claims honoured each month are fraudulent, draining the industry of no less than R140 million. Insurers are believed to be considering either increasing premiums or reconsidering the extension of cover.

Business Against Crime and other stakeholders (including the SA Police Service (SAPS), cellular network operators, manufacturers and service providers) are in contact with one another with a view to dealing with the issues associated with cellphone theft. The ultimate intention is to agree on a national cellphone theft prevention and combating strategy through which each role-player will have defined responsibilities.
It is clear that such a strategy is necessary in order to gain the upper hand.

Issues that are currently being addressed are those relating to the grey/blacklisting of stolen cellphones, the reporting of losses, communication and education. These strategic components have been benchmarked against international best practice and it is anticipated that this strategy will be made public within the first quarter of next year.

Operators are increasingly opting for greylisting instead of blacklisting stolen phones. Greylisting offers a variety of options aimed at reducing cellphone-related crime. For example, the vast majority of stolen cellphones end up in the hands of people who believe they are purchasing a "second-hand" cellphone. Instead of simply switching these phones off – as would be the case with blacklisting – greylisting allows contact to be made with users advising them that their cellphone is stolen and outlining a course of action to be followed. Because greylisting means stolen cellphones are kept switched on, this allows criminals who might be using a greylisted phone, to be tracked and eventually apprehended.

In addition, blacklisting is not a viable option when it comes to preventing theft because the serial number can be changed by criminal syndicates, rendering blacklisting useless. Blacklisting also forces criminals to break stolen phones into parts that are then sold separately. There is therefore no chance of recovering and returning them to their rightful owners.

The SAPS is believed to have drafted a proposal that has been sent to all role players for comment. These will be collated by the SAPS who will host a workshop at which a proposed strategy will be discussed.

CHOOSE THE RISK YOU ARE PREPARED TO TAKE!

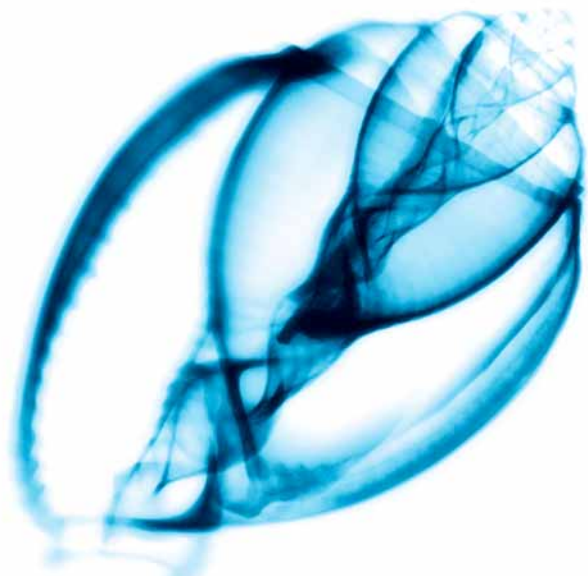
The demand for risk management and the drive to reduce costs, are two of the major factors that have changed the face of the short term insurance industry. This has led to a growing trend for clients to manage their own risks through traditional means, complimented by alternative risk financing solutions.

SA Eagle Risk Financing Limited (SA Eagle Risk) is a cell captive insurance company providing clients with cell captive and primary facilities, to use as part of their risk management strategy. Clients are able to control the cost of risk through these mechanisms, while enjoying the freedom to choose their preferred broker or risk manager and determine for themselves the composition of their risk programme.

SA Eagle Risk offers customised solutions structured according to the client's risk profile, type of business and financial circumstances. Alternative risk transfer programmes can cater for previously uninsurable exposures.

SA Eagle Risk engages in active best practice exchange and the sharing of expertise within the Zurich Financial Services Group. The company is therefore able to provide a full range of local and international risk financing solutions.

Unique, structured and deceptively strong, shells have been shaped by nature to handle the harshest environments. This evolutionary survival principal is also used by SA Eagle Risk and translates into providing our clients with uniquely customised and dynamic risk financing solutions.



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