



Beyond the Euphoria: Sanlam's views on growth aspects for our business given the new dawn in South Africa

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UBS Conference

18 October 2018

Insurance

Financial Planning

Retirement

Investments

Wealth

Agenda



Operating Environment

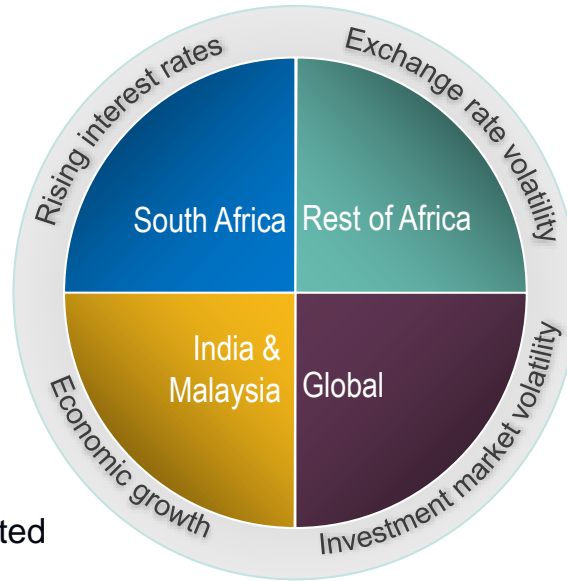
H1:2018



Business environment: Global outlook

- Low growth and high unemployment
- Investment market volatility
- Rising interest rates
- Currency volatility

- Strong growth relative to ROW
- External risks manageable
- Modest policy tightening expected



- Slow growth in Namibia amidst job losses, tax increases and a weak credit environment
- Modest growth in Angola and Nigeria, but higher oil prices are supportive
- Economic recovery continues elsewhere with strong growth in low income countries
- Global economic growth peaking
- Tightening global financial conditions
- Escalation in trade protectionism between the US and China

Business environment: South Africa

Consumer Debt levels

- Households have deleveraged reducing their debt level from 85.7% of personal disposable income in 2008 to 71.3% currently
- Household savings increased from -2.3% of personal disposable income in 2007 to +0.4% currently
- Real disposable income growth fell 1% annualised in 2Q18
- Credit extended to households is flat in real terms

Debt levels

- Debt-to-GDP ratio approaching unsustainable levels
- Including Treasury guarantees made to SOC's and other contingent liabilities (RAF) the percentage is 70%
- In aggregate SOCs are in a cash deficit position given weak operational performance
- 13.6% of Main Budget revenue is used to service debt

Unemployment

- Real GDP growth of 5% required to reduce historically high structural unemployment rate of 27.2%
- Population growth of 1.5% exceeds expected real GDP growth of 0.7% in 2018
- Real GDP per capita is declining and living standards have stagnated

Business environment: South Africa (*continued*)

Rating

- Government revenue numbers on track in the fiscal year to date
- Ratings risk has eased, but has not been eliminated
- The focus should shift from preventing further downgrades to ratings improvements
- National Treasury's intention to boost capital expenditure relative to consumption is a step in the right direction

Inflation

- The spike in fuel prices has added 1% to inflation and eroded consumer purchasing power
- Core inflation is contained at 4.2%, but risk is skewed to the upside
- Reserve Bank's goal of targeting an inflation rate of close to 4.5% and currency volatility precludes loosening of monetary policy

Exchange rates

- The Rand is undervalued
- But, amidst tightening global financial conditions, the currency is vulnerable as investors focus more keenly on EM fundamentals
- This underlines the importance of a flexible exchange rate and the Reserve Bank's independence
- South Africa requires uninterrupted access to global capital markets, given its relatively low level of foreign exchange reserves

Business environment: South Africa (*continued*)

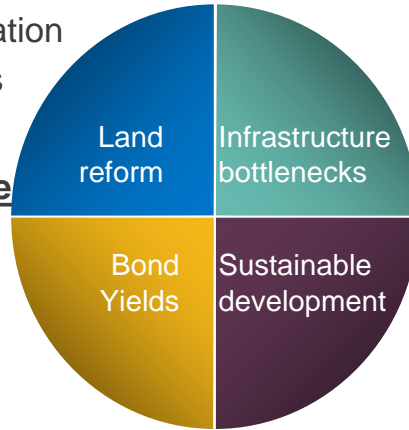
Four key factors influencing investor sentiment

Expropriation with no compensation

- ⌚ Land reform needed for redress and economic inclusion
- ⌚ Constitution allows for expropriation within boundary of just and equitable compensation
- ⌚ Requires reinforcement of property rights
- ⌚ Clarity required to foster investment

Levels of Corruption/Irregular expenditure

- ⌚ SOCs, municipalities and government departments are focal points
- ⌚ Fiscal resources misused with no accountability
- ⌚ Services delivery impaired
- ⌚ Investor trust and confidence weakened



SOC finances

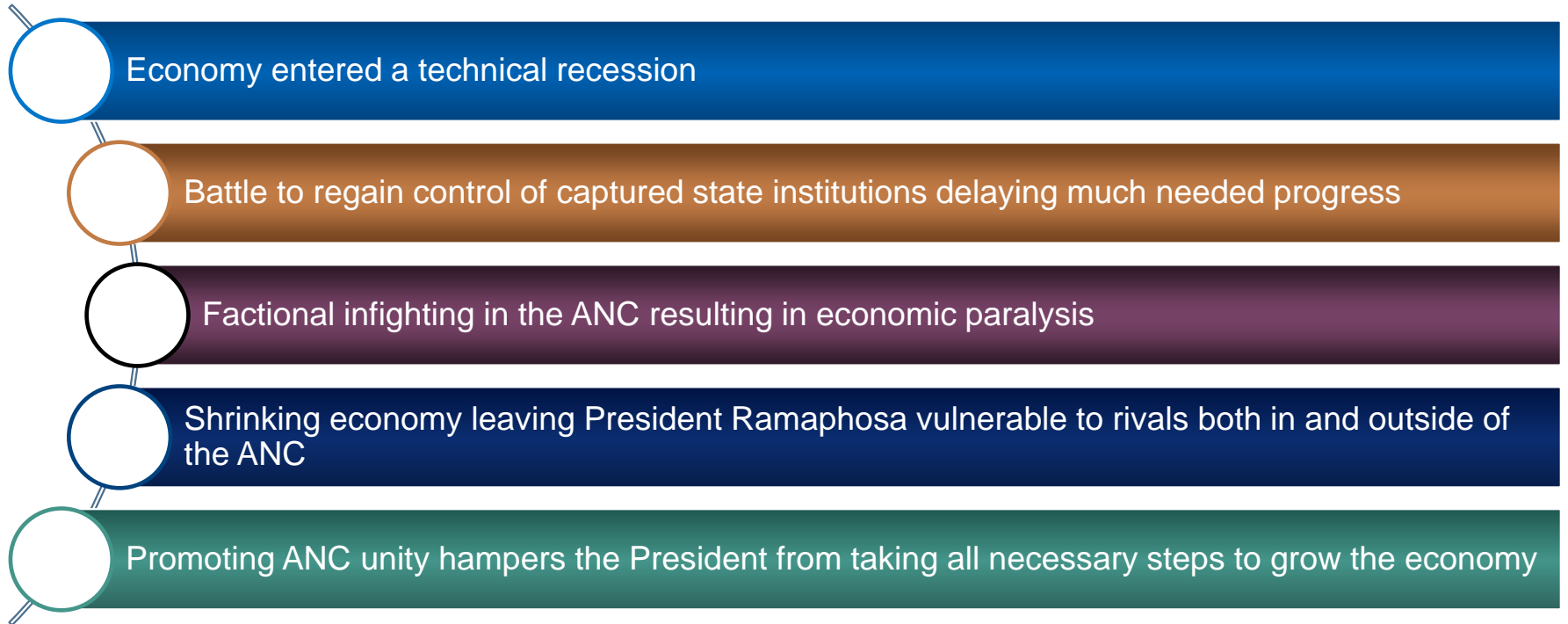
- ⌚ Several SOCs in financial distress
- ⌚ Improved liquidity, but uncertainty over Eskom as a going concern
- ⌚ Infrastructure bottlenecks a risk
- ⌚ SAs announced investment drive must target economic infrastructure capacity

National Health Insurance

- ⌚ NHI must be linked with fiscal sustainability
- ⌚ Revamp of public health system needed
- ⌚ Risk of demand overwhelming supply
- ⌚ Co-opt the private sector

RamaReality

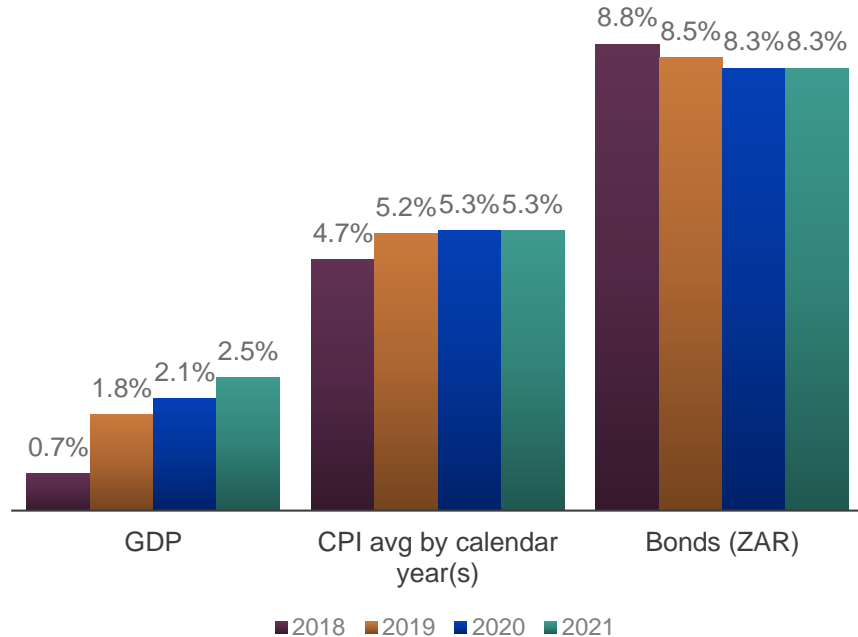
No short term solution to fixing the economy



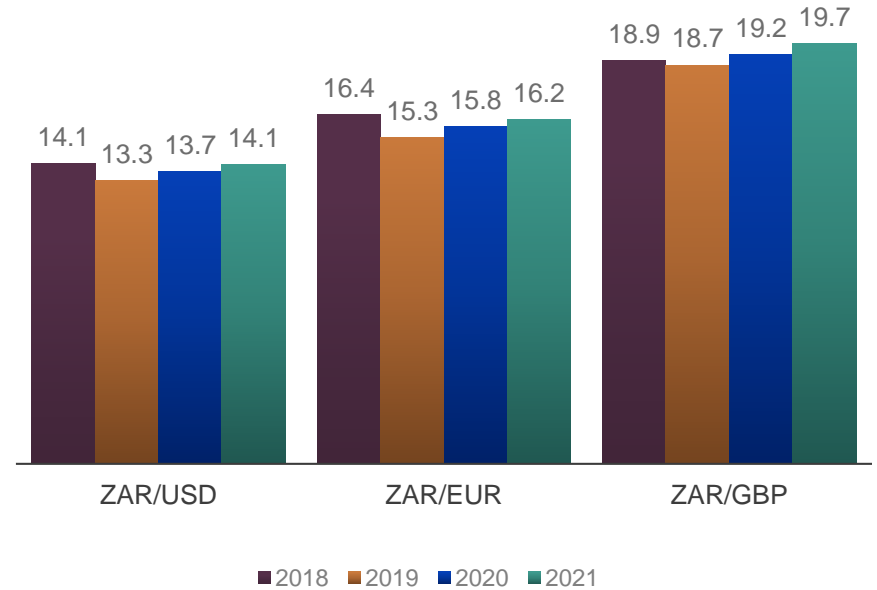
South Africa - Three-year forecast

Year-on-year

Growth rates (%)



Exchange rates



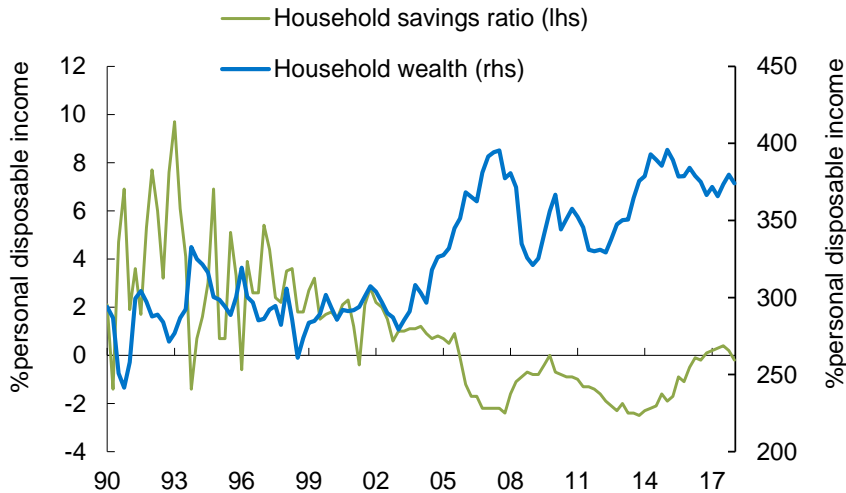
Source: Sanlam Investment Management

Key income drivers

Constrained household income



Population growth coupled with low levels of employment



Positive correlation between economic and insurance growth

Population growth



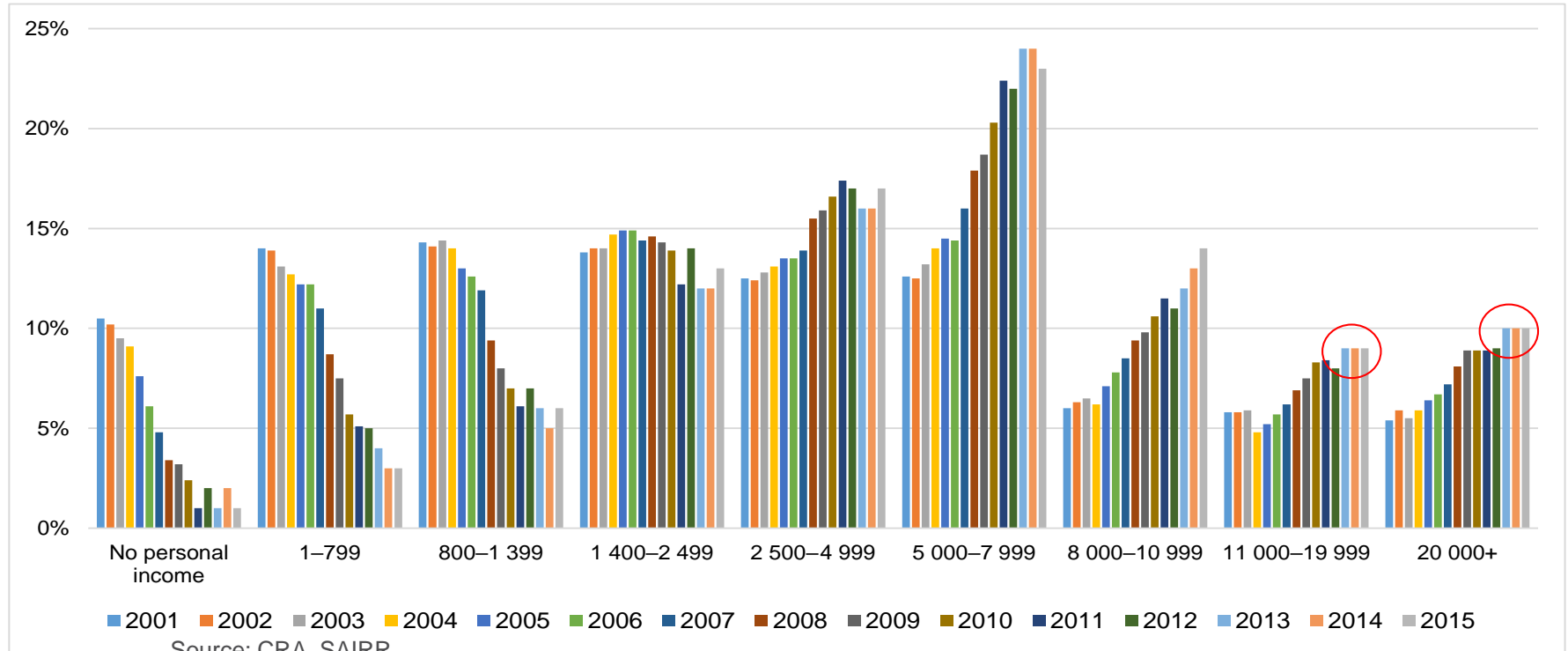
employment



Increase in productivity/
GDP



Proportion of households by income group



Progress we make under tough economic conditions



Group Strategy

 Sanlam



A strategy that supports sustainable performance

A key focus is to deliver on the Pan-African opportunity

Our vision

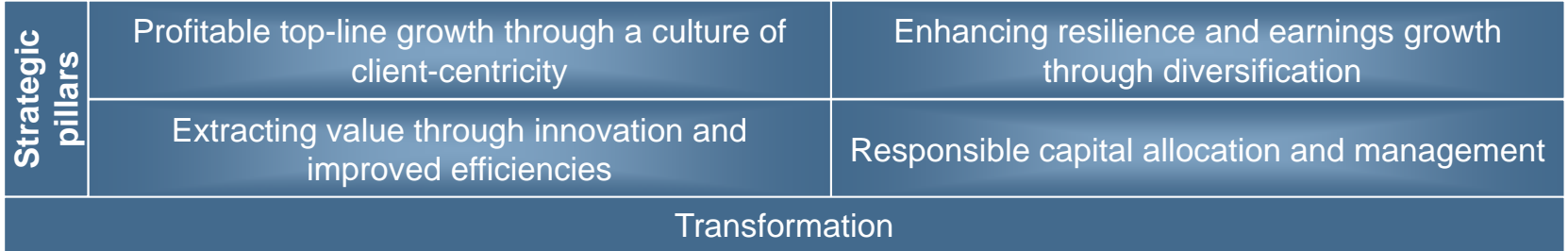
To **lead** in client-centric wealth creation, management and protection in South Africa

To be a **leading** Pan-African financial services group with a meaningful presence in India & Malaysia

To play a **niche** role in wealth and investment management in specific developed markets

Our strategic intent

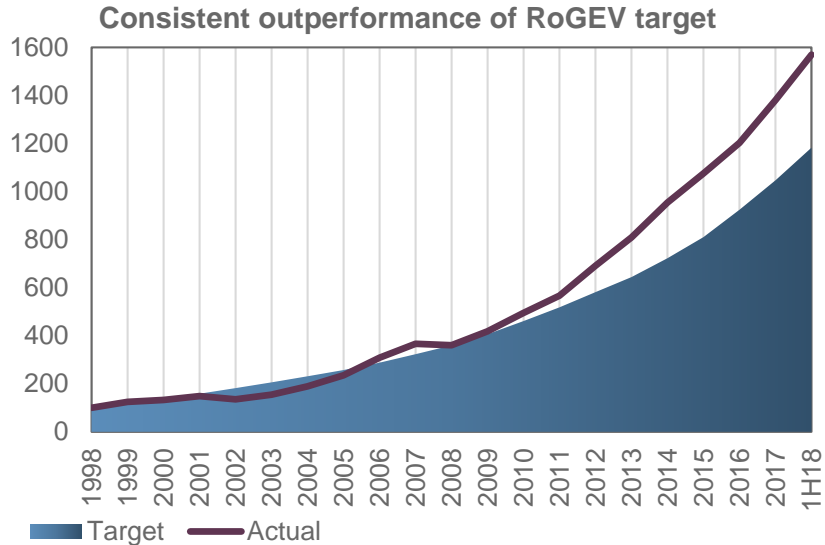
Sustainable value creation for all our stakeholders



Our long term strategic execution

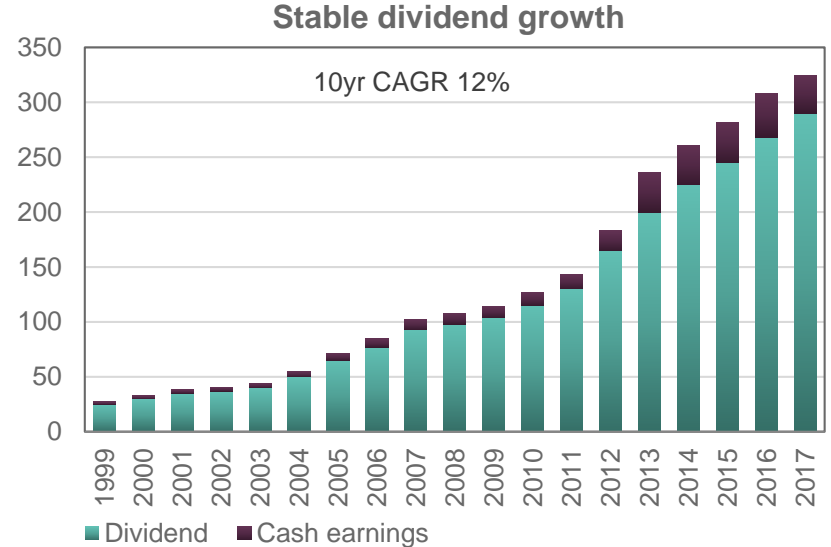
Optimising shareholder value with a meaningful cash component

Target: SA 9yr risk free + 4%



Target: 2% - 4% real growth

Balancing growth and dividend flows

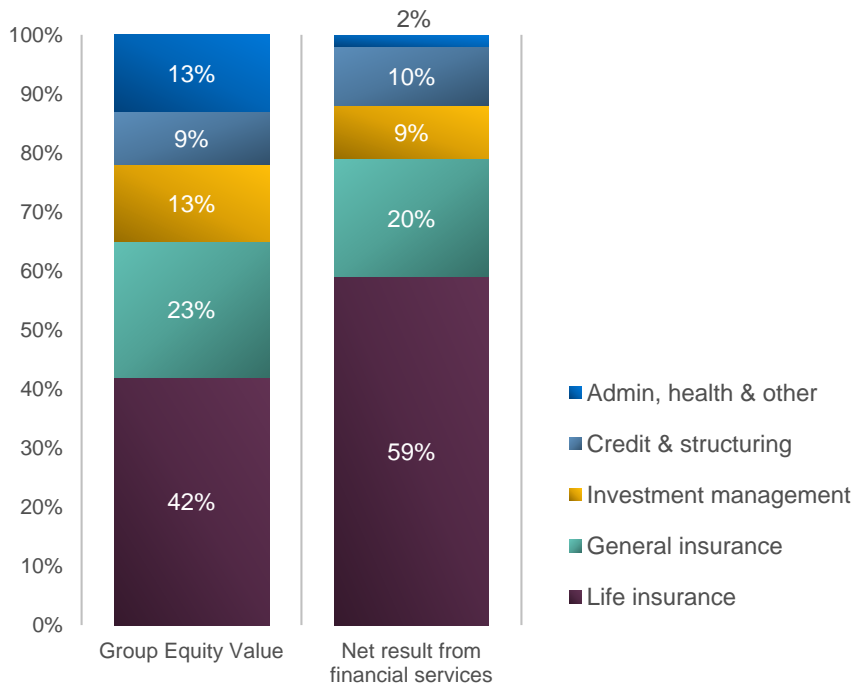


Target is to increase cash generation from SEM operations over time; also need to deliver returns on recent investments, in particular Saham Finances

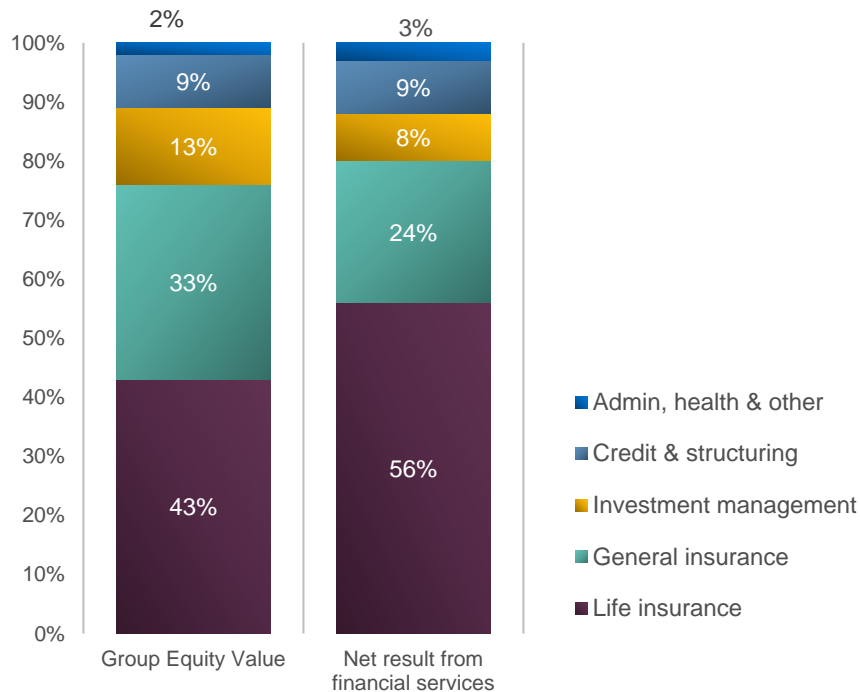
Diversification

Resilience through line of business

Line of business (as at 30 June 2018)



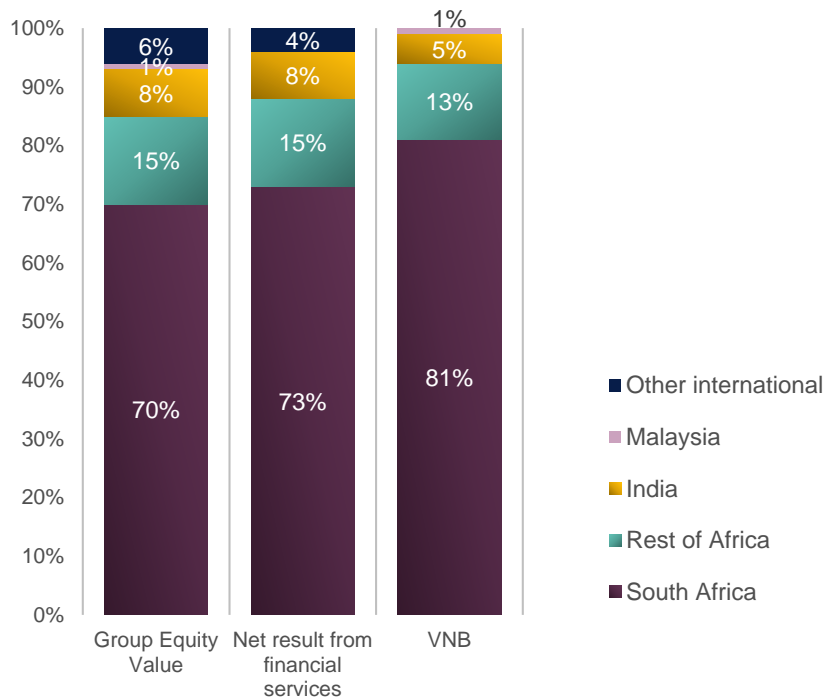
Line of business incl. Saham (as at 30 June 2018)



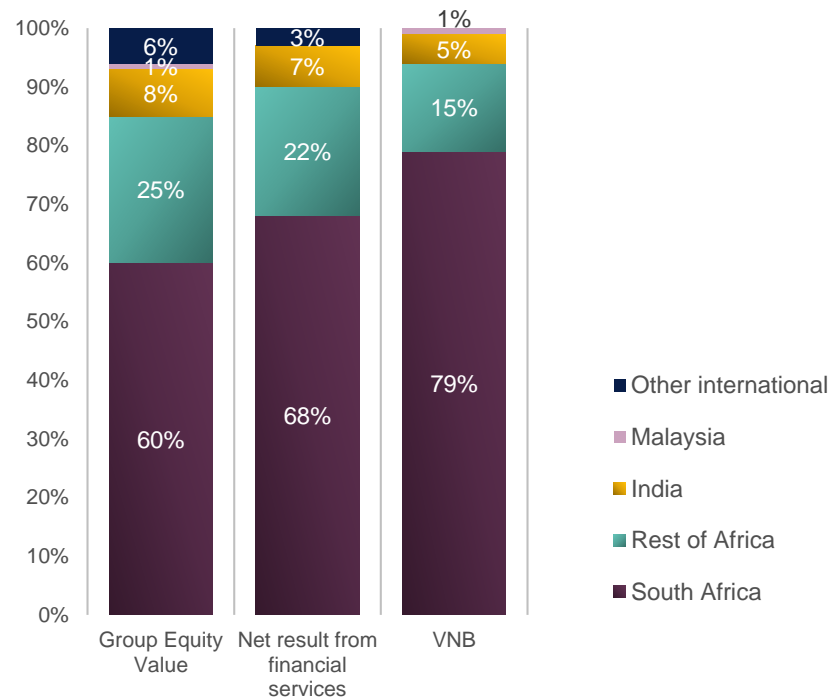
Diversification

Resilience through geographic diversification

Geographic (as at 30 June 2018)

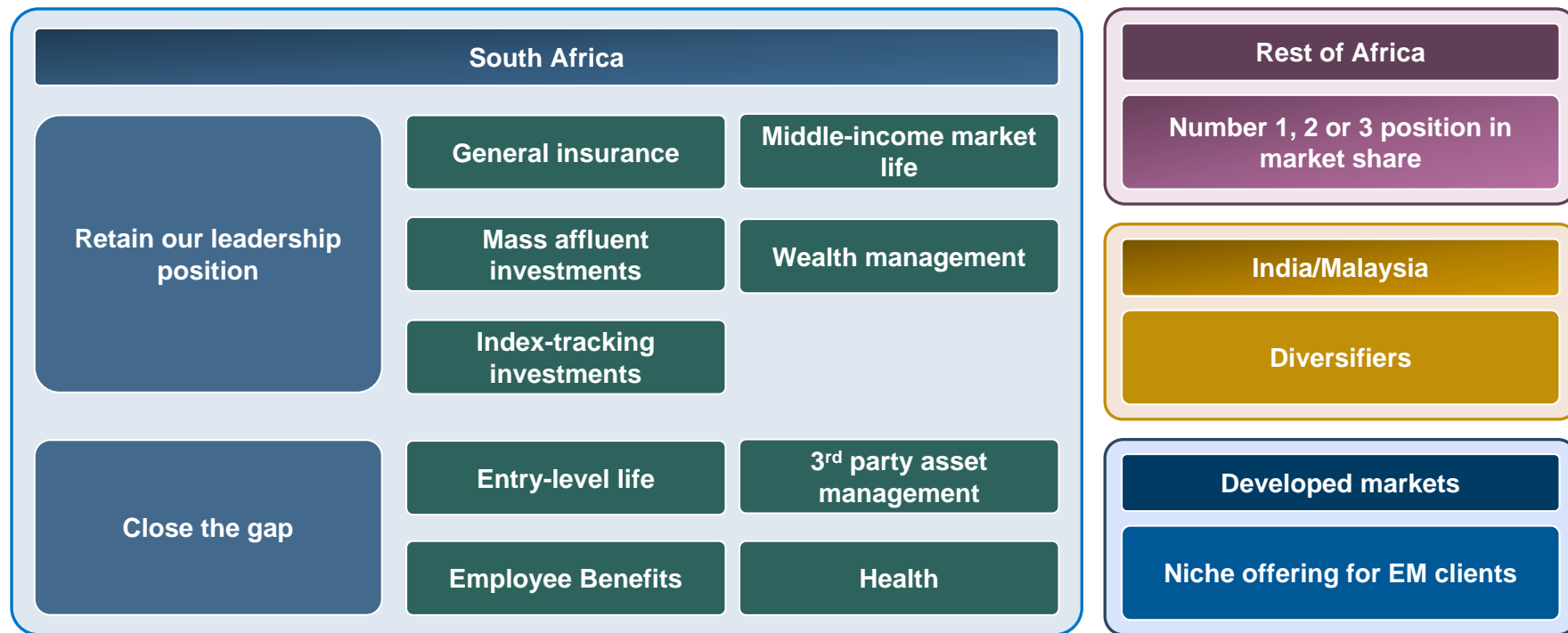


Geographic incl. Saham (as at 30 June 2018)



Striving for leadership in South Africa

To remain relevant we have to adapt and diversify



Pan-African opportunities for Sanlam

 Sanlam



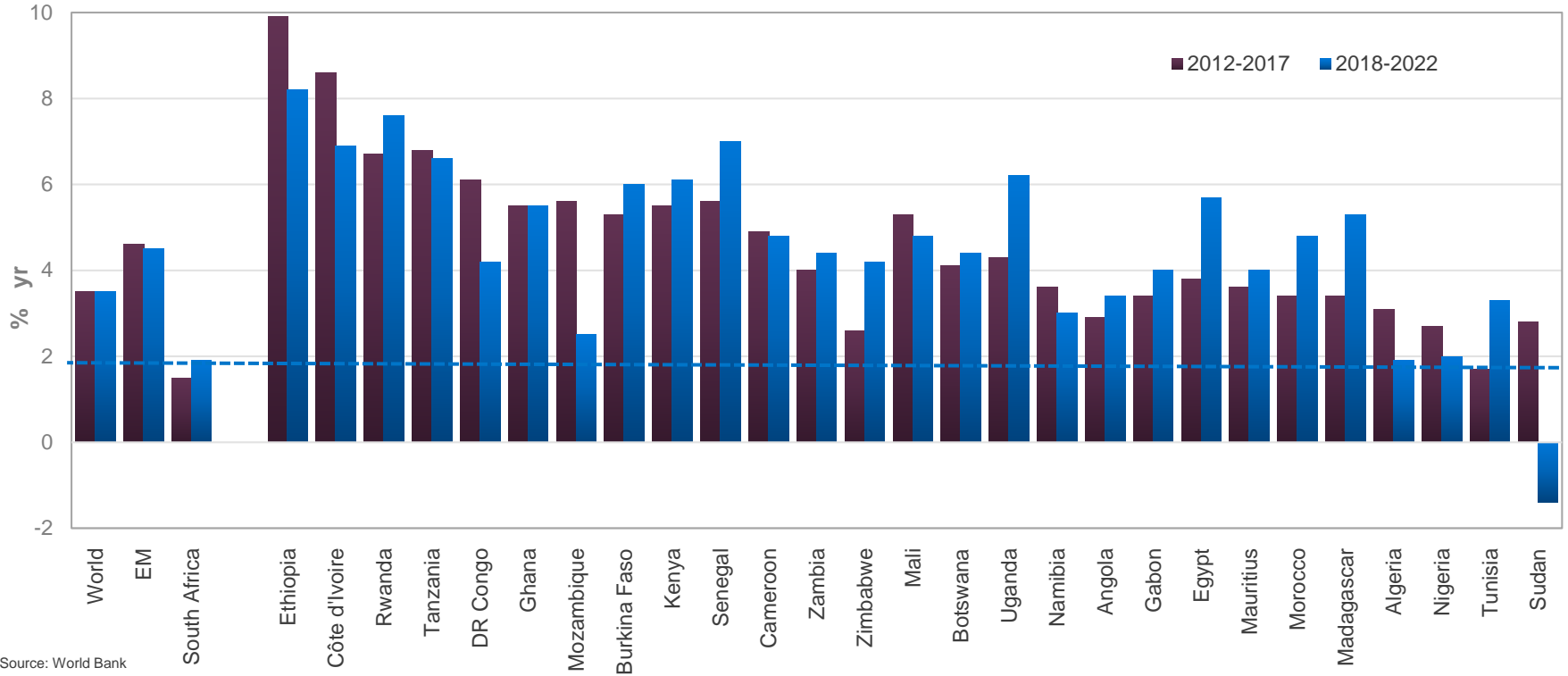
An unmatched Pan-African footprint

Diversification within Sanlam financial and operational capability



Pan-African GDP growth

Driving accelerated organic growth over the medium to long term

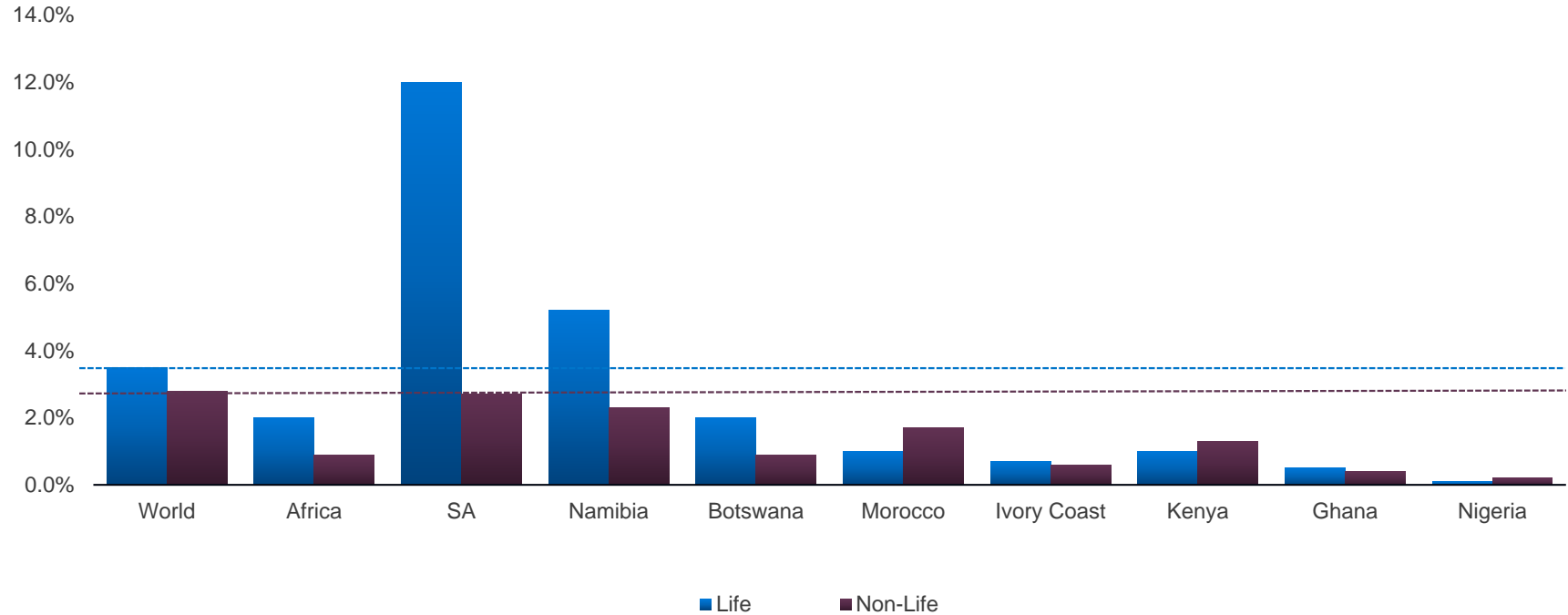


Source: World Bank

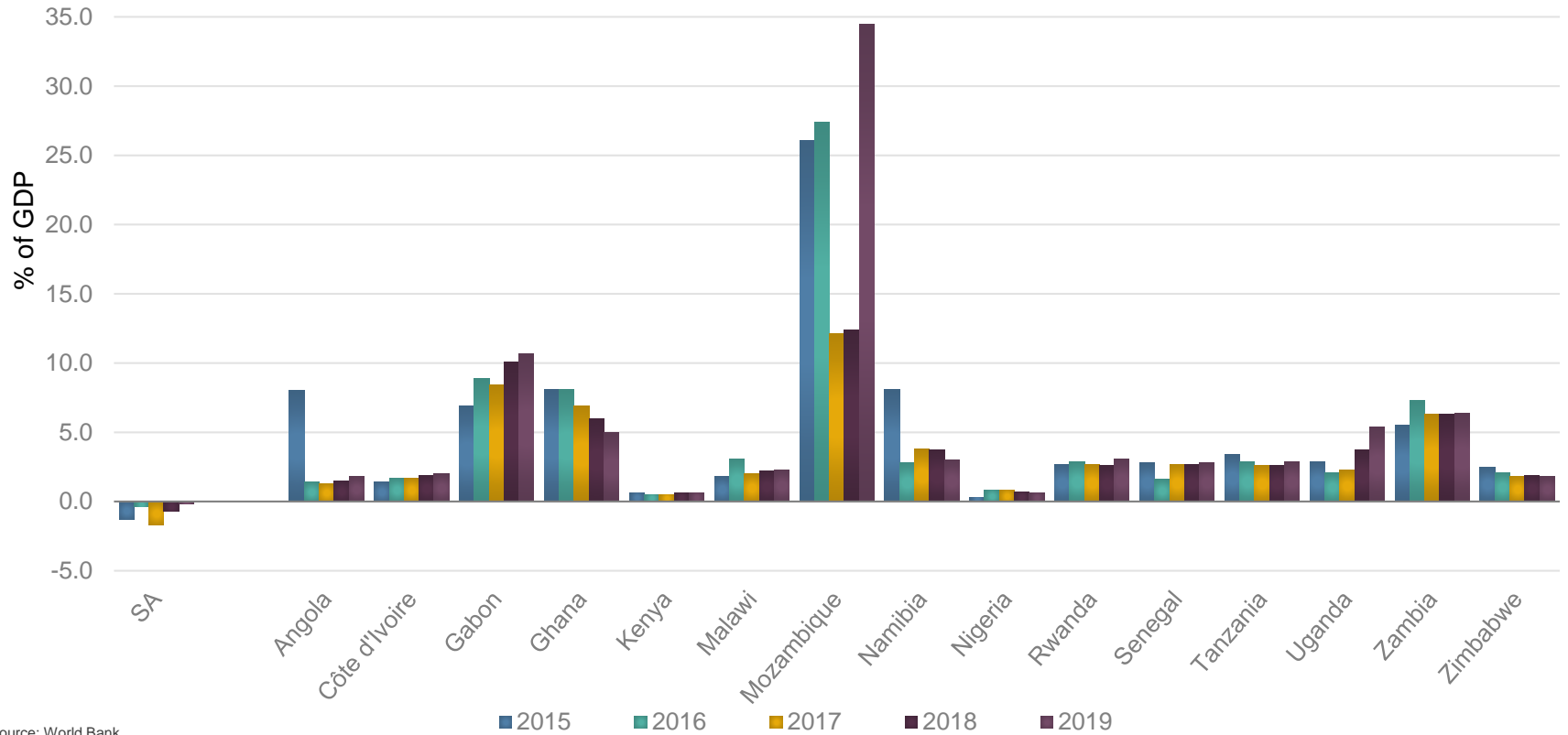
Pan-African insurance penetration

Leveraged organic growth over the medium to long term

Insurance penetration as % of GDP



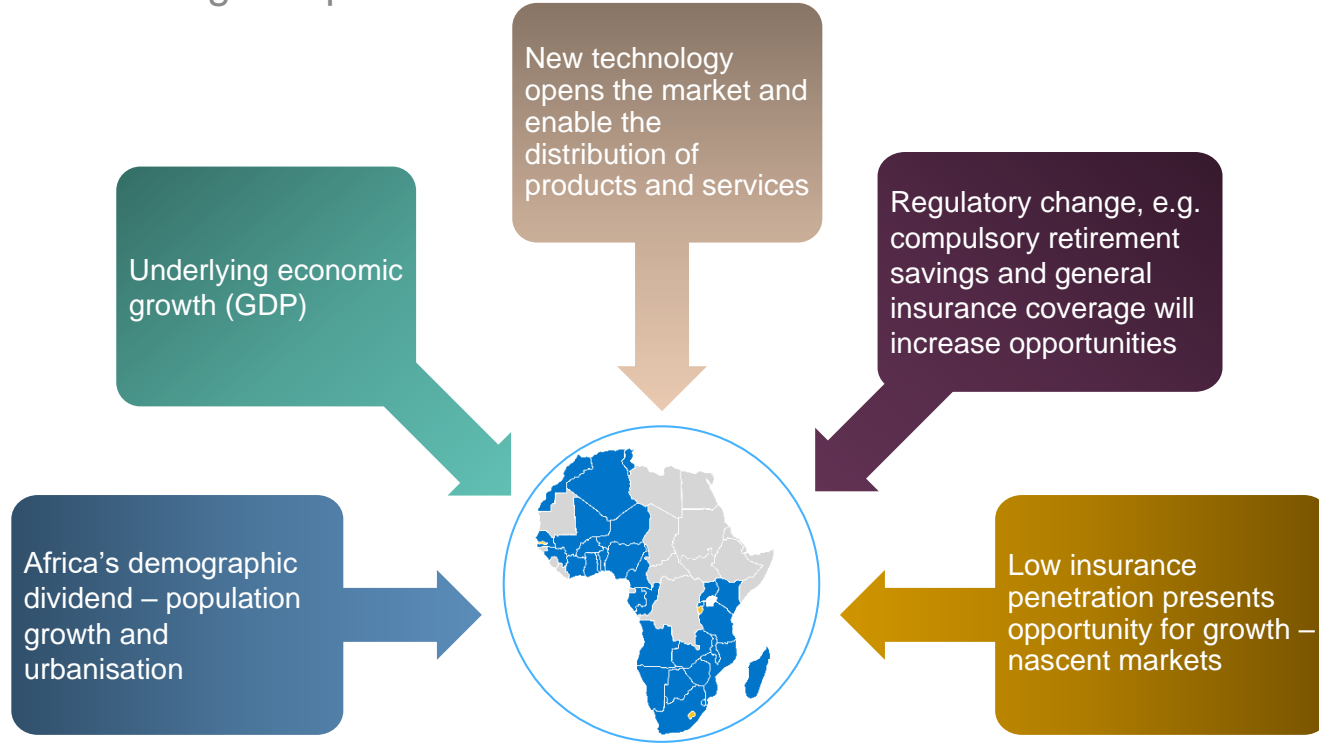
Net foreign direct investment



Source: World Bank

Key drivers of insurance penetration

A building block to our game plan



SEM Pan-Africa Operating Model

Lines of business (*excluding South African operations*)



Cluster Priorities



Cluster Priorities

Strategic objectives over medium term

Sanlam Personal Finance	Santam	Sanlam Investment Group
<ul style="list-style-type: none">• Digital transformation of the whole value chain• Close the gap in entry-level life• Implement and manage impact of RDR on intermediary remuneration and business models• Launch Glacier DFM in partnership with Sanlam Investment Group• Manage business enablers<ul style="list-style-type: none">• Omni-channel and expanded distribution footprint• Cost leadership through value optimization• Balance operating profit growth with new transformation initiatives	<ul style="list-style-type: none">• Retain market leadership in South Africa• Strategic focus on Saham Finances opportunity• Deliver on the opportunity for growth in international markets - specialist and reinsurance• Focus on staff retention and transformation• Balancing growth and profit in the intermediated South African business, Commercial & Property and specialist segments• 4th industrial revolution<ul style="list-style-type: none">• Leverage on partnerships• Use of technology in operations (artificial intelligence used in underwriting decision making and fraud detection)	<ul style="list-style-type: none">• Diversify into higher margin Alternative asset classes• Enhance capability to attract 3rd party inflows• Transformation as a key driver to attract inflows from institutional clients<ul style="list-style-type: none">• Continued focus on transformation and people development• Continue to optimise Sanlam balance sheet through Sanlam Specialised Finance• Align full value chain through cooperation with Glacier• Strengthening the turn-around of Sanlam UK, positioning the business for growth and enhancing wealth and asset management offerings for our African client base

Cluster Priorities

Strategic objectives over medium term

Sanlam Emerging Markets

- Grow SEM General Insurance portfolio in conjunction with Saham Finances
- Grow Saham Finances Life Insurance portfolio
- Drive growth in specialist classes and re-insurance in conjunction with Santam
- Internal reinsurance optimisation through SAHAM Re, capturing additional profit streams
- Saham Finances synergies are a priority, with a focus on growth synergies
- Become the go-to partner for multinational companies in Africa
 - Pan-African footprint enables multinational offering including General Insurance and Employee Benefits
- Driving organic growth with existing partners, banks, telco's and multinational brokers and insurers

Sanlam Corporate

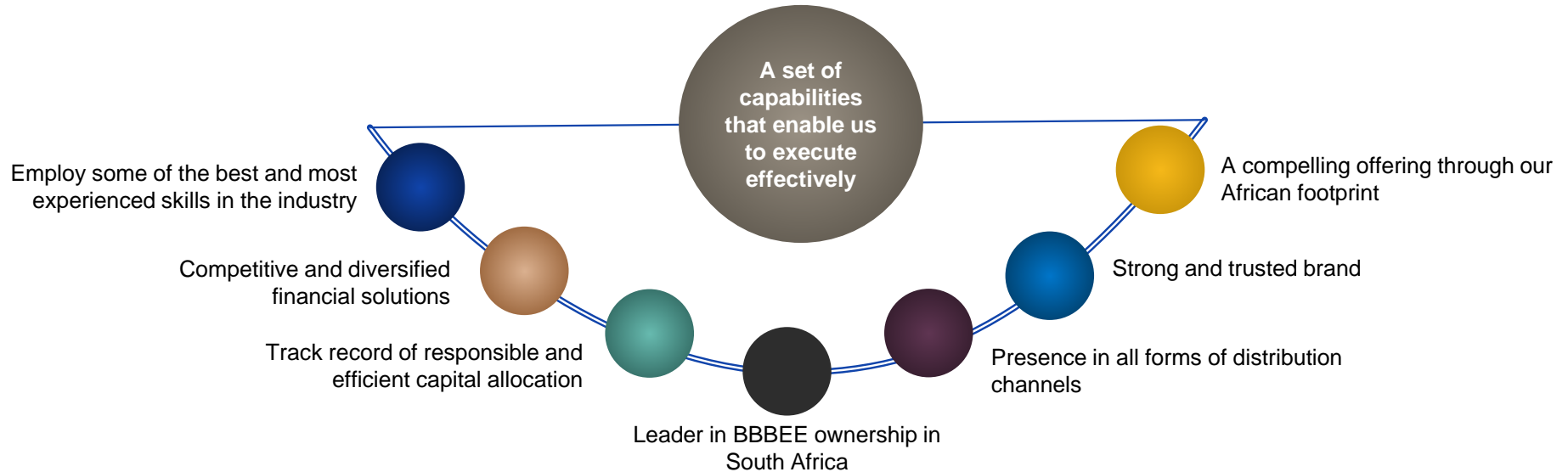
- Drive growth in Employee Benefits and Health to achieve a fairer market share
- Provide a coordinated 'One Sanlam' solution to targeted corporates by addressing Employee and Employer Income Statement and Balance Sheet levers
- Implement strategy, bed down operations and leadership
- Drive collaboration opportunities (Employee Benefits + Health + other) to increase clients' employee value propositions
- Profitable growth: balance cross-cluster pricing to win and retain business with need to maintain adequate margins
- Partner with SEM to provide in-country support for clients with an African footprint

Conclusion



Our competitive positioning into the future

Our execution capability has set us apart from our peers and will continue to do so



Our diversification creates resilience while offering growth opportunities grounded in our culture of client-centricity

Outlook for remainder of 2018

- ④ Economic environment not likely to improve over the short term in South Africa – will continue to hamper growth in most lines of business
- ④ Investment market and currency volatility to persist in environment of heightened global geopolitical risk
- ④ We will continue to execute on the strategy;
 - › deliver on Saham Finances acquisition
 - › well positioned for growth in Africa over the medium term
 - › drive collaboration opportunities both internally and externally
- ④ Strong focus on extracting synergies and generating target return from Saham Finances acquisition
- ④ Obtain shareholder approval for BBBEE share issuance and broader BBBEE strategy

thank you 

