Principles and Practices of Financial Management (PPFM) for Personal Finance Individual Smoothed Bonus Products

Sanlam Personal Finance (SPF)

Insurance | Financial Planning | Retirement | Investments | Wealth

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Section 1 – Introduction

1.1 Background

Sanlam is a leading financial services group in South Africa, providing a broad range of financial products and services. Our vision is to be the leader in wealth creation and protection for our clients. Our business philosophy is captured in the traditional values of honesty, diligence, ethical behaviour, innovation, stakeholder values and strong ties with business partners.

In order to safeguard the interests of our clients, sound governance and strong financial backing are required. The PPFM forms part of the governance structure, and Sanlam's financial strength is illustrated, inter alia, by the level of its capital and assets under management and administration. These are disclosed in Sanlam's Annual Report that is available from Sanlam's website (www.sanlam.co.za).

Sanlam has a decentralised management structure and conducts operations through five clusters. Each cluster is focused on specific markets and/or market segments and is supported by a centre of excellence at Group level, which sets tight principles within which the clusters must operate.
The five clusters are mutually inter-dependent and complementary in their offerings and approach, thereby ensuring that the value of the whole is larger than the sum of the parts.

- Sanlam Personal Finance (SPF)
- Sanlam Emerging Markets (SEM)
- Sanlam Investments
- Santam
- Sanlam Corporate

SPF is responsible for the Group's retail life and investment business in South Africa.

These business activities are conducted in the name of various legal subsidiaries such as Sanlam Life Insurance Limited, Sanlam Developing Markets Limited (previously African Life Assurance Limited), Sanlam Investment Management (Pty) Limited, etc.

1.2 Purpose of Principles and Practices of Financial Management

In order to manage *discretionary participation business*[1], long-term insurers must use their discretion in managing investments and allocating bonuses. Directive 147.A.i (LT) issued by the Financial Services Board requires insurers to define, and make publicly available, the Principles and Practices of Financial Management (PPFM) that are applied in the management of their discretionary participation funds. It should be noted, however, that a PPFM is neither a comprehensive explanation of the management of the *discretionary participation business* nor of every matter that may affect a particular policy contract.

Sanlam Life Insurance Limited ("Sanlam Life") has published the following six documents covering the PPFM on its website, (www.sanlam.co.za):

- PPFM for SPF *smoothed bonus products*
- PPFM for SEB *smoothed bonus products*
- PPFM for SPF reversionary bonus products
- PPFM for Sanlam Life participating annuity products

[1] ***Items in italics are defined in the glossary (Annexure 1)***

- Principles of Financial Management (PFM) for Sanlam Life linked and market-related products
- PFM for SEB Provider pension products

Sanlam Developing Markets Limited has published the following document covering the PPFM on its website, (www.sanlam.co.za):

- PPFM for Sanlam Developing Markets Limited's *individual smooth bonus products.*

Please contact Channel Life (www.channel.co.za) if you require the PPFM for their *smoothed bonus products.*

All Sanlam Life's *smoothed bonus products* fall into the *discretionary participation business* category. **This document comprises the PPFM for the following SPF *smoothed bonus products:***

- **Stable Bonus Fund (SBF) including Income Protector (T46)**
- **Stratus Vesting Bonus Fund (SVBF)**
- **Guaranteed Capital Fund (GCF)**

1.3 Principles and Practices

The **Principles** define the overarching standards that have been adopted to manage Sanlam Life's smoothed bonus business and are not expected to change often. The Principles are the standards used to maintain the long-term solvency of the fund for current and future policyholders. They also describe the broad framework used:

- when discretion is applied in the management of *smoothed bonus products;* and
- in response to longer-term changes in the business and economic environment.

The **Practices** describe the current approach used to:

- manage *smoothed bonus products;* and
- respond to changes in the business and economic environment in the shorter term.

Practices are therefore expected to change more frequently than Principles.

1.4 Compliance

The Sanlam Life Insurance Limited Board ("Sanlam Life Board") is responsible for the governance of *smoothed bonus products* written by Sanlam Life, and it has tasked the Sanlam Customer Interest Committee to monitor compliance with the PPFM on its behalf.

The PPFM may change as the economic or business environment changes. Any change to a Principle or Practice will be approved by the Sanlam Life Board, on recommendation from the *statutory actuary* and the Sanlam Customer Interest Committee.

At least three months before a change to a Principle is implemented, the relevant policyholders and the relevant Authority (Financial Services Conduct Authority (FSCA) and/or the Prudential Authority (PA)) will be informed and the proposed change will be published on our website. Any change to a Practice will be published on our website and policyholders will also be informed of such a change in the annual portfolio statement.

Section 2 – Overriding principles of financial management

The principles in Section 2 cover all SPF *smoothed bonus products.* Principles specific to certain products are covered in the various sections relating to these products.

2.1 Principle regarding legal and contractual obligations

Sanlam Life is committed to comply with the requirements of all contractual obligations and other legal and regulatory requirements, including the *demutualisation rules* (for policies in force at demutualisation). These requirements apply if there is any inconsistency between them and the PPFM.

2.2 Principles regarding the general management of smoothed bonus business

Sanlam Life applies the following key principles to its *discretionary participation business*.

a) Each product has separate assets that are used to support the benefits of the particular policyholders as a group. The assets are increased by *net premiums* and adjusted with investment returns earned, which can be positive or negative. It is reduced by benefit payments, terminations, charges and applicable taxes, which are deducted from the portfolio. The value of the underlying assets of a particular smoothed bonus product is also called the market value of that product.

At maturity (or the *option date*) and death the benefit payment is based on the *book value* of that policy. The *book value* is calculated by accumulating the *net premiums* with declared bonuses. The *book value* will be reduced by benefit payments, terminations and charges, and may further be reduced should accumulated *non-vested bonuses* be reduced or removed. As bonuses are smoothed, changes in the market value of the assets might not be reflected in changes in the *book value* immediately.

The surplus or deficit in a portfolio is the difference between the market value and the *book value*. This is called the *Bonus Stabilisation Reserve (BSR)*. A product's *funding level* is the ratio of market value to *book value*.

For the products covered in this PPFM, policyholders share in the investment return of their respective underlying portfolios as well as the profits or losses resulting from differences between market value and *book value* when benefits (including benefits on death) are paid. Policyholders do not share in other experience profits and losses, for example those arising from expenses. This means that policyholders are exposed to the investment risk (including credit risk), but not to other *business risks*. The Sanlam Life shareholders are exposed to the risks and rewards associated with those *business risks*.

Sanlam Life may leverage the assets in the underlying portfolios for transactions such as scrip lending. Any income or losses arising from these transactions will be for Sanlam Life shareholders' own account, and therefore do not affect the benefits to which policyholders are entitled.

b) It is important for the various elements of product design and pricing to fit together. Particular attention is therefore paid to the following elements during the design and ongoing management of our *smoothed bonus products*:

- pricing and reserving for smoothed bonus benefits;
- investment policy;

- the nature of bonuses declared – partially or fully vesting, declared annually in arrears with adjustable interim bonuses until the next declaration or monthly declarations;
- policyholder expectations, in particular with regard to bonuses, through marketing material, policy contracts and other communication that are accurate and easy to understand; and
- early withdrawal benefits, where *market value adjusters* (*MVA*s) are used to protect the interests of remaining policyholders.

2.3 Principles regarding bonuses

a) Sanlam Life's bonus philosophy is that the underlying assets for a particular group of smoothed bonus policies will, over time, be used for the benefit of those policyholders, subject to the charges recovered from the portfolio.

b) The bonus philosophy further aims to provide a reasonable compromise between smoothing the volatility of investment returns on the one hand and ensuring equity among different generations of policyholders on the other. The approach used when determining bonus rates is as follows:

- The starting point is the net expected long-term investment return, taking into account the asset composition of the particular portfolio.
- This return is adjusted to eliminate surpluses or deficits in the portfolio over a suitable period.

c) Policyholders' reasonable benefit expectations are also taken into account when discretion is applied to bonus declarations.

d) The Sanlam Life Board approves the bonus philosophy on the advice of the *statutory actuary*. A committee of the Sanlam Life Board approves the bonus rates that are determined in accordance with the bonus philosophy.

e) Depending on the product, bonuses can be vested, non-vested or a combination of vested and non-vested. Declared *vested bonuses* cannot be removed for maturity (or *option date*) and death claims. Declared *non-vested bonuses* (or a portion thereof) may, however, be removed to maintain the on-going solvency of the policyholder fund. *Non-vested bonuses* will only be removed by the Sanlam Life Board, based on a recommendation from the *statutory actuary*, when the *funding level* becomes unacceptably low.

f) Where bonuses are declared annually, interim bonus rates apply to the period from the previous bonus declaration date to the claim date. They are set to achieve greater fairness between policyholders leaving (because of a claim) and policyholders remaining in the fund.

2.4 Principles regarding investment strategy

a) An *Asset-liability committee (ALCO)*, comprising Sanlam Life employees with actuarial, investment and client solution backgrounds, oversees the investment policy for the various smoothed bonus portfolios.

b) The aim is to find the optimum balance between attractive investment returns and stable investment returns, given the need to meet smoothed benefits and to support the granting of stable bonus rates in line with the product design.

c) Policyholders' funds are managed separately from shareholders' funds.

d) The requirements for the investment management of each portfolio are set out in investment guidelines, with a view to managing risk through:

- limits on exposure to *volatile assets*;

- limiting credit risk to investment grade or higher rated debt instruments. Adequate diversification is also ensured by setting limits for any single counter party. There is no limit on exposure to the RSA government, since this is considered risk free;

- limits on asset concentration – particularly with regard to *strategic investments* and Sanlam Limited shares. The exposure of policyholders' portfolios to these investments is based on portfolio investment considerations and is restricted with reference to a specific counter party's weight in the *benchmark portfolio*;

- limits on exposure to certain types of assets, such as assets that cannot be easily liquidated and unlisted equities; and

- compliance with regulatory constraints.

e) The guidelines contain benchmarks for the performance measurement of each asset class and limits on deviations from these benchmarks to help manage returns on portfolios.

f) Feedback on the investment policy, its implementation and the performance of the smoothed bonus portfolios is provided regularly to the Asset-Liability Committee and the Sanlam Life Board.

g) Some portfolios may invest in one or more of the managed asset classes in order to improve the diversification of these portfolios. Managed asset classes include amongst others: *hedge funds*, *exchange traded funds*, property investments, *private equity investments*, *derivatives*, credit conduits, etc. The managers of these managed asset classes, which may include companies within the Sanlam Group, deduct their management fees and expenses directly from the investment returns. These deductions are in addition to the charges contained in the *actuarial basis*.

h) *Derivative* instruments may be utilised:

- to hedge the portfolio against unforeseen circumstances;

- for strategic and tactical asset allocation; and

- to take advantage of anomalies or inefficiencies in the *derivative* market pricing in order to enhance returns.

Derivatives may not be used to speculate.

i) The extent to which portfolios invest in *Negative Rand Reserves* is restricted to a maximum proportion of the portfolio, with returns over time similar to the average return on the rest of the portfolio.

2.5 Principles regarding surrender values and other early-termination benefits

Sanlam Life aims to pay out amounts that do not have a materially adverse effect on continuing policies. When the market value of a smoothed bonus product is less than the *book value*, *market value adjusters* (MVAs) will normally be applied to the *book value* so as to reduce the amount paid to members who choose to leave the smoothed bonus product early. The amount paid will also be reduced by policy charges as indicated in the *actuarial basis*.

2.6 Principles regarding charges

a) Charges, as applicable, will be recovered from policyholders' funds for inter alia:
- administration and marketing;
- tax (if applicable);
- other regulatory charges;
- risk benefits; and
- investment activities and other guarantees.

b) The charges are set mindful of the need to provide competitive products that provide value for money to policyholders and reasonable profits to shareholders. Charges also take into account the need for capital to operate a life insurance business (and smoothed bonus business in particular) and the need for fair compensation to shareholders for risks assumed.

c) No explicit profit charges are taken, but profit will arise from the difference between charges taken, and costs incurred or risk benefits paid.

d) The charges are specified in the *actuarial basis* that applies to a specific policy.

e) Rand based charges are increased to allow for inflation, as specified in the *actuarial basis*.

f) Charges are used, inter alia, to pay for policy expenses. Policy expenses may change in the long term. If the *actuarial basis* permits it Sanlam may, in addition to the inflationary increases, also change the charges. The *statutory actuary* should be satisfied that any change to charges is reasonable, based on actual past and expected future experience.

g) In the case of policies issued prior to Sanlam Life's demutualisation, the *statutory actuary* has to certify that changes to charges are fair in relation to charges in the market and must inform the relevant Authority of such changes.

2.7 Principles regarding new business and portfolio mergers

a) The Sanlam Life Board manages the types and volumes of new business as part of its management of the overall risk, profitability and ongoing solvency of Sanlam Life.

b) The Sanlam Life Board may close portfolios to new business if new business is no longer considered to be viable or if new fund inflows are deemed to be unfair, based on the *funding level* of the portfolio, to either existing policyholders in the fund or to new policyholders entering the fund. Alternatively, adjustments may be made to the terms on which new business is accepted to ensure equity. The administration processes involved in the closing of portfolios to new business will then determine whether portfolios are closed or terms adjusted for new policyholders.

c) It may be in the best interest of policyholders in a *diminishing mature portfolio* to have their diminishing portfolio combined with a larger portfolio. This will entail a transfer of the market value, including the *Bonus Stabilisation Reserve*, from the diminishing portfolio to the larger portfolio. This will only be done if equity is achieved between the portfolios being combined.

2.8 Principles regarding financial assistance

It is a statutory requirement to provide financial support to *under-funded* portfolios if the deficit in the portfolio is not expected to be eliminated within the next three years. The Sanlam Life Board may also decide to provide support under other circumstances if it is deemed to be in shareholders' interests. The support will normally be in the form of interest-free loans that may be recovered from the portfolio if the loans are no longer considered necessary.

2.9 Governance

A sound governance structure is needed to manage *discretionary participation business*, which forms a substantial proportion of Sanlam Life's liabilities. The Sanlam Life Board is ultimately responsible for the governance of *discretionary participation business*, but a number of parties assist in this regard, including:

- the Sanlam Audit, Actuarial and Finance Committee;
- the Sanlam Customer Interest Committee;
- the *Asset Liability Committee (ALCO)*;
- the *statutory actuary*; and
- the external auditors and their actuarial resources.

Section 3 – Stable Bonus Fund

3.1 Overview of the Stable Bonus Fund

This is a portfolio where investment returns are smoothed by way of annual bonus declarations. The *book value* is paid out for benefits payable on maturity and death.

If the market value of the assets in the portfolio is greater than the *book value*, a positive *bonus stabilisation reserve* is created, which will be used to enhance future bonuses. Conversely, if the market value of the assets is less than the *book value*, a negative *bonus stabilisation reserve* is created, which will be eliminated by lower bonuses in the future.

3.2 Principles of managing the Stable Bonus Fund

Bonuses will change over time in line with changes in the investment conditions. Bonuses consist of a vesting bonus and a non-vesting bonus. *Non-vested bonuses* that accumulated from previous bonus declarations may be reduced or removed if the financial circumstances of the portfolio deteriorate to the extent that the Sanlam Life Board deems these measures to be necessary.

3.3 Practices

3.3.1 Practices regarding bonuses

a) Bonuses are declared annually in arrears for the period 1 October of the previous year to 30 September.

b) Bonuses are declared net of charges and tax (if applicable).

c) The starting point is to set bonuses equal to the expected long-term rate of return on the assets underlying the fund and then to adjust these bonuses with actual experience to date (as reflected by the *funding level*). The difference between the actual *funding level* and 106% is normally added to the bonus over a rolling 60-month period. The following exceptions apply:

- if the *funding level* is significantly above 106% (in the region of 110% or more) after the initial bonuses have been declared, then (depending on market conditions) a portion of the surplus above say 110% may be declared as an additional non-vested bonus.

- if the *funding level* is lower than 100%, then the difference between the actual *funding level* and 100% is deducted from the bonus over a shortened rolling period according to the number of consecutive years during which the *funding level* was lower than 100%;
- if the *funding level* is between 100% and 106%, the bonus will be equal to the expected long-term rate of return; and
- if the *funding level* is lower than 90% then the *funding level* is brought back to at least 90% by a low bonus declaration and/or cancellation of *non-vested bonuses* and/or making an interest-free loan.
- In the event that *non-vested bonuses* are to be cancelled a sufficient amount of *non-vested bonuses* needs to be cancelled so as to restore the funding position to at least 92,5 %.

d) Under normal circumstances, 40% of the declared bonus will vest. The remaining 60% will be in the form of a non-vested bonus. To the extent that the bonus increased as a result of the *funding level* exceeding, say 110% (see paragraph c), the entire additional bonus will be non-vesting.

e) Interim bonus rates are reviewed regularly and may be changed retrospectively between bonus declaration dates, based on the investment returns actually earned. Interim bonuses would normally be equal to the lower of the immediate past annual bonus and the annual bonus rate that is projected to be declared at the next annual bonus declaration.

f) *Vested bonuses* cannot be removed or reduced, but *non-vested bonuses* may be partially or fully removed when the *funding level* at year-end is below 90%.

g) A terminal bonus may be declared at the discretion of Sanlam Life, should the funding level exceed 103%. Terminal bonuses apply to all types of benefit payments.

3.3.2 Additional investment guarantees

Some policies have additional investment guarantees at maturity. Where applicable, the guaranteed amount at maturity equals the *net premiums* accumulated at a contractual minimum rate. If the guaranteed amount exceeds the *book value* of a particular policy, the difference will be paid by Sanlam Life's shareholders.

3.3.3 Investment practices

a) Sanlam Investment Management (SIM) manages most of the assets.

b) The current investment guideline limits the maximum exposure to *volatile assets* to 59% of the portfolio.

c) Credit risk is limited to investment-grade debt instruments. Fixed-interest instruments with any counter party, other than the RSA government, may not comprise more than 20% of the market value of RSA fixed interest and RSA cash components of the portfolio.

d) The maximum offshore exposure is subject to limits prescribed by the regulatory authorities.

e) ALCO can increase or decrease the above limits, subject to regulatory requirements, by up to 10% as circumstances change. For example, it can increase the maximum exposure to *volatile assets* from 59% to 69%.

f) Investment in *Negative Rand Reserves* is restricted to a maximum investment of 10% of the portfolio, with returns over time similar to the average return on the rest of the portfolio. This maximum limit may be increased if any market movements in assets values result in the *Negative Rand Reserves* exceeding 10% of the portfolio.

3.3.4. Practices regarding charges

a) Tax and any other statutory charges are levied according to the requirements of the applicable policyholders' fund.

b) The fund charges (including any investment management performance charges) are contained in the *actuarial basis*.

c) Any changes to charges are subject to:

- demutualisation requirements ;
- the *actuarial basis* permitting such changes; and
- approval by the *statutory actuary*.

The *statutory actuary* should be satisfied that any change to charges is reasonable based on actual past and expected future experience.

3.3.5. Practices regarding movements out of the fund (other than maturity and death benefit payments)

Book value (less policy charges as set out in the *actuarial basis*) is paid out, unless it is considered not to be in the interests of remaining policyholders (e.g. if market value is less than *book value*). In this instance the *book value,* less policy charges as set out in the *actuarial basis,* is reduced by the application of *market value adjusters* (*MVA*).

Section 4 – Stratus Vesting Bonus Fund

4.1 Overview of the Stratus Vesting Bonus Fund

This is a portfolio where investment returns are smoothed by way of monthly bonus declarations. The *book value* is paid out for benefits payable on *option date*, every 5th policy anniversary after *option date* and death.

If the market value of the assets in the portfolio is greater than the *book value*, a positive *bonus stabilisation reserve* is created, which will be used to enhance future bonuses. Conversely, if the market value of the assets is less than the *book value*, a negative *bonus stabilisation reserve* is created, which will be eliminated by lower bonuses in the future.

4.2 Principles of managing the Stratus Vesting Bonus Fund

Bonuses vest fully for benefit payments on *option date*, every 5th policy anniversary after *option date* and death. Bonuses may not be taken away by declaring negative bonuses.

4.3 Practices of managing the Stratus Vesting Bonus Fund

4.3.1 Practices regarding bonuses

a) Bonuses are declared monthly in advance according to the bonus formula approved by the Sanlam Life Board. The Sanlam Life Board receives an annual bonus report and must approve any changes to the formula.

b) The starting point is to set bonuses equal to the expected long-term rate of return on the assets underlying the fund and then to adjust these bonuses with actual experience to date (as reflected by the *funding level*). The difference between the actual *funding level* and 103% is normally added to the bonus over a rolling 24-month period. The following exceptions apply:

- if the *funding level* is significantly above 103% (in the region of 110% or more), then the difference between the actual *funding level* and say 103% may (depending on market conditions) be added to the bonus over a shortened period; and
- if the *funding level* is lower than 92,5%, then no bonuses are declared.

c) Bonuses are declared net of charges and tax (if applicable). Bonuses have a minimum value of zero.

d) Bonuses are declared at the start of the month to which they pertain and vest at the end of the month to which they pertain.

4.3.2 Investment practices

a) Sanlam Investment Management (SIM) manages most of the assets.

b) The current investment guideline limits the maximum exposure to *volatile assets* to 59% of the portfolio.

c) Credit risk is limited to investment-grade debt instruments. Fixed-interest instruments with any counter party, other than the RSA government, may not comprise more than 20% of the market value of RSA fixed interest and RSA cash components of the portfolio.

d) The maximum offshore exposure is subject to limits prescribed by the regulatory authorities.

e) ALCO can increase or decrease the above limits, subject to regulatory requirements, by up to 10% as circumstances change. For example, it can increase the maximum exposure to *volatile assets* from 59% to 69%.

f) Investment in *Negative Rand Reserves* is restricted to a maximum investment of 10% of the portfolio, with returns over time similar to the average return on the rest of the portfolio. This maximum limit may be increased if any market movements in assets values result in the *Negative Rand Reserves* exceeding 10% of the portfolio.

4.3.3. Practices regarding charges

a) Tax and any other statutory charges are levied according to the requirements of the applicable policyholders' fund.

b) The fund charges (including any investment management performance charges) are contained in the *actuarial basis*.

c) Any changes to charges are subject to:

- the *actuarial basis* permitting such changes; and
- approval by the *statutory actuary*.

The *statutory actuary* should be satisfied that any change to charges is reasonable based on actual past and expected future experience.

4.3.4. Practices regarding movements out of the fund (other than benefits payments on option date, every 5th policy anniversary after option date and death)

Book value (less policy charges as set out in the *actuarial basis*) is paid out, unless it is considered not to be in the interests of remaining policyholders (e.g. if market value is less than *book value*). In this instance the *book value* is adjusted taking into account the underlying market value on the specific policy. Then the policy charges as set out in the *actuarial basis* are deducted, to determine the amount paid.

Section 5 – Guaranteed Capital Fund

5.1 Overview of the Guaranteed Capital Fund

This is a portfolio where investment returns are smoothed by way of monthly bonus declarations. Bonuses will never be negative and *book value* is payable on death, maturity and *surrender*.

If the market value of the assets in the portfolio is greater than the *book value*, a positive *bonus stabilisation reserve* is created, which will be used to enhance future bonuses. Conversely, if the market value of the assets is less than the *book value*, a negative *bonus stabilisation reserve* is created, which will be eliminated by lower bonuses in the future.

5.2 Principles of managing the Guaranteed Capital Fund

Bonuses vest fully for benefit payments on death, maturity and *surrender*. Bonuses may not be taken away by declaring negative bonuses.

5.3 Practices of managing the Guaranteed Capital Fund

5.3.1 Practices regarding bonuses

a) Bonuses are declared monthly in advance and take short-term interest rates and the *funding level* into consideration. Bonuses are reported to the Sanlam Life Board annually. Bonuses can be expected to be close to the expected returns of the assets underlying the portfolio less charges. An attempt is made to limit the frequency of changes to the bonus rate.

b) Bonuses are declared net of charges and tax and have a minimum value of zero.

c) Bonuses are declared at the start of the month to which they pertain, and vest at the end of the month to which they pertain.

5.3.2 Investment practices

a) Sanlam Investment Management (SIM) manages most of the assets.

b) Investments are restricted to mainly instruments that are expected to deliver returns similar to cash. The portfolio has limited exposure to other investments aimed at enhancing returns. The current investment guideline does not allow for any currency exposure.

c) Credit risk is limited to investment-grade debt instruments. Fixed-interest instruments with any counter party, other than the RSA government, may not comprise more than 20% of the market value of RSA fixed interest and RSA cash components of the portfolio.

5.3.3 Practices regarding charges

a) Tax and any other statutory charges are levied according to the requirements of the applicable policyholders' fund.

b) The fund charges (including any investment management performance charges) are contained in the *actuarial basis*.

c) Any changes to charges is subject to:

- the actuarial basis permitting such changes; and
- approval by the statutory actuary.

The *statutory actuary* should be satisfied that any change to charges is reasonable based on actual past and expected future experience.

5.3.4. Practices regarding movements out of the fund (other than benefits payments on death and maturity)

The *book value*, or an appropriate proportion of that amount, less policy charges as set out in the *actuarial basis*, is payable on full or partial *surrender*.

Annexure 1 – Glossary

Actuarial basis – In relation to a policy, this means the underlying actuarial rules, specifications and formulae in terms of which the policy operates, which:

a) in compliance with the Long-Term Insurance Act, 1998 are approved by the *statutory actuary* of the insurer, in particular for the purposes of sections 46 and 52; and

b) if and while the Insurance Act, 1943 applied to the policy, in compliance with that Act, were approved by the valuator of the insurer, in particular for the purposes of sections 34 and 62(2) of that Act.

Asset-liability committee (*ALCO*) – A committee of investment and actuarial professionals that determines the investment strategy for the asset portfolios underlying the *discretionary participation business.*

Benchmark portfolio – The portfolio against which performance is measured.

Bonus Stabilisation Reserve (BSR) - The difference between the market value and the *book value* of a portfolio.

Book value – *Book value* is calculated by accumulating the *net premiums* with declared bonuses less any *non-vested bonuses* cancelled. Declared bonuses are net of charges and tax.

Business risks – The risk of losses due to the actual experience being different from the assumptions made when pricing a product. *Business risks* also include the risk of losses incurred in respect of other products.

Demutualisation Rules – Restrictions on changes to charges as set out in Sanlam's demutualisation proposal. These restrictions are applicable to policies in force on the demutualisation date. In the case of the pre-demutualisation policies, the *statutory actuary* has to certify that changes in charges are fair in relation to charges in the market and inform the relevant Authority of such changes.

Derivative – A contract whose value is derived from that of other investment instruments.

Diminishing mature portfolio – A mature portfolio (often closed for new business) is one where the claims paid out are greater than the new premiums being received. The portfolio becomes so small that it is difficult to manage on its own.

Discretionary participation business – Any business that allows discretion to be used in the way bonuses are declared. All Sanlam Life's *smoothed bonus products* fall into this category.

Exchange traded funds - ETFs are investments that try to replicate a stock market index such as the ALSI40.

Funding level – The *funding level* is the ratio of market value to *book value* of a portfolio.

Hedge fund – A portfolio which uses any strategies or takes any positions that could result in the portfolio incurring losses greater than its total market value at any point in time, and which strategies or positions include but are not limited to short positions. A short position is where an asset is sold by a seller for delivery at a future date or time, and the seller does not own such asset at the time of the sale. Though *hedge funds* do not necessarily hedge their investments against adverse market moves, the term is used to distinguish them from regulated retail investment funds – for example, collective investment schemes.

Market value adjuster / adjustment – This is the reduction of early termination values, based on the current level of the market, to protect policyholders that remain invested.

Negative Rand Reserves – A deemed asset that is created when expenses are incurred on behalf of the policyholder (e.g. commission), which will be repaid through future charges against policies.

Net Premiums – The premium less charges recovered from the premium.

Non-vested bonuses – Bonuses that can be removed under certain circumstances.

Option date – A new-generation policy has an *option date* instead of a maturity date. Such a policy is open-ended and will continue beyond the *option date*, unless the policyholder requests a benefit to be paid on the *option date.*

Private equity investments - *Private equity* is a broad term that commonly refers to any type of equity investment in an asset in which the equity is not freely tradeable on a public stock market.

Smoothed Bonus products – Sanlam Life's business that allows discretion to be used in the way bonuses are declared.

Statutory actuary – The actuary whose main role is to certify that in his (or her) professional actuarial opinion a life insurance company is conducting business on a financial sound basis.

Strategic investments – Sanlam Life's investments in subsidiaries and associated companies.

Surrender – When a policy is terminated at the request of the policyholder before the policy's maturity date.

Under funded – When the liabilities are more than the assets in the portfolio, i.e. when the portfolio is less than 100% funded. The *Bonus Stabilisation Reserve (BSR)* will then be negative.

Vested bonuses – Bonuses that may not be taken away.

Volatile assets – The value of these assets is expected to vary considerably over time. Volatile asset classes include equities and international investments.