

# Chair's report

The world changed dramatically in 2020, with COVID-19 overtaking our lives in a manner never experienced before. The pandemic started as a health crisis, quickly transforming into a ravaging global human and economic crisis.

*Many lives have been lost and livelihoods impacted in a hugely negative way. For us, in particular, this is not just a historical occurrence. In South Africa, the first death to be recorded was the loss of a member of the Sanlam family. It made the pandemic real very early on. Not only did it affect lives and livelihoods, it devastated businesses and economies. While it is impossible not to be saddened by the devastation COVID-19 has brought about, the pandemic also presented opportunities for us to respond with resilience and compassion, expressed in our commitment to our employees, clients, intermediaries and communities.*



**A**lmost overnight, 90% of our people were equipped to work remotely. We recognised that employees struggled to adjust and many experienced emotional and health strain. Caring for employee wellbeing was quickly elevated to one of our top priorities during this trying time.

In the midst of what was unfolding, and despite growing uncertainty, the Board boldly undertook a strategic planning session to ensure we emerge from this crisis with a robust, bullish and resilient plan. With hindsight, it was the most strategic decision we could have taken; the process prepared us to respond appropriately to a deepening complexity of economic, social and policy outcomes.

Following the devastating economic impact of COVID-19 in South Africa, the Sanlam Foundation initiated three consumer financial education programmes targeting 9 000 beneficiaries. This was important to create equitable opportunity for financial security in a particularly difficult time. We continue to tailor our solutions to empower generations to be financially confident, secure and prosperous.

Recognising that the urgency and scale of the required response to the pandemic cannot be managed by government alone, we committed capital of R2,25 billion to seed three

funds that will provide large-scale support to South African companies impacted by COVID-19. Named the Investors' Legacy range, these funds demonstrate Sanlam's deliberate commitment and determination to reignite economic growth, preserve and create jobs, and foster social inclusion. We believe that there is a shared responsibility among South Africa's private sector to assist with essential economic intervention. We hope our actions will mobilise further capital from like-minded corporates and encourage investors to embark on projects that will have a quick turnaround effect on our economic fortunes as well as a lasting "impact" on the wellbeing of our people.

Sanlam further aims to be an African champion and a truly Pan-African business. In collaboration with our partner companies, including the Motsepe Foundation and associated companies, Saham Assurance Morocco, Shriram and others, Sanlam committed over R1 billion to supporting clients and national imperatives across the countries where we operate, from South Africa to Morocco to Lebanon, India and Malaysia. We donated R45 million to support various SEM initiatives in 30 African countries as well as in other emerging markets in response to the pandemic. Sanlam also supported the African Union with a donation of R50 million to provide relief across the continent focusing on personal protective equipment and food relief.

## Chair's report continued

### Governance, guidance and leadership

One of several areas requiring care in 2020 was the leadership changes that occurred within the Board and Exco.

These changes included my appointment as independent Chair of the Board in June 2020, replacing Dr Johan van Zyl, who stepped down on 10 June 2020. I would like to thank Johan for his strong and visionary guidance of the Board. Johan remains on the Board as non-independent director and nominee of UB. Anton Botha and Siphon Nkosi, who have both served on the Board for longer than nine years, were recognised as non-independent directors from 10 June 2020. Nicolaas Kruger and Kobus Möller were appointed as independent non-executive directors to the Sanlam Limited and Sanlam Life Insurance Limited boards. Both have already contributed immensely to the productivity of the Board.

After five years, Ian Kirk stepped down as Sanlam's Group Chief Executive. Under Ian's leadership the Group expanded its growth strategy and achieved a leadership position among insurance groups operating on the continent. This was cemented by the Saham transaction in Morocco – the Group's biggest ever acquisition.

Paul Hanratty was appointed as Group Chief Executive. In filling this critical position, the Board followed a rigorous process utilising a global external recruitment agent and considered local and global candidates. He has been an instrumental addition to the Exco.

The Exco was further strengthened during the year to support the revised strategy and new cluster structure while advancing the Group's transformation agenda. Among other appointments, Abigail Mukhuba was appointed as Group Financial Director and Lotz Mahlangeni was appointed Group Chief Actuary and Chief Risk Officer. The Board is confident in the skills and abilities of the new Exco. We believe the appointments support Sanlam's intention to build a team for the future and create sufficient bandwidth for each client segment. Furthermore, they will enhance our ability to consistently deliver trusted and high-quality service to consumers.

These new appointments are key to deliver on the revised strategy and on our vision of distinguishing ourselves as the most admired financial services company in Africa. The Board continues to provide strategic support to management in implementing the strategy through ongoing, regular interaction and progress evaluation.

The Board ensures that it has the appropriate balance of knowledge, skills, experience, diversity and independence that will enable it to discharge its governance role and responsibilities objectively and effectively. Each of the non-executive directors serving on the Board is annually exposed

to a robust review to assess their independence. The capacity of each director is categorised as defined in the amended JSE Listings Requirements and takes into consideration the application of King IV™ and other factors, as outlined in the Board's terms of reference.

### Oversight of related-party transactions involving UB

It is in Sanlam's business and commercial interest to transform in line with the needs and preferences of its current and potential clients. Key to this is that Sanlam is seen to continue contributing to economic transformation and inclusive wealth creation. Sanlam's empowerment strategy is to protect and enhance its leadership position in South Africa through, among other things, a leading empowerment status and appropriate partnerships. This is a deliberate strategic move to enhance the long-term sustainability of the Company and enable long-term value creation for stakeholders.

UB has been Sanlam's strategic empowerment partner since 2004. The partnership has been one of the most successful empowerment partnerships in South Africa. It created value of over R14 billion for broad-based black shareholders when the first 10-year transaction matured. Sanlam's partnership with UB has contributed to Sanlam's growth and success over the years. UB has remained supportive and involved with Sanlam's strategy in South Africa and extended and expanded its strategic relationship with Sanlam. UB is also the biggest shareholder in Sanlam, holding almost 14% of Sanlam's issued shares.

The Board is committed to the highest standards of corporate governance. I chair the Independent Non-Executive Directors committee, overseeing related-party transactions, specifically matters involving Sanlam and UB that may give rise to conflict of interest and other similar matters. This committee has the appropriate skills to effectively carry out its duties and is also able to rely on external advice if the need arises. All transactions with UB are also evaluated for fairness by independent experts in line with JSE Listings Requirements.

As part of its annual independent Board evaluation process, which is conducted by an external service provider, the Board implemented a best practice recommendation to formulate a Board criteria document to manage the potential conflicts of interest that might arise in dealings between all interested and related parties within Sanlam, including UB and African Rainbow Capital (ARC) Financial Services. The intention of the criteria document is to ensure that the Sanlam Board remains independent without any favouritism to any party. Any conflicted directors recuse themselves from all Board deliberations relating to matters they may present any conflicts or perceived conflicts of interest at the Sanlam Board or committee meetings.

## Setting remuneration in a time of uncertainty

The past year and the uncertain outlook for 2021 have made it particularly challenging to set and implement a competitive remuneration policy. There is a delicate balance between having a remuneration structure that motivates and retains our people while being neatly aligned to shareholder interest. This delicacy was precipitated by the economic effects of the pandemic.

In response to the challenging environment we made several changes to our remuneration policy to ensure agility and deal with the impact of the pandemic, while ensuring that differentiation remains possible. We froze all pay increases for senior roles in 2021, rather prioritising prudent, yet sustainable, increases for junior employees. We believe this is important to insulate our employees and their livelihoods.

Sanlam's remuneration philosophy and policy support the Group's strategy by incentivising the behaviour required to meet and exceed the strategic goals. The Board, through its sub-committees, ensures that the organisation remunerates fairly, responsibly, and transparently to promote the achievement of strategic objectives and positive outcomes in the short, medium, and long term. We welcome shareholder engagements on this and are mindful of shareholders' feedback regarding the implementation of our remuneration policy.

In setting remuneration for the Group's new Chief Executive, the Board sought to align interests with shareholders as close as possible. The Chief Executive's remuneration is almost entirely linked to the shares and performance of Sanlam and more in favour of long-term performance. The Chief Executive was hired to drive strategic change and performance. His remuneration is almost entirely aligned to shareholders and we believe that short-term, long-term and strategic issues are all balanced.

Read more in our full Remuneration Report, available online.

## Navigating through the uncertainty of CBI claims

Measures taken to limit the spread of COVID-19 disrupted economic activity, resulting in significant business interruption losses. In response, Santam raised a claims provision of R1,3 billion in June 2020, which was increased by a further R1,7 billion in the second half of 2020. The initial provision was used to fund R1 billion in relief payments to clients who claimed for losses during the COVID-19 pandemic period and have CBI extensions in their policies. Santam therefore made a substantial payment commitment to help sustain policyholders in the most impacted industries.

As a Board, we remain aware of the potential reputational impact of the legal process and media interest related to CBI claims. Santam's executive management keeps the Board fully informed about developments regarding its exposure. The inherent complexity of these claims, as well as bespoke policy wordings for corporate clients, require significant assumptions to be applied to determine the best estimate of net CBI claims provisions. The overall financial impact of Santam's CBI exposures will therefore take some time to finalise. More detail on this matter can be found in Santam's Integrated Report, available online.

## Transformation and empowerment

**Transformation and empowerment are critical to Sanlam's success – having formed the DNA of the Group's foundation over 100 years ago and remaining a pivotal part of our long-term strategy.**

Together with other institutions in South Africa we manage the vast majority of South Africa's savings. Empowerment in this context is about increasing access, participation and livelihoods of all South Africans, in the most equitable and sustainable manner. This is achieved through various channels, namely, through service to clients, investments and partnerships.

In 2018, Sanlam announced a series of B-BBEE transactions to enhance the Group's competitiveness in South Africa.

We announced at the time that we were reorganising our third-party asset management business and would dispose of an interest therein to ARC Financial Services, a company within Ubuntu-Botho Investments (UBI). This transaction would, among others, enable Sanlam to explore opportunities to further develop its third-party asset management business in partnership with UBI and ARC.

We concluded this agreement in December 2020, in terms of which ARC Financial Services now holds a 25% interest in the Group's third-party asset management business. Importantly, Sanlam has established the largest black-empowered asset management company in South Africa.

Sanlam also announced that it will acquire 25% of a new subsidiary of ARC Financial Services. The subsidiary will hold ARC Financial Service's financial assets excluding banking-related investments. These transactions will assist Sanlam in the execution of its South African strategy, through enhancing empowerment in the financial services sector and in its own operations. This transaction further aligns the strategic interests of Sanlam and UB. Not only does this strengthen Sanlam's base for new business growth, it also gives us the ability to continue helping the growth of emerging managers – creating value for Sanlam's shareholders and the wider community that we serve in South Africa.

Transformation is key to remain relevant and sustainable in South Africa and it is the right thing to do. As I elaborate above, the requisite governance structures are in place to ensure related-party transactions as well as any perceived and actual conflicts of interest are appropriately managed – ensuring that all shareholder interests are looked after.

## Chair's report continued

### Board priorities for 2021

Sanlam is entering 2021 with an even more durable foundation and an exciting future. Our strengths lie in diversification, our ability to optimise risk while remaining entrepreneurially conservative – displaying our strong skills set and dependable leadership. It is from this strong base that we will be able to assist our clients and the broader economy.

Strategy implementation is paramount in returning the Group to pre-pandemic performance levels and to meet the demands of the market opportunities Sanlam is gearing up for in Africa and India. As a Board, we will closely monitor the execution of the revised strategy to ensure it delivers against expectations.

We will continue to maintain the highest governance standards. An evaluation of overall performance and Board effectiveness was completed in early 2021. This is essential to objectively test and validate the Board's processes and its members.

The world will undoubtedly continue to grapple with the crisis of the pandemic way into the foreseeable future. At Sanlam, we recognise that we operate within a social and economic system. If this system falters, we also falter. The reverse is also true. The Group must, therefore, continue to play a leading role in putting a floor below which South Africa's economy cannot fall. This responsibility is imposed on us and defined in the impact agenda we have set for ourselves.

Lastly, we will continue to deepen transformation and inclusivity within Sanlam, paying particular attention to being both transformative and transformational. We remain guided by our purpose to empower generations to be financially confident, secure and prosperous. This includes ensuring increased and equitable access to financial services by pursuing inclusivity and responding to client needs through relevant financial solutions and investing for the long term. In summary, serving our clients and all other stakeholders with care and integrity.

### A message of thanks and appreciation

I am grateful for the opportunity to chair the Board of Sanlam, a systemically important company in South Africa and Africa's largest insurer. A special word of thanks to my fellow Board members who provided invaluable support and guidance in helping steer Sanlam for the benefit of all stakeholders within an increasingly tough and complex operating environment.

I have been inspired by the many moments of support and leadership I witnessed within Sanlam's Exco and management teams and among all employees. This troubling time brought out the best in many and I thank each of you for your commitment and dedication throughout what has been one of the most challenging years in the Group's history.

Deep gratitude goes to our clients for trusting Sanlam as a partner on their lifelong journey to financial security, prosperity and comfortable retirement. We continue to work hard each day to find new and innovative ways to serve our clients better and inspire confidence. However, it is important that we remain guided on how well we are doing and encourage our stakeholders to critique the way in which we run the business and deliver solutions to the market. That is the only way the partnership will be mutually beneficial.

I would like to recognise the regulators and policy makers who provided brave guidance and direction to help mitigate the negative impact of COVID-19 with the success we have managed to record. Lastly, and certainly not the least, I salute the South Africans on the front line. They sacrificed their lives to ensure that the economy continued to function. We also enjoyed the requisite health and safety.

Siyabonga.



**Elias Masilela SOB**

*Chair*