

Our regulatory environment

In the aftermath of the global financial crisis in 2008/9, the G20 drove a comprehensive international agenda of regulatory reform. This saw a shift away from two fundamental regulatory principles: efficient market theory and *caveat emptor*: “Let the buyer beware.” Up to the global financial crisis, *caveat emptor* was seen as an important component to encourage innovation. It is now believed that this did not create an efficient market – instead, many products with minimal social value swelled some parts of the financial services sector beyond their economically efficient size. Furthermore, market discipline is seen as an ineffective brake on the conduct of financial services firms. Regulators therefore believe that they need to be more assertive. This has led to the emergence of the so-called Twin Peaks model of regulation in a number of jurisdictions.

In addition to prudential regulatory reform through Solvency II, Basel III and related regulations, various measures have been and continue to be established to address concerns surrounding systemically important financial institutions (SIFIs). Despite the focus on SIFIs, these measures have a direct and indirect impact on the regulatory requirements of all financial services institutions.

Given South Africa’s membership in the G20, most of these regulatory reforms play out domestically. Various other reforms are being pursued, particularly related to social security, the role of the state in the provision of financial services, and National Treasury’s financial inclusion objectives.

Sanlam is committed to regulatory reform that contributes to the resilience and prosperity of individuals, organisations and society. We recognise that we operate in a highly regulated industry and share regulators’ vision for efficient and effective financial services industries globally. We support regulators in developing tools and mechanisms that will ensure a more predictive response to the next potential crisis. We also welcome the way in which this is evolving from not only being focused on client-centricity and capital and liquidity management, but to include increased sensitivity for the role of strong ethics, culture and related accountabilities.

Regulation as an enabler of resilience

Sanlam’s ability to contribute to resilience and create value for stakeholders is closely linked to evolving regulation, as it creates the environment within which we operate and compete. Regulations aimed at the fair treatment of clients, fair competition between product providers and the prevention of large-scale corporate failures and financial instability contribute significantly to the trust clients have in the industry and therefore its long-term sustainability.

We support the major regulatory developments currently being considered as set out in the table as these are largely in line with these resilience and sustainability objectives.

A consequence of the increased regulatory burden is significantly higher barriers of entry, which benefit large established groups such as Sanlam from a competitive perspective. However, the current scale of regulatory reform also demand skilfull, considered and responsible responses, which often affects management capacity due to the analysis required, adding to real and opportunity cost in business. This is further affected by increasing delays in implementation.

The financial services industry is built on a business model that requires long-term valuations and assumptions. The uncertainty created by numerous and uncoordinated regulatory proposals therefore impacts strategic decisions, investment choices, innovation and product design.

We have a further concern that the number of concurrent initiatives create complexity and inter-dependencies that might result in unintended consequences not yet fully anticipated or mitigated.

A multinational regulatory capability

With a presence in 45 countries, Sanlam relies on local boards and management teams to influence and adhere to local regulatory requirements, with oversight by Group and cluster representatives.

The Sanlam Board receives a quarterly summary of evolving regulations in the different territories and particular short-term focus areas, such as anti-terrorism, money laundering and data privacy requirements, are covered in detail.

Sanlam participates in supervisory colleges, where financial services regulators and supervisors from Africa meet to discuss issues relevant to these authorities on the continent. These meetings assist to develop a better understanding of the different regulatory environments and challenges, and help to improve and strengthen information sharing and regional cooperation between regulatory stakeholders. Regulators in turn gain a better understanding of Sanlam's governance and operational scope, our products and services, and approach to regulation.

The most significant reforms are currently emerging in Botswana, Namibia, Malaysia, Malawi, Kenya and Ghana. Saham Finances' solid management and regulatory skills have been essential where we have expanded operations into new and different regulatory environments, mainly based on the French model.

The main current and future anticipated developments in the countries where Sanlam currently operates relate to Treating Customers Fairly and risk-based solvency requirements (equivalent to SAM).

The regulatory landscape in South Africa

Retirement reform and social security remain a priority in South Africa due to the limited options currently available. These take the form of old age pensions, unemployment insurance and child welfare grants. While various social security options are investigated and proposed, the more immediate focus of regulatory proposals and implementation is to improve the sustainability of the current system.

The objectives of financial reform are:

- Reducing the cost of financial services and improving transparency
- Simplifying retirement saving options
- Encouraging innovation through more competition
- Driving improved disclosure to make it easier for ordinary South Africans to understand complex financial products
- Improving financial regulation and reporting to fight corruption and money laundering, while providing protection against fraud and systemic risks

Our regulatory environment (continued)

The table below provides a brief update on the progress, with the most significant South African regulatory developments in the areas of financial sector transformation.

In all cases, Sanlam engaged through its membership of and involvement with the South African Insurance Association (SAIA) and the Association for Savings and Investment South Africa (ASISA). ASISA represents the majority of the country's asset managers, collective investment scheme management companies, linked investment service providers, multi-managers and life insurance companies. The Sanlam Group Chief Executive is the chairman of ASISA.

Regulatory elements	Sanlam's contribution and responses
<p>The Financial Sector Regulation (FSR) Act aligns South African regulations with global best practice by creating a Prudential Authority (PA) and a Financial Sector Conduct Authority (FSCA).</p>	<p>The FSR Act was signed by the President on 21 August 2017 with the effective date still to be announced. This Act establishes, in conjunction with the specific sector laws, the Twin Peaks regulatory and supervisory model. The Act provides for regulations to be issued to facilitate transitional arrangements for the existing regulatory bodies into the FSCA and PA. Draft Regulations to this effect will be published along with a Commencement Notice for public consultation. National Treasury has been working with the South African Reserve Bank and the Financial Services Board on the implementation of the Act and transitional arrangements. Final details on the dates of implementation will be contained in the commencement notice.</p>
<p>The Insurance Act was finally signed by the President on 17 January 2018 and was gazetted on 18 January 2018. The commencement date of the Insurance Act is still to be proclaimed but is envisaged to be in the second half of the year, possibly by 1 July 2018.</p> <p>The Insurance Act:</p> <ul style="list-style-type: none"> → provides a consolidated legal framework for the prudential supervision of insurance business in the Republic that is consistent with international standards for insurance regulation and supervision; → introduces a legal framework for micro-insurance to promote financial inclusion; and → replaces certain parts of the Long-term Insurance Act, 1998, and the Short-term Insurance Act, 1998. 	<p>The specific objectives of the Insurance Act are directed towards:- facilitating the monitoring and preservation of the safety and soundness of insurers;</p> <ul style="list-style-type: none"> → enhancing the protection of policyholders and potential policyholders; → increasing access to insurance for all South Africans; → promoting broad-based transformation of the insurance sector; and → contributing to the stability of the financial system in general. <p>These objectives are fully aligned with Sanlam's purpose as outlined in this Integrated Report, therefore supportive of the Act.</p>

Regulatory elements

Sanlam's contribution and responses

The key objective of the Financial Intelligence Centre (FIC) Amendment Act is to improve the protection of the integrity of South Africa's financial system and strengthen its ability to punish financial crimes like money laundering, bribery and corruption and financing of terrorism. The law achieves these objectives by introducing a risk-based approach regime. It recognises that the risk of money laundering and terrorist financing can vary by individual, business sector as well as within sectors.

The risk-based approach is intended to offer a better, more cost-effective alternative to the prescriptive "tick-box" approach, enabling AIs to spend more time only on customers assessed to be risky in order to meet compliance requirements more efficiently.

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts to ensure that relevant information is provided. This will enable users of financial statements to assess the effect that insurance contracts can have on the entity's financial position, performance and cash flows.

Comprehensive social security reform aims to create measures to realise the constitutional right to social security (including appropriate social assistance)

The FIC Amendment Act was signed into law on 26 April 2017. On 2 May 2017, the Minister of Finance signed and gazetted the coming into operation of various provisions of the FIC Amendment Act. A roadmap for the short-term implementation of the FIC Amendment Act for supervisors and accountable institutions (AIs) was also published. ASISA provided comments and inputs to further draft amendments and documents.

The most important compliance related provisions took effect on 2 October 2017.

Financial institutions have a transitional period to achieve full compliance and there will be engagement from supervisory bodies to set clear milestones and timeframes. Sanlam will be expected to show progress against these milestones, with oversight measures to be implemented.

All the requirements of the FIC Amendment Act were incorporated into an internal project. Sanlam set an internal deadline for compliance by 30 June 2018 and the clusters will be measured against this deadline.

It is important to note that the Board is ultimately responsible for ensuring that Sanlam maintains an effective internal control structure through a risk management and compliance programme (RMCP). This is in contrast to the current provisions that places the onus for ensuring compliance on the section 43(b) compliance officer.

The Board will be held accountable if the content of the RMCP is found to be inadequate. The RMCP should further include a description of the Board's accountability and the appointment of a specific director with adequate seniority and experience to assist with ensuring compliance.

The International Accounting Standards Board issued the IFRS 17 insurance standard (replacing IFRS 4) on 18 May 2017. The effective date of IFRS 17 is 1 January 2021, with comparative information required from 31 December 2019. The new standard is expected to have a major impact on Sanlam's financial, actuarial and data management processes, but to a lesser extent than many global peers who currently do not follow a fair-value-based approach. Sanlam launched a Group-wide implementation project in June 2017 under coordination of Group Finance and Group Risk and Actuarial, with participation from the affected businesses.

Training the relevant finance and actuarial employees at Group and cluster level was conducted and a Group-wide gap analysis was presented to the Board at the end of 2017.

The paper on Comprehensive Social Security Reform is being negotiated through the National Economic Development and Labour Council (NEDLAC). The NEDLAC task team started work in April 2017 and it is envisaged more than a year will be required for research, analysis, review and dialogue appropriate to the comprehensive nature of the subject. Sanlam is represented at the monthly NEDLAC meetings as part of the business constituency. Since July, positions from the different constituencies have been consolidated as input to determine the research required to take this process forward.

Our regulatory environment (continued)

Regulatory elements	Sanlam's contribution and responses
Retirement reform (including the draft Taxation Laws Amendment Bill, 2017) aims to harmonise the tax treatment for all types of retirement funds	<p>Government postponed the annuitisation requirement for provident fund members (as contained in the Taxation Laws Amendment Act, 2015) until 1 March 2018 to provide for negotiations. These were delayed to allow for a Social Security Reform Paper to be published in November 2016. Subsequently, the Minister of Finance was required to consult with stakeholders on the implementation of the annuitisation requirement and table a report in the National Assembly by 31 August 2017.</p> <p>In the 2017 National Budget Review it was stated that, should no agreement on annuitisation be reached, Government will review the continuation of the tax deduction for member contributions to provident funds, to ensure that the tax system is equitable across all retirement funds.</p> <p>In terms of the draft Taxation Laws Amendment Bill, 2017, it was subsequently proposed that the provisions relating to the annuitisation requirements for provident funds be postponed to 1 March 2019. According to the explanatory memorandum on the draft Bill the reason for the postponement is that discussions on the comprehensive paper on social security are still underway in NEDLAC.</p> <p>The main provisions of the draft Taxation Laws Amendment Bill, 2017, affecting retirement funds, are the following:</p> <ul style="list-style-type: none">→ The postponement of annuitisation requirement for provident funds to 1 March 2019 (as described above)→ Transferring retirement fund benefits after reaching normal retirement date for later consumption→ Allowing the tax exempt status of pre-March 1998 build-up in public sector funds to be retained when a transfer to another fund is made→ Removing the 12-month limitation on joining newly established pension or provident fund→ Alignment with the Income Tax Act on deductions in respect of contributions to retirement funds
The draft Policyholders' Protection Rules (PPRs) aim to improve market conduct in the insurance sector	<p>The draft PPRs were published by the FSB on 15 December 2017 for public comment. The proposed amendments are not intended to be a comprehensive review of the PPRs, but are focused on giving effect to specific conduct of business reforms. A further, more comprehensive review of the PPRs will form part of the broader review of all conduct of business legislative frameworks across the various sectors regulated by the Financial Sector Conduct Authority that will be undertaken over the ensuing years as part of phase two of Twin peaks and the developments of the Conduct of Financial Institutions Bill.</p> <p>Sanlam provided comments on the PPRs through ASISA, including specific examples and details to motivate for changes or exemptions in respect of Group schemes. On 25 April 2017, the FSB informed ASISA that the draft PPRs will not become effective on 1 May 2017. The FSB is currently targeting an effective date of 1 January 2018.</p>

Regulatory elements	Sanlam's contribution and responses
<p>Proposed amendments to the regulations under the Long-Term Insurance Act, 1998</p>	<p>Proposed amendments to the Regulations made under the Long-term Insurance Act, 1998 were published for public comment at the end of 2016. Proposed revisions to the Draft Amendments were issued in July 2017, following consultation with ASISA, among others. The July 2017 Draft Amendment revisions addressed common themes which were identified as areas of interest and concern to stakeholders:</p> <ul style="list-style-type: none"> → Binder fees → Fees for policy data administration services → General principles for determining remuneration → Frequency of data exchange → Integration and access-on-demand requirements → Governance, oversight and reporting requirements <p>ASISA submitted a second round of comments to the FSB on the revised regulations in August 2017.</p>
<p>Draft Retirement Funds default regulations</p>	<p>The final default regulations were published in Notice 863 of Government Gazette Number 41064 and will take effect on 1 September 2017 for final implementation by 1 March 2019.</p> <p>These final regulations are meant to improve the outcomes for members of retirement funds by ensuring that they get good value for their savings and retire comfortably. The regulations require retirement funds' trustee boards to offer a default in-fund preservation arrangement to members who leave the services of the participating employer before retirement, and a default investment portfolio to contributing members who do not exercise any choice regarding how their savings should be invested. For retiring members, a fund should have an annuity strategy with annuity options, either in-fund or out-of-fund, and can only 'default' retiring members into a particular annuity product after a member has made a choice.</p>

The following spread provides a summary of the Twin Peaks model, timeline and achievements, as it has a significant impact on the structure of the financial services industry – with concomitant changes to be implemented in terms of Sanlam's business model, products, services and distribution channels in South Africa over the next few years.

Our regulatory environment (continued)

The Twin Peaks model of financial regulation aims to strengthen our financial markets through improved

Phase 1:

The Financial Sector Regulation (FSR) Act establishes two new regulators and provides a comprehensive set of powers that enhances accountability

The FSR Act was signed by the President on 21 August 2017 with the effective date still to be announced, thereby establishing the Twin Peaks regulatory and supervisory model.

A new Financial Sector Conduct Authority (FSCA) to be established through a reformed Financial Services Board (FSB)

The prudential authority (PA) will be established in the South African Reserve Bank

The Twin Peaks model addresses financial literacy as an important mechanism to protect customers. Financial literacy will ensure that customers understand, and make decisions to promote, their own financial security and resilience. The model requires that financial institutions such as Sanlam treat customers fairly, and mandates the FSCA to provide customers with financial education programmes that promote financial literacy and financial capability.

Phase 2: Primary legislation

New legislation will focus on revising, consolidating and harmonising the legal framework for prudential and market conduct in the financial sector.

The new Conduct of Financial Institutions (CoFI) Bill

The new Insurance Act

The Insurance Act was finally signed by the President on 17 January 2018 and was gazetted on 18 January 2018. The commencement date of the Insurance Act is still to be proclaimed but is envisaged to be in the second half of the year, possibly by 1 July 2018.

Phase 3: Subordinate legislation

New standards will be published under the new acts to give effect to the detail requirements

Sanlam participates in the development of these elements, and we continue to refine our proactive implementation over time.

conduct regulation and to build a more resilient and stable financial system in South Africa.

The FSCA will be responsible for the supervision of the conduct of business of all financial institutions, and the integrity of the financial markets.

The PA will maintain and enhance the safety and soundness of financial institutions that provide financial products. It will be mainly concerned with capital and liquidity requirements as defined by a risk-based regulatory regime for long and short-term insurers in South Africa, and implemented through the Solvency Assessment and Management (SAM) project. It will award licences based on conditions that include promoting developmental, financial inclusion and transformation objectives.

**Outcome:
clarity on who
regulates**

Existing sectoral legislation will be replaced by the CoFI Bill (to be tabled in Parliament in 2018) to ensure a comprehensive, consistent and complete approach to governing the conduct of financial institutions across the financial sector.

The Insurance Act provides a consolidated legal framework for the prudential supervision of the insurance sector.

**Outcome:
clarity on how
they regulate**

Conduct Standards under the CoFI Bill

The conduct of business reforms include the Retail Distribution Review (RDR), which currently contains 55 specific proposals to reform the relationships between intermediaries, product providers and clients.

Prudential Standards under the Insurance Act

A number of modifications to the prudential standards were released for public consultation.

**Outcome:
clarity on what
they regulate**