

Regulation as an enabler of resilience

Evolving regulation shapes the environment within which we operate and compete. It is also linked to our ability to contribute to resilience and create value for stakeholders.

Regulation that supports the fair treatment of clients, fair competition between product providers, financial stability and the prevention of large-scale corporate failures contributes significantly to the trust clients have in the industry. Markets that are well regulated build trust and earn legitimacy. This attracts local and international investors and results in increasing levels of available capital. These markets also contribute to economic efficiency, leading to better capital allocation and thereby increasing the prospects for long-term economic growth.

Since the aftermath of the global financial crisis in 2008/9, global regulatory reform has been focused on improving the resilience of financial institutions to regain investor confidence and prevent systemic market risk.

In South Africa, the regulatory agenda has been dominated by the Twin Peaks model, social security, the role of the state in the provision of financial services and financial inclusion. Intensifying risk related to financial crime, data privacy, cybersecurity and climate change further shapes the regulatory landscape.

Sanlam is committed to regulatory reform that contributes to stakeholder resilience and prosperity. 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 welcome the way in which this is evolving from being focused on client-centricity and capital and liquidity management, to also include increased sensitivity for the role of ethics, culture and related accountabilities.

We support the major regulatory developments currently being implemented and considered. However, a consequence of the increased regulatory burden is significantly higher barriers of entry. While this benefits large and established groups such as Sanlam, we believe the industry benefits from strong competition. The current scale of regulatory reform also demands responsible, skilful and well-considered responses. This can affect management capacity, adding to real and opportunity cost in business. Read more about the ways in which the Group approaches and mitigates these risks in the section on Understanding our key strategic risks.

The financial services industry is built on a business model that requires long-term valuations and assumptions. The uncertainty created by numerous and unco-ordinated 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 interdependencies that might result in unintended consequences not yet fully anticipated or mitigated.

OUR OPERATING ENVIRONMENT (continued)

The Financial Sector Regulation Act (FSRA) became effective on 1 April 2018, thereby establishing the Twin Peak regulatory and supervisory model. This model of financial regulation aims to strengthen our financial markets through improved conduct regulation and by building a more resilient and stable financial system in South Africa.

Twin Peaks established

Two new regulators were established with a comprehensive set of powers that enhance accountability:

The Financial Sector Conduct Authority (FSCA)

The FSCA replaced the Financial Services Board (FSB) and is responsible for supervising the conduct of business of all financial institutions, and the integrity of the financial markets.

The Prudential Authority (PA)

The PA was established in the South African Reserve Bank. It maintains and enhances the safety and soundness of financial institutions that provide financial products. It is 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 awards licences based on conditions that include promoting developmental, financial inclusion and transformation objectives.

Outcome: clarity on who regulates what

2019 was characterised by high levels of engagement between Sanlam and the new regulators, particularly the PA, as these familiarised themselves with the players in the financial services sector. In response to shorter reporting timelines and more frequent requests for information, management took steps during the year to further streamline the Group's reporting processes.

Phase 1

Primary legislation revises, consolidates and harmonises the legal framework for prudential and market conduct in the financial sector.

The Conduct of Financial Institutions (CoFI) Bill

The CoFI Bill will, when adopted, replace existing sectoral legislation to ensure a comprehensive, consistent and complete approach to governing the conduct of financial institutions across the financial sector.

The Insurance Act

The Insurance Act came into effect on 1 July 2018 and provides a consolidated legal framework for the prudential supervision of the insurance sector. The PA will convert the registration of all insurers to new licences within a period of two years that ends on 30 June 2020.

Outcome: clarity on how they regulate

The PA formally designated Sanlam as an insurance group and Sanlam Limited as the controlling company of the insurance group in January 2020. The scope of the Sanlam Limited Insurance Group was agreed with the PA and Sanlam Limited submitted an application to be licensed as a controlling company in February 2020.

Phase 2

Subordinate legislation includes standards to be published under the CoFI Bill and Insurance Act to give effect to the detail requirements.

Conduct Standards to be issued under the CoFI Bill

The conduct of business reforms include the Retail Distribution Review (RDR), Treating Customers Fairly (TCF) and Retirement Reform matters. These will be addressed in the conduct standards but are currently reflected in changes to existing legislation.

Prudential Standards under the Insurance Act

The Prudential Standards covering Financial Soundness Standards (FS) and Governance and Operational Standards (GO) were published on 1 July 2018.

Outcome: clarity on what they regulate

2019 saw the publication of multiple draft conduct standards that will potentially impact the Pension Funds Act (PFA), the FSRA and the minimum skills and training requirements for trustees of retirement funds.

The Risk and Compliance committee advises and assists the Board in overseeing governance of compliance by setting the direction for how compliance should be approached and addressed in Sanlam. The Sanlam Group Compliance Policy requires all business cluster boards, management and employees to comply with applicable laws as well as non-binding rules, codes and standards to which Sanlam committed in all the jurisdictions in which Sanlam operates. Read more in the online Governance Report and in the sustainability portal of the Sanlam investor relations website.

South African regulatory developments impacting the financial sector but not material for Sanlam:

- A status update on the RDR proposal on TT: Special remuneration dispensation for the low-income market and the application of uncapped commission for micro-insurance and funeral businesses only
- Financial Intelligence Centre Amendment Act, 2017, which delegates the supervision of insurers' compliance to the PA
- A FSCA position paper about proposals on the future regulatory framework for the collection of insurance premiums
- Pension Funds Act, 1956: Pension funds adjudicators jurisdiction; draft conduct standards for living annuities and criteria for smooth bonus policies in default investment portfolios; PFA Guidance Note 8/2018 on the application of the Default Regulations; Information Circular 1 of 2019 detailing cancellation of registration and reinstatement of deregistered fund
- Taxation Laws Amendment Act, 2018 and subsequent Draft Taxation Laws Amendment Bill, 2019
- A consultation paper by the PA and FSCA on the draft joint standard detailing fit and proper person requirements for significant owners of financial institutions
- Joint consultation by the Financial Intelligence Centre and South African Reserve Bank on the processing of electronic funds transfers in accordance with recommendation 16 of the Financial Action Task Force

Draft Conduct of Financial Institutions Bill, 2019: The impact and consequences of the CoFI Bill on Sanlam will only be known once finalised. However, as a member of ASISA, significant for Sanlam is the stated objective of the CoFI Bill to repeal the Collective Investment Schemes Act (CISCA) 45 of 2002 in its entirety. ASISA undertook a comprehensive analysis that compares the existing CISCA provisions with those of the CoFI Bill to highlight possible gaps. This analysis was submitted to National Treasury, which originally indicated its intent to finalise the parliamentary process in respect of the CoFI Bill before the end of 2019. It is unlikely that the CoFI Bill will be enacted before the second half of 2020.

OUR OPERATING ENVIRONMENT (continued)

Financial Sector Regulation Act: In July 2019 the FSCA published a statement in support of the draft conduct standard on the requirements for the conduct of cell captive insurance business in relation to third-party risks. The statement explains the need for and expected impact and intended operation of the draft conduct standard, which will potentially impact all Sanlam businesses where cell captives are used.

In August 2019, the FSCA issued FSRA Conduct Standard 1 of 2019, which sets out the process and requirements for transfers between a registered retirement fund and any other fund or person in terms of section 14 of the PFA. The conduct standard is likely to impact turnaround times for section 14 transfers due to more onerous processes that will need to be followed.

Section 219 of the FSRA established the Financial Services Tribunal (FST) to reconsider certain decisions such as those made by a financial sector regulator or an authorised financial services provider, among others. In August 2019, the FST issued and published rules relating to the process and procedure governing applications for the reconsideration of decisions. All entities regulated by the FSRA that submit a decision for reconsideration to the FST will need to comply with these rules.

Draft conduct standard prescribing the minimum skills and training requirements for retirement fund trustees: The draft conduct standard was published in May 2019 and proposes that trustees should attain certification via the Trustee Toolkit. This is an online facility provided by the FSCA that sets out the required levels of skills and training to be maintained by trustees. All current and prospective trustees of South African retirement funds administered by Sanlam entities (including retirement funds for the benefit of employees of Sanlam businesses) will need to complete the training.

National Credit Amendment Act, no 7 of 2019: Generally referred to as the Debt Relief Bill, the National Credit Amendment Act sets the groundwork for over-indebted consumers to have payments suspended (in part or full) for as long as 24 months or entirely if their financial position is found to have worsened. Sanlam entities providing loans that are subject to this Act will need to ensure that systems and processes are in place to enable them to comply with and run the debt intervention process in parallel to the debt review process.

Other South African regulatory developments relevant to the industry

Competition Amendment Act (CAA): The CAA was signed into law in February 2019. The CAA aims to remedy structural defects in South Africa's economy by amending the Competition Act, 1998. The CAA grants competition authorities new powers to address concerns about high levels of economic concentration and lack of transformation in various markets. This includes tougher penalties and fines. In particular, the CAA aims to aid economic inclusiveness and participation by small, medium and micro-sized enterprises and businesses owned or controlled by historically disadvantaged individuals. The Group Compliance Office is providing guidance to the Sanlam Group to ensure that the business understands the potential impact of the CAA. This includes providing training to the executive and senior management teams as well as all other relevant stakeholders.

Protection of Personal Information Act (POPIA): In December 2018, the final regulations related to the Act were published. These regulations were primarily administrative and did not provide clarity on the requirements related to the Act. The regulator is in place and is empowered to investigate complaints and the measures organisations have put in place to protect and secure personal information. We are still awaiting the announcement of the effective date for the regulations and the Act.

Supervision of financial conglomerates

Sanlam may be regarded as a financial conglomerate: an institution in South Africa that operates across multiple industries, offering a myriad of financial products and services across the continent and offshore. The FSRA recognises that entities such as Sanlam are susceptible to contagion risk and are subject to higher levels of scrutiny through a new regulatory framework to be released. The FSRA provides for the application of a multi-tiered supervisory framework which includes the supervision of individual stand-alone institutions, specialist group institutions and conglomerate groups which will focus on depositor, policyholder and member protection. Risks will be managed carefully due to the broad scope of the environment in which the financial conglomerates operate. A number of Sanlam volunteers represent ASISA on the financial conglomerate supervision project structures.

Preparing for IFRS 17

The International Accounting Standards Board (IASB) published IFRS 17 in May 2018. It is designed to achieve consistent, principle-based accounting for insurance contracts. The new standard requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts.

Sanlam launched an IFRS 17 project in preparation for implementation by 1 January 2022. The gap analysis phase is complete, as well as the development of IFRS 17 compliant disclosures and an overall blueprint for Sanlam that will guide implementation efforts across the Group. Sanlam and Santam are co-ordinating closely on the implementation of IFRS 17 and participating via ASISA to influence industry interpretation of the standard. The most significant internal risks relating to IFRS 17 implementation is the availability and capacity of Sanlam resources given concurrent transformational projects.

SEM regulatory developments

- Botswana passed the amendments to its anti-money laundering (AML)/combating the financing of terrorism (CFT) regime, aligning it to international standards. The Insurance Industry Act and Draft Regulations commenced in May 2019. The Act aims to provide for all the provisions of the insurance industry under one Act, establish more comprehensive rules for the insurance industry, and improve policyholder protection.
- Kenya issued draft Guideline on Good Governance Practices in the Management of Retirement Benefits Scheme, which will affect how these schemes are governed. The Kenyan Treasury Cabinet Secretary further established a taskforce on National Risk Assessment on Money Laundering and Terrorism Financing. The report of the taskforce is expected by March 2020. The Kenyan Insurance Amendment Act, 2018, introduced a strict "Cash & Carry" requirement for insurance going forward.
- Rwanda issued two new regulations pertaining to company form and corporate governance respectively. Subsidiaries will have one year to comply with the revised company forms.
- The Ugandan Insurance Regulatory Authority issued guidance on the payment of premiums, prescribed a grace period for the collection of currently outstanding premiums, prescribed the premium warranties wording for instalment insurance contracts and notified industry of the implementation of a monthly cash and carry premium instalment reporting requirement.
- Changes in the South African environment based on the Twin Peaks model may have implications for SEM over time.

Compliance breaches

Sanlam experienced no notable compliance breaches during the year.

CHAIR'S REPORT



Sanlam's Chair, Johan van Zyl, shares his views on the highlights and challenges of the past year and summarises the main focus areas for the Board.

Sanlam generated 67% of its net result from financial services from South Africa in 2019 – this still represents the major portion despite diversification across Africa over the past decade. Comment on the trading environment and how this impacted Sanlam.

What do you believe enabled Sanlam to perform well on a relative basis?

Sanlam acquired the remaining stake in Saham in October 2018. What steps were taken during the year to embed this acquisition and ensure that the Group is properly positioned to extract value going forward?

As a 101-year old business, how does Sanlam ensure it remains ahead of digital disruption?

Investors, shareholders and other stakeholders are growing increasingly aware of the impact of climate change on businesses and society – accompanied by a strong call for action. How is Sanlam responding to environmental concerns and what role do you envision Sanlam playing in the future?

Comment on other aspects of governance at Sanlam that required the Board's leadership and guidance during the year.

Who would you like to thank when reflecting on the past year?

What are your expectations for 2020?

Q & A