

# CLUSTER REPORT: SANTAM

## About Santam

Santam is the leading general insurance group in South Africa that writes insurance business in Africa, India, South-East Asia and other emerging markets through its business units:

- Santam Commercial and Personal
- Santam Specialist
- Santam re
- MiWay
- Santam ART
- Sanlam Emerging Markets partner businesses

**Santam contributed 13% to the Group net result from financial services and 14% to GEV. Santam has a market share of more than 23% in South Africa.**

### Key strengths

- Santam is a 101-year-old, leading South African general insurer with a presence in selected emerging markets, listed on the JSE since 1964.
- Santam provides products and services through a network of over 3 600 intermediaries and direct channels.
- The Santam group's more than 1 million policyholders range from individuals to commercial and specialist business owners and institutions

### Strategic intent: entrenching leadership through value creation and growth

Santam is building a diversified business in emerging markets through its specialist risk and reinsurance offerings. In South Africa, efforts to transform from a largely intermediated distribution model to omni-channel capabilities continue. This includes protecting profitable growth through enduring focus on the quality of risks in the pool as well as making use of data and analytics to improve underwriting capability. Santam will continue to build its "Insurance good and proper" reputation by working with stakeholders to increase community resilience and through its sustainable business practices, as well as a relentless focus on client-centricity.

### Building a Future-Fit Santam

In 2015, Santam set an ambitious target – Vision 2020: to be the leading general insurer in selected emerging markets. The cluster has reached the end of this five-year journey and believes it will achieve this vision, despite the challenging operating context and competitive market conditions.

In 2018, the year Santam and Sanlam turned 100, the cluster initiated a strategy review called "Building a Future-Fit Santam". The review, which included all business and support units, aimed to ensure long-term business sustainability. The strategy was approved by the Santam Board in 2019 and will guide Santam from 2020 onwards.



SNT

**R1 221 million**

Net result from  
financial services  
(2018: R1 196 million)

**13%**

Contribution to Group net  
result from financial services  
(2018: 13%)

**7,7%**

Underwriting margin  
(2018: 9,2%)

**R16,0 billion**

Client wealth protected  
(2018: R13,8 billion)

**6 178**

Number of employees  
(2018: 6 076)

**7,16 out of 12**

Employment Equity  
indicator as defined in the  
Financial Sector Charter  
(2018: 6,78)

## CLUSTER REPORT: SANTAM (continued)

### Santam's future-fit strategic themes:

<b>A responsible business – Insurance good and proper</b>	We must continue to provide stakeholders with confirmation that we are a responsible corporate citizen, with sound governance practices and a measured, positive impact on society.
<b>Help build resilient societies</b>	This includes redistributing risk, helping to mitigate risk and building a sustainable and transformed South Africa.
<b>Our overall leadership position in South Africa</b>	Our South African business generates 85% of Santam's revenue. As such, it is a priority for the cluster to improve on its overall local leadership position.
<b>A Pan-African specialist class business with SEM</b>	With SEM, Santam is building a Pan-African specialist class business. The cluster is expanding its operational capability as a multi-national business to transition into a continent-wide solutions provider.
<b>Selectively build Santam's international business</b>	Santam is building a diversified business in emerging markets through its specialist risk and reinsurance offerings. Outside Africa, Santam offers reinsurance and partners with SEM in selected markets.
<b>Technology as an enabler and driver of innovation and efficiency</b>	We have an expanding portfolio of digital assets. Innovation is driven largely at business unit level and includes a focus on data capability, AI and automation, pilot studies with the Internet of Things and telematics, involvement with fintech start-ups and experimenting with new business models.
<b>Build and improve human capital in the Santam group</b>	Through our committed and capable people, and the value they bring to the group, Santam is well positioned to continue creating value for stakeholders. To build world-class human capital, we will employ a multi-pronged approach.

### 2019 operational performance overview

Santam's conventional insurance business segment achieved strong underwriting results and the investment return on insurance funds remained stable. The alternative risk transfer (ART) insurance segment reported strong growth in income from clients. Good underwriting results and investment margins contributed to excellent profitability. Santam Commercial and Personal increased policy count and market share. This followed a concerted effort from intermediaries to improve quote conversion rates.

Santam made progress on its journey to digitalisation: the cluster enhanced internal efficiency and streamlined its engagement with clients and intermediaries. This was supported by the migration to a new core underwriting platform, which enables Santam to underwrite with more granularity and insure risks at the right price.

To expand its distribution channels and enhance existing client and intermediary offerings, the cluster made minority investments in two InsurTech start-ups: Ctrl, a software development and financial intermediary business, and JaSure, which offers on-demand, app-based insurance for personal items including cell phones, laptops, photography equipment, bicycles and other sports equipment, eyewear, camping gear and musical instruments.

The cluster continues to proactively address the social and empowerment challenges in South Africa by increasing procurement from black-owned suppliers and contributing financially to industry supplier development initiatives. The money that Santam invests in the ASISA Enterprise and Supplier Development (ESD) fund creates access to loan funding for new and small B-BBEE suppliers in the sector. This programme includes business assessment, incubation, support and mentoring, and prepares small black businesses for targeted procurement spend from Santam.

<p><b>Santam Commercial and Personal</b></p>	<p><b><i>Santam Commercial and Personal serves retail and commercial markets by providing appropriate insurance solutions that suit the needs of entrepreneurs and businesses. For personal insurance, the business unit offers a multi-product and multi-channel distribution portfolio that covers eight classes of general insurance.</i></b></p> <ul style="list-style-type: none"> <li>• While the business achieved excellent underwriting results in 2019, premium growth was below expectations. This was the result of several factors:</li> <li>• The South African economic climate impacted the affordability of insurance. As a result, renewal rates were under pressure. This widens the risk protection gap when clients reduce or cancel their insurance cover.</li> <li>• Increased competition led to a higher churn rate, particularly among small to medium-sized enterprises.</li> <li>• The migration of Santam’s commercial portfolio to a new administration platform impacted internal resources and intermediaries’ ease of doing business.</li> </ul> <p>In response to these factors, the business unit took pricing actions to improve retention and also sharpened its cost efficiencies.</p>
<p><b>Santam Specialist</b></p>	<p><b><i>Santam Specialist insures against large and complex risks in niche market segments. Products are client-driven and supported by specialist underwriting. Underwriting these classes of insurance requires skilled resources to assess and quantify the risk and exposure as provided by the unit’s underwriting managers and niche business units.</i></b></p> <p>Santam Specialist achieved satisfactory underwriting results and strong premium growth. This was despite clients being financially constrained and struggling to afford risk management, which resulted in increased exposure. The main performance drivers included improved risk pricing and enhancing the portfolio to include more specialised risk management. Santam Specialist opened an office in London to generate business opportunities for its target market.</p> <p>For Santam Agri, the 2018/19 crop year was significantly impacted by hail damage. This resulted in the highest gross claims ratio over the past five years. In addition, several factors discouraged investment in the agricultural sector. These include drought conditions, hail and uncertainty around land expropriation without compensation.</p> <p>In terms of its other specialist businesses, Santam made good progress to define its risk appetite and establish working practices between Santam and Saham’s management to grow the Pan-African specialist business.</p> <p>The business unit’s corporate property business, Emerald, and engineering business, Mirabilis, achieved strong growth in premium flows from outside South Africa. Specialist underwriters Stalker Hutchison Admiral (SHA) built the SHA Pocket Underwriter, which functions in the small to medium-sized enterprise space and enables an online application process.</p> <p>The transportation sector was affected by an increase in crime, including the looting and burning of trucks. This required significant intervention and repricing to match exposure levels.</p>
<p><b>Santam re</b></p>	<p><b><i>Santam re is a wholesale reinsurance service provider for the Sanlam Group general insurance businesses and independent general insurers in Africa, India, the Middle East and South-East Asia. Santam re operates under the Santam general insurance licence, which enables it to optimise the size, quality and diversity of the overall risk pool relative to capital resources and risk appetite.</i></b></p> <p>Santam re experienced a stable year in terms of claims and employee movements, and its business increased substantially. Santam re’s other international portfolio is larger than its South African and African portfolio for the first time. Eastern Europe and the Middle East offered good growth opportunities.</p> <p>Santam continues to invest in developing junior underwriters. This has benefited Santam re as several candidates entered the business in junior and middle management positions.</p> <p>Santam re’s partnerships with international reinsurers delivered flat results. This was mainly due to large catastrophe losses in America and Japan.</p>

<p>MiWay</p>	<p><b><i>MiWay is a direct insurer that underwrites predominantly personal lines general insurance business through direct acquisition. This is supported by a smaller intermediated personal lines business and a suite of direct business insurance products.</i></b></p> <p>MiWay achieved excellent growth and underwriting results. This is particularly encouraging considering the state of the economy, which continues to put pressure on the business due to depressed collection rates and higher-than-anticipated lapse rates. As competition for new business remains tough, MiWay sought new distribution channels and entered into strategic partnerships that provide access to quality sales opportunities.</p> <p>MiWay is on a journey to develop innovative technological solutions inspired by their clients' needs. Initiatives undertaken during the year to expand their offering include:</p> <ul style="list-style-type: none"> <li>• researching new rating factors to improve their scientific underwriting process;</li> <li>• starting proof of concept projects that use AI and machine learning to enhance client experiences and drive efficiencies in sales, client services and claims; and</li> <li>• acquiring an intermediated value-added products business with an offering that will be distributed to existing clients in the direct space.</li> </ul> <p>The annual MiWay 24-hour hackathon challenged students to conceptualise, design and build an actuarial model for a predictive client retention programme. The competition helps MiWay identify the best skills for taking the company into a future that is increasingly technical and focused on producing complex, mathematically based solutions.</p>
<p>Santam ART</p>	<p><b><i>Santam ART solutions use techniques other than traditional insurance and reinsurance to provide risk-bearing entities with coverage or protection. Tailored solutions allow clients access to multi-peril cover and aim to reduce the cost of risk to clients over the medium to long term. Business is written on the insurance licences of Centriq and Santam Structured Insurance.</i></b></p> <p>Santam ART achieved excellent growth in client income, driven by increased fees and an improved investment margin. This was buoyed by strong performance in the investment portfolio, which ensured improved investment margins. Management expenses were well controlled.</p> <p>Challenges included regulatory uncertainty in the cell captive business as well as increased cancellations in Santam ART's risk finance businesses due to the tough South African economic environment.</p>
<p>Sanlam Emerging Markets partner businesses</p>	<p><b><i>SEM is responsible for Sanlam's financial business services in emerging markets outside South Africa. Through its partnership with SEM, Santam has economic participation in 13 countries.</i></b></p> <p>Santam's investments and strategic partnerships, including with SPA, offer opportunities and challenges. Importantly, Santam made progress to bed down effective reporting structures and systems for collaboration between its business and SPA GI.</p> <p>The macro-economic context in many countries remains difficult, specifically in Angola and Lebanon. The performance of the Moroccan motor book negatively impacted the performance of the Saham investment.</p> <p>Outside Africa, Shriram General Insurance in India delivered a stellar performance, with a 111% increase in premiums. Due to a lower frequency of claims and better claims management, the claims ratio improved. This contributed to a significant increase in profitability.</p>

Read more about Santam's financial performance in the Financial Review from page 79.

## Case study: Partnerships for Risk and Resilience (P4RR) builds capacity

R9 million invested in P4RR in 2019 through the Emthunzini Community Trust

46 municipalities supported through P4RR initiatives

To build resilience, we engage with government, municipalities, universities and other stakeholders to initiate projects to better understand and manage risks on the ground. The cluster does this through its Partnership for Risk and Resilience (P4RR), an integrated and collaborative effort to reduce insurance risks that impact businesses and individuals.

In South Africa's unique risk landscape, vulnerable communities face major challenges in dealing with natural disaster. Municipalities are often incapable of managing incidents such as fire and flooding. Through P4RR, we invest in risk reducing interventions.

The objective of P4RR is to strengthen the institutional and participatory development capacity of local municipalities to reduce poverty. We do this by assisting service delivery and providing support to local government infrastructure, economic development, and governance.

P4RR is embedded in ongoing scientific research to help us understand the drivers of risks and how to encourage appropriate risk response behaviours.

Municipalities are selected based on vulnerability levels related to government requirements as well as potential impact on Santam in terms of fire, flood and storm surge perils. The P4RR programme has supported 46 municipalities and is on track to support 53 municipalities by 2020.



CLUSTER REPORT: SANTAM (continued)

**Strategic short- to medium-term priorities**

- Monitor progress against opportunities presented by Building a Future-Fit Santam based on metrics to be agreed on in 2020.
- Focus on profitable growth, cementing the leadership position in South Africa and exploring the opportunities presented by the emerging markets footprint.
- Continue with digital initiatives to enhance efficiency and growth.

<b>Santam Commercial and Personal</b>	<ul style="list-style-type: none"> <li>• Improve clients' experience to include risk prevention on top of risk management.</li> <li>• Improve underwriting capabilities and the claims experience through data analytics, digital initiatives and further synergies with Santam Specialist.</li> <li>• Prioritise the drive to transformation by developing black intermediaries and suppliers.</li> </ul>
<b>Santam Specialist</b>	<ul style="list-style-type: none"> <li>• Increase market share in the South African and African markets, underpinned by selective expansion into international markets.</li> <li>• Explore InsurTech solutions that support and develop the business and reduce costs.</li> </ul>
<b>Santam Re</b>	<ul style="list-style-type: none"> <li>• Expand the South African book and target selected regions in Africa.</li> <li>• Expand on non-proportional business and non-property classes.</li> </ul>
<b>MiWay</b>	<ul style="list-style-type: none"> <li>• Continue with the strategic initiatives launched in 2019.</li> </ul>
<b>Santam ART</b>	<ul style="list-style-type: none"> <li>• Consider InsurTech partnering opportunities and investigate further co-operation with other business units in the Santam group.</li> </ul>
<b>Sanlam Emerging Markets partner businesses</b>	<ul style="list-style-type: none"> <li>• Evaluate each market to ensure businesses being supported are a strategic fit, with realistic business potential.</li> <li>• Continue to work closely with SPA GI management to unlock synergies and grow the SEM partner businesses.</li> </ul>

**Resilience focus areas**



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