Y 2019 Earnings Call

Company Participants

- Anton Gildenhuys, Chief Actuary & Group Risk Officer
- Ian Maxwell Kirk, Group Chief Executive Officer & Executive Director
- Sydney Mbhele, Chief Executive of Brand
- Unidentified Speaker
- Wikus Olivier, Interim Chief Financial Officer

Other Participants

- Analyst
- Christopher Gilmour
- Francois Du Toit
- Ian Cruichanks

Presentation

Sydney Mbhele {BIO 20089938 <GO>}

Good morning, ladies and gentlemen. Almost a full house. On behalf of the Sanlam Group, a warm welcome to all of you this morning. We have people joining us live on Business Day TV. We have people joining us on the webcast and we have people joining us on the telephone line. And mine is an easy one this morning to facilitate the presentation and the Q&A post the presentation this morning, and I'll introduce all of our speakers, and the people who will fill those questions. Let me start by welcoming on stage Chris Gilmore, from the Investment Analysts Society, to say a few words.

Chris, over to you.

Christopher Gilmour {BIO 1510052 <GO>}

Thank you very much. Good morning, ladies and gentlemen. My name is Chris Gilmour, from the Investment Analysts Society. I'm the Board of Investment Analysts Society and it gives me great pleasure this morning to welcome Sanlam's CEO, Ian Kirk and his management team to present the Group's 2019 annual results.

As you say, this is a pretty much a full house, so no one's scared of the coronavirus. And just sit a meter away from each other and you'll be fine. But it's been instructive to follow the fortunes of Sanlam over the past 20 years plus since listing, to see how the Group has evolved during that time. And it's generally been a very thoughtful and measured evolution and the market, I think, has rewarded them accordingly. And this looks like a solid set of results. I don't want to take Ian's thunder away from him, achieved against an especially difficult economic background.

So just some housekeeping before we start. Firstly, regarding continuing professional development, CPD points, IAS members attending here today can register via the IAS Hub on the website to obtain one CPD credit for the Sanlam webcast. Secondly, so as not to disturb the presentation, please ensure that your cell phones are switched to silent or off for the duration.

Ian, over to you.

Ian Maxwell Kirk {BIO 1778703 <GO>}

Thank you, Chris. Good morning, ladies and gentlemen, and thank you very much for spending time with us this morning, and thank you for giving up your busy time. I know it's not easy. And I know there's load-shedding and I know there's coronavirus and all that stuff, but thanks very much. And thanks very much for your support to the business. We need that support, It's tough times out there and we need all of your support.

So with me today, presenting the results will be Wikus and myself, we'll do the presentation. Anton Gildenhuys will also be presenting in the middle, he'll handle some questions then. Thinus Alsworth-Elvey is here from the Executive; also Temba Mvusi is here from the Executive. I just want to make sure that I haven't missed out anybody who's a Board Member. That's one of the things that you don't do at Sanlam. If there's a Board Member in the room, you're supposed to acknowledge them. So I'll certainly do that.

Strategic review, I will do operating context, financial results that we've delivered. And I think, I would disagree with what Chris has said, and then the priorities. And then I'll talk a little bit about the environment in which we're operating.

So it's about for us continuing to build out a Pan-African business. We've been busy with it now for a while. Obviously, we took a big lift on that with the transaction that we announced in three phases with SAHAM. I think it's about implementation of this strategy. It's one of the lovely things about Sanlam and leading Sanlam is that you can talk about the implementation of the strategy. It's well understood. It's well embedded in the business and/or we talk about the execution of the strategy. And of course, it's about inclusive value creation for everybody. We have to have a successful societies, successful economies for us to be able to deliver on that.

So the strategy; I'm sure those of you who followed Sanlam will recognize this, our purpose, our strategic intent. What our vision is in South Africa, what our vision is in other emerging markets and then the diversification that we have from the participation in the economies of India, Malaysia, and the Lebanon, and then how we support that in the developed world around asset management and wealth management, the five strategic pillars, including transformation, executing through the five clusters. And of course, I think it's that consistent strategy execution that sets the business apart.

And I say that, we include some key figures here over a period of time. We've achieved 16% on a five-year average. This year was obviously more difficult. We've managed to diversify at 67%. It's not that we're after a particular target, but I think once we start delivering at a higher level of the Africa base in particular, you'll see that percentage dropping down. It's not that we're looking to get it towards the 50%, but that will be -- obviously more comfortable with that.

Level one contributor on the FSC second year, which is fantastic. And of course, the targets get harder. It's not so easy to do it. And of course, our leading position on the continent which is critical. Now, Wikus always tells me, he says, "Ian, don't spend too long on this because then I've got nothing to say. But I do need to talk about, a little bit about the performance scorecard. Obviously in the condition that, the conditions that we've operated in and of course the base that we've got.

So what do I choose? I mean I'm very pleased with the recovery that we've had in the underwriting results at Santam second half and also on Sanlam Corporate, very, very solid and a great performance again by SPF. Capitec partnership is outstanding. I've mentioned before, I've been doing this insurance for many years since 1988, I've never seen an initiative like this delivering at this level. It's absolutely unbelievable that we can do that with our partners. It goes to show the value of partnerships and the value of that business that we're partnering with.

I think on the SAHAM side, whilst the results were not where we would want them on the general insurance side, the integration is going well. You will know that Heinie Werth is now back in the business, running the cluster and that's made a nice difference. We have Heinie and we have Junior handling all the stakeholder management and the relationships with the partners and the regulators, which is a really important aspect of the business across 34 countries. So those are the really positive things.

Now, I have to say something about investment performance because we had a great investment performance and my colleague Temba Irvine Mvusi said to me last night, Satrix won how many awards? Seven awards, Satrix won. So I don't want to forget that. Well done to Satrix and well done to the investment people in delivering that.

So the claims environment across Africa, who is SPA General Insurance, was difficult. We had some specific things there which impacted on the motor book, on the health book. We had some inflation in Angola. And we had some large individual claims, oil and gas. And obviously then in Mozambique we had some flooding. So that was difficult. The margin we achieved was not what we wanted. We achieved 2% and we have a target margin of 5% to 9%. That was disappointing. The growth was good and the float income was good, but the float income of course, as you know, is volatile as we discussed before.

Corporate credit provisioning is a difficult one. Mark and his team are really having to watch it and work very, very hard. You see the bank results that were published last week. We did have some additional provisions to raise in the order of ZAR 200 million. So -- and we haven't had any defaults, but that our people are working hard on that.

So the final thing on the sort of more adverse side was in the financial planning business in the UK. It didn't deliver the results that we expected. That's the business that deals with the retail market in the UK. We had good support for our UK business coming out of South Africa on the back of new product offerings. And obviously, South Africans rebalancing their portfolios outside South Africa. So that was good. But actually, the business that ends with the retail clients, we didn't do so earlier.

Okay. So, let's just look at this strategy. For South Africa, it's about, I talk about closing the gap in those four areas; the third-party asset management, the entry-level market, employee benefits, and healthcare and I have to say that I'm very, very pleased that we've made solid progress in the third-party asset management business, great results, great investment performance.

In the entry-level market, we now have three horses in that race. We have our Sky business, that is doing very well. We have the Capitec partnership, that I think is unique. And we started our partnership with African Rainbow Life as our empowerment partner. So we have three horses in that race and we really, really are making solid progress there, up against the very strong business as the market leader. And employee benefits, we've made solid progress. Healthcare will be a bit more difficult. The environment is tough. There is a lot of buying down and we have a strong competitor there. So it will probably take us a bit longer. But in the first three areas, I'm very, very pleased with the progress.

But of course, it's the footprint in Africa that we've set out. So I still remain very, very positive on this. I think to build a world-class insurance operation across the content, not a global insurer, but a world-class operation is what it's all about. Though it won't all be positive, there will be some setbacks. In Zimbabwe, we had some setbacks last year. This year, it is Angola. This happens. And there will be some operational stuff, not much this year, but we have to anticipate we've said it in the past, but GDP is growing. Four of the top-10 emerging market countries are in the continent. And we are in, obviously in all four. I think the free trade will be a positive thing. It will drive up regional trade and that's a good thing.

Insurance penetration's rising. It's really two things. We as insurers and through our partners, we have to produce and develop more appropriate products to drive up the penetration. But on top of that, of course, the policy is that the authorities implement have to be market-friendly and they have to encourage contractual savings and the development of capital markets, and we're busy with all that. Juniors driving that for us.

The content is not one place. We all know that, each country is different. There are different circumstances. We've got different partners. They're in different stages of development, but we've got great partnerships throughout. And I think we'll keep our heads down and we'll build very, very strong Sanlam businesses out of, anchored off the support and the successful businesses in South Africa. And of course, in the developed markets, it's about asset management, wealth management, providing those solutions to the African client base and supporting what we do.

Now, these are our two big financial measures; we've over-delivered obviously over many years. On the one, it's been a bit difficult this year, which is the RoGEV. Our target was 13.4. We achieved, on adjusted basis, 11.9, I don't want to steal all Wikus' explanations. But we did have to bring down some of the values because of listed share prices, caps that we put in place. We've had that for some time, that impacted us. We've had to reduce the GI valuation in Sanlam and Pan-Africa.

We looked very conservatively at the asset management, the wealth management activities, given the scenario that we can see going forward. So I think we've had some prudence in there and off this base, I think we would seek to be able to continue to deliver on the RoGEV.

On the dividend, I'm pleased to say, we managed to achieve that target, which is, we had a 3% increase, which is within the 2% to 4% range. And -- I mean this is not a profit target, I want you to know that, but we would obviously want to be -- we would want to plan to achieve those two key targets again in 2020.

Okay. So the context in which we operated, now I'm very conscious of this. At the interim stage, Mr.Cruickshank said, I think that the environment is very tough. He said to me. I said it's 15 times at the interim stage, I don't know if it was 15 times so I'm going to be very-very carefully and I'm not going to say it again. I've said it twice, right? That's it. I'm not going to tell you again. So I'm sure you've listened to all the Chief Executives from the banks and from the insurers that have reported, it is difficult in South Africa.

In Africa, the commodity economies are growing a bit slower. Angola has been difficult, Nigeria. The West has done well for us, North, East Africa a bit easier. We had Zimbabwe last year and again, this year, very difficult, Angola difficult. And then the claims environment in healthcare and in motor in Morocco and then some catastrophe losses. So that wasn't easy.

In India, I mean, the growth is down in their standards, down to about 5.5%. And of course we've had some issues with the non-bank financial services companies, and that's really where we've had to put in some conservatism in the valuations because of the price gaps. We have two listed companies, STFC and then City Union Finance, both listed and we have to cap the values there and that's where to bit on the RoGEV. And then of course the Lebanon has been very difficult. As you know it's politically difficult and of course in the Middle East, there with Syria, it's been very, very hard. So that Lebanese business has been hit there. So very tough, very, very tough.

But we continue with our strong ESG focus. We are a business that is about delivering high shareholder returns, and we continue to deliver on that. But if I look out over the next five to ten years in Africa, the long-term sustainability of our business is dependent upon viable economies and viable societies. So we need to deliver to all our stakeholders, our clients, our staff, society, communities, the business community, we need to all do our bit in South Africa at the moment. Business in South Africa and through our industry associations we continue to do that. We have to look after our regulators, very, very important. All our entities are tightly regulated, and I think we can do well by doing good, and we'll continue to do that to ensure the sustainability of the business.

So let me hand over now to Wikus to take us through the numbers.

Wikus Olivier {BIO 20074722 <GO>}

Thank you, Ian. Good morning, ladies and gentlemen. It gives me a great pleasure to take you through our 2019 annual results this morning.

I think, overall, a very solid performance in a very tough environment. So I've said it once now, and at this stage, but I think also quite a few positives coming through the result. In particular, the partnerships that I said we started recently, Capitec, Sanlam Indie, MiWayLife, all of them starting to contribute meaningfully to the results. And I think if you look at overall, the one disappointing aspect this year was unfortunately RoGEV where we didn't achieve our target, but I'll take you through the main reasons for that.

Looking at the operating and underwriting environment, from an interest rate perspective, we did see long-term rates and with that, risk discount rates coming down a bit in South Africa, but also in some of our emerging markets businesses, which had a 3% positive impact on our RoGEV and also supported the growth in our VNB by 5%.

From an exchange rate perspective, if you look at spot from 2018 to end of 2019, we saw the rand strengthening against most currencies, but on an average basis, still weaker against most, with the exception being Angola, where you can see the kwanza deteriorating significantly during the year, and the minus 5.2 for rest of Africa, it's essentially Zimbabwe currency that also depreciated significantly. And that had a 3% negative impact on RoGEV. But on the net result from financial services where we use the average exchange rate, it provided support of about 2% to the growth rate.

Underwriting results. Santam, again, having an excellent year with underwriting margin of 7.7%, which is at the upper end of its target range. But as Ian mentioned, unfortunately, the same GI portfolio in Africa underperforming, achieving only a 2% margin.

From investment market performance, quite a V-shape for the JSE over the two years. So we did see a relatively stronger investment market returns, which supported the return on the capital portfolios. But on an average basis, markets were actually still down about 3% on last year, which continues to place pressure on the Sanlam Investments' fee income.

Investment variances, the EV investment variances, negative about ZAR 360 million. But a big component of that was actually IFRS 9 provisions that we had to recognize in Lebanon following the downgrade, the credit downgrade of the sovereign.

Key performance indicators, earnings, operating earnings net result from financial services up 9%. If I exclude the increase in new business strain that we recognize in terms of our conservative accounting policies, actually up 11%, which is really a credible performance. That was supported by exceptional growth in India and also in the SI third-party asset management business. But again to some extent offset by weak general insurance experienced in Africa.

Net operational earnings up 14%. That performance metric is a combination of net result from financial services earned then also the investment return and on our capital portfolio, which as I mentioned, benefited from relatively stronger market performance, and Ian already mentioned the 7% increase in our dividend per share.

Business volumes, I think is really a highlight for the year. In particular, net fund inflows that's up 37% on last year, which is actually astonishing given the environment in which we operated. New business volumes, up 12%. And if you look across all of the countries and line of business, really strong growth across most of them. The real exceptions were actually in Namibia, where investment business flows were down on last year. And within Kenya, although ot recorded positive growth, it actually did disappoint compared to our own internal targets.

The SAHAM portfolio, as Ian also mentioned, for the portfolio in total, broadly in line with targets for the year. Group equity value, I'll get back to in a later slide.

This slide just summarizes the cluster contributions through the different performance metrics. I'll go through the detail in later slides. But just to highlight here that we did benefit from this acquisition at the beginning of October last year, which contributed about 3% to growth in both, operating earnings and also in new business volumes.

VNB up 15%. As I mentioned, if you strip out the impact of the lower interest rates, up 10%, which is still a very sound performance for the year.

Return on Group Equity Value is really disappointed. And you've seen 2019, on an actual basis, we underperformed the hurdle rate by about 7%. Key factors impacting on that is the strengthening of the rand exchange rate compared to official rates. But then we also decided to follow a prudent approach and rather use the parallel exchange rates, both in Lebanon and in Angola. We shared a severe impact on the returns for the year. We also had to pull back on the valuation of SAHAM given the current performance. And within the South African context, we also pulled back on the wealth management and asset management net inflow assumptions.

In addition to that, we did see some pressure on listed share prices in India for the credit businesses, CIS in Namibia and also AfroCentric in South Africa. And we decided to rather follow the listed share prices for those businesses despite much higher internal valuations.

On an adjusted basis, we still outperform over the longer term. But a slight underperformance in 2019, which is last year attributable to the pullback on the asset management, wealth management and some valuations.

Analyzing the build-up of Group Equity Value earnings for the year, VNB is a I highlight, at 2.3 billion, contributing more than 4% to the return on covered business. I think this is the first time that we're actually exceeding 4%. We also saw a continuation of positive experience variances at ZAR 1.4 billion. This is lower than the ZAR 2 billion of last year. Of the key factors impacting on that is a one-off ZAR 290 million cost of capital benefit that we recognized in 2018 when we released capital from the life businesses. And in the current year, we did see some deterioration in persistency experience in Sanlam Sky and Sanlam Emerging Markets. And within the Sanfin business, we also saw lower credit spread experience due to credit provision that they had to recognize of some ZAR185 million.

The two negatives, ZAR 7.4 billion and the ZAR 973 million, moving to actual RoGEV. Biggest components of that is the currency impact that I mentioned, of about ZAR 4.4 billion. And the application of the caps on the listed businesses also detracted about ZAR3 billion of earnings and the IFRS 9 charge in Lebanon is further, was a further ZAR340 million.

We also applied at additional prudence in respect of lower risk discount rates that we saw in the SAHAM markets and also within the developed markets, our UK businesses in particular. We have also decided that we're not going to follow the declines because we don't think it's sustainable. So we'd rather apply the previous year risk discount rates.

Looking at diversification, from a cluster perspective, a well-diversified profile, both from a valuation and earnings perspective. But with SPF still dominating, but I can promise you, SIM does have a target to exceed SIM at some point. But SPF is also not lying down. From a geographic perspective, South Africa still dominates with more than 60% of both earnings and value coming from South Africa, which means it remains a key market for us going forward.

Discretionary capital. We started the year with a negative balance of ZAR3.7 billion. As you already reflected in our interim results, that was augmented by the BEE share issuance. The cash component of that of ZAR4.5 billion. And then we also released about ZAR593 million of capital from the life operations, ZAR380 million from Namibia and a further more than ZAR200 million from the Sanlam Sky businesses.

Capital utilization was about ZAR 2 billion within the year. The biggest components of that was the CIMA recapitalization and the restructuring of the SAHAM portfolio, which utilized about ZAR 800 million. And then we also did an acquisition in the UK for more than ZAR 500 million The Thesis' private wealth business.

That leaves us with about ZAR 220 million of capital or discretionary capital at the end of the year, which is lower than the ZAR 2 billion level that we would prefer from a war-chest perspective. But in the short-term, we will generate additional surplus, any investment return that we earn on the life capital base will go into the discretionary capital pool. And also the planned investment by our investments within our SI third-party business will also add to our discretionary capital balance. And then, we also expect over the longer term, to see a significant release of reserves under IFRS 17, which will also create opportunity for us to add to the capital base. But that is something for the future.

Looking at the solvency levels, the most important ones that we look at is the Sanlam Life covered business, which is essentially the life operations on that balance sheet with a cover label of 206% which is still at the upper end of 170% to 210% level, which indicates the level of prudence within reserving basis and with a Group cover also remaining well above 200% level. The slight decline from 2018 is largely attributable to a change in the equity symmetrical adjustment that we use in the formula and that's prescribed. And then also a higher lapse SCR due to the lower interest rates at the end of 2019.

Moving on to the cluster performance, Sanlam Personal Finance, new business volumes. If you look at the last number of years, only marginal growth per annum, which is essentially a function of the Glacier new business volumes in the mass affluent market, where we've seen pressure on investors for a number of years, specifically from a risk aversion perspective. So this year also growing by only 1% with the middle income market also on a bit of pressure.

But I think our highlight for SPF is Sanlam Sky, which continues to perform strongly. If I exclude the credit life business that we wrote in the prior year, they were actually up 41%, with a very strong contribution from Capitec, which contributed about ZAR 1.1 billion of new business premiums, but even a traditional intermediated channel also still growing by 10%. Net fund flows is largely reflective of the low growth in single premium volumes.

But I think the key message is that although we didn't grow the new business volumes in SPF strongly, what they did do is actually to significantly change the mix of business to the more profitable lines of business which you can see from the VNB numbers, which is up 17% in this year, but actually also up 17% per annum over the last four years with the margins also expanding over that period with an overall margin of 3.6% in 2019.

Net result from financial services up 6%. If I exclude the increased new business strain that we recognized, SPF's earnings actually up 10% and Sanlam Sky's 9% becomes 15% excluding new business strain, which is really a credible performance. Glacier up 33%. Glacier benefiting from participating fee income given a relatively stronger market performance, with the only negative being the minus 11% for recurring premium. I mean that's largely attributable to increase new business strain and then also the impact of actuarial basis changes that changed from a positive ZAR 200 million in 2018, to a minus ZAR 200 million in 2019. If I exclude that, the recurring premiums were also up 10% on last year. And RoGEV of 20% is well in excess of the hurdle rate for this period.

Sanlam Emerging Markets, new business performance, 33% up on 2018 and cumulative growth of 24% over the last four years. They really saw good strong double-digit growth from most of the regions and lines of business. The exceptions that I mentioned was Namibia investment business and in Kenya that underperformed. And I also mentioned that SAHAM was broadly in line with the targets despite some underperformance in Angola, Cte d'Ivoire, and Lebanon.

Within India, the general insurance business did well, but the life business is on a bit of pressure, given the disbursements within the credit businesses, where they sell a lot of their life new business.

Looking at VNB perspective, up only marginally in 2018, at 1%. We saw very good growth in Namibia, Botswana and Malaysia, but that was mostly offset by a decline in India that I mentioned, which is in line with the new business performance. And then we also saw lower margins in Morocco, Cte d'Ivoire, and Nigeria.

From a profit perspective, up 29% on last year. The life insurance portfolio really doing well. And on the GI side in Africa, I mentioned underperformed unfortunately, but EMEA, again similar to the trends in the interim results, really recording strong growth on last year. RoGEV, unfortunately minus 7%, and this is a cluster where you'll see the impact of the currencies and also the gap on the listed share prices coming through.

If I look at SAHAM specifically, this is a comparable 100% view for the SAHAM portfolio. Net earned premiums up 15%. And the underperformance you can really see is on the underwriting margin, which was at 2% compared to a 4.1% last year. Within the 2019 results, we did allocate all of the overrated costs attributable to GI to the underwriting margin. So the 2%, we want to compare, it is to 4.1% is about a 3% in 2019.

Investment return on insurance funds are outperformed this year, increasing from 8.1% to 11.9%, which resulted in an overall net insurance margin, which was within the target range for SAHAM, but at the lower end of that range. The fact is impacting underwriting margin, Ian already mentioned earlier on.

If you look at the ratios, if you compare Santam, I already said you've already seen SAHAM and then some SEM other portfolio, where India has got a significant contribution. You will note that the investment return on insurance funds is much higher within the same operations and in Santam. And it's also reflected in the target range where Santam uses a 2.5% target compared to 7% to 9% for SEM. And that is really a function of the differences in the motor book, where the Santam book is essentially focused on loss of property. Whereas the SEM portfolio is more exposed to longer-tail business, bodily injury in particular. So you'd expect a much larger float balance within these businesses.

Look at the composition of the insurance funds, also a significant difference between Santam, which is invested in cash and interest-bearing securities versus SEM portfolio, in particular, SAHAM has got significant exposure to properties and equities. And this is a function of low interest rates within the SAHAM markets where we need to invest in higher yielding assets to optimize RoGEV over the longer term. But it does unfortunately mean that we are exposed to much more volatility from a return on flood perspective, then we -- and I think the market is also used to from a Santam perspective.

But Sanfin is providing investment management support so we continue to look at how to optimize the asset allocation, but also the stock selections within the portfolios.

This slide essentially sets the scene for SIM's performance over the last four years, where you can see that in particular, Swix Index didn't really do anything for five years, which makes it extremely difficult for investment business to grow earnings if the asset base doesn't grow. So SEM had to focus on diversification, both geographically, but also into other asset classes with specific focus on alternative assets. And then, also to remain focused on cost management. And that really enabled then to support good growth in earnings over that year, 0.3%, albeit low, I think is still a good performance given the background of the markets.

Now, the highlight for the year is net investment inflows, which increased by almost 200% on last year. And the positive from my perspective is that it wasn't linked to only one business. We saw good flows in retail, institutional and also in the alternative asset classes. From an operating profit perspective, down 7% and that's entirely due to the underperformance within the international business that Ian already referred to.

The third party business in South Africa did exceptionally well, increasing its operating earnings by 29% after tax. Earning very good performance fees given the performance of the funds against their benchmarks, but also some one-off fee income earned on the alternative asset side, which we already reflected in our interim results.

Within Sanfin, I've also mentioned that they had to make some credit provisioning in the current year, ZAR 185 million before tax; after tax, 133 million. Just to emphasize, these are only provisions at this stage. We didn't experience any actual defaults up to now.

Santam, I'm not going to spend too much time on. You've seen the results already at this stage, 7% growth in gross written premiums with a 7.7% underwriting margin, which is a really good performance for this business.

Sanlam Corporate also had a very good year, growing its new business volumes by 14% in 2019, and on a cumulative basis 32% for the life business over the last four years. And you can see that coming through in the value of new business as well, which was up 22% on 2018.

From a profit perspective, up 2%, but the base is not comparable between 2019 and 2018. We did transfer the inflation linked annuity book to Sanlam Investments during 2019. And in 2018, I also sold a few health businesses to AfroCentric. So if I adjust for on a like-for-like basis, the earnings were actually up 14% on last year. And a big positive for us is the turnaround in the Group risk profit, which more than doubled on last year for the full year, and you will recall at the interim stage. So we are well down on the last year.

I mean this is not due to any major improvement from the claims experience perspective. Claims remain high. This is largely reflective of very good claims management, but then also repricing that they managed to put through over the last year to 18 months.

Ian, back to you.

Ian Maxwell Kirk {BIO 1778703 <GO>}

Thank you, Wikus. Well done. It's not so easy to present the results. You know we've -- It's a broad diversified group, so well done to you in doing that.

And as Wikus was presenting, we were joined by Paul Hanratty, who's the Chair of the Audit Committee. Welcome Paul. Paul comes just to make sure that the figures that Wikus presented were actually the ones that got approved last week, so I can assure you they were.

Okay, so let's deal with the priorities. Now, when I presented this at the interim, there's not a lot of change, but I'll just pick up on one or two things in each of the clusters.

In SPF, you've seen a tremendous result in the times that we're in. It's really around taking market share in the traditional areas and coming and delivering on the new opportunities, whether it's a Capitec, whether it's Indie, whether it's MiWayLife or whether it's African Rainbow Life. Those new initiatives that clusters put in place are delivering for us. On the VNB, you can see the impact on the VNB. Yes, it's costing a bit of money on the operating earnings, but up 6.5% is very, very solid, given the spend on those new initiatives.

So that business is in a really good shape. And as I said, it started the year pretty well in the conditions that we are operating under.

Digital transformation, of course, is a massive opportunity. The technologies that are available to a 100-year old business like Sanlam is fantastic. And then under Anton's guidance from the Group side, Jurie and his team are really taking this on board. They are doing a lot of stuff on the business analytics. It's really helping us on retention. It's helping us in creating really tailored value propositions for the client, and we'll be able to show a lot of operational efficiency in that business. So that's really going. I'm very excited with that.

In the emerging markets, it's all around focused on getting that GI margin up into the target range. 2% is not where we want to be. Yes, we can explain it. Yes, we understand volatility in general insurance,. We've been in it for many years but we can do better there and we need to do better there to get back to close to the 5% to 9%. And our targets that we've set for 2020 put us at the bottom end of that range and that's important. We can do that. I'm very confident with the team that we've got there in the business with the support of Santam. Obviously, they owned 10% of the business and they're very focused on that as well. So that will be important.

Yes, I think within that cluster, there'll be opportunities around consolidation. There are one or two areas that we can do some bolt-on stuff. It's very important for us that we're strong in the bigger countries. And we have some great opportunities there, and I think we'll continue to do that. We build that story out over the next few years.

On the Investment Group, well done to them on the investment performance. We actually at the Board, about a week or so ago, we went through the comparative performance over the last five years compared to those other asset managers, the ones whose names I've forgotten, some of you may remember some of the more independent ones, as well as the ones that are linked to insurance companies. And they've really, really done well. And you've seen the flows, it's fantastic. You've seen how Satrix is now clear market leader, well over ZAR 100 billion. And they've got a great, great alternatives offering.

What I think you'll -- we'll be announcing in the very near future, is conclusion of the empowerment deal that we actually announced as part of our empowerment package last year. There's been a very, very good reason for that delay, but I think we'll be early in the second quarter, we will be able to announce the conclusion of that.

And the UK, in terms of the financial planning business as having now a lot of focus. We're not happy with where we are there. And again, digital transformation in that cluster becomes important and the people are really just seeing a lot of value in that. As the partnership with Glacier is working nicely within Sanlam Investments.

So the decision that we took strategically to form the third-party business is really working well. They're not relying on -- they do service, obviously, Sanlam as a client, but they're really out there fighting hard in the markets, and they've got great product and they've got great people.

Santam, it's -- they've got a new five-year plan. Wonderful opportunity for them in Africa. If you look through the results of Santam, you'll see the impact of opening up that Africa opportunity. They're doing very, very well there on the growth side. They're making good margins, and obviously, they are assisting the emerging -- Sanlam Emerging Markets businesses as well. So that is a wonderful opportunity for us. And of course, they've also done well on the cost and digital creates a big opportunity for Santam.

Corporate, Wikus spoke about it. We're very, very pleased that not only have we managed to turnaround the group risk result and I'm very confident based on the presentations that we've received from that cluster that that's really back on track. They've taken firm action there. It's a difficult market this employee benefits you know. Because South Africa's not drawing employment. So it's really a case of managing tightly the book that you've got and making -- being very careful about the new businesses that you write at the correct rate and that you manage the claims properly.

The Umbrella Fund is doing well for Sanlam. We're really lifting our game there. And of course, all of this is very, very important because as I've mentioned, this is one of the -- this cluster holds two areas where we don't lead currently, which is the employee benefits and in the healthcare, and that's both within this cluster. So it's important that we push ahead strongly here. So I'm very, very pleased and they've set themselves some very aggressive targets that I think over the next three to five years will put us right up there into a leadership position. So that's exciting.

Just on the group side. We'll continue to manage all the partnerships, develop our people. Anton, I mentioned about the digital transformation. We've made good progress. I do get questions from shareholders on the leadership. We announced the chair will be moving -- will be changing at the AGM. So we were on track for that. Heinie Werth move back into the business. Wikus has been caretaking that very, very effectively since then.

Just on my own position, I went came back from Santam in 2015 to take over from Johan. I signed a five-year contract on the 1st of January 2016 and that closes out at the end of the year. So we have to look at this as in terms of a further transformation opportunity. I think, we've done well with the transformation of our Group Exco team over the last couple of years, and we will balance that with skills and experience.

And again, as we had leadership transition back in 2015, we have very -- we'll very good transition plans in place. Johan is not going anywhere. Ian is not going anywhere. We're getting to that retirement stage now. So I think we've followed a very good process. Any decisions that we take on that are required to go through the regulators. And it's only thereafter that we would be able to make any announcement. But I'm pretty confident we'll be making announcements before the AGM, and we'll be making sure that we have very, very effective transition arrangements in place for everything, as we've done before in Sanlam. We've got great people and there's no concerns there at all.

Okay. So 2020. It's not going to get any easier. In South Africa, we're in for a long period of recovery. GDP is flat. We have the power shortages. We have the drought, lower levels of business confidence, consumer confidence, and now we have this COVID-19, coronavirus thing. Africa and India's a bit more positive for us. Yes, there will be one country that's we don't know which one, but there'll be difficulties out over the portfolio. We can understand that.

Currencies and market volatilities are very, very, pronounced and they do impact our results. As you've seen, Wikus has taken you through the explanations for the GEV. Currency and the share price caps which is driven by the market makes a big, big difference. If you look at the GEV of the business now, well north of ZAR 140 billion. Over ZAR 50 billion of that is exposed to this type of volatility. So we have to get used to that. And one has to, therefore, look at the achievement of the targets that we've got perhaps over a period of time, because any one year can be impacted.

The rand was at ZAR 14 at the end of the year. I can tell you, it is not ZAR 14 now. When you've got ZAR 50 billion, you can see the positive impact of that and we have to make some assumptions in our RoGEV, but there will be volatility and it's about -- it's our job to explain that. So I think, it's about executing on the strategy that we've got in the times that we've got. It is what it is. It's tough for everybody and the stronger businesses like Sanlam are in good shape and we have strategic options. We've got the right people on the ground in the right job. We've got the right focus.

Let me just say a little bit about the coronavirus and then I'll ask Anton Gildenhuys to tell you a little bit more. We are getting a lot of questions on that, which is understandable. And I'm not going to steal all his thunder, but the concern that I have is, obviously, on the economy and the fact that the investment markets have got this far. That's the bit that concerns me. I'm not worried about our mortality issues in the life business. We've got a very diversified book. We carry substantial provisioning and reserves for these type of pandemics, which hopefully we won't need, but they are there.

On the general insurance side, if those of you who were there at Santam, would have heard and Hennie speak about that. There is some exposure in the travel business where we're strong and in the TIC business, people will get caught and there will be claims on those travel. People will have to take some medicine and stuff like that in Africa, I can understand that. There may be some exposure on the business interruption side. We don't have a supply chain, we don't have any big exposures there. We had to go through a whole exercise about three years on that one. So we're not exposed there. But if certain areas did get quarantined off, there could be some business interruption, exposure for Santam there. So that one we have to keep an eye on.

And of course, internally, our operations are impacted, whether it's travel, thank goodness we have technology today. And we have to look after the safety of our staff. So we constantly almost have done on a biweekly basis, is giving guidelines to our staff, as you'd expect any responsible employer to do.

But I'll just at the end I'll just ask Anton to speak a little bit more. He is Head of Risk. So he keeps a very close eye on that one.

So in summary, it's strange in a way to be sitting here, standing and presenting on the results when the markets are all over the place. And so really, what you're seeing is a very, very solid performance from Sanlam in 2019, another very, very solid performance. But in an environment that's quite frankly very, very difficult and very volatile. So I understand that. But I think our business is in good shape. Our strong businesses in particular are really, really doing well.

We're well capitalized. We are profitable. Our businesses are out there, continuing to take market share, to drive and achieve the returns. We have unique diversification. We've built it out over 15 years. It's a fantastic thing. And those strong businesses in South Africa will assist us develop the business in Africa in particular. I think we've got a solid strategy. We've got the right people on board, the people are focused on delivery. We've had a good start to the year on the underwriting side, from the SPF side, from the Santam side, and on the Corporate around the new business and the underwriting. It will be more difficult in the investment business, there's no doubt. And on the emerging market side, it'll take time to recover that underwriting margin to the target and to build out the life business with the opportunities with the banks and the telcos, and the partnerships that we've got as well as building group life and as well as building the agency operations is going to take three to five years, but that's the wonderful opportunity. We are out there doing that. And no one's really got the capability at this stage to partner with organizations or to build out.

So that's really it from us. Just before we take questions, Anton, would you just take us through a little bit on the coronavirus? And then, Syd, you'll handle the questions here. Thanks. Thank you.

Anton Gildenhuys {BIO 4058523 <GO>}

All right. Thanks, Ian. I think when thinking through the impact of coronavirus, you have to take a realistic approach. But first of all, that's what the insurance is about. That is very important for us. This is what we offer to our clients is the ability to mitigate against these kind of unforeseen events. So that's our primary focus, is to focus on servicing our clients, meet claims should they come through and really be there for our clients.

From a financial point of view on the mortality risk, I am in total agreement with Ian. We are not concerned. We've got a very substantial pandemic reserve that we've set up over a number of years. We model it against a mod pandemic and we get the information on what the mod pandemic would be from reinsurers. And our reserve is actually a little bit in excess of that. So I don't foresee any significant financial implications for Sanlam from the mortality side.

In terms of business interruption for our own operations, Ian covered the general insurance exposure. All of our classes are looking at ways of mitigating that risk. We are stress testing various options. We can service clients from home. We have call center personnel operates from home if that comes about and we've tested those in in SPF, for example. I know that you guys did that to see whether it works. So we will be able to respond. But of course, there will be some interruption. It won't be absolutely seamless. But we need to be proactive in that regard.

But the big financial risk for us is certainly on the economic side. It's quite clear that this current risk of trade is just continuing. I see the markets are open, again, very negatively today. However, Sanlam's balance sheet is incredibly resilient, and there are good reasons for that.

First of all, if you look at our investment portfolio covering our required capital, it's fully hedged. We've got zero cost collars on those equities backing the shareholder funds, in South Africa that is. Some of our SAM countries have a little bit of exposure to equities, but not a lot. So from that perspective, we are hedged. All of our non-participating liabilities are well-matched. We consolidate that in Sanfin and then match it collectively. So we are also not concerned about any significant negative implications from that side.

And then, of course, we offer guarantees to clients mainly through smoothed bonus portfolios. Now fortunately about two years ago, some of you may recall, we've had quite a significant strategic benchmark change in those portfolios. We went about 30% offshore. Now the consequence of that is that with our end -- we're getting almost 20% from a closing value at the end of last year. It provided significant cushioning in those portfolios against the weakening markets. So I can tell you that all of our large smoothed bonus portfolios are still above 95% funded.

So currently, we don't have significant concerns about the guarantees that we do offer in those portfolios and the clients can also be well assured that they have investments in very well balanced portfolio. So it's actually been very resilient. Of course, we straight the entire balance sheet against economic shocks. That's part of our OSHA [ph] process. And in those OSHA shock test, we can demonstrate that the capital is well within our risk appetite limits even after an economic shock. So we're very, very comfortable from that perspective.

The big risk of course is the impact on our GEV. Clearly if all the markets are down, a lot of our income would be fee related and that would be impacted.

So, that's it.

Sydney Mbhele {BIO 20089938 <GO>}

Thank you very much. A round of applause for the presentation. I think well-fitting, well-fitting for the kind of results that we saw this morning. I'm going to ask Ian, Wikus and Anton to join us on stage as we handle questions and as they come up, a colleague intimated to me that I didn't introduce myself. My name is Sydney Mbhele, I'm part of a Group Exco, and I'll be facilitating the questions this morning.

We will start with the telephone line. I hope there's a question or two. I'm going to look up to the team at the top then to see if there's any question at this point. No. No question on the telephone line, we'll move on to.

Questions And Answers

Operator

(Question And Answer)

A - Sydney Mbhele {BIO 20089938 <GO>}

Thank you very much. A round of applause for the presentation. I think well setting for the kind of results that we saw this morning. I'm going to ask Ian, Wikus and Anton to join us on stage as we handle questions. And as they come up, a colleague intimated to me that I didn't introduce myself. My name is Sydney Mbhele, I'm part of Group ExCo, and I'll be facilitating the questions this morning. We will start with the telephone line. I hope there's a question or two. I'm going to look up to the team at the top then to see if there's any question at this point? No. No question on the telephone line. We'll move on to --

Operator

We do have a question from the line, sir.

A - Sydney Mbhele {BIO 20089938 <GO>}

Good. Please go through.

Operator

Question comes from Francois Du Toit of Renaissance Capital.

Q - Francois Du Toit {BIO 16128719 <GO>}

Hi guys, can you hear me?

A - Sydney Mbhele {BIO 20089938 <GO>}

Yes.

Q - Francois Du Toit {BIO 16128719 <GO>}

My first question just relating to the hedges on your capital. If you could just maybe assure us that you do not have meaningful counterparty risk there. You are comfortable with that and in terms of rolling those hedges, timing-wise, quickly the cost implications. In other words, are you quite comfortable that those zero cost collars will last the duration of this year at least and thereafter it's not going to be too expensive to roll ? So just in terms of investment return on capital, I mean is there very little seek of seeing downside below say 0% return on investment?

And secondly, you mentioned that IFRS 17 could see a significant reserves for you and you discussed it in the context of your surplus capital level. Just trying to square that in that your surplus capital still is function of SAM and your solvency capital requirement rather than your accounting. If you can maybe just explain that, maybe just discuss around the facility to what a significant release of reserve would amount to or how you would see that relative to surplus capital?

Also just quickly on SPF's earnings that was affected by lower experience, around ZAR330 million less than last year. And I see in the detail that the risks and mortality experience or risk experience was variances was less supportive than in previous years. It would seem that a lot of that would be related to BrightRock, also seeing that the earnings impact was -- or earnings growth was negative in SPF recurring premium cluster. And can you confirm, that you're still comfortable with BrightRock?

And then just a final question given what markets have done, given that equity was pretty -- are obviously much higher now, do you see good opportunities. Do you take higher risk present into account when writing life insurance business? In other words, is your hurdles for doing business dynamics and cognizant of the risks and cognizant of the return potential given asset pricing out there at the moment?

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Okay, Francois there's is quite a bit there, so that Anton maybe you first. You can deal with the first couple yeah. First three IFRS, SPF and then the hedges on the capital.

A - Anton Gildenhuys {BIO 4058523 <GO>}

Yes. Okay. Thanks, Francois. In terms of the collars, we use various banks. So we have a diversified counterparty risk exposure. There's no reason for us at the moment to be concerned about the ability of those banks to meet the hedges. And as you know, it will be collateralized. So, the collateral we currently still have received. So I'm not concerned about that at all. And also, I'm not concerned about the cost of rolling it because as the name implies, it's zero cost. So you will see some change perhaps in the spread that you achieve. But I think that will be more than compensated for by the interest rate environment.

Just in terms of whether we expect 0 return on the capital, we don't. We expect a positive return because we set up these 0-cost collars while still receiving the dividend. So at the minimum, we would expect to receive the dividends over time. It's the capital that is protected. In terms of IFRS 17, we were reserve that Wikus referred to would be discretionary reserves that we will not be able to maintain under IFRS 17, and those reserves will then transition from the policyholder funds into the shareholder fund. The discretionary capital buildup is exclusively on the shareholder fund side. We do not consider the policy of the discretionary reserves to be available for discretionary application at the moment because they are currently being set up for specific purposes. So once very specific purposes change under IFRS 17, that's what Wikus referred to, they may become available as part of surplus capital.

I have to add, though, there's significant work still to be done, so I won't be able to give you an indication of the size of potential changes and so on. But as you know, IFRS 17, everyone is now really starting to get grips in terms of implications of the accounting standard. In terms of risk experience of SPF, it's still substantial. But we weren't surprised by the slight decline and the positive experience variance because we have been relaxing our risk assumptions over a 4-year time period. And we had to do that because assumptions were very conservative. And on the same, you have to go for best estimate assumptions. So we had to bring our assumptions in line with SAM. We don't want different assumptions for EV purposes and for SAM purposes. That relaxation as this was the final year that we've started. So that does not come to an end. So I expect from this point onwards, the experience to more or less stabilize. We don't have any specific concerns around BrightRock. So the slight decline in the risk experience variance isn't attributable to BrightRock, but in fact, were lower expected variance from risk products.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Last question was around the negative in the recurring premium businesses in SPF, negative on operating earnings.

A - Anton Gildenhuys {BIO 4058523 <GO>}

From operating.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

It was if I remember 7% or something, is it?

A - Wikus Olivier {BIO 20074722 <GO>}

It was minus 11%, yes. But that's entirely due to higher new business strain coming through, and that's generated from all of the new initiatives. So BrightRock contributes to that. And then as I mentioned, we also saw a change in Nigeria, basis changes, which was positive in 2018 and negative within 2019, which is kind of ZAR400 million swing on the profits of the recurring premium cluster. Those two sources explain the full negative. Excluding that, the profits were up 10% on 2018.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

I think your final question on the transacting side, obviously, we keep our eyes open to all those opportunities. And obviously, as you say, we trade at a premium on a relative basis. I think, what we'll see most likely in 2020 is activity on the asset management side. I highlighted that last year, I think, there's some opportunities there. In the times that we're in, a lot of the asset management businesses in South Africa are just not going to make it.

I think, that we can see something there, probably on the list platforms as well, I can see some consolidation. And then obviously, as I mentioned in the presentation, just wanted to bolt on things in terms of the emerging markets business, in one or two territories where we need to lift our -- we have to be in the top 3 position in those key territories, and we're not quite there at the moment. But outside of that, we'll just keep our eyes open. And if there's anything to say we'll announce it at that stage.

A - Sydney Mbhele {BIO 20089938 <GO>}

Good. Let's see if we have any further questions on the telephone line.

Operator

There are no further questions on the line, sir.

A - Sydney Mbhele {BIO 20089938 <GO>}

No further questions. Should we go to the webcast?

A - Unidentified Speaker

Yes, we have a question from Warwick Bam from Avior Capital Markets. There are three from him. Firstly, is your investment return exposure symmetric on the upside and downside especially in Glacier guarantee book? Secondly, what do you view as your easiest opportunities for earning growth in FY '20? And lastly, how do you expect your discretionary capital to change in FY '20, given the potential negative investment returns?

A - Wikus Olivier {BIO 20074722 <GO>}

So, what was the second question, again?

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Operational opportunities in 2020.

You're going to take the first one.

The first one was Glacier investment return.

A - Wikus Olivier {BIO 20074722 <GO>}

Glacier as part of its underlying policy of the portfolio, it does have products where they're participating the absolute investment return earned on the portfolios. So they do participate in upside and the downside. So any change in the absolute level of investment return, will have a significant impact on the earnings.

A - Sydney Mbhele {BIO 20089938 <GO>}

Thanks, Wikus. The earnings growth for FY '20?

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Let me have a go at that one. I mean, obviously, it differs across the clusters. I mean you can't answer. Let me -- I'll do it at the cluster level. In SPF, obviously, those new initiatives that we've invested in are really starting to deliver for us now. And you can see as the results come through, you see it in the VNB in the prior periods and now you're going to see that coming through in the operating profit. So those new initiatives are really starting to deliver for the business there.

The second thing, of course, is the costs. Jurie and the team have had a very good look at costs. And I think there's some cost opportunities, some further cost opportunities they have identified. And then, of course, you've got the digital, which creates a huge, huge opportunity. So that's in that cluster. In the Santam business, it's about maintaining that margin. We're very, very happy with what was achieved in 2018, if we can get -- and 2019, both years we're not expecting much there. Costs can make a difference. Again, the digital make a difference there, but the probably single biggest opportunity is to improve the penetration of the specialist insurance business on the continent.

In the corporate cluster, obviously, the turnaround in the group risk that has to continue. And that can -- if you take that through for a full year, given that we had a very weak first half of 2019, that will come through well in that regard. And then there's also the opportunities that I mentioned around Umbrella Fund and around retailization around the defaults. That can make a big difference in that one.

In the investment business, given the markets where they are, it's going to be tough to repeat the sort of performance that they've had there, but the flows have been positive. Investment performance remains positive on a relative basis. And of course, what we have to do is, as I mentioned, in the international business, we have to improve the performance of the financial planning unit, which was a negative performance in 2019, and we won't continue with that into 2020. So those are probably the opportunities there.

Emerging markets, of course, I mentioned it as the absolute priority. If you're at 2% and you can get back to the bottom end of the target range, that will make a big difference. So I think across each of those clusters, the opportunities are there. And that's the exciting thing, even in the times that we're in.

A - Sydney Mbhele {BIO 20089938 <GO>}

Great. Thank you. I think we're going to come back to this room. If there's any further questions, I'm going to ask you to please stand up and introduce yourself so that the cameras can catch you properly. If there are any questions in the room, I'm going to start with the gentleman on my left there.

Q - Analyst

Hi. My name is from Sanlam. Just 2 questions from my side. Firstly, you mentioned around discount rates on the EV, obviously, taking a conservative stance in terms of not lowering the discount rates, but if one were to play devil's advocates, we've had low rates globally for a decade and a relatively benign market conditions and looking forward, obviously, there's significantly more risk at least in the short to medium term. How do you think around the discount rates? And obviously, it would be to your benefit in terms of EV from that perspective? And then just secondly, around the Capitec partnership. Going forward, what are the product lines would you consider pushing through that channel? Thank you.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Wikus, will you deal with the first one?

A - Wikus Olivier {BIO 20074722 <GO>}

I'll deal with the first one.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Second one, I'll have a go at.

A - Wikus Olivier {BIO 20074722 <GO>}

Yes, I think we're living in an environment with significant volatility and there is -- it's debatable whether rates will remain low for extended period of time. But always been to rather on the prudent side when we do our GEV valuation. For that specific reason that we decided to rather both in an additional buffer. And if it stays low, and we, at some point, feel it's necessary to resourcing, it will have a positive impact. But for now, we're comfortable to rather maintain higher discount rates.

A - Anton Gildenhuys {BIO 4058523 <GO>}

And I think it's only for a fairly small part of the book. It's not --

A - Unidentified Speaker

It's for some specifically and then also for the UK operations.

A - Wikus Olivier {BIO 20074722 <GO>}

Some specific thing and then also for the U.K. operations. So we did have quite a significant impact on the valuations.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Okay. On Capitec, obviously, I have to be careful how I deal with that one, in terms of the sensitivity. Suffice it to say, we have a well-defined partnership with the Capitec that we are working in 4 particular areas. One of the areas is ensuring that every opportunity around the funeral which is product one is being delivered upon. So are we optimizing the production? Are we ensuring that the client service is at the right level? Are we ensuring that all the channels in Capitec are being used in terms of the partnership? So that will drive the volumes of the funeral. And of course, given their very, very large base making sure that we penetrate the entire base, that's step 1. And that will continue to grow very, very nicely for the next few years.

Then we are busy with the second product. I'm not going to tell you what it is, but I will tell you that one of the things that we agreed with Capitec upfront that whatever we do with them has to have the potential to be significant, it has to be anchored around disruption. We've disrupted in funeral, and again, I won't go through all the reasons as to the how. But this will be a disruptive insurance product, which will cover life and will cover general as well. And that's really 2 of the 4 areas that we're working on with them. So that's -- it's just a very, very nice opportunity. And I think both parties have learned a lot out of the working together.

A - Sydney Mbhele {BIO 20089938 <GO>}

Right. Thank you. Any further questions in the room? Please go ahead. We've got a microphone here.

Q - Ian Cruichanks

Thank you. I must say, first of all, congratulations on coping as you have in can only described as an extremely challenging performance. And well done in that respect. One of the things you mentioned in your introduction was that the successful Sanlam dependent on the successful South African economy. That's not insult, I think, we have to accept that. And if we take it that we could well be a guesstimate in a 10-year overall cycle, we're only 2 years down the road so far. So is it realistic to have relatively positive expectations as you have regarding capital formation and profitability thereon? I

t could be that this is time maybe a bit more than it's been estimated there.

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Yes. Okay. So there's really 2 elements to the question, Ian. Let me have a guidance and then chip in. The first is, what are we going to do as business with government and labor to try and fix the economy? I do still believe it's fixable, right? We're in a pretty difficult stage, and it's going to take time. But I do believe that over a 3- to 5-year period, there can be a recovery. And off the base is so low at the moment, any little 1% or 2% or 3%, I mean, 3% is it's hard to see. Even the 1%, when you're at 0, can make a difference. It's around confidence. Confidence, you may not see in the numbers, but they look into the future. It will the things start to turn.

And I'm not being unrealistic here, but I think that it can be done. We have to believe it can be done. And now we've got to do it. So that's the first thing. The second thing is how you adjust. And I've gone through a number of areas in each of our clusters, where our guys will just have to play the cards that are dealt, and stronger businesses gets stronger in the tougher times. And I've said it for a number of years, and we've gone out and we've delivered on that. But it's about taking market share off the others, and it's about getting your cost base right and coming with new ways of doing things. I mean, take the Capitec thing. If we didn't have that, we wouldn't have the growth that we have. If we -- and the my way and taking that kind of those new businesses, the India business. Adding new stuff all the time and putting products into segments that haven't been serviced properly or service at all. That's all you can do in the times that we're in.

But our people are doing that, Ian. They're doing that. And of course, then what we have in the Sanlam side is we have the Africa opportunity, which is not everybody's got. And there, the game is a bit different because GDP growth is looking a bit better, not anemic and insurance penetration is so low. So that I would say is how we deal with this Anything to?

A - Anton Gildenhuys {BIO 4058523 <GO>}

Yes, I think the main thing is, should it's a very challenging time, but in challenging times, there are also opportunity. And as Ian said, if you're in a strong position, which we believe we are, we're well placed to capitalize on those opportunities.

Q - Analyst

Thank you.

A - Sydney Mbhele {BIO 20089938 <GO>}

Great. Good feedback. Any further questions in the room? No. Great. Well, thank you so much to the panel, and thanks to all of you for joining us this morning. I'm going to ask you to please join us for some cocktails outside, and you can further interact with the panel on any further questions you might have.