Y 2020 Earnings Call

Company Participants

- Abigail Mukhuba, Financial Director
- Jurie Strydom, Chief Executive Officer, Life and Savings
- Lize Lambrechts, Chief Executive Officer
- Paul Hanratty, Group Chief Executive Officer
- Sydney Mbhele, Group Executive, Brand
- Unidentified Speaker

Other Participants

- Francois Du Toit
- Larissa van Deventer
- Michael Christelis

Presentation

Sydney Mbhele {BIO 20089938 <GO>}

Good morning, everyone. My name is Sydney Mbhele, I'm the Group Executive of Brand, at Sanlam. It is my pleasure to welcome you all to our 2020 Annual Results Presentation. And I'm joined today by our Group CEO, Mr.Paul Hanratty; our Group Finance Director, Abigail Mukhuba; and as well as the rest of the executive leadership team.

I'm going to be facilitating the session today and I'm sure like all of you, I'm looking forward to a very informative session. In terms of the state of play, I'm going to intro Paul in a second. Paul will then introduce Abigail to cover some of the detailed aspects of our annual performance. And then Paul will come back to conclude, by giving us an outlook and some aspects of the strategic plan going forward. And without further ado, I'm going to introduce Paul. Paul, over to you.

Paul Hanratty {BIO 7445748 <GO>}

Good morning, ladies and gentlemen, and a very warm welcome to Sanlam's annual results presentation. I'm joined in studio by Abigail Mukhuba, our Chief Financial Officer, and Abigail will talk to you in a minute as Sydney said.

In addition, here in the Johannesburg Studio, we've got Wikus Olivier, our head of strategy; and Mlondolozi Mahlangeni, our Chief Risk Officer. We've also got Jurie Strydom, who is the Chief Executive of Sanlam Life and Savings. In Cape Town, I'm hoping that we've got online Heinie Werth, the CEO of Sanlam Emerging Markets; and Robert Roux, the CEO of our Sanlam Investment Group.

I'm going to start by giving a very brief overview of the environmental context with which these results were delivered in. I'm then going to talk a little bit about our strategic progress in 2020, before handing over to Abigail to take you through the financial results. I will then talk about our priorities and the outlook for the balance of the year before we open up to questions.

The advent of COVID-19 has created a very difficult environment in which all businesses have had to operate. The Sanlam Group has been no exception. The first person to die in South Africa from COVID was one of our colleagues, and this pandemic has left nobody untouched. Aside from the health issues, there have been serious impacts on people's ways of living, communicating, their personal finances and ways of doing business.

In dealing with the COVID pandemic, we've been guided by our purpose, empowering generations to be financially confident, secure and prosperous. And with that purpose in mind, we've rolled out technology and support to ensure that our clients could be provided with appropriate advice to deal with the financial impacts of the pandemic.

As I said at the interim results, we had an unprecedented level of engagement with our clients over the year. We provided premium relief to clients. We paid a higher level of mortality claims than usual, about ZAR0.5 billion more than in 2019. We made relief payments of ZAR1 billion to clients in the hospitality and leisure sector as well as set up a provision at Santam to deal with all the business continuity interruption claims. We set aside investment of ZAR 2.25 billion to invest in businesses to help them to recover from the pandemic by providing capital support.

Together with the Motsepe Foundation, we contributed ZAR1 billion of direct COVID relief across Africa. And through all of this, we maintain tremendous financial strength and resilience to provide a rock, on which our clients can rely no matter what happens. The group earnings were reduced significantly in 2020. The net result from financial services reduced by 13%, impacted by the extent of the business continuity claims and provisions at Santam, offset to some degree by lower motor claims as a result of the lockdown. Credit provisions, credit defaults and credit spreads, right across our business from the retail lending book and the corporate credit books in South Africa to the credit book in India, and the capital that was eroded in Lebanon. We had depressed float investment return from the ex-harm businesses and we had mortality losses from the pandemic, which were offset by the release from the pandemic reserve.

We estimate that without the impacts of COVID, the result would have been 17% up on 2019, rather than 13% down, and this indicates the strong underlying strength and competitiveness of the Sanlam Group Franchise. Our net operational earnings were down by 23% on 2019, due to lower investment returns, compounding the other impacts of COVID.

The impacts of the pandemic we felt very strongly on our new business. You will recall that quarter one of 2020 was a particularly strong period for new business for Sanlam, but the rest of 2020 proved to be very tough. Overall, our general insurance premiums were very stable despite the pandemic, reflecting the defensive nature of this business. Santam's gross written premium for the year was up by 7%. However, investment flows was extremely strong, both in the retail and institutional markets in South Africa as well as within the Sanlam Emerging Markets cluster.

A range of different factors impacted these flows positively. Glacier's sales were strong because of product innovation and the effect of retrenchments in South Africa, which led to the preservation of pension fund monies into retail products. The anticipated empowerment credentials of our asset management business in South Africa assisted institutional flows. And within Sanlam Emerging Markets, we had some big mandates that we wouldn't expect to write in a normal year into the future, but we were tremendously proud of their achievement. The Sanlam Investment Group saw new business growth of 43%, and the Sanlam Emerging Markets business, 35%. The Life Insurance businesses across the group have their new business much harder effected by the pandemic than the other product lines. Recurring premium sales were particularly hard hit, especially within the Retail Mass and corporate segments in South Africa.

Overall, despite strong retail single premium sales, Sanlam Life and Savings had just a 1% increase in new business sales over 2019, reflecting the tough effect of COVID and the lockdowns on recurring premiums. The group's new business volumes exceeded ZAR300 billion for the first time and represented a 25% increase on 2019. I'm pleased to say that the work that we did to digitally enable our intermediaries has seen a strong recovery in life sales towards the end of the year.

Our values of new business was badly affected by the decline in recurring premiums. And overall, the value of our new business declined by 16% on 2019. We are very pleased to see that the net fund flows were up by 8% to ZAR 61.5 billion.

The adjusted return on group equity value was very disappointing at 2.7% and well below our long-term hurdle of 13.3%. Although, profitable new business and positive operating experience variances in the Life Insurance businesses contributed positively to the return on group equity value, a number of factors weighed heavily against it.

The provision for lapses in anticipation of an economic downturn, coupled of course, with the consequent impact on maintenance expense assumptions. Per credit and other operating factors in our non-life businesses, revaluations of our non-life businesses to reflect lower growth prospects, following the COVID impacts and the performance of the Santam share price were the principal reasons for this disappointing overall return on group equity value result.

Against a backdrop of a 13% lower result from financial services and a decline in the net operational earnings of 23%, the Board has taken a decision to declare a dividend of ZAR 0.03 per share, representing a 10% decline over the 2019 dividends. This dividend is consistent with our current dividend policy The dividend of ZAR 0.03 per share represents the same level of dividend as in 2019. If one excludes the impact of the loss of the sun time dividend to the group, following the decision by Santam to declare no dividend for 2020 in the light of the impact of the business continuity insurance matter.

The dividend declaration reflecting just a 10% reduction during a very tough year is indicative of the resilience of the group. Our dividend policy remains unchanged going forward. The group maintained an extremely strong capital position throughout 2020. The group ended the year with a solvency ratio at 191%, which is at the top end of our target range. Cash generation from the Life Insurance businesses within the group remained very strong during 2020, despite the operating environment. And Sanlam has grown the dividend per share since listing by a compound annual growth rate of 13%. For this reason, we are extremely disappointed to have reduced the dividend in 2020. And for the first time, dividend growth will be below the target range.

I'll now turn to some of the comments to give you some insights into the progress that we feel we've made on our new group strategy. At the time of our interim results in 2020, we set out the group's new strategy, which committed the group to establishing itself as an African champion, building a fortress competitive position in South Africa in partnership with Ubuntu-Botho and African Rainbow Capital, accelerating growth in Africa outside of South Africa off a stronger operational base and strengthening our position in selected markets outside of South Africa.

We explained how this strategy will be enabled through digital technology, continuous improvement in our corporate culture, innovation and partnership. Execution is carried out through business clusters, coordinated by the group. Our commitments to becoming an African champion means growing Africa, outside of South Africa off a strong base. 2020 saw some very significant progress in this regard. The group grew new business in Africa by 39%, a focused discipline on underwriting and pricing means an improvement in the underwriting margin from 2% in 2019 to 6.1% in 2020 and that was despite the blast in the Beirut Port.

One of the competitive advantages we have in Africa is the use of Saham Re. Our African businesses reinsure a high levels of their risk to the central reinsurer, which allows us to pool risk across the continent and to centrally control underwriting standards and pricing. This centralized underwriting and pricing disciplines that we've implemented, allow us to drive profitability across a very wide portfolio.

During the year, we also adopted a new long-term mandate for the investment of the float within the business. Over time, we will move to lower equity mix and importantly, a much lower unlisted property mix. And in particular over time, we will exit development property, i.e., that does not derive any rental income. The Moroccan equity market substantially recovered during Quarter Four of 2020 and some rebalancing is already underway. We expect the unlisted property adjustments to take much longer to give effect to. A few operations in the smaller regions, countries have been sold to support the rationalization of the Sanlam Emerging Markets portfolio and we expect to realize around $40 million from this. But more importantly we will be reducing operational complexity within that business.

The acquisition of the balance of the equity in FBN in Nigeria is a short-term measure to allow us to find a new long-term equity partner in Nigeria.

We identified a number of segments within our South African business, which requires scale improvements over time. The first of these is asset management, where we concluded the transaction in which African Rainbow Capital have acquired 25% of the third-party asset management business. We've already seen some institutional flows as a result of the anticipated improvement in our empowerment credentials. The second area where we need to get a scale up is in health insurance and employee benefits. Our acquisition of a 25% stake in African Rainbow Capital Financial Services will give us exposure to new income streams in these two market segments through Afrocentric and Alexander Forbes.

We see the Retail Mass segment as an important growth area and previously sought to drive expansion through our joint venture with Capitec and the establishment of African Rainbow Life. The latter was a joint venture set up with African Rainbow Capital that aimed to pursue a different distribution model to our existing distribution models, namely a salaried sales force model. The Capitec JV continues to perform well. And at the value of new business level, we now have an extremely strong market share in the Retail Mass segment.

However, the African Rainbow Life joint venture has been shut down and its business merged with our existing business. As we took a view that post-COVID, the African Rainbow Life distribution model will no longer -- will create a great deal of financial strain for our business and it's not one that we -- it's not a business model that we want to seek to pursue.

The African Rainbow Life license has been combined with our South African license. Sanlam has been very disciplined in the allocation of capital over 2020. Discretionary capital is improved slightly over the year and will be further enhanced by the proceeds from the GBP75 million realized -- GBP75 million realized from the sale of Nucleus, a platform player in the UK market.

As we explained in our group strategy, businesses like Nucleus are not core to our strategy. The small exits within the SEM portfolio - Sanlam Emerging Markets portfolio will also contribute to discretionary capital in time.

During the year, the group as I mentioned acquired a 65% stake in FBN Nigeria, utilizing debt to finance the acquisition. We are simply warehousing the majorities of the stake, while we find a suitable long-term equity partner to acquire it. We intend to continue pursuing a partnership model in Nigeria.

We sold 25% of the third-party asset management business to African Rainbow Capital and acquired 25% of ARC Financial Services for ZAR764 million. In the case of the former transaction, there was a positive impact on discretionary capital of ZAR817 million, while there was no impacts on our discretionary capital position from the acquisition of the ARC

Financial Services stake, since we utilized the assets backing non-participating margins for this purpose.

We had to inject capital into our UK operations during the year. We followed our rights in the Indian equity raise, which together with some other small items including the acquisition of wealth and asset management capabilities in half one of 2020, reduced our discretionary capital by ZAR504 million. It's important when we put up this chart to recognize that we also invest each year in writing new business. And our returns across all of our products are well above their hurdle rates of return, which of course, is exactly why we have such strong positive value of new business.

Sanlam's partnership with Ubunto-Botho and African Rainbow Capital remains an important part of our strategy to build a fortress competitive position in South Africa. We've now been partners for 17 years. And with Ubunto-Botho's ability to help us strengthen the business in the South African competitive context is vital. Aside from providing a means to improve competitiveness and established large market segments through improving empowerment credentials. African Rainbow Capital has also created the ability for Sanlam to benefit from small FinTech startups, such as Life Check, who have driven digital innovation in the advice space.

It's important to note that the transactions with Ubunto-Botho and African Rainbow Capital which were envisaged in the 2018 transaction have now been fully completed and the funding line granted to Ubuntu-Botho and African Rainbow Capital has been fully utilized.

Ubuntu-Botho is an incredibly broad-based organization with stakeholders in every province of South Africa and representation that includes women, the youth, and churches. As such, the benefits of empowerment are widely spread and we believe that this is mutually beneficial partnership, which makes a significant difference for both Sanlam shareholders and a huge array of beneficiaries.

The COVID-19 pandemic accelerated the need for change. We've embarked on a group wide initiative to drive digitalization, and while planning is ongoing, we believe that there are sufficient provisions in our balance sheets in this regard to permit us to roll out the program without major implications for future operating earnings and that in time, the program will become self-funding.

We've had great success during 2020 with our data analytics. Our Indian MiWay businesses, which has seen growth of 6% over 2020, and we've established a new client experience unit to ensure the clients and intermediaries benefit from improved service, engagement and communication using digital technology. We've looked at hard to work in a hybrid model going forward, and we're beginning to rationalize our property footprint with the expectation of saving around ZAR150 million a year in rentals, once we fully transitioned to the new operating model in 2022.

We've baselined our culture with a group wide survey methodology that's used widely and globally. We start out with a culture that's very close to being categorized as good. And we will work hard over time to move these culture scores up to where a sustainable, competitive advantage can be created. Complementing this work is the rollout of a strong ESG methodology across our Asset Management business in partnership with Rebecca. We believe that by managing impact as well as return on risk, we can improve the investment outcome for all of our clients over time.

I'm now going to hand over to Abigail, who will take you through the detailed financial results. Thanks very much.

Abigail Mukhuba {BIO 20217730 <GO>}

Thank you, Paul. Good morning. Paul has alluded to the operating environment in which we predominantly performed over 2020. I'm going to go into the details. The equity markets were extremely volatile during the year, but by the end of the year, they had recovered significancy in most of our markets except in Morocco as well as Ivory Coast. After persistent depreciation of the rand in the first quarter, it markedly improved against major currencies through the remainder of 2020, ending the year just over ZAR 14 or ZAR 14.69 against the dollar. The RAND was on average weaker in 2020 and this provided some support to our earnings.

Credit spreads widened significantly in first half and Sanlam sold large unrealized losses as a result. These have narrowed in the second half, but spreads ended the year at levels that were still wider than when we started the year. Nigerian bond yields, on the other hand, that moved much lower over the year with negative impacts on VNB. The biggest negative impacts contributing to the 13% reduction that Paul alluded to in the net results from financial services came from CBI provisions exposure on the Santam business. The credit related provisions at SEM, SIG and SLS, and then we also had increased mortality claims at SLS. These were mostly offset by the after-tax release of the pandemic reserve of ZAR354 million.

Excluding the impact of COVID, which I will cover on the next few slides, the group net results from financial services were up 17%. This is a performance that we're particularly proud of and resemblance of the strong underlying operational performance. An increase of 25% in new business volumes was exceptional. This was particularly driven by strong growth in investment business at SIG and SEM. Life Insurance volumes were however severely impacted by the government-imposed lockdowns and curfews implemented in most of the regions where we operate, including India and Morocco. They prevented face-to-face sales in higher margin lines of business, such as Retail Mass and recurring premium business in retail affluent in South Africa. This is also reflected in the 16% decline in value in new business.

In the SEM as I mentioned earlier, the lower yields in Nigeria also depressed VNB as they assumed future margins from savings and annuity business declined commensurately. We did see a stronger improvement in the second half, particularly in the Life New business volumes, which contributed to a welcome 88% increase in VNB, compared to the first half.

On this slide, we show net operational earnings, which were down 23%, compared to last year, but if you were to exclude the impact of COVID, they were up 14%. The main difference between net results from financial services and net operational earnings being two elements, we saw a decline in net investment surpluses of just over a ZAR1 billion. The majority of that being the expected credit losses that were booked in our Lebanon business. Then we also had higher project expenses.

Similar and consistent to how we presented the impacts of COVID in the first half at interim results, this slide depicts management's analysis of the impact of COVID on the group performance.

We present only those lined items that were most impacted by COVID. And you will note that it's both positive and negative impact. The main items that we show here on the SLS cluster is the excess claims which were relieved by the pandemic reserve release as we've already mentioned and this mitigated the impact on the mortality claims.

Then there was also increased credit -- increased retail credit provisions and support offered to intermediaries during this challenging time. In the SEM business, we had increased retail credit provisions particularly at the Shriram business. And then in the SIG business, the main adjustment was the change in the provision for doubtful debt and credit default specifically in the Sanfin area.

Lastly, but certainly not least, the CBI claims for provisions and a positive experience on the motor book was reported in the Santam business. Growth monthly mortality claims followed the general trend in South Africa with Retail Mass being the business that was hardest hit by COVID. Our retail affluent and corporate businesses had a benefit of the annuity and disability offset, instead if they didn't have as bad or a severe an impact in terms of claims as Retail Mass.

When one compares our claims experience relative to 2019, we saw a total of ZAR383 million in excess claims experience, which was recorded in the SLS business. And this number is net of tax, reinsurance as well as annuity and disability offsets. We also show on the top right of the slide, our results or the trends that we saw in January 2021, especially given that wave two affected more January and February than the December 31 results. There was a significant increase in excess claims in January 2021, much more than the same period in 2020. And the most striking is the increase in the retail affluent business versus the first wave.

After allowing for potential offsets from annuities and as Paul alluded to earlier, we do have sufficient results and discretionary margins to cover these claims. If you look at our performance on a quarterly basis, there was a strong bounce back of the business across all businesses by quarter four. If you look at SLS new business volumes, the recurring premiums were worth hit by the continued tough lockdowns and curfews in Quarter 2 relative to Quarter 1. The significant strong recovery was both recurring premiums and single premium products by Quarter 4, with single premium products performing remarkably.

The recovery was mainly driven by an accelerated adoption of digital tools to effect transactions as well as the strong demand at our Glacier business for annuities, international products as well as money markets discretionary solutions.

SEM's General Insurance was more resilient throughout the period, with a strong growth in investment space in quarter 4. SIG's annual performance in new business and fund flows was also remarkable, given the difficult operating environment. Paul has already talked too much of the Group's performance in terms of the return on group equity value. This slide shows the comparison of the actual RoGEV versus the adjusted RoGEV. The items that I adjusted -- for adjusted RoGEV are items that are not within management control, items such as those listed on the right of the slide. Cumulatively, since listing and over the years that I reported on this slide, we have outperformed down our hurdle rate on an adjusted basis, except for 2019 and 2020. But I will go into the details of 2020 on the next slide.

We can see here the severe impact of the change in conditions brought on by COVID. Life, VNB and Experience variance continue to contribute positively to RoGEV. However, this was eroded by the 5% mass-lapse assumption change that Paul talked to earlier in response to the uncertainty presented by the pandemic. This also negatively impacted maintenance cost assumptions. We also had investment market underperformance contributing negatively to the non-life business RoGEV.

Lower growth assumptions within the SEM GI business, given the impacts of the operating environment and persistent uncertainty on how COVID will unfold, added to the erosion. In addition, Santam's share price underperformed the hurdle rate in 2020. And all-in-all, whilst actual RoGEV was negative 2.7%, the adjusted RoGEV ended at positive 2.7%. The group solvency position remains strong and resilient throughout the period. It was also well within the regulatory requirements. More important to notice that it also was at the upper end of our target or our target range. The 20 basis points reduction in the Sanlam Groups solvency position from 2019 to 2020 is mainly due to the same items that I have discussed in the past two slides.

I will then move onto highlight some of the key performance indicators in our clusters.

Starting with Life and Savings, the impact of COVID was pronounced in Retail Mass where lockdown impacted the face-to-face distribution model. This was partially offset by the 4% growth in Capitec new business volumes.

And as Paul highlighted, the growth through the Capitec partnership is an example of mutually beneficial partnerships that Sanlam seeks to build. A combination of the lock down in the related general economy performance pressure was also felt on middle markets disposable income, with recurring premium new business volumes declining by over 18%.

Glacier had an excellent year with an increase in new business volumes of 12%. Sanlam Corporate was also negatively impacted with lower new business volumes in line with market trend. Overall, the 18% recurring premiums decline was more than offset by the 3% single premium growth.

Life insurance business volumes increased marginally, slightly stronger than the non-covered business. In this case, volumes improved in the second half of the year as restrictions were lifted.

The recovery was lower in Retail Mass and Sanlam Corporate relative to Retail Affluent, which also benefits from Glacier as already mentioned. Sanlam Corporate recorded a 48% decline in new investment business volumes, due to low quarter activity in 2020 and a high base in the second half of 2019.

Looking at the SLS value of new business, the 15% decline recorded in 2020 is mainly in line with lower new business sales in recurring premium life insurance lines. This reflects in lower VNB margins across the subcluster. Net results from financial services was down 5% reflecting the cost of support in some of our intermediaries as well as an increase in the provision for one-off expenses of just below ZAR200 million, mainly for digitalization initiatives.

RoGEV performance was lower, mainly due to operating assumption changes put in place to deal with higher expected lapses and the knock-on effects on maintenance expense assumptions. Also, we experienced negative investment variances.

Moving onto Sanlam Emerging Markets, new business volumes were up 35% in 2020, supported by large investment mandate in Southern Africa as well as East Africa. This also reflected in net fund flows. Life Insurance business volumes increased by 11%, benefiting from the acquisition of the remainder of the 65% shareholding in the Nigerian Insurance operation in June 2020.

As an International New Life Insurance volumes improved 2% over the year. General insurance new business increased by 6% despite COVID-19 restrictions and even with the deliberate non-renewal of several loss making schemes, aimed at improving the quality of the book. Regionally, we saw strong growth from all regions, except Other International which increased marginally due to Lebanon being recognized only up to 30 June.

SEM's VNB declined by 17% to ZAR283 million. This reduction carried through to new business margins as well. The decrease was mainly due to lower volumes and higher cost ratios in India. And Nigeria's VNB was negatively impacted by the yield curve as I already highlighted.

I think what's important to note on this slide is, on a comparable economic basis SEM, VNB increased by 20%, reflecting a strong underlying performance. Net results from financial services declined by 10%, mainly due to a combination of lower returns on float in North and West Africa due to weaker investment returns on equity and property compared to 2019. Increased provisions for doubtful debts in India, the impact of Beirut Port explosion -- the impact of Beirut Port facility explosion on the SAHAM underwriting margins.

These negative impacts were partially offset by the increase in Nigerian Life Insurance earnings contribution due to consolidation being from 1st June as I already mentioned. Excluding the impact of COVID, capital markets in SPA and credit provisions in India, earnings were up 19% reflecting a strong underlying performance, supported by welcomed improvement in underwriting margins to 6.3% with SAHAM achieving 7.3%.

The deterioration in RoGEV was mainly due to prudent approach applied to valuations as discussed in the earlier slides. This slide reflects the improvement in the underwriting margin that I referred to.

SPA GI recorded a strong improvement from 2% to 6.1% This is within the 5% to 9% target range, even with the Beirut Port facility explosion. With the explosion to be excluded, the margin would have been 7.2%.

The decline in Other International underwriting margin is mainly due to India's underwriting margin of 6.7%m relative to 19.3% in 2019. But 2019 benefited from some reserve releases. The decline was also as a result of the inclusion of Lebanon for only 6 months.

Looking at return on insurance funds, the lower investment returns on float as previously mentioned, contributed to the decrease in return on insurance funds from 13.2% to just over 6%.

From a top-line perspective, gross written premiums were 9% up year-on-year with good growth from North, West and East Africa, whilst growth in South Africa was hampered by a weak Angolan currency. Other international volumes decline was due to Lebanon and the lower returns on insurance funds was also evident in all regions except Southern Africa.

This slide on the impairment, I'm not going to go into too much detail, because it was covered at interim. The major impairments remained the same with marginal reversals in Shriram Capital in line with higher valuations for the business at year end. The valuation of this business remains prudent and below listed prices, in line with the uncertainty presented by COVID.

SIGs total net fund flows of ZAR21 billion were broadly in line with 2019, a particularly strong and satisfactory performance given the challenging market conditions. The make-up of the flat performance was made up of two areas in the international business as well as a decrease in the SA business. So the international business went up. Within SA, overall strong institutional flows of ZAR11 billion were recorded in 2020 versus ZAR5 billion in 2019, dominated by flows into Citrix. Retail flow declined from ZAR15 billion to ZAR4 billion, mainly due to lower inflows into collective investment schemes.

In the wealth space flows of ZAR2.8 billion versus ZAR0.5 billion in 2019 represented a strong improvement in direct flows from clients, while the intermediary channel experienced outflows. The international business benefited also from lower withdrawals in 2020 as well as the inclusion of the newly acquired thesis business and a generally weaker Rand-Pound exchange rates.

Net results from financial services were 25% down, mainly due to a lower contribution from Sanfin. The 25% decline in earnings would have been 19% increase where it not for

COVID. Sanfin's results were severely impacted by an increase in provision for doubtful debts and defaults due to the impact of COVID and general mark-to-market changes. There have been no material changes in the credit quality of the book, since we reported in June, but also no material changes in the composition of the book.

Investment SA business was up 16% on a comparable basis. This was due to strong performance fees and net flows. Whilst the wealth business also improved its performance, mainly due to higher fees and brokerage income. RoGEV performance was mainly impacted by the investment markets under performance, impact on valuations, lower future net flows assumptions, given the uncertain operating environment as well as higher risk discount rate in South Africa.

Then on my last slide, to cover Santam, Liz and Heinie would have shared their result last week. So I will not go into much details on these results. Suffice to say net results from financial services were impacted by the CBI provisions, which had a significant impact on underwriting performance.

Overall, Santam experienced satisfactory performance in the context of recessionary economic conditions. I will then hand over back to Paul.

Paul Hanratty {BIO 7445748 <GO>}

Abigail, thanks very much and congratulations on your first set of results at Sanlam. I think you did tremendously well in explaining them. Our priorities for the year ahead are shaped by both the events of 2020 and our new group strategy. Operationally, we're focused on how quickly we can recover the key financial metrics to pre-COVID levels.

Although, we are a long-term nature -- long-term focused by nature, the current situation calls for swift, restoration of sales, the value of new business, profit, dividend and return on group equity value metrics.

Careful expense management and focus on operational details and disciplines, together with the commitment and drive of all our people, mean that I'm hopeful that we can restore the operational base quickly. Strategically, our priorities have not changed and we will continue to develop and strengthen our Sanlam Emerging Markets portfolio within Africa, improve the scale and effectiveness of our South African operations, use partnerships to expand where we cannot do this ourselves, digitalize our business to improve efficiency and competitiveness.

Our balance sheet is extremely strong. Our leverage is very low. And while we execute our strategy, we will continue to allocate capital judiciously. Our culture is what will set us apart in the long-term, so we will continue to focus on improving our culture and key issues in that regard are driving greater levels of innovation within the organization and developing our own talents, to support the future needs of the business.

Our people have performed magnificently over 2020. But as for shareholders, the financial outcomes have necessitated lower bonuses. Whilst bonuses are understandably lower for 2020 for our staff and management, our share schemes would fail to vest as a result of the 2020 return on group equity value measurements and dividend outcomes, leading to a retention risk for key staff and management.

We've therefore taken a decision to extend the various share schemes by a year and to replace the 2020 year with the 2021 year for measurement purposes. We feel this will aid with the retention of key management, and it's fair to both management and to shareholders since the measurement against hurdles is still applied, albeit that the extraordinary 2020 year is removed from the measurement.

In setting hurdles for the new share issues where measurements of performance begins in 2021, we've introduced a new measure to supplement return on group equity value and dividend growth hurdles. This is a speed of recovery hurdle and it incentivizes management to recover the key operational metrics as soon as possible.

We have reviewed the incentive schemes across the business and align them fully to group strategy and targets. And I do understand that it's somewhat unusual to talk about remuneration issues at an annual results presentation, but given the extraordinary impacts of COVID, I wanted you all to understand how we've adapted our remuneration model in order to achieve retention of key staff, which is good for the business, to minimize the cost of retention and at the same time to be fair to shareholders.

As we begin the outlook for 2021. This is an extremely difficult year to give guidance on. There are some major uncertainties that we're fully aware of, the finalization of the business continuity claims at Santam and the mortality claims that we're likely to see from subsequent COVID waves later in 2021.

On the latter, I want to just give a little bit of color. In January and February, we saw claims at a level -- mortality claims at a level that were 50% to 60% higher than the claims that we saw at the peak of the first wave during 2020 in June and July.

We estimate that our excess claims for the full 2021 year are likely to be two to three times the level of excess claims in the 2020 year. So a very high level of expectation of excess claims during the current year as subsequent waves filter their way through. And as it takes time for the vaccine program to have any impact. And in fact, we haven't modeled any impact of that in, because we think that that's a longer-term impact.

So when we have a look at whether we need to put up provisions or not, we've given consideration to a range of factors. Firstly, our forecast of the impact of the future waves. We've given consideration to the existing discretionary margins and reserves that we have on our balance sheet. We've considered the strong reinsurance program that offsets the impact of many of the gross claims, that we see coming through. We've factored in the annuitant releases that we are going to continue to see as we did see through the first and second wave, and we factored in the repricing of our group risk book. We were the first player in the market to strongly drive our repricing of that book, rest of the market has subsequently followed. And we believe that when we factor all of this in together, there is absolutely no legitimate reason for us to raise provisions at this point in time.

GDP across all our markets was very severely impacted in 2020. And although we see a recovery likely in H2, it's very hard to predict how strong this will be given the state of each and every government's balance sheet. This means that persistency and new business volumes have very large downside risk. And it is true, I believe to say that all the usual risks that our business faces are probably heightened at the moment, because of the environment that the world finds itself in.

However, there are a few things that make me very positive about the year ahead. Firstly, Sanlam has an extremely strong competitive position in every market and in every product line in which we compete. We've already made great strides to digitally enable our business and our intermediaries.

Secondly, our people are resilient and continue to be ready to perform in a disciplined way and at a very high level. Our balance sheet is extremely strong, both with the reserves and with respect to leverage and it gives us a tremendous amount of flexibility. And finally, we have a simple strategy for execution to which all of our people are aligned.

I'm now going to open up to questions and invite our colleagues to join Abigail and myself, and we've of course, got Heinie and Robert in the studio, and we'll endeavor to do our best to answer all of your questions. Thank you very much and wishing you good luck.

Questions And Answers

Operator

(Question And Answer)

A - Sydney Mbhele {BIO 20089938 <GO>}

Welcome back to our Q&A session. Thank you so much, Paul and Abigail for that presentation. To kick off the Q&A session, I'd like to welcome the rest of the executive team who are joining us this morning. I'm going to introduce right next to me Mr.Jurie Strydom, the Chief Executive Officer of Sanlam Life and Savings; Lotz Mlondolozi, Chief Actuary and Risk Officer; Mr.Wikus Olivier, who is our Group Executive for Strategy. And in Cape Town, we are joined by Heinie, who's the CEO of Sanlam Emerging Markets as well as Robert Roux, Sanlam Investment Group. Welcome to all of you and thank you for joining us this morning. We will start by checking if we do have the questions on the conference call, before we look at the webcast. Do we have any question at this point?

Operator

Yes, sir. The first question comes from Michael Christelis of UBS.

Q - Michael Christelis {BIO 15233664 <GO>}

Good afternoon.

A - Sydney Mbhele {BIO 20089938 <GO>}

Good morning.

Q - Michael Christelis {BIO 15233664 <GO>}

Can you hear me?

Operator

We can hear you. Please go ahead. And ask your question.

Q - Michael Christelis {BIO 15233664 <GO>}

Okay. Thank you. Thank you for telling that. Thanks very much. Four questions if I can. First one is, can you elaborate how big the annuity offset was relative to your excess debt? So just an understanding of what the positive impact of annuity releases were during 2020.

And then prior to that, if I look at your comments around your expectations for plans for 2021, it looks like net of your remaining pandemic reserve, you're potentially looking at another ZAR500 million that you need to essentially either take on the churn in terms of earnings or have released from other reserves. Can you comment if there are any other reserves that we need to be thinking about and whether or not that additional COVID mortality in this year is likely to affect earnings? Or will there be some releases outside of the pandemic reserve and annuity releases to offset that?

The next one just around your, the Indian businesses in about, just a couple of weeks ago the Indian sort of government announced that foreign ownership was allowed to be increased on Indian insurance ventures. Now, you guys have been quite positive about Indian in the past. Can you sort of speak a little bit about your intentions there, whether you intend to take up a stake to 75% and the likely impact that would have on excess capital?

And then just a last question, I mean, just some comment around your net results or financial services trajectory for this year, in the absence of sort of any massive market dislocations, you've got a year, where asset levels have started a lot higher than they were a year ago. I mean, outside of mortality, is there any reason to suggest that, we don't grow for two years from the 2019 level to get to 2021? I think you made a comment in November, which was before the market value that, that was unlikely, I just wanted to try to get your thoughts around that. Is 2020 just a blip and therefore, we can actually get back to a two-year CAGR, when you get to the end of this year from 2019 levels? Thank you.

A - Sydney Mbhele {BIO 20089938 <GO>}

Thank you. Let's start probably with the first question around the annuity releases. Do you want to pick that up Abigail or?

A - Paul Hanratty {BIO 7445748 <GO>}

Do you want to do that Abigail?

A - Abigail Mukhuba {BIO 20217730 <GO>}

We actually have it on Slide 19. We do show the annuity and disability offsets for the net number of ZAR383 million that we talk about. So the annuity and disability of sales were about ZAR338 million.

Q - Michael Christelis {BIO 15233664 <GO>}

Thanks.

A - Sydney Mbhele {BIO 20089938 <GO>}

Yes. Anyone wants to add anything or Paul?

A - Paul Hanratty {BIO 7445748 <GO>}

I think finishing with your first question, Michael, you asked about reserves and you were trying to do some projections, and you asked whether there were any other reserves that you should think about. Of course, the people who need to think about, whether we need any other reserves are sitting in the room here, and they've done that thinking already. So I can assure you that if -- and this is a big if, because remember that where COVID is concerned, none of us can fully predict what the impacts are going to be. But assuming that we are right in our assumption about the financial impact of claims in this year, then we believe that we have sufficient -- as I mentioned in my closing slide, between all the different actions and reserves that we have, that we will be amply provided for that matter.

I think your second question pertain to India. And the recent announcement of the change to the foreign ownership limits. I think we signaled that we are bullish in the long run about India. There are a number of other changes that are being driven in the regulatory environment, and I'm sure, you are aware that our investment is into a financial conglomerates.

So there is a big insurance, both life and general insurance, but there is a very large credit components as well. And a lot of the regulation is looking at that. So we certainly will look at how to adapt our investment over time, but I would say that we begin very positively disposed towards increasing our exposure, particularly to the insurance segment. And Michael, your third question, forgive me Sydney what?

A - Sydney Mbhele {BIO 20089938 <GO>}

On the net results for financial services outside of mortality?

A - Paul Hanratty {BIO 7445748 <GO>}

Okay. So as I'll be honest with you, I didn't understand your last question, because --

Q - Michael Christelis {BIO 15233664 <GO>}

Sorry, if you just go back to the operational update a year ago, you're aiming, sorry in November, you guided that you didn't think that we could grow from the 2019 base to get to 2021. In other words, 2020 isn't considered a one-off. It's actually a new low base to start growing normally off. And I'm just wondering whether that view has changed or somewhere in the market?

A - Paul Hanratty {BIO 7445748 <GO>}

No, that view hasn't changed. So I think we are at a new lower base, and I'll take your point that markets did recover, of course very well. And in fact post quarter four, post December we've seen further improvements in markets both in credit spreads and in the equity markets. So all of that is helpful. But I think that when you pick through the detail of the stuff, yes, there is mortality as you pointed out and that, as I've signaled in my closing slide still contains a great deal of uncertainty. So we believe that we are well provided for it. But of course, there is risk to the downside.

So I think that I see 2020 as a new base year. And in fact when I went through the slides and what we've done to revise our share scheme, we are actually putting a very heavy focus on getting back to growth on the 2019 levels, so that as soon as possible and that we can start thinking again as 2019 being the base and this COVID being a blip, but I think the blip is slightly longer unfortunately than just 2020.

A - Sydney Mbhele {BIO 20089938 <GO>}

Thank you, Paul.

Q - Michael Christelis {BIO 15233664 <GO>}

Thanks very much both.

A - Sydney Mbhele {BIO 20089938 <GO>}

Thank you, Michel. Let's see if we've got any other question on the conference call.

Operator

We have a further equation here and that comes from Francois Du Toit of Renaissance Capital.

A - Sydney Mbhele {BIO 20089938 <GO>}

Please go ahead, Francois

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

Yeah, hi. Thanks here. Some of my questions have been asked, but just quickly on the operating experience variance so, you've obviously included all the COVID-19 impact in there the nicely maybe just have a lining therefore, the aggregate of all the COVID-19 impacts, but you could maybe separate that out for me at some point in time. I think you have obviously spoken to the impact of mortality, if you can. Also just quantify the impact on persistency to date.

And I see that you've increased your provisions for persistency, or at least the basis changes for persistencies went from ZAR1.6 billion at the half year to ZAR1.9 billion now. And maybe you can just chat around sort of thinking there and why you felt that was needed. And clearly, you now haven't got that much left in terms of the pandemic reserve, do you -- and you've mentioned that you believe that your provisions are adequate? Or will you be using some of the persistency provisions that you've set aside potentially for mortality as well.

Would you -- maybe if you can speak to the release pattern a little bit, so that's the first question or discussion point. And then the second one just relates to ZAR299 million negative impact from experienced variances, in terms of other factors on earnings in the second half of the year, it wasn't the half year. If you can maybe explain that. So the cash impact, the earnings impact of operating experience variances got this other line in there.

Then just maybe related to that as well. The provision impact for mortality didn't just have a big impact. It had an earnings impact of minus ZAR350 million as well. So really those two aggregate to ZAR600 million negative impact on earnings. Maybe if you can give us a sense of whether that will recur or what -- why that was necessary?

A - Paul Hanratty {BIO 7445748 <GO>}

Francois I'm going to make a few comments to begin with. I have to be honest, I was struggling to follow your question and -- but I'm going to give my colleagues a chance just to try to get gather their thoughts here. But, I'll make a few comments to begin with, firstly persistency has remained at a surprisingly high level, a good level given the economic impacts that we've seen and of course, it's very hard to know why that is true. We've put in a huge number of interventions across the business. So that's partly one explanation for it.

We also do think that clients have really begun to value what they have. And of course this has been a very bifurcated impact in -- from COVID, where the people who have jobs and who've kept jobs have generally, probably prospered from a savings point of view, because they haven't been able to spend money on other things. But we do remain very concerned about it.

We did not increase our provisions for persistency. I mean there may have been a technical reason because, I guess, the whole embedded value is lifted, but we didn't change the base assumption. And remember that this is an impact on embedded value not on earnings.

So that's my comment on persistency. We remain concerned about it, but it would be tremendous of course if our clients do manage to weather the storm. I didn't follow many of your other questions to be honest with you, but I don't know if Lotz are you in a position, I don't know if you maybe understood the question better than I did.

A - Unidentified Speaker

Yeah, I think the first question relating to breakdown of the mortality experience impact on the experience variances I mean, we can provide that detail. The second question on that persistency, I mean, we in terms of the allowance for VIF. We've allowed for a 5% mass lapse assumption, which is consistent with what we did at half year. And what we have in the results is about ZAR1.6 billion, which is about ZAR1 billion in our Retail Affluent business and another say ZAR422 million in our Retail Mass and the rest in Corporate. So we've been consistent there, and that's an adjustment for the mass lapse.

Then in terms of the rest of the experience variances, and I think we had some in line with the persistence experience that we've had, we've some positive experience variances from persistency that offset some of the negative experience the risk from variance experience. And we also had a recovery in the credit spread in the -- so credit spread earnings.

Then a question around whether we're going to use the allowance we've made for persistency for risk experience? Now, the answer is no. That allowance is for the impact of what we expect to happen to persistency as the economic conditions deteriorate. For the risk experience we do have as Paul indicated allowances that we have in terms of the reserve that we have on our balance sheet to be able to buffer that impact. So we don't intend to use the allowance that we've made for persistency to allow for deterioration in risk experience. And as Paul has indicated, we've got adequate reserves to cover there, that is the risk experience. So, I think that was the last question.

A - Sydney Mbhele {BIO 20089938 <GO>}

Great. I hope you're covered Francois. You're happy with those responses.

A - Abigail Mukhuba {BIO 20217730 <GO>}

Sydney, if I may. I think there was also a question on the operating expenses. You asked, what's included in the other operating expenses. The majority of that was the Saham rebranding and integration costs. So we don't expect them to recur. Thank you.

A - Sydney Mbhele {BIO 20089938 <GO>}

Thank you, Abigail. Okay. I hope you're covered Francois. We'll move on to the next question if we have any other question on the conference call.

Operator

Thank you. We have another question from the line which comes from Larissa van Deventer of Barclays.

A - Sydney Mbhele {BIO 20089938 <GO>}

Thank you -- (Multiple Speakers)

Q - Larissa van Deventer {BIO 21570130 <GO>}

Thank you. Good morning. Two questions from my side, please. The first one you mentioned your focus on recovering to 2019 levels and also the adjustments that you made on incentives. If the current trajectory continues with South Africa now and lockdown level one. Do you believe it's really possible that we can recover by 2022 or do you think it is a longer timeframe? And the second one, product demand, have you seen a change in product demand as the pandemic unfolds? Is there a higher demand for risk products in savings, in the Affluent and in the mass picture segment? Or is it pretty much business as usual or as far as product demand goes?

A - Paul Hanratty {BIO 7445748 <GO>}

Great. Larissa, nice to chat to you. Thanks a lot. Look, I would hope that certainly by the end of 2022 or the 2022 years, so not this year we're in but next year, we would see the business fully back and firing on all cylinders. I hope that we can get as close to possible, as possible to that by the end of this year, but one has to be realistic about the environment. And of course, we, by no means started this year with what I would call a natural situation.

So -- but I do think that unless we have some further twists and turns. And of course the sad thing there have been many twists and turns with COVID. But as far as we believe, we think 2022 we should be back and as I say firing again.

The question on demand for products is very interesting. So I think that there is certainly a heightened awareness amongst our customers and the population generally of the vital importance of having proper financial plans and having adequately provided for both their risks and for their future. So we've seen an incredibly intense year of engagement with people, people revisiting plans.

I think there's a new appreciation from people of the value of this. And I've got no doubts that demand will remain strong. I think what we do see though changing is firstly there's no question that people want to interact more digitally and we've seen the growth in some of our non-intermediated businesses that's been very strong.

Secondly, I think, because of the economic impacts we're going to have to find and be able to execute at lower price points, which potentially opens up new markets. So for me, it's not so much that the product category would fall in demand. I think actually, if anything, it'll rise in demand but I think there will be appetite for new ways of interacting and new channels and certainly for getting value for money from financial services providers.

A - Sydney Mbhele {BIO 20089938 <GO>}

Can I draw you in here Jurie? Do you -- any comment on that?

A - Jurie Strydom {BIO 16239298 <GO>}

No, I mean, I think, I would just support what Paul has said. I do think that we've seen an increased adoption of digital tools and clients and intermediary is actually making use of technology. And I think we've seen a significant shift, if you look back on 12 months actually on behavior, we can see people learning and people not going back to old ways of behavior.

And I would also support the comment around demand and appreciation for cover, that I think the recurring premium sales as Paul said, I mean, comment around there was pressure on that -- on the face-to-face sales model. And clearly that came through in the numbers last year. But as we started to see a recovery, I think we've also started to see a kind of a renewed appreciation for risk cover in all the segments.

A - Sydney Mbhele {BIO 20089938 <GO>}

Thank you.

A - Paul Hanratty {BIO 7445748 <GO>}

So it might be interesting to ask Heinie as well, because actually both in Asia and in parts of Africa, there's some very interesting pickups on this front. And actually, I would argue, more innovative than what we're seeing in the South African market.

A - Sydney Mbhele {BIO 20089938 <GO>}

Heinie, over to you.

Yeah, Paul. Thank you. You're right, especially in Malaysia we saw quite a move towards Let's call it new ways of doing business and more digital enablement. And the same in India. We've really seen a nice take up in new distribution channels, still small, but the trends are really moving in the right direction.

And our challenge across Africa, it differs from country to country with a lot of good work is being done, in order to get the client's where traditionally it was more face-to-face and in certain segments, it works easier, but other the same in South Africa still more work left.

A - Paul Hanratty {BIO 7445748 <GO>}

I was hoping, Heinie you were going to tell us about your bus tickets in Tanzania.

A - Sydney Mbhele {BIO 20089938 <GO>}

Paul, there is lots of initiatives, I mean we're looking at embedding -- well, we're working with a variety of partners, right from Malaysia in Tanzania in Nigeria and it's really alternative ways of distribution, where we're really looking to work with affinity partners and embed the product in the -- like in a bus ticket in Tanzania. We're also looking at similar models in Nigeria, and then in places like Malaysia, we embedded for example, in money transfers. So there's a lot of innovation on the go, lots of new models. But yes, Paul, we first want to see how value develop and then we will talk more about it.

Thank you, Heinie. Very interesting there. Let's go back again, just to check, if we still have any questions on the conference call, we do have a few that's come through now on the webcast, but let's just double check if we still have any questions on the conference call.

Operator

No sir, we have no further questions on the lines. Thank you.

A - Sydney Mbhele {BIO 20089938 <GO>}

No further questions on the conference call. So let me take a question here. This is from John Storey from JP Morgan. I think it's probably directed to you Paul or Wikus. Some of Sanlam's corporate activity over the past few years seem to have been really destructive for shareholders as witnessed by the goodwill or impairment write downs coming. What comfort can Sanlam give to the market that these trends won't continue? What is the rationale for the cross-shareholding in ARC financial services?

A - Paul Hanratty {BIO 7445748 <GO>}

All right. Sidney, thanks. And John, thanks very much for your question. Of course, as I've said many times, I can't go back and relook at the acquisition in Africa. What I can tell you is that we have a fabulous franchise across the African continent as a result of the Saham acquisition.

And that by far when you talk about capital allocation, that was the biggest decision made in the six years between 2014 and 2020. I think, you've seen the operating result becoming -- coming through very strongly now in a tough environment and really I believe that Heinie and his team have done an absolutely fantastic job. That now actually is our second biggest business in the group. You can see that the growth potential of that business is really strong.

And to dispel the myth, we have really fabulously strong in country management teams. And in many cases, the work that is getting done in country, in businesses, we can learn a lot from in South Africa. So if you take how the digital innovation is getting driven in a place like Casablanca, that is something that South African short-term insurance companies could learn a great deal from.

So, we remain very committed to that effort. We fully understand that until we have delivered value from that acquisition, the questions are going to remain. And actually words are of very little value. So we can't give you any assurance other than showing you that in the last year Heinie and his team made significant progress in terms of underwriting margins turning those around, overhauling the investment float.

And so we now have a new mandate that we're working to, the disposal of some small operating units. And overall I can tell you that everyone, including the auditors has been incredibly complementary to Heinie and his team about the very tight internal control environment and so on that is operating.

So I think we need some time and we need to be able to prove out that this was indeed a good acquisition. And I'm sure you understand better than anyone that the timing of any investment is the single biggest impact on when it's on its return over time. And of course, when the management made the decision to make that acquisition, they did not foresee the advent of COVID and all the dislocation in the markets that are coming.

So of course, hindsight is a wonderful science, but we have the asset over the long-run and we don't look at what is the short-term return going to be on this assets. Over 25 years I believe that this could really be a very big part of the future of this group. Your question about what was the logic of buying into the ARC financial services business, I think I did explain that in some detail in my slide, but I'm very happy to re-explain it.

Firstly, I'd remind you that in 2018 when the group made a series, well issued 5% of equity and put a back to back loan facility in place for African Rainbow Capital, it laid out -- the group laid out a number of transactions that we're likely to take place. As I mentioned in my presentation, there are a number of areas in the market where in South Africa, in order to fulfill our fortress ambition, we need to increase the scale of some of our businesses, and employee benefits and healthcare are two of these, and actually these are very key businesses for the future for us and markets for the future for us. African Rainbow Capital in its financial services arm has a number of very interesting holdings, and two of those I spoke about. One was Alexander Forbes, really the preeminent Employee Benefits Administrator and Consultant in South Africa. And the second Afrocentric, a very large health insurance business.

So through this transaction, and as I explained we actually utilized existing discrete or assets backing existing margins in our non-participating business, we financed that transaction and it gives us access to income streams from two very important segments of financial services that we understand well and that we want to increase our exposure to overtime? So I hope that answers your question.

A - Sydney Mbhele {BIO 20089938 <GO>}

Thank you, Paul. We have a question from Londiwe Buthelezi from Fin24, in relation to African Rainbow Life. Was it because you couldn't see it survived as a standalone business after COVID, the decision took -- can the business? And then following on that does the combining of its license with that of Safrican means that the African Rainbow Life brand will cease to exist?

A - Paul Hanratty {BIO 7445748 <GO>}

Do you want to do it Jurie?

A - Jurie Strydom {BIO 16239298 <GO>}

Sure. I think, I think starting at Life --Paul I think you explained the rationale for launching African Rainbow Life, which was really getting into a new model which is more of a salaried model. We got our own license for it because we also wanted to have direct black ownership in that business. But the COVID impact last year, you saw the impact on the whole mass market. Now it's much more acute for a business. That's a start up business. I mean, it really does change the economics of trying to build up that growth curve to get a return on capital.

So we're really early in that process actually assessed the viability of having a standalone license to house this business and that was the decision we took was to say that the capital tied up with that and the fixed costs tied up with that. We're going to really be problematic in terms of getting a return.

So that was what led to the decision to actually merge the license with Safrican and the implication is that the yes the African Rainbow Life brand will not be used going forward. It will be under the Safrican brand.

Just the operation of the sales people that we've got there, some of the products we've built, I mean that will continue under Safrican brand and we'll be looking to get synergies between that business and this Safrican business going forward, but would of course get a lot of savings from consolidating that license.

A - Paul Hanratty {BIO 7445748 <GO>}

Maybe I can just add one thing Jurie to what you said. So obviously a startup business is always going to be more difficult in a difficult environment. But of course the other feature of this business Londiwe is because it was a salaried advice model, it has a much higher overhead and fixed cost. And so that particular business model is particularly challenged in this environment. So I think that's just a slight add on to what Jurie was saying.

A - Sydney Mbhele {BIO 20089938 <GO>}

While you're on the floor on that Jurie, there's a question related from Musa Malwandla from Differential Capital, and he is asking if the dissolution of the African Rainbow Life brand will impact your work site to market, as once the economy opens up, because there is supposedly one of the things that it was meant to target.

A - Jurie Strydom {BIO 16239298 <GO>}

Yeah. And I think we did have ambitions in the previous environment to use the African Rainbow Life to open up work sites. But I do think we've also got in the South African brand and in the Sanlam brand of course, we've got plenty of opportunity to open up relationships. And we don't think that that's going to be a problem. We do think that we've got the opportunity to build those relationships and open up those opportunities.

A - Sydney Mbhele {BIO 20089938 <GO>}

Great. Thank you so much, Jurie. Let me take a question from Saul Miller. I'm going to come back to some of your questions Musa. Let me take your question from Saul Miller from Truffle Asset Management. To what extent it did lockdown how the underwriting result in Morocco and Africa? Heinie, do you want to pick that up?

Can you hear me, Sydney?

Yes. We can hear you well.

Obviously, our results in Morocco were impacted also by lower motor claims, the same like in Santam. But I also want to say there was really a lot of good work going into improving the business over the last year or so, and especially in terms of getting rid of loss-making clients, the repricing of products, improved claims management, looking at fraud, where we can improve on that in the system. So it's a mix what we are seeing in the results and we need another year or so to really see what is the more sustainable margin, but yes we were helped, but the business is also a bit more diversified than just the motor book. Thank you, Sydney.

Thank you, Hennie. Let me -- while you're on the floor again Hennie. Let me just throw another question to you. From Zaeem Kumandan from Nedbank. Can you shed some color on the Indian business valuations? They appear too conservative relative to some of the listed price performance since June 2020.

We follow a fairly consistent method between the ups and the down. People should remember, we have invested the bulk of our investment is via Shriram Capital Limited, which is a listed company -- unlisted. So it's not just a straight flow through from the underlying businesses and -- yes, the bulk of the recovery in the share prices in India also took place post year end. So -- there is possibly a bit of conservatism in it, but we followed consistent approaches to what we did over the last number of years.

you, Heinie for that answer. I'm going to move into Rowan Williams-Short from Vunani Fund Managers. And I think this could be directed to you Abigail. At the interim results a great deal of attention was drawn to credit spread widening, the spread narrowing in H2 was mentioned just briefly this time. Are you able to elaborate?

A - Abigail Mukhuba {BIO 20217730 <GO>}

Okay. Let's say, I wasn't there at interim? Yes, the widening essentially on one of the first slides in the operating context area of environment, we saw a narrowing towards the end of the year, but obviously as COVID hit in March that spread widening was almost if I can call it a knee-jerk reaction, but that came back towards the end of the year. It still wasn't at 31 December, 2020 it still wasn't at the levels of 2019. We're continuing to see it narrow in the new year now as well.

A - Sydney Mbhele {BIO 20089938 <GO>}

Thank you.

A - Paul Hanratty {BIO 7445748 <GO>}

Let me again just add, it's nice to chat to you Rowan after all these years. I think just to help Abigail because she wasn't here, the credit spread movement, the widening of the spreads at the half year was the single biggest impact financially on the entire results. So it was not surprising that we might have spoken a bit about it.

The other reason for talking about it was that we -- typically when you see a crisis credit spreads often move out partly in response to higher risk, but also in response to liquidity concerns. And liquidity we know historically tends to write itself. So we also had to explain at the half year, in some detail, how we had introduced a sort of a gate mechanism to smooth the impacts and to eliminate that.

And of course with the benefit of the year and the credit spreads coming right back, not fully back but the long part of the way back. The issue of course has largely become much, much muted in the whole story. So it was a big story at half year. And of course, as much as one knows from previous crisis, our spreads behave. You never have the full confidence that the thing really is going to come back. So it was a big story at half year, it's not such a big story now.

A - Sydney Mbhele {BIO 20089938 <GO>}

I am going to thank you very much, Paul and Abigail. I am going to take the last sort of question, because we have a hard stop at half-pass ten before we move on to another broadcast. So we will have to come back to you Musa Malwandla on some of your questions around, how the funeral business is performing.

I'll just ask, maybe Lotz to cover one of the questions that you've thrown at us around mortality assumptions. What sort of severity are you assuming for the third wave, relative to the first and second waves? Your peers seem to have taken divergent stances in this regard with some worrying about a potentially more severe third or fourth wave. Is it something that you want to pick up on that, Paul?

A - Lize Lambrechts {BIO 4762811 <GO>}

Yes. I can take that. And I mean just linking up to what Paul has indicated, I mean I think in looking at them the forecast for mortality for the year, we've obviously taken into account the trends in the general population, but we'll also take an input from our Chief Medical Officer around how pandemic is like -- the current COVID pandemic kind of evolve over time. And we have and did see that, I mean the second wave was more severe than the first wave.

And as Paul has indicated, we haven't taken explicit allowance for the offset of any of the interventions from the vaccination. So we have taken account potentially at third and the fourth wave. And we've taken them into account in a conservative way in terms of how they will play out. And as Paul has indicated, the second wave was 50% to 60% more severe, more severe than the first wave. And we've taken, those kind of trends into account in terms of look at the mortality experience.

So I think, what -- in terms of the -- it's not a perfect science, because no one knows how kind of the waves will evolve. I mean, one can look at what happened to the Spanish Flu the first wave was fairly moderate the second wave or the spike and then the third wave. So we haven't allowed for a reversal in terms of what would happen to the third and the fourth waves.

So we've taken those into account and the funnel of thought around them. But then we've juxtaposed against the reserves that we cut, we have on their balance sheet to be able to absorb some of the parcels. So that's why we've done look at our own situation and look at it the book and look at our trends. I mean, I can't offer any comment on what the competitors kind of considered in terms of their special situations, but that's what we've done for a specific situation.

A - Sydney Mbhele {BIO 20089938 <GO>}

Thank you. Thank you, Lize. And as I say we have a hard stop. We've great to see the high levels of engagement and we do have one or two questions that we will respond to Musa on the funeral, business growth, the single premiums and investment business, whether it's going to normalize in 2021, and we will come back to you Musa on that one. But let me take the opportunity to thank you for joining us this morning, and I'd like to wish you and your families well for the rest of 2021. Thank you for joining us this morning. Goodbye.