# Q3 2020 Sales and Revenue Call

## Company Participants

- Abigail Mukhuba, Finance Director
- Mlondolozi Mahlangeni, Chief Risk Officer and Chief Actuary
- Patrick Hartnic, Financial Management & Investor Relations
- Paul Hanratty, Group Chief Executive Officer
- Robert Roux, Chief Executive Officer
- Unidentified Speaker

## Other Participants

- Analyst
- Francois Du Toit
- Larissa Van Deventer
- Michael Christelis
- Warwick Bam

## Presentation

### Operator

Good day, ladies and gentlemen, and welcome to the Sanlam Life Insurance Limited 10 months Operational Update. All participants will be in listen-only mode. There will be an opportunity to ask questions later during the conference. (Operator Instructions) Please note that this call is being recorded.

I'd now like to turn the conference over to Paul Hanratty. Please go ahead sir.

### Paul Hanratty {BIO 7445748 <GO>}

Good afternoon, ladies and gentlemen, and thank you very much for joining us on this conference call. I'm joined today by our CFO, Abigail Mukhuba; our Chief Risk Officer, Lotz Mahlangeni; as well as Patrick Hartnic and Grant Davids from Investor Relations.

We released the results for the 10-month period to October 31, 2020 earlier this afternoon and I'd like to just make a few comments before we open the lines to questions.

From a strategic perspective, I'm pleased with our progress in implementing the revised strategy, which emphasized the technology as a key enabler in meeting strategic goals,

FINAL

Bloomberg Transcript

FINAL

Bloomberg Transcript

putting the customer at the core of everything we do. Our focus on collaboration within Sanlam and with strategic partners is also progressing well.

In the Sanlam Pan-Africa business, we continue to drive operational execution with the aim of getting consistent growth and a stable return on capital. India too remains strategically important for Sanlam. In our announcement, we advise shareholders that the conditions precedent relating to the sale of a 25% stake in Sanlam Investment Holdings to ARC Financial Services have been fulfilled and the closing process has now happened on Friday evening.

From an operational perspective, the group maintained a resilient operational performance over the 10-month period. It's been a gradual improvement in the operating environment since June 30, 2020 as governments have eased the level of restrictions to control the spread of COVID-19. Operating conditions, however, remain challenging in our largest markets.

Lower average market levels increased pressure on asset management margins and investment-related earnings. Weak equity market performance over the period negatively impacted investment return on capital, return on the Saham float and market-related fees of participating products at Glacier. The hedging strategy in place in the South African life insurance capital portfolio limited the overall adverse impact on net investment return. Credit markets partially recovered in the third quarter of 2020, which resulted in a significant portion of the credit spread losses in our Central Credit Manager, reversing after the June 30.

I would like to highlight the following 3 non-investment market related items that did impact our earnings after the half year. Firstly, I'm sure you've all seen Santam SENS which they alerted the market to the fact that they've made an additional provision for contingent business interruption insurance. It made an additional provision of ZAR1.7 billion following the Western Cape High Court judgment in the Ma-Afrika Hotels matter. This brings the full provision and premium relief provisions in the 10-month period to ZAR3.3 billion.

Secondly, we had an explosion in the Beirut Port, which has had an impact of ZAR183 million, inclusive of the exposure in the Lebanese business itself as well as Saham Re and Santam Re who are reinsurers to the Lebanese business.

And then finally, we have had an increase in COVID-19 claims amounting to some ZAR229 million of claims specifically related to COVID, post June 30. Despite the significant increase in the COVID-19 related claims, year-to-date risk profits remained strong in the Life and Saving cluster, supported by a decrease in mortality claims from other causes. The group pandemic reserve has not been released in any way to date. (inaudible) it will be considered more fully at year-end, based on the overall risk experience for the year. Persistency has not deteriorated over the 10 months or indeed after the half year, but we believe the future experience in this regard remains at risk, due to markedly lower South African GDP.

Some of the salient features of our performance are as follows: new business volumes of just under ZAR250 billion are 25% up on prior year. Investment business was the key driver of the 10-month period and life insurance sales in the third quarter recovered to 5% above those in the first quarter. Net fund inflows of ZAR51 billion are up 17%, and Sanlam Emerging Markets were the key contributor to the growth, although that must, of course, draw your attention to the support to Sanlam Emerging Markets numbers from the currency depreciation.

The net value of new business covered was ZAR1.35 billion, that being 21% down on the prior year. However, that is better than the 29% decline that we reported at the half year. The net VNB margin of 2.3%, improved by 24 basis points from net reported at the half year. The net result from financial services is down 21%. But if we exclude all COVID impacts, both positive and negative over the prior year, the result would have been 22% up. And headline earnings and diluted earnings per share are both increased.

I'm very satisfied with our performance for the 10 months, which does reflect our resilience and our ability to maintain value creation for shareholders in very difficult times. And in conclusion, I would say that Sanlam remains very well positioned to weather the headwinds with a robust balance sheet and strong solvency position, diversification across many geographies, lines of business and market segments, as well as having a strong depth of skills in all of our businesses.

It's really important to note that all of our businesses remain strongly cash generative, although of course, you'll appreciate that at Santam itself, the provisions that have been made have obviously got a very severe impact on both the profits and the cash out of that business. We continue to actively manage the consequences of the COVID-19 pandemic and any potential second wave.

Whilst economic activity is gradually recovering, we expect the operating environment to remain challenging for the balance of this year and certainly throughout next year. New business growth in the remainder of this year, which is really only 2 months, but it will be impacted by the high base that we had in the second half of 2019.

The eventual claims experience from COVID-19 remains uncertain, both at Santam with the CBI claim, as well as in our life insurance operations. The Santam Board has made a decision to appeal the Ma-Afrika judgment and await the court's permission on the application to appeal. The potential outcome of the appeal including other relevant court rulings on these and other Santam policy rulings may materially impact Santam's assessment of the estimated net effect of the CBI claims.

The overall possible financial impact of Santam CBI exposures will take time to finalize. Over the medium-to-long term, we remain confident of the growth potential in all of our markets, including South Africa and we will continue to deliver to our shareholders and other stakeholders.

Thank you very much. I've made the remarks that I wanted to just to introduce and I now open up to questions from all of you on the line.



FINAL
Bloomberg Transcript

FINAL

# Questions And Answers

## Operator

(Question And Answer)

Thank you. (Operator Instructions) The first question comes from Michael Christelis from UBS. Please go ahead, Michael.

## Q - Michael Christelis {BIO 15233664 <GO>}

Good afternoon, everybody. Can you hear me?

## A - Paul Hanratty {BIO 7445748 <GO>}

We can hear you fine, Michael. Good afternoon.

## Q - Michael Christelis {BIO 15233664 <GO>}

How are you doing, Paul. Are you well?

## A - Paul Hanratty {BIO 7445748 <GO>}

Good.

## Q - Michael Christelis {BIO 15233664 <GO>}

It's very good to hear your voice. Good. Thank you. Looking forward to the end of the year there. Four questions, if I can. Firstly, on mortality and then particularly around COVID. You guys were quite sort of clear in your articulation that you thought COVID was only going to result in about 17,000 deaths in South Africa as of June when you presented in September, and that your pandemic reserve could cover you, I think if I remember correctly, up to about 27,000. I mean can you give us a bit of thinking around your expected sort of SA debts from COVID as a result of COVID given that we're now well past the 17,000 deaths that you had previously mentioned. And what exactly would trigger release of your pandemic reserve? Is it a net negative risk experience, is the question?

Second question around persistency. If you can maybe give us some clarity or just some guidance as to what's going on in persistency in products where you either haven't offered premium relief or premium relief has ended. I'm just trying to understand is there an underlying deterioration that maybe being masked by premium relief?

And then the third question is, just your thoughts on maybe, if you can -- the Board's thoughts on dividends for FY '20. Obviously, not holding you to commit to it now, but just your ideas about if things stay where they are, if Santam's CBI provision plays out exactly to be the right number, and your current capital position looks fairly robust, would you be looking to pay a normal dividend in this sort of environment or not?

Bloomberg Transcript

And then maybe just lastly, if you can maybe give a bit of color around the ARC potential deal that's still to come. Sort of what sort of capital do you expect to have to deploy there? Is it in the billions of rands? Is it in a couple of hundred million, just to get an idea of what we're talking about there?

## A - Paul Hanratty {BIO 7445748 <GO>}

Yes. Michael, thanks. Look, I'll have a swing at this, and I'll ask -- Lotz in particular, mortality was always my least favorite subject, I have to say. So -- but I'll have a swing at it. Look, you asked about where we think this thing will end up. I mean, you yourself know that the deaths as of today are 22,000. It's growing very gradually. Where will it end up, who knows? I think it all depends on whether there is a second wave and what really happens within that.

We can tolerate, as we said previously, a much higher level experience before it becomes an issue for us. You quoted the number, I think, there of 27,000 or something like that. I think we can sustain a considerably higher level before we start running into losses. And of course, the big thing, Michael, as you know is what happens to sort of non-COVID deaths. So it's very much a function of whether there are lockdowns and so on because those also have an ameliorating impact. But I really don't see this as a material issue for the group. As to whether we release the reserve or not, I think this is a matter of judgment that we're going to have to come to at the year-end. We're going to have to consider how many COVID deaths we had, and then we're going to have to look -- have to have a look at that against the total mortality experience.

I think there's no question in my mind that this company certainly can have legitimately pandemic reserves because this is not going to be the only pandemic that the business ever faces. So I'm not really going to give you much of an answer other than to say, firstly, I think the mortality is pretty much not a huge event in the first place. And secondly, we will look at the overall mortality experience, including a near-term mortality at the end of the year and make a judgment call on that.

In fact, we had quite an interesting conversation with our auditors recently on this topic, who actually were saying they'd like to have an established set of rules. And I was trying to explain to them how actually very difficult -- when we talk about a pandemic, it's by definition a tail event. And therefore, to write an algorithm, which is what they would like you to do is actually extremely difficult, and we'll have to exercise some judgment around that.

On the persistency question, actually, we've had -- it's quite a lot of use, as you know, early on of premium relief facilities and so on. Actually, 79%, I think, of our people who took the option to use those facilities have actually started paying again. And so those facilities are definitely not masking good persistency experience. And in any event, the numbers involved were really small when you look at the whole base of clients. So I think we're pretty clear that the persistency we're seeing is actually the persistency that we -- it's a real number and we're very happy with that.

FINAL
Bloomberg Transcript

On the question of dividends, our dividend policy is quite a simple one. Our dividends follow earnings and we can have a small cover -- cash cover. Most of our earnings aside from the -- some of the emerging Markets business are turned into cash, they convert to cash very well. So as I said at half year, if you look at the delta in our operational earnings to the prior year, that will give you a delta on the cash.

And if the dividend policy remains intact, then that will tell you what the dividend will do. So you used the word, would we pay a normal dividend. I'm not sure what a normal dividend is, but certainly, if we stick to the current dividend policy, which, as I understand it, has been in place for many years, then you would expect to see a dividend that reduces in line with the earnings of the business.

You can understand as well that we are -- when you look at the Santam situation and you take the context of ZAR3 billion odd provision in a year, and you know what its normal earnings are, I think the prospects of dividends from that business are not very high. So that's a factor for us in the equation because it's the other business, of course, where we don't get cash up equal to earnings. We get a -- obviously, they retain some earnings. But the dividend is a matter that we will carefully consider after the year-end. As you pointed out, our capital position is very strong. And again, we're in an extraordinary period of time and we're going to have to weigh everything up in thinking about the application of our dividend policy when we get there.

On the ARC transaction, you asked what the quantum would be. It's not in the billions. It -- I would -- I think it's -- I probably wouldn't be telling you anything you couldn't work out with a little bit of effort. It would be less than ZAR1 billion. And actually, very likely not to put much, if any, call on our capital because of actually how we structure in. So, yes, I hope that answers that question for you.

## Q - Michael Christelis {BIO 15233664 <GO>}

Very clear. Thanks, Paul.

## A - Paul Hanratty {BIO 7445748 <GO>}

But follow up on any of those points, if you want more detail or if I wasn't clear, Michael.

## Q - Michael Christelis {BIO 15233664 <GO>}

That was very clear. Thank you.

## Operator

Thank you. The next question comes from Warwick Bam from Avior Capital Markets. Please go ahead, Warwick.

## Q - Warwick Bam {BIO 19921967 <GO>}

Hi, Paul and Miguel. Thanks very much for the time.

FINAL
Bloomberg Transcript

FINAL

Bloomberg Transcript

## A - Paul Hanratty {BIO 7445748 <GO>}

Hi, Warwick. (Multiple Speakers) At some point, Warwick, you're going to have to beat Michael Christelis to the first question.

## Q - Warwick Bam {BIO 19921967 <GO>}

Yes, I don't know how he does that. He must start one before it even starts. (Multiple Speakers). Your commentary around the Retail Mass new business sales, excluding Capitec, you used the word significantly down for the first 10 months of 2019. How do you -- what's the outlook considering the extension of the sort of second wave coming through? And what can you do in the meantime to try and improve sales volumes in that business. Can we go one question at a time, it should be easier.

## A - Paul Hanratty {BIO 7445748 <GO>}

Yes, it's absolutely fine. So look, I think there are 2 issues in that market. One is obviously the -- just the share issue of interacting with your client base has become more difficult. And as you know, in many cases, it's about work site marketing rather than anything else. So clearly, if the lockdown persists, that is, continues to be a problem and an issue for us, but having said that, those guys are pushing really hard. At the end of the day, the people who serve that market also need to put bread on the table.

So they're extremely motivated. And we've rolled out actually a lot of technology to assist people. But -- so we're sort of straining every sinew that there is. But firstly, there are some practical inhibitors. And this is where, of course, the Capitec thing has an advantage because they've managed to keep branches open, so you can keep interacting with customers. So that's been really helpful for us. The other thing, of course is, that the sales in that area will depend a lot upon the impact on people's disposable incomes. So yes, I think one's also got to just factor that into the whole equation as well. But it is going to be tough, that segment of the market.

## Q - Warwick Bam {BIO 19921967 <GO>}

Thanks. And then your commentary around new business volumes in East Africa. Table 6 or the table on Page 6 discloses that your Q3 '20 and Q2 volumes were 51% and 37% of Q1, respectively, for East Africa, but your commentary on Page 7 seems to contradict that, just looking at life insurance volumes increasing 48% year-over-year, general insurance at 8% year-over-year, and then East Africa investment business has significant influence from new institutional mandates. Just help me to understand, how page -- the table on Page 6 ties into that commentary?

## A - Paul Hanratty {BIO 7445748 <GO>}

Okay. I'm going to have to -- I'm afraid, actually ask Grant whether -- or Abigail whether they can help you. I'm afraid I cannot as I sit here.

## A - Abigail Mukhuba {BIO 20217730 <GO>}

Patrick, if it's okay with you, Warwick, if we can get back to you. I am also just trying to follow the recon between the table and the other page.

FINAL

### Q - Warwick Bam {BIO 19921967 <GO>}

No problem.

### A - Patrick Hartnic {BIO 20482012 <GO>}

Maybe, Abigail, if -- or Warwick, if I can respond. So the table on -- where we say Q3 performance versus Q1, the 51%. In Q1, we actually had very good inflows in the first quarter, where the -- and that's mostly in the investment business side. In the third quarter, it wasn't that large. And that's why you can see that as a percentage of Q1, it's only 51%, but year-to-date, it has been strong in East Africa. But if you want a little bit more detail, we can get back to you on that as well.

### Q - Warwick Bam {BIO 19921967 <GO>}

Okay. No problem. So last year Q1 story then.

### A - Patrick Hartnic {BIO 20482012 <GO>}

Yes.

### Q - Warwick Bam {BIO 19921967 <GO>}

Thanks. And then just the last one, just on the retail credit provisions in Shriram. I noticed they've increased 58% since the 30th of June, and I appreciate some of that is currency, but it looks like there's been a deterioration. If you can add some color to that provision?

### A - Paul Hanratty {BIO 7445748 <GO>}

Yes. Look, I think maybe Patrick or Abigail, you can help. But the one snag with those provisions is that we are working in arrear to them. So we always have a -- so we have a lag. So what we report now is actually several months behind. I don't know Warwick, if you can help with that or Abigail.

### A - Abigail Mukhuba {BIO 20217730 <GO>}

And also that in India, if you look at the lockdown profile, there was extended further, it went into August period, so that's why you would have additional numbers there.

### A - Patrick Hartnic {BIO 20482012 <GO>}

Nothing to add to that.

### Q - Warwick Bam {BIO 19921967 <GO>}

Perfect. Thank you.

### A - Paul Hanratty {BIO 7445748 <GO>}

Yes. The business, as I understand it, from Heinie there, is actually beginning to trade up very nicely now. But there is this unfortunate lag between what we show and their accounting.

Bloomberg Transcript

## Q - Warwick Bam {BIO 19921967 <GO>}

Thanks. Thanks, Paul and Abigail. Thanks, Patrick.

## Operator

Thank you. The next question comes from Larissa Van Deventer from Barclays. Please go ahead, Larissa.

## Q - Larissa Van Deventer {BIO 21570130 <GO>}

Thank you, good afternoon.

## A - Paul Hanratty {BIO 7445748 <GO>}

Hi, Larisa.

## Q - Larissa Van Deventer {BIO 21570130 <GO>}

How are you, Paul?

## A - Paul Hanratty {BIO 7445748 <GO>}

Good. Yourself?

## Q - Larissa Van Deventer {BIO 21570130 <GO>}

Very well, thank you. Very much looking forward to the ending.

## A - Paul Hanratty {BIO 7445748 <GO>}

I think we all are. And you also have (multiple speakers) on the line, but sorry, I shouldn't have said that.

## Q - Larissa Van Deventer {BIO 21570130 <GO>}

No worries. I have 2 quick questions, please. The first one is just a clarifying question on the dividend. Your official policy is 1x cash earnings. For Santam, is it fair to assume that we should bode in the dividend from Santam rather than the earnings number?

## A - Paul Hanratty {BIO 7445748 <GO>}

Yes, we get the dividend.

## Q - Larissa Van Deventer {BIO 21570130 <GO>}

Cash dividend?

## A - Paul Hanratty {BIO 7445748 <GO>}

Yes, yes.

FINAL
Bloomberg Transcript

## Q - Larissa Van Deventer {BIO 21570130 <GO>}

Thank you. And then you comment on hedging in the life book having provided downside protection on the mark-to-market. Can you elaborate a little bit about what that hedging is and what your hedging strategy is going forward?

## A - Paul Hanratty {BIO 7445748 <GO>}

Yes. Actually, Lotz, do you -- I hate having to answer everything. Do you want to answer this or would you like me to answer it?

## A - Mlondolozi Mahlangeni {BIO 21927635 <GO>}

Yes. I can answer that, Paul. So in terms of the hedging that we apply for current year liabilities, so there's a very close matching for those liabilities. So we don't take a lot of market risk on hedging the current-year liabilities. So that's a one component. The other component, in terms of our capital portfolio, we still maintain a position of matching our subordinated debt, which is about ZAR1 billion with cash and near cash instruments. So there's no market risk exposure there. And the rest of our required capital is backed by the hedge equities position.

So we've continued to maintain that hedge, which is both efficient from a capital perspective as well as from a tax perspective. So we don't have double gearing of our capital that's making the required capital of the life balance sheet. So from a market risk exposure in terms of our current liabilities as well as our capital portfolio, we've maintained our hedging strategies there.

## A - Paul Hanratty {BIO 7445748 <GO>}

There's basically a cap in the color that we're running on the equities. Am I right, Lotz?

## A - Unidentified Speaker

That is correct, Paul. That is correct.

## A - Paul Hanratty {BIO 7445748 <GO>}

Yes.

## Q - Larissa Van Deventer {BIO 21570130 <GO>}

Can you specify the color, please?

## A - Mlondolozi Mahlangeni {BIO 21927635 <GO>}

So -- yes.

## A - Paul Hanratty {BIO 7445748 <GO>}

Are you there?

FINAL
Bloomberg Transcript

FINAL

Bloomberg Transcript

## A - Mlondolozi Mahlangeni {BIO 21927635 <GO>}

So excuse me, can you repeat the question, please?

## Q - Larissa Van Deventer {BIO 21570130 <GO>}

Can you give a little bit more detail on the color?

## A - Paul Hanratty {BIO 7445748 <GO>}

I don't think we should give you any more detail on that. I'm happy to think about it offline, but I'm not sure that we want to be telling you exactly how we're hedging that. If that's okay?

## Q - Larissa Van Deventer {BIO 21570130 <GO>}

Okay. In the past, it used to track bond behavior. Is that still a fair assumption?

## A - Paul Hanratty {BIO 7445748 <GO>}

Yes, I think it is a fair assumption.

## A - Mlondolozi Mahlangeni {BIO 21927635 <GO>}

It's a fair assumption.

## A - Paul Hanratty {BIO 7445748 <GO>}

So maybe (inaudible) those things. It's a -- as Lotz said just now, it's a tax-efficient way of doing things.

## Q - Larissa Van Deventer {BIO 21570130 <GO>}

Perfect. Thank you. Appreciate that.

## Operator

Thank you. (Operator Instructions) The next question comes from Francois Du Toit from Renaissance Capital. Please go ahead, Francois.

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

Hi, guys, thanks for the chance to ask questions. So first question around the business interruption plans for Santam and also the Beirut explosion. Assuming that you've correctly assessed the potential liability for the insurance companies, have you got a sense of what the reinsurance recovery level will be I mean have you taken that into account in the provision? I guess, the outcomes are fairly wide in that regard as well. But let's assume that your own assessment of the primary insurance claim is accurate, can you give us a sense of how much you expect will be recovered? And how your provision compares with that? Have you been conservative, in other words, in the recovery potential that you've got from reinsurance? That's the first question. Let's go one at time as well.

## A - Paul Hanratty {BIO 7445748 <GO>}

Francois, it might be just interesting. Did you sit on a call with Heinie now on this subject or not?

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

No, I wasn't in that call.

## A - Paul Hanratty {BIO 7445748 <GO>}

Okay, okay. So maybe just to explain to you that, actually, for what on the surface can appear to be an unbelievably simple matter, it's actually quite complicated. And it's complicated because the legal cases are around a number of different aspects on this business continuity.

They're around -- effectively, the first thing which most people focus on is cause. Is there a legitimate claim or isn't there. And that may seem like quite a simple thing, but what the courts have ruled, and I'm giving you a very layman's version of it, is that because this is an infectious disease, insurers should have anticipated that government would take some form of action. And therefore, the action itself is inseparable or indivisible from the infection in or near your premises. So that's a very critical thing because it then becomes very relevant to the reinsurance, because if in fact the lockdown is the cause of the claim as opposed to the infection, you then have a defined date.

And the way the reinsurance works is it's based on a catastrophe. And a catastrophe is an event that happens in a 7-day period. So -- but if that legal argument ends up being ruled in a different way, you can see that -- if the cause has to be an infection in your premises, then the lockdown is no longer a relevant date. So I'll give you the particular Santam matter that's being heard, in fact the claim was about the COVID infection at around about the time of the lockdown. So that particular one is fairly simple, it doesn't really matter in that instance.

But there's another client and I won't tell you who it is, for example, and they run a game reserve and that particular business, obviously, came to a halt with the lockdown. But they were no COVID infections anywhere near that game reserve for a period of 6 weeks. And then somewhere in the vicinity, there was an infection and so there's a claim. Now the question is, is it a claim or not? And if you read all the court judgments, it's not clear whether the courts would regard that as a claim or not, because (inaudible) and then secondly, from a reinsurance point of view, would they pay up or not? And would this fall within an aggregation or wouldn't it?

So it's an unbelievably wide, both at the gross and at the net level as to what the claims can be. And so what the Santam management have done is they have taken a view in setting up their provision, which is effectively a best estimate of where they think the thing will land at the end of the day. But there are still numerous court cases, both here and abroad that will determine both the gross and the net claim. And the net result could be lower, it could be higher than the provision. But their provision is -- I suppose it's at this -- with the knowledge that we have to date, it's a sensible number. If we were to finalize the



FINAL

Bloomberg Transcript

accounts today, everything we know today, it would probably be our best guess as to what the provision would be.

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

Thank you. Second question just around the change in the provision for (inaudible) in Santam. That's increased further since 30th of June. I think one of your peers recently reported and said that they believe the provision was no longer needed, basically it was reversing the results. Why is it increasing still here? If you can -- is there a specific default attached to this?

## A - Paul Hanratty {BIO 7445748 <GO>}

Are you talking about a ZAR7 million delta from the half year?

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

Yes, it's increased -- yes, ZAR7 million increased by about -- is it -- I think the environment's obviously improved a little bit. And I'm comparing it with your peer that suggested that the improvement is so much so that there could be a release of that. Maybe can you comment on what will happen to that at the end of the year, more importantly?

## A - Paul Hanratty {BIO 7445748 <GO>}

Yes, within Santam, where you see provisions for doubtful debts and credit defaults, these are around specific people that we have credit exposures to. So our peers will have potentially a completely different set of people and each of these will be case-specific provisions. So a general environment improvement, yes, in theory, could reduce this. My expectation would not be -- and if I were you, I would be taking up prudency on that, I would not be assuming that any of that'll reverse on an improvement in the environment.

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

Thank you. And similarly, also on the, let's say, North and West Africa investment variances deteriorated since the 30th of June.

## A - Paul Hanratty {BIO 7445748 <GO>}

Yes, they did.

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

What would -- what market conditions would be needed to reverse that. Maybe give us a sense of the exposures they -- got to where it is.

## A - Paul Hanratty {BIO 7445748 <GO>}

Yes, the stock markets actually went south after June. So if you take, for example, the Moroccan index, it actually went -- it went south from 30th of June, but actually after the

FINAL
Bloomberg Transcript

end of October, it has recovered again. So again, that's going to be driven purely by equity markets in those places.

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

Float, just separate to that. The float (inaudible) was minus 115, but the investment variances, specifically in North and West Africa, that's -- the investment variances normally talk to life insurance, right? And so the (multiple speakers)

## A - Paul Hanratty {BIO 7445748 <GO>}

A similar issue, yes. The float, obviously, is a very significant item the -- in your short-term business in Morocco and Ivory Coast, whereas for life insurance, as you know, I think we're all quite happy that these things ride out over a long period of time.

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

Okay. So the investment variance should also improving in write outs towards the end of the year with markets improving?

## A - Paul Hanratty {BIO 7445748 <GO>}

Yes. I mean just to give you an idea, the Moroccan free float All Share index has gone up 10% since the end of October. So it's a (technical difficulty) it's a market I don't know, but it's a thin and small market. So it's -- yes. I mean you'll know what that means.

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

Yes, thank you. Just one more question on your provisions. You note provisions will have a negative impact I think in the (inaudible) business -- provisions for expenses, rather. I just wanted to get a sense of why that's necessary given the positive experience given the positive experience there and just steadily over time in that business? Is there a specific project that you're embarking on?

## A - Paul Hanratty {BIO 7445748 <GO>}

Yes. I think we highlighted at the half year that what happened is that with a very radical need to digitalize the sales force quickly, there is a huge project to invest in the digitalization of the front end of the sales force, and that's what that's about.

And it's quite interesting that actually when you talk to that, Warwick asked earlier about the Retail Mass sales and so on, and I was explaining the difficulty of re-engaging. Actually what's interesting in the affluent market is that even though they can see clients now, a lot of them are actually moving to seeing clients and probably in the long-term are going to start seeing them much more using technology solutions, which is quite interesting. So mimmicking, in a sense, all the behaviors that we're probably going to adopt as well in our working lines. So that's -- yes, the long term -- basically in operating model.

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



FINAL
Bloomberg Transcript

You've given us a sense of the release pattern of -- this question in the release of the pandemic provision. Is it similar in terms of the asset mismatch provision? Or is there tighter rules around the release there? And I do see that, that, obviously -- part of that was released first half of the year and some of that release has been reversed.

## A - Paul Hanratty {BIO 7445748 <GO>}

Yes, if you're talking about the credit spread losses, that is a very mechanistic system that we set up for that gate -- that we set up for that.

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

Yes, (inaudible) Thank you.

## Operator

Okay. Thank you very much. (Operator Instructions) The next question is a follow-up question from Michael Christelis from UBS. Please go ahead, Michael.

## Q - Michael Christelis {BIO 15233664 <GO>}

Hi, guys, sorry. Just one more from my side on the Nigerian business. I mean there's quite a lot of commentary around Nigerian bond yields having moved quite significantly. Can you talk to me, just what does that mean for the valuation of that business in your GEV as to where we are today relative to perhaps where it was in June? Is this going to be a big impact, and obviously, relative to what you paid for that business? And then how far are you down the line of finding a buyer for a stake there?

## A - Paul Hanratty {BIO 7445748 <GO>}

Yes. Okay. So Michael, you know me, most things I'm happy to answer. This Nigerian bond, I tell you what, I don't understand why the bond yields have done what they've done and I understand even less about the impacts on VNB and embedded value, and so on because it actually makes -- when you get a set of economic variables that in relation to each other make no sense whatsoever. So I think we all accept you get inflation, your bond yield needs to be a bit more and your equity risk premium a bit more and so on.

And so we've all got that kind of mental model. Now this thing comes along and it just turns everything on its head completely. So I -- with that caveat that I do not understand, and it has been an absolute nightmare to get on top of it. I'm going to ask Roux. Roux if you don't understand it either because you've just joined us. I'm sure you do understand it because you're smarter than me, but are you able to answer that or do we want to take this offline with Michael.

## A - Robert Roux {BIO 18773329 <GO>}

I can answer a part of it around what has happened to the bond yields in Nigeria. And then the question -- and then the extent to which that has affected new business volumes in VNB. But the question on -- the M&A related question on prospects for (Multiple Speakers)



FINAL
Bloomberg Transcript

## A - Paul Hanratty {BIO 7445748 <GO>}

I'll answer the bit about finding a buyer. So that's the easy question. Hard part is explaining the impact of these bond yields on the embedded value and the value of the new business and whether the actual mathematical implication of using those numbers actually is logical or not because I think that's the thing I was trying to allude to Michael is that you can get an answer, but whether it actually passes a common-sense test, that's another question altogether. But I don't know if you can help with that technical side, I will answer the question about the buyer?

## A - Robert Roux {BIO 18773329 <GO>}

Okay. So I guess on the technical side, I mean, the Nigerian bond yields have been artificially pushed down, and that was driven by excess liquidity in the market, where nonbank financial institutions or nonbank entities are not allowed to buy debentures from the Central Bank of Nigeria. So what that meant there was a lot of liquidity in the market and that ended up finding its way into government bond. So the 10-year yield in the Nigerian market, so the naira, the local currency market was -- has dropped to about between 4% and that's in an economy with double-digit inflation. So you've got negative real bond deals in the Nigerian market. So what that has meant is that for businesses like the annuity market, it has meant that it's been very difficult to get new business volumes, given the level of the bond yield.

For some of our savings business in Nigeria, it also meant that because of the reduction in the long-term prospects for investment returns, if you use the current bond yield as a base, it has meant that the fees that you add on that type of business for actual valuation purposes have also been depressed. I mean that's kind of in essence a margin business, so you get a margin in terms of the expected investment returns that you are earning. Now in terms where we are now, we know -- we do know that the yields are being artificially depressed.

So if you were to think that we are to make from a VNB perspective in terms of setting the actual basis, everything is anchored on a risk-free care, and we know that all -- that's artificial. So it's -- this is affecting all the market players in Nigeria. So what that has meant is like in any other business, you've got depressed bond yields like we currently have, then you get the negative impact on the value of new business and the savings business.

The other element is on the annuity business, there are cut-off requirements that are risk sensitive. So you have to hold 30% of the value of your liabilities as capital and regardless of how well managed you are. So that has also meant that for annuity business, not only the value of your liabilities increase because of the low bond yields, it also means that the amount of capital that you have to hold to pay those liabilities is also fairly high. So that also then -- it depresses your embedded value as well as your VNB.

So those are some of aspects, I mean, we have spoken to a few of the market players and some other banks to kind of look at potential solutions. But that's essentially what's been happening in the Nigerian market. So Paul, I mean, that's -- I don't know if that covered everything you wanted me to cover?



FINAL
Bloomberg Transcript

FINAL

## A - Paul Hanratty {BIO 7445748 <GO>}

Yes, yes. No that's great. Thanks Lotz so much. Yes, Michael, in terms of finding a buyer, we are optimistic about being able to do that in the new year, so no real concerns on that front. But I think you'll have got a sense that indeed the group equity value on that business could be reported as lower, when we eventually get to it. Whether that makes sense or not, that's a different question.

## Q - Michael Christelis {BIO 15233664 <GO>}

Is it severe enough that you may have to write-down the asset?

## A - Paul Hanratty {BIO 7445748 <GO>}

I very much doubt that.

## Q - Michael Christelis {BIO 15233664 <GO>}

Okay. All right, excellent. Guys, thanks very much and all the best for the end of the year.

## A - Paul Hanratty {BIO 7445748 <GO>}

Yes. Thanks.

## Operator

Thank you. The final question comes (inaudible).

## Q - Analyst

Hi, Paul.

## A - Paul Hanratty {BIO 7445748 <GO>}

(inaudible) hi.

## Q - Analyst

Hi there, Paul. Just a question -- and coming from a generalist, but just from a clarification perspective, so you also provide this net result from financial services pre-COVID impacts. So quite simplistically, if we assume that your provision is accurate and it plays out accordingly, then let's say the new base in earnings from -- on a financial services perspective for next year, does that imply we're back at, let's say 18% or whatever growth from a 2019 perspective or do we start off with this minus 21% that you recorded at the end of October? Just to get an extent of what the implied bounce back is post these provisions.

## A - Paul Hanratty {BIO 7445748 <GO>}

Yes. Look it's a really -- that's a great question. It's definitely not that you can take 2019 at 22% and that's now the base going into the new year, that would be absolutely the wrong

Bloomberg Transcript

answer. It might be worth us spending a bit of time off-line with you on that. But because I myself am struggling on the fly to think hard to how to explain it, yes, in a very logical and -- because you've asked a very simple and very -- yes, just -- it's a straightforward common sense question. But I know the answer is not that the base is now going to be up for the start of next year to 2019 plus 20% odd. It's actually more like going to be 2019 itself is kind of a good base to think about in fact. And (multiple speakers)

FINAL

## Q - Analyst

Okay. But that implies 18% growth, right?

## A - Paul Hanratty {BIO 7445748 <GO>}

Sorry, 18% growth on what?

## Q - Analyst

No. I'm just -- if 2019 is the base on 2020, and 2020 is currently like 21% lower than 2019 and that's already a reasonable recovery. And then the assumption -- and then obviously, the assumptions are, you need to take a view on how the future plays out relative to the provisions and obviously, investment market spreads, et cetera.

## A - Paul Hanratty {BIO 7445748 <GO>}

Exactly. So you've had a kind of a V, basically, in this year.

## Q - Analyst

Okay. Got you. Okay. Thanks. I'll take this offline with, Grant.

## A - Paul Hanratty {BIO 7445748 <GO>}

Yes. I think if you've got any doubt, please take it up with Grant because I'd hate to be 20% odd either way, and it's hard on a phone call, it's great with a piece of paper.

## Operator

Thank you. The next question comes from (inaudible) Denker Capital. Please go ahead, Ian.

Bloomberg Transcript

## Q - Analyst

Hi, Paul and Abigail. Thanks for the time. I'm very aware that this question also comes from a non-actuary and it refers to the pandemic reserve. And just to understand that most of your peers have made a one-off provision and it covers different time periods, but there are different elements to those provisions, it's not only claims for life, but it's also some of them include persistency, some of them include costs in there. And I'm just trying to understand the reason why you didn't make those provisions is because of the pandemic reserve. But does that pandemic reserve also apply to persistency and additional costs over and above simple claims from a life point of view. And if not, why have you not made provisions for those elements that your peers have?

FINAL

## A - Paul Hanratty {BIO 7445748 <GO>}

Yes. So look, to be absolutely clear, when we set up a pandemic reserve that anticipates higher mortality, but also morbidity. So I don't want to get too technical here, but -- so it could cover things like disability as well. It's any -- it's set up specifically for the risk elements pertaining to an infectious disease of this nature, but it is not designed in any sense to cover higher expenses or persistency.

So we ourselves dealt separately with persistency. And we made an assumption that the economic downturn would be such that it would be equivalent over time to 5% of our policies going off books in one shot. Now in the case of Sanlam, it's a bit technical, but because of how we do our reserving, that doesn't impact our P&L, but it does impact our embedded value because you're assuming the 5% of the future profits on those policies that you're putting through a mass lapse scenario off the books. It also drives up your assumed unit cost per policy, because you've now only got 95% of the policies that you had before, so you divide the same expenses by a bigger base.

So the -- so we had a pandemic reserve already. So we didn't need anything. We didn't need to add anything for -- from a risk point of view. And then from a persistency point of view, we specifically put in the mass lapse, and that happened to also have an impact on our expenses. But why -- it's very hard always to answer, so why didn't we have -- why were the impacts different to other people, it's really hard to note. It maybe because their reserving may have had a little less margin for error in it than ours. That's the only logical conclusion I can draw.

## Q - Analyst

Thanks, Paul. That helps. Thanks a lot.

## Operator

Thank you very much, Paul. We have no further questions in the queue. Can I hand back to you for closing comments?

## A - Paul Hanratty {BIO 7445748 <GO>}

Claudia, of course, thank you very much. And thanks very much to everybody for making the time to join the call. It's obviously been a really difficult year. And next year will probably be pretty tough for all of us as well. And please, all be safe, have a wonderful holiday. And please, if you would like anything or to discuss anything, please make contact with us. We've now got Grant, who has joined us as well, and he's very capable and able as well, and he will have the time to engage, and help all of you with any detail that you may have. So I wish you all the very best and be safe. And let's hope next year is a much better year for all of us. And yes, thanks very much.

## Operator

Thank you very much, sir. Ladies and gentlemen, that concludes today's conference. Thank you for joining us. You may now disconnect your lines.

Bloomberg Transcript

FINAL

Bloomberg Transcript

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*