# Q1 2020 Sales and Revenue Call

## Company Participants

- Anton Gildenhuys, Chief Actuary and Group Risk Officer
- Ian Maxwell Kirk, Group Chief Executive Officer and Executive Director
- Wikus Olivier, Interim Chief Financial Officer

## Other Participants

- Analyst
- Greg Wood, Analyst
- Larissa Van Deventer, Analyst
- Michael Christelis, Analyst
- Warwick Bam, Analyst

## Presentation

### Operator

Good morning, ladies and gentlemen, and welcome to the Sanlam Ltd Group's four month operational update ended April 30, 2020. All participants are currently in listen-only mode. And there will be an opportunity to ask questions later during the conference (Operator Instructions) Please also note that this call is being recorded. I would now like to turn the conference over to Mr. Ian Kirk. Please go ahead, sir.

### Ian Maxwell Kirk {BIO 1778703 <GO>}

Good afternoon, ladies and gentlemen, thank you for joining us on the conference call. I'm joined on the call by colleagues from finance and actuarial, Wikus Olivier, Anton Gildenhuys and Patrick Hartnic giving first out overview of the results. We released the results for the four months period earlier this afternoon.

Just a couple of comments from my side. Before we get going with the questions. It's undeniable that 2020 turned out to be much more challenging than anybody anticipated. We had a very solid start to the year as we communicated in the COVID-19 update, which we released at the end of March. And that was really most of the operational trends which we experienced in the second half of 2019 persistent in the first two months. However, the operating environment deteriorated substantially since the end of February. As governments, globally responded to control the spread of the COVID virus through lockdowns and curfews. Global growth estimates were revised down sharply in an environment where both demand and the supply side of the economies were severely disrupted. Of course this drove significant volatility in investment markets, which significantly impacted our earnings for the four months to April. We are thankful that there's been a considerable recovery in markets in April and May. Lockdowns and curfews also prevented face-to-face sales in most of our businesses but particularly in the life insurance business and therefore since the end of March, new business volumes declined commensurately. Despite the headwinds we received, we achieved acceptable results for the four months to 30th April. That's testimony to the resilience of the diversified operations and obviously the commitment and the expertise of our people. Some of the salient features in the performance as follows. New business volumes ZAR96 billion up 33% on the first four months of 2019 financial year.

Now, when considering this, it should be noted that the impact of the lockdowns and the curfews are not fully reflecting, because of the timing differences between writing [ph] and recognition of new business. As an example, new business production in South Africa in April and May was down between 50% and 70% lower than our target, and obviously the Sky intermediary channel was the hardest hit to now decline by some 90% for those two months, because the worksites are not opened. That's just on the life insurance side. Net value of new life business so VNB decreased by 18% on a constant economic basis. Largely due to lower life business sales during the lockdown periods and we expect lower sales for the rest of the year. And therefore, higher unit costs. Higher margin businesses such as Sanlam Sky were more severely affected and that obviously impacted the VNB margins. Overall, net fund inflows of ZAR14 billion was 17% lower than the ZAR16 billion we achieved in the comparable four month period. Because in the month of March, we had some large withdrawals at Sanlam Investment. Thankfully, there we had substantial inflows in May -- in April and in May to more than counteract those flows. But May was -- sorry March was difficult in terms of outflows at SIG. No real changes in persistency trends were experienced in the first four months of 2020 and we continue to watch this. Net results from financial service declined by 21% on the four month period.

However, excluding the negative investment market impact, which I referred to earlier, net result from financial services increased by a very pleasing 13%, which is in line with what we saw for the first two months and obviously, this period of last year. Headline earnings increased by 40% but that was impacted by the one-off -- the accounting cost of ZAR1.7 billion, in 2019. Our capital position in CAT in Sanlam Life, which is our largest regulated entity, was protected by the hedge equity structure. We've got those in place there, and therefore, we didn't have a negative -- on that. The Sanlam Group Solvency Capital Requirement or SCR cover ratio remained healthy. It was at 201% around 31 March, 2020, but obviously that would have increased since the end of March because markets recovered from their lows.

Funding levels in the smooth bonus and the participating annuity portfolios, for the larger portfolios were between 84% and 94%, 31 March, 2020, but that has since recovered. And at the end of April, it was between 92% and 101% and obviously the position now is even better than that. So overall, I'm satisfied with the performance for the four months to end April, reflects the resilience of Sanlam and ability to maintain value creation for our shareholders in the difficult times. And looking forward, it's difficult because obviously things are still playing out. And we continue -- continuing to actively manage the consequences of the pandemic. Our priority remains the health and safety of our employees and obviously then as well continuing to provide support to our clients, to our intermediaries and the more vulnerable suppliers across our businesses to ensure the sustainability of the system. And we've been doing substantial work there. I think, we are well positioned to weather the headwinds. We've got a robust balance sheet, our solvency position is strong. We've got unique diversification across the geographies. We've got some very strong businesses and some dominance in market segments. And, of course, deep skills in our businesses. We are of necessity, I think like most businesses, cautious about prospects for the remainder of the 2020 financial year, given that there is uncertainty around the eventual impact.

So we're doing various scenarios, but of course the number of factors will have an impact on that performance up until the short term, up until the end of June, as well as the full financial year. And we've set that out in the operational update. And of course, as I said these -- the current situation is quite fluid. We remain positive, we'll get through these difficult conditions and I think again, we'll continue to outperform on a relative basis. So I think that's it from me. So I'll open the call now for any questions that you may have on the operational update.

# Questions And Answers

## Operator

Thank you very much. (Operator Instructions) Our first question is from Michael Christelis of UBS, please go ahead.

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

Michael?

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

Hi guys, can you hear me?

## A - Anton Gildenhuys {BIO 4058523 <GO>}

Yes we can hear you.

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

Yes, we can hear you.

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

Apologies, I was on mute. Sorry, thanks guys for the time. Three questions if I can. Firstly the lag between new business production and that being actually recorded as new business in your financials. I wonder if you can give us just sort of some clarity as to is that sort of six weeks, is it two months, three months for each core business unit, clearly trying to sort of assess the sort of impact on half one versus half two and which months will fall away basically. That's the first question. The second question, Shamrock reported couple of weeks ago, basically saying that lifestyles were down 35% for the first quarter. I mean, maybe if you can just give us some comment on that. And sort of what's driving it and what we should be expecting from the life business there. And as well as the non-life business only growing at about 1%. I'm trying to understand, you gave -- previously given us targets of sort of 12%, 13% I think as growth. I am just trying to understand what is the new targets ignoring COVID, I guess. And then lastly, just around your expectations for maybe just your base case for economic growth and job losses for this year and whether or not you would use June as an opportunity to make material assumption changes if you prop with lapses, we're going to deteriorate in, off to or would you wait for that to emerge and only make significant basis changes at the full year. Thank you.

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

Yes. Okay. Michael. Anton, maybe you can deal with the first one. Wikus the second one and then Anton, you maybe come back on the third one around the -- how we're looking at lapse assumptions at half year.

## A - Anton Gildenhuys {BIO 4058523 <GO>}

All right. Wikus, you should actually help me. My understanding is in operational update, we are reporting the accounting new business production numbers.

## A - Wikus Olivier {BIO 20074722 <GO>}

Yes, the accounting numbers, Anton.

## A - Anton Gildenhuys {BIO 4058523 <GO>}

Yes. So the lag, typically if a policy is written say in SPF today, it will typically on average pop up three to five weeks later in the accounting. As I mentioned, that first premium is undrawn towards the end of the month.

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

Is that on Sky as well, Anton?

## A - Anton Gildenhuys {BIO 4058523 <GO>}

Yes. But it also -- there the lag can actually be even more. Of course you've got stop order business and the stop orders having loaded onto the system of the employer. So you could have a six week lag or so on average, so there is a bit of a lag between production and related accounting. But the numbers we've reported in operational update is the accounting numbers.

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

Okay. Thank you.

## A - Wikus Olivier {BIO 20074722 <GO>}

And on some Moroccan market, I am -- I don't want to comment too much on them as you are aware, are a separate listed entity. But I would -- just to say that the comment that I made referred to turnover, which is not necessarily the same as new business volumes in our definition. So I'd rather refer to across the North West Africa region in that way for the first four months, the life business growth was actually very good. On the non-life side again, I rather refer to the region and then, Morocco, specifically, but for this year, we did set them lower growth targets, and focusing them to look at the quality of the new business, so for the region, the targeted growth for this year is in the single digits.

## A - Anton Gildenhuys {BIO 4058523 <GO>}

All right. And then on the assumption changes, it's very unlikely that we will do mortality assumption changes for due diligence. The first one is we haven't seen significant COVID-19 claims yet, and then to the degree that they come through, we've got the pandemic reserve to deal with those. So it's unlikely for us to do mortality change. As for persistency, it's an interesting one, of course of Sanlam's prudent reserving basis if we actually weaken our persistence or strengthen our lapse assumptions, key markets, the result where we actually see our reserves lowering, that is because we generalize our negative reserves. So for onerous policies, we set up positive reserves and again if we increase the lapse assumptions for those policies that will result in the reserves reducing.

So we are thinking about potentially doing some out of model or just the EV adjustment to allow for a short-term impact on persistency. We don't think as with the global financial crisis that there will be a permanent shift in persistency. If there is a shift, it will be in the shorter term. We just want to first consider the experience in towards the end of June as well, over and above April, May to get a better feeling of where the trends are going and then we may or may not introduce the RF model adjustment.

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

Yes, it's early days. Michael, I would say that April and May were probably better than we expected. So we'll have to give ourselves one or two more months just to see if there's anything in there. So we're watching it very, very carefully. And obviously, with our banking...

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

But you would make it?

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

With our banking...

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

You would make assumption changes if you felt things would deteriorate right?

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

Yes, yes...

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

It's not that you would wait for year end?

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

No (Multiple Speaker) No we would, but you just want to be. Also -- we have the opportunity when we can talk to our banking partners as to what their experience is. So we need a bit of a better feel, we...

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

Yes.

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

As we close to the banks, we're not seeing a consistent message yet, it's quite early days.

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

Great, thanks guys.

## Operator

Thank you. The next question is from Warwick Bam of Avior Capital Markets. Please go ahead.

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

Hi, Ian, Wikus and Anton. Thanks for the time. Three questions from my side. How do you foresee the shape of the recovery in advisor productivity as the lockdown regulations ease? Second one, are you considering any tactical changes to your strategy in that environment? Especially around cost cutting or enhancing your focus on digital sales channels. The third one, you've got a very healthy balance sheet and I appreciate you may not have as much discretionary capital available to deploy. But my real -- my question is really around the Prudential Authority and whether you're under any pressure to retain capital in the current environment. Thanks.

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

Okay. Anton, maybe you can have a look at this one. The first one. I'll talk about the second one and maybe a bit about the first one as well. But you can have a go at that one. And then I will talk a little bit about the third one then as well. And maybe, Wikus, if you can also chip in on the third one.

## A - Anton Gildenhuys {BIO 4058523 <GO>}

Okay.

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

Is have -- have a go at the first one there, Anton.

## A - Anton Gildenhuys {BIO 4058523 <GO>}

Thanks, Ian. I think the set of the recovery specifically on productivity will depend heavily on the nature of the lockdown regulations and now they are being eased. We know that government knows and expects the infection rate and the death rate to increase. The whole purpose of a lockdown was not to try and dodge the pandemic but it's only around preparing the healthcare systems and flattening the curves, so that we can cope with it. So we should see an increase and that shouldn't deter government from the easing of a lockdown unless even their projections are being exceeded by the actual experience. And that will of course then lead to a reversing of the lockdown easing and will have a significant impact. So in the middle and affluent market, our productivity, even though the lockdown levels may ease you may still have a situation where some of our clients remain anxious and they are more keen to engage with intermediaries via telephone or digital means. So that may have a longer-term impact on productivity. In terms of entry level market. We are very heavily dependent on not only work sites opening, but the employees, being present in those worksite. And for that you would need, in our case at least a level two but probably level one type of lockdown for productivity to revert back to normal.

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

Warwick, let me come in here. It's -- I'm not trying to kick for touch. But it's quite difficult. I'm sure you read all the stuff, the economic stuff and the scenarios around that. So that doesn't -- I won't comment on that, but that would shape our thinking. So we would be expecting this thing to take -- to be very negative. But actually, when we look at the -- on the ground. In our own business, outside of the life business in particular, the bottom end where the worksites are closed. We're actually doing better than we would have expected. When we talk to our banking partners, things are not as bad actually at the moment as they would have expected. When we talk to the retailers there is quite a lot of activity. So it's a little bit counter intuitive. So we're having to watch this thing fairly carefully. So what we're doing and remember in our business it's quite diverse. So what we're seeing in South Africa in the middle market and the entry level is not the same. What we're seeing in some of the regions is not the same.

What we're seeing in India is not the same as in Africa. So it's very, very difficult, so what we're doing in Sanlam, we're doing scenarios. We've got a base scenario. And then we've got one that's kind of worse than the base scenario. And then we've got a scenario that says, we're going to have, we're going to have a second lockdown, which is really a negative scenario.

And that's all quite honestly, we can do for you at this stage. I think, we'll be in a better position at the end of June. So I mean, we find -- we're going to get through -- we're down a little bit on the earnings side, we'll have to see where that -- we would hope that we could sort of recover some of that. The markets have recovered strongly in May.

I think the pickup will probably be in South Africa, a little bit better than we were expecting. We will just have to see. Now the next question is around. So what does this do? Well some of the stuff that we were busy with, we can really push ahead quite quickly. In terms of the operational side, I mean if you said to me today that we can run Sanlam's 80% of the people remotely, I would say, that's impossible. I would sayWe're doing it and we've been doing it. We had 87% of people away in the first five weeks, we're now at 80%.

I mean, it's extraordinary. Heck of a lot of those people are not going to come back to work on a regular basis or come back for meetings. We're going to be able to push a lot of this stuff around new ways of working that we never ever could have seen before. The impact on how we work, the efficiency of how we work, the productivity, the type of people we need, the head count that we need. The real estate that we need.

There's going to be some fundamental changes there and this is not unique to Sanlam. It's the same stuff that we're seeing in our discussions with other insurance companies around the world. And so it's really going to give us a lot of opportunity to relook at the cost base and I'm not talking about wholesale retrenchments, not at all. But the way, the type of people we employ, the numbers of people over a period of time and the way we operate is going to be very different. And the second thing of course is the digital transformation, stuff that we were busy with and Anton was driving that project for us with, Wikus there as well and we ought to really be able to push hard on that, because of what we've seen. Yes the intermediaries adoption of digital is going to be much, much better than we ever thought because you know the face-to-face guys who haven't got the digital were struggling through the six week. Your third question is around the balance sheet and the opportunities and the capital. We're not concerned about the lack of capital. There are sources, we've got available that -- it doesn't really concern us. However, one must look at the things strategically because that -- and there's not big stuff on the table strategically for us. So most of the stuff that had been done, we will have some bolt-ons in Africa, there may be some opportunities in India that come through this thing. So what you're saying is, will there be opportunities -- will be a lot of the opportunities. And if we need the capital for the opportunities, we will raise the capital. So that's the way I would look at this, and nothing on the table, but we have our eyes wide open.

Wikus, how -- what would you say?

## A - Wikus Olivier {BIO 20074722 <GO>}

No, I agree with that, Ian. And I think part of the question was also around pressure from the PA.

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

Yes. And I think from that is -- maybe if you've seen the communication -- the joint communication that's come out from the Prudential Authority and as regulated for the industry. Yes, I should be concerned about the solvency of the industry, data. But at this stage, I can see that if you solvent and then comfortable with your solvency levels that they won't -- that they will prevent you from deploying capital or even paying dividends, but it will of course be an engagement process with them, you won't simply do something with -- without their knowledge to take them along on the journey. Yes, look if they got to a situation where they were giving us regulatory relief in Sanlam to support the business. Right, they would correctly say, guys, when are your shareholders coming to the party. We're coming to the party. Where are your shareholders?. We've not been in that situation, we had those discussions with our final dividend. Our final -- our dividend is driven off the cash operating earnings. It's not driven off the capital base. So the two things are independent. So if the operating earnings are there and the capital position is strong, we will pay the dividend. And that's basically how we see it.

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

Thanks, gents, that was very good comment.

## Operator

Thank you. The next question is from Larissa Van Deventer of Barclays. Please go ahead.

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

Good afternoon, guys. Two quick questions, the first one on Sanlam Sky, you gave a very helpful table and thank you for that. On the extent to which movements are down in April versus the first two months. But then you mentioned that Sanlam Sky was down 90% relative to target. Can you tell us what it was down relative to the same period last year? And then on hedges, you mentioned that the mark-to-market impacts were lessened by the hedge program in place. Can you please give us a sense of what hedges you have in place and when they were due for renewal and how you're currently thinking about your hedge situation?

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

Okay. Anton, will you have a go at those two. And I will come back on one at the end.

## A - Anton Gildenhuys {BIO 4058523 <GO>}

Yeah, Wikus, might have the reduction compared to last year. Of course it will be a bit less than 90% given that we expect growth in our target. The hedges, we got the zero [ph] premium collars. So the ZAR8 billion capital is still in tact, in fact, it is still contributing a little bit to discretionary capital every quarter. And so we continue to roll those collars at the moment. So there is not any significant change in that strategy.

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

Where is your collar hit?

## A - Anton Gildenhuys {BIO 4058523 <GO>}

So we do it on a monthly basis. So every month, you will have some of those colors maturing and then of course, they will stay at 100% to say 105%. So we will always have full capital protection and then we give away upside to pay for that full capital protection and we always retain the dividends. So in the current environment, the dividend yields are high, which is assisting in the returns on the ZAR8 billion, and then of course if there is capital growth, we will capture all of that up to the CAT of the structure.

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

During the CAT?

## A - Anton Gildenhuys {BIO 4058523 <GO>}

It depends on the market conditions. When you implement. So at this time, last year, the CATs would have been 7%, 8% for a 12 month collar. Currently, it's significantly lower because of increased vaults. So we will depend more on the dividends to provide us with a return at the moment. And then as conditions, as the volatility comes down, in the next year or so, we expect those pricing to improve again.

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

And downside protection, Anton?

## A - Anton Gildenhuys {BIO 4058523 <GO>}

And there it's full downside protection. So, we don't...

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

Full downside?

## A - Anton Gildenhuys {BIO 4058523 <GO>}

Yes.

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

Okay. Thank you.

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

Wikus, on the Sky. Compared to prior year?

## A - Wikus Olivier {BIO 20074722 <GO>}

Yeah, I think -- Anton covered it, so I don't want to communicate our targets, but I think the 90% that we guided, just to give an indication into substantial decrease and then actually, whether you express it as relative targets over last year. The actual production in the month was really insignificant, to be honest. The 10% remaining.

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

So Larissa, let me just explain it now. The first thing, we would say to you is that we would have had a low double-digits projected target for the business. For the traditional Sky business. So you can work that back of that to the 90%. What we were saying was that in the traditional Sky business. So those months when the work sites were closed, we saw a substantial fall off.

But when you look at Sky, it's not just the traditional face to face operation. We also have the Capitec operation, which writes a lot of volumes and we also have the group schemes. Now they are not quite impacted at the same way. So the worst impact was on the Sky traditional agency.

The other ones are not as impacted to the same extent at all.

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

Thank you, Ian.

## Operator

Thank you, the next question is from Greg Wood of Melville Douglas. Please go ahead.

## Q - Greg Wood {BIO 16374933 <GO>}

Hello Ian, Wikus and Anton thank you very much for your time. And just two very quick ones. The first one probably for Wikus, and the second one probably for Anton. Just in terms of the difference between the down 21% net financial and results was up 13%. Can you just explicitly explain where -- what you took out and, I have seen that there's a hand float and have you also included the (technical difficulty) participation and then I see more substantial maybe the mark-to-market on purchase.If you could maybe just give us some more color on what exactly is excluded to get to the two different numbers.

And then, Anton, just on new business strain, I suppose. This is the benefit for the way you guys account where you cash account for new business strength and whereas some of your competitors are obviously going to have new business strength, leading to the income statement when they're not actually selling anything. Can I kind of assume, I know there is a bit of a mix difference but can I kind of assume that new business strength are variable cost and will largely move in line with new sales for the year. Thank you very much.

## A - Wikus Olivier {BIO 20074722 <GO>}

On your first question, Greg, the table that we provided in the operational update, that's got the ZAR790 million net negative impact in versus ZAR279 million for the prior year. Those are the numbers that we've adjusted to calculate the difference between 13% and 21%.

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

As you say, it's the credit spreads in SanFin, which is 328, the mark-to-market on the listed prefs is 100, Glacier's participating fee income is 58 and then the float in Sanlam Pan Africa general is 304.

## Q - Greg Wood {BIO 16374933 <GO>}

Thank you very much.

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

But, yeah, obviously, those numbers are volatile. They were worse at March, they were better at April. They obviously -- there was an improvement again in May.

## Q - Greg Wood {BIO 16374933 <GO>}

Yes. Thank you.

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

Anton? Anton, are you still on the line?

## A - Anton Gildenhuys {BIO 4058523 <GO>}

I'm sorry I've been on mute there. As for the new business trend, clearly some of the commission cost, we don't have back, would be fully variable. But the -- let's call it the Sanlam distribution management and that kind of infrastructure has quite a high degree of fixed component in there. And that is why, I mean you can see that the average impact in our VNB margins. And as the volumes come down, the VNB margin will also contract because of that fixed component coming through in the new business trend, and now there is quite a unfortunate -- while it's unfortunate in a declining environment that you've got a fixed cost, but of course if you've got growth then you see an expansion in the margin.

## Q - Greg Wood {BIO 16374933 <GO>}

Thank you.

## Operator

Thank you. The next question is from (inaudible). Please go ahead.

## Q - Analyst

Hi gents. Good evening. If I may, two questions. One on SIG International and the other one on India. On the first, I apologize if I differ to last year's numbers, but the full year RoGEV was doing quite nice on the half-year number. And the full year number even better still half percent assuming kind of fixed versus your sort of target, which is sort of 13.5. How much would the rand depreciation against the international SIG business translate to your net results for financial services. And on India, it's a big oil importing country. So obviously, some good savings on fuel during the lockdown but you have a large land book here and you take it by the 7.9% hit on currency appreciation last year. And I imagine it gives the rupee -- the last sort of two months, should actually depreciate quite nicely. So you made some reference to exchange ForEx gains coming through on India probably because that's in the scheme of things. Thank you.

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

Wikus, that's for you and Patrick.

## A - Wikus Olivier {BIO 20074722 <GO>}

Yes, I think, I will. On the first one is SIG International, thus any site translated to average exchange rate, so if you look at the full -- first four months of this year, it's about a 10% positive impact on the translated earnings of SIG International. And from a GEV or RoGEV perspective of course that works from spot to spot and the full weakening of the rand exchange rate over the period will come through as part of your RoGEV earnings.

## Q - Analyst

Thank you, Wikus.

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

India?

## Q - Analyst

On India, if you may.

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

Okay, so I can talk about the operational side, maybe Wikus on the numbers. The issue in India is that because of the payment on that that have been legislated, the collections in the two credit businesses are impacted and that's now been extended so they in turn of course get extension on their funding. But the pressure's on there, so we can anticipate a weakening or additional provisioning and we can anticipate, some reduction in advances so operationally, those two businesses run, will be under pressure and I think, we just make the point again that we have lag accounting, so we're bringing through very strong results from India and we're just cautioning that, -- we'll have to see, if those can continue, we would actually anticipate that they won't continue because of the pressure.

So we've been through this with India, many times and might down to every -- and they've always recovered very, very nicely. So we'll just have to see but from a currency point of view, what again, we've had about 10% but they are similar to --

## A - Wikus Olivier {BIO 20074722 <GO>}

Let me just check.

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

Yeah, maybe a bit less maybe about 8%

## A - Wikus Olivier {BIO 20074722 <GO>}

In US plus 15%.

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

Yeah that will have a -- we'll have a positive on that but we're going to have to have a close look at the values the -- for GEV purposes. At the end of June.

## Q - Analyst

Excellent, great, thanks so much, gents. Thank you.

## Operator

Thank you, (Operator Instructions). The next question is from (inaudible) of Business Line, please go ahead.

## Q - Analyst

Hi I just have one question, Ian, on business interruption insurance. Have you got clients lined up for that and I'm guessing, you would be rejecting them, if you could just give me a sense as to why, if you are rejecting them on what grounds?

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

So that's business policy condition and the policy contracts I think are pretty clear. I'm not dealing with it on a daily basis like the Santam people, but I mean, I know how the thing works because I was across there. So if you've got clients that have taken the -- have got the cover for the pandemic, and they have a particular incident in their business. So in other words, they've had to close down because a customer came in or an employee came in that was infected, they've had to close it down, we will cover that. We've had claims like that, we will cover that. But if the business is -- has had losses, business interruption losses because we have a global pandemic. And we have lockdowns applied country-by-country-by-country. I mean, that was never anticipated in the contract.

It's not covered in the contract. And therefore, it's impossible. We are happy to bear some of the risk in this thing and do the right thing for the clients and help out where we can, but you can't have a situation that the entire cost of the COVID pandemic in the economy gets transfered across to the short-term insurers because someone thinks, why not, they've got some kind of cover. So one has to be very careful in how one goes about this thing. And I can tell you that the Santam folks, I've looked at it very carefully. They have looked at it with the industry association, they've looked at it with the regulator, they have looked it with the intermediaries, they've looked at with the reinsurers.

And they will be very responsible and do -- you know, if you obviously apply the contract conditions but you'll also look and see what the right thing would be to do for clients. It's early days on this thing. It really is early days because clients, you know, they will have to formulate claims, they will have to look at their own policies, they'll have to get the brokers involved. This thing will play out over a period of time, but we will do the right things for the clients. I can assure you of that at Santam and of course, you know, it's a very small percentage of the commercial clients who've got this cover anyway. Most of them don't take cover for that. And actually when you look at the insurance business that we write in Africa and in India, so it's not coverd at all. So this is -- it's not really a very significant thing in a Santam context. It's a much more serious thing for example in the UK and in America, where those -- the policy contracts are worded differently.

## Q - Analyst

Understood, thank you very much.

## Operator

Thank you. The next question is from Serine Barnard of Multione [ph]. Please go ahead.

## Q - Analyst

Good evening, gents. Just a couple of questions from our side. So firstly, the table on Page 7 will show us the April production versus the average for the 3 months to March 2020. So would that be reduction or would that be on an accounting basis?

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

That's on the accounting basis, Serine.

## Q - Analyst

Okay so the comment on the 50% to 70% is production but that table is on accounting basis, correct. And then I wanted to ask. So, what percentage of the Sky business is written through work sites and give you -- can you give us an indication on -- that are government employees?

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

Government -- yeah, I can give you sort of volumes. You want the percentages. Yeah. I'll add that one, because as I think if you look at the Sanlam's guidance book suggest more than off the book which is government employees. On worksite perspective to be honest, I actually don't know what the percentage is top of mind. But it's a smaller part of the business. They still write a significant portion of course through Capitec these days, and then also through the intermediary base and group schemes.

## Q - Analyst

Okay, great. And then for the Saham struct. So you referenced the fact that quite a substantial piece is invested in property. So does it do a full property evaluation at the end of the period, just to get an idea of how much of the time is already in the number and how much of the time is still to come in terms of property values?

## A - Wikus Olivier {BIO 20074722 <GO>}

The biggest part of the impact in the full month results comes from equities, there is some allowance for a cut on property valuations, but it was a more high level estimate at this stage for the June results we go through a proper valuation of the properties.

## Q - Analyst

Okay.

## A - Wikus Olivier {BIO 20074722 <GO>}

So there may be a difference end of June.

## Q - Analyst

Okay, well -- yeah because usually the property valuations are only done on as use of sale. And then I just wanted to confirm on your comment on the persistency. So you say the trends in the first four months of this year was consistent with last year and then you also commented that the April persistency was better than you expected. So did you see significant dropdown -- sorry you said May was better than you expected. Did you see a significant drop down in May from the sort of January to April levels?

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

No, we didn't. And that's what I was saying earlier, Serine. We were kind of expecting that and didn't see it. And we also not seeing it with our banking partner. So that's why, we're just being a bit cautious.

## Q - Analyst

And those were across the book, is there specific areas that's faring worse than others?

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

No, no, no, no. There's not one specific area that we're worried about, and we're also not seeing it yet in Africa, where we're also concerned. But it's early days Serine.

## A - Wikus Olivier {BIO 20074722 <GO>}

Yeah, I think one factor that you must take into account is that we do have clients that took premium holidays. So I think that the question is once those end whether they will continue paying or whether then you might a incur lapse at that point. And this all surrender at that point in time.

## Q - Analyst

I guess, what has the take-up been on the holidays that you offered?

## A - Anton Gildenhuys {BIO 4058523 <GO>}

There has been fair take-up, but it's not a substantial part of the book.

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

No Again, again less than we anticipated. The thing about it is obviously there is pressure with consumers. But when you go through a thing like this the people say cheapest. I'm going to keep my life cover going. I've got to keep my funeral plan in place. And I've got to also look after my short term insurance so it's almost like the awareness of health and safety stuff. They're aware of this and of course the brokers are speaking to them as well. So it's in a time like this that the value of what we do should come through or may well be coming through.

Yeah -- we understand the pressure, we really, we are live to the pressure that people are under and particularly where people get retrenched. But to answer your question, we had less people coming to us on the premium holidays than we expected.

## A - Anton Gildenhuys {BIO 4058523 <GO>}

Yeah, I think you have a situation year away, you've got fairly strong forces pulling in different directions. So what Ian talks about is people being retrenched or business owners losing their income. Even if it's small business owners. And then of course their employees are also being affected. And that don't clearly lead to lapses, I mean, it doesn't matter what your intentions are if you don't have an income, it's impossible to maintain those policies, but on the other end, you've got a lot of salary earners in South Africa. A lot of the salary earners who work will just sit at home and their expenditure base has reduced significantly, not only because the transport costs are down and so on, but the mortgage repayments are down because the prime interest rate has been slashed by pretty much a third or close to a third.

So you've got actually more disposable income with your salary earners. And then on top of that there is certainly less churning going on in the industry because in the Middle East especially in the entry level market are precluded from entering the industry as well. So you've got all of these forces and that's why, coming back to Michael's point earlier. We try to understand those trends to have a bit more of an informed decision on what the overarching adjustment should be. That all being said, I think it is an EV, it will be naive to think that there will be no impact on our persistence if the economy shrinks by let's say 7.5% for the year.

## Q - Analyst

Yeah, absolutely. That's great, thanks. That's very useful. And then lastly, you talked about the fixed-cost element of the new business strain. Can you give us a sort of a rule of thumb for what sort of volume decline, which result in sort of sensitivity for the VNB margin. So what sort of volume decline will result in zero VNB. To get a feel for that sensitivity? Or anything along those lines just to give us a feel for how sensitive it is?

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

Anton, you want to have a go at that one.

## A - Anton Gildenhuys {BIO 4058523 <GO>}

Yes, I would say that you would need at least more than 50% decline in volumes for the VNBs to become negative.

## Q - Analyst

Okay, great, thanks. That very helpful.

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

We don't have a scenario like that Serine.

## Q - Analyst

Glad to hear.

## Operator

Thank you. The final question is a follow-up from Michael Christelis. Please go ahead.

## A - Anton Gildenhuys {BIO 4058523 <GO>}

Michael? I think you're on mute again.

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

Sorry. I forgot. Just a quick one on your Sanlam personal loans book. I see you've increased your provision there or you've raised the provision to ZAR50 million. Could you tell little about what's happening in net book specifically on non-performing loans? And what your expectations, thereon?

## A - Wikus Olivier {BIO 20074722 <GO>}

At this stage, Michael the provision that we've made doesn't reflect actual defaults. So you do have some clients within that book that also took repayment holidays. At this stage, it's simply the IFRS 9 provisioning model that simply kicks out a increased provisioning. Based on the delay in payments by clients. But the insure impact will be determined by actual defaults that come through which is uncertain at this stage.

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

Do you expect a material pickup in credit losses data?

## A - Anton Gildenhuys {BIO 4058523 <GO>}

No, that's not our base case at this stage.

## A - Wikus Olivier {BIO 20074722 <GO>}

Okay, great, thanks guys. Thanks very much for your time.

## Operator

Thank you very much. So we have no further questions in the queue. Maybe any closing comments.

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

Thank you. So let me just. Yes, thank you very much. Thanks for your continued interest in the business. I'd like to thank you for participating in the call and for your interest. As you know, this will be actually -- this is going to be the last time, I'm going to talk to you as the CEO. Paul will be taking over, but he is well into the business now and Paul and Anton, Patrick and Wikus will be dealing with the results in September. We look forward to that. Thank you.

## Operator

Thank you very much, sir. Ladies and gentlemen that then concludes this call and you may disconnect your lines.