S1 2020 Earnings Call

Company Participants

- Anton Gildenhuys, Chief Executive Officer, SA Retail Affluent
- Heinie Werth, Chief Executive Officer, Sanlam Emerging Markets. Executive Director.
- Paul Hanratty, Group Chief Executive Officer
- Sydney Mbhele, Group Executive, Brand
- Wikus Olivier, Acting Chief Financial Officer, Sanlam Limited

Other Participants

- Francois Du Toit
- Michael Christelis
- Warwick Bam

Presentation

Sydney Mbhele {BIO 20089938 <GO>}

Greetings, everyone. My name is Sydney Mbhele and I'm the Group Executive for Brand at Sanlam. It is my pleasure this morning to welcome you to the session as we present our 2020 interim results with the Sanlam Group CEO, Mr.Paul Hanratty; Mr.Wikus Olivier, our Interim Chief Financial Officer and some of the members of the executive team. My role today will be to be a facilitator. And like me I'm sure you are looking forward to an informative session.

Today, Paul and Wikus will take us through the group's performance and priorities, and then I will come back at the end of the session to take some questions.

Let me first introduce some of our members of our executive team that are in Cape Town, we've got Wikus, whom I have introduced already. Mr.Heinie Werth, the CEO of Sanlam Emerging Markets; Mr.Anton Gildenhuys, our outgoing Chief Actuary and Risk Officer, now moving onto become the CEO of our Retail Affluent business. And here in Johannesburg, we have Mr.Paul Hanratty.

Paul, over to you.

Paul Hanratty {BIO 7445748 <GO>}

Good morning, ladies and gentlemen, and a warm welcome to the 2020 interim results presentation. I'm joined in the Cape Town studio by Wikus Olivier, our acting Chief Financial Officer, and Heinie Werth, the Chief Executive Officer of Sanlam Emerging

Markets. On line, we have Anton Gildenhuys, our Chief Actuary and Chief Risk Officer as well as other members of our Executive Committee.

I will begin by giving a very brief strategic overview and cover the context for the period in which these half year results were produced, before handing over to Wikus, who will take you through the detailed financial results. I will then talk about some of the priorities that we have in the business and the outlook for the balance of the year before opening up to questions.

The management team together with the board went through an extensive strategic review recently and the board has approved a new group strategy during August. We aim to become an African champion, strengthen our position outside South Africa, and our vision is to be the most admired financial services player in Africa. Our strategy, which is designed to achieve our vision is built on two legs. The first is becoming an African champion, and the second is strengthening our position outside Africa selectively.

In order to become an African champion, we will build a fortress position in South Africa, in partnership with Ubuntu-Botho and African Rainbow Capital. And we will secondly accelerate growth outside South Africa on the African Continent on a strengthened base of our business in the continent.

Outside Africa, we have an excellent business in India, in which we've been invested for 16 years and we aim to do more to build the insurance operations as a key part of the Shriram ecosystem. Execution of our strategy will be enabled by data and digital transformation, culture development within the organization, innovation and partnerships.

We continue to organize ourselves within business clusters, but we've split the South African Retail business formerly known as SPF, or Sanlam Personal Finance, into two clusters focused on two different client segments. And we've given the overall control of our South African Retail and corporate clusters to a new life and savings head in order to drive integrated customer propositions for our customers, to get cross-sell going between the different product houses, and to create some operating efficiency.

In South Africa, in order to build a fortress position, we are going to continue to grow our client base, but more particularly we aim to deepen the customer relationships that we have with a view to reducing acquisition costs over time and to improving customer loyalty, which obviously in the life business comes through as persistency, and then focusing on transforming our operating efficiency.

In Africa, excluding South Africa, we will continue to drive improvement within our existing operations, and we will also, from time to time bolt-on acquisitions to further strengthen existing operations in market. Outside Africa, in India, in particular, we aim to grow our insurance business.

In order to support our new strategic direction, we've announced some changes to our group executive committee, this will enable us to focus efficiently on the different line segments within South Africa to drive better client propositions and to drive digital and cultural transformation across the group.

I joined Sanlam on the 1st of July and I have to say I'm extremely proud to stand and merely represent the efforts of all of my colleagues. Against one of the most difficult backdrops in the group's history Sanlam has delivered a solid set of financial results for shareholders, while providing over ZAR2 billion of relief to customers participating in a joint effort with the Motsepe family to provide ZAR1 billion of direct COVID relief to communities and establishing the investor legacy funds which we seeded with ZAR2.25 billion to assist small and medium businesses in South Africa to recover from the COVID crisis.

We've also delivered a considerable amount of support into different African economies and communities. In 2018, Sanlam completed a transaction with Ubuntu-Botho, under which a ZAR2 billion facility was established to fund the investment by Ubuntu-Botho and African Rainbow Capital into selected financial services enterprises.

I'm pleased that we have completed recently an agreement in terms of which African Rainbow Capital will acquire 25% of Sanlam investments' third-party business, thereby creating the largest black-owned asset manager in South Africa.

Completion of the transaction is subject to regulatory approvals. But completion of this transaction will mean that only ZAR175 million of the original ZAR2 billion facility which expires in December 2020, remains unutilized at this stage.

New business growth during this half year was strong despite various lockdown conditions, but it was indeed adversely affected by the various lockdowns, especially in our Retail Mass segment in South Africa. After a dramatic initial fall off in March, we've seen a gradual recovery in new business as we've accelerated the digital enablement of our intermediaries, our partnership in Capitec and our direct distribution channels have helped to offset some of the impacts on our intermediated channels from all the lockdown conditions.

The hard work done by the Sanlam Emerging Markets management team has borne fruit. And the Saham underwriting performance recovered to 7.6% for the half year to fall slap-bang in the middle of our target range for the half year. The Saham business is an excellent asset. And with the various initiatives being driven by Heinie Werth and his management team, I fully expect this asset to deliver excellent growth and returns over time.

Despite the very difficult operating conditions that we experienced in this first half, we saw continued positive experience variances. We've used data analytics to manage persistency experience in our business and we've seen only a minor deterioration in persistency and extremely strong premium collection experience. Premium relief was provided to customers, but we have subsequently seen most of those clients to whom this relief was extended, resuming premium payments.

We have strengthened our lapse assumption to allow for a 5% future mass lapse experience in the light of the weaker economic conditions that we are now experiencing and the time period for which the tough economic conditions could continue to prevail. However, this impact our group equity value, but has absolutely no impact on our operating profits for the half year since our policy at Sanlam is to eliminate negative rand reserves in the valuation of our liabilities.

Our solvency ratios have remained very strong throughout the half year, demonstrating the strength and the resilience of the Sanlam Group. Cash earnings remains strong albeit at a lower level than last year and our dividend policy remains intact. We have estimated that without the direct COVID impacts during this half year, our net result from financial services would have been 18% up on previous year against the reported decrease of 22%. I'm extremely pleased with this result.

The difficult environment that the group has operated under since March has resulted in several negative operating result impacts, which totaled more than a ZAR3 billion impact when compared to the first half of 2019. These include and I'm going to list four different areas in which we had severe impact making up that ZAR3 billion.

The first was credit provisions in Shriram, Lebanon and our South African Retail credit book, totaling some ZAR690 million. Secondly, credit spreads in our corporate credit book in South Africa as well as some defaults on domestic corporate credit amounted to ZAR554 million, but please note that this is after allowing for some of the credit spread mark-to-market losses going through a gate.

In the business continuity insurance provision within Santam, our after share tax -- our after tax share of that those provisions amounted to ZAR581 million. And then finally, we had large unrealized mark-to-market losses arising from poor investment returns on the Saham float and this amounted to ZAR145 million.

Given the decline in the share price of Shriram, the situation in Lebanon and the deterioration in the economic outlook for the African continent, we have impaired the value of both the Shriram and the Saham assets by over ZAR7billion. Wikus will provide more detail on this when he covers the financial results.

Sanlam have been invested in Shriram for 16 years, and this is an excellent company with a good ecosystem. However, the COVID crisis severely impacted the consumer credit side of that business, which is indeed the entry point for most customers and the source of most insurance business written within Shriram.

As repayment holidays lift in the credit business there, we in due course expect the business to recover and in time we will continue to invest in growing the business. I'm pleased to say that the group responded very well operationally to the various lockdown conditions and the turbulent market conditions experienced globally. Sanlam moved rapidly and effectively to remote working. Our liquidity and capital strength was evident throughout the period of turbulence and the business responded very quickly in order to support clients and broader society.

New business, particularly life new business through intermediated channels was severely impacted by lockdowns. The business had to accelerate digital enablement of intermediaries and the new business has gradually picked up post April. I'll give you some more detail on that when I come back after Wikus.

Investment markets were initially depressed by the COVID pandemic, subsequently recovering. Furthermore, the Indian credit businesses have seen significant share price declines given the repayment holidays applicable to those businesses. The group results were negatively impacted by lower fees on average asset levels, but were heavily impacted by negative investment returns on the Saham float, which is relatively large when compared to the gross written premium of that business, and whose portfolio has a very heavy weighting to both the equity and property markets in Morocco.

Credit risk has played the largest part in determining this set of financial results. Credit spreads have not recovered to nearly the same extent as the equity market and this has impacted our operating results through the mark-to-market losses that we've had to post. Furthermore, we've had to significantly increase retail credit provisions in both India and South Africa as well as credit provisions in South Africa, and we have seen some corporate defaults.

We have not seen any material negative mortality or morbidity impacts at this stage and the COVID impacts have been much more economic than health-related when it comes to our results. Credit impacts, the business continuity provision at Santam and the negative investment returns in Morocco are all driven by economic factors.

I will now hand over to Wikus to take you through the detailed financial results. Wikus, over to you.

Wikus Olivier {BIO 20074722 <GO>}

Thank you, Paul. Good morning, ladies and gentlemen, and a warm welcome from me as well. As Paul already mentioned, COVID-19 has been the theme of our results in the first half of this year, impacting on all of our key performance indicators. But through the period, our operations and also our solvency remained resilient as I'll highlight in later slides.

Just looking at operating and underwriting environment first from an exchange rate perspective, we benefited from a weaker rand which had a 1% positive impact on our net result from financial services and also increased our return on group equity value by 5%. From an economic basis perspective, higher long-term interest rates in South Africa and also in a number of our other markets combined with lower future investment return assumptions in our non-life businesses had a 3% negative impact on our RoGEV for the period and also decreased the growth in our VNB by 4%.

From an underwriting perspective, Santam did very well to achieve an underwriting margin of 4.3% for the period, despite the more than ZAR1 billion COVID-19 provisions that I had to allow for in their results. From SAM's perspective in the GI businesses, the underwriting margin improved from 5.5% to 7% in the period, which isn't a highlight for us. Weaker investment markets with negative investment returns being earned in South Africa and across many of our other markets unfortunately had a ZAR1.5 billion negative impact on our EV investment variances and also reduced the return on the same GI insurance funds from plus 14% in 2019 to just 1.7% in the first half of 2020.

Looking at the impact of COVID-19 on our results. First, on new business volumes. If I compare the second quarter of 2020 to the first quarter, excluding Sanlam Investment Group that was awarded a few large new mandates in the second quarter, new business volumes was about 16% lower with the life business in particular negatively affected by lockdowns in a number of our countries. General Insurance business and also investment business was more resilient. The Santam lower volumes in the second quarter included in the 7% is also the premium relief that they provided to their client base.

From an operational earnings perspective, Paul already mentioned, compared to the first half of 2019, those specific earnings components impacted by COVID-19 had an overall ZAR3 billion negative impact on our results, of close to ZAR2 billion coming through on the net result from financial services line and also a turnaround in the net investment return and in our capital portfolio from more than ZAR400 million in 2019 to a negative ZAR800 million in the first half of 2020. Included in ZAR800 million is ZAR716 million increased expected credit loss provision that we had to make in respect of our Lebanon exposure.

Just looking at more detail on the impact on net result from financial services, Paul covered most of these impacts already in his introduction and I'm not going to repeat that. Maybe just also to add within Sanlam Personal Finance, also a negative impact of ZAR270 million with the majority of that relating to increased credit provisions in the Sanlam personal loans book, given some deterioration in arrears in that book and also intermediary support of some ZAR100 million that SPF provided to the intermediaries whose income was negatively affected by the lower sales volumes in the second quarter.

I'll get into more detail on the return on group equity value in later slides, but just to highlight that as you can see all of our businesses were negatively impacted by COVID-19 with a significant reduction in RoGEV with the overall group return declining from 5% in 2019 to minus 4 % in the first half of 2020.

Looking at some of the key performance indicators. Paul already highlighted 22% decline in net result from financial services. But if I strip out the impact of COVID-19 that was reflected in the previous slides, it actually increased by 18%, which is a solid result in the first half of this year.

Similarly, net operational earnings down 39%, but excluding the impact of COVID-19 it was actually up 17% on the first half of 2019. New business volumes, definitely the highlight for the period up 40%, supported by strong investment business flows at Sanlam Investment Group, SIM and also Sanlam Corporate. And also a highlight from my perspective is the fact that the foremost Sanlam businesses in Africa in total exceeded their targets for the period.

From a group equity value perspective, unfortunately both actual RoGEV per share at minus 4.6%, and also adjusted RoGEV per share that excludes market volatility at minus 0.9%, underperforming against the hurdle for the period, which was 6.4%. And I'll also get into more detail in further slides.

Just looking at cluster contributions to the results from a net result from financial services perspective, minus 22%, but as I mentioned up 18%, excluding COVID-19 and all of the clusters contributing to the 18% growth, with good support from all of the major business lines. New business volumes up 40%. And as you can see on the slide, all of the businesses also contributing strong growth. The exception is Santam at only 1% growth in net earned premiums, but on a gross written premium basis for the conventional business, they increased that by 6% excluding the premium relief that they provided to clients, which is a very good result given the current economic climate in South Africa.

From a VNB perspective, VNB down 29% and which is directly related to the lower life business volumes in the first half of the year and also a change in mix due to lower margin products.

Return on group equity value. As I mentioned, both actual RoGEV and adjusted RoGEV underperforming the hurdle rate by 11% and 7.3%, respectively, impacted by negative investment variances, a strengthening in our economic and operating assumptions and also a write-down of the Lebanon valuations to 0 given the current economic climate in Lebanon. Lower listed share prices of Santam and also our listed credit business in India also had a negative impact on returns for the period. That was partly offset by a positive from foreign currency translation gains due to the weaker rand.

Just looking at the components of group equity value earnings, just highlighting a few numbers in this slide. First, I want to highlight, the positive is the experience variances at 425%. Included in there is a negative ZAR317 million credit spread variance relating to the Sanlam specialized finance business. If I add that back, experienced variances amounted to close to ZAR800 million, which is an improvement on the prior year. And I think, in current conditions, really a solid result.

Assumption changes unfortunately detracted more than ZAR2 billion from adjusted RoGEV with a majority of that relating to the strengthening in persistency assumptions in the life insurance book and also related strengthening in the maintenance unit cost prices. That contributed to adjusted life earnings of ZAR2.3 billion.

On the non-life side, the adjusted RoGEV amounted to a negative ZAR2.9 billion with the majority of that relating to negative returns coming through from lower valuations in teh Sanlam businesses and also the Shriram Capital business in India due to the lower listed share prices. Adjusted RoGEV amounting to a negative ZAR860 million for the six months. Moving from adjusted RoGEV to actual RoGEV, investment variances and changes in economic basis adding more than ZAR10 billion negative earnings for the period with ZAR1.8 billion coming through on the life side and close to ZAR9 billion coming through on non-line life businesses.

ForEx and other which is a positive of ZAR5.5 billion, includes ZAR6.5 billion of exchange rate differences which was partly offset by the write-off of goodwill relating to the FBN acquisition in Nigeria of some ZAR700 million, contributing to a negative actual RoGEV of ZAR6.1 billion for the period or 4.3% in nominal terms.

Looking at the solvency position, the strength of the Sanlam balance sheet was evident throughout the COVID-19 turbulence, staying well within the target range during the six-month period and ending at the end of June towards the upper end of the target range. The decline in the group solvency ratio from 211% to 187% is largely attributable to the payment of the Sanlam dividend in the first half of the year of more than ZAR7 billion, and then also the decline in the Sanlam life coveraged ratio from 206% to 201%.

Discretionary capital. The only major transaction that we concluded in the six months was the acquisition of the remaining 65% stake in the Nigerian businesses for some ZAR1.3 billion, but that was fully funded through a debt issuance with no net significant impact on discretionary capital, which ended at ZAR264 million at the end of June. This is lower than our target ZAR2 billion to ZAR3 billion war chest that we would like to keep. But just to note that we do have substantial funding sources available through the disposal of non-core investments. Our debt exposure is also well below that of our peer group. So we do have the option to raise further debt.

I mentioned in previous results announcement, that we will see a release of -- a significant release of reserves under IFRS 17, all of which we would not have to maintain in the IFRS 17 environment. And of course also adding to discretion capital is any excess investment return that we own on the Sanlam life capital portfolio.

Just moving to the cluster performance, a few highlights. Sanlam Personal Finance new business volumes up 8% for the period, largely due to Glacier increasing its contribution by 10% with fairly good demand for its annuities international products and also money market funds. Sanlam Sky, down 14%. It's a combination of more than 30% decline in the more traditional channels, which was severely impacted by the lockdown environment in the second quarter of the first half, but with Capitec actually continuing to do well, increasing its sales by 9%, despite Capitec also being affected through closure of branches.

Recurring premium business down 11%. That's a net effect of very strong growth in the direct channels, Sanlam Indie and MiWayLife in particular increasing new business by 80% but with the traditional sales being down on last year. Savings volumes in particular declined by 17%.

Net flows up 85%, is essentially reflective of the strong new business volumes within Glacier. Net value of new life business down 28%, reflective of the geared impact of lower new life business volumes and also lower volumes within Sanlam Sky, which is the more profitable line of business within SPF.

From a net result from financial services perspective, down 12% on last year, but actually up 6%, excluding the COVID-19 impact and also the prior year tax adjustment of ZAR70 million at Sanlam personal loans. We saw within the SPF business very strong growth in risk business and also within the entry-level market which grew its contribution by more than 20%, excluding the COVID-19 support provided through to intermediaries, but this was partly offset by a 4% decline in profit from savings products, given lower assets under management in the period.

Sanlam Emerging Markets, stellar new business growth of 35% despite lockdowns in a number of each countries as well, supported by large new investment mandates in Namibia and Botswana and also a welcome improvement in Kenya, which achieved new investment business sales of ZAR1.7 billion in the first half of the year. Very positive also from a general insurance perspective, as I mentioned, exceeding the targets for the period. And Sanlam increasing its general insurance premiums by 10% despite the lockdowns and also deliberate slowdown in new business to focus on the quality of business written.

On this slide, similar impact on VNB than SPF, down 24% due to 11% decline in life new business volumes across the businesses. But from a net result from financial services perspective down 28%, but up 27%, excluding COVID-19, to a large extent driven by improvement in the general insurance underwriting margin, which improved to 7%, with Saham Finances coming in at 7.6%, as Paul already mentioned.

This slide just provides a summary of the general insurance and reinsurance result across the main regions. And as I mentioned, increasing from 5.5% to 7%, with both Southern Africa and North and West Africa and recording substantial increases with the Morocco motor book benefiting from lockdown and also an absence of large catastrophe claims in the first half of this year, apart from a few fire claims in Cte d'Ivoire. This was, unfortunately, to a large extent offset by lower return on insurance funds declining from 14% to 1.7%. And you can see at the bottom of this slide, most of that coming through from the Saham business which declined from 12% return in 2019 to a negative 2.8% return in the first half of this year.

Other international, you'll also note the underwriting margin declining from 19% to some 11%, and that's largely due to a high base in India, which included a release of third-party reserves in the first half of 2019.

Just comparing Santam and Saham margins in particular, as noted before, the Saham and Shriram General Insurance book are exposed to longer tail lines of business compared to Santam, so the level of float and hence also the return on float is a much more pronounced portion of their earnings in the general insurance side. And that's reflected in the target return on insurance funds margin which is only 2.5% for Santam, but 6% to 9% for Saham.

Looking at the impairment of the same operations. Unfortunately due to the lower valuations of the Saham businesses and also Shriram Capital in India, we had to raise impairments of ZAR7.6 billion in the first half of this year, with ZAR5.8 billion of that coming through Saham, and we provide the split for you on this slide. And you can note that the majority of that is coming through from the Lebanon write off and also -- we've written also off most of the premium paid at the acquisition of Saham at ZAR2.7 billion with the ZAR2.7 billion and also the ZAR1.9 billion impairment last year related to the COVID-19 environment.

And the Shriram Capital impairment, as I mentioned, is largely due to the lower listed share prices. Of the ZAR7.6 billion, if you look at our detailed results, ZAR7.1 billion of that is recognized within the same earnings base and Santam accounting for more than ZAR400 million of that for its participation in these businesses.

Looking at Sanlam Investment Group, from a net investment business flows up 9% on last year, which I think is a stellar performance in the current conditions supported by very strong institutional inflows, which was partly offset by lower retail net flows. But we've also seen a welcome turnaround in the wealth management performance.

Net result from financial services down 77%, but up 4%, excluding COVID-19, supported by the SA Investment business that increased its profit contribution by 14% on the first half of 2019 attributable to strong performance fees, good net inflows at Sanlam Multi-Manager and Satrix over the last year, and also a significant focus on cost control within all of the businesses.

From a Santam perspective, gross written premium increasing by 7%. If I look only at the conventional business included in that, up 4% due to premium relief to clients. And as I mentioned if I exclude the premium relief, gross written premium was actually up 6% within the conventional business. Santam as mentioned despite the large CBI claims provision that they put through coming in within the 4% to 8% target range for the period.

Sanlam Corporate had a very good first half of the year, with new business volumes up 42%, but this was largely driven by lower margin investment in life single premium volumes with recurring premiums down 29% and life recurring premiums in particular down 37% on the first half of last year, which is the main driver of the 65% decline in new life business written. Net result from financial services up 39%, with a good risk claims experience that started coming through in the second half of 2019, also persisting in the first half of 2020.

Over to you, Paul.

Paul Hanratty {BIO 7445748 <GO>}

Wikus, thank you very much indeed. I'm going to talk a little bit about the current priorities that we have within our businesses and then about the outlook for the rest of the year from our point of view.

Within our life and savings and asset management businesses in South Africa, our focus will be on profitable growth. We will work in collaboration with the Ubuntu-Botho and African Rainbow Capital to maximize the benefits of our empowerment credentials as we work to develop improved and integrated customer propositions. We're very much focused on deepening the relationships that we have with our customers by providing more product opportunities to our clients and to provide them in a way that makes more sense for our customers.

Furthermore, the digitalization of our business will be an important focus area for us and it's going to be one of the ways in which we're going to be able to deliver a more integrated customer proposition to the market.

Within Sanlam Emerging Markets, we have detailed plans to drive value creation. When we get to question time, Heinie Werth is with us and it would be very useful to get his detailed answers to any questions that you may have in this regard.

But the plans that we have include the following actions. Firstly, we are focusing very heavily on the quality of the business that we've written, as Wikus alluded to and then on to our claims and cost management within the business.

Both Wikus and myself have spoken about the impact of negative investment returns on the Saham float which is relatively large in proportion to gross written premium in this business and it's invested in equity and property markets to a very significant extent. So one of the actions we will take is to gradually rebalance this portfolio as equity and property markets recover over time. We are maintaining a very strong focus on operational processes, improving them and improving and tightening our controls and risk management.

We're also focused on rationalizing the portfolio and optimizing capital usage without -- within it. And then finally, we are going to continue to drive the partnerships that we have for acquiring new business in these markets.

At the group level, we're going to have a slight shift of emphasis at Sanlam. We're going to be focusing very heavily on the strategic delivery across the portfolio, and there's an enhanced focus on digitalization across the group and the ongoing development of human capital.

When we consider the outlook for balance of the year and for the medium-term, we are the first to acknowledge that the economic and operating environment and outlook remains extremely uncertain and challenging. It may take several years for African economies to fully recover to pre-COVID levels, meaning that our new business volumes, persistency, credit defaults and investment return outlooks all remain quite uncertain.

We do expect that we'll see lower rates of new business and higher lapses than during a pre COVID period for quite a period of time. We don't know how long that is, but we are expecting it to be for a significant period. However, the Sanlam Group intends to continue with the strategic development of our business and the group, despite this uncertain environment, are maintaining a very disciplined operational focus. We wouldn't normally do this, but given the time period that we're in, we are going to try and provide some indication of the trends that we have seen post June 30.

So in the top left-hand corner, there's a graph of credit spreads, which you can see having spiked up at the outset of COVID and lockdown have actually narrowed and they've continued to narrow post the half year, June 30, but they're still well above pre-COVID levels.

In the top right-hand corner, I've shown retail sales in South Africa. These have been gradually improving as you can see, for our different businesses month by month, but there's still over 20% below where we would ideally have liked to see them when we set our original budgets.

In the bottom left-hand corner, we've got a chart that shows you life new business across Sanlam Emerging Markets. And you can see there that it's gradually recovered after the initial periods of lockdown which have taken different forms in different countries, to get back to almost the same levels that they were at, at the beginning of the year.

And then in the bottom right-hand corner, we've graphed the mortality -- the death claims and the mortality experience that we have seen. When COVID lockdown was put into place, we did see a fall in mortality experience, and our mortality patterns have been quite consistent with those seen in population statistics. In July and the first half of August, we saw a big spike in mortality experience, which was quite worrying. But again, this absolutely mirrors what we are seeing in population statistics and we've subsequently in the back half of August and the beginning of September, we've seen a reduction as the excess debts have effectively moved out of the pipeline.

So we see an ongoing short-term recovery, but I would caution that the medium and longer term outlook depends very heavily on the extent of the economic recovery, how long it takes to happen, and how it takes shape.

So we will now open the floor to questions. And Sydney is going to direct the questions in this regard. So thanks a lot.

Sydney Mbhele {BIO 20089938 <GO>}

Thank you, Paul. Thank you. Wikus, in Cape Town. I do want to remind those on the webcast to please type up their questions, so that we can get them here and to give the executives the opportunity for them to respond to those questions. We don't seem to have any yet. But let's start with the telephone line and see if there's anyone that has joined on the telephone line who's got a question.

Questions And Answers

Operator

(Question And Answer)

A - Sydney Mbhele {BIO 20089938 <GO>}

Thank you, Paul Thank you, Wikus in Cape Town. I do want to remind those on the webcast to please type up their questions and so that we can kept them and to give the executives the opportunity for them to respond to those questions. We don't seem to have any yet, but let's start with the telephone line and see if there is anyone that has joined on the telephone line and who's got a question.

Operator

Thank you very much, sir. This question comes from Francois Du Toit of Ren Cap.

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

Hi, Paul, Wikus, can you hear me?

A - Paul Hanratty {BIO 7445748 <GO>}

Francois, we can hear you fine. Good morning.

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

Excellent. Thanks very much. Good morning. First question just relates to the way you've normalized for the COVID-19 impact. If you can maybe just take us through that very briefly. It looks like you've also adjusted the positives. In other words, there are better than expected claims ratios on the motor book and better-than-expected mortality claims, certainly up to 15th of June. And is that the case? And also, how have you adjusted for new business strain, which was also slightly lower than expected? Bottom line for me is I'd like to find out whether the normalized level, the level adjusted for COVID-19 is a fair level to project from for, say, 2021, if things return to normal by then.

Secondly, if you can maybe just give a sense of your -- the likely impact on cash profits and therefore distributions because I think you said you continue to set your dividends relative to cash, net operating profit, the impact of cash profits on things like credit spread movements, so unrealized losses really. Would that impact your dividend decision at the end of the year?

And then the third question relates to the Nigerian business that you bought like for ZAR1.3 billion. Looking at the EV statement, there looks to be about a ZAR940 million addition to life EV. Does it mean that you bought it at a premium to EV? Or is there non-life components in that Nigerian acquisition to consider as well? Those are my three questions, please.

A - Paul Hanratty {BIO 7445748 <GO>}

All right. Great. Sydney, I'm going to suggest you send those questions to Wikus. I'd just say one thing before we hand to Wikus. On your first question Francois, which is the adjustment, what you call normalizing for COVID. Of course, it's not an exact science. So we've tried to take line items that are very directly and specifically attributable to COVID. So things like the impact of different market levels on fees on assets, we've ignored things like that. But I'll let Wikus answer your three questions.

A - Wikus Olivier {BIO 20074722 <GO>}

Sorry Paul, we didn't get the questions down in Cape Town. So if you can perhaps repeat them for us?

A - Paul Hanratty {BIO 7445748 <GO>}

Okay. Sydney, do you want to -- you want to try or you want me to do it?

A - Sydney Mbhele {BIO 20089938 <GO>}

Okay. So the first -- so Wikus, the first question from Francois is we've normalized our -- we've estimated the impact of earnings as if COVID didn't happen. So effectively the ZAR3 billion. So Francois was trying to work out precisely what we didn't put in ER specifically he noted that we had put in some positive impacts, for example, on the motor book, which is in fact true. We did -- we didn't just show the negatives. We showed the positive impacts of COVID as well. He did also ask about new business strain in that context. And as far as I recall, we didn't adjust. So in fact, the lower new business strain would have helped us.

Your second question Francois was on...

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

Impact on -- of cash profit.

A - Paul Hanratty {BIO 7445748 <GO>}

Yes, of cash. So what's happened to cash earnings? And in particular, if you take mark-to-market losses on things like credit spreads, what impact does that have on cash earnings with the implication of course being the impact on distributions and dividends?

And then the third question was a question relating to the acquisition in Nigeria and the impact on embedded value which Francois, I didn't fully hear your question. So you may need to repeat it but we'll get Wikus to explain anyway. And if he doesn't answer it properly, just come back. So Wikus, if you wouldn't mind having a bash at those three issues. Heinie as well, of course, can help with the Nigerian one.

A - Wikus Olivier {BIO 20074722 <GO>}

Francois on your first question, Paul is 100% correct. The approach that we followed is to identify those specific earnings components that were severely impacted by COVID-19 and then showing the earnings number for both 2020, but also for the 2019. Because it wasn't in all cases, you couldn't identify whether it's 90% or 95% attributable to COVID. So we rather than not to overstate the impact, decided to show the line items with the comparative numbers.

And also to identify those areas like the motor book that was positively impacted by COVID. From a NB strain perspective, yes, a lower new business volumes did result in lower NB strain but that wasn't material from a group perspective.

On your second question, the cash earnings, the mark-to-market losses in particular within the Sanlam specialized finance business, what we usually do with those profits actually to treat them also as cash earnings, sort of net cash flow from the SEM business would be after allowing for the San Fin impact.

And then within FBN, we paid in total ZAR1.3 billion for the acquisition, of which ZAR925 million related to embedded values, and that included a number of close to ZAR700 million for goodwill that we've written off in terms of our EV methodology.

A - Paul Hanratty {BIO 7445748 <GO>}

Francois, can you just confirm that we answered your question? I'm sorry that we are becoming a post box here.

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

No, that's perfect. That's what I thought happened in terms of Nigerian acquisition. Thank you.

A - Paul Hanratty {BIO 7445748 <GO>}

Thank you.

A - Sydney Mbhele {BIO 20089938 <GO>}

Thank you. Let's see if we've got another question on the telephone line.

Operator

Yes. The next question comes from Michael Christelis of UBS.

Q - Michael Christelis {BIO 15233664 <GO>}

Good morning, guys. Can hear me?

A - Sydney Mbhele {BIO 20089938 <GO>}

Yes. Perfectly. Yes.

Q - Michael Christelis {BIO 15233664 <GO>}

Thanks for the time this morning. Three questions as well, if I can. Firstly, can you talk a little bit about your persistency change that you've made to your COVID embedded value? I see you're aligned for a 5% mass lapse. Does that include all investment products as well? It certainly looks like you've been a little bit more cautious on the some of your peers. And I'm just trying to get a sense of is it across the board? So it's all investment and life products? And to what extent -- maybe if you can just give us an idea of what your base case for GDP growth and macro deterioration for this year?

The second question relates to SAHAM and the underwriting results there. Now you've mentioned a pleasing underwriting result there in the midpoint of the target range. But given that, that book is mostly motor, particularly third-party motor in Morocco and Ivory coast. I mean, I wonder if you can give us a Sense of what you think the attritional loss ratio is excluding the impact of lockdown. Because clearly COVID had a very positive impact on motor across the globe. I just want to understand how much of this recovery do you think is a result of your management action versus COVID related?

And then lastly you mentioned right at the beginning that part of your strategic review that outside of Africa you've got that fantastic Indian operations and I don't disagree, but you made on mention of the Malaysian operations where we've seen very disappointing earnings over the last few years both in the life and non-life space. Can you maybe talk a little bit about what your thoughts are around the future of those businesses within the group? Thank you.

A - Sydney Mbhele {BIO 20089938 <GO>}

Good. Should we maybe start with the last question. Heinie there's a question around the Malaysian business. Can you give us a sense in terms of what the future holds for that business. We've touched on other regions or areas of our footprint. What sort of sense do you give behind that?

A - Heinie Werth {BIO 7529974 <GO>}

Thank you, Sydney. I'll start on Malaysia, Michael, our focus as Paul have said, is India going forward. In the meantime, we are running Malaysia as best as possible. And I have to say since we appointed Prasheem Seebran as CEO of our Malaysian business, things have really gone better over the last year. Even if we look through the cycle now of COVID, actually they still succeeded to achieve growth in various areas.

So we are quite comfortable with the progress. But as part of our holistic group strategy, it remains to be decided on the future of some assets outside Africa. I don't I know, Paul, I can also take the question on Saham, the underwriting margin and...

A - Paul Hanratty {BIO 7445748 <GO>}

Yes, I think it's -- yes, you take that as well Heinie. I think it's worth pointing out the lockdown was very different in different places. So would not have been an identical impact in Morocco and Ivory Coast to South Africa for example. But you answer that (pretty good).

A - Heinie Werth {BIO 7529974 <GO>}

Yes. Michael, if you look for the results, there were -- Wikus have shown, you will also know that lots of our profits go through what we call Southern Africa, given the reinsurance that we do through Saham via our Mauritius entity. It's very difficult to exactly split the two. And I have to say Morocco was one of the most severe lockdowns. I mean even this week, Casablanca is in lockdown again post-holiday season. And yes, we had different impacts in different markets. When you look at SAHAM, you should also understand that motor is big but in the whole portfolio, if you split between the different -- the five core lines, all of them are between 20% and 30%. So motor is just one.

What we have tried to do is to sufficiently allow in our June results -- also we didn't take all the benefit of lower claims. So we've tried to be prudent as well in keeping reserving for the second half of the year. So it was not the case lower claims show a good underwriting margin. But you see there is really the effort of all lines of business, including motor, and allowing, I want to say, for some conservatism in our reserves also for the second half of the year and not taking the full benefit of the underwriting cycle on motor.

A - Sydney Mbhele {BIO 20089938 <GO>}

And then, thank you very much, Heinie. We've -- we are going to come back to the first question, Paul, on persistency.

A - Paul Hanratty {BIO 7445748 <GO>}

So Michael, if we -- I'm probably going to hand over to Anton in a minute to check that I'm A correct; and B, to give you a more technically correct answer. But when we considered the impact of persistency, and you'll recall, we had to do this not yesterday, but some weeks ago, if not months ago, we had to make these decisions. We're looking forward into extremely tricky funnel of dart. And we at best, are making educated guesses as to future persistency and future economic recovery.

And even as we sit here today, our base case on economic recovery is no different to the consensus of economists and ther's probably quite a widespread in there of how people see things recovering.

I mean I think I've said in -- when I was talking earlier that we see quite a long period of time in order to get back to where we were beforehand. So when we looked at the situation, we felt it would be prudent to make the assumption that all of our business which is in the life wrapper, that we could allow for a 5% mass lapse. Now we could have tried to finesse this with all kinds of clever assumptions that would mimic an assumed pattern of recovery in the economy.

But honestly, that would just be applying, science far beyond what we were able to really forecast. So we've made a, if you like quite a simplistic and perhaps prudent assumption but it's a simple assumption for us to make. And I think given how long and deep this recovery is probably going to be to unfold I don't think it's an unreasonable assumption. But Anton, you might want to add a little bit more color. Maybe I'm being unfair to the science that you applied.

A - Anton Gildenhuys {BIO 4058523 <GO>}

Thanks, Paul. Good morning, Michael. No, I actually fully agree with your view on being spurious in terms of modeling this kind of thing. So a narrow model adjustment is the approach that we've taken. Basically we've simply gone through the entire COVID business book. And everything that can lapse, we've allowed for a lapse, whether it's a savings product, a risk product, an umbrella scheme, a group risk and so on. The only product I didn't allow the labs with of course retirement annuities. There we've allowed for paid-ups and then guaranteed annuities. So those products can't lapse. So those we've kept in force.

I think it's also important just to mention that the reduction in units also had a second-order impact on our maintenance expense assumption in some businesses, not all of them. Because of good cost control, some businesses didn't have to adjust for that as well. So you can see another ZAR250 million assumption change on the expense line as well, but that is purely driven by this managed laspe scenario.

Q - Michael Christelis {BIO 15233664 <GO>}

Awesome. Thanks very much, guys.

A - Sydney Mbhele {BIO 20089938 <GO>}

Great. Thank you. Thank you, Anton. Thank you, Paul. Let's see, if we still have any other question on the line.

Operator

Yes, sir. We have the next question which comes from Warwick Bam of Avior Capital Markets.

Q - Warwick Bam {BIO 19921967 <GO>}

Hi, everyone. Thank you very much for the time, four short questions from my side. Just the first on your Sanlam personal finance. New business growth relative to pre-COVID levels and thank you for the post year-end information. But when do you expect sales volumes to return to pre-COVID levels? On average your graph is showing that you're around 75% or so of your budgeted, new business sales volumes. So give us a sense of your outlook and timing with regards to recovery in sales? Sorry, I'll carry on with my questions. And then the corporate credit portfolio, just give us some thoughts on why you're comfortable with your provision for defaults and what that portfolio looks like that would be useful.

And then the Lebanon business you've written it to zero. Is it considered a going concern? And are you able to completely ring-fence the potential losses in that business? Thank you.

A - Paul Hanratty {BIO 7445748 <GO>}

Okay. So I'm getting old. Just remind me what the first question is on?

A - Sydney Mbhele {BIO 20089938 <GO>}

The first one is no personal finance and...

A - Paul Hanratty {BIO 7445748 <GO>}

And our new business...

A - Sydney Mbhele {BIO 20089938 <GO>}

When do we come back to pre-COVID...

A - Paul Hanratty {BIO 7445748 <GO>}

Yes, when do we get back. So Warwick, my view is that premium sales generally, if we had to have a mental model would be in line with GDP growth. So the question then becomes when do we think GDP will get back to pre-COVID levels in order for new business volumes to get back to pre-COVID levels. And that's extremely difficult to call. If one assumes that the economy today is may be running 10% below its capacity before we came in and here I'm talking purely about South Africa because you confined your question to South Africa. And if you think of normal economic growth rates, I think you can assume that it would take quite a few years to get back.

Now obviously, what I wish for would be something much faster than that. But if we are realistic it could take several years to see those volumes get back. Obviously, if they get back sooner that's going to be great. But we will certainly be working on the assumption that it's going to take -- it's going to be a long period of recovery as I've alluded to. So it could take two or three maybe even four years to get back I really pray I'm wrong, but that may not be the case.

And the second question was about...

A - Sydney Mbhele {BIO 20089938 <GO>}

The second one is corporate credit provision for default?

A - Paul Hanratty {BIO 7445748 <GO>}

Well, so the way we deal with this is that we go through every single asset that we have. We look at the situation pertaining to that asset. And we make suitable provisions in exactly the same way that we would do in a banking operation. So we think that the credit provisions that we've put in place in each and every asset are adequate. But again, it's -- if we saw a real setback in the economy, there could be some downside on that. But we fully provided on each and every asset at an individual level. I'm sorry, Sydney, just remind me of the...

A - Sydney Mbhele {BIO 20089938 <GO>}

And then last one is on Lebanon. We've written...

A - Paul Hanratty {BIO 7445748 <GO>}

Down.

A - Sydney Mbhele {BIO 20089938 <GO>}

The business to zero. Is it still a going concern?

A - Paul Hanratty {BIO 7445748 <GO>}

So the business is still a going concern. And you asked whether we were ring-fenced in terms of our liabilities. So Heinie will be able to perhaps add a little bit more detail or Wikus. But we do expect to pick up some claims. We do have reinsurance, so -- but we do expect to pay some claims as a result of the explosion in Lebanon. And obviously we could in theory, walk completely away from the business. There may be some reputational issues to that. But we've written it down because, practically, I think that, that is a sensible thing to do.

However, I think, hopefully in time, the economy will recover, and the business is definitely a going concern. So in a sense, there is only upside there, not down side. I don't know, Heinie, if you want to add anything to that.

A - Heinie Werth {BIO 7529974 <GO>}

No, Paul, I think you've answered it very well. We've got a great management team in Lebanon. And the industry is obviously working very closely with the regulator. And until all the debt restructuring in terms of the soveregin crisis are resolved, the business is a going concern. It's operating day-to-day. The Beirut explosion which was devastating cause some further issues. But again as Paul says, we're -- there is very solid reinsurance in place.

There's obviously claims in Lebanon in Saham Re and the rest of the group, but it's ring-fenced within our risk appetite. And yes in the end, we will back -- there's no obligation to back the company. But as Paul says that is a decision the group takes, but we are more comfortable that things will really pick up or improve.

A - Paul Hanratty {BIO 7445748 <GO>}

Thank you. Can I just ask Anton, do you need to add anything to my answer on the corporate credit, because you were very close to it?

A - Anton Gildenhuys {BIO 4058523 <GO>}

Thanks, Paul. There's basically two additional things I'd like to mention. The one is over and above the specific one-time provisions that Paul alluded to, we also have a portfolio provision on top of that to strengthen the total quality of valuation even further. So I'm also comfortable that the provision in total should be adequate.

The second important point, I think, is that we've got a very well diversified portfolio. As we've told you before, we've pulled up this portfolio using economic capital as a main direction or as a main parameter to determine the size of the different exposures to the different assets.

So we are diversified in terms of counter-parties, industries and so on. So that would also provide us with some resilience in terms of the downturn, because it impacts different industries to different levels.

A - Paul Hanratty {BIO 7445748 <GO>}

Thank you, Anton.

A - Sydney Mbhele {BIO 20089938 <GO>}

Anton, Thanks.

A - Paul Hanratty {BIO 7445748 <GO>}

Thank you, Anton.

A - Sydney Mbhele {BIO 20089938 <GO>}

Let's see if we still have any question on the line.

Operator

We have no further questions on the line, sir.

A - Sydney Mbhele {BIO 20089938 <GO>}

No more questions on the line. I do have a few that have come through from the webcast. Let me take the first one. What are the reasons for the reduction in the shareholders' funds net asset value in H1 2020? And is it Wikus or you, Paul?

A - Paul Hanratty {BIO 7445748 <GO>}

We'll get it to Wikus.

A - Sydney Mbhele {BIO 20089938 <GO>}

Wikus, will you take that one? What are the reasons for the reduction in the shareholders' funds net asset value in H1 2020?

A - Wikus Olivier {BIO 20074722 <GO>}

The biggest contributor to that would of course be the payment of the Sanlam dividend which was more than ZAR7 billion that we paid out in April. And then there will also be some impact coming through from negative investment returns on the capital portfolios, which was partly offset by foreign currency translation gains. But the biggest portion would be related to the dividend.

A - Sydney Mbhele {BIO 20089938 <GO>}

Anything to add to that, Paul? Great. Let me take the next question then on from the webcast. I note a reduction in interest-bearing assets in H1. What are the reasons for this?

I note a reduction in interest-bearing assets in H1. I think that the reference here Page 88, I assume from the book, what are the reasons for this?

A - Paul Hanratty {BIO 7445748 <GO>}

Okay. What I'm going to suggest we do is move on to the next question so that Anton and Wikus can find Page 88 and because it probably has to do with the management of our portfolio. But let's -- we'll come back to that one.

A - Sydney Mbhele {BIO 20089938 <GO>}

Okay. Let me go for the next one and then we'll come back to that one.

The next question is do you have a breakdown in the increase in equities for the shareholder fund in terms of geographic allocation, offshore versus domestic markets, that you could please share with us?

Do you have a breakdown in the increase in equities for the shareholder fund in terms of geographic allocation offshore versus domestic markets, that you could please share with us?

A - Paul Hanratty {BIO 7445748 <GO>}

Yes, we can. I mean Anton will share that in a minute. But again, let's give him some time to look it up. We haven't made significant changes in the half year. Are there any other questions?

A - Sydney Mbhele {BIO 20089938 <GO>}

Those are the only questions I have so far. And all the questions are referenced in Page 88. So once you are on Page 88, we should be able to deal with both questions.

A - Paul Hanratty {BIO 7445748 <GO>}

So Wikus and Anton, are you able to answer because otherwise we'll just take it offline? Do we know the identity of the person who has asked?

A - Sydney Mbhele {BIO 20089938 <GO>}

We can certainly get it from the administrator of the webcast and we should be able to get back if we can give immediate answer to that.

A - Paul Hanratty {BIO 7445748 <GO>}

Wikus and Anton, do you want to answer now? Would you prefer to take this offline?

A - Wikus Olivier {BIO 20074722 <GO>}

All right. I can maybe respond to the first question on interest-bearing investment on Page 88 is actually an increase in interest-bearing investments from ZAR235 billion to ZAR252 billion. Now that particular line item also includes interest-bearing investments that's held within policyholder funds. And of course, it's due to the weakening rand, translating the offshore holdings outside of South Africa to rand terms, those would have increased. And that's a majority of the increase in interest-bearing investments.

And that will be spread across all of our non-South African geographies. Because we did see, as I did in one of my slides, that they are underpreciated against all of the major currencies in the first half of the year.

A - Sydney Mbhele {BIO 20089938 <GO>}

Okay. And the second question, have we got any...

A - Wikus Olivier {BIO 20074722 <GO>}

Yes. I'll take that. I think the second question in terms of offshore equity simply the value of offshore equities in the rand increased significantly simply because of rand depreciation and offshore equity movements. So that would have increased the weighting of offshore equities on the balance sheet. There is an analysis of the required capital and the exposure to equities versus bonds and cash and so on in the disclosure. So you can see the exact breakdown of the required capital itself and the exposure to offshore equity there.

A - Paul Hanratty {BIO 7445748 <GO>}

Okay. So I think we've answered it basically. It wasn't a fundamental shifts in portfolio, but clearly, as the rand depreciated, the relative weight did increase. Sydney, so I think that -- does that bring us to a close of questions?

A - Sydney Mbhele {BIO 20089938 <GO>}

Yes, it brings us to a close of questions. No other question on the telephone line. We don't have any other question on the webcast as it stands.

I'm going to take the opportunity then to thank you, Paul, to thank you Wikus, for the presentation and that you've done with Paul. Thank you Anton. Thank you, Heinie. And we will now bring this to a close.

Thank you for joining us, to everyone, whoever you are, and I hope you and your families will remain safe during this very testing and difficult time. Take care.