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PRESENTATION

Paul Brendan Hanratty *- Sanlam Limited - Group CEO & Director*

(inaudible) and a very warm welcome to the Sanlam Investor Day, although it's 2 days. So welcome to the first day. And on behalf of the whole Sanlam management team, we welcome you to join us for what we hope is an opportunity to get to know us a little bit better and to get to understand the strategy of our business a little bit better.

The format for the next 2 days is that we're going to begin the day with a presentation that will cover the strategy of the group. And before I do that, I will briefly introduce and allow them to introduce themselves, the new member of our Executive Committee.

As part of the strategy presentation that will follow, we will go through some examples, very small examples, just to give you a flavor of some of the things that we're talking about so that you can get a sense of how the theory of the strategy turns into reality.

I'm going to ask -- it's quite a long presentation, will be slightly over 2 hours. And I'm going to ask that you do not ask us any questions during that presentation because we're very time constrained. If we have any time at the end, we will take a few questions, and I'm going to try and ask you to bias those questions towards economic issues because in the first session, we have Arthur Kamp with us, who is the economist at Sanlam, and he's best placed to answer those questions.

But any questions that you do develop during the course of the presentation on the strategy, you will have plenty of opportunity in the breakout sessions that will take place over the next 2 days to pose the questions to the relevant people. So please just keep a note of your questions and bear with us.

So that's our agenda. And I'm going to begin by introducing the new Exco members. I think it's important to say that we have a new Executive Committee in place at Sanlam. The purpose of putting in place a new Exco is to make sure that we have all of the capacity that we need in order to deliver on what we believe is a fantastic opportunity for this group to unlock value and to create new value.

So we found that especially within our existing clusters, we needed to divide up the old SDF cluster and creates a new -- split into 2 retail clusters so that we can give sufficient focus on what are quite different market segments.

We also have established, as you'll hear during our presentation, the need to get much closer cooperation between the different clusters. And so we had to strengthen the group operations in order to allow us to focus on a few things: on human capital development, which has been dealt with previously in silos but which needs to be dealt with across the group; on the data and digital initiatives that we're busy with, which are absolutely essential to be driven across the group and not within silos, if we're to avoid duplication and excess of cost and also to exploit the opportunities that we'll talk about during the day; and finally, to coordinate strategy in a much more focused way.

We've also taken this as an opportunity to allow some of our existing executives to take on new and fresh challenges to develop themselves, and we've taken an opportunity as well to increase the diversity of our Executive Committee so that we're better placed to deal with the market and the challenges and the opportunities and to understand the environment around us better than if we had less diversity.

I think it's really important that although we've made many changes and given key roles, actually, we've retained all of the experience and the corporate memory, just with a different concept. So it gives me great pleasure to introduce 5 new people, 2 of whom are with us in Cape Town today. Well, I should say Bellville, but in the broader Cape Town area.

So the first is Abigail Mukhuba, who joined us on the 1st of October. Abigail is going to be the CFO -- or is the CFO from the 1st of October and is taking over from Wikus Olivier, who was acting in that role and who has now taken up the role of Head of Strategy; and Lotz Mahlangeni, who is our Chief Risk Officer and Chief Actuary, and he's also just recently joined us and takes over from Anton Gildenhuys, who has taken over responsibility as CEO of the newly formed Retail Affluent cluster.

In Johannesburg, we've got Kanyisa Mkhize. Kanyisa takes over as the CEO of Sanlam Corporate, and she's joined us recently as well from the industry. Then Karl Socikwa is also with us in the Johannesburg office. Karl has been with Sanlam a number of years and previously ran the Sanlam Sky business. He's assumed the role of Market Development Head, and he's taking over all of the responsibilities that Temba Mvusi has had. Temba is retiring, sadly. And then finally, in Johannesburg, we've got Bongani Madikiza, an old friend, who is now heading up the Retail Mass business, and we'll hear from them as well.

So if I can just ask each person very briefly to introduce themselves. So Abigail, can we start? Ladies first.

Abigail Muelelwa Mukhuba - *Sanlam Limited - Group Finance Director & Executive Director*

Thanks, Paul. Good morning, everybody. I'm very excited to be joining the Sanlam team. I'm looking forward to working with everybody in the world with respect to the organization. But more importantly, hoping to work with the team to deliver on our investors and stakeholder expectations. So thank you very much.

Paul Brendan Hanratty - *Sanlam Limited - Group CEO & Director*

Yes. And I'm personally looking forward to you teaching me about IFRS 17 so I can finally understand it. Lotz, I wonder if we can turn to you and just ask you to introduce yourself as well, please.

Mlondolozi Mahlangeni - *Sanlam Limited - Chief Risk Officer & Chief Actuary*

Thank you very much, Paul. Yes, my name is Lotz Mahlangeni. I joined recently, as Paul has mentioned. I'm excited to join Sanlam for 3 primary reasons: one, Sanlam has got a long history and a rich heritage; and secondly, it's going into a new phase of its journey; and thirdly, I'm bringing a wealth and breadth of experience, which I believe that can contribute to the next phase of the journey, and I'm looking to lend over the next few years.

Paul Brendan Hanratty - *Sanlam Limited - Group CEO & Director*

Great. Lotz, thanks a lot and a warm welcome. Kanyisa, I hope you can hear us in Johannesburg.

Kanyisa Mkhize - *Sanlam Limited - CEO of Sanlam Corporate*

I can.

Paul Brendan Hanratty - *Sanlam Limited - Group CEO & Director*

But is it possible you could just introduce yourself briefly as well?

Kanyisa Mkhize - *Sanlam Limited - CEO of Sanlam Corporate*

Sure. Good morning, everyone. My name is Kanyisa Mkhize. I've joined recently from the industry. I'm excited to join Sanlam, I think primarily because of the team that I'll be working with. I look at it as an opportunity to learn and to grow. Yes, that's pretty much it.

Paul Brendan Hanratty - *Sanlam Limited - Group CEO & Director*

Fantastic. Thanks very much, Kanyisa. I'm not sure -- I was (inaudible), but I didn't get to see you. But anyway, thanks a lot. Karl, I'm hoping that you're online in Joburg as well. Can we just hear from you briefly, please?

Karl Socikwa

Thanks, Paul. Karl here, I'm online here. Good morning to everyone. Karl Socikwa, I -- as Paul indicated, I'm the Group Executive, Market Development. I take over from Mr. Temba Mvusi, who's long in the tooth in the company and very well known to everyone. But it's -- the role I take over is -- actually, it's an expanded role in line with what really Paul wants to -- would like to build in the business. So it's not just market development. There's really a whole lot more that we've built into the market development portfolio to support the -- all of the clusters of the business and in really positioning Sanlam, not just in word as the leading insurer in the country but also indeed as well in terms of what we do as a market leader, as a thought leader, both domestically in South Africa and in all of the other markets and countries in which we operate as well. So I'm very excited to be joining the group Exco.

I've just come out of just over 3 years running what was called Sanlam Sky, which is now Retail Mass under the able leadership of Bongani. So just spent, in fact, exactly roughly 40 months in the trenches really cutting my teeth in terms of what it entails to run an insurance business. Very excited to be joining this new team as part of the group Exco. Thank you.

Paul Brendan Hanratty - *Sanlam Limited - Group CEO & Director*

Well, thanks very much. And talking of Bongani, Bongani, if you're online, would you mind just saying good morning to everybody?

Bongani Madikiza - *Sanlam Limited - CEO of SA Retail Mass*

Good morning, Paul. Good morning, everyone. My name is Bongani Madikiza. I'm excited to have an opportunity to build a very big retail mass business in the country. And our aim, obviously, is to be the leading retail mass business. But also, it is just to be able to build an ecosystem for customers that is going to allow stickiness and give value to both the shareholders and the customers as we move forward into a very challenging operational environment in the next 10 years. Thanks, Paul.

Paul Brendan Hanratty - *Sanlam Limited - Group CEO & Director*

All right. Bongani, thank you very much. So I'm going to now begin talking a little bit about our strategy. And I'm very conscious that everybody on the call will have listened both to our interim results and to various other meetings that we've had where we've spoken about our strategy.

So I'm going to try to talk for a very short period of time about really what's different to the previous strategy of the Sanlam Group. The strategy that was in place for a number of years, I think, is very well understood by the market and by investors and which has actually stood us in good stead.

So when we conducted the review of our strategy, it was a question of saying, where do we go? Where do the opportunities lie? And how do we create value over the next 5 to 10 years in a very meaningful way on the basis of what's really a fantastic platform? I'm going to just emphasize what's different as opposed to going through all of the pieces. And you'll then get a flavor from various members of the Executive Committee as to some examples of what we're beginning to do to execute on these areas.

I think one of the most important things that we've spent time on, and it may seem a very insignificant (inaudible) to investors, but it's to spend a lot of time thinking about what our purpose is. We want to be a purpose-driven organization because we know that whatever changes in the world around us, whatever obstacles we face, if we've got a very strong purpose driving the organization, therefore, carry us through, whereas a lot of the other more rational activities around formulating strategy can become very tough to deal with without a real burning purpose in every single employee that we have.

So we've gone back and looked at the history of Sanlam and thought about where we've come from, why we were created in the first place. And we've looked to the future, and we've drawn on the experiences of our staff and our management over time. And whilst our vision is to distinguish ourselves as the most admired financial services company in Africa, when it comes to the purpose, we think our purpose remains pretty much the same as it has always been. It's really to empower current and future generations to be financially confident, secure and prosperous.

And we think that by focusing on the fact that we look after not just today's generations but tomorrow's generations, that really talks to the whole issue of sustainability and resilience. It talks about planning for the long-term future, not allowing short-term issues and obstacles to get in the way of creating meaningful financial plans that will help our customers right through into the long term and beyond their own lives and to take care of their families.

We think it's incredibly important that our customers are financially confident. That doesn't mean they have to be financial experts, but they need to be confident that once we've provided the advice and the solutions to them, that they can conduct their lives in a manner that they have a high degree of confidence that their financial affairs are being managed as well as they can.

We do think as well that it's incredibly important that people are secure, and actually, one of our jobs is to help people to navigate exactly the kind of time period that we're currently in. So it's difficult as an environment that we find ourselves in currently. Actually, this is the time when we should really shine as a company because this is the time when we deliver to people and make them feel more secure about their future.

And then we want to make people prosperous. And prosperous means different things to different people. Of course, for most of the people on this call, prosperous really is prosperous. But even for our poorest customers, prosperous for them may be putting 3 meals on the table every day and being able to educate their children. And that is still prosperous in our minds.

So we're very happy that we found a way that we can communicate with our people and actually get them to be fired up. In a world of complexity, there is no way that we can run this with a centralized organization, sending out instructions to thousands of people right across Africa and beyond. So we really need people to have something deep within them that they understand what their purpose is and can then execute it.

I had quite a lot of questions after the interim results about what our approach is to allocating capital. So I thought we might talk a little bit about when we went through the strategic review, how did we approach the whole question of capital allocation.

When we went through our strategic review, we focused on how would we grow the group equity value of the Sanlam Group at the highest possible level that we could without taking silly risks. And we look to see and to measure value creation in our strategy through the lens of group equity value or the return on group equity value.

And for us, it's actually relatively simple. Through our strategy process, we assess the different opportunities that are realistically presented to us given the kind of resources and the kind of skills that we have. And where those opportunities are seen to create a return on group equity value that is higher than what our shareholders would look for, then it makes sense for us to invest in the business for the long term. So we will develop the business and accept that it will take a long time for those returns to come through. However, in areas where we see opportunities would generate poorer returns for shareholders, below our capital rates, it makes much more sense for us just to optimize our capital structure. And that can be done, as you know, relatively rapidly.

So we've had quite a number of questions about buying back shares. Would we do it? And the answer simply put in this particular environment at this point in time, the answer is no because we have significant opportunities to invest in the business for the longer term and create very significant value for shareholders. But with a different opportunity set and return profile, of course, we would then look to very different set of actions.

And briefly, when we went through our strategy review and we looked at the different areas in which we could generate significant new group equity value for shareholders, we worked out that about 60% of our opportunity lay within South Africa. So that may come as a surprise to people, but in fact, a lot of the opportunity is very close to our existing business on our existing markets.

Then we saw around about 30% of the opportunity for creation of value lies within Africa, out of South Africa. And finally, about 10% of the opportunity lies within India for us. So we focus our strategic efforts roughly in those proportions; never, of course, precisely, but roughly in those proportions. And we'll talk a little bit about that today.

I'm hoping that over the course of next 2 hours, you will get a strong sense of where we see those opportunities within the 3 buckets and you can get some sort of feel (inaudible) opportunity set is.

I'm going to talk a little bit about Africa. So I think Africa is beset by problems of very low integration as a continent, very poor trade relations, but this is something that's growing. So if you compare us to the U.S. or to the European Union, it's night and day, but there are many reasons for that. I mean one is the economies themselves are pretty weak. Many of the economies have a very limited set of industries. And then infrastructure is a vast obstacle. And of course, there are other reasons such as governance and politics and so on that come into play as well. But we do see a gradual improvement in this regard, and that does hold out quite a bit of hope.

Africa is also receiving increasing investment flows into it as people start realizing that the last 1 billion people or the last 1 billion customers on the planet actually live here. And so large corporations around the world are focusing on how to invest.

And then, of course, technology. Technology finally allows us the opportunity to leapfrog. So I'm sure many of you have traveled through Africa and seen the dire infrastructure that one is faced with. But if you think of a very simple thing such as banking now in Africa, whereas it would be inconceivable to roll out bank branches, we now have the cellphone as the ATM bank branch and communication tool.

And we're very close to the tipping point where the cellphone sells -- the smartphone sells for $20. And when we get to that point, actually, we'll be in a whole new world in Africa for business. So I think these are some of the encouraging signs that we see. So if you take a long enough view on Africa, these things are what are going to drive growth.

Then together with that, you've got the issue of very low penetration rates for our products in the different countries. So you'll see there, South Africa, we've always known as one of the highest penetration rates at nearly 17% for insurance on the left-hand table. But if you look at all the other countries, they've got really low penetration rates.

And then when you start looking at the economic and demographic dividend for Africa, we've got a very rapidly growing population. That does bring us challenges, of course, but we will have a growing number of consumers. We have an unbelievably young population. That's tremendous because actually it produces labor and consumers.

We've got an increasing move, as we do everywhere else in the world, to urbanization. And there's absolutely no question in my mind that if you factor together the demographic dividend, the rising levels of wealth and low rates of penetration, together with the opportunity created by technology to reach people, we are really sitting in the long term and one of the greatest opportunities of all time for investment. Now that may not yield a great deal of profits or profit pools in the next 5 years, but if you take a 20-year view in Africa, it's absolutely vital that this company is positioned very well to take advantage of this over the longer term.

We built Sanlam over 100 years. There's no point in getting stressed about the next 5 years. We need to focus on the longer term. And so for us, it's very important that we invest in Africa. We see this as our home.

So if we talk about what has not changed, that might be the easiest place to be (inaudible) with the strategy. So from a geographic point of view, we're largely unchanged at a headline level. For South Africa, we've -- our strategy review has confirmed that South Africa must be a fortress for Sanlam. The cash flows that come out of the South African business are extremely important to our equity story. We've got a tremendous market position here in almost every segment. There are obviously some segments where we like to be stronger, but there are also excellent opportunities for us, some of which we hope to share with you today, with a relatively low risk of execution when we look at the risk of execution of moving outside of South Africa.

Then if we look at Africa, outside of South Africa, we've confirmed that to be a significant opportunity for us given the growth prospects and so on that I spoke about under the previous slide.

And then finally, India, also our focus hasn't changed. We've been invested in India for 16 years into a really excellent business. It's an ecosystem built in large cities, but not the main cities, and we believe a fantastic opportunity for long-term value creation for shareholders given the growth of India, the strength of this particular business and the strength of its brand amongst Indian consumers.

So if we talk about what has changed within South Africa. So we'll talk more about this later, but the first thing is that we really need to strengthen the relationships that we have with our customers. We've got a relatively low share of wallet against the benchmarks that we've looked at of our -- some of our competitors and (inaudible). And we know that we should have, for example, many more products per customer than we currently have.

We also see technology as a way to drive improvement in customer experience. And of course, if we can improve the customer experience, that gives us a chance to do more business with those customers, to retain customers for longer and thereby improve the customer relationship that we have.

We've also had a somewhat limited product set, surprisingly for a group. Often when we talk to investors, they talk to me about the diversity of the income streams and the businesses that Sanlam Group has. That's absolutely true when you look at it as an investor. Sadly, when you look at it as a customer, we don't get to you with all our products. And in fact, if -- for those of you, sadly, who tried to engage with our website, you'll find it very difficult to navigate your way through and get to the different propositions in any sort of integrated way. So a big challenge for us is to bring all of the product sets, all of the advice options that we have, together in a simple and integrated way for our customers.

We're not doing this just because we want to hit some arbitrary benchmark that's out there in terms of customer relationships. It's totally driven by the notion of creating value for all stakeholders. But we know from the world of financial services that if you have very strong relationships with customers, you actually drive down acquisition costs, and acquisition cost is one of the most critical areas in our business for profitability. You drive down acquisition costs because your existing customers are more likely to do business with you if they have a good relationship with you.

And then, of course, the longer our customers stay with us, the more loyal they are, the lower -- the better the persistency, the lower the lapses, the greater the value to us of future profits. And that helps the value of our new business and obviously helps the value of our in-force, and it helps the value of all of our non-life businesses as well because they earn profits from customers for much longer. So this deepening of the customer relationship is critically important to us.

Now one of the ways that we're going to be able to achieve some of this in the modern world is through digitalization of our business and better usage of the data. And actually, Sanlam has invested particularly in big data and data analytics a tremendous amount. And we're now at a point where if we can exploit that, we can really make a big difference to our business. So we'd like to see many of our customer journeys or interactions with us digitalized. And crucially, that would include the intermediary business where we really see the opportunity to create significant difference in productivity. And that, of course, again, has a very direct impact on acquisition costs, and therefore, things like VNB metrics.

Data analytics are incredibly important to us. Anton Gildenhuys will take you through an example where we've used data analytics to drive a very specific different outcome. And it's really about being smarter about the way we execute things.

So we talk a lot about value creation rather than about cost cutting. Actually, for me, I would much rather improve the persistency of our customers to drive our profits than to try and shrink our way to greater profits through just cutting cost. So data analytics offers a tremendous opportunity for us in that regard.

And then simplification and rationalization of our product set and core systems. Like every other insurance company, we've got a horrible spaghetti of legacy. It's expensive to run. And there's a big opportunity for us.

Now that's a relatively slow thing to change. It cannot be changed as quickly as we can change our front-end digital journey for customers. It's chunky. It requires things to be delivered in blocks. But nevertheless, over a period of the next 5 years, we definitely need to flush a lot of costs out of that particular area and make things simpler for ourselves and for our customers. So basically, the outcome of digitalization and better data usage is a better client experience, smarter outcomes on a whole range of fronts and lower costs.

And the next thing that's different for us in this strategy is a real focus on empowerment as a competitive advantage in the institutional markets in South Africa. So when we talk about being a fortress in South Africa as part of our strategy, we talk about that as being in partnership with UBI and ARC. It's absolutely vital for us that we have great products, great service, great people, great digital experiences. Those are all absolutely necessary, but we can enhance that giving ourselves credentials in certain sections of the market, and we intend fully to do that. And you've seen already that we've introduced ARC as a 25% shareholder into our institutional asset management business. And we believe that once we get approval for that, that will make a significant difference to the performance of that business and its competitiveness.

And then, of course, increasingly direct distribution. So we need the water in a sense to find its own level, but we definitely intend to have some horses running in this race that as customers migrate to those channels, they're able to do so for appropriate kinds of products. And I think it's really important -- we had many, many questions, and I'm sure you're going to ask many today in the later sessions about what's changed post COVID.

I don't see a world where people sit at home and do all of their financial management directly online without interacting with humans. I think that when you're buying cars and you drive a city golf, that's entirely appropriate thing to do. But if you're trying to plan your retirement, if you're trying to invest your pension fund, you're going to want to make sure that you talk to people, to experts, and that you can really understand that you're in safe hands, and it comes back to financial confidence. You can be incredibly financially confident to execute car insurance online. I think once you get to anything that's a little bit more sophisticated, you're going to want to have the blend of machine and human being, giving you the efficiency of the machine but the assurance and the guidance and the judgment and the advice of the human being.

So moving on from South Africa to Africa. So what has changed? Well, the first thing we're going to do, and Heinie will talk a little bit about this later, is we're going to rationalize and reshape the portfolio we have in Africa. Obviously, through the Saham acquisition, we acquired businesses in a variety of countries. We need fewer countries. We also need to rationalize the capital allocation regionally, and we need to reduce the risk profile of what we have.

Secondly, Saham was a separate business to Sanlam with its own way of doing things, and we need to drive operational execution in the core of that business, focusing very much on the basics that are such strengths at Sanlam.

Sanlam is an incredible organization in terms of financial controls and risk management. It's highly disciplined. So while you may criticize us periodically for lacking innovation, I don't think you can criticize us around discipline, focus, financial controls and risk. And we need to bring that same way of doing things into our whole portfolio.

We're also going through a process of aligning management processes and culture with our own business model. Then there's been a lot of focus in the current year. You will have seen the losses, the investment losses we've made on the float in Saham. And so there's a big focus for us on over time, finding ways to remove the volatility of investment returns and to focus very much on the return on capital that we can produce.

And once we have that solid base in place, then to selectively expand on a very consistent delivery platform. So the message is basically, first, reshape, get a consistent delivery platform so we know how to put runs on the board and then build it up and expand it.

And then finally, I'm going to talk about where we see things changing in India. So we've -- as I mentioned earlier, have been invested there for a very long time. I think the thing that struck us when we got into the strategic review is just the strength of the Shriram brand in India. People have told me that this was a company that operated in rural areas. So my vision having been to India for many years, many times of rural India, is certainly not where Shriram operates. It doesn't operate in Delhi or Mumbai. But it operates in large cities right across India, often with 5 million or 10 million people in them that most of us have never heard of.

It's incredibly strong business that has a very strong focus on particular areas of credit that it grants, and then it cross-sells insurance into that customer base. But we see an opportunity because the brand has become so strong to take the insurance out beyond that and to enhance our own involvement in this business.

I want to talk very briefly about 3 areas in which we framed our strategic ambition. The first is our financial ambition. So for us, it's really important that we deliver consistently superior returns to our shareholders. And we also want to do that in a way that is not about shrinking the business, but it's about growing the business and maintaining leadership being a big cap stock and doing it in a way that we earn returns ahead of what's available to you in this sector from elsewhere.

Secondly, around customers, there are 1 billion people that live in Africa. We think that we need to be able to reach at least 50 million of them by 2025. That's a very far stretch from where we are today. But given the opportunity set that we have, the possibilities that have been opened up through technology and by our own positioning in Africa, we think we can do that. But it's critical that it's not just about volume and it's not just about having lots of customers that we (inaudible). We actually want to make sure that in every place, we have fantastic client service and then we're also trusted in the space.

And finally, economic impact. It's very important. If you go back to the beginning of time at Sanlam, Sanlam has made a massive contribution to the society in which it operates. And we are very committed to making sure that we invest in local economies right across Africa because that is a way of being strong both for our customers but also for the communities in which we operate.

And just as in South Africa where we focus on the ownership, certainly, our view is that across Africa, we need to make sure that we've got a local investment in all of our businesses, local ownership, so that the benefits of our success are spread. That has -- that's deep in our ethos. But actually, if we look at it from a financial point of view, it's a major derisking activity for us.

And then finally, we want to help to be part of bigger ecosystems that will help create value and economic growth right across our continent.

As much as we are clear about where we want to play the game, there's some very important enablers for us to be able to get there. And I'm just going to focus on 3 of those. I've spoken quite a bit about leveraging digital and data to improve the offering to customers. So I'm not going to talk anything anymore about that.

But the second area is culture. We clearly are primarily, historically, a South African business. We've been a very steady business. We're now moving into the whole of the continent and beyond into India. We need to actually embrace a slightly different culture in order to be successful in doing that because if we don't do that, we can end up with some of the same problems that companies have when they expand outside of their borders.

We also think that we need to actually take a little bit more in the way of calculated risks and that we need to be more innovative. We're moving into a much more fast-changing world, and the world of technology is also going to shape things. So we need to ready our people and our culture to operate in a different way. And for us, probably it's one of the hardest things and it's, in a way, one of the softest things to deal with, one of the most difficult to get your hands around but absolutely critical to our success, is to evolve the culture from all the strong things that we've got to enable us to tackle some of the new challenges that we have.

And then finally, I think almost everybody knows in the investor community that Sanlam has been organized around clusters. The clusters have been run as separate entities and that the group has played a rather limited role in the activities of those clusters. We see a need to change that in a number of areas. Firstly, in the long term, if we take a 20-year view on Sanlam, our success will be driven by the quality of the people that we've got, the talent we've got and what we can get out of those people. So managing the human capital at a group level becomes a really key task for us in thinking about long-term success. So that's one increased area of focus at the center.

Then driving the digital innovation. This is something that has to be done centrally because otherwise, we're going to incur an awful amount of duplication and waste. And I've seen in other companies this efforts and focus on digitalization can lead to a shotgun approach. And it's really most unhelpful. You spend a lot of money, invest a lot of money and can end up with very little to show for it. So we need to have a very well-controlled focus on that area across the group.

And then finally, we need better cooperation in the execution of our strategy. And so we've created a strategy office with a very small team under Wikus Olivier at the center to help us manage that process as well. So that's -- this is also a set of changes for us in the company.

I'm going to talk very briefly about our outlook, but I'm just going to refer you back to how we position ourself in Africa. As I said, our vision is to become the most admired company in Africa in financial services. We want to make sure we've got the best people. We're allocating capital properly. We've got strong businesses. We're in partnership with the right people and that we've got leading businesses in each of the countries in which we've chosen to operate.

I'm sure you're going to ask us in many of the breakout meetings today about the outlook that we have. I think it's obvious that our performance is going to be linked to the economic growth of the countries in which we operate. Africa has been badly affected by COVID as has the rest of the world. The impact in different countries is quite different. But if we take South Africa as an example, and of course, it's our biggest driver of cash flow and profits in the short run, I think it's going to take us 2 to 3 years to get back to 2019 levels. We've clearly lost many jobs in the economy. We're struggling to adapt. And at the very point where we ourselves have some sight of maybe getting out of level one, we see Europe going back into various levels of lockdown. And that's certainly not going to encourage a recovery anytime soon.

But we think that as difficult as the coming period will be, we do think that we are very well positioned. We are very strongly capitalized, and there will be opportunities for us. So whilst profits, new business and so on may be challenged, we are certainly embracing that challenge and making sure that we strengthen our franchise during this period of time and building the strength of the organization. We know we're going to have to be on our game, agile, innovative, and we have to work incredibly hard in order to get through this. But I do think that we will be able to deliver the kinds of returns that shareholders would like to see from us in the years to come.

So that brings me to the conclusion of what I have to say. I'm going to now hand over to Anton Gildenhuys, who's going to give you some background on just one initiative that will illustrate some of the things we're trying to do under data and digital.

Anton Gildenhuys - *Sanlam Limited - Chief Actuary & Group Risk Officer*

Thanks, Paul, and good morning, everyone. Given that we are an insurer, we've always actually loved data. So we've always worked with data and played with data. And so about a couple of years ago, (inaudible), we realized that we really need to start investing more in our data capabilities.

And the main reason for that is, first of all, that we are really able to integrate and manipulate the data to make use of new technology, machine learning and AI and so on. But then second, also to really pull together the vast amount of data that exists in all the different clusters throughout the group. By pulling these data sources together, we can get a much deeper insight into our clients and the way that our intermediaries also interact with our clients.

So in this regard, it's quite important that you've got this investment, but the business actually adopts it and integrates it into their strategy. Otherwise, you just get a very big expensive toy for (inaudible) to play with because they will easily adopt it. But no one else is guaranteed to do that. But I'm very happy to say that we can definitely see a massive adoption of these capabilities throughout the group, in Retail Affluent, in Sanlam Sky, in SIG. Corporate is now also working on use cases. So it's really exciting, Sanlam's got BI capabilities.

So it's really exciting to see how this BI capabilities trending itself into business decision-making. So we see it in the way that we approach sales, the way that we really work on retention, and I'll actually give you 2 use cases on the retention to show you what we're doing with our capability there. Of course, you're using it by experience investigation to be much more granular and spot opportunities to (inaudible) and be more accurate and sophisticated.

We make extensive use of advanced analytics and intermediate analytics to spot opportunities to intervening practices, to offer help, to provide leads, propensity modeling and so on. We really use it extensively to have a better insight into our business, like in SIG, for example, to have deeper insight into the assets under management. And then lastly, to really [formal] review our clients' life stage value so that we can accurately focus our efforts on our clients.

Now the 2 use cases. The first one that I'd like to quickly talk about is in the limited underwriting space. Now limited underwriting products basically boil down to reasons we provide risk cover with medical questionnaires and so on, but there's not further intensive underwriting involved. So there's no bleeding and running and that kind of thing for clients. It makes it a much more seamless and intuitive process and easier for intermediaries to sell.

So we've launched a limited underwriting product in 2016. And then by the end of 2017, it became evident that we had a persistency problem, that these products sold very well, but they didn't stay on the books. And within 2018, we introduced credit scoring. So we made use of external credit agencies. We actually make a call. Whenever you engage with a client [to record], the agency get the credit score and incorporate that credit score in the sales process. And that had a massive impact on our persistency, and it improved the persistency.

The early challenge the business had is each of these scores, the credit agency cost money. So the BI team took the challenge to see whether we can develop our own propensity to lapse modeling using the data that's available to us, and that's also made available in the sales process.

So the graph there represents the 2016 and 2017 data where we had a persistency problem. And you can see that we've then developed a propensity model, and that's on the x-axis, all the way from a very low propensity to lapse on the left-hand side, and then all certainty to lapse on the right-hand side. And you can see the different exposures there in the blue bar graphs.

And then the lapse modeling give these propensity, and then the yellow graph is the actual experience, which we, of course, know given that it happened 3 and 4 years ago. And you can see a very clear correlation given that it's a linearly increasing graph that the propensity modeling is accurate.

So we've now implemented this. In fact, we saw that our propensity modeling gives a better correlation even on a credit data that's available to us. So we've implemented this in production, which makes this immediately available in the sales tools that we use in selling limited underwriting products, and we've saved cost in the same way as well.

The second use case is specifically focused on the retention of existing business in Sanlam Sky. Now in summary, the problem that we've had here is we've got about 40,000 clients that miss their premiums on a monthly basis. And how Sky dealt with the problem is they set up a team of collection specialists. And clearly, they can't call 40,000 clients, so they decided calling clients randomly and agreed payment arrangement to these clients. And it's been reasonably successful. But this is a very clear business case or a business problem for advanced analytics to improve the outcome.

So we've basically investigated 40 variables using machine learning, and I'll go into a little bit of detail just now, and implemented the model to improve the outcome. So first of all, investigating the problem showed a very complicated distribution, which shows that clients either honor the payment arrangement or they don't. There's nothing in between. So it's a pretty binary outcome. And you can see clearly on that graph as well as most clients actually did not honor the payment arrangements that they reached with [course inter-agents], about 70% that not honored and about 30% carried through with the payment arrangement.

So what we did is we basically used machine learning to send all of these 40 variables through algorithms to identify the most predictive variables that we can incorporate into that collection or that proactive collection process. And we -- and it's important to understand the purpose of advanced analytics is not necessarily just to spot the obvious ones because some of these variables are quite obvious. But you want to figure out how many variables do you need to get the high level of predictability of the outcome of the intervention.

And through that, we identified these 5 variables. Now the first one is quite obvious, months since termination. Clearly, for client that lapsed the policy 4 months ago, it will be very difficult to convince the client to get that going again. Also, if the policy has been on the books for quite some time, it's easier to convince the clients to maintain it. But it's interesting that like the fourth last one, the first one had also high predictive capability in terms of the premium amount. If it's just a small premium amount, intuitively, you might think it would be quite easy to convince a client to resuscitate the policy. But the data clearly showed that where clients fail to honor very small payments, it's unlikely to recover that policy at all, and other clients tend then to honor payment arrangements better.

So once we've heard this, we do what most scientists do, and we tested the model by dividing the team into 2 groups. The one continued with a random sampling and calling clients and the other half use this propensity modeling to call clients.

I'm not going to go into detail of that graph, but that still represents all 22,000 clients that we used or that we contacted during this testing period. But the outcome was very exciting. First of all, we saw a 77% increase in payment arrangements through the preselect -- the modeled contact where we used the predictive modeling. So we had a much, much higher success rate in convincing clients to enter into a payment arrangement.

And then when you compare those who have entered into payment arrangements, the data-driven approach yielded the 75% beta honoring of payment arrangement. So clearly, the outcome is the multiplication between those 2 factors, a 77% improvement as well as the high success rate with payment arrangements.

So this model was also now implemented in production in Sanlam Sky and not a moment too soon, even the COVID experience. Thanks.

Paul Brendan Hanratty - *Sanlam Limited - Group CEO & Director*

Anton, thank you very much. That's very, very helpful. And if I can pass the thing across to Lotz. So I've -- we asked Lotz to give us a very brief update. It's a bit rough given that he's just started work. But just to give you an idea of what has happened around things like mortality and persistency and credit since we reported at the half year.

So Lotz, over to you.

Mlondolozi Mahlangeni - *Sanlam Limited - Chief Risk Officer & Chief Actuary*

Thank you very much, Paul. Good morning, everyone. So in the next few slides, we will provide just an update on the operational trend for mortality persistency as well as our credit book. Just to provide an update on what has happened since year-end. But I'm going to pause here and we did -- when we released our results and current results, we did provide information on the trends up to the time that we released the results.

So I mean, I think key messages that I want to communicate is that what we expected to happen to mortality experience at the time of results has been realized. We noticed that the peak in July in the mortality experience has been maintained. We've also -- I mean across all the different business lines.

If we look at excess claims, we've also noticed frequency. We noticed that peak in July, and things are stabilizing. We provided an update in September for the September experience. It does seem that things are stabilizing.

In terms of the mortality result, we still -- I mean, I guess, noticed that during the lockdown, there were some, of course, increases in natural deaths. There was decreases in natural deaths during the lockdown period, I mean, because of limited mobility. But we also did see an increase in suicide-related claims during that period.

We want to also mention that, I mean, as we indicated when we released our interim results that we do have a pandemic reserve of ZAR 760 million. That will be available if needed. But of course, the absorption of any excess claims will initially come through any releases or experience variances.

If we move on to persistency, we've -- I mean persistency is quite -- I mean, I guess, when you look at what has happened during the lockdown, there's a health component which lockdown [has ensured] to kind of address. But there is also the -- I mean, I guess, a economic component that will come through over an excellent period of time, and that will have an impact on new business volumes as well as persistency.

But what we've seen from a persistency perspective, we've seen quite a stable persistency experience post year-end across all the main business lines. We've also seen what we call a resumption of business activity in terms of the resumption post the premium holidays and the premium relief measures that we provided to our customers during the lockdown period to enable them to maintain their financial resilience. So a resumption of premiums and -- which is a continuation of the trend that we also indicated in -- during our interim results release.

If we -- just on the persistency trends, I think we want to also communicate a message around the fact that, I mean, it's -- while some other have seen that is an experience, we -- it's going to -- it's quite a difficult variable to predict because there's going to be changes in the, say, levels of economic activity. There might be new economic recovery and reconstruction measures, and they might have an impact in what happened to economic activity. But we are tracking persistency quite closely. We did -- as indicated at half year that we have set up -- we strengthened our last assumptions, and we introduced a mass lapse assumption change of ZAR 1.5 billion, which is an information available at year-end, we will review that assumption. But at this stage, we don't expect any significant changes in that reserve. But of course, I mean, it will depend on what information is available at that point in time.

There are a few dynamics that, I mean, I guess leads to the present experience that we've seen, including some retention initiatives that were -- that have been implemented, and as well some -- there were some reduced interaction between, I guess, brokers and clients during the lockdown period. So as realization measures come through, we'll be able to get intelligence between the level of economic activity as well as the intelligence between customers and brokers as well as customers' response to the new economic conditions.

So that covers, I guess, the key updates on the mortality and persistency and what we've seen in terms of there is an experience.

If we now move quickly to the corporate credit book, we did release at half year that there was quite a significant negative impact in our earnings due to the primarily the movements in our corporate credit assets. Primarily, they listed offshore exposures in -- on South African -- at least South African names. I think that's important to separate the credit spread movement from the names that are involved. So because, I mean, we primarily go into this business to underwrite the credit risk exposure. So these are names that we know very well. It was just because of movements in the listed price of these names.

And we've subsequently seen a reversal or a continuation of a reversal in those credit spreads as shown in the chart. And we do anticipate that -- I mean, given what we know now, they will revert to normal levels. But I mean, this is something that we're watching very closely.

What I also like to communicate is affected. I mean, we're in the right credit. We are a [weight-disciplined] credit risk management process. We haven't seen any material changes in the size and the quality of our credit book, and remained well diversified, both by counterparty as well as by instrument. We have identified what we perceived to be COVID-19-vulnerable sectors. So hospitality and gaming sectors as well as the property sector has given the new world of work, and so we are tracking those sectors very closely.

Our origination activity does take into account the vulnerability of the different sectors. We haven't seen any further defaults. And we did announce that half year, as there was a default, which it is impact of ZAR 95 million after tax, we haven't seen further default, and there's no further provision that was -- that have been raised. And no further counterparties that have been added to the watch list. And there's a reduction in intelligence and would show that there's been a reduction in -- or, I guess, the elevation of the credit risk in the book. But this is something we're watching and we're chasing -- also watching and monitoring very closely.

The slide we're showing here shows just the composition of their book and the diversified side nature of the [consumer] book, which provides a defense in terms of the vulnerability to specific instruments and specific sectors. And we've shown a similar picture on this slide, which shows the composition by sector. It's important to note that the concentrated exposure to domestic takes at about 14% of the book. It is mainly a structural nature of the financial system in South Africa and the fact that we would do -- acquire quite a lot of exposure to brands, particularly in the money market space as well as some of their hedging activities.

So I mean, I think -- I mean, our key message is that the credit exposure is under control. We've seen a reversal to the large impact that we saw primarily that was picked in March. We monitor the economic situation and the impact in the credit book very closely to apply disciplined asset origination and covenants of our credit portfolio.

Thank you very much, Paul.

Paul Brendan Hanratty - *Sanlam Limited - Group CEO & Director*

Lotz, thanks very much. That's very useful to get that update, I'm sure, for everybody. Heinie, can we hand over to you to talk a little bit about what we're busy within SAHAM?

Heinie Carl Werth - *Sanlam Limited - CEO of Sanlam Emerging Markets & Executive Director*

Thank you, Paul. Just as a start, the short presentation will focus on Saham, the general insurance business. That does not mean that we do not focus on the life business and capital optimization, like we talked about in the past, cost optimization.

And then secondly, we prefer to more talk about the broader SPA GI, given that Emmanuel and his team is obviously responsible for the broader business that's Saham or the Saham African businesses that is the bulk of SPA GI.

So Emmanuel and his team, the focus is really how do we deliver value on this pharma acquisition. And we are going to continue by focusing on what we call the strategic pillars. There is basically 5, 6 core business lines. It's about the lines, it's the off line. The assistance business, then it is commercial and corporate business, reinsurance, internal and external.

And then a new focus area is very much focusing on selling through other means in the form of affinity partnerships. Paul refer to us relooking a bit at the [contract].

On the left, you will see the core markets. The bulk of the value of Saham is in Morocco, Ivory Coast and Angola. And those are the countries that we have to make work. Other markets, please, it does not mean we are going to sell it, it means we are going to look at different ways to turn it around. Some of them may become part of regional hubs. And yes, some of them we may rather say, we need to scale up or we need to exit.

Also, all of this, we do work closely with Saham -- Santam, especially when it comes to the more specialist lines of business and reinsurance.

Over the last 2 years, a lot of work was done by Emmanuel and the team, especially, I want to say, the last year, since Emmanuel took over last year, October, November. And on the left, you can see the reality is when you work with so many markets and so many product lines, there's not just one thing. It is really focusing on all areas of the business.

So in the last year, a lot of good work was done on cleaning the client base, repricing products, better focus or even improved focus, I'd rather want to say, on fraud and claims management, optimizing reinsurance. There's a variety of items. That's all I can say that the focus is being on.

Going forward, there is more of that. There's no single thing to be done. It's a complex business. It's a number of countries, a number of business lines, and it's about focusing on all the key elements in that to make it work, which countries are going to meet our requirements and which are not. We are going to sell noncore assets. We've already started that process. Paul referred to the volatility, and you've seen it in our June results. So yes, we are looking -- or can we rebalance the float, but I'll show you a slide now, now just a bit perspective on the size of the float.

So lots of activities will continue and [you're about] to see that people everywhere, our health business is marginal. We have to make sure we turn that properly around, that we make a proper profit out of it, like our other business lines.

And then overall, our targets remain, as we've communicated before, underwriting margin of 5% to 9% of net earned premiums target and a float range of ZAR 69 million. That range, obviously, as we rebalance, may come down or should come down, but then the counter of that, you also have to reduce your capital in the process. It cannot be the one or the other. So it's a process we have to gradually work on.

Underpinning all these strategic areas is a focus on partnerships. We can't do it on our own. So nothing new on that. We continue to work with partners, especially also when it now comes to more digital areas of working. We will continue to work with multinationals, and that remains a focus, but just as important is to ensure that we have the right value proposition in-country because you have to have the right business, successful business in-country to offer the right solutions to international or multinationals businesses. The ways of working, as I've said, we are going to look, shouldn't, can't be optimized more by using regional ops, and share certain services out of certain countries.

And then on the digital side, we are going to further standardize on systems, and we are going to see how we can really utilize digital all through the value chain. Very, very important. To make the businesses successful, we need the right people on the ground. We can help them out of Bellville, Johannesburg, Morocco, but you're only going to win if you have to the right teams and the right people on the ground. So ongoing technical development and having the right people in the jobs remain critical.

And then I've already referred that capital and float management to provide a steady return on capital remains a priority.

If we look, because we get this question a lot, so this is the valuation, the appraisal value on June 30, ZAR 19.8 billion, that was when the math was about [1.70] to the rand. Just for interest sake, my first visits to Morocco, the math was 1.1 to the rand.

So part of our strategy is a diversified business across Africa and India, but to also benefit from the rand weakening in the process. So you can see a tremendous weakening against the Moroccan dirham over time.

What I can also say about this valuation is that this is at the lower end of what the auditors were willing to accept at the end of June. With that, doesn't mean that we wanted to write it off much further, but this is the lowest that the auditors were willing to accept.

If you use the previous page and you look at it, so yes, just to say, so the biggest part of the value is still in Saham. The second biggest part is in the Ivory Coast. And then internal reinsurance is a very important component.

Now internal reinsurance get about 40% to 50% of its business from Angola. So Angola is critical in our setup. But the rest of it comes from a variety of countries. So we have to protect and see how we optimize reinsurance. That was also one of the key focus areas when we bought Saham.

When you look at the split, we have not yet managed to really change the split of life and non-life, but I'm quite comfortable that it is going to change over the next 2 to 3 years.

If we apply those targeted ratios and you allow for minorities and tax, you should end up with about a 15% to 20% price-earnings ratio based on 2019 earnings. That is for the 36 valuation.

Moving just quickly. We also get the question a lot. Do we really believe in the 5% to 9% underwriting margin? This shows you the history of Saham over the last number of years. And yes, it was above 9%, and it was for a few years between 5% and 6%.

2018 and '19 were particularly difficult years. There was a general uptick or a decline in profitability in Morocco in the motor business. Within that context, Saham was still one of the better performance in this Moroccan market, even with those low margins.

Also in 2018, we started to have -- we had the first oil crisis, and we picked up enormous imported inflation in Angola, which filtered through into the 2018 underwriting margin.

2019, we had quite a number of reinsurance incidents. It was the flood -- earlier the floods in Mozambique, and there was also (inaudible) in the area. So last year, we had quite a few one-off events, which is part of the game, which we introduced volatility in the underwriting margin. And we also, last year, still (inaudible), I want to say, of weakening claims experience in Morocco or the whole industry. And as a result of that, in 2019, the regulator introduced further reserving requirements, which impacted directly on that margin.

So yes, it is ongoing hard work to make the margin work through repricing, claims management, all this stuff that I've mentioned. The float, as I said, this will be -- sorry, can you change, it doesn't want to move.

On the Saham float, ZAR 14.5 billion. Now that is about the same size that we have in India, slightly less, and it's actually the same or more than what Sanlam have in South Africa. Now that float, we have to do -- to invest in less developed capital markets.

Now our intention is to introduce less volatility in the float and you can see we are quite exposed to equity, about 46%, and about 70% of that is in the Moroccan market. Our exposure to equity in Morocco is a bit higher than other international companies, but actually lower than the big local insurers. We are going to try to bolt that down responsibly over time because, as I've said, you have to do it in conjunction with capital reductions. But then what we also have to focus on is you will see we have got quite a lot of property exposure. And we took quite conservative views on property during these times, which is also in our results in June.

Trying to also reduce our property exposure over time will also be key. And within that, we should see a shift more towards bonds. And we should see a shift towards rental properties, more diversified equities. But as I say, that is going to take us a bit of time because you really don't want to go and lock losses in at these low markets. At the end of June, for example, the Moroccan market was still 15% down. It is now about 16% down for the year. And then if we look at the other one in Ivory Coast, even there, the markets are still worse than it was.

So thank you. That is the last from my side.

Paul Brendan Hanratty - *Sanlam Limited - Group CEO & Director*

Heinie, thanks very much. I'm sure we're going to get a lot of questions later in the day to you and your team. But just to sort of reemphasize how excited we are about the opportunities of your business going forward. So Jurie, can we hand over to you now? Just for...

Johan Jurie Strydom - *Sanlam Limited - CEO of Life and Savings*

Yes. Good morning, everybody. It's great to be with you. Thanks for being with us. I'm just going to share a few thoughts on this -- on what Paul spoke about earlier, which was this reference to what we talk about our South African strategy, Fortress SA and the opportunities there.

I think the strategic review that we've been through in the course of the last few months was obviously due from a group perspective anyway, but I think we've been heavily influenced by the experience that we had through COVID, which I think caused all of us in quarters as a business to actually, regardless of any other factors, really immerse ourselves in our clients and in our client relationships. And so I think it's no surprise that coming out of that review, we've concluded that we have an opportunity to do more business with our existing clients and to develop deeper relationships with those clients. Paul alluded earlier to the economics of that.

And I mean, the economics of doing more business, having more products per client, doing more business with your clients is clear. It drives through additional value. It creates greater persistency. And so we certainly have got some hard metrics and some hard benchmarks that we're working towards. But I want to just take a bit of a step away from the economics. I'm going to actually say -- talk a little bit more about sort of the client side of it and what we see as being the kind of key levers to actually achieve that. I think the first thing is these are -- this is all 3 categories, the way we think about how to go about achieving those deeper relationships. And the first is the idea of being advice led.

And I don't think I've in my career experience at time when clients have been more anxious, actually, about their financial affairs. And even their life has been kind of health and livelihood as we've had the last 6 months. To give you an idea, I mean, the engagement with our call centers, the talk times went up by 1/3. If I talk to intermediaries, I see the amount of time that's gone into talking to -- to talking to clients, reassuring clients, and it's not transactional. We always tend to think that advice is about buying a product or claiming or doing a switch. Some of it is that. But a lot of it is around reassurance and then laying anxieties and talking to people and being -- building trust.

And so we certainly believe that advice is still -- is going to remain at the center. If anything, it's becoming more valuable. We think intermediaries have got a critical role to play there still. All the markets that we see internationally, where there's been very high digital adoption, there are lots of examples. China is one of them. There is still a very important role to be played for advisers, in particular context. Well, intermediaries are not our gatekeepers to clients anymore. Clients have got freedom of choice of channel. But we believe that there's this blend and Paul spoke about it earlier. Depending on the circumstances, a blend of dealing with an intermediary face-to-face versus going on and doing things online.

And we've seen the opportunities that actually exist to interact with your clients go beyond just the transactions. The resources we've activated in the last 6 months from our traditional distribution environment to actually talk to clients, to retain clients, you've seen the stats on premium holidays that we activated, but then also the clients that have been retained out of those premium holidays all points to there's real opportunity to build ourselves deeper into the lives of our clients.

I think it irreversibly relates to the idea of client experience because what has certainly happened is that there's been a lot more -- people gone online, they've gone -- they use digital channels to try to get a sense of their financial affairs during this time. It's much easier to do that than try and call a call center or even to worry your intermediary.

And again, there, it's just been so clear that what we should be working much harder on is curating information, making the experience such that clients really get reassurance and the trust gets built through those interactions with us.

I think we've had great success the last couple of years with building some new businesses that designed that experience almost fresh for digital. And I mean, I'm thinking of MiWay Life in India, and particularly Indie. I think the journey that we're on now is really bringing those skills to bear in the rest of our business and actually integrating the kind of core Sanlam experience across all of our product ranges on the same principles. And so will be -- you'll be seeing action on that from our -- in the next few months and years.

And then the third thing is this idea of solution integration. Integration is a loaded term in our industry. What we want to be doing is giving clients better value for doing more business with us and recognizing the value that gets created by clients using Sanlam for a full basket of solutions. And we're not going to be creating complexity, or do you want to do, if anything is going in the other direction, we want to create simplicity and make it as easy as possible for clients to deal with us.

In the end, I mean the economics that Paul spoke about earlier around having multiple holdings with Sanlam, it creates great value for us and that creates economics that we can share with clients. But if you think about it, it also creates value from an experience perspective. It's much easier to curate a sensible picture of a client's affairs if they actually have more products with you and they're not fragmented. And it's easier to give advice actually if the portfolio is not fragmented. So this is something that we're developing a real passion for it to see what we can do to make things easier for our clients.

We were going to be doing it across SA retail clients, retirement fund members and health members. And so the new structure that we've created with the life and savings cluster, which I now lead, will focus across that spectrum.

And what we're seeing is a -- what we're adding for it is this kind of a picture where, ultimately, through these different dimensions, we're actually able to use the data that we get from all of these interactions to create this virtuous cycle. And we've got the capabilities that have been invested, and Anton spoke about that earlier. So we believe we've got the foundations for it. And it really is just about executing on those foundations.

Paul Brendan Hanratty - *Sanlam Limited - Group CEO & Director*

Jurie, thank you so much. I'm sure that helped people to get a little bit of better idea than I wasn't just smoking something, talking about deepening customer relations. We're going to switch over now to Lizé, to you, to give us an idea. We spoke earlier about there are parts of our market where direct distribution works really well. And I think at Santam with Lizé, we built up a really fantastic business in MiWay. And I think there's a lot that the rest of us can learn about direct distribution from this. So Lizé, over to you.

Lizé Lambrechts - *Sanlam Limited - CEO*

Thanks, Paul, and good morning, everyone. If we can go to the next slide, I think we've said often that short-term insurance, a major driver of shareholder value, is profitable premium growth. Without profitable premium growth, you're really just destroying value. And I think in the Santam Group, MiWay is a really good example of us being able to do that successfully.

You can see from the graph that we have on the screen that MiWay has managed to grow in double digits over the last 5 years. While -- and during this time, the overall market grew by between 7% and 8%, and its main competitor also actually in that level. So I was really outperformed both the market and insurance, its main competitor. But I've often said it's easy to grow short-term insurance premiums. You just need to stand on the -- on a corner somewhere and offer people a big discount and you can grow your premium.

So if you go to the next slide, we can see that what's really been great in MiWay is that they've managed to do this while, at the same time, actually consistently increasing the underwriting margin, and that's the magic and the value creation that we've seen in MiWay over the last 5 years.

We definitely plan to continue with that. And we've got a number of initiatives, which I just want to share with you now, if we can go to the next slide, where we think we can continue with this growth path and maybe even accelerate on it.

The first exciting initiative that I want to share with you is that we will be implementing. We're working harder hard on it, and we will be implementing a true digital end-to-end insurance model. Not a digital version of a core center model, but something that is -- takes into account the changed environment that we see now, where we believe people are much more open to digital because of COVID-19, it was a great change management tool, actually for us, but also to provide a very slick digital self-service platform where people can do everything digitally. And it's -- it will be quick.

And all that will initially require investment from us in the long run, we really believe that we will see substantial cost efficiencies in this model.

The other exciting development is that we will accelerate our investment in user-based insurance. So we will focus a lot more on telematics than we have in the past. We believe that we've got a cost-efficient way of doing telematics now that we will roll out next year. And the telematics will provide us the ability to do better and cheaper underwriting really to do -- to have a shorter underwriting process. And really in the end, also give us the ability to provide value-added services to our clients. An example would be, for instance, accident detection. So that [drives] very well with the MiWay brand that's all about caring for the clients.

We recently launched a work-from-home product, MiWay -- from MiWay taking into account the changed behavior that we see from clients, and we fully expect that to continue. And therefore, we think we will see lots of traction from this product.

Just some other smaller initiatives. We will be introducing value-added products, smaller premium products in line with the Sanlam challenge of selling more products into an existing client base. We will be introducing additional products to the MiWay client base.

And then something that we are very excited about is what we call My Switch, which is the ability to read a competitor schedule digitally. And to prepare a quote and to do a seamless conversion without a lot of human interaction, actually. And we think -- I mean, the direct model is all about switching, and we think that will be a very cost-efficient way of switching.

What we won't lose in MiWay is what has got us this far in terms of the growth, and that is the unique culture that we have in MiWay and every person in MiWay really living the values. That enables this focus on growth and profitable growth. The fact that MiWay has got end-to-end responsibility for everything, including the brand, which is a great brand and a very well-known brand now in South Africa, gives the team a sense of accountability and the ability to move quickly, and we won't lose that. We will, therefore, expect to see continuous innovation over and above what I've shared with you today. We will see more innovation.

And then last but not least, the MiWay team is incentivized to show the right behavior, to create shareholder value. And therefore, I'm confident that we will continue to see good growth, profitable growth from MiWay going forward. Thank you.

Paul Brendan Hanratty - *Sanlam Limited - Group CEO & Director*

Lizé, thanks a lot. That's really exciting. All of you there, can I ask you please to go as quickly as you can because we're on a little bit of time pressure, just to update everybody on what's happening in the retail mass business.

Bongani Madikiza - *Sanlam Limited - CEO of SA Retail Mass*

Thank you, Paul. I think the first slide is just to show that, obviously, we've had a challenge with the lockdown, but we're showing that there is great improvement in the second half of the year with the different levels. And you can see that in Level 5, we almost did not sell anything. I think we're at about 14% of our normal output. And what we continue to improve, I think, at the end of August, we were at about 70% and will continue to improve over until the end of the year.

The next slide just shows the same picture for the Capitec funeral sales. What I think is instructive in this slide, if you compare it with the previous slide, is the speed of recovery. So the branch network and the fact that the banks were able to operate much quicker. And it also shows the reliance on work site's model and how, as soon as we are closed out from work sites, it becomes a big issue for our business. So we need to try and find a very good balance and how we manage that going forward.

Next slide. This slide is to show you a bit of the claims situation. But if you can start with the 2019, you can see in the 2019, there is a slight increase in June, July, normal winter season. But in 2020, that increase has been very significant. I don't want to speculate as to why, but what we're trying to show you is the mortality that we've seen on our book has increased significantly.

The good news, I guess, is it is now starting to taper down and we're seeing it come back to a bit down, but it is not at the 2019 levels yet. And it is our hope that if we do not have any second wave, it should go back to the levels that we expected going forward.

The next slide. So earlier, we had Anton talking about the retention activities and what are the things that we are doing. And I think this slide is showing you how our retention from a cash collection point of view has improved over the year. This has been an incredibly difficult year for us to be able to improve our collection during this year. Just shows how much effort the guys have put in. So not only in the BI kind of work, but the client communication, the process improvements and using the intermediaries whilst they were not in sell-in to call customers to retain the book. So the key issue for us that needs to be able to retain that orange line to remain above the blue line going forward. I think that is something that is important in -- certainly, in the retail mass space, potentially is going to be critical. And making sure that we keep our customers still engaged with the Sanlam brand collectively as opposed to them going to other providers.

I think that was my last slide, Paul. Thank you.

Paul Brendan Hanratty - *Sanlam Limited - Group CEO & Director*

Bongani, as efficient as ever. Thanks so much. Anton, I wonder if you can give us a little bit of an update on the Retail Affluent situation as well.

Anton Gildenhuys - *Sanlam Limited - Chief Actuary & Group Risk Officer*

All right. Thanks, Paul. Just to complement the whole Fortress South Africa strategy, and I think it's important to highlight that we are going to focus on 3 main themes in the Retail Affluent, the first one being simplification. And that simplification will happen internally. And I must say, I think there's an enormous opportunity in -- especially in our IT estate to simplify that. And the reason why that opportunity exists is a little bit because of our developed IT systems in different businesses in a very federated fashion. And by putting it all together in Sanlam technology now, they had opportunity to start consolidating platforms and systems who already lease a lot of value.

And then take the external simplification, making our products much more into a different sample for clients.

The second focus area is really around digitization of Sanlam Connect and maybe for those that are still confused with rebranded distribution as Sanlam Connect to really emphasize the fact that they're not a distributor of products, but they really are there to connect to their clients. That digitization is absolutely critical, given this inflection point that we've seen in society with COVID, but also the enormous opportunity that it will unlock in terms of improving productivity and so on.

And then to pull all of this together are really the focus on client and adviser experience. But I think it will be quite useful to give a little bit more meat to this health client experiencing by using a bit of an analogy. We've been -- we've gone liking a couple of weekends ago. And as I was driving through Portugal, I realize that Sanlam is a little bit like the main street of Portugal. We've got all the businesses there. All the businesses, find ways to compete and attract the attention of clients, but they're interactive clients on their own.

So a client could go to an agri mark and this shop and that shop and they can find all their needs and they satisfy the needs, and it's a diversified shopping experience, but it's not integrated at all. And intention, what we want to do with this whole client experience focus is to change that into more experience. Really offering one experience to the clients that's consistent, intuitive, really well thought through. Where you as a client come in, you don't get COVID screen that each and every shop you get COVID screen. That's one analogy for the FICA process. You get COVID screen once as you enter the mall, then you're in. You start offering loyalty. You start planning your journeys carefully. You place your shops intuitively, say it makes sense for the clients as men don't like shopping.

So we would like the hunting shop and the bolt-on shop and so on all clustered together so we can go in and out as quickly as possible. And then for those at a more shopping end client, they can gather.

You actually plan the placement of your shops. So you don't have a clustering of people in one corner of the mall and the other corner is empty. So there's actually a lot of signs involved in planning your journeys. It's not just pulling people together and putting them on one platform. How to do that, I do.

With that, we have implemented the following operating model in Retail Affluent. The first thing that I would like to emphasize is the creation of Sanlam technology. And as I've mentioned earlier, that is one unit that pulled together all the platforms in the group. And you can almost think of Sanlam technology as the border sporting them all. But you've got one border building one mall. And it's a shared infrastructure that everyone else put their businesses in. And then they can customize their business within that infrastructure and put their own shop refurbishment and stuff like that in. But where it makes sense, you start sharing and you build on one platform.

The second thing that we've done is we've created a totally new functional unit in Retail Affluent called client and intermediary experience. You can think of them as the mall management. We are there to prescribe certain standard, certain minimum stuff that you need to adhere to as businesses in the mall, they don't interfere in the business itself. They make sure that the business are logically positioned, that their journey is sensible.

And then they solve a client journey to make it as pleasant and intuitive as possible. To do that, and Jurie referred to this, we've kept Sanlam India as part of that client and intermediary experience unit, and for a number of reasons. First of all, Sanlam India is proving to be greatly successful at the moment, you don't want to break that momentum. But given that Sanlam India is a SaaS-related digital business, it creates an incredible finger on the pulse of the client experience to that unit. So instead of having to rely on feedback, only from the intermediaries, which will be valuable, we'll be able to test, and this will have to be done in an agile fashion on an ongoing basis, new solutions, different ways of interacting with clients directly in a digital space.

And then leveraging those experiences in the intermediated space or a face-to-face advice space. Of course, the logic is quite obvious. If something is intuitive and simple and compelling in the digital space, you can bet it will be compelling if it's in a face-to-face environment working off the same platform.

When the product (inaudible), but we've changed that needs businesses, they really need to start shifting their innovation, not only on product innovation, but focusing on that journey, really solving client problems that clients have. Am I still going to meet my financial goals? What's the impact of the market? And that's where big data and digital or advanced analytics will really come to play. Analyzing data, sending IP constantly to clients. Some of the IP will be generic, quality content, and some of it will be very bespoke to the clients' needs.

Then, of course, the whole Sanlam Connect function will remain. And I've spoken about how we want to integrate that digital journey experience. You can almost think of the adviser as the shopping guy, taking the client through the mall to the appropriate shops and so on. But having a very compelling mall experience for the client, who will also make it compelling for that intermediary.

And then last -- second but last, we've also integrated the client service operations under a single source of accountability in any [of the value]. And the reason for that is you can't have a compelling digital interface with clients, where clients enter into the shops, if I can call it that [straight] analogy in a consistent fashion. But as soon as the servicing happens, it becomes this better to get. So in this focus area, we'll be able to integrate the servicing offering to complement the digital platform that we want to offer to clients.

I think lastly, this client experience certainly needs to extend to the rest of the group. So while we started up in Retail Affluent, the intention is, as with Sanlam Technology, to also use this as a mall that's available to clusters outside the group. Thanks. That's me.

Paul Brendan Hanratty - *Sanlam Limited - Group CEO & Director*

Anton, thank you very much, indeed. We're going to hand over now -- Kanyisa, if you're online. If you can take us through, very briefly, through, Abdul will hopefully have woken up (inaudible).

Kanyisa Mkhize - *Sanlam Limited - CEO of Sanlam Corporate*

Sure. I'm going to try and save us some time. I guess from a Sanlam perspective, there are 4 strategic imperatives that we believe will underpin how we get to our vision of becoming a leading corporate business in South Africa.

The first of this is around how we enhance or improve our customer and member experience. I think in this direction, we're wanting to make sure that we're providing a holistic range of solutions. And also, we're investing quite a bit of innovation and technology enhancements so that we can get a better member journey for our customers and also improve the ease of doing business for our employers and other clients.

We're strengthening the distribution footprint, and we're diversifying our distribution range. We currently access our markets through, I suppose, over 13 channels in the Sanlam Group. And this includes our partnerships with Graviton and also our partnership in the retail distribution businesses.

We're wanting to grow our AUM through the conversion of stand-alone funds to the umbrella. And we believe that this is still quite a big opportunity for us. We are also wanting to -- our views that were probably underweight as it relates to smooth bonus products. I don't think that there is a better case study to the role that smooth bonus products play in the middle-income market, in particular, better than the case study we saw in the first 2 quarters of this year and the volatility that was there. So we think that smooth bonus products will definitely be beneficial in our market.

We're focusing on extending quite a competitive health proposition, and in this direction, we'll be working closer with Afrocentric in terms of just making sure we gain some market share in that direction.

Next slide, please, Abdul. I've mentioned earlier our focus on growing the umbrella fund. We were relatively late entrants to this market. And over the past 12-or-so years, we've been able to grow our umbrella from about ZAR 1.3 billion in 2008 to ZAR 50 billion as of the end of last quarter. We're now the fourth largest umbrella fund in South Africa. We were able to sort of pip Liberty for the spot position last year. And we're fully expecting to get to at least the #3 position by the end of 2021. We've got a very healthy pipeline of our own stand-alone funds that we think are better suited to, to the umbrella proposition.

Our focus right now is on how we convert those funds to the umbrella and also making sure that we've got a very competitive umbrella CVP to take out into the market and grow market share.

Next slide, please. We see quite a massive opportunity as it relates to how we drive retailization through more engaged and more deliberate member journeys. In the past half year, we've seen about ZAR 2 billion flow into Sanlam Corporate assets. And we've seen those coming through, through in-fund preservation and through DC annuitization. I think we've got a really strong example in terms of the growth in Sanlam umbrella fund exits, and we saw 15% of our fund exits go into in-fund preservations in Q2 of this year.

From a comparative perspective, when you think about the assets under management, that was 4x the growth that we saw last year over the same time period. I suppose the most exciting or interesting opportunity from my perspective is the opportunity that we have seen through our retirements benefits counseling. You'll see on that graph on the right-hand side that the intervention of member benefit counselor results in much better sort of retirement outcomes and less of a savings leakage, I suppose, in this environment, with fewer members taking cash once they've had an engagement with the counselor. So that's an area that we're wanting to show up and to grow and also to invest a bit more in. And we're wanting to extend over the next couple of quarters our proactive benefit counseling even to our stand-alone funds.

I'll now move on to my last slide. Here, I just wanted to just give a quick update in terms of the impact that COVID has had in our business. In the first 2 quarters of the year, we saw quite a few requests for our contribution suspensions. We've had that number decrease now from 180,000 to 80,000 members that are currently in a suspended state. And we haven't seen a big number tick up as it relates to new requests for suspensions.

Reinstatements are picking up quite nicely. And we haven't seen a big drop in term -- increase in terminations and retrenchments. We are looking -- we are -- we've received about ZAR 200 million in excess debt claims and ZAR 150 million of these have been COVID related. But as Lotz mentioned earlier, we've got quite a strong pandemic reserve to absorb some of this.

Our debt claims peaked in August and we're expecting that there may be some claims backlogs, in particular, in the PHI space. We're excited about what we've seen as a recovery in quote activity levels. As an example, at its lowest point, I think we've gotten to about 10% of the average quotes activity during the pandemic, that we were able to sort of get that up to 75% for Q3. And as of the end of September, I think we were at around 90% of the average. So there's some positive news on that side.

That's everything I had.

Paul Brendan Hanratty *- Sanlam Limited - Group CEO & Director*

Kanyisa, thank you so much. That was really great little insight into the corporate business and what you're up to. So we're now down to our last presenter. So Arthur Kamp here to give us some insight into the Sanlam view on the economy. And so Arthur, over to you.

Arthur Kamp

Thank you, Paul. Good morning, everyone. A couple of comments on growth prospects and recovery prospects in our core geographies. Starting with South Africa, I thought I'd start with some good news. And that is that we've actually got probably a very strong bounce in economic activity in the third quarter.

Everybody knows that the second quarter was a very sharp drop. You can see the actual number there, 51% annualized fall in real GDP. The problem, of course, with this recovery is the permanent loss of income. So you shut down the economy for an extended period of the year, that's a permanent loss of income that you don't get back. And also, we know that, and it's been well publicized, which sectors are struggling more than others. And so the recovery is not complete. And in that sense, you sit with a permanent loss of income going forward.

The strength of the third quarter balance, one must say, is due to government implementing well-targeted and appropriate policies. I know that we have clearly a fiscal problem in South Africa that needs to be rectified. But within that very limited space, government did target its policies particularly well. And it focused on 3 things: firstly, balance of payment stability, a lot of capital flight early on during the pandemic; secondly, bridging the gap between the pre and the post-COVID world, certainly in trying to support incomes; and then thirdly, also keeping credit lines open.

So credit extension is weak, we know. But compared to what it would have been for an event like this, it's a much better outcome than one would have expected. The balance of [payments] now that the rand has stabilized. And finally, the more difficult one, of course, was helping people bridge that gap between the pre and post-COVID-19 world.

And there, of course, we saw the second quarter employment numbers, which were very steeply down, minus 2.2 million, minus (inaudible) in percentage terms, though, the hardest hit were the informal workers, farmworkers and also private household workers. So hopefully, that 2.2 million isn't going to last. There is a significant amount of temporary unemployment in there and we would expect to bounce back. But overall, sadly, we would not be surprised all to see about a 1.6 million loss in employment in the cycle. That's 10% of the workforce.

So in terms of the recovery, though, next year's growth seems quite firm, but it's coming off a very low base. So we've got minus 8% this year. We seem to be on track for that, plus 4% for next year. The plus 4%, those, however, rely on a couple of very important developments. One is it's very hard to show that type of recovery without showing a current account deficit. We're going to be spending or investing more than we saved, which means we will have to attract foreign capital. And so that's going to put the focus on policy. We know that the President is speaking.

And very much on the promises that we actually made to the IMF, the letter of intent is going to be particularly important. One was, obviously, that we stabilize fiscal policy. We probably won't get a move towards a debt ceiling just yet, but one would hope that there'd be some certain significant improvement on the policy front along the lines of the active scenario.

Secondly, of course, in terms of maintaining reserve bank independence and targeting low inflation, and then also in terms of making sure that you align your policies that you don't do harm to the balance of payments. That would be a starting point. But for the longer term, clearly, the focus tomorrow on the ability of South Africa to deliver longer-term, strong sustainable growth is going to be on the President and what he announces.

Now we know that initiatives such as telecommunications reform, removal of barriers to entry, public-private partnerships to get infrastructure going are all critically important. But overriding, the most important thing overall for South Africa to get back on track sustainably is to fix fiscal policy. Because at the -- in recent years, it's been very clear that the fiscal policy has been crowding out private sector investment spending. At the same time as well, finally, history around the world for economies that grow fast shows human capital development is also key.

And then just secondly, if we look at the recovery prospects in our core geographies, a lot of countries on this slide. But essentially, if one works through the data, one can see that the economies in East Africa, in particular, and some in West Africa are expected to recover first and foremost. So if we go through a lot of these countries have a high share of agriculture to GDP. And if we work through the relationship or trade and tourism relative to their GDP, fiscal and debt dynamics, long-term productivity trends, CPI trends, which allows us for at least maintaining relatively looser fiscal policies, then the economies of East Africa, particularly, and some in West Africa are better placed to get through COVID-19 and to (inaudible) at the other end. And certainly, on these economies, it's not really a question of when do we get back to the 2019 levels on income. They just keep on growing. Perhaps 1 or 2 of those countries might slip into a small decline this year, but essentially, one would still expect income levels, in fact, be higher next year than this year, but just obviously not as high as what they previously would have been.

More difficult for the commodity producers. And a particularly important point to make here about the rest of our continent is, one must understand that higher debt levels and particularly high external debt levels are constrained on growth. The numerous studies that have been done on this, it tends to start dampening potential growth when you have -- you get into bad debt dynamics. And a number of the resource producers are those countries where you have fiscal dynamics that are not especially healthy at the moment. What has been particularly important, of course, during this period, given balance of payments pressures that emanate from that is IMF and World Bank support, and that's been invaluable to a number of these economies.

Also, commodity prices other than oil, a number of cases are up. So improving terms of trade should help. But unfortunately, oil producers, of course, still under enormous pressure. So Angola, Nigeria. In Angola's case, of course, we know about its debt dynamics. And also in recent years, the decline in oil production in Angola is also weighing quite heavily (inaudible) and also it's an economy that seems willing to undertake reforms. But overall, we see the resource countries lagging. This has been a theme since the end of the previous commodity price boom in the early 2000s when China was growing exceptionally strongly. Since that time, we've seen resource producers underperform.

And then finally, just on Morocco and India. In the case of India, bank sector and assets in the bank sector and high nonperforming loans acting as a constraint at the moment. We need reform momentum to pick up again for what -- to unlock what is still undoubtedly high-growth potential in that economy.

In Morocco, well-diversified export base, good long-term tourism prospects may recover a little bit slower than the other economies, but at the same time, still got good longer-term growth prospects, perhaps not as strong as in, for example, East Africa and parts of West Africa because it is a middle-income economy, therefore, won't grow as fast, but nonetheless still good solid growth prospects there.

In terms of getting back to previous income levels, we've discussed East and West -- East Africa. But in terms of the resource producers, unfortunately, we're probably going to only see them recovering by late 2022 or 2023. So a significant lag there to get back to previous income levels. Thank you.

Paul Brendan Hanratty - *Sanlam Limited - Group CEO & Director*

Arthur, thank you very much indeed. And that brings us to an end of the presentations. I just want to thank all of the team who presented here. I think in a very tough time, it's very inspiring, and I think the opportunities are very evident. We have a couple of minutes, if there are any questions. I'd ask people, if you -- again, if you do have questions, we'll probably tend to further questions for Arthur since we won't have him available for the next 2 days. But if there are any questions, Patrick, you've got them coming in there?

Patrick Hartnic

Not yet.

Paul Brendan Hanratty - *Sanlam Limited - Group CEO & Director*

Not yet. Okay. So just give everybody a minute or 2 to pose a question if they have one. No, nothing. Okay. We don't have any questions, which I'm not sure is a good or a bad thing, maybe you all want to come for break. But thank you all very much joining us on this session, and we very much look forward to engaging with all of you in the various one-on-one sessions that we organized over the next 2 days. So thanks a lot.
