

Leadership overview

It is remarkable for a group of Santam's scale to achieve gross written premium growth of 10% and a net underwriting margin of 8.7% within the context of persistently challenging global and local economic conditions in 2014. We ascribe this to our diversified profile (general insurance offering, geographies, brands and channels) that spreads potential catastrophic risk while offering scale and volume efficiencies as well as a benign weather-related claims experience during 2014. Balancing growth with profit remains our first priority.

The general insurance industry continues facing considerable headwinds. Only a handful of insurers of substance are recording underwriting profits on a consistent basis. Market conditions are competitive in the retail, commercial and corporate segments and the main challenges are:

- Increased risk on the ground
- Our ability to reprice in the short term (especially given the rand weakness and unpredictable weather patterns)
- Volatility in equity markets

The long-term sustainability of Santam and the industry requires a deep understanding of those systemic issues that affect our ability to create value for our stakeholders, including emerging trends in legislation, governance, social development and business.

2014 snapshot

The global economic recovery remains on track despite lower growth expectations. South Africa experienced a difficult year, characterised by subdued gross domestic product growth. Consumers continue to feel the pressure resulting from unemployment, rising electricity costs and higher interest rates, with the lower oil prices bringing some relief towards the end of the year. The weaker rand, on the other hand, inflated claims costs for the business.

Despite challenging market conditions, Santam improved its financial performance, largely due to the positive impact of corrective actions introduced in 2013, which included improvements in the claims and risk management processes (see page 77 for more detail).



Weather-related incidents in South Africa were more moderate than the previous year, especially in the last quarter, which further supported an improved underwriting result. A considerable turnaround in the crop insurance business provided further relief following the challenges experienced in 2013.

Nevertheless, underwriting results still experience pressure due to claims costs and incidents such as the widespread floods in the northern parts of the country during March 2014. No significant claims had been submitted following the earthquake in the North West Province on 5 August 2014 despite the fact that Santam provided insurance cover to a number of mining operations situated in the area close to the epicentre of the earthquake.

Regulatory challenges and opportunities

There are a number of regulations currently at play, including Solvency Asset and Management (SAM), binder agreements, treating customers fairly (TCF) and the recently published Retail Distribution Review (RDR). The latter promotes appropriate, affordable and fair advice and intermediary services, while supporting a sustainable business model for financial advice. The RDR will potentially result in significant changes in the intermediated landscape.

Whereas binder agreements increased our acquisition cost in the commercial and personal business, other aspects of new regulations, such as TCF, have benefited Santam by entrenching its leading market position.

Santam's commitment to offering a client-centric experience and its value proposition of **Insurance good and proper** has been the foundation for the TCF rollout in the group (including the Santam intermediary network). The process of alignment to the six fairness outcomes, which are positioned from the perspective of the client, has enabled us to start with the refinement of our reporting system and management information requirements to be able to monitor TCF effectively on a group level. We are now awaiting feedback from the regulator on measurements.

International expansion

International diversification remains Santam's biggest growth opportunity. We have economic participation in 11 general insurance licences across Africa, India and Southeast Asia through SEM. Most of these are currently small but have the potential to grow and expand their insurance operations.

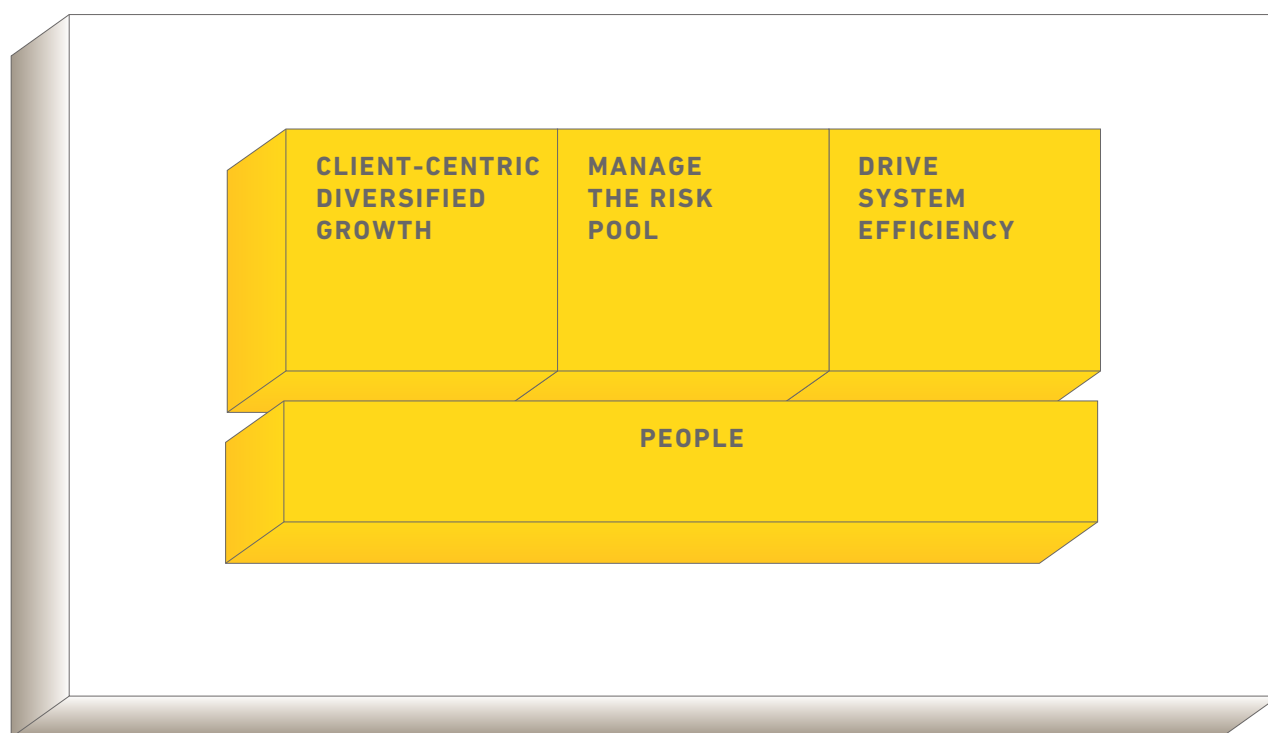
Santam's drive towards international diversification has led the group to assess the potential risks that new territories pose proactively. This is an area that will receive ongoing attention and investment going forward.

Our strategy at a glance

Santam remains committed to its three-pillar strategy, which continues to deliver.

Since the adoption of the three-pillar strategy in 2011, we have refined the pillars and targets in our strategy development and review process, including increased emphasis on client-centricity. The three-pillar strategy focus underwrote Santam's competitiveness and resilience and we believe that it will continue delivering sustainable and positive performance outcomes for our stakeholders.

INSURANCE GOOD AND PROPER



In Africa, SEM has remained committed to partnerships with local players who have an understanding of their markets. The SEM partner businesses are used to leverage the expansion of Santam Specialist and Santam Re in these territories.

We have acquired interests in SEM partner businesses in Nigeria, Rwanda and Ghana during the year.

The full report on our strategy development process and the factors that affect our long-term positioning, are set out in the section starting on page 32. We report on our activities and risks related to each pillar from page 37.



Business unit overview

This section of the report focuses on performance and strategic focus area per business unit. The chief financial officer's report starting on page 24 discusses performance per insurance class in more detail.



SANTAM COMMERCIAL AND PERSONAL

Key strategic focus areas

- Enable a multichannel distribution business with a strong focus on clients
- Drive profitability through proactive risk management, reducing costs and implementing strategic projects
- People enablement strategy – explore opportunities for accelerated transformation

Amid challenging market conditions, Santam Commercial and Personal's profitability improved, mainly as a result of the implementation of appropriate corrective actions introduced in 2013. Furthermore the business benefited from fewer weather-related catastrophe events in 2014. Santam's continued focus on optimising the claims and procurement processes reduced the effect of the volatile exchange rate.



The intermediary network, which remains at the core of the group's business, continued growing, with particular effort to increase black representation (see page 81 for detail).

The 2014 year was difficult for intermediaries who had to implement rate increases while addressing unprofitable clients and weathering strong competitive activity in the South African direct insurance market.



Santam still pays more money in claims than any other insurer, and views its claims capability and philosophy as a competitive advantage. Various initiatives were implemented in the claims area to reduce the cost of claims and enhance service delivery (see detail under "drive system efficiency" on page 45).

The premium increases in motor, contents and buildings classes have not had a negative impact on new business conversion rates this year, most likely due to price hardening in the market.

Claims volumes decreased by 1.4% (registered) year-on-year mainly due to the favourable weather experienced and the low levels of catastrophe claims. The average cost per claim was relatively flat for motor and increased by 4.4% for non-motor claims (2013: 12.3% motor increase and 17.2% non-motor increase). The average cost per claim for motor remained flat

mainly due to various strategic initiatives implemented in the claims services space such as our network solutions initiative, improved direction of spend, increased moderation and third-party assessing to name a few, all of which are bearing fruit. The relative low increase in non-motor is due to moderation implemented for jewellery, buildings and electronic claims, all of which positively affects the cost of the claim.

We have invested almost R1 billion on strategic technology data and system projects over the past seven years, and will continue rolling out current projects over the next two years.

The focus of our strategic projects has been:

- To provide intermediaries, suppliers and business partners with an effective online presence and platform to interact with us. The project, which optimises internal processes and reduces operational and transactional cost was completed in October 2014 and is now firmly entrenched in normal business operations.
- To improve service quality, quote volumes and conversion rates by centralising back-office processing and enhance the regional service structure of the commercial and personal lines contact centres. This project was completed in November 2014.
- To be more responsive to client, intermediary and market demands by implementing a core underwriting and product management technological capability. The migration of the personal lines policies will be completed by the end of 2015, whereas the commercial application is still in a building phase, scheduled for completion in 2016.

The strategic – and related – projects are complex and require significant change management. However, the benefits relating to these projects will drive the achievement of our long-term underwriting profit and expense targets.

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SANTAM SPECIALIST

Key strategic focus areas

- Grow business in segments that require specialist skills – increase non-South African business
- Continue attracting and retaining top specialist talent
- Leverage reinsurance expertise and capacity

The Santam Specialist business unit delivered strong underwriting results across various business classes including the liability class. However, the high net worth personal lines business and accident and health class reported a loss due to a softening in market conditions, whereas engineering experienced pressure due to competitive forces. All other segments improved their underwriting results compared to the prior year. Gross claims increased substantially due to an increase in exposure outside of South Africa.

These challenges will increase as the business unit expands its footprint by leveraging the SEM partner businesses in Africa, India and Southeast Asia. The collaboration has contributed to the business' ability to deliver growth above inflation and supported efforts to increase the intermediary distribution network and position new products. During the year, Santam Specialist was able to forge new relationships and apply its technical expertise in new markets. This includes understanding local regulations and identifying the right partners.

The business unit launched a new Seamless Specialist Insurance solution that offers comprehensive risk protection for mega-projects across Africa. This will support the focus on growth in premium income from Africa in the next year, especially in fields such as engineering and construction, with an increasing number of large infrastructure projects, such as dams and renewable energy plants, being launched on the continent.

The ability to attract and retain the best employees in the industry continues to provide a competitive advantage, which is difficult to replicate. Retention is achieved through innovative remuneration models and incentive schemes.

Santam Specialist now has more than 70% of its premium volume on one of three core information technology (IT) platforms, which will improve cost-efficiency in the longer term and enable data sharing with the Santam group. These changes create improved access to and understanding of client data and ensure that the business unit, its intermediaries and suppliers all meet the necessary regulatory requirements.

The crop portfolio benefited from favourable weather conditions, premium increases and improved risk selection. This resulted in a net underwriting result of R251 million compared to a loss of 142 million last year.

The growth of the cell captive insurance business in Centriq was under pressure following the cancellation of a significant book of business. On the upside, there was pleasing progress with the risk financing side of the business in terms of attracting new skills and the resultant increase in deal flows. Centriq also achieved third place in its first year of participation in the Deloitte's Best Company to Work For survey (financial services segment).



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MIWAY

Key strategic focus areas

- Achieve growth targets – organic growth, partnerships, acquisitions and diversification
- Improvements to the risk pool – ongoing rating, underwriting and risk selection enhancements
- Operational efficiency improvements through innovative technological developments

The direct insurance business continues to benefit from the convergence between technology and clients' needs, as well as a tightly managed business model. The business also benefits from richer data and more risk elements to effectively rate policyholders.

MiWay improved on its 2013 performance, achieving a gross written premium contribution of R1.5 billion (up 14% on previous year). The MiWay loss ratio was 57.4% (2013: 62.2%, net of catastrophe reinsurance recoveries) due to ongoing improvements to rating and claims management methodology. The acquisition cost ratio for 2014 improved to 31.7%, compared to 33.7% in 2013 due to scale benefits.

Despite the inflationary impact of the weakening rand and an increase in fraudulent claims as a result of a worsening economic landscape, MiWay managed to contain the cost of claims and claims frequency levels. MiWay ended 2014 with 225 388 clients (2013: 202 740) and 1 240 employees (2013: 1 172). The business unit took top honours in the *Mail & Guardian* Top Companies Reputation Index for 2014.

MiWay continued to grow its retail client base and sold its first commercial insurance policy in November 2014. A direct life insurance initiative will be launched in 2015.



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SANTAM RE

Key strategic focus areas

- Strengthen position in selected regions and countries
- Maintain discipline and rigour in underwriting and actuarial processes
- Work with international partners to enhance growth potential and risk pool management

Santam Re's underwriting results improved following lower retrocession costs and corrective action on the South African portfolio. Growth was negatively affected by the cancellation of an unprofitable South African book of business, whereas the international business from Santam Re grew to more than R400 million this year, up from R225 million in 2013.

The African portfolio of Santam Re, excluding South Africa, broke through the R100 million premium income level. Internationally, Santam Re achieved further growth in Southeast Asia and the Middle East. Good growth was also experienced in China and South Korea, with the business achieving solid underwriting margins across most of the portfolio.

Tight exposure management is in place across the business. Due to Santam Re's diversified country risk approach, the overall risk exposure remains within the group's risk appetite.

Santam Re has a team with extensive technical skills and experience in the international reinsurance underwriting and actuarial fields. Recruitment and training is approached from an international perspective to ensure alignment with the key capabilities required by the business.

The Santam Re brand and footprint has been established in our chosen territories and the business unit will continue seeking attractively priced opportunities in these markets.



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Strategy through our people

Our people are essential to the successful implementation of Santam's strategy. We are proud of the group's ability to attract and retain talent considering the limited pool of technically qualified executives and specialists available in South Africa. Santam remains committed to growing this pool through our accelerated transformation plan, which includes developing talent by creating opportunities for exposure, shadowing and learnerships. Our leadership development and coaching programme is also gaining traction with positive feedback from all levels in the organisation.

Leadership changes

Santam's Chief Executive Officer, Ian Kirk, has taken up the role of Sanlam deputy group chief executive officer in January 2015 and became a non-executive director on the Santam board. The announcement in September 2014 was followed by a well-managed recruitment process for a new Chief Executive Officer, led by Ian Kirk and the board nominations committee. At the end of November 2014 the appointment of Lizé Lambrechts as new Chief Executive Officer was announced. Lizé joined Santam in January 2015 from the Sanlam group where she was chief executive officer of Sanlam Personal Finance – Sanlam's retail business in South Africa – for the past 12 years. We look forward to a new chapter for Santam under her leadership.

Following the departure of Hennie Nortjé (executive head: operations) and Lindiwe Dlamini-Sebesho (executive head: human resources) we appointed Kevin Wright as executive head: operations and IT and expanded the portfolio of Ebrahim Asmal to executive head: claims and sourcing.

Outlook

The intermediated insurance model in South Africa is under pressure from an underwriting profitability perspective. Direct insurers, with a tighter model and better margins, are in many instances better positioned to use opportunities in commoditised insurance business. The imperative for intermediated insurers is to improve pricing accuracy, manage claims better, reduce acquisition and maintenance costs, improve operating efficiency and generally tighten up on the business model. We are also considering the potential impact of the Retail Distribution Review.

Santam's challenge over the long term will be to maintain its growth momentum in each business. We will continue focusing on the implementation of various underwriting practices and risk management approaches to improve the underwriting margin in the traditional Santam intermediated business. Our long-term underwriting target margin remains at 4% to 6% and we are confident that this is achievable through the insurance cycle.

International diversification will be a focus area for 2015 through our SEM collaboration and opportunities that this present for Santam Specialist and Santam Re.

We continue working with municipalities to reduce risk on the ground and have started to expand our BAAM initiative to a wider selection of municipalities across the country. Santam will explore further opportunities to work with other entities such as NGOs, international donors and other government departments going forward. Our focus is to create support and bring stability to communities that are vulnerable and at risk.

Appreciation

The board would like to express its gratitude to Santam's employees, intermediaries and other business partners for their effort and contributions during the year.

We thank the board for their support and ability to steer the group on its journey. The executive management team has again proven their tenacity and commitment to the group, industry and all our stakeholders. We are proud of what we have achieved in 2014.

GRANT GELINK
Chairman

LIZÉ LAMBRECHTS
Chief Executive Officer

STATEMENT FROM THE OUTGOING CHIEF EXECUTIVE OFFICER



Santam was a great experience for me personally. I never anticipated being part of the group for such a long time, and for the business to develop in the way that it has. Looking back, my personal highlight was probably weathering the 2008 crisis successfully and experiencing the outcome of our transformation efforts. Santam has always been able to adapt well: it is a completely different business today from the one that I joined. We have transformed from a business totally dependent on intermediaries to a group that benefits hugely from entrepreneurship. The Santam group has a solid business strategy in place. I believe that Lizé as incoming Chief Executive Officer has the qualities and vision to build on this and take the group forward into the next stage of its development. With the transition to Sanlam, I will remain in touch and in support of Santam's future growth and success.

– Ian Kirk

STATEMENT FROM THE INCOMING CHIEF EXECUTIVE OFFICER



I am looking forward to the opportunity to be part of the yellow umbrella. It is a privilege to be asked to lead an organisation that has established itself as the leader in the general insurance industry and continues to grow and diversify. Ahead lies the opportunity to build and extend our brand and to build deeper connections with our consumers and intermediaries. I am excited about the road ahead for Santam.

– Lizé Lambrechts