

# Remuneration report

## Remuneration philosophy

The group's remuneration philosophy is to ensure that all employees are rewarded fairly and appropriately for their contribution. In setting remuneration levels, the human resources and remuneration committee takes appropriate market benchmarks into account, ensuring an emphasis on pay for performance. This approach helps to attract, engage, retain, and motivate key employees, while ensuring their behaviour remains consistent with Santam's values. Our guiding principles for managing remuneration are as follows:

- *Total rewards mindset* – Reward is viewed in a holistic manner comprising a range of monetary (fixed and variable) and non-monetary components.
- *Performance differentiation* – There is a strong differentiation based on performance, particularly for senior specialist and leadership categories of employees where line of sight to strategic imperatives is evident.
- *Manager discretion* – Management discretion is central to Santam's remuneration philosophy and is based on the requirement that reward must always be based on merit.
- *Variable pay component increases with seniority* – The variable pay component of total reward increases with seniority (organisational level), as the ability to impact business results increase. This is reflected in the different quantum of the incentive opportunity offered by the performance bonus plan and long-term incentive scheme on more senior levels compared to more junior employees.
- *Performance aligned with strategy* – Performance is the cornerstone of reward practices and there is clear differentiation between performers and non-performers. The reward consequences for individual employees are, as far as possible, aligned with, linked to and influenced by the interests of the shareholders, the performance of the company as a whole and the individual's contribution.
- *Risk containment* – Reward plans are structured to mitigate against excessive risk taking.
- *Consistency* – The reward philosophy strives to be both consistent and transparent. Benchmarking is performed annually using consistent and recognised methodologies and the differential market value of various skill groups and roles is reflected in pay practices.
- *Attraction and retention* – The focus is on competitive remuneration practices that attract, engage and retain talent to deliver on the business strategy.

The company's remuneration policy ensures that all employees are rewarded fairly and appropriately.

**Share participation** – Where available, high-performing employees are encouraged to identify with the success of the business through share participation as it establishes a clear link between their personal efforts and the company's longer-term success.

Long-term incentives for subsidiaries – for the high-performing employees employed by the unlisted entities of the group, either share appreciation rights (SARs) or deferred bonus plans are

used. For deferred bonus plans a percentage of net insurance result (NIR) is the key performance driver, while for the SARs a valuation for scheme purposes is used. Vesting in all cases occurs over a five-year period.

**Best practice** – Reward packages and people practices are geared to reflect local and international best practice.

**Benchmarking** – Pay practices are underpinned by globally recognised job and role evaluation processes, enabling us to draw valid comparisons to reputable surveys.

**Communication** – A range of channels are used to increase employees’ understanding of pay practices.

**Risk management** – Persons who receive equity or equity-linked deferred remuneration are prohibited from hedging their economic exposure to the resultant equity price risk.

## Remuneration structure

Total remuneration comprises fixed pay and variable performance-related pay, which is further divided into short-term incentives (with a one-year performance period) and long-term incentives (with three to five-year performance periods).

Total guaranteed package (TGP) is a fixed cost for the company, and is set at around median for the relevant market, with a significant proportion of variable performance-related pay to incentivise and reward performance measured over the short term (one year) and long term (three to five years).

Short-term incentives are structured to reward the delivery of annual financial performance balanced with the achievement of strategic priorities, ensuring that the achievement of short-

term financial performance is not at the expense of future opportunities. No part of executives’ performance bonuses is guaranteed – the full bonus depends on individual and company performance. At the executive level, the maximum bonus that can potentially be earned is 160% of TGP for the chief executive officer, 120% for the chief financial officer and 100% for the other executives.

Long-term incentives are an integral part of the company’s approach to competitive performance-based pay, and are aligned with shareholder returns to ensure a clear line of sight between pay and long-term value creation for shareholders.

When determining pay, consideration is given to the total remuneration (being fixed pay plus short-term and long-term incentives) that may be earned for each level of performance. Furthermore, when determining the specific performance measures for each incentive plan, with particular regard to environmental, social and governance issues, to ensure that the incentive arrangements do not inadvertently motivate or reward inappropriate outcomes or excessive risk.

Before the quantum of awards is determined, extensive modelling of the potential outcomes is undertaken, and adjustments made, so that remuneration remains appropriate in all the circumstances.

At the end of each performance period, before any variable payments are confirmed, remuneration receivable is compared to the expected level of pay for actual performance achieved, to ensure that any payments remain appropriate to overall business performance and shareholder returns.

The table below summarises the structure of Santam’s remuneration arrangements:

Element	Purpose	Performance period and measures	Operation and delivery
Guaranteed package	To compensate the employee for time and competence at a market-related rate, taking into account individual performance and contribution.	Guaranteed package is reviewed annually based on individual performance and market benchmarks.	Guaranteed package is delivered to the employee as a cash salary and a mix of compulsory and discretionary benefits (all benefits are funded from guaranteed package).
Performance bonus (short-term incentives)	To create a high-performance culture through a cash bonus linked to performance against contracted deliverables with due regard to preventing excessive risk taking. To retain and motivate key talent.	Performance is evaluated annually against contracted deliverables.	Performance is measured at company, business unit and individual level against predetermined performance targets. All bonuses are funded from central bonus pools, based on financial targets agreed at board level.
Long-term incentives: – Share participation – Deferred bonus plans and share appreciation rights	To increase employee motivation and thereby create alignment between employee’s interests and shareholder interests. To retain the services of valuable and highly skilled individuals who are performing exceptionally.	Santam uses deferred shares as a long-term incentive. Vesting occurs over a five-year period and is subject to certain criteria: – Vesting for all participants is subject to acceptable individual performance in terms of the company performance rating scale. – For participants with a share multiple exceeding three times annual remuneration package, a company performance hurdle applies. – The hurdle requires return on capital to exceed the cost of capital by at least 2% for multiples between three and five and 6% for multiples in excess of five.  For the unlisted entities in the group, vesting takes place over a five-year period – for both share appreciation rights and deferred bonus plans. Awards are linked to NIR achieved and the valuation of the relevant businesses for scheme purposes.	Awards are made annually based on seniority, performance and contribution. The size of awards aims to maintain an appropriate level of employee retention value.



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The full details regarding the directors’ emoluments, shareholding and deferred shareplan participation are contained in the annual financial statements.

**ALIGNMENT OF STRATEGY, PAY AND PERFORMANCE**

The company’s key strategic drivers aim to deliver a significant return to shareholders compared to other financial industry companies.

Accordingly, the performance measures for executive reward are linked to those same strategic drivers, as captured in the performance contracts of all executive level employees. For the year ended 31 December 2014, the key strategic drivers and

performance measures were linked to the group’s financial, strategic and leadership targets or indicators derived from the group’s strategy.

**SERVICE CONTRACTS AND TERMINATION AGREEMENTS**

Executive directors have service contracts with the company, which may be terminated with no less than three months’ notice. Non-executive directors do not have service contracts, but serve the company under letters of appointment.

Executive directors	Date first appointed to the board	Notice period	Termination payment	Restraint of trade
Lizé Lambrechts Hennie Nel Yegs Ramiah	1 January 2015 17 September 2012 13 December 2011	3 months 3 months 3 months	<p>Total guaranteed package is paid for the remainder of the notice period.</p> <p>Short-term incentives: Not contractual, but normal practice is to forfeit bonus for the year in which an employee departs due to resignation. If an employee leaves by reason of retirement, injury, disability, ill-health or redundancy, bonus is pro-rated.</p> <p>Long-term incentives: In the event of a voluntarily resignation or a termination on disciplinary grounds or for reasons of poor performance prior to the vesting of the awarded shares, such shares will be forfeited. In the event of retirement, retrenchment, death, or permanent disability, the remaining awarded shares will be deemed to have vested on the date of the termination of services.</p>	Executive directors have a 12 months restraint of trade included in their employment contracts.

The company's practice on service contracts and termination arrangements is set out above. The company's overriding principle is that there should be no reward for failure. The committee's approach, when considering payments in the event of termination, is to take account of the individual circumstances including the reason for termination, any contractual obligations, and the relevant share plan and pension scheme rules.

### THE ROLE PLAYED BY THE HUMAN RESOURCES AND REMUNERATION COMMITTEE

In terms of Santam's delegation of authority document, the human resources and remuneration committee is delegated by the board to perform various functions and to make recommendations to the board on remuneration issues. The committee oversees the application of the company's remuneration policy, which aims to promote the achievement of strategic objectives and encourage individual performance. The committee considers the principles of Santam's remuneration philosophy to ensure that they are in line with approved business strategy and objectives. The committee reviews the remuneration of the employees (including executive committee members) and the non-executive directors.

For company employees, the committee considers the nature and composition of total remuneration packages, which consist of guaranteed income, benefit options available, the choice of benefit service providers, short-term incentives, long-term incentives, retention mechanisms and retirement schemes.

– The employment contracts of the executive directors and Exco members are managed in accordance with best practice principles. A culture that supports enterprise and innovation with appropriate short and long-term incentives that are based on fair and achievable performance objectives is promoted.

- The committee ensures that performance targets are stretching, verifiable and relevant, and must avoid duplication of performance drivers.
- Industry, local and international benchmarks and trends are considered when applying the remuneration policy.
- The committee makes recommendations to the board about general (mostly annual) adjustments in remuneration packages and in determining incentives.
- The committee recommends changes to the level of remuneration packages of the chairman, the chief executive officer and individual members of Exco for approval by the board.
- The committee sets performance criteria and recommends performance bonuses for the chief executive officer and Exco members. The performance of the chief executive officer and Exco members are considered relative to performance criteria set by the committee, taking into account the prevailing business climate, market conditions and annual evaluations to assess the level of achievement of key predetermined objectives.
- Bonuses paid to the chief executive officer and Exco members are a reflection of the performance of each individual and the company as a whole. The committee made the necessary recommendations on the above for approval by the board.
- The committee has recommended the non-executive directors' remuneration review to the board who submitted the recommendation for approval by the shareholders.
- The committee regularly reviews the incentive schemes to ensure its continued contribution to shareholder value, setting appropriate limits for participation. The vesting of rights is based on performance conditions measured over a period appropriate to the strategic objectives of Santam. The committee guards against highly leveraged schemes, which would expose Santam to excessive cost or risk.