

# Risk management report

**Santam's board recognises and acknowledges that it is accountable for the establishment and maintenance of an effective risk management system, comprising the totality of strategies, policies, and procedures for identifying, measuring, monitoring, managing and reporting of all material risks to which the group may be exposed, as well as the system of internal control.**

The board is of the opinion that the risk processes at Santam is effective in continuously identifying and evaluating risks and ensuring that these risks are managed in line with the business strategy.

## Enterprise risk management and compliance process

### INTERNAL CONTROL

As part of the overall management of risk, management has implemented a system of internal control. The internal control system provides the board of directors with reasonable assurance that the business is operated consistently with:

- the strategy as determined by the board of directors;
- the business objectives;
- the policies and processes; and
- the laws and regulations that apply to the group.

The system aims to prevent and detect any significant risk from materialising and to mitigate any adverse consequences thereof.

The board is supported by the control functions within Santam, which include the internal audit, enterprise and financial risk management and compliance functions. The functions are reviewed regularly as agreed with the board of directors.

### CONTROL OPINION

The board reviewed the effectiveness of controls principally through a process of management self-assessment, including formal confirmation per representation letters by executive management. Consideration was given to other relevant input, including combined assurance reports, reports from internal and external auditors, compliance and the enterprise risk management process.

Where necessary, programmes for corrective action have been initiated. Nothing has come to the attention of the directors, or the external or internal auditors, to indicate that any material breakdown in the functioning of the internal controls and systems (which include the internal financial controls) occurred during 2014.

### INTERNAL FINANCIAL CONTROLS

Internal financial controls are based on established policies and procedures. Management is responsible for implementing internal financial controls, ensuring employees are suitably qualified, that there is appropriate segregation of duties, and that appropriate reviews are performed.

The internal financial controls in the most significant accounting cycles in Santam Ltd were documented and tested. No significant deficiency was found. Results of this review were reported to executive management and the audit committee.

## INTERNAL ASSURANCE PROVIDERS

The main internal independent assurance provider in Santam is the internal audit and forensic service business units. Internal audit provides objective and independent assurance to management and the board of Santam, through the audit committee, about risk management, control and governance processes. Internal audit is governed by an internal audit charter, approved by Santam's audit committee, and is reviewed annually. The charter defines the purpose, authority and responsibility of the function.

The head of internal audit provides a report at each audit committee meeting and reports to the chairman of the audit committee, with administrative reporting to the chief financial officer and unrestricted access to the chief executive officer and/or any other member of executive management.

Internal audit conducts a robust risk-based planning process, which incorporates various criteria to prioritise and classify the subsidiaries, strategic business units and functions in the group. All material subsidiaries and business units are included in the audit universe on a two or three-year cycle.

Outsourced processes were included in the planning process and included in the audit universe, where appropriate.

The annual internal audit plan is reviewed regularly to ensure it remains relevant and responsive to changes in the operating environment. The Santam audit committee approves the internal audit plan for the group. Detailed audit plans for subsidiaries with separate licences are approved by their respective finance and risk committees.

Internal audit systematically analysed and evaluated the significant risks and associated audit controls and, in terms of their agreed scope, they have not identified any material breakdown in internal control.

Internal audit proactively reviews its practices and resources for adequacy and appropriateness, to meet the ever-increasingly demanding corporate governance and regulatory environment, including the requirements of King III and the FSB's SAM project.

The compliance function is incorporated in the enterprise risk and compliance business unit. The risk committee approves its assurance plan and findings from examinations.

## EXTERNAL AUDIT

The external auditors, PricewaterhouseCoopers Inc, are engaged to provide stakeholders with an independent opinion on whether the annual financial statements fairly present, in all material respects, the financial position of the company and the group.

To ensure that there is no duplication of effort, there is regular communication with internal audit to understand the scope of their work and the results of their audits.

Santam has a formal pre-approval policy on the use of external auditors for non-audit services. The policy provides guidelines on dealing with audit, audit-related, tax and other non-audit services that may be provided by the independent auditor to Santam and its entities. It also sets out the services that may not be performed by the auditor. The services rendered by the auditors are monitored by the audit committee on a quarterly basis. Non-audit services rendered by the group's external auditors amounted to R5.3 million. This includes R1.3 million for assurance-related services, R0.6 million for regulatory-related services and R3.4 million for IT-related services.

The external and internal auditors attend committee meetings and have unrestricted access to the committee and its chairman at all times, ensuring that their independence is in no way impaired. Both the external and internal auditors have the opportunity of addressing the audit committee at each of the meetings without management being present.

## OTHER ASSURANCE

There is regular interaction and consultation between internal audit and other internal assurance providers, for example, the quality assurance functions in the distribution, claims and underwriting business units, and the compliance officer.

## Risk management

The objective of risk management is to create and protect value for legitimate stakeholders, improve decision-making and contribute to retaining and building Santam's leadership position in terms of financial performance, reputation/brand, market share and the protection of policyholders.

The board also ensures that the risk management and internal control systems are regularly reviewed for effectiveness. The latest review was conducted for the 2014 period and included the adequacy and effectiveness of enterprise risk management

within the Santam Ltd business. While the board is responsible for the overall governance of risk, it is assisted by the risk committee in discharging this responsibility.

The financial risk management function assists in the review and quantification of financial risk. The enterprise risk management function provides independent oversight and systems for the management of all categories of risks. Both these functions have direct reporting lines to the Santam risk committee to ensure independent and objective oversight over risks. An executive risk forum consisting of the chief financial officer, the executive head of risk services, the head of enterprise risk and compliance, the head of financial risk management and the corporate finance manager responsible for investments has been implemented to assist these functions in the review and challenge of material risks for the group.

Executive management remains accountable to the board in ensuring that suitable risk management and internal control processes are embedded and integrated into the strategic and operational management of the company.

Risk management policies and processes were updated to include new legislation and regulatory requirements (especially regarding SAM) and to consider the evolving scope of the group's business. The policies form part of the group's governance framework and encompasses the totality of strategies, policies and procedures for identifying, measuring, monitoring, managing and reporting of all material risks to which the group may be exposed.

Risk monitoring and management is a continuous process. However, to enable transparency and adequate oversight, formalised risk reporting structures and requirements are defined and aligned with the Santam risk committee responsibilities and requirements.

Various processes are implemented to ensure all aspects and categories of risks are covered, assessed and monitored to ensure that risks are managed within the overall Santam board's risk appetite.

Alignment between risk management and other assurance providers, including internal and external audit, compliance and quality assurance functions, is important to ensure that adequate assurance is provided over significant risks and any gaps identified and addressed. This process is referred to as the "combined assurance process". The combined assurance model documents and summarises the assurance provided over significant risks and are reported and reviewed by the audit committee at least on an annual basis.

Enterprise risk management (ERM) conducts a quarterly analysis of the exco's top strategic risks. Research, one-on-one as well as group workshops and interviews with exco and selected management were conducted to assist in gathering the necessary information.

The relevant board committees monitor specific risks with overall oversight and review provided by the risk committee.

## Risk disclosure

The integrated ERM process is mature and is applied consistently throughout the group. Based on independent reviews and maturity assessments presented to the risk committee, the board is confident that the integrated ERM programme is adequate in identifying current and emerging risks and ensuring that these risks are managed appropriately.

## Business continuity

A key operational risk, which spans Santam's business, is the potential impact of a major disaster and/or disruption. The group has responded to this threat by continually improving the group-wide business continuity framework to ensure that people are prepared, crisis infrastructure is tested, and meaningful recovery plans are in place. A steering committee is responsible for overseeing, reviewing and monitoring Santam's business continuity capability.