

SANTAM LIMITED
(Incorporated in the Republic of South Africa)
(Registration number: 1918/001680/06)
(Share Code: SNT & ISIN: ZAE000093779)
A2X share code: SNT
NSX share code: SNM
Bond company code: BISAN
(‘Santam’ or the ‘Santam Group’)

OPERATIONAL UPDATE TO SECURITYHOLDERS FOLLOWING THE SANTAM BOARD MEETING HELD ON 3 JUNE 2020

This is a general communication to Santam shareholders and noteholders (‘Securityholders’) to inform them of the business performance of the Santam Group for the four-month period ended 30 April 2020.

Impact of COVID-19

The business responded rapidly to the changing circumstances caused by the global coronavirus pandemic and the consequent lockdown enforced from midnight 26 March 2020. We successfully continued to service our policyholders and intermediaries during this crisis, while ensuring the safety of our employees. Almost 80% of our employees remain working from home. We will continue to carefully manage employees returning to work in line with the lockdown regulations, while taking cognisance of any employees at higher risk. Our aim is for the majority of our employees to continue to work from home for the foreseeable future to reduce the risk of infection.

Due to the unprecedented impact of the pandemic on economic activity, we reviewed all relevant policy wordings to determine whether and how Santam’s policies might respond to COVID-19.

A number of claims for Events Cancellation and Travel Insurance were covered in terms of our policies and we are in the process of settling these claims in line with the policy conditions.

A small minority of our commercial and corporate policyholders have cover that includes protection against contagious or infectious diseases. This cover is provided under either the Contingent Business Interruption (“CBI”) or the Cancellation of Bookings sections of their policies. CBI insurance covers the interruption of a business as a result of a localised outbreak of a contagious or infectious disease that has directly impacted the business’s operations and caused a loss. Losses as a result of governmental restrictions on activity, such as a national lockdown, are not covered. This view is in line with the majority of our counterparts and reinsurers in the short-term insurance industry, both locally and globally.

Provisions for claims from these policies were raised based on our best estimates of the exposures; however, given the lockdown and the complex nature of these claims, significant uncertainty exists over the quantum of the claims provisions.

The lockdown resulted in a muted claims environment for the month of April 2020, mostly impacting the motor class of business. Santam and MiWay both provided premium refunds and discounts on motor policies as well as other premium relief support to personal and commercial policyholders amounting to R327 million. Support of R42million is also being provided to small, medium and micro-enterprises (“SMMEs”) and other suppliers.

The lockdown and economic slowdown negatively impacted premium growth as new business acquisition reduced significantly. Targeted interventions were introduced to contain operational costs in the current challenging economic environment.

Conventional insurance business

The Conventional Insurance business segment achieved a net underwriting margin at the midpoint of the target range of 4% to 8%. Satisfactory growth in gross written premium, excluding the premium relief noted above, was achieved.

The Santam Commercial and Personal intermediated business continued to experience strained growth in the current economic climate, exacerbated by the impact of COVID-19 on new business acquisition during April 2020. The loss ratio benefited from a benign claims environment experienced since January 2020, with the lockdown further reducing claims activity during April 2020. This was partly offset by provisions for COVID-19 related business interruption claims.

The Santam Specialist business reported strong growth in the corporate property and engineering businesses, while the growth in the travel insurance, aviation, transport and marine businesses were negatively impacted by COVID-19 during March and April 2020. Underwriting performance was subdued as a result of the provisions raised for COVID-19 related business interruption claims.

MiWay maintained its positive growth momentum up to the start of the lockdown, where after new business growth was negatively impacted. Solid underwriting results were reported for the period.

Santam Re continued to expand its third-party business and foreign currency premium growth benefited from the weak South African Rand. Underwriting results for the period were negatively impacted by events cancellation claims due to COVID-19. Exposure to this class of business is however limited, which should reduce the full year impact.

The investment return on insurance funds was lower compared to 2019 following a lower interest rate environment both in South Africa and in foreign territories.

Alternative Risk Transfer business ('ART')

The ART business segment achieved solid growth in fee income, while the investment spread deteriorated significantly due to the volatility in investment markets due to COVID-19, resulting in investment losses for the period.

Sanlam Emerging Market ('SEM') partner businesses

Africa

The African general insurance portfolio exceeded its growth budgets for the period, which allow for a more muted growth target as focus remains on the quality of new business. This includes the non-renewal of loss-making schemes that could not be repriced appropriately. The decline in equity markets and lower valuations for unlisted properties in North West Africa adversely affected investment returns earned on insurance funds due to the approximate 40% and 30% respective exposures to equities and properties in the portfolio. This more than offset an otherwise satisfactory underwriting performance. The general insurance portfolio had a good start to the year from an underwriting perspective, achieving a net underwriting margin within the 5% to 9% target range. All key markets contributed improved performances compared to 2019. The negative return on insurance funds, however, contributed to an overall negative net insurance margin for the four-month period.

Other international regions

Shriram General Insurance (SGI) continued to contribute strong profit and premium growth. It should be noted that we report the SGI results with a three-month lag. Pacific & Orient reported reasonable results under difficult circumstances, as was the case in Lebanon, where the country is facing major economic and political challenges.

Investment performance

The Santam Group's balance sheet held up well during this period of excessive market volatility. Significant foreign currency gains following the weakening of the Rand, were offset to some extent by fair value losses on listed equity and bond portfolios.

Santam's capital, liquidity and funding positions remain robust and the Group operated effectively in the face of unprecedented global uncertainty presented by the COVID-19 pandemic. Santam's economic capital coverage ratio remains above the 150% threshold and its regulatory capital position remains strong, following the payment of the 2019 final dividend on 30 March 2020.

Equity, interest rate and currency markets are expected to remain volatile for the foreseeable future. Headline earnings remain susceptible to the inherent volatility of underwriting and investment activities.

The next set of Santam results will be for the six months to 30 June 2020, to be released on the JSE Limited Stock Exchange News Service on or about 3 September 2020.

CAPE TOWN

3 JUNE 2020

Equity Sponsor: Investec Bank Limited

Debt Sponsor: RAND MERCHANT BANK (A division of FirstRand Bank Limited)