



## Responsible products and services

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Wealth is a journey. As Wealthsmiths™ we have a deep respect for that journey and the different needs that arise along the way. It's why we are committed to truly understanding our clients' ever-changing needs, so we can treat them fairly and provide affordable solutions that deliver on their expectations. In this way, we are able to offer a highly considered and diverse portfolio of responsible financial products and services designed to build wealth and transform lives.



# Why responsible products and services are important

We focus on the following material issues

|                             | Material issues   | Page  |
|-----------------------------|---|---|
| Business strategy           |  Client-centricity, satisfaction and retention (including Treating Customers Fairly (TCF)) |  Page 61 to 63.  |
| Earnings growth             |  Product development   |  Page 63 to 65.  |
| Operational efficiencies    |  Distribution network  |  Page 66 to 69.  |
| Optimal capital utilisation |  Providing access to financial services  |  Page 70 and 71. |
| Diversification             |  Embracing technology  |  Page 72.        |
| Transformation              |  Responsible investment  |  Page 73 to 74.  |
|                             |  Empowerment financing and infrastructure development                                      |  Page 74 and 75. |

**Saving and investing for the future are an essential requirement for a prosperous society. Sanlam is committed to creating and distributing savings products that build and grow wealth for more South Africans, and in the process, securing our future as the financial services industry and in turn our country.**

The global financial services industry is continually striving for higher ethical standards and business behaviour. Similarly, in South Africa, the transition to an increasingly strict regulatory environment is placing pressure on our industry to lower costs while maintaining standards and continuing to treat customers fairly.

Delivering on these demands requires innovative products and services to drive client-centricity and efficient delivery, which in turn are important in driving the development of our business model. As Wealthsmiths™, we are committed to understanding the different needs of our various client segments, treating them fairly and constantly working to provide affordable solutions that address their financial needs.

In addition, as a large institutional investor, Sanlam Investments has sizeable interests in most of South Africa's companies, and corresponding influence over governance and sustainable business behaviour. Our aim is to use our influence to encourage good governance, not only as responsible investors, but because it makes long-term investment sense.

#### Commentary on performance

Rated a leading insurer for overall customer satisfaction in SAcSi survey. No significant TCF risks or compliance issues. Complaints under control.

Underwriting models simplified, with clearer value proposition for clients. Sales growing in affluent, growth and entry-level markets.

Retail Distribution Review (RDR) legislation and retirement industry reform proposals increasing the level of uncertainty in the industry. Initiatives aimed at improving value and efficiencies within the broker model.

Strong emphasis on growth in funeral policy market. Over 3 400 tied agents in 62 sales branches, 280 independent brokers and 29 Ubuntu service points within communities across the country.

In 2015, we launched our mobile app for intermediaries, InterAct.

Improved quality of environmental, social and governance (ESG) research.

In 2015 Sanlam enabled UB to pay a special dividend of R830 million to its shareholders. UB has acquired 51% of Indwe (a leading black-controlled insurance brokerage firm in South Africa), with Sanlam at 24% and Santam at 25%.

## Responsible products and services material issues

### Key performance indicators

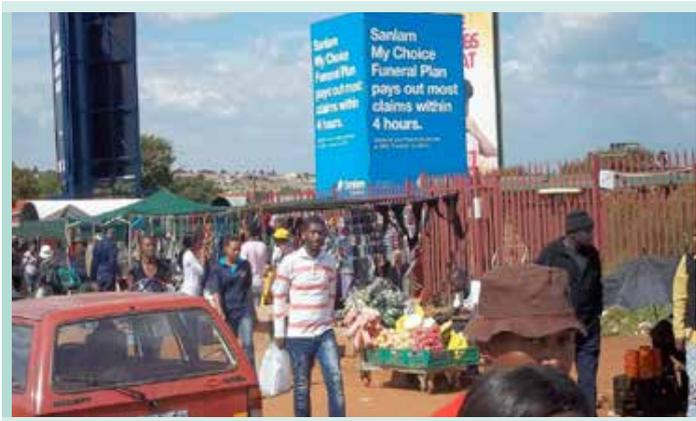
|   | 2012  | 2013  | 2014   | 2015         |
|---|-------|-------|--------|--------------|
| Customer satisfaction index score (SAcsi)*                            | —     | 79,3  | 77,8   | <b>78,4</b>  |
| Ombudsman complaint handling – percentage in favour of Sanlam**       | 76%   | 75%   | 76%    | <b>88%</b>   |
| Research and development spend*** (R million)                         | 57    | 69    | 68     | <b>53</b>    |
| Percentage growth in new business sales in the entry-level market**** | 6%    | 17,4% | (2,4)% | <b>13%</b>   |
| Number of resolutions voted on  | 1 942 | 1 708 | 3 028  | <b>3 347</b> |

\*SAcsi is an independent national benchmark of customer satisfaction of the quality of products and services available to households. According to the SAcsi study, Sanlam is one of two large insurers who are leading in this sector.

\*\* Unverified.

\*\*\* Excludes Santam.

\*\*\*\* Refer to the 2015 Sanlam Group Annual Report for more detail.



Sanlam re-engineered its processes in order to respond to our clients need to receive payment as quickly as possible.

## MI Client-centricity, satisfaction and retention

Sanlam embeds client-centricity firmly within its business practices, an approach fully aligned with Treating Customers Fairly (TCF), which mandates a formal approach to treating customers fairly and improving client confidence in the financial services industry.

The six fairness outcomes of the TCF framework are:

|   |   |   |
|---|---|---|
| 1 | <b>Fair treatment</b>                               | Customers are confident that they are dealing with firms where the fair treatment of customers is central to the firm culture.  |
| 2 | <b>Meet the needs of identified customer groups</b> | Products and services marketed and sold in the retail market are designed to meet the needs of identified customer groups and are targeted accordingly.                                 |
| 3 | <b>Clear information</b>                            | Customers are given clear information and are kept appropriately informed before, during and after the time of contracting.   |
| 4 | <b>Suitable advice</b>                              | Where customers receive advice, the advice is suitable and takes account of their circumstances.  |
| 5 | <b>Products that perform</b>                        | Customers are provided with products that perform as firms have led them to expect, and the associated service is both of an acceptable standard and what they have been led to expect. |
| 6 | <b>No unreasonable post-sale barriers</b>           | Customers do not face unreasonable post-sale barriers to change product, switch provider, submit a claim or make a complaint.   |

Our reporting structure for client-centricity, product development and distribution follows the TCF framework.

### What client-centricity means for Sanlam



- ① Understanding our clients and their financial service needs.
- ② Providing the right tailored solutions to fulfil clients' needs and their desires by designing business models and solution sets that are appropriate for each market segment.
- ③ Taking necessary steps to ensure that our client expectations relating to quality of service and any guarantees or promises in products and marketing are met.
- ④ Service standard requirements are in place to support the delivery of quality service and fair treatment.
- ⑤ We subscribe to providing our clients with information that is clear, fair and does not mislead.
- ⑥ Clients are encouraged to provide feedback through various channels on whether the quality of service, advice and performance meet their standards.

#### Types of research

All research is conducted by independent research houses and Sanlam has no influence on outcomes.

Some research is commissioned by Sanlam, while other surveys are external initiatives that may or may not include Sanlam's involvement. Examples of research commissioned by Sanlam include: Consumer Tracking Study and the annual Sanlam BENCHMARK Survey.

Examples of external research include: SA Customer Satisfaction Index (SAcsi) and the Orange Index report.

# Responsible products and services material issues

## continued

### Developing client insights

We use a number of ways to gain insight into client needs and to keep abreast of changing market trends. Market insight teams within each business cluster conduct market research throughout the year. Our annual Consumer Tracking Study, involving 1 200 participants, helps us understand the financial needs, behaviour and engagement preferences of consumers in markets we target. It also benchmarks consumer perceptions of Sanlam against key competitors.

Engagement with Sanlam clients is measured through client experience research in the course of client transaction processes throughout all stages of the product life cycle.

We interact with our institutional clients and the intermediaries serving our retail clients. We hold a number of annual regional forums and conferences to engage our intermediaries.

We interact with the TCF framework and we review government discussion documents, assisting the Association for Savings and Investment South Africa (ASISA) in formulating coherent responses to the Financial Services Board (FSB). Once new regulations are gazetted, we develop formal policies and management frameworks to ensure compliance. Further engagement takes place through complaints management, see section in page 63.

### Performance

According to the 2015 South African Customer Satisfaction Index (SACSI) study, Sanlam and one other insurer were sector leaders while the other four large insurers were statistically on par with the industry average in terms of overall customer satisfaction.

The international life insurance industry benchmark is set by the United States of America, and South Africa scored second internationally. Sanlam scores well in terms of customer satisfaction compared to the leading international insurers – we are in the top five internationally.

The 2015 client experience survey involved more than 6 000 clients and intermediaries across our different business units and market segments. Overall, we are satisfied with the results of the surveys, as we have met standards across all elements and consistently perform in the top quartile across the various areas, the business and market segments.

From 2015 we have included an evaluation of our clients' experience when transacting on new products with Sanlam in order to meet their financial needs. The results of this research reveal that overall, a large percentage of clients are delighted (score of 9 or 10 out of 10) with their experience.

Not only did the client survey reveal that we continue to offer our clients and intermediaries an excellent experience, but also that independent brokers (intermediaries who also support other financial services providers) declare a better service experience at Sanlam with regard to new business process compared to our competitors. However, we are cognisant of the increased pressure from competitors, and the constantly raised service levels within our industry.

TCF reports are presented to the Sanlam Customer Interest committee every quarter. The consolidated summary for 2015 is as follows:

#### Sanlam Individual Life and Segment Solutions (SILSS)

While some TCF issues were identified, these were not serious and are being addressed, which is good news for SILSS as we have very few cases coming back from the Ombudsman that need to be resolved.

#### Sanlam Sky Solutions

No significant TCF risks or compliance issues were reported for 2015. The number of complaints, an important indicator of TCF compliance, is low relative to the number of transactions processed. We have proactively put measures in place to reduce the number of clients going to external forums to resolve complaints.

In general, issues are addressed quickly, but we realise that more focus is required to finalise the significant number of calls logged through the legacy product review.

Group Benefits have aligned their TCF report to be in the same format as that of the Individual Life TCF information.

### Safrican

No significant TCF risks or compliance issues were reported for 2015. We are taking steps to address concerns regarding our sourcing agreements with our administrators. Management has undertaken to improve the internal process and ensure that all approved claims are paid. Ensuring that the proper diligence is exercised during the assessment phase remains an important focus.

In addition, two sets of client surveys on products and services were distributed to our administrators. The business remains committed to respond to these learnings.

Reducing the number of complaints generally, and the number of complaints found in favour of complainants, remains our key area of focus. Safrican continues with interventions to decrease our number of adverse findings to below the industry average.

### Glacier by Sanlam

No significant TCF risks or compliance issues were reported for 2015. The number of complaints has been reasonably stable during the year under review, and we are looking into why there has not been an improvement.

### Sanlam Personal Loans

The implementation of the TCF framework will continue at business cluster level in 2016, with a special focus on the roll-out of product training and the amendment of all client-facing communication. While it is not yet officially a requirement in any of the African countries in which we do business, we are nonetheless improving complaints management in these countries.

Business clusters have started quarterly reporting against our TCF framework and we are steadily improving the public disclosure of our TCF performance.

We expect that the TCF regulatory framework will evolve over time as both the industry and the Financial Services Board (FSB) grapple with its consequences. As developments around TCF and regulatory requirements relating to market conduct unfold, such as the recent publication of the complaints management discussion document and the Retail Distribution Review (RDR), we will initiate new projects or working groups to incorporate these new requirements.

### Sanlam Investments

Sanlam Investments (SI) implements all the elements of TCF in accordance with the Sanlam TCF Framework. The SI business culture and TCF practices are subject to continuous improvement to minimise conduct risk.

A key area of progress in 2015 is that the product evaluation group (PEG) is well established and meetings are held on a monthly basis. PEG is tasked with coordinating and approving products within SI, while ensuring that the requirements of TCF Outcome 2 are adhered to.

The SI Compliance department has a TCF monitoring programme whereby evidence is collected and evaluated for each of the six TCF outcomes throughout the year. Any findings are addressed either by specific intervention or by embedding the required TCF activities into operational processes.

The content and structured measurement of the TCF outcomes within SI is at an acceptable level. The awareness of TCF and the processes within the business to supply the required information continue to improve. We continue to align our development of TCF management information to our strategic imperative of creating a client-centric business.

## Resolving complaints

We have a strong internal complaints management process. This is governed by a Group complaints policy and the internal complaints processes provide Sanlam clients with the opportunity to lodge complaints with the Sanlam arbitrator. We further subscribe to the Long Term Ombudsman Scheme (OLTI). Any of our long-term insurance policyholders can lodge a complaint at the independent ombudsman of long-term insurance to have their complaint resolved. The OLTI publishes industry complaints data for all subscribers with the publication of their annual report. This information is available on their website [www.ombud.co.za](http://www.ombud.co.za)

## Product development

Our goal is to develop solutions that promote financial wellbeing within the communities we serve, by promoting a savings culture and providing protection. We design products that clients can easily understand and we build on our strong product legacy to foster trust and confidence in our solutions.

The Sanlam Group provides tailor-made financial solutions to meet a broad range of needs in different market segments, from entry-level to high net worth clients. We are committed to promoting access to financial services to all South Africans, especially in rural areas.

# Responsible products and services material issues

## continued

Our actuarial team has access to the database of Sanlam Personal Finance (SPF) of over six million clients, enabling them to develop more accurate models of future trends, and better understand the changing client profile. Using a value-mapping tool, we check the accuracy of this predictive modelling against the amount of new business signed against our client profiles.

### Key insights informing product development

The following key insights have informed our product development activities:

- ① Tough economic conditions and low economic growth are eroding particularly low- and middle-income clients' wealth and their ability to spend.
- ① There is a growing trend of affluent clients taking their money offshore, driven by the depreciation of the rand and the sluggish performance of the South African economy.
- ① Products are increasingly at risk of being commoditised, particularly in the savings and investment sector. Brand and service differentiation continue to be key to avoid margin erosion.
- ① Market and regulatory pressure continues to drive down fees, exerting further pressure on margins. We need to provide clients with bespoke value and improve business efficiencies.
- ① Technology (robo-advice) is enabling clients to obtain more advice online and is changing the nature of the intermediary engagement.
- ① The entry-level market is a growing segment with tough competition in the funeral space.
- ① There is growing appetite for simple savings in the entry-level market.

### KPI table for product development

|  | 2014   | 2015 |
|--|--------|------|
| Growth in new business sales in entry-level market (%) | (2,4)% | 13%  |
| Growth in new business sales in growth market (%)      | 9,8%   | 3%   |
| Growth in new business sales in affluent market (%)    | 29,9%  | 27%  |
| Research and development spend (R million)             | 68     | 53   |

Please refer to the 2015 Annual Report for more detail.

### Product development activities in 2015

#### Retail Distribution Review

In November 2014, the Financial Services Board (FSB) released the Retail Distribution Review (RDR) discussion paper, which could have far-reaching effects on our industry and clients. It proposes a set of structural changes to incentives, relationships and business models in an effort to support fair client experience. The RDR covers 55 proposals to improve client confidence in the retail financial services market. Through the Association for Savings and Investment South Africa (ASISA), Sanlam has provided feedback on each of the proposals relevant to the business. We will continue to engage with and support efforts by the FSB to improve the financial service sector's conduct, which will ultimately improve client confidence.

In April 2015, Sanlam launched a tax-free savings account product in line with National Treasury's guidelines on simple savings.

#### The Sanlam Emerging Markets client and product team

Sanlam Emerging Markets (SEM) has established a new team dedicated to driving and supporting growth through appropriate client distribution and product strategies across the cluster. The team spans across SEM's four core product lines of life insurance, general insurance, asset management and retail credit. It aims to provide innovative solutions and support for addressing gaps in our client and product offerings and in the models supporting them, and promotes the sharing of concepts and the re-use of product models across the cluster.

In January, the SEM board was informed of the approach that is being followed with regards to Treating Customers Fairly (TCF) and client interest. While SEM embraces the principles of the Sanlam Group TCF framework, it also recognises that the format of TCF within SEM will be influenced by local market practices

and the maturity of the markets in which the businesses operate. Accordingly, SEM will follow a risk-based approach to ensure that customers are treated fairly.

The SEM minimum governance standards that were developed in 2014 have been expanded to include a separate section on TCF and each of our businesses will be assessed against these standards. Meanwhile, a client interest statement and policy, and a client interest risk escalation process are minimum TCF standards for all SEM entities.

### Sanlam Sky Solutions

Sanlam Sky Solutions has developed solutions aimed specifically at meeting the demand for funeral policies. Our flagship products allow the flexibility to pay either a premium per life covered or a single premium covering the immediate family. Benefits include increasing cover and premium at the same rate, rewarding clients for keeping their policies active while also allowing premium holidays in the case of unemployment or pregnancy, and paying premiums on clients' behalf when they reach a certain age and have paid premiums for at least 15 years.

### Funeral policy payout turnaround time

|                                 | 2014 | 2015 | Target |
|---------------------------------|------|------|--------|
| Payout percentage in 24 hours   | 92%  | 98%  | 95%    |
| Payout percentage in four hours | 67%  | 80%  | 80%    |

After extensive market research, the Sanlam My Choice Family Funeral Plans were launched in October 2015. This range of funeral plans was designed to offer an affordable funeral cover package for the whole family.

### Sanlam Glacier

Sanlam Glacier has over the last two years rewritten its online client and intermediary interface. The final switch-over to the new interface will take place during the first quarter of 2016. At the same time Glacier is rewriting a new business acquisition portal, enabling intermediaries and clients to interface with Glacier without having to use either verbal communication or paper documentation. This initiative is due for launch during the first quarter of 2017. The aim is to improve the efficiencies within the intermediaries' practice and to make it easier to do business with Sanlam Glacier.

### Sanlam Individual Life Segment Solutions

Risk products offer quality benefits and certainty of benefit payments at good value for money. This is what Sanlam is known for in the industry and this is the philosophy we continue to portray and protect. Ultimately, the aim is to increase value for our shareholders, and we therefore measure our performance against our targets in terms of the value of new business for each specific product line.

At the end of the first quarter of 2016 we will enhance our product range further with the following additions and changes:

① **A competitive cash back structure** to risk products

② **Integration with Reality** to offer members premium discounts on savings and risk business

③ **A simplified underwriting model**, which will not only give us better entry into part of the lower income market, but potentially also revolutionise the ease of doing business in some of the upper segments looking for far larger cover sizes on a wider product set

④ **A comprehensive rate review** to reflect changes to the tax dispensation of risk business, while ensuring that we remain as competitive as possible in the market.

The recent income protection review showed the results which can be achieved through a comprehensive review and re-packaging of product benefits. We have identified the need for a similar review to ensure our dread disease benefits remain best of breed. We are working towards the possible implementation of new dread disease benefits in the third quarter of 2016.

# Responsible products and services material issues

continued

## MI Distribution network

Sanlam's distribution channels can be broadly classified into three general categories that align with our three market segments: entry-level, growth and affluent. The largest of these are Sanlam Financial Advisers (SFA) and Sanlam Broker Distribution.

### Sanlam's three distribution channels

Sanlam's distribution channels can be broadly classified into three general categories:

|          |   |  |
|----------|---|--|
| <b>1</b> | <b>Advisers/tied agents</b>               | <ul style="list-style-type: none"> <li>① Sanlam Financial Advisers (SFA) services the growth and affluent markets via two adviser categories: those who are only accredited to sell Sanlam products, and those accredited to sell a wider product range.</li> <li>② The Sanlam Sky agency distribution channel services the entry-level market, as well as the lower part of the growth market, via advisers who sell Sanlam products exclusively.</li> <li>③ Sanlam affiliated intermediaries also service the entry-level market, selling Sanlam products exclusively, but operate with a greater degree of autonomy.</li> </ul> |
| <b>2</b> | <b>Brokers/independent intermediaries</b> | Independent brokers service individual clients across the market segments and are supported by dedicated broker service units in Sanlam Sky, Glacier and Sanlam Broker Distribution.   |
| <b>3</b> | <b>Direct</b>                             | The Sanlam Direct unit markets Sanlam products directly to clients using an outbound call centre. The various market segments also have a direct client offering for certain products, via an online platform.   |

Sanlam makes use of an intermediated distribution model to generate around 90% of all new business. Our prosperity is therefore dependent on a sustainable and growing flow of new business revenue from a professionally accredited sales force, with client-centricity and treating customers fairly at the core of our business philosophy and practice.

While new distribution structures such as dealership models, franchise models and direct-to-market models are on the rise, our consumer tracking study revealed that the vast majority of clients still prefer to receive financial advice from financial advisers and independent brokers. Aggregated industry statistics provided by the Association for Savings and Investment South Africa (ASISA) support this.

The intermediary channel is therefore crucial to our business model. Nonetheless, there are significant challenges:

① The cost of supporting an intermediated distribution network, and especially a tied agency network, has increased over the past five years

② Increased regulatory requirements have added considerable cost and complexity

③ There is uncertainty about the effect of the Retail Distribution Review (RDR) proposals, particularly on the low-income segment, as well as in the independent financial adviser market.

Furthermore, South Africa is known to have a poor savings culture, which is under further pressure from a stagnating economy. However, we are confident that with the right support and a long-term value creation approach, we can continue to assist intermediaries in creating and maintaining sustainable and economically viable businesses.

We support the development of a network of intermediaries across multiple distribution channels that are aligned with the needs of our clients for different market segments. We strive to ensure that our intermediaries are professional, well-informed and up-to-date regarding all legislative and regulatory compliance aspects. We are also committed to supporting intermediaries in terms of administration, value-adding and competitive financial solutions, leading-edge tools of trade, leadership and advice.

## ➤ Financial advisers

The growth in new clients and retention of existing clients is very much dependent on the success of our intermediated distribution and sales strategy. Sanlam Personal Finance (SPF) distribution consists of two main channels: Sanlam Financial Advisers (SFA) and Sanlam Broker Distribution (SBD – Independent Financial Advisers (IFAs) or brokers). It is important that, given changes in the market place and regulatory reform interventions, intermediaries have businesses that operate in a sustainable way.

To achieve this, SPF has conducted thought leadership engagements with various industry stakeholders, informing new design and implementation changes. In particular, we have invested significantly in providing comprehensive financial advice to our clients, training advisers to communicate knowledgeably, and providing transparent statements quickly and efficiently.

Looking forward, we will have to simplify business processes and bring costs down through improvements in technology. The aim is to continue retaining clients in 20 years' time and to continue being able to provide outstanding service at competitive cost.

## New legislation driving change

We take full legislative ownership and responsibility for our tied agents operating under Sanlam's multiple financial services provider (FSP) licences. Independent brokerages, which operate under their own FSP licences, can consult our support staff about Sanlam solutions and service offerings. We provide various levels of support to our intermediaries to help them adapt to this changing legislative environment, supporting them in adapting to new distribution models such as Sanlam BlueStar Succession and the Sanlam Affiliated Intermediary (SAI) network.

Furthermore, Sanlam participates in the RDR consultative process of the Financial Services Board (FSB) via ASISA, with the objective of providing a balanced view of implications not only to clients, but especially to intermediaries and other industry stakeholders.

## Engagement in the distribution channel

We regularly engage with our intermediaries. Our distribution leaders participate in regular workshops, unit meetings and many other formal and informal sessions.

The general manager of SFA and senior managers in the channel hold quarterly Sanlam Adviser Forum (SAF) meetings with the national committee, which consists of elected representatives from specific regional adviser constituencies. Matters discussed include client relationships, intermediary contracts, remuneration, compliance issues, incentives and training.

This year, SFA also held workshops with the national committee around the RDR proposals.

In Sanlam Broker Distribution, we have created a digital forum called The Broker Voice, engaging with brokers around topical issues in the independent intermediated space.

We provide our advisers and brokers with up-to-date information through our monthly *Inside Sanlam Personal Finance* (Inside SPF) magazine, an initiative that earns intermediaries 0,5 continuous professional development (CPD) points per edition from the Financial Planning Institute of South Africa (FPI).

# Responsible products and services material issues

continued

## KPI table for distribution network

|  | 2013  | 2014  | 2015         |
|--|-------|-------|--------------|
| <b>Number of:</b>                        |       |       |              |
| Growth in total advisers                 | 1 918 | 1 940 | <b>1 992</b> |
| Growth in BlueStar businesses            | 159   | 181   | <b>209</b>   |
| Growth in supporting brokers             | 1 980 | 1 990 | <b>2 000</b> |
| Recruitment into Succession              | 50    | 75    | <b>135</b>   |
| Increase in entry-level market footprint |       |       |              |
| Proportion of black advisers             | 30%   | 32%   | <b>31%</b>   |
| Proportion of female advisers            | 32%   | 31%   | <b>32%</b>   |

### ➤ Growth in the distribution network

While adviser numbers in the growth and affluent markets have increased modestly, the number of BlueStar businesses has grown significantly, with close to 50% of the middle and affluent tied agents now being part of a BlueStar business. Sanlam BlueStar aims to convert tied agents with small practices into professional, entrepreneurial businesses.

Specialised BlueStar businesses focusing on specialised solutions and services are also being established. This aligns with our vision to provide professional advice and services, as well as to focus more on profitability and sustainability and not only on generating sales for the sake of business volumes.

In Sanlam Broker Distribution, we have operated a broker network known as Succession Financial Planning for some time, currently with more than 150 broker partners. Recently we have added conversion of broker practices to agency alternatives to the proposition, focusing on practice building, new intermediary development, and capital extraction and retirement, known as Sanlam Aligned Financial Planning.

In the entry-level market, the prohibitive costs associated with regulatory compliance for independent brokers prompted us to endorse a new model – the affiliated intermediary model. This model provides sole proprietors and other one-person brokerages whose licences have lapsed the opportunity to operate under Sanlam’s licence through a contractual agreement. Sanlam brings its experience to the partnership to ensure that these independent brokers meet regulatory requirements.

In support of our transformation agenda, we have maintained a 99% black adviser staff complement, with 67% female, in the

entry-level intermediary network. This performance reflects our continued focus on improving the Group’s geographic footprint in the entry-level market, and ensures our ability to build trusting relationships across South Africa’s diverse client base.

#### Strategy to improve performance



- Adapt to legislative requirements
- Grow our footprint
- Improve efficiencies to achieve profitable growth
- Diversify our offering in a sensible way
- Find synergies, for example with SFA, to collectively increase growth and market share
- Provide competitive products (see page 63 under Product development)
- Support intermediaries with efficient IT systems (see page 72 under Embracing technology)
- Secure and train the right people (see page 43 under Training and skills development)
- Enhance systems to improve agility and flexibility.

### Key initiatives for the middle and affluent markets

A big focus in SPF Distribution is on client retention, advice and, from a product perspective, recurring risk business. We committed to high targets in 2015, and exceeded them. Plans to ensure this is being achieved sustainably have been drawn up for 2016.

Ongoing client relationships are secured through the BlueStar and Succession models of delivering services and advice by the business and not by individual advisers, as in traditional distribution models. We take cognisance of client preference and employ direct marketing principles to actively target certain segments of our client base. During 2015 we launched an online offering aimed at the self-directed consumer. This capability is also available on BlueStar websites as part of a larger digital strategy.

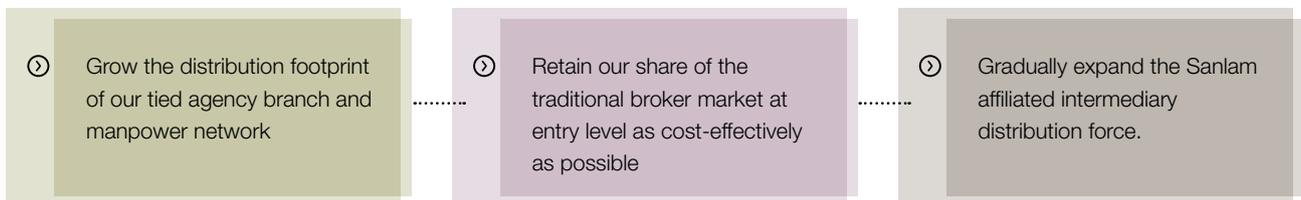
Sanlam BlueStar and Succession enable advisers to adopt new-generation business principles, where the primary objective is to deliver the Sanlam value proposition to clients in an independent business setting, while still having the security and protection of Sanlam as the licence provider. The intention is to build and run profitable and compliant financial advisory businesses with predefined rules and processes, subject to strict governance and discipline.

Two new variants of BlueStar models are currently being rolled out. These provide further aspirational focus for existing BlueStar businesses while also expanding the SFA offering to intermediaries and groups of intermediaries still not part of Sanlam.

Within Sanlam Broker Distribution, there is significant emphasis on preparing broker businesses for the advent of RDR. Support is offered through both thought leadership and tools.

### Key strategic initiatives for the entry-level market

Sanlam Sky Solutions is our business vehicle for expanding into previously under-represented income segments, geographies and industries. Its goals are to:



We are also focusing on empowering our distribution force to meet client needs by creating a pool of advisers who can provide a wider range of products, by putting referral arrangements within the Sanlam Affiliated Intermediary (SAI) network and between Sanlam Sky Solutions and SFA in place, and by seeking other mechanisms for cross- and up-sell with the Group.

Other initiatives include:

- ① Driving TCF and the development of long-term client relationships in our sales forces
- ① Improving access to technology for our sales force to enable them to better service customers and increase their productivity and earnings
- ① Improving our training and development to provide world-class skills development to our people, focusing on the use of technology to expand reach, reduce costs and improve sustainability for our employees and the business.

### Sanlam Direct

As we are faced with more demanding and empowered clients, we need to ensure that we provide relevant mechanisms in order for them to engage with us. Our clients are 'always on' and this makes them 'channel agnostic'.

The channel derives value from four distinct sources:

- ① Traditional direct marketing aimed at clients in the Sanlam Life database. These promotions mostly involve up-sell and cross-sell invitations across the long and short-term insurance spectrums.
- ① The acquisition of brand-new clients with the help of external databases. These promotions involve invitations to clients that echo those of Sanlam Life.
- ① Online sales via [www.sanlam.co.za](http://www.sanlam.co.za): This initiative launched in 2015 with the self-directed client in mind.
- ① Collaboration with Sanlam's advisers with the view to act as an extension of their selling capacity.

# Responsible products and services material issues

continued

## MI Providing access to financial services

Low-income consumers face a number of barriers restricting their access to the financial system: poor physical access, onerous requirements for identification, unaffordable service fees, and a lack of products that align with their needs.

Sanlam Sky has strong distribution channels to make sure these solutions reach the different market segments. Sanlam Sky conducts business through:

- ① 90 client care offices
- ① More than 280 independent brokers and over 360 Sanlam affiliated intermediaries
- ① Over 3 400 tied agents in 62 sales branches across the country
- ① 29 Ubuntu service points within communities
- ① Affinity groups: churches, burial societies, retailers, unions and funeral parlours.

Market research has suggested a number of avenues to improve this situation. These include a better understanding of the needs of these consumers and creating products that fit these needs, engaging consumers in their communities rather than through the existing branch network, working with trusted partners that already serve low-income consumers, providing incentives for participation in the mainstream financial system, and crafting technology solutions that work for low-income consumers.

There is an increasing number of initiatives being pioneered in this regard by the banking industry. However, there is as yet no national strategy that addresses the unique needs of low-income and economically vulnerable consumers. The challenge for the industry is to provide financial access, while eradicating exploitative lending practices. In line with our brand promise, Sanlam focuses on offering wealth-building products that offer sustained value.

## Sanlam Sky Solutions

Sanlam Sky Solutions, a business unit within the Sanlam Personal Finance (SPF) cluster, is responsible for growing our footprint in this market. Sanlam Sky focuses on individual and group solutions that efficiently meet the needs of the entry-level market.

To keep products affordable, we offer affordable risk solutions to members of affinity groups. Two of our funeral products adhere to three of the Financial Sector Code (FSC) access product standards. In addition, our funeral product sold to state grant recipients has been awarded partial recognition in terms of the

FSC standards. These funeral products have been instrumental in meeting our FSC targets for access to financial services. In addition, our credit life product, offered through Sanlam Personal Loans (SPL), meets the FSC credit life standard.

The SPF cluster has combined expertise and capabilities from Sanlam Individual Life Segment Solutions (SILSS), SPF Distribution and Sanlam Sky Solutions to develop smart financial products for our market segments. The aim is to offer a wider range of simple financial solutions to the various market segments while delivering a consistent client experience.

## Expanding our footprint through funeral policies

Increasing our distribution footprint is key to expanding into the lower income market. Funeral policies remain a priority for this market and also serve as a savings tool. The SPF cluster has been active in developing appropriate products and expanding our distribution footprint in the communities where our clients live.

A significant development in 2015 was the expansion of Sanlam funeral parlours in KwaZulu-Natal to 12 parlours in Durban, Pietermaritzburg, Eshowe, Kokstad, Ulundi, Vryheid, Port Shepstone, Newcastle, Matatiele, Mount Fletcher, Manguzi and Greytown.

The Sanlam client service centres were renamed client care offices. Over the last 12 years, the client care offices have grown tremendously, both in terms of numbers and the quality of service they provide. Today, there are over 90 offices with a total of 191 staff members.

## Sanlam roadshow

The Sanlam roadshow, a partnership between Sanlam and SABC Education's Takalani Sesame, travelled to seven towns in five provinces, including Northam in Limpopo, Manguzi and Stanger in KwaZulu-Natal, Soweto in Gauteng, Queenstown in the Eastern Cape, and George and Worcester in the Western Cape, to host free events for children and adults filled with fun, festivities and lots of prizes. The aim of the 2015 roadshow was to help South African families 'make every rand count' and educate adults on the importance of saving.

## Financial education

Sanlam again partnered with leading skills training provider Avocado Vision to empower communities, state-owned entities and corporates countrywide with basic financial skills. In 2015, the Money fo Sho! financial education programme reached more than 15 551 people in six provinces.

## ➤ Measuring performance against the Financial Sector Code

We subscribe to the Financial Sector Code (FSC), which measures the extent to which we provide access to financial services to the entry-level market. We view this market as an opportunity for Sanlam to expand our business and deliver on our promise to improve people's lives. By the end of 2015, we had close to 730 000 low-income market policies in force over a wide geographical area, around 62% higher than our FSC target of 452 000. Included in this number, was around 149 000 state pensioner policies, which count 75% towards market penetration.

This enabled us to achieve all nine available points for transactional access and market penetration under the FSC codes. In total, we maintained our score of 12,14 (2014: 12,05) out of 14 on the FSC scorecard for access to financial services.

### Access to financial services indicators

|   | 2013    | 2014     | 2015            | FSC<br>2015<br>target |
|---|---------|----------|-----------------|-----------------------|
| Number of in-force low-income market policies                       | 650 000 | 656 000* | <b>730 000*</b> | 452 000               |
| FSC access to financial services score (score out of 14)            | 11,59   | 12,05    | <b>12,14</b>    | 14,00                 |
| FSC access to financial services product standards (score out of 3) | 1,50    | 2,00     | <b>2,00</b>     | 3,00                  |

Also see Transformation on page 84.

\* Approximate figures.

We have been working closely with the independent agency that audits Sanlam's FSC compliance in order to improve our understanding of the 'access to financial services' element of the FSC. This includes a review of all our entry-level market products against FSC requirements. Our products meet four of the FSC's 'access to financial services' product standards (funeral member only, member and family, parent and extended family, and credit life), leading to a total FSC score of two out of a possible three for our products.

We have developed products that comply with the life product standard.

We obtained approval from the FSC Council in 2015 for the state pensioner product to be awarded 75% recognition in terms of market penetration points. The product does not fully comply with the product standard.

We will continue working towards closing the gap between our products and the FSC's product standards, while looking for new distribution channels and opportunities to develop product solutions that address the needs of the entry-level market.

### Enterprise and supplier development

Sanlam's enterprise and supplier development (ESD) programme run by the Association for Savings and Investment South Africa (ASISA) was initiated in July 2013. The focus includes supporting the strategic growth and development of Sanlam's distribution networks. The programme supports transformation imperatives and shifting levels of professional, comprehensive advice services. During the year under review, a cohort of predominantly black-owned BlueStar businesses received specialist business development support to link them to accounting firms in value-adding ways. The focus was also on providing practice management support to a group of financial planners to complete their BlueStar accreditation and empower their businesses with practical practice management toolkits, and skills and knowledge to build and transform Sanlam's distribution capability.

For more details, see page 86.

# Responsible products and services material issues

continued

## MI Embracing technology

Sanlam continues to harness the power of increasingly powerful digital technology to make our products and services more accessible to the market. Our approach to embracing technology – which is closely aligned with the principles of Treating Customers Fairly (TCF) – focuses on four key areas:

- 1 Improving strategic planning through data analytics
- 2 Operational efficiency solutions
- 3 Intermediary software support systems
- 4 Mobile and online technology solutions.

### KPI table for embracing technology

|                                      | 2013 | 2014  | 2015  | FSC target |
|--------------------------------------|------|-------|-------|------------|
| Number of advisers trained on SanFin | 19   | 1 711 | 898   | 2 100      |
| Number of brokers trained on SanFin  | —    | —     | 1 174 | 800        |

### InterAct

In December 2015, we launched our mobile app for intermediaries, InterAct. Its principal benefit is to improve the efficiency and productivity of face-to-face meetings between intermediaries, brokers as well as advisers, and their clients.

Among other functions, InterAct allows clients to sign application forms and other paperwork without actually having to use paper. Not only does this make the client's life easier, but it also helps intermediaries to cut their paper and printing costs. InterAct also provides access to the latest product brochures and forms; makes it simple to download and update client information on SanFin; and helps to determine the client's risk tolerance when planning investments.

In the intermediary space we are putting quotation functionality for SILSS products on our website. This will allow people in different roles, such as a Sanlam sales support assistant (SSA) and a broker, to work on the same quote, and for the broker to submit an electronic proposal based on a quote prepared by a SSA. We are currently piloting with risk products and will do a full roll-out to intermediaries and support staff in 2016. Thereafter we will add retirement annuities and savings products.

Glacier has also started a project to provide an integrated online system for quotes, applications and submission of new business, aimed at making it easier for intermediaries to do business.

## Intermediary software support systems

### SanFin

SanFin, an online financial planning, client management and practice management system, is a notable example of how we exploit technology to the benefit of our intermediaries. Launched in 2013, this system helps intermediaries to provide appropriate advice and run their practices more efficiently. The roll-out of SanFin was staggered throughout 2014 and 2015. In 2015, 898 advisers had been trained on SanFin.

InterAct was designed in-house and developed with the support of external suppliers. Early feedback indicates that the app is already achieving its objectives and over 500 intermediaries have downloaded it. Drawing on their feedback, we will improve and fine-tune InterAct during 2016.

## Mobile and online technology solutions

We continue to expand the range of products and services that clients can browse and buy through our main website, [www.sanlam.co.za](http://www.sanlam.co.za).

## MI Responsible investment

### Our investment philosophy

As value investors, we make use of the opportunities created when prices differ from their fair value. Generally, we invest in assets that are trading below our fair value estimate and disinvest from assets that are trading above our fair value estimate. This means that our team of analysts conducts in-depth research to gain insights into what an asset is truly worth, as opposed to what investors are willing to pay because of greed or fear. We are convinced that by applying this approach over the long term and riding out volatile and uncertain periods, we will be able to deliver consistent, long-term investment performance for our clients.

Given this investment philosophy, we look to embed sustainability as a core process that can result in more insightful research and a better understanding of the potential for companies to deliver sustainable cash flows into the future. By taking the long-term view, non-financial issues may play a greater role in our valuations. These issues are typically related to the quality of companies' relationships with their broader stakeholders and their responsible stewardship of natural resources, as well as their own governance.

#### Principles of the Code for Responsible Investing in South Africa (CRISA):

1. An institutional investor should incorporate sustainability considerations, including environmental, social and governance, into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.
2. An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities.
3. Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.
4. An institutional investor should recognise the circumstances and relationships that hold a potential for conflicts of interest and should proactively manage these when they occur.
5. Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments.

### Responsible investment policy

Sanlam Investments became a signatory to the United Nations Principles for Responsible Investments (UNPRI) and in addition subscribes to the Code for Responsible Investing in South Africa (CRISA). In doing so, we aim to comply with international best governance practice, in particular to promote a relationship of trust between all relevant stakeholders and to contribute to the ongoing and long-term sustainability of listed companies.

SIM's responsible investment policies can be found at [www.sanlaminvestments.com](http://www.sanlaminvestments.com).

Each year, Sanlam's policy framework and implementation is assessed by the UNPRI against its six principles. By comparing our performance against that of international peers, we are able to continuously improve our approach to responsible investing.

# Responsible products and services material issues

continued

## Membership of/listings with international frameworks



In compliance with CRISA principles we continue to incorporate environmental, social and governance (ESG) principles and data into our investment processes.

- ④ In May 2012, the Sanlam Investments management board approved a policy document which guides our approach to environmental sustainability.
- ④ In June 2015, the Sanlam Investments management board approved a policy document which guides our approach to social sustainability.
- ④ In December 2015, the Sanlam Investments management fixed interest team obtained approval from the Sanlam Central Credit committee to incorporate ESG factors into the credit approval process.

To increase transparency further, SIM's progress in implementing the responsible investing principles is regularly updated on the Sanlam website (SIM corporate governance website). We posted our first 'apply or explain' report on the CRISA principles after SIM's 2012 December year-end, and have reported annually since then.

The SIM business has itself established compliance, risk management and internal audit functions to identify and manage potential conflicts of interest (as required in CRISA principle 4). The SIM conflict of interest management policy provides a framework to promote transparency and fairness, while other Group policies provide guidelines for ethical conduct, combating financial crime, and gratifications. Compliance monitors the SIM insider information and personal account trading policies. In addition, Sanlam Investments is structured into discrete clusters, and the flow of information between clusters is limited.

## Reporting

Every quarter we report to clients and update the implementation portion of our website (see [www.sanlaminvestments.com](http://www.sanlaminvestments.com)). We produce an annual responsible investment report in terms of our CRISA requirements.

## MI Empowerment financing and infrastructure development

Empowering the people of South Africa is embedded in the history of Sanlam – our first black empowerment transaction saw the sale of the then Metropolitan Holdings to a majority black consortium in 1994. Our Ubuntu-Botho broad-based black economic empowerment (BBBEE) transaction matured in December 2013, and remains one of South Africa's most successful empowerment transactions to date. It continues to add value to both its shareholders and Sanlam.

## Financing BEE transactions

We provide empowerment finance to both unlisted and JSE-listed entities. All empowerment and infrastructure transactions are subject to a detailed risk and credit assessment and transactions are concluded only once the relevant risk committees have approved the transaction.

Our investments in BBBEE transactions allow black South Africans to either gain direct ownership in existing or new entities, or to facilitate joint ventures and equity investments in BBBEE companies.

## Targeted investments

In the course of our normal business we invest in infrastructure investments either directly, by financing specific projects in underdeveloped sectors such as transport, telecommunications, energy, health and education-related facilities, or indirectly, by investing in government bonds. Through government bonds we are able to finance specific infrastructure projects earmarked in various municipalities within South Africa. The guarantee that these investment instruments hold, as well as the social impact, creates a mutually beneficial return for both parties.

All transactions must meet our investment criteria and our credit analyst team reviews all investment decisions before seeking approval from our Board's Credit committee. Beyond social sustainability, we are currently funding three environmental sustainability projects, which form part of the Department of Energy's Renewable Energy Independent Power Producer Procurement (REIPPP) programme as well as the Department of Energy's Independent Power Producer Peaking Generation Project.

The financial services industry has identified the opportunity for a dual approach to empowerment financing, which goes beyond shareholding-only status, by promoting empowerment through targeted investments. This is the unique advantage that the Financial Sector Code (FSC) offers, and a view that Sanlam wholly supports.

|   | 2013 | 2014 | 2015 |
|---|------|------|------|
| Total empowerment finance and targeted investment assets* (R billion) | 13,8 | 15,9 | 14,2 |

\* Includes government bonds after applying FSC weightings. More information regarding our BBBEE transformation scorecard can be found on page 86.

At the end of December 2015 we had a total of R14,2 billion (2013: R15,9 billion) in empowerment finance and targeted investment assets. This includes government bonds and is arrived at after applying FSC weightings.

## Ubuntu-Botho BBBEE transaction

Sanlam's Ubuntu-Botho (UB) transaction, which matured in December 2013, was one of the first significant BBBEE transactions in the financial services sector. Ubuntu-Botho, our empowerment partner led by Patrice Motsepe, initially acquired 226 million Sanlam shares at the beginning of 2004. The transaction was funded through R1,148 billion debt and a capital investment by Mr Motsepe of R200 million. Of the capital investment, R62,5 million was used to enable the participation of broad-based empowerment groupings.

The UB empowerment consortium encompasses broader society through BEE entities and local communities. These include Abafazi Basadi Ubuntu-Botho Investments Limited, the Ubuntu-Botho Women's Upliftment Trust, and trade unions such as the South African Democratic Teachers Union (SADTU), representing around 250 000 teachers countrywide, and the National Education Health and Allied Workers' Union (NEHAWU), which has a membership of more than 180 000.

The Sanlam dividends received over the following 10 years were enough to repay all the debt of R1,2 billion, cover costs and in 2007 enabled UB to pay a R50 million once-off dividend to its shareholders and, in 2008, invest R110 million in Ubuntu-Botho Investments Holdings (Pty) Limited, a targeted investment company jointly owned by Sanlam and UB. In 2015 Sanlam enabled UB to pay a special dividend of R830 million to its shareholders.

At the end of December 2013, UB held around 292 million Sanlam shares, worth R15,2 billion. After deducting the initial R200 million capital investment, the total value created was about R15 billion.

The Sanlam Group continues to align with Ubuntu-Botho Investments as part of its sustainability strategy and the two parties concluded an agreement in terms of which:

- ① Ubuntu-Botho Investments has agreed to retain a core shareholding in Sanlam for a further 10 years, thereby ensuring a sustained empowerment shareholding for the Group. Sanlam will also retain the valued involvement of the Ubuntu-Botho representatives on the Sanlam Board.
- ② Both parties will jointly explore and pursue opportunities of common interest, while Sanlam will assist Ubuntu-Botho in its strategy to establish an independent financial services business.
- ③ The Sanlam Ubuntu-Botho Community Development Trust, having benefited from the value created in the transaction over the past 10 years, will now actively contribute to the initiatives of both Sanlam and Ubuntu-Botho Investments, aimed at supporting poor and disadvantaged communities.

### Ubuntu-Botho and Indwe Risk Services

In a bid to bolster independent brokerage firm Indwe Risk Services' distribution and expansion opportunities in the future, Santam agreed to sell its controlling stake in the company to Ubuntu-Botho Investments and Sanlam. The transaction will see Ubuntu-Botho Investments acquire 51% of the Indwe shareholding through its wholly owned subsidiary African Rainbow Capital, while Sanlam will acquire 25%. Santam will retain 24% of Indwe.

This transaction establishes Indwe as a leading black-controlled insurance brokerage firm in South Africa with direct ties to Sanlam, thus further improving the distribution and expansion opportunities for its business both in South Africa and Africa.