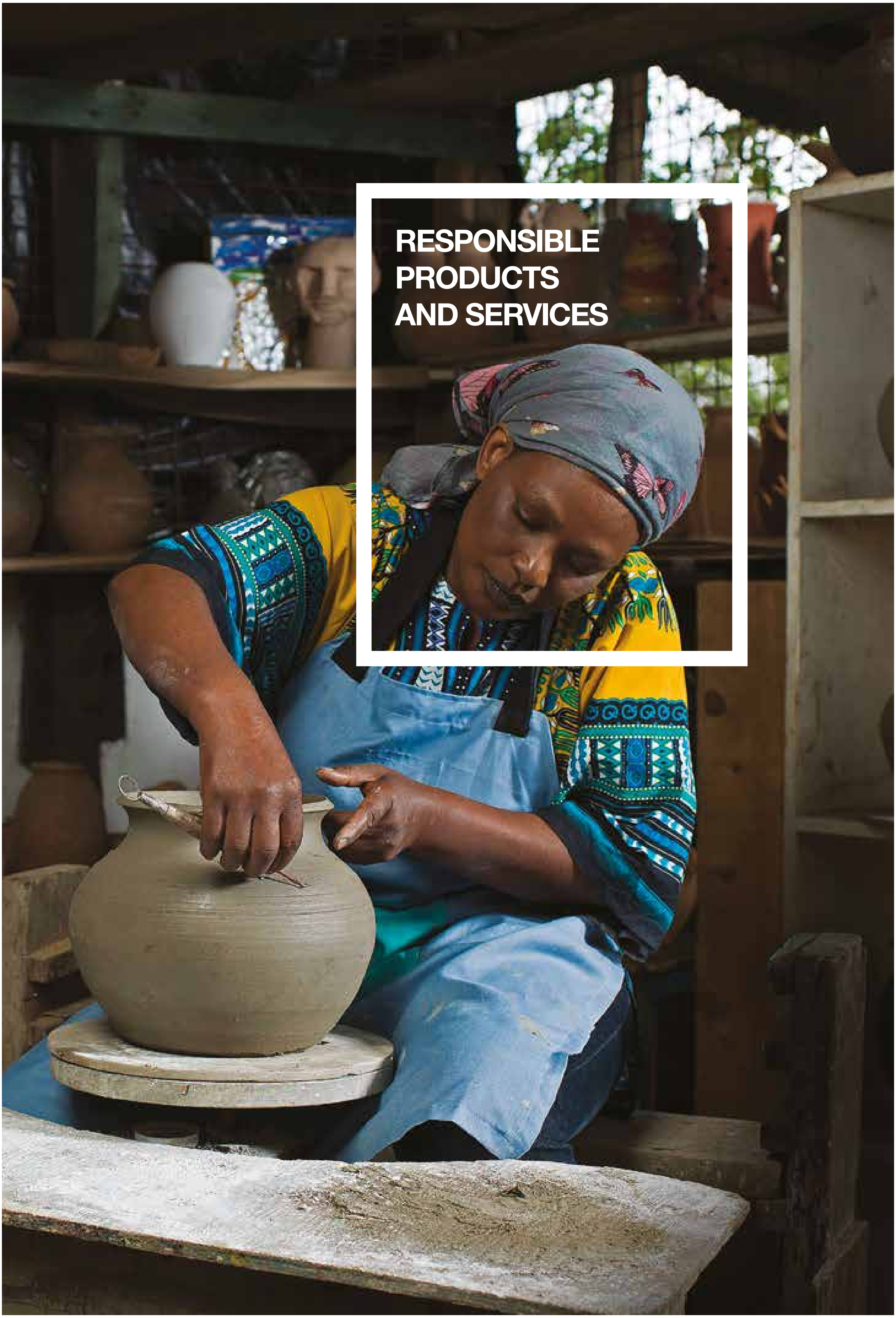
RESPONSIBLE PRODUCTS AND SERVICES



Responsible products and services contents

This supplementary report and discussion per material enabler provides stakeholders with insight into how Sanlam managed responsible products and services for the financial year from 1 January to 31 December 2016.

Responsible products and services

Sanlam must provide appropriate and fairly priced products and services that grow and preserve the wealth of its clients and broader society. This is a key driver of new business growth and client retention, which in turn support earnings growth. Sanlam also has a responsibility to improve access to financial services, transform wealth distribution, and promote a savings ethos through innovative product and service development.

Key performance indicators

Awareness of TCF

98%

2015: 99%

Funeral claims paid in four hours

90%

2015: 80%

Industry Ranking

2

2015: 6

Source: Ask Afrika Orange Index® for Long Term Insurance

Ask Afrika Orange Index® for Long Term Insurance

12,0

2015: 10,2

Sanlam score is higher than overall industry benchmark

Responsible products and services continued

Managing Sanlam's commitment to responsible products and services in response to regulatory requirements

Consumer protection and more thorough disclosure are strong focus points for regulators, both in South Africa and around the globe. To a certain extent, this emphasis developed as a result of the financial services industry acquiring a reputation as one that does not always put clients' interests first. This was demonstrated, for example, during the 2008 global financial crisis and protest over banking executives' salaries, as well as the pension scandal in the United Kingdom. The South African National Treasury has stated its concern about the imbalance of information and expertise between consumers and financial institutions. It has further noted that consumers will remain at the mercy of the industry unless certain regulations are imposed. The National Treasury published its policy position on financial sector regulation in A Safer Financial Sector to Serve South Africa Better in 2011. The objectives of this policy included:

- Financial stability;
- Customer protection and market conduct;
- Expanding access through financial inclusion; and
- Combating financial crime.

Given that the policy prioritises strengthening prudential and market conduct regulation, implementation of a Twin Peaks model of financial regulation was proposed.

The proposals in respect of a Twin Peaks model are contained in the Financial Sector Regulation (FSR) Bill and the Insurance Bill, both of which are currently under consideration by Parliament. The FSR Bill, when enacted, will establish a comprehensive system for regulating the financial sector, including the creation of two primary regulators: a prudential regulator (the Prudential Authority); and a new market conduct regulator (the Financial Sector Conduct Authority). The prudential regulator will focus primarily on capital and liquidity requirements, as defined by a risk-based regulatory regime for long- and short-term insurers in South Africa. Prudential regulation will be implemented through subordinate legislation that will *inter alia* give effect to the FSB's Solvency Assessment and Management (SAM) project. Market conduct regulation under Twin Peaks will be implemented through the Conduct of Financial Institutions (CoFI) Act, expected in 2018 earliest, which will follow the enactment of the FSR Bill. CoFI will be informed by current regulatory initiatives such as TCF and the Retail Distribution Review (RDR) as well as other market conduct requirements in the proposed amendments to the Regulations under the Long-term Insurance Act, 52 of 1998 as well as the Policyholder Protection rules (PPRs) under the Long-term Insurance Act, No. 52 of 1998 published at the end of 2016. These create standards for advertising and claims, complaints management, language, disclosure, intermediary remuneration and many other markets' conduct-related concerns raised by the Regulator.

TCF is an outcomes-based regulatory and supervisory approach designed to ensure that specific, clearly articulated fairness outcomes for financial services customers are delivered by regulated financial firms.

Treating Customers Fairly

TCF, a guide introduced by the FSB, mandates a formal approach to treating customers fairly and improving customer confidence in the financial services industry. Most importantly, this fairness spans the entire life cycle of a product – from design through to advice and after-sales service.

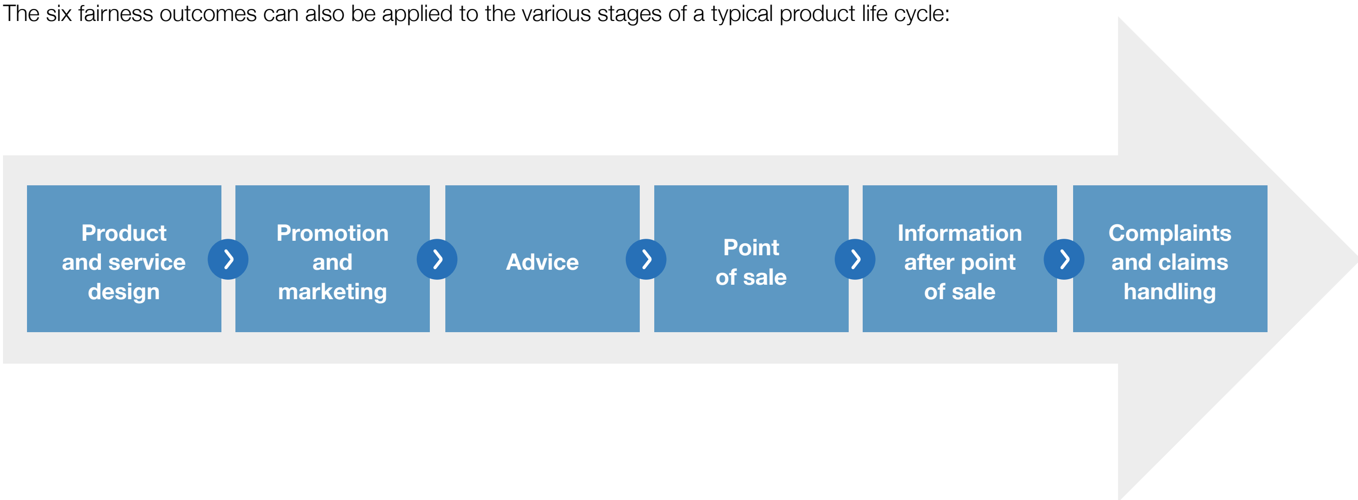
Six specific fairness outcomes were identified by the FSB. The aim is to ensure that, ultimately, the financial needs of clients are met appropriately through a sustainable industry. If a financial services provider aims to achieve the set outcomes, the immediate effects should be appropriate products and services, and enhanced transparency in the industry.

Fair treatment	Customers are confident that they are dealing with firms where the fair treatment of customers is central to the firm culture.
Meet the needs of identified customer groups	Products and services marketed and sold in the retail market are designed to meet the needs of identified customer groups and are targeted accordingly.
Clear information	Customers are given clear information and are kept appropriately informed before, during and after the time of contracting.
Suitable advice	Where customers receive advice, the advice is suitable and takes account of their circumstances.
Products that perform	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.
No unreasonable post-sale barriers	Customers do not face unreasonable post-sale barriers to change product, switch provider, submit a claim or make a complaint.

Financial Services Providers (FSPs) must be able to demonstrate that they have a TCF culture embedded in their business, which is proven and supported by appropriate controls, governance structures, management information and self-assessments.

Responsible products and services continued

The six fairness outcomes can also be applied to the various stages of a typical product life cycle:



Sanlam is fully aligned with the six outcomes of TCF and upholds these outcomes throughout the life cycles of its various products and services.

The Group is a pioneer in incorporating the customer view into governance structures. The Sanlam Customer Interest committee was initiated in 1998, and has now broadened its mandate in terms of TCF Regulations. As an advisory body, its scope encompasses the entire Group as it provides guidance to the Board on strategic issues relating to customers.

The interests of Sanlam's shareholders are directly linked to the value created for our clients. This interdependency is at the core of the Group's business model. The Sanlam Customer Interest committee plays an important role in ensuring that this interdependency is appropriately managed.

The Sanlam Customer Interest committee is mandated by the Board to review and monitor all customer-related decisions. It acts as an advisory body and provides guidance to the Board on strategic issues relating to customers. These are closely aligned with the six fairness outcomes of TCF, as defined by the FSB.

Read more about the committee and its members in the Corporate Governance Report, available online in Sanlam's Annual Reporting Suite.

In addition to guidance provided by the Sanlam Customer Interest committee, the Group initiated a TCF implementation project in 2013. The outcome of this project was the TCF Product Governance Framework (the Framework) for relevant Sanlam Group businesses launched. This includes all clusters as shown on the following pages. While TCF is not a regulatory requirement in the SEM markets in which Sanlam operates, this cluster adopts a similar philosophy to matters related to customer interest.

Sanlam Group Office

Responsible for Group strategy, capital management and capital allocation to clusters. The following functions provide Group-wide support and coordination: Finance, Actuarial and Risk management, Information Technology, Human Resources, Market Development and Brand Services.

Sanlam Investments (SI)

Provides retail and institutional clients in South Africa, the United Kingdom and elsewhere in Europe access to a comprehensive range of specialised investment management and risk management expertise. Focus areas include: investment management, wealth management, capital management, and international investments.

Sanlam Personal Finance (SPF)

Responsible for the Group's retail business in South Africa. It provides clients with a comprehensive range of appropriate and competitive financial solutions, designed to facilitate long-term wealth creation, protection and niche financing.

Santam

Provides a diversified range of general insurance products and services in southern Africa and internationally to clients ranging from individuals to commercial and specialist business owners and institutions. Santam's international diversification strategy focuses on reinsurance business, specialised insurance products and the role as technical partner and co-investor in SEM's expansion into Africa, India and Southeast Asia. Santam's business units include Santam Commercial and Personal, Santam Specialist, MiWay, Santam Re, and Santam Emerging Markets Investments.

Sanlam Emerging Markets (SEM)

The Group's financial services offering in emerging markets outside South Africa, with the aim of ensuring sustainable delivery and growth across its various businesses. Focus areas include: retail and group life insurance and, general insurance, and investment management and retail credit.

Sanlam Corporate (SC)

A newly formed business, targeting chosen corporate clients and offering financial solutions underpinned by: employee benefits (providing risk and investment solutions and administration services to institutions and retirement funds), health solutions and products, and institutional offerings.

A key element of the Framework is to manage risks emanating directly from the design of new products, or as a result of product changes, that would affect one or more of the TCF outcomes. This process includes:

- Identification and quantification of risks;
- Design and execution of mitigating actions, as well as the approval of residual risk; and
- Tracking of the residual risk.

The Framework therefore provides a mechanism by which risks that arise from new products and product changes, as well as recommendations for mitigating actions, may be identified. Risks are broadly categorised as follows:

- A product does not adequately meet the client need or provide adequate value for money;
- Client expectations are not in line with the product design at the outset; or
- A product does not perform in line with expectations created.

Given the long-term nature of life and investment products, risk assessments are conduced both at the outset, during product design, as well as post sale. Risks are assessed according to the level of actual or perceived detriment for the client should the risk materialise – the primary concern – as well as according to the likelihood of the risk.

Responsible products and services continued

To manage risks across the product life cycle, mitigating actions fall into the following categories:

Design	Amendments to the design of a product, which includes restrictions on the product, e.g. minimum/maximum premium levels, and choice of allowed distribution channels.
Marketing material and strategy	Amendments to how the features and potential risks of the product are communicated to clients and intermediaries before the sales process.
Advice (including training)	Amendments to training given to intermediaries to ensure the delivery of effective advice, as well as monitoring that correct advice was given.
Disclosure	Amendments to information given to the client as part of the sales process. Information given to the client should be of such a nature that the average target-market client would reasonably go through, understand and apply the information given to them.
Ongoing monitoring after sale and corrective action	Amendments to the actions taken by the product provider after the sale to manage client expectations. This includes monitoring and amending the product on an ongoing basis in line with client expectations.

Each cluster is responsible for the assessment of its respective TCF issues and risks. As such, adherence to the Product Governance Framework is the responsibility of each cluster. Ongoing risk assessment ensures that the implementation of the six TCF outcomes are facilitated across the various stages of the typical product life cycle. Sanlam's response to each of these outcomes is discussed in more detail throughout this chapter.

Responsible Investment

Sanlam's investment philosophy

As value investors, Sanlam Investment Management's (SIM) investment philosophy is to make use of opportunities created when prices differ from their fair value. SIM is the asset manager to Sanlam and other clients. Generally, Sanlam invests in assets that are trading below its fair value estimate and disinvests from assets that are trading above its fair value estimate. Therefore, Sanlam's team of analysts conduct in-depth research to gain insights into what an asset is truly worth, instead of what investors are willing to pay.

The Group is confident that by applying this approach over the long term and riding out volatile and uncertain periods, Sanlam will be able to deliver consistent, long-term investment performance for clients.

By taking the long-term view, non-financial issues may play a greater role in Sanlam's 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 approach.

Sanlam's responsible investment policy

SIM subscribed to the Code for Responsible Investing in South Africa (CRISA) in 2011. In doing so, SIM committed to integrating the following five principles into its investment process as service providers to institutional investors:

1. An institutional investor should incorporate sustainability considerations, including environmental and social sustainability 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 as well as other codes and standards applicable to institutional investors.
4. An institutional investor should recognise the circumstances and relationships that have the potential to produce 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.

In addition, SIM subscribes to the United Nations Principles for Responsible Investments (UNPRI) upon which CRISA is based. SIM annually assesses its policy framework and implementation against the CRISA principles to compare its progress with that of its international peers. This enables SIM to continuously refine and improve its approach to responsible investment.

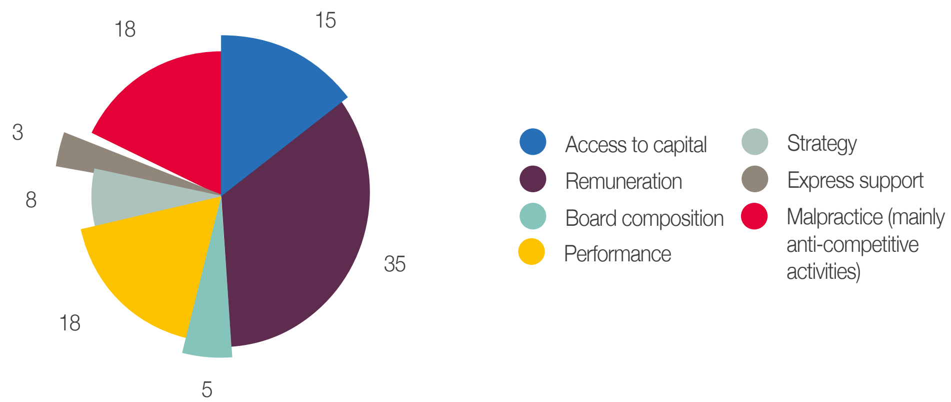
SIM is well-positioned to deliver on these principles due to the following key milestones achieved in recent years:

- In 2006, SIM formed the Corporate Governance Unit (CGU). The CGU oversees the implementation of SIM's governance responsibilities on behalf of clients. The initial task of the CGU was to draw up a framework for voting proxies (as envisaged by principle one), which was signed-off by the SIM Board in 2008. Where mandated, SIM votes all proxies of companies in which clients are materially invested, without abstaining.
- In line with principle five – which requires transparency – SIM discloses the reasons for declining resolutions to clients as part of their quarterly written report. Clients are also able to access full voting records upon request. SIM publishes a public 'apply or explain' report on its progress in implementing the UNPRI on the Group's website.
- The increased focus on combining traditional financial reporting with commentary on sustainability issues that are of interest to a broader range of stakeholders required SIM to develop policies to guide its approach to social and environmental sustainability.
- In 2014, SIM initiated a pioneering project to make use of purchased environmental data, that will enable SIM to assess the materiality of externalities, compile environmental 'footprints' of portfolios, and gauge the extent of environmental risk to Company and portfolio valuations.
- SIM engages with boards of companies on governance and performance issues on behalf of clients and participates with other investors in collaborative lobbying initiatives as recommended in principles two and three. This engagement includes tentative collaboration with other investors on engagements recommended in principle three, such as, for example, lobbying initiatives. Principle four is addressed in SIM's Conflict of Interest management policy. The reason for engagements since 2011 are shown below:

Key activities related to responsible investment in 2016

- Participated in two collaborative lobbying initiatives: the UNPRI Statement on ESG in credit ratings, and the UNPRI Investor Statement on fiduciary duty.
- Participated in four consultations: the UNPRI on responsible Investment practices of investment managers; the World Federation of Exchanges on responses to their ESG guidance; the International Reporting Committee's survey of South African investors' usage of integrated reports, and with ClimateWise on investment resilience from an insurance underwriting perspective.
- Progressed projects to gauge the extent of environmental risk to Company and portfolio valuations, and to incorporate ESG criteria into the credit approval process.

Reasons for SIM engagement with investee companies (% since January 2011)



Ensuring the fair treatment of customers

Outcome one: Customers are confident that they are dealing with firms where the fair treatment of customers is central to the firm culture.

According to the FSB, the primary responsibility of financial services providers is to demonstrate achievement of the first fairness outcome: that the fair treatment of customers is central to the firm's culture. According to the FSB, if such a culture is truly embedded in a financial services company, the delivery of the remaining five fairness outcomes should follow as a matter of course. In order to become embedded in the culture, TCF should be built into certain structures and processes within a company.

The Group's business model is based on its ability to provide financial services solutions to retail and institutional clients across market segments and geographies. These solutions must fulfil clients' needs for wealth creation and protection. Therefore, in line with the Group's philosophy of client-centricity, appropriate and responsible advice and products are offered and tailored to clients' specific needs and circumstances – at a fair price.

The Group's client-centric approach is supported by The Sanlam Way of doing business. Engagement with clients is extensively measured in South Africa through client experience research in the course of client transaction processes throughout all stages of the product life cycle. Moreover, research is conducted among clients, intermediaries and employees to measure trends in client experience across all six of the TCF fairness outcomes.

The Group embeds client-centricity firmly within its business practices – a value-creation approach fully aligned with TCF.

At Sanlam, client-centricity means:

- Understanding clients and their financial services needs;
- Providing the right, tailored solutions to fulfil their needs and perform as expected;
- Being fully accountable for delivering on client promises;
- Getting things right the first time, every time;
- Taking responsibility, and assisting and servicing clients efficiently and within an acceptable time frame; and
- Providing clear and understandable answers.

Sanlam further tests customer satisfaction with product and services against the South African Customer Satisfaction Index (SAcsi). The objective of this research is to gain insight into overall client and intermediary experience at main client contact points. This primarily provides the Group with a strategic diagnostic tool to inform management of areas related to TCF that require attention or indicate where Sanlam is excelling. This adds to the Group's understanding of TFC.

Following the integration of TCF into the Group in 2013, Sanlam has implemented various initiatives to assess the impact of communication and training on TCF among Sanlam employees. This includes, for example, an annual research study to measure the awareness of TCF among Sanlam employees.

In 2016, the research study sample included 200 Sanlam financial advisers, 80 agency advisers and 38 broker consultants from across the Sanlam Group Office, Sanlam Personal Finance, Sanlam Investments and Sanlam Corporate. The main findings for the research study can be classified according to the level of employee awareness, knowledge, engagement and entrenchment.

Awareness:

- Awareness of TCF remains high, with 98% (2015: 99%) of office employees claiming to be aware of the concept.

Knowledge:

- 57% of employees (2015: 56%) claimed to be 'well to very well informed' about TCF.

Engagement:

- The majority of employees reported feeling personally responsible for ensuring that clients are treated fairly. Employees indicated that the fair treatment of clients is a first priority and that the concept of TCF inspires and motivates them in their work.

Entrenchment:

- Entrenchment of TCF in decision-making, business objectives, business strategy, product and service design, training and development as well as the commitment levels of management and other employees have remained positive.

TCF is also included in the performance contracts of individuals, where applicable, and forms part of the incentive bonus basis.

Read more about customer satisfaction and the performance of our products and services from page 1 of this report.

Ensuring the fair treatment of customers continued

Gaining insight into client needs to keep abreast of changing market trends

Sanlam is committed to meeting client expectations and understand that those expectations move upwards. It is important therefore to maintain service levels as well as being proactive by looking out at trends and ensuring that Sanlam is not left behind.

The long-term insurance industry has shown improvement year on year with Sanlam mimicking this trend. Sanlam improved its industry ranking from 6th to 2nd place and showed immense improvement in the overall ranking, improving from 102nd to 12th place.

Source: Ask Afrika Orange Index®

Sanlam Employee Benefits (SEB) coordinates the annual Sanlam Benchmark Survey, which is an example of value created through collective stakeholder participation in information sharing. SEB collects data, conducts interviews, publishes and distributes the annual research survey free of charge, thereby providing a comprehensive review of South Africa's retirement industry. The survey enables a wide range of stakeholders – including government, retirement fund trustees and members, pensioners, employer representatives, financial advisers and principal officers – to make informed decisions about the funds they invest in or manage.

Further benefits of the Sanlam Benchmark Survey include access to a repository of information and trends specific to retirement. This enables retirement funds to design benefit structures and communication strategies that are based on membership needs and current industry trends. By improving the levels of saving for retirement, the industry is also in a position to improve the current savings levels in South Africa.

Read more about the Sanlam Benchmark Survey from page 33 of Sanlam's Integrated Report, available online.

To ensure that the Group keeps abreast of regulatory changes and potential impacts on clients, Sanlam reviews government discussion documents and assists the Association for Savings and Investment in South Africa (ASISA) to formulate responses to the FSB. Once new regulations are gazetted, the Group develops formal policies and management frameworks to ensure compliance.

Product and service design

A critical aspect of client-centricity and delivering fair treatment is ensuring that products and services as well as the distribution strategies chosen to bring them to market are designed and developed for specific target markets. This should be based on a clear understanding of the likely needs and financial capability of each customer group.

In response, the Framework mandates five steps to ensure that a clearly defined target market is identified at the start of the product development process:

1	The development of a product initiation memorandum. This memorandum includes insights into, among others, product features, a competitor analysis (including current industry and market penetration), and proposed distribution channels.
2	The identification elements of the new product (as well as of the product changes) that bear a high client risk. Mitigating actions are also identified at this stage.
3	The detailed formulation of product rules and pricing, as well as signing off on the actuarial and economic integrity of the product.
4	The analysis of processes and systems required to implement a product. Sanlam recognises that constrained processes or systems could influence product design. This poses a risk that the product is adjusted in a way that does not meet clients' needs. Therefore, step four is important in mitigating TCF-risk and any unintended impacts on the Group's delivery of the six outcomes.
5	Step five mandates the approval of the Executive committee.

In addition, Sanlam adheres to a Product Segmentation Policy. This Policy mandates that due consideration be given during the product development process to ensure all products are designed with a particular target market in mind. It includes stipulating which client segments the product in question was designed for, as well as clearly stipulating clients for who the product is not appropriate. The key criteria for evaluation are broadly defined in terms of:

- Product features: including flexibility, complexity, service proposition, etc.
- Affordability: the proportion of the target market for who the minimum contributions will be affordable.
- Fees: the value for money offered by the product, taking into account the combination of features and benefits (and the fees resulting from it) that are appropriate for the respective target market.

Post-sale monitoring

The Policy mandates an analysis of certain products in terms of the predicted quantity of sales expected by the client segment. Sales distribution by segment is then monitored to determine whether actual sales are in line with what was expected. If it is found that the sales by segment differ significantly from what the model forecasted, an investigation is conducted to determine the reasons for the difference and appropriate action is taken.

Ensuring that products meet the needs of identified customer groups

Sanlam Personal Finance: Remodelling for Success

In 2016, a new business model was proposed for SPF shaped by the strategic theme of Project Re-Imagine. This project aims to provide SPF with greater competitive agility and enable the business to respond better to the RDR. This followed a strategic recognition of constraints in the current business model, new and increasing competition and the changes in client needs and legislation.

The project resulted in the implementation of a new operating model in August 2016 following intense research, *inter alia* in the UK, to investigate the options and implications of RDR.

At a high level, SPF will consist of several, market-focused businesses, each supporting a clear client need:

- Sanlam Sky: covering clients' funeral expenses and that of their extended family;
- Risk: protecting income and ensuring that the family is looked after in the event of death or disability;
- Savings: saving for specific needs and retirement;
- Glacier: preserving and growing investments and providing an income during retirement; and
- Closed Book and Shared Services units: focusing on closed book services, which involve looking after clients with older-generation products and increasing the value from them, and shared services, which encompass providing economies of scale and integrated client service.

The business model is designed to:

- Reduce internal competition, as only one business would look after a particular client need;
- Reduce cross-subsidisation, as the outperformance of certain functions or product groups can mask the underperformance of others;
- Make commercially sound, external and internal business arrangements; and
- Forge a more agile and responsive business.

Outcome two: Products and services marketed and sold in the retail market are designed to meet the needs of identified customer groups and are targeted accordingly.

To achieve the second outcome of TCF, the Group must ensure responsible promotion and marketing of product and service material. Sanlam must also ensure that clients are reached and serviced through their preferred channel and that the Group's distribution channel is continually adapted to changing client preferences.

Responsible promotion and marketing

Products and services should be marketed through clear and fair communication that is appropriate to the target group.

The Framework provides businesses with guidance on how product material should be formulated. All product material goes through a rigorous sign-off process. This process ensures that a single message is delivered to the target group to communicate product features as well as limitations. To further facilitate this process, Sanlam implemented a web-based marketing system during the year. This system provides a record of all marketing decisions, centralises all marketing data, and ensures brand and regulatory compliance on a global scale.

All material must be in line with Sanlam's plain language policy to ensure clear, simple language and ease of understanding. Should the product material be identified as a mitigating action in the TCF Framework, this risk must be mitigated appropriately prior to sign-off.

This material includes (but is not limited to):

- Policy documents;
- Application forms;
- Any client-facing communications specific to the product being developed;
- Marketing material;
- Training material;
- Product summaries; and
- Sales aids (where there are savings elements to the product).

Ensuring that products meet the needs of identified customer groups

continued

Sanlam's Distribution Network

Sanlam makes use of an intermediary distribution model to generate the majority of all new business. The Group's 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 both Sanlam's and its intermediaries' business philosophies and practices.

Sanlam's distribution channels are broadly classified into four general distribution channels that align with the Group's different market segments: entry-level, growth and affluent.

Advisers or tied agents

Advisers service retail clients of the Group via two categories: those who are only accredited to sell Group products and those accredited to sell a wider product range. Where an adviser is accredited to sell a wider product range, limits apply to the proportion of business that can be placed at competitors.

Adviser channels are typically managed according to market segment (lower income/entry-level, middle income, affluent and professional/ small business). This ensures appropriate focus on the specific needs of the various segments in line with the Group's client-centric business philosophy.

Brokers or independent intermediaries

Brokers service retail and institutional clients across market segments and are supported by dedicated broker support units.

Brokers are an important distribution channel, especially in the South African affluent market, where the majority of new business is written through brokers, and in the Rest of Africa, where most institutional general insurance business is placed by brokers. Given their independence to distribute all competitor products, establishing and maintaining superior support and relationships with this channel is a key focus area of the broker support units.

Direct

Direct units distribute Group products directly to retail and institutional clients using technology-based channels such as outbound call centres, online platforms and mobile communication. Direct distribution contributes a major portion of Santam's general insurance premiums through MiWay, but the contribution to new life and investment business volumes is still relatively small. However, this is expected to change over time as the use of technology to buy financial services becomes more prevalent.

Affinity groups and bancassurance partners

Affinity groups focus on distribution through groupings of retail clients, for example, employer and church groups. The affinity group partner is typically responsible for administration at an individual member level, while the Group provides the relevant products.

The Group has bancassurance relationships with a number of banks across Africa through which it distributes insurance and investment products to the bank's client base.

Affinity groups and bancassurance relationships offer the Group access to large client bases through single entry points. This is a key benefit for start-up operations to gain economies of scale significantly faster than through traditional retail intermediaries.

Read more about the Group's activities, markets, channels and geographical presence in Sanlam's Integrated Report, available online.

When Sanlam's clients are interacting with the Group, they are not focused on whether they are interacting with an adviser, a broker or a direct sales consultant. They simply expect to receive a solution that meets their requirements.

The Group follows a multichannel distribution approach to ensure that clients are reached and serviced through their preferred channel and we are working towards an omnichannel distribution approach. The distribution model is continually adapted to changing client preferences, with increased focus being placed on further developing the Group's digital capability.

For example, the structure of SPF's client care offices (CCO) was adapted to deliver an improved client experience. Research indicates that client expectations increase year on year. The biggest demand from clients and intermediaries is to be serviced by a single consultant on a particular service interaction. As such, agents in the CCO mail and email departments were reorganised and trained according to specific skill sets, ensuring simultaneous service delivery by one agent. Moreover, newly recruited call centre agents were trained to service multiple product interactions simultaneously in one call. Existing call centre staff commenced with similar training at the start of 2016. This reduces the need for different call centres for separate product platforms and further positions the CCO to support the shared services structure arising from Project Re-Imagine. Once all call agents are trained across product platforms, distribution partners and clients will no longer have the inconvenience of being transferred from one platform to the other. This will add to an improved client experience and save on waiting and processing time.

The Group's omnichannel pursuit comes in response to the emerging trend of consumers and intermediaries demanding reasonable value for money, more product and cost transparency, ease of doing business and improved online access to information. There is also a strong expectation towards transacting online in certain market segments.
For example, Sanlam has created an online presence for all BlueStar practices, which enables them to have a local market website with a sales capability. BlueStar businesses aim to provide clients with professional financial advice – and personalised solutions – via a team of accredited, local financial planners.

Ensuring that products meet the needs of identified customer groups

continued

The shift in the Sanlam Personal Finance Distribution strategy rests on three pillars: the client value proposition, the distribution value proposition and cost-effective support and processes.

Assisting intermediaries to deliver on TCF outcome two

The Financial Advisory and Intermediary Services (FAIS) Act, 37 of 2002, imposes certain obligations on authorised financial services providers and their representatives that are relevant to TCF. However, intermediaries are required to demonstrate the adoption of a TCF culture in their organisations and the delivery of TCF outcomes for their clients. The FSB's view is that the responsibility for the fair treatment of clients will need to be shared by intermediaries and product suppliers.

While it is mainly the product supplier's responsibility to ensure that a product is appropriate for a particular target market, the FSB has made it clear that an intermediary should take responsibility for ensuring that a product is suitable for the particular client concerned, i.e. that the product is in line with the client's needs and risk appetite and that they are able to afford the product. Sanlam's intermediaries are therefore expected to obtain information regarding which specific client segments the product or service would be suitable for. Products and services should then be targeted accordingly.

An appropriate level of product due diligence is therefore expected of intermediaries. They should know the risks and complexity of products and be able to gauge the impact a product will have on a client. They should also assess the suitability of promotional material for the identified target market and should evaluate and ensure the clients' understanding of products or services offered to them.

Sanlam supports its intermediaries with administrative guidance, leadership and advice, and provides access to value-adding and competitive financial solutions and leading-edge tools of the trade. This includes, for example, the launch of the new, SEB intermediary app in 2016.

The Framework furthermore mandates that the launch of new products or services and the training of intermediaries and support staff (including call centre staff) be aligned. This is a key element in mitigating TCF risks. Risks that are identified then inform the level and type of training to be provided to intermediaries, as well as the key aspects to be highlighted in the training. Identified risks further inform aspects such as whether training is tracked, as well as whether it should be compulsory.

These insights then form the basis of a training plan that is drafted at the release of any new product or service. This training plan incorporates input from Distribution and Product development, and is formulated in line with TCF's six outcomes. The training plan highlights the following:

- What product training should be conducted, as well as the key outcomes of the training process;
- Who will perform the training; and
- Who should be trained, whether it is compulsory and what sanction will be applied for non-attendance.

Once training is completed, the outcomes are reviewed against the plan and a training report is produced. Where necessary, further training interventions are planned.

Read more about how Sanlam supports its intermediaries from page 16 of this report.

Ensuring access to clear information

Outcome three: Customers are given clear information and are kept appropriately informed before, during and after the time of contracting.

Communicating with clients in plain language

In order to build long-lasting and mutually beneficial relationships with clients, Sanlam must identify and meet their needs consistently. In order to achieve this, the Group must communicate with clients in language that is accessible. However, language used in the financial services industry is often difficult to understand, compounded by low levels of financial literacy in South Africa.

The significant growth in social media and the impact this has had on the relationships between companies and their clients has been profound. Communication is no longer a one-way street leading from the company to the client. Clients are now much more vocal about what they do and do not like, and companies are being placed to a position from which they need to respond appropriately if they want to retain customer loyalty.

TCF requires that financial institutions communicate with clients in an understandable and transparent way. Specifically, outcome three of the six TCF principles deals with the ways in which the Group communicates with customers through plain language. To this end, Sanlam must ensure that information about products or services is accurate, clear, fair and not misleading.

A number of senior Sanlam employees, which include three Chief Executives at Group Executive committee level, formed a steering committee to ensure that the Group is TCF compliant.

This steering committee, guided by TCF, endorsed the development of a plain language framework in 2013 and recommended that this framework be used in the normal course of business.

This document provides employees who are primarily tasked with client communication with a framework on how to implement all the elements of communicating in plain language with customers. Not only does it apply to written communication, but to all types of communication media that Sanlam uses. This includes:

- Client communications;
- Intermediary communication;
- Internal communication;
- Radio and television; and
- Online and web-based writing.

The plain language framework mandates that all language used must be appropriate for the communication medium. It further states that all intermediaries must be informed of the framework, and that it must be used in their communication with clients. This assists intermediaries to ensure any information they provide about the Group's products or services is accurate, clear, fair and not misleading.

Ensuring access to clear information continued

Ensuring ongoing and transparent communication with customers

Sanlam has various initiatives in place to ensure that clients can access information conveniently and seamlessly across its distribution network. This includes providing after-sales service support, as well as equipping tied agents and independent brokers with the tools to access accurate information on the go, without any inconvenience to the client. This forms part of Sanlam's commitment to delivering on the third TCF outcome by establishing multiple entry points for clients, through which they can access information before, during and after the point of contracting with the Group.

Initiatives undertaken in 2016 include, among others:

- Sanlam Client Care Offices: Sanlam has 106 Client Care Offices (CCO). The aim of the CCOs is to provide a service that attracts clients and encourages their willingness to make contact with the Group, while also meeting their after-sales service needs. The offices are located across South Africa and service the full range – affluent, middle and entry-level client markets. A key feature of the CCOs is to conclude as much business as possible while in contact with the client. To support this, the 'One Sanlam, One Client' programme was developed. This programme mandates that one client care representative takes care of all the business needs of a walk-in client. This ensures that the engagement is seamless and demonstrates the Group's commitment to client-centricity.
- Some of the key focus areas for Sanlam Sky Agency Distribution include culture, client-centricity and leadership. Sanlam created an opportunity for advisers to upskill themselves on the product knowledge and legislation that will enhance their effectiveness, efficiency and professionalism. This is done through e-learning via the Moodle learning management system, as well as SanTech. SanTech is a mobile app created specifically for Sanlam Sky Agency Distribution. It enables advisers to service clients more efficiently by having information at their fingertips via their smartphones. This gives them access to client information at point of sale.
- Sanlam enhanced the online capabilities of intermediaries servicing the growing and affluent markets by launching a new self-help online transaction portal, financial planning system and online intermediary portal. These online intermediary portals simplify the transfer and integration of data across the Group's business by consolidating investment tools into one system. It further enables the Group to provide more effective client support in line with the requirements of TCF. During the year, enhancements to these online intermediary platforms included improvements to Sanlam's web-based quote system. Quotations are now available online and can be accessed by different users. In addition, the Group enables intermediaries to update clients' contact and banking details via a self-help transaction without having to contact a Sanlam agent directly. This is an effective and time-saving self-help transaction. It allows an adviser to update their client's record without having to wait for office hours or to talk to somebody in person. In order to combat technological redundancy, the Group has replaced, and will continue to replace, outdated technology that will soon become obsolete.
- Santam maintains high standards of operational efficiency that ultimately create more robust and sustainable stakeholder outcomes. For example, Santam's willingness to invest in large, long-term projects to provide data capabilities and agility for future business contexts is delivering some of the anticipated benefits.

Enhancing access through growth in the distribution network

To enable Sanlam to service its clients' needs before, during and after the time of contracting, the Group must ensure a sustainable and professionally accredited sales force. This requires the Group to keep its tied agents and intermediaries motivated, despite market volatility, political instability and the weak economic conditions experienced in South Africa during 2016. During the year, various initiatives were launched to strengthen and grow Sanlam's distribution network.

This is in line with the Sanlam's distribution objective: to recruit, develop and support the appropriate tools and resources to enable the Group to advise and implement financial solutions for clients.

Sanlam's BlueStar financial advisory services

The Sanlam-authorised BlueStar businesses, which are located across South Africa and Namibia, aim to provide investors with professional financial advice as well as personalised solutions via a team of accredited, local financial planners. The businesses offer a wide range of personalised financial solutions from financial planning and insurance, to investment advice and retirement planning. Sanlam BlueStar aims to convert tied agents with small practices into professional, entrepreneurial businesses.

The number of BlueStar businesses has grown significantly in recent years, with close to 50% of the middle and affluent tied agents now part of a BlueStar business. Sanlam has 2121 advisers in total working in 232 BlueStar businesses. These businesses account for 53,7% of SFA's total production. As such, BlueStar businesses are the flagship distribution model within SFA and form a crucial component of Sanlam's client-facing strategy.

In line with Distribution's focus on delivering an omnichannel, client-centric model, Sanlam recognises that technology is a key enabler of business success. To this end, Sanlam provided BlueStar businesses with individual websites in 2016, thereby enabling access to a valuable presentation and promotion tool. Clients can currently buy two products online: tax-free savings accounts (TFSAs) and Echo Retirement Annuities. BlueStar websites host introductory videos of the TFSA campaign as well as fund fact sheets of businesses that offer wrap funds.

In order to further enhance Sanlam's BlusStar businesses, the BlueStar Plus model was launched in 2016. This model is aimed at enabling larger businesses to grow. To become a BlueStar Plus business, it must meet specific registration and licensing requirements.

Key initiatives for the entry-level market

Sanlam Sky Distribution services the entry-level and lower-growth market (personal income of R6 000 – R25 000 a month) through:

- 106 client care offices;
- 270 independent brokers and over 360 Sanlam affiliated intermediaries;
- Over 3 500 tied agents in 61 sales branches across the country;
- 31 Ubuntu service points within communities; and
- Affinity groups made up of churches, burial societies, retailers, unions and funeral parlours.

Access to financial services

Sanlam Sky Distribution makes use of Sanlam Sky Agency Distribution, Sanlam Sky Broker Division, as well as Alternate Channels to service the entry-level and lower-growth markets.

Sanlam Sky Agency Distribution

Sanlam Sky Agency Distribution's key focus areas for 2016 were improving its product mix, growing its base and value of new business (VNB), as well as using technology to make advisers and managers more efficient.

In response to this, Sanlam Sky Agency Distribution reduced the volumes of lower-margin – and in some cases loss-making – savings business significantly during the year. Conversely, the distribution channel increased the volumes of its risk business by 14%, exceeding its 2016 target of 2%. This improved performance is the result of increased adviser numbers, which moved up from approximately 3 200 in 2015 to 3 500. As a result, Sanlam Sky Agency Distribution has achieved double-digit growth rates and has grown its channel-level VNB by 21% year on year.

Sanlam Sky Broker Division

Sanlam Sky Broker Division exceeded its volume and VNB targets. Traditional brokers increased by 11% (2015: -26%), outsourced brokers by 6% (2015: 34%) and Sanlam Affiliated Intermediaries (SAIs) by 16% (2015: 37%). Five of the six regions have shown double-digit growth compared to 2015. This growth can be attributed to a number of successes. For example, the Division improved their client retention index by 3% in comparison with 1% in 2015. With these metrics at their best levels in many years, annual premium equivalent (APE) and VNB results for the channel were significantly boosted.

Alternate Channels

Alternate Channels houses all other channels distributing Sanlam Sky funeral sales, including direct sales through the web and sales of the Sky funeral product by SPF Distribution channels. Web sales gained momentum in 2016, averaging approximately 346 policies a month. The SPF Distribution channels are on track to deliver the budgeted funeral business volumes for Sanlam Sky in 2016, while growing their VNB contribution. This contribution is coming from Sanlam Financial Advisers, Sanlam Broker Distribution and Sanlam Direct sales.

To strengthen its presence in the entry-level and lower-growth markets, Sanlam Sky has expanded its Distribution Support and Operations teams. This enables the business to support its sales force in meeting client needs, while achieving sustainable, profitable growth in a compliant manner. These teams assist the business with compliance and in identifying areas for improvement in its systems and processes.

Ensuring suitable advice

Outcome four: Where customers receive advice, the advice is suitable and takes account of their circumstances.

To deliver on the fourth outcome of TCF, Sanlam must ensure that its intermediaries are professional, well-informed and up to date regarding all legislative and regulatory compliance requirements. The Group must also ensure that advice takes into account clients' circumstances, is not exploitive and does not take advantage of low levels of financial literacy. This is critical in promoting the fair treatment of financial services customers.

Training and development

Sanlam recognises that in order to meet clients' needs throughout their life cycle, the Group must secure and train the right people. Therefore, training and development plays a pivotal role in ensuring that Sanlam's tied agents and intermediaries are able to service their clients' needs effectively, within the legislative requirements. A range of training initiatives are offered, such as sales, skills development, legal and technical training, management and leadership development, entrepreneurial and business management, technical products support and business processes training.

This holistic offering supports the fourth outcome of TCF, which requires that tied agents and intermediaries have the skills and expertise to provide suitable advice for the product they are marketing, as well as suitable advice for the market they are targeting.

Sanlam's Financial Planning Academy

Previously known as the Distribution Academy, the Financial Planning Academy (the Academy) is a 'one-stop shop' learning portal that enables intermediaries to access information, participate in training, write accreditations and sign off on policies.

The Academy focuses mainly on developing financial planning skills, including management, systems, legal, technical and soft skills training. In addition, it prepares advisers for the regulatory examination (RE), which is the industry exam for all advisers and brokers. Generic training includes continuous professional development (CPD) requirements and soft skills courses for interpersonal relationships, conflict management, time management and selling skills. The Academy also supports advisers, office staff and brokers doing the Postgraduate Diploma in Financial Planning.

A number of product accreditations were successfully completed through the portal in 2016. For example, more than 2 000 Sanlam advisers completed their 'Know Your Product' accreditations. In 2017, the Academy aims to roll out an improved newcomer course. An online library will also be launched on the learning portal. This library will serve as a knowledge portal for all things related to financial planning and will include items such as links, articles and videos. Intermediaries will have free and easy access to all Academy knowledge and do not have to be registered for a specific course in order to access the resources. The Academy is accredited by the Insurance Sector Training Authority (INSETA) in South Africa for the NQF levels 4 and 5 programmes in wealth management.

Engaging with financial advisers on legislative and regulatory compliance requirements

Sanlam takes legislative ownership and responsibility for the tied agents operating under its multiple financial services provider (FSP) licences. Independent brokerages, which operate under their own FSP licences, can consult the Group's support staff about Sanlam solutions and service offerings. Sanlam provides various levels of support to its intermediaries to help them adapt to the changing legislative environment.

Furthermore, Sanlam participated in the RDR consultative process of the 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.

The Group provides its advisers and brokers with up-to-date information through Sanlam's monthly *Impact* magazine.

Ensuring suitable advice continued

Providing suitable access to financial services through Sanlam Sky Solutions

Low-income consumers face a number of barriers that restrict their access to financial services. These include poor physical access, onerous requirements for identification, unaffordable service fees and a lack of products that meet their needs.

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 suit these needs, engaging with 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.

The Group has pioneered a number of initiatives that focus on delivering access to financial services. This is in line with the Group's commitment to distribute sustainable wealth and build a prosperous society.

For example, Sanlam is a sponsor of *Takalani Sesame* – a multi-language, edutainment and multimedia programme focused on early childhood development.

This initiative aims to foster an interest in mathematics among children when they are most receptive to learning and in the early development phase. The approach is premised on Sanlam's belief that mathematics skills can be the foundation of a child's future and is critical to enabling them to 'live their best possible lives'. Parents are also able to visit the Kwa-Sanlam parents' area and engage with a Sanlam Sky adviser.

Furthermore, the Group supports a number of projects focused on financial literacy and education through the Sanlam Foundation.

Read more about *Takalani Sesame* and the Group's activities through the Sanlam Foundation in the Prosperous Society report, available online.

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. This goal is primarily driven by Sanlam Sky Solutions.

Sanlam Sky Solutions

Sanlam Sky Solutions focuses on individual as well as group solutions that efficiently meet the needs of the entry-level market. The primary products sold within Sanlam Sky Solutions are funeral plans, however, the Sky distribution channel also focuses on developing products that meet the broader needs of the entry-level market. This includes life savings and retirement products, etc. The ultimate aim of Sanlam Sky Solutions is to offer a wider range of simple financial solutions to the various market segments while delivering a consistent client experience.

To ensure that suitable advice is given, advisers servicing the entry-level market are trained to conduct a financial-needs analysis to assess prospective client's needs. Given the limited financial needs and means of clients in the entry-level and lower-growth market, the focus is on offering standardised advice. This stands in contrast to SFA advisers who focus on middle- and affluent-market clients and provide far more customised advice.

Advisers are trained and updated on product and regulatory changes using the Drotter people management model and a predefined learning pathway to identify gaps in the development of advisers and managers. Gaps are then addressed using a blended learning approach, which combines face-to-face training interventions, self-study and e-learning via a Moodle online solution to ensure efficient training.

Measuring performance against the Financial Sector Code

Sanlam subscribes to the Financial Sector Code (FSC). The FSC measures the extent to which the Group provides the entry-level market access to financial services. Sanlam views this market as an opportunity to expand the Group's business and deliver on its promise to improve people's lives.

By the end of 2016, Sanlam had approximately 844 628 (2015: 730 000) low-income market policies in place, covering a broad geographical area.

Overall, the Group achieved all nine available points for transactional access and market penetration under the FSC codes. Sanlam maintained its score of 12,53 out of 14 in 2016 (2015: 12,14) out of 14 on the FSC scorecard for access to financial services.

Read more about Sanlam's FSC scorecard in the Prosperous Society report, available online.

Access to financial services indicators

Profile	2014	2015	2016
Number of in-force, low-income market policies	656 000*	730 000*	844 628
FSC access to financial services score (score out of 14)	12,05/14	12,14/14	12,33/14
FSC access to financial services product standards (score out of 3)	2,00	2,00	2,00

* *Approximate figures*

Read more about Sanlam's performance against the FSC Scorecard in the Prosperous Society and People Development reports, available online.

Increasing access to funeral products across the distribution network

Funeral products have predominantly been associated with the entry-level market. However, Project Re-Imagine has shifted this focus. Sanlam Sky Solutions now sells its funeral products through four other channels (apart from Sky Distribution). These channels include SFA, SBD, Sanlam Direct and Sanlam Key Solutions. Sanlam Key Solutions is a new distribution channel within SPF that targets the higher entry-level and lower-middle market segment, whose clients earn between R8 000 and R25 000 a month. By broadening the scope of funeral products across the distribution network, the Group is able to respond to the wider needs of the market.

Ensuring access to products that perform

Outcome five: 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.

The fifth TCF outcome mandates that products provided to clients should perform as financial services providers have led them to expect. It further requires that associated services should be both of an acceptable standard and what clients have been led to expect.

This requires that Sanlam and its intermediaries closely monitor environmental, regulatory and economic developments that could impact the extent to which products will meet clients' expectations. Moreover, processes must be in place to mitigate the risks to clients where it becomes clear that products are not performing (or are unlikely to perform) as the clients have been led to expect.

To support the fifth outcome of TCF, and in line with the Group's TCF Product Governance Framework, Sanlam conducts an analysis and testing of sales trends, sales volumes, profitability, sales segmentation trends and distribution channels after the launch of any new product or service. This testing is performed on an ongoing basis in order to identify instances where sales trends do not align with the pre-launch analysis. Tracking metrics are also included, which are based on the TCF risks identified at the product launch phase. The following are examples of the kinds of metrics tracked by the Group:

- Actual customer expectations and product understanding versus planned expectations and understanding;
- An assessment to ensure that queries received from the distribution network in respect to key product risks and features are in line with the product analysis provided as part of the product development governance process;
- An assessment of complaints or queries received about the product that indicate issues such as product literature and promotional material; and
- Tracking of key risks identified pre-launch.

Each cluster is required to keep a product risk register, and all new products and product changes should be recorded. Where post-launch sales are different from what was predicted or expected, client research may be required to determine the reasons for the deviation. This enables the Group to monitor whether its products are performing as Sanlam expected them to.

Ensuring that there are no unreasonable post-sale barriers

Outcome six: Customers do not face unreasonable post-sale barriers to change product, switch provider, submit a claim or make a complaint.

The final outcome of TCF mandates that customers should not face unreasonable post-sale barriers. This relates specifically to:

- Changing products;
- Switching providers;
- Insurance (long- and short-term risk); and/or
- Resolving complaints and complaints handling

Complaints handling

The Group has 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.

The Group further subscribes to the independent Ombudsman of Long-Term Insurance's (OLTI) Long-Term Ombudsman Scheme. Any of Sanlam's long-term insurance policyholders can lodge a complaint with the OLTI 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.




www.sanlam.com