Drive system efficiency

*By driving system efficiency we maintain high standards of operational efficiency, ultimately creating more robust and sustainable stakeholder outcomes*

<table>
<thead>
<tr>
<th>Key performance indicators</th>
<th>2014</th>
<th>2013</th>
<th>Long-term target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition cost</td>
<td>28.2%</td>
<td>27.9%</td>
<td>Acquisition cost below 27%</td>
</tr>
<tr>
<td>Loss ratio</td>
<td>63.1%</td>
<td>69.3%</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Data and technology

**SANTAM’S STRATEGIC PROJECTS**

We have embarked on a number of strategic projects over the past decade to transition, upgrade and convert our legacy systems to enable the group to increase the efficiency and scale of claims handling, data capturing and reporting, thereby improving our ability to price and underwrite in future. These projects have used technology to improve transactional capabilities, communication and services to intermediaries.

Following the acquisition, Santam consolidated its intermediary administration businesses. Orico (previously owned by Indwe Broker Holdings) and the part of the Riscor business not operated on Santam’s in-house systems with Brolink effective 1 October 2014. The new consolidated business remains under the Brolink brand and Santam will remain uninvolved in operations to ensure independence and parity across insurers.

The combined business offers intermediaries a quality one-stop-administration solution that provides access to quotes from multiple insurers across multiple systems, thereby creating scale that will improve operating costs and efficiency.

**THE BROLINK OFFERING**

Santam recognised the need from certain larger national intermediaries to have access to a quality independent administration system. Therefore, Santam acquired 100% of Brolink – an independent company that provides information technology and business process outsourcing services to the intermediated industry.
Leverage scale and efficiency as a group

SANTAM’S SUPPLY CHAIN INITIATIVES

Santam’s suppliers form an integral part of the claims management process, with functional elements that include claims assessment, contact centres, drive-in centres, a variety of technical specialists, repairers and the internal arbitrator.

To meet client requirements and improve service levels, Santam has built a sustainable network of suppliers that can service claims reliably and cost-effectively. This enables the group to improve pricing and refine its product offering, which ultimately attracts and retains policyholders.

Some of the improvement focus areas include:
- A sustained drive to improve our BBBEE score. This includes development programmes to invest in and upskill black-owned and black-female-owned suppliers.
- A targeted resilient investment fund to seek and invest in innovative businesses that consider ways to deliver services that have a positive impact on our environment.
- Aggressive strategies to promote the repair versus replace philosophy in the motor repair industry leading to less waste and better profitability. The added benefit to this drive is the resultant skills development in the industry.
- The positive financial impact of our “green buildings”. The reduction in water and energy consumption and the promotion of indigenous plants is standard practice.
- Supply chain assessments are conducted regularly and we actively seek alternatives to address economic and environmental challenges facing our business. The promotion of alternative glass and spare parts without compromising the quality and safety of these products will contribute to the sustainability of motor vehicle insurance.
- Adverse weather conditions have a negative impact on our financial performance. We co-operate with our partners in the supply chain to mitigate weather-related risks and enhance our client service in times when hail and flooding catastrophes occur. The supply chain management team proactively developed systems and procedures to improve response capability under such circumstances.

Numerous strategic initiatives helped contain costs and contributed positively to the Santam group’s loss ratio:
- The intelligent write-off model, which enables us to make informed choices about the threshold for economic repairs.
- A unique claims cost normalisation programme was developed to refine the evaluation of claims, repair cost and supplier efficiency.
- The certified aftermarket parts strategic initiative addresses the need for alternative vehicle replacement parts without compromising quality and safety. The initiative required the certification of non-safety critical parts according to international standards of manufacturing. These parts are used in out of warranty cars and certain parts can now be used for cars under warranty.
- Santam also promotes partnerships with networks of motor body repairers who are incentivised to repair rather than replace parts. This cuts down on wastage and helps promote skills development in the industry. This initiative has also resulted in improved profitability for repairers.
- In non-motor claims, jewellery and small non-consumables were targeted through moderation in the assessment. For example, we refined the valuation of precious metals and stones with the assistance of jewellery experts.
- The identification and removal of conflict opportunities in the claims process was a major focus area. Santam’s approach is to make the claim process as easy as possible for clients when they unfortunately experience traumatic circumstances resulting in a claim.

During 2014, the Competition Commission launched an investigation into collusion by car parts suppliers. They are investigating price fixing, market division and collusive tendering in the car parts industry, which has the potential to benefit insurers as it will lead to a more efficient future market for car parts.

ENTERPRISE AND SUPPLIER DEVELOPMENT

Santam’s suppliers are key partners in delivering Insurance good and proper. We are committed to building a transformed supplier base that can provide good and cost-efficient client service with low environmental impact. In total, 74.7% of the group’s spend is with BBBEE suppliers of which 37.6% is qualifying small enterprises or exempt micro-enterprises.
Santam joined Sanlam in 2013 in its enterprise development partnership with the Association of Savings and Investment South Africa (ASISA). This partnership is aimed at investing in the sustainability of small and medium-sized enterprises in South Africa. This joint initiative supports entrepreneurship, which is central to government’s drive for job creation and economic growth.

Five suppliers were originally selected from across the group and a further five are being sourced, based on their growth potential, value chain alignment, commitment to the programme, transformation, need for assistance, entrepreneurial ability, leadership capacity and geography.

**CONTRIBUTING TO HEALTH, SAFETY AND SECURITY**

By creating safe and well-maintained communities, we create insurance opportunities for those that are currently excluded due to excessive risk or unaffordable premiums. A lack of infrastructure, resources and security-related services currently prevent some communities from breaking the cycle of poverty and socio-economic hardship.

Santam defines the ideal society as one that is characterised by high ethical and safety standards, built on mutual respect, reinforced by the constitution and rule of law, and supported by strong corporate, civil and governmental partnerships.

In its efforts to improve the understanding of safety, Santam commissioned a leading researcher and a psychologist to investigate how South African children understand safety. The report was used to develop a public relations campaign that supported group efforts to drive awareness of Santam’s overarching campaign message – *be safe out there*.

Santam is committed to drive change by supporting schools and education programmes and job creation through insurance focused qualifications. Our community involvement is shaped by Santam’s corporate social investment (CSI) initiatives, which is formalised in our CSI strategy and aligned with the group’s BBBEE requirements. Delivery on our projects takes place through partnerships with non-profit organisations, non-governmental organisations and public benefit organisations. Project management is closely monitored and all beneficiary organisations have signed memoranda of agreement.

During 2014, 0.8% of the net profit after tax (2014: R12 million; 2013: R11 million) was awarded to social corporate investment and consumer education projects, with the following allocations:
- Education
- Arts and culture
- Youth and security
- Environment
- Health
- Overheads
- Other

Santam’s CSI partners include UNICEF, NICRO, the City of Cape Town, and Santam employees.

**CARBON FOOTPRINT**

The group’s most significant environmental impact arises from the activities of employees and suppliers and the resources consumed in our buildings.

For example, our electricity has fluctuated since 2010 (baseline) due to revamping of offices, constructing a new building, greater flexibility of office hours and the better management of air conditioning systems – the latter contributing to a saving in electricity consumption of approximately 20%. In 2014, we focused on adapting the head office with more efficient lighting and moved the Sandton office into a five-star green building.

We continue focusing our efforts on raising employee awareness and deploying green technology into our facilities. We are building a history of resource usage data to be able to accurately monitor the benefits of new initiatives and forecast more effectively.

The Santam group set environmental reduction targets for the 2011 – 2015 period (performance details against the targets are available on the website) and will launch a revised policy and targets as part of the Sanlam group effort at the end of 2015.
The growth of the South African economy is dependent on the sustainability of small and medium-sized enterprises (SMEs). Santam engages with a diversity of suppliers and therefore has a responsibility to ensure that it contributes to driving this national agenda.

Santam forms part of the Sanlam Group Enterprise Development Programme that was launched in July 2014 and actively participates through its role as group sourcing function. The programme aims to build high-potential SMEs within the group supply chain and target market. The businesses identified are chosen based on criteria such as growth potential, value chain alignment, commitment to the programme, transformation, need for assistance, entrepreneurial ability, leadership capacity and geography.

Since the inception of the programme five businesses have participated covering a wide array of industries including motor body repair, human resources, IT technology solutions, recycling and office supplies. The results achieved have prompted the group to increase the number of participating SMEs in 2015 to an additional five beneficiaries.

Our strategic intent is to support SME to develop their capabilities to become supply chain ready for any future procurement opportunities within the Sanlam group. In addition to getting valuable business development support, the suppliers also gain insight into our procurement processes, supplier selection criteria and opportunities to engage with various decision-makers.

The success of our enterprise development initiative in 2014 was defined by the creation of 37 new jobs and an average increase of 20% in revenue for our beneficiaries.