RISK MANAGEMENT REPORT

Santam’s board recognises and acknowledges that it is accountable for the establishment and maintenance of an effective risk management system including the system of internal control.

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

RISK MANAGEMENT, INTERNAL CONTROL AND COMPLIANCE PROCESSES

INTERNAL CONTROL

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

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

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

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

CONTROL OPINION

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

Where necessary, programmes for corrective action have been initiated. Nothing has come to the attention of the directors, or the external or internal auditors, to indicate that any material breakdown in the functioning of the internal controls and systems (which include the internal financial controls) occurred during 2015.

INTERNAL FINANCIAL CONTROLS

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

The internal financial controls in the most significant accounting cycles in Santam Ltd, MiWay Insurance Ltd, Centriq Insurance and Centriq Life were documented and tested. No significant deficiencies were found. Results of this review were reported to executive management and the audit committee.
INTERNAL ASSURANCE PROVIDERS

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

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

The Santam group’s approach to the governance of its group operations is detailed in the board-approved Santam group Governance Framework (Framework). In the Framework, it is acknowledged that the Santam group at any time holds material equity investments (in terms of the level of shareholding and/or the value of the investment) in a number of entities, either through statutory (legal) entities or other corporate/ business arrangements. Internal audit developed an audit strategy for each category of entities.

Internal audit plans ensure that all entities are adequately considered in the audit plan based on their size, complexity and risk profile; as well as specific legal entity governance requirements.

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

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

Internal audit proactively reviews its practices and resources for adequacy and appropriateness, to meet the ever-increasingly demanding corporate governance and regulatory environment, including the requirements of King III and the FSB’s SAM project. Board Notice 158 has been implemented and the relevant notifications and applications were submitted and approved by the Regulator during 2015. The head of the internal audit control function was appointed at a group level and was outsourced to MiWay Insurance Ltd, Centriq Insurance and Centriq Life.

EXTERNAL AUDIT

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

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

Santam has a formal pre-approval policy on the use of external auditors for non-audit services. The policy provides guidelines on dealing with audit, audit-related, tax and other non-audit services that may be provided by the independent auditor to Santam and its entities. It also sets out the services that may not be performed by the auditor. The services rendered by the auditors are monitored by the audit committee on a quarterly basis. Non-audit services rendered by the group’s external auditors amounted to R3.8 million. This includes R0.2 million for assurance-related services, R1.1 million for regulatory-related services and R2.5 million for other services.

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

OTHER ASSURANCE

There is regular interaction and consultation between internal audit and other internal assurance providers and control functions, for example, the quality assurance functions in the distribution, claims and underwriting business units, and the heads of risk management and compliance control functions.
RISK MANAGEMENT AND COMPLIANCE

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

The board also ensures that the risk management, internal control and compliance systems are regularly reviewed for effectiveness. While the board is responsible for the overall governance of risk, it is assisted by the risk committee in discharging this responsibility.

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

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

Risk management policies and processes were updated to include new legislation and regulatory requirements (especially regarding SAM) and to consider the evolving scope of the group’s business. According to the requirements of Board Notice 158 the heads for all the required control functions have been appointed at a group level and these roles have also been outsourced to MiWay and Centriq. The heads of risk and compliance control functions are supported by relevant functional teams at both MiWay and Centriq to ensure adequate “on-the-ground” expertise and knowledge of the business. The risk management and compliance policies form part of the group’s governance framework and encompasses the totality of strategies, policies and procedures for identifying, measuring, monitoring, managing and reporting of all material risks to which the group may be exposed.

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

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

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

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

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

RISK DISCLOSURE

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

BUSINESS CONTINUITY

A key operational risk, which spans Santam’s business, is the potential impact of a major disaster and/or disruption. The group has responded to this threat by continually improving the group-wide business continuity framework to ensure that people are prepared, crisis infrastructure is tested, and meaningful recovery plans are in place. A steering committee is responsible for overseeing, reviewing and monitoring Santam’s business continuity capability. A simulation exercise was conducted in March 2015 to assess whether the capability in place allows and enables the senior management team to respond appropriately to serious crisis incidents. The exercise provided senior management with practical insight and a general purpose crisis management capability. This knowledge was then used to develop action-driven checklists and the crisis management plan was updated accordingly. The plan can be applied and adopted for any serious crisis. The plan has been tested for a scenario such as a national electricity grid failure, with the resultant findings and requirements subsequently included in the crisis plan.