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17 JULY 2023

**Diana Diaz and Butch Bacani via email**

Programme Leader

The UNEP FI Principles for Sustainable Insurance Initiative (PSI)

United Nations Environment Programme Finance Initiative

International Environment House, 15 chemin des Anémones

1219 Châtelaine,

Geneva,

Switzerland

Dear Butch,

**SANTAM GROUP PROGRESS REPORT: PSI PRINCIPLES 1 JANUARY 2022 – 31  
DECEMBER 2022**

Santam Group continues to support the United Nations' Principles for Sustainable Insurance (PSI) initiative. Our participation in the PSI governance structures and market events demonstrate this. As disclosed in our annual Integrated Report and the Environmental Social and Governance (ESG) related disclosures on our website and in other internal and external communications, we are committed to embedding the PSI principles in the Group's business and decision-making.

**SANTAM GROUP'S APPROACH TO ESG**

Santam Group acknowledges that the business operates under environmental and social thresholds, and we take ESG issues and sustainability seriously. Our approach to ESG focuses on the most important issues to stakeholders and those which affect our ability to create long-term financial and non-financial value. These material issues have informed the Group's ESG strategic focus areas, which are further integrated into our FutureFit Santam strategy.

To illustrate Santam Group's progress with integrating ESG issues into our business, we highlight the following activities aligned to the 'Principles.'

**Principle 1: We will embed in our decision-making ESG issues relevant to our insurance business.**

**Company Strategy**

- *Santam Group Refreshed FutureFit Strategy*

For the period under review, the Santam Board considered management's refreshed strategy to create and unlock future growth in a sustainable manner. This refreshed strategy process included affording consideration of Santam's international diversification strategy, its partnership, and ESG strategy. This process also necessitated a review of the Group's organisational structures and key portfolios, particularly at the Group Exco level. As part of our commitment to ESG embeddedness, the Group performance dashboard also continues to capture core ESG performance elements of the Group's corporate strategy, which the Board and management oversee. The dashboard also entails overall corporate performance, including both financial and non-financial performance.

- *The Group Social, Ethics and Sustainability Committee (SESCO)*

As part of our efforts to embed and keep ESG high on the Board and management's agenda, the Group Social, Ethics and Sustainability Committee (SESCO) met twice in 2022 to assess the Group's ESG performance. This committee oversees the ESG strategy, including the UN's Principles of Sustainable Insurance and reports to the Group Board. To perform this role for both Santam Limited and its South African subsidiaries, the committee is governed by the Group SESCO Charter. The Charter has been updated to reflect the Board's adoption of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and the Group's efforts to align with the TCFD recommendations. The Charter has also been updated to highlight the committee's mandate to regularly assess the culture of the Group concerning conduct, ethical and sustainability matters. During 2022, this committee achieved the following:

- Sustainability reporting and the disclosure of material non-financial aspects.
- Adopting a heightened approach to governance, ethics management, compliance, and risk management processes.
- Reviewing the Group's ethics strategy.
- Reviewing the Group stakeholder management policy to ensure alignment with the revised organisational structure.
- Considering the risks and opportunities associated with the committee's mandate and key deliverables, including reviewing emerging risks on an ongoing basis.
- Assessed and monitored the conduct of business by ensuring the achievement of the outcomes of Treating Customers Fairly (TCF).
- A review of the updated Santam Group's Climate Change Statement, which had been recommended to the board for approval.
- Exercising oversight over the Group's "new ways of work" initiatives and the company's culture journey assessment conducted in 2022. The insights shared by stakeholders assisted the Group in obtaining a better understanding of a culture that could potentially enable and complement the Group's strategy.
- Influencing the Group's investment mandate and policy to ensure that Santam practises responsible investment principles. The objectives include promoting good governance principles and decision making, including creating value through the companies and initiatives in which Santam invests.

- The development of ESG-related performance measurement criteria and incorporating same into the key performance areas assigned to the members of Group Exco.
- A review of the Santam Group's Human Rights Statement, which was recommended to the board for approval.

- *Group Climate Change Committee 2022*

With the establishment of the Climate Change Committee in 2021 (under the leadership of the Chief Risk Officer), the committee continued to lead the Group's journey towards understanding and responding to climate change risks and opportunities. One of the important milestones that the committee achieved in the 2022 financial year is drafting the coal position statement. An internal assessment of the Group's exposure to coal preceded the drafting of this statement. The Climate Change Committee was also at the forefront of leading the work towards conscientising management of the need to conduct Group-wide climate scenarios. The Group will provide progress in the 2023 UNEP-PSI submission.

- *ESG-specific key performance indicators for Executives*

In 2022, concerted efforts were made to incorporate ESG principles into the Group's list of strategic objectives. As a result, ESG-specific key performance indicators were provided for in the performance measurement criteria of Group Exco and senior management. The implementation thereof will be monitored on an ongoing basis, with Santam's reward strategy aligned with the new performance assessment criteria.

### **Risk Management and Underwriting**

Robust risk identification and management remain a key focus for the Group. In the past financial year – our Group was exposed to the following top risks:

- An affected ability to achieve premium growth targets.
- Political and social risks in South Africa.
- Pressure on infrastructure and lack of maintenance in South Africa impacting claims.
- Instability of the electricity grid.
- Climate risk, including catastrophe events and extreme weather.
- The availability of sufficient reinsurance capacity at a reasonable price.
- Lack of A-rated paper on which to write international business.
- Cyber risk.
- Skills shortage, including attracting and retaining top talent.

The risk committee and the board oversee the risk identification and management process to ensure the effective management of identified risks. To ensure sufficient response and oversight, all key risks are incorporated into the Groups material matters and are responded to individually with accompanying mitigating actions. Furthermore, the Group enhanced its underwriting actions on pricing and managing risk through improved data analysis and modelling using geocoding and external location-based information.

### **Claims Management**

Adverse weather conditions during the first half of 2022 including the devastating KwaZulu-Natal (KZN) floods in April 2022 significantly impacted the Group's underwriting results. The resultant Group's gross exposure to the KZN floods was reported to be R4.4 billion. However, Santam's

reinsurance programme limited the net impact to approximately R567 million, including reinstatement premiums. The KZN floods were the most significant natural catastrophe in Santam's history. We have also supported our clients by paying total claims of R29.8 billion, helping clients and communities mitigate risks and protect their financial wellbeing. Santam helps ensure financial resilience by paying claims, which serve as a safety net for the South African economy during challenging times.

### **Investment Management**

Santam continued to invest in the Association for Savings and Investment South Africa (ASISA) Enterprise and Supplier Development (ESD) Fund, which creates access to loan funding for new and small previously disadvantaged suppliers in our industry. This programme includes business assessment, incubation, support and mentoring, and aims to prepare small black businesses for targeted procurement spend from the Group. Small enterprises continue to benefit from the growing strength of our partnership with the ASISA ESD Fund. With a total investment of R118 million to date, Santam has, through the ASISA Enterprise and supplier development programme, continued to show its commitment to the sustainable development of small enterprises across South Africa.

### **Principle 2: We will work together with our clients and business partners to raise awareness of ESG issues, manage risk and develop solutions.**

- *Raising awareness of ESG-related issues*

Santam Group's meteorologist continued to provide monthly climate and agricultural outlook reports to the Santam Agri business. This information is also shared with our clients to inform their decision-making concerning their business operations. Climate change poses a significant risk to the global economy. The insurance industry actively insures the economy against unpredictable events and has a history of helping society understand and adapt to emerging risks. Therefore, the industry is best placed to play a leading role in addressing the impacts of climate change. In 2022, the Group's Strategy lead penned an industry wide ESG-related article highlighting the insurance sectors' path towards adopting ESG. This article emphasized the industry's role in embedding a strong ESG framework and agenda in the business strategy overall. The full article is available on our website [here](#).

- *ESG-related partnerships*

Santam Group is also a member of Business for Social Responsibility's Value Chain to Resilience initiative (BSR). The BSR is a global nonprofit organisation that works with a network of more than 300 companies to build a just and sustainable world. This initiative aims to increase the ability to diagnose physical climate risks and understand, adopt, and implement climate resilience measures throughout corporate value chains to deliver societal and business value.

Santam Group is also part of the South African Insurance Association (SAIA) Climate Change forum, with the Executive Head of Investor Relations and Strategy serving his second year in a two-year chairmanship role. He is also a member of the ClimateWise Management Committee, where he contributes to the maturing climate disclosure journey of the insurance sector.

### **Principle 3: We will work together with governments, regulators, and other key stakeholders to promote widespread action across society on ESG issues.**

- *Partnering for resilience*

Santam's Partnership for Risk and Resilience (P4RR) Programme brings together our proactive risk management activities in municipalities, our corporate social investment spend, stakeholder relations functions and sustainability initiatives and is fully aligned with the 'Help Build Resilient Societies' theme of Santam's FutureFit strategy.

Through P4RR, the Emthunzini Community Trust invests in risk-reducing interventions managed by Santam and other willing partners, such as SASRIA. The objective of P4RR is to strengthen the institutional and participatory development capacity of local municipalities to reduce the impact of disasters proactively. We do this by assisting service delivery and supporting local government infrastructure, economic development, and governance. In 2022, the P4RR programme partnered with and supported 82 municipalities, impacting 12.5 million people.

Source: <https://www.santam.co.za/media/2687818/integrated-report-2022.pdf>

- *The Green Book Initiative (The Green Book is a multi-disciplinary, open-access tool that supports South African municipalities with adapting to the current and future impacts of climate change.)*

The P4RR programme also collaborates with the Council for Scientific and Industrial Research (CSIR) through the Green Book Initiative to support selected municipalities with climate change adaptation/response planning. During the 2022 financial year, the P4RR supported nine (9) Districts and one (1) Metro, for more information visit [www.greenbook.co.za](http://www.greenbook.co.za)

**Principle 4: We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.**

Santam's ESG reporting is guided by the following frameworks, CDP, TCFD recommendations, King IV Report on Corporate Governance for South Africa, Treating Customers Fairly (TCF), ClimateWise, and as well as the FTSE Russell ESG rating.

- *The Annual Integrated Report reflects Santam's progress with ESG integration*

Santam Group published its 2022 Integrated Report as part of our annual reporting responsibilities regarding the King IV South African corporate governance guidelines. In addition, material ESG and sustainability matters are included in the Integrated Report as part of Santam Group's FutureFit strategy, which focuses on critical matters driving change in global insurance and significant Group level issues. The ESG focus areas are reported on pages 50-53 of the [Integrated Report](#).

- *Annual Group Emissions Report*

Our major shareholder, the Sanlam Group (including Santam's facilities) continues to manage and report its emissions using the operational control approach, which requires a company to account for its emissions by entities and activities under the organisations' direct control. The Group measures its internal environmental performance by monitoring consumption patterns such as energy, water, waste, and recycling through an internal IT system.

- *FTSE Russell's ESG Ratings (JSE Sustainability Index rating)*

Santam Ltd participates in the JSE's sustainability rating process, which is aligned with the FTSE Russell rating process. FTSE Russell collects data on public company disclosures on ESG-related matters across different themes, including anti-corruption, climate change, corporate governance, human rights and community, labour standards, risk management and supply chain. The Top 30 index reflects the 30 companies achieving the highest ratings in the ESG Rating process. In the 2022 financial year, Santam Group maintained its position in the JSE Top 30 Sustainability Index and was included in the FTSE4Good Index Series.

- *Task Force on Climate-related Financial Disclosures (TCFD) recommendations*

During the period under review, we published our first [TCFD report](#) for the year ended 31 December 2021. Following the inaugural TCFD report, the Group also published a high-level summary providing a Group-wide update on ESG and climate-related issues, see page 52 of the 2022 Integrated report. We continue to make progress in identifying and assessing climate-related risks and opportunities. Management will provide a further progress update for the 2023 financial year during the first half of 2024.

- *ClimateWise & CDP*

We are a member of ClimateWise and annually report our performance against the ClimateWise principles that have been aligned with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Our overall score improved to 72% (68%:2021). Our current work on aligning with the TCFD recommendations, will improve our rating in the next reporting cycle.

The Group also submits a CDP response annually as part of Sanlam Group's return (our Parent company). In the 2022 financial year, we received a B score. While this is a drop from the 2021 score (A-), the current score indicates advanced environmental stewardship at the managerial level. Our organisation intends on conducting climate scenarios to understand climate-related risks and opportunities and improve climate-related disclosures and performance in the 2023 financial year, so we anticipate an improved score in our CDP response.

Below are links to our ClimateWise, CDP disclosure and the Group's Carbon footprint report.

1. [ClimateWise Response](#)
2. [CDP Response](#)
3. [Carbon Footprint Report](#)

We trust our letter and public disclosures demonstrate our commitment and progress in aligning with the UN Principles of Sustainable Insurance.

Kind Regards

**Thabiso Rulashe**  
**Executive Head: Investor Relations and Strategy**