



# Integrated Report 2018

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**The cover** depicts a butterfly - the animal kingdom's ultimate symbol of transformation – having emerged from its chrysalis after being a caterpillar. The evolutionary theme is maintained throughout the report.

## The father of our nation

This integrated report is dedicated to the memory of the late Nelson Mandela, whose birth centenary is being celebrated in 2018.

Madiba was the father of our nation, a world-renowned peacemaker, philanthropist, role model and an inspiration to us all. He became a global icon for steadfastly sticking to his belief that South Africa could achieve the ideal of evolving into a democratic and free society in which all persons live together in harmony and with equal opportunities.

He once said: *“The world remains beset by so much human suffering, poverty and deprivation. It is in your hands to make a difference.”*

This is a direct call to action to all South Africans to inspire and act.

Madiba was the personification of our theme for this report:

***Pursuing excellence, evolving and embracing change***

May his legacy endure forever.

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## A woman of fortitude

2018 also marks the centenary of Albertina Sisulu's birthday.

Affectionately known as Ma Sisulu or ‘Mother of the Nation’, she was an anti-apartheid activist. She was the only woman present at the birth of the African National Congress (ANC) Youth League in 1944, joined the ANC Women's League in 1955 and took part in the launch of the Freedom Charter the same year.

Ma Sisulu became a member of the executive of the Federation of South African Women in 1954. On 9 August 1956, she joined Helen Joseph and Sophia Williams-De Bruyn in a march of 20 000 women to the Union Buildings of Pretoria in protest against the apartheid government's requirement that women carry passbooks as part of the pass laws. The day is celebrated every year as National Women's Day.

In 1994, she was elected to the first democratic Parliament. At its first meeting, she had the honour of nominating Nelson Mandela as President of the Republic of South Africa.

Ma Sisulu died on 2 June 2011. She has, over the decades, been a pillar of strength not only for the entire liberation movement, as she reared, counselled, nursed and educated most of the leaders and founders of the democratic South Africa.

For more than 50 years, Ma Sisulu committed herself to The Albertina Sisulu Foundation. She worked tirelessly towards creating a better and more equitable South Africa, where all people can enjoy the benefits of freedom and democracy.

We pay tribute to Ma Sisulu at this time when Sasria is actively ***evolving*** and engaging in finding solutions to bring financial inclusivity in our country.

# About this integrated report

## Theme

In this integrated report, we review our performance for the financial year ended 31 March 2018 (which we refer to as 2018). The report is intended for all our stakeholders (see page 24) and explains how we create value over time.

The theme of this year's report is:

### *Pursuing excellence, evolving and embracing change*

Sasria wants to continue improving, enhance its good governance further and remain financially sustainable; while evolving and not becoming stagnant; and at the same time, embracing all possibilities of what change can present.

## Structure

The Minister of Finance, in his capacity as representative of the shareholder, receives the integrated report for tabling in Parliament. He expands on what the state expects from Sasria in terms of its mandate. See page 2.

The Board, represented by the Chairperson, is responsible for setting strategy to deliver against the mandate. Refer to page 4. In the section VALUE CREATION, which commences on page 13, we discuss our business and its value creation strategy and how it is impacted by our capitals, stakeholders, risks and opportunities.

The Managing Director reports on progress against the strategy and future outlook in his report on page 6. This is amplified and substantiated in the report of the Finance Director on page 54 together with further detail regarding our PERFORMANCE.

The section LEADERSHIP AND GOVERNANCE on page 62 onwards expands on the activities of the Board and its committees in providing sound corporate governance.

## Scope and boundary

This report covers all the social, economic and governance aspects that are material to Sasria's ability to create value for all our stakeholders over the short, medium and long term. We believe that a matter is material if it could substantively affect our ability to create value. As part of our annual strategy review, we identified and prioritised the issues that could have a material impact on our ability to create value. The process that we followed, as well as the matters that we identified as material matters, are discussed on page 30. All material matters have been included and management is not aware of any information that was unavailable or any legal prohibitions to the publication of any information. We reviewed our environmental impact and we are of the view that it is immaterial to report on it.

The report is informed by the following:

- Constitution of the Republic of South Africa;
- Companies Act 71 of 2008 (Companies Act);
- Conversion of Sasria Act 134 of 1998 (Sasria Act);
- Department of Trade and Industry's (DTI) Code of Good Practice for Broad-Based Black Economic Empowerment (B-BBEE);
- Financial Sector Charter (FSC);
- Financial Sector Regulation Act 9 of 2017 (FSRA);
- Insurance Act 18 of 2017 (Insurance Act);
- Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC);
- International Financial Reporting Standards (IFRS);
- King IV Report on Corporate Governance for South Africa 2016 (King IV);
- Public Finance Management Act 1 of 1999 (PFMA); and
- Treasury Regulations issued in terms of the PFMA.

An explanation of the terminology used in this report can be found on page 130.

## Approval and assurance

The information in this report was collected and prepared on the same basis as last year insofar as measurement methods and time-frames are concerned unless otherwise stated. The information provided in the annual financial statements was prepared in line with IFRS and audited by our external auditor, SizweNtsalubaGobodo Grant Thornton Inc. Financial information included elsewhere in the body of this report was extracted from the annual financial statements.

The Audit Committee approved a combined assurance approach to this report:

- The Executive Committee and the Integrated Report Steering Committee provide an oversight role, by reviewing the integrated report for completeness and accuracy;
- Internal Audit performs agreed-upon procedures to review the content and information in the integrated report; and
- The external auditor reviews the integrated report to ensure consistency with the audited annual financial statements, but they do not issue an opinion thereon.

## We welcome your feedback

We want to improve our integrated reporting process continuously, to ensure that we meet best practice reporting standards and the expectations of our stakeholders, as well as increase visibility of our efforts in creating sustainable value for all our stakeholders. We therefore welcome any views on the content and design of the report. Comments and questions can be directed to [contactus@sasria.co.za](mailto:contactus@sasria.co.za).

## Forward-looking statements

We make certain statements that are not based on historical facts but rather forecasts of future results which are not yet determinable, such as gross written insurance premium growth levels, underwriting margins and investment returns. Forward-looking statements involve inherent risks and uncertainties and actual results may be very different from those anticipated. Forward-looking statements apply only on the date made and we do not undertake to update or revise any of them, whether as a result of new information, future events or otherwise.

## Board responsibility and approval statement

The Board acknowledges that it is ultimately responsible for overseeing the integrity of this report. With the assistance of the Board committees, it has considered the preparation and presentation of the 2018 integrated report and annual financial statements. It is of the opinion that this report addresses all material issues and fairly presents the Company's integrated performance, outlook, strategy and perspective on future value creation in accordance with the International Integrated Reporting Framework. The integrated report was approved by the Board on 16 August 2018.

# About Sasria

Sasria SOC Limited (Sasria) is the only short-term insurer that provides affordable, voluntary cover against special risks such as civil commotion, public disorder, strikes, riots and terrorism to any individual, business, government or corporate entity that has assets in South Africa.

We work through a network of insurance companies (agents), who perform an administration function on our behalf and sell our products, and brokers (intermediaries) who also sell Sasria special risk insurance cover on our behalf.

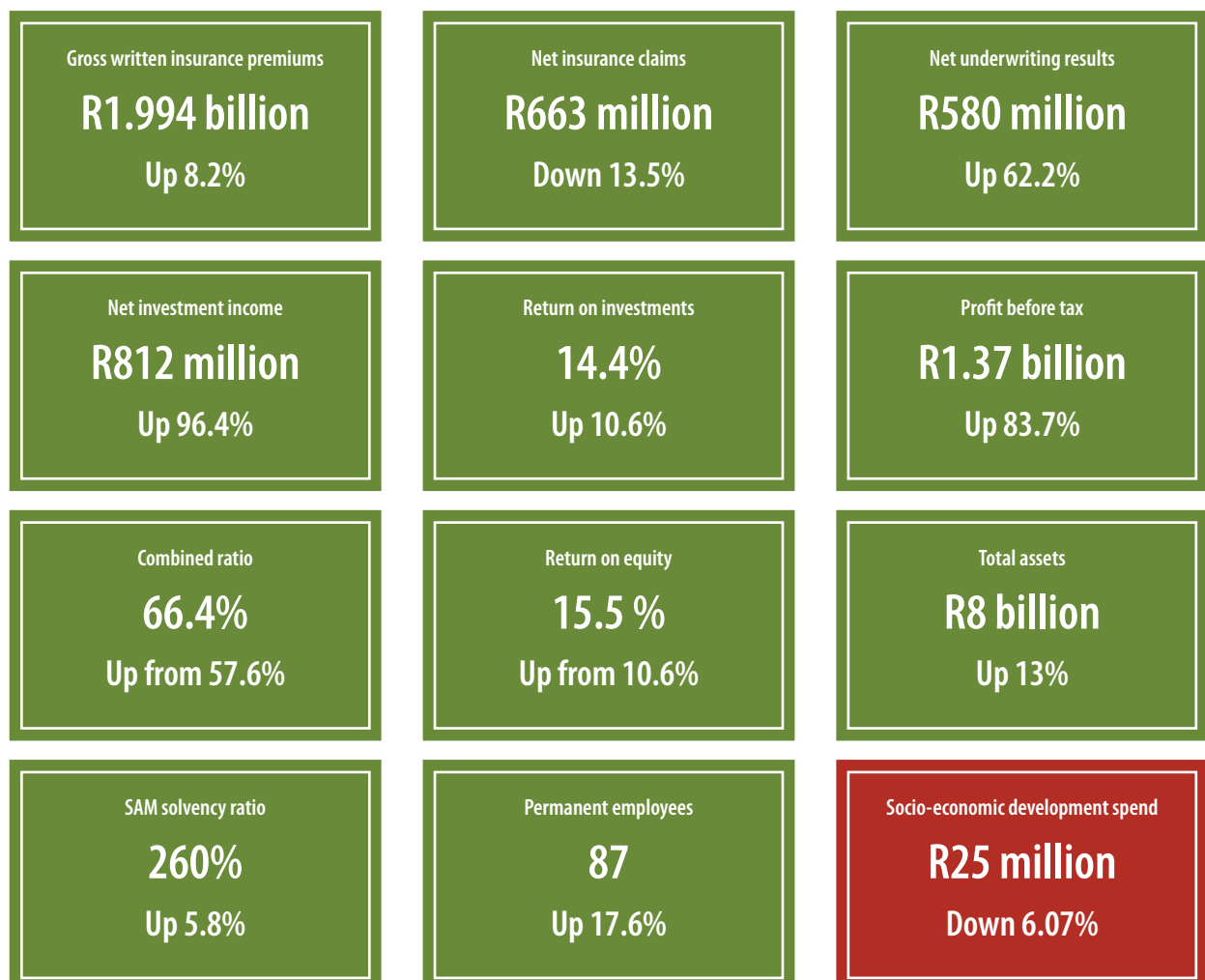
Sasria, a state-owned company, was formed in 1979 as the South African Special Risk Insurance Association to provide insurance cover for special political risks, such as political riots and terrorism. In 1998, the mandate was extended for our cover to include non-political perils, such as strikes and labour disturbances. Sasria was converted to a limited company in terms of the Conversion of Sasria Act 134 of 1998.

Our legislative mandate is to help nurture and support positive growth and change in South Africa by providing risk cover that offers certainty in an uncertain world. We contribute to the economic sustainability and growth of South Africa, ensuring the economic continuity and social stability of all its people, entities or businesses by offering them affordable insurance protection against special risks.

We adhere to the highest standards of corporate governance, thereby growing a sustainable business that contributes positively to South Africa's fiscus and transformation for the benefit of all.

To read more about Sasria and its services, please visit our website at [www.sasria.co.za](http://www.sasria.co.za)

## 2018 highlights





Nhlanhla Musa Nene

Minister of Finance

## FOREWORD FROM THE MINISTER OF FINANCE

I thank and congratulate Sasria with its excellent performance in the past year under challenging conditions. I am delighted to be involved again as the shareholder representative and, in that capacity, receive and table these results to Parliament.

### The economy

South Africa continues to experience a tough economic environment, which is characterised by low growth and a high unemployment rate. This leads to socio-economic challenges such as generational poverty and deep-rooted inequalities.

There is, however, a clear plan by our new President, Cyril Ramaphosa - himself a past Chairperson of Sasria – and his team to address these challenges. In his state of the nation address, he outlined the challenges facing the country. His recovery plan requires the cooperation of all stakeholders, government, business, labour and the community.

### Sasria's special role

Sasria has a very distinctive role to play in resolving the challenges facing our nation by:

- **Protecting the assets** of all in South Africa in the case of strikes, riots, civil commotion, public disorder and terrorism;
- Contributing to **financial inclusivity** by ensuring that its products remain relevant and offer protection to more people in South Africa, particularly the most vulnerable and economically marginalised; and
- Advocating the advancement of continued learning in the financial sector.

### Sasria's achievements

We are pleased with Sasria's performance:

- Sasria has achieved full **financial sustainability** with its assets, able to withstand very high demands in terms of the special risks it covers. Despite the difficult economic landscape, Sasria has consistently delivered sterling

financial results compared to the insurance industry over the years, safeguarding and growing its financial assets beyond CPI, generating positive cashflows whilst being profitable;

- It has made a valuable **contribution to the fiscus** through its socio-economic development initiatives, dividend to the shareholder and taxes;
- In addition, it has established robust structures to ensure overall **sound governance** in its dealings and future endeavours. Over the current 2014 to 2019 strategy cycle, Sasria has continued to achieve an unqualified audit report as a demonstration of its pursuit of excellence and commitment to upholding high levels of governance and compliance in conducting its business;
- Sasria has continued to **deliver on its mandate** in placing their insureds in a position they were before by promptly paying claims or restoring their businesses. We encourage it to continue on its mission to extend the cover beyond its current customer base to become more inclusive to more communities, including lower LSMs and SMMEs;
- It has also achieved its **non-financial targets**, including procurement from black-owned businesses, thereby stimulating inclusive economic growth.

Going forward, we would like to see Sasria evolve even further by continuing to explore new markets, develop new and enhance existing products, within the prescripts of its mandate.

## Gratitude

I would like to thank the Sasria Board for its commitment, dedication and continued guidance to Sasria management. In particular, I thank Mr Adam Samie for serving the Company as a Board member and Chairperson over the last 16 years. I would also like to take this opportunity to welcome Sasria's new Board members:

- Mr Norman Baloyi, who was appointed as the new Chairperson of the Board in June 2018.
- Ms Onkgoditse Mokonyane as the Deputy Chairperson; and
- Ms Bajabulile Luthuli as the Finance Director and Executive Director to Sasria's Board.

Finally, I would like to thank Mr Cedric Masondo, Managing Director, his executive team and all Sasria employees for the excellent results.

**Nhlanhla Nene, MP**  
**Minister of Finance**



**Adam Samie**

*BCom AIRMSA MDP FCII FIISA*

**Former Board Chairperson and non-executive director**

Adam is an experienced Chartered Insurer. He currently manages Timesquare Investments, a business consultancy firm. He sits on a number of boards, which includes being Chairman at Standard Insurance Limited.

His term as member and Chairperson of Sasria's Board ended on 31 May 2018.

## FAREWELL INTERVIEW WITH CHAIRPERSON

**Adam Samie retired as Chairperson of Sasria's Board on 31 May 2018. We caught up with him to get his views on his 16-year journey with Sasria.**

**As you retire this year after serving on Sasria's Board for 16 years, can you reflect on the many changes during that time?**

Together, Sasria and I have faced many challenges to transform the Company from a very humble state institution, born out of the South African Insurance Association (SAIA), with minimum infrastructure and management, to the respected corporation it has become today.

Sasria was established in the aftermath of the 1976 riots and unrest. Initially, risks were primarily reinsured at significant cost. When it converted to a company in 1998, there were only 12 employees. From 2003 it started growing its own infrastructure, adopting transformation in 2004 and the Financial Sector Charter in 2005. The five-year strategy formulated in 2009 focused on improving governance, turnaround times and education.

Through growing its internal expertise, Sasria was able to completely change its reinsurance structure so that its retention levels were commensurate with the Company's ability to accept risk. At the same time, we succeeded in rebuilding the Company's capital base and ultimately cancelled the state guarantee. The Company now pays its shareholder, the state, a regular annual dividend.

The last five years have been about strengthening the risk and management structures within the Company and improving its level of service to its customers and stakeholders. These processes are ongoing and will continue to occupy much of the Company's time and effort to maintain the continuous improvement necessary to survive today's business environment.

It is pleasing that we have seen recognition for our efforts through many awards and accolades from independent market watchdogs and regulators. Most importantly, customers have recognised the Company's relevance by purchasing its products and so increasing the premium revenue for its services from less than R300 million when I first joined to almost R2 billion in 2018.

Sasria's role has changed over time. For example, recently our country has experienced severe drought, which is expensive to insure or reinsure and a threat to food security. This has led to a project by Sasria and SAIA aimed at finding a solution for this risk. This is in line with Sasria's mandate of helping the government to find solutions to special risks facing the country.



**Norman Baloyi**

Norman is Sasria's new Board Chairperson. He will report back to stakeholders in the 2019 integrated report. Read more about him on page 65.



## How do you feel about leaving that long road behind?

What we have achieved over the years makes me feel truly proud. In fact, it is the proudest milestone in my career. We have built the Company from virtually nothing into a world-class organisation which is transformed and a part of the South African society. It demonstrates how anything is possible in this country once we take ownership of the task at hand. It has truly motivated us to deliver.

## At a time when state-owned enterprises are under the magnifying glass, how do you think Sasria rates?

I am happy to say that Sasria is growing and profitable in its own right and does not require any government guarantee to survive. It is managed by a team of professionals who have achieved sound and consistent results and have delivered on its promises in a challenging economy. I am also proud to say that there is no controversy surrounding the organisation. In fact, Sasria is becoming even more transparent as it communicates and interacts with the market.

I am confident that Sasria's strong and clear governance structures will help it deliver on its strategy and achieve the desired outcomes as contemplated in King IV.

## What does the future hold for Sasria?

South Africa has a market-based social economy with a substantial developmental need. As such, business has to be about so much more than the generation of profits for shareholders. Sasria today is a fully transformed, sustainable and profitable state-owned enterprise and one of a handful of global businesses that successfully manage country mandates for special risks. In retooling for the future, Sasria faces many challenges, but none bigger than furthering the state agenda to achieve greater inclusivity and social relevance for financial services in our society.

I believe this is Sasria's challenge going forward: to remain a sustainable and relevant go-to partner for special risks in the industry through innovation and embracing change with new products and flexible business models. This responsibility is carried by the Board, management and all employees individually and collectively as they go about their daily tasks of being of service to Sasria's stakeholders.

- **In the short term**, Sasria has to build the necessary information and technology capacity and infrastructure to deal with the demands of the "fourth industrial revolution" and the need to utilise big data for leading-edge data analytics. The focus will be on automation and open access to and better communication with the customer.
- **In the medium term**, being the next five years, Sasria should expand its role in the short-term insurance market by concentrating on under-served communities, food security and disaster relief.

- **In the long term**, I believe that the need for the state to increase cover for special risks of all types will be accelerated by global warming and greater uncertainty. It is conceivable that natural catastrophes, such as earthquakes, should be covered. As an example of the real need, we have recently seen as many as 10 000 currently uninsured people being left homeless by the fires that ravaged the Knysna area. This would translate to disaster recovery, a model already employed in the USA.

Sasria will set a new strategy for 2019 to 2024 soon and I am confident that it will include a far more significant role in delivering positive social impact.

## Do you think technology and information will play a greater role in Sasria's future?

Absolutely! Information technology has changed a lot and will continue to do so. It will play an ever-increasing role moving forward, not least in providing better and easier access to the market. This will assist greatly in helping Sasria protect the people of South Africa, rather than assets and businesses. In the recent strikes in Mahikeng, for example, very few of the people directly affected were adequately insured. This is often due to a lack of access, not cost, as Sasria's cover remains affordable. I also believe that we need to do more to remedy events with similar social impact.

Sasria has embraced the fintech phenomenon and the changes taking place in the short-term insurance industry. It has employed an accomplished professional to guide it in meeting this challenge and I wish him well in this task.

I think it is vital that all decision-makers' imagination be challenged.

## Thank you for your dedication and commitment to Sasria over 16 years.

I want to congratulate Cedric Masondo, his management team and employees with a great set of results and wish them all the best for the future. I also want to thank Cedric for his full cooperation and commitment in working with the Board during my tenure. He was always willing to go the extra mile, which has helped in developing his whole team. I also want to extend a special thank you to Mziwoxolo Mavuso for providing a seamless link and acting as the communication conduit between management and the Board in his capacity as Company Secretary.

Thank you to all my fellow Board members and National Treasury for your insight and support and for allowing me to be of service to our great society. I wish you all success. I know you will continue achieving greater heights.

Lastly, I want to thank the different Ministers of Finance that I have served under for allowing me to contribute to the transformation agenda.

## We wish you all of the best for the future.



## MANAGING DIRECTOR'S REPORT

I am delighted to report on an outstanding year for Sasria, especially because it was achieved in the midst of challenging macro-economic circumstances.

Above all, we continue to pursue our mandate to cover South Africans against the special risks of civil commotion, public disorder, strikes, riots and terrorism as well as pay all valid claims promptly in line with our status as a financial safeguard against these potentially catastrophic events.

### Sound governance

The theme of this year's report is:

#### *Pursuing excellence, evolving and embracing change*

While SOEs are under scrutiny, I am pleased to say that Sasria remains well-governed and profitable, with a healthy balance sheet that is capable of meeting its current and future liabilities. I am also happy that we have continued to contribute to the fiscus through a dividend payment to the shareholder.

However, we will not rest on our laurels. Instead, Sasria is fully committed to embracing change and exploiting the opportunities presented.

Sasria's commitment to sound governance structures contributed to its 2017 integrated report being named the winner in the small state-owned entity category of the Chartered Secretaries Southern Africa's Integrated Reporting Awards 2017 for the second year in a row.

It is also gratifying that Sasria has again received an unqualified audit in 2018.

### Cedric Masondo

*BCom, FIISA, AMLP (Oxford University, Saïd Business School)*

#### **Managing Director**

Cedric was promoted to the position of Managing Director in July 2011, after serving as Executive Manager: Underwriting. Prior to joining Sasria, he was responsible for all public enterprise business at Alexander Forbes Cre8. Cedric has more than 24 years' experience, both locally and internationally, in the short-term insurance industry.

He is responsible for Sasria delivering against its strategy.

His friendly, open and participative management style has earned him the support and respect of colleagues and customers alike.

## The macro-economic environment

During the past year, South Africa was not able to take advantage of the upturn in global growth in the shadow of the sovereign downgrades. Developments since the governing party's elective conference in December 2017 have, however, led to increased optimism about economic activity going forward. Real GDP growth is therefore expected to improve in 2018 and 2019 respectively.

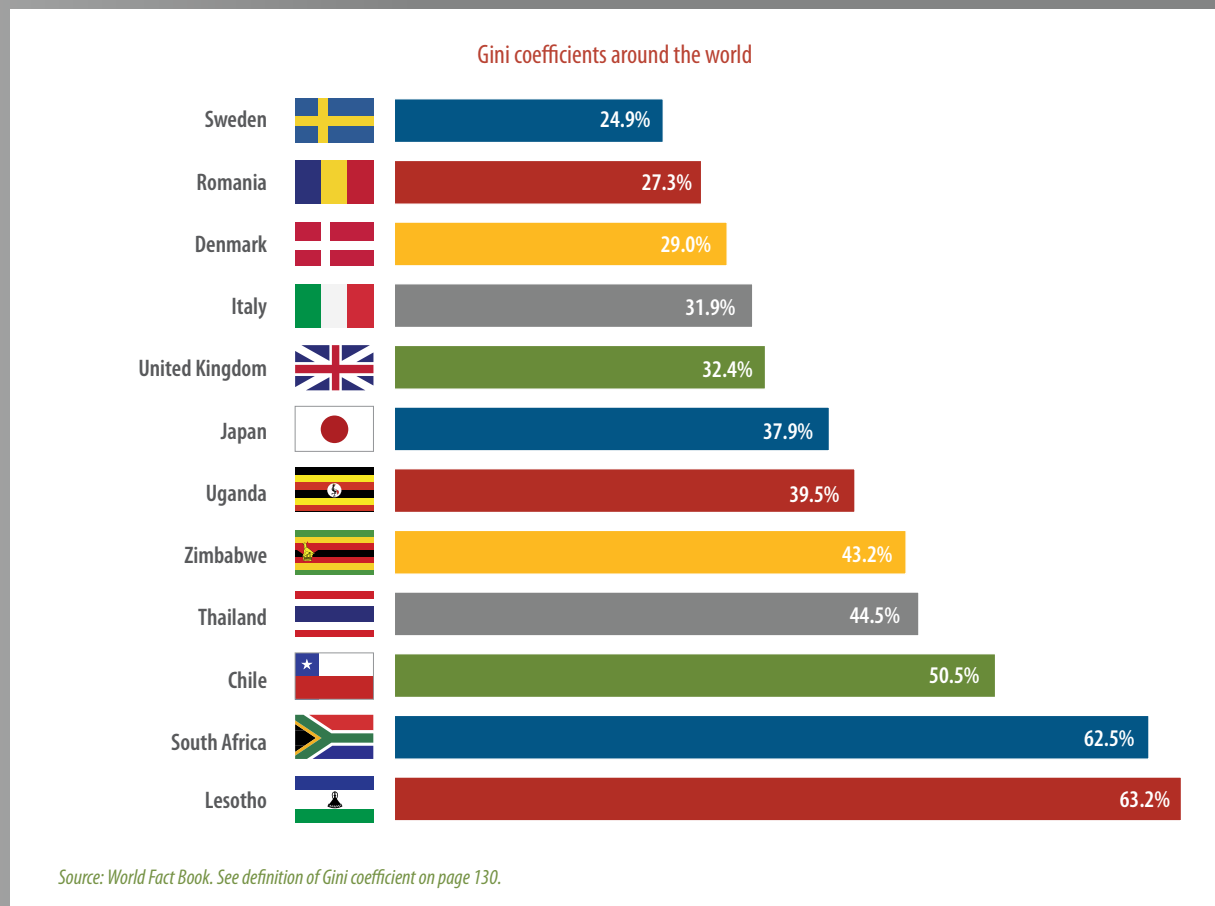
The Rand has since strengthened in early-2018. Headline CPI inflation is expected to remain relatively stable at below 5%. Overall consumer spending is likely to benefit from low inflation and an accommodative monetary policy. Private sector fixed investment is likely to accelerate on the back of increased business confidence and the improving growth outlook. However, the unemployment rate remains high.

## The socio-economic environment

High unemployment has again fuelled unrest in the past year. We have come to witness a high number of strikes and protests relating to service delivery and, post year-end, in places like Mahikeng as a sign of political disenchantment. There is a distinct outcry for social and economic transformation.

## Poverty and inequality

Poverty rates in South Africa declined between 2006 and 2018, but inequality soared, making the country the second most unequal society in the world. According to World Fact Book, the nature of inequality has changed, with the role of the skills and labour market having grown in importance in explaining poverty and inequality, as opposed to gender and race, although these are still important factors.

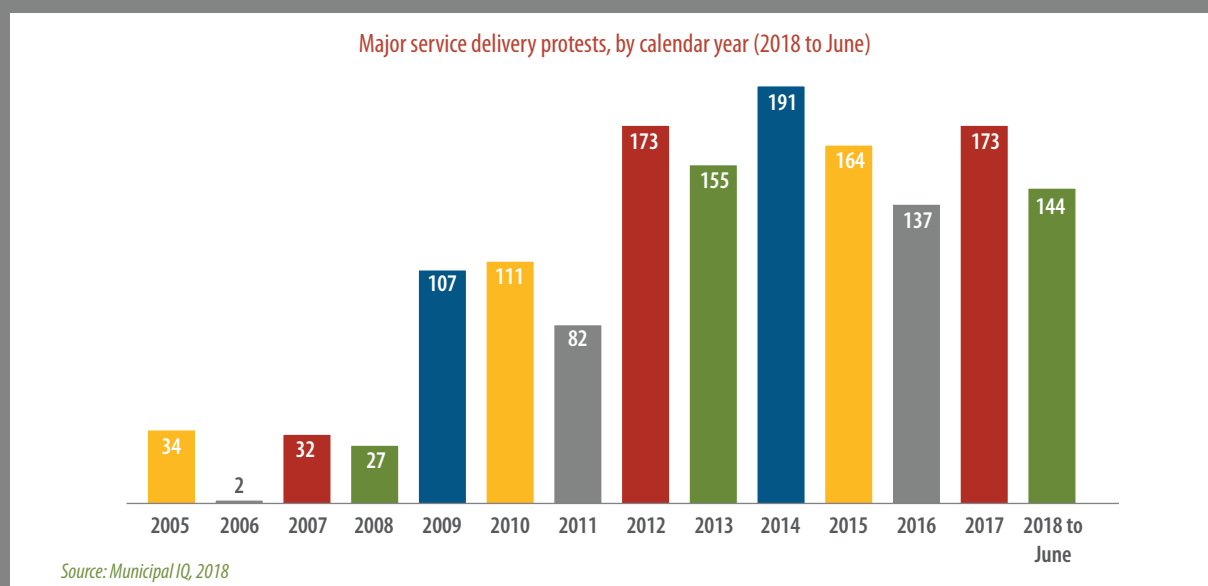


Increased unemployment, poverty and inequality have an impact on government services such as education, healthcare, sanitation, water and social grants and put additional pressure on government infrastructure and capacity to provide such services efficiently and effectively.

Where people feel that their service needs are not met by central or local government, they often resort to protest.

## Service delivery protests

Service delivery protests have become the number one tool for disgruntled communities to raise their concerns with municipalities and government officials. The first quarter of 2018 recorded a busy, if not unprecedented, service delivery protest tally, spurred on by an eventful March:



Sasria continues to provide for the potential liabilities that could arise from these protests. For more information on our solvency and capital management, refer to the Finance Director's report on page 54.

## Sasria's current strategic cycle – continually pursuing excellence

Sasria has just completed the fourth year in its 2014 – 2019 strategy, with all KPIs linked to the eight strategic focus areas and the strategic objectives set out on page 52 of this report.

We achieved most of our KPI targets for the year. However, gross written premium missed the mark by less than 1%. Taking the macro-economic environment into account, it was an excellent performance. The impact was not only financial, but also social, with Sasria playing a significant role as a corporate citizen towards transformation in the short-term insurance industry through education, building skills, broadening inclusion and bringing new, relevant products to its customer base. Our social responsibility stems from our dual mandate, even if it is often unprofitable, unpredictable and highly volatile.

Our overall performance over the last year and over the last four years was as follows:

	2018 performance	Performance against 2014 - 2019 strategy*
<b>Financial performance</b>	<ul style="list-style-type: none"> <li>Gross written insurance premiums (GWP) increased by 8.2% over the prior year to R1.99 billion;</li> <li>Underwriting profit is up 62.2% to R580 million;</li> <li>Administration and marketing expenses increased by 13.8% from the prior period;</li> <li>Gross insurance claims amounted to R663 million, 13.5% below the prior year. The number of claims increased by 32.4% (2017: 22%) and the severity increased by 14.5% (2017: 29%). The biggest drivers remain service delivery related protests (76.6%);</li> <li>The loss ratio of claims paid and provided decreased to 33.6% of net premiums earned, down from 42% last year;</li> <li>Net investment income for the year at R812 million was 96.4% higher than the previous year;</li> <li>Profit before tax of R1.367 billion was achieved during the year. This represents an 83.7% increase over the previous year.</li> <li>ROE is at 15.5%, up from 9.8%; and</li> <li>Assets under management increased by 11.7% to R7.6 billion.</li> </ul>	<ul style="list-style-type: none"> <li>Our premium growth over the past four years has averaged above inflation and 2% more than industry growth;</li> <li>Expenses have been kept at the Company tolerance level of 6% to 8% of GWP;</li> <li>Investment returns of consumer price index (CPI) plus 2% have been achieved;</li> <li>Underwriting profit was achieved;</li> <li>Net profit targets were achieved; and</li> <li>Assets under management grew from R5.1 billion to R7.6 billion.</li> </ul>

	2018 performance	Performance against 2014 - 2019 strategy*
<b>People and leadership</b>	<ul style="list-style-type: none"> <li>• Workforce has grown by 17.5%;</li> <li>• Vacancy rate is 5.4%;</li> <li>• Average turnover rate is 1%;</li> <li>• Achieved 3.6 performance rating;</li> <li>• Actively built skills internally through learning, development and talent management plans; and</li> <li>• Achieved 14.86 points on FSC targets for employment equity.</li> </ul>	<ul style="list-style-type: none"> <li>• Recruitment is in line with strategic resourcing plans;</li> <li>• Vacancy rate has reduced significantly since levels of 16% in 2015;</li> <li>• Our employee value proposition helps to attract top talent and fill vacancies promptly;</li> <li>• Turnover rate is below internal set threshold of 10%;</li> <li>• Achieved performance targets throughout the five-year plan; and</li> <li>• Exceeded 12 out of 15 targets.</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>• Increased product awareness;</li> <li>• Increased brand awareness;</li> <li>• Reduced turnaround time for claims processing; and</li> <li>• Inclusive insurance strategy developed and approved by the Board for implementation in 2019.</li> </ul>	<ul style="list-style-type: none"> <li>• Increased product awareness;</li> <li>• Increased brand awareness;</li> <li>• Reduced claims turnaround time; and</li> <li>• LSM/SMME strategy developed and approved by the Board for implementation in 2019.</li> </ul>
<b>Operations</b>	<ul style="list-style-type: none"> <li>• Enterprise architecture project completed; and</li> <li>• IT and product strategy roll-out commenced.</li> </ul>	<ul style="list-style-type: none"> <li>• Internal structures improved;</li> <li>• Efficiencies gained by automation of both the existing model and new information and technology architecture; and</li> <li>• Remained lean despite the growth in premiums and claims.</li> </ul>
<b>Social responsibility</b>	<ul style="list-style-type: none"> <li>• R18 million spent on education;</li> <li>• 0.4% of profit after tax spent on consumer education;</li> <li>• Skills development in the financial industry through programmes with GIBS and SAADP and our internal graduate programme;</li> <li>• Six Mandela day houses built; and</li> <li>• R1 million spent on community upliftment.</li> </ul>	<ul style="list-style-type: none"> <li>• Achieved relevance by contributing to the NDP;</li> <li>• Contributed to basic financial education of customers;</li> <li>• Contributed to skills development in the industry;</li> <li>• Increased employee participation; and</li> <li>• Assisted in risk mitigation for riots and protest delivery in identified municipalities.</li> </ul>
<b>SOE status</b>	<ul style="list-style-type: none"> <li>• Self-funded, with no government guarantees required;</li> <li>• Contributing to the fiscus through dividend payments;</li> <li>• Meeting the transformation agenda; and</li> <li>• Bringing hope to the people of South Africa.</li> </ul>	

\* Refer to page 11 for our financial statistics and ratios for the last five years.

Sasria has embraced a culture of **pursuing excellence** during the current strategic cycle.

## Management changes

During the year, Thokozile Mahlangu, Executive Manager: Stakeholder Management, and Rose Mathafena, Executive Manager: Human Capital, resigned to pursue new opportunities. We are pleased to have filled their positions through internal succession.

As technology has been identified as a key requirement in driving the Company strategy of rolling out financial inclusivity, a new position of Executive Manager: Business Change and Technology was created, resulting in the appointment of Sam Nkosi in July 2017.

The new Finance Director, Bajabulile Luthuli, was appointed with effect from May 2018.

## Outlook - *evolving and embracing change*

During the ensuing year, we will embark on formulating Sasria's new 2019 – 2024 strategy. We remain committed to delivering our dual mandate during that time. In 2019, we expect to experience the following:

- **Sustainable revenue growth**

In spite of the low growth of our economy and increased social unrest, our product remains affordable and valuable for our growing customer base and we are confident that we will continue to grow.

- **Innovation in products and services**

We have made significant strides in developing our phased roll-out of new products to a broader customer base to achieve greater financial inclusivity of the South African public. The project is aimed at reaching the currently uninsured market and making our current and future products more accessible through existing and new channels. Technology will play a significant role in making sure that we deliver this product in an efficient way.

- **Focus on customer-centricity**

We continue to improve our operational efficiencies with the purpose of increasing customer satisfaction. Despite a dramatic increase in the frequency and severity of claims, the claims rejection ratio remains negligible and turnaround times continue improving, rendering a positive experience for the customer.

- **Maintaining a healthy financial position**

Although claims have increased dramatically, our capital management remains prudent and we have a strong statement of financial position, with the regulatory solvency capital requirement (SCR) cover ratio at 260%, to support our future commitments in claims and growth initiatives.

- **Investing in technology and information**

In the ensuing strategic cycle, we will make substantial investments in technology and information to grow our business and its customer base. This will be done cost-effectively to protect our lean and efficient structure.

- **Developing people, capacity and capability**

With investment in technology and information comes investment in the right people with the right skills. We have proved our ability to attract, develop and retain top talent in areas where there is a skills shortage.

- **Compliance with the regulatory environment**

We implemented the Solvency Assessment and Management (SAM) regulations on 1 July 2018. During the next few years, we also need to focus on IFRS 17 to ensure the compliance of our financial reporting.

- **Building a trusted and visible brand**

Ultimately, delivering on all our focus areas will make Sasria a brand that we can be truly proud of.

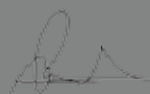
Through our efforts, we will ensure that Sasria continues to evolve in tune with the economy and the needs of our end-customers, making a transformational impact on society and *embracing the change* that accompanies the challenge of delivering on opportunities.

## Gratitude

I am grateful to our customers, agent companies and intermediaries for helping us grow the business and my Executive Committee and all Sasria employees for their ongoing enthusiasm and dedication to continue delivering on our customers' needs.

I want to thank our colleagues at National Treasury for their valuable input and the Board for their mature and unwavering support. In particular, thank you very much to Adam Samie for your constant guidance and faith in Sasria. As he is leaving our Board after 16 years, he will be sorely missed by everyone at Sasria. We wish him all the best for the future.

The collective effort will continue to enable Sasria to deliver on its mandate.



**Cedric Masondo**  
Managing Director  
16 August 2018

# Five-year review

	2014 R'000	2015 R'000	2016 R'000	2017 R'000	2018 R'000
<b>SUMMARISED FINANCIAL PERFORMANCE</b>					
Gross written insurance premiums	1 390 338	1 522 866	1 683 895	1 843 402	1 994 199
Insurance premiums ceded to reinsurers	(126 573)	(140 994)	(139 084)	(145 246)	(148 802)
<b>Net insurance premiums income</b>	<b>1 263 765</b>	<b>1 381 872</b>	<b>1 544 811</b>	<b>1 698 156</b>	<b>1 845 397</b>
Net insurance premiums earned	1 194 730	1 358 649	1 506 649	1 659 405	1 824 025
Net insurance claims	(306 382)	(440 559)	(587 056)	(766 681)	(662 891)
Net commission paid	(98 354)	(152 683)	(179 392)	(208 397)	(209 128)
Expenses for administration and marketing	(250 286)	(276 080)	(308 528)	(326 787)	(371 945)
<b>Net underwriting results</b>	<b>539 708</b>	<b>489 327</b>	<b>431 673</b>	<b>357 540</b>	<b>580 061</b>
Net Investment income	424 665	366 379	294 198	413 339	811 734
Other income	37	129	124	568	1 116
Corporate social investment	(25 232)	(21 695)	(16 627)	(27 098)	(25 446)
Share of profit of associate	4 860	-	-	-	-
<b>Profit before tax</b>	<b>944 038</b>	<b>834 140</b>	<b>709 368</b>	<b>744 349</b>	<b>1 367 465</b>
Income tax expense	(258 113)	(223 456)	(205 250)	(201 095)	(342 260)
<b>Profit for the year</b>	<b>685 925</b>	<b>610 684</b>	<b>504 118</b>	<b>543 254</b>	<b>1 025 205</b>
Dividends paid	(107 287)	(205 778)	(183 205)	(151 236)	(162 979)
<b>UNDERWRITING RATIOS (%)</b>					
(Activities expressed as a % of earned premium)					
Claims ratio	25.6%	32.4%	39.0%	46.2%	33.6%
Cost of acquisition ratio	29.1%	31.5%	32.4%	32.3%	32.6%
Management expenses ratio	20.9%	20.3%	20.5%	19.7%	18.9%
Commission ratio	8.2%	11.2%	11.9%	12.6%	13.7%
<b>Combined ratio</b>	<b>54.7%</b>	<b>63.9%</b>	<b>71.4%</b>	<b>78.5%</b>	<b>66.2%</b>
<b>Underwriting ratio</b>	<b>45.3%</b>	<b>36.1%</b>	<b>28.6%</b>	<b>21.5%</b>	<b>33.8%</b>
Earned premium	100.0%	100.0%	100.0%	100.0%	100.0%
<b>OTHER FINANCIAL PERFORMANCE RATIOS</b>					
Effective tax rate	27.0%	26.0%	29.0%	27.0%	25.0%
Gross written insurance premiums growth year-on-year	14.0%	10.0%	11.0%	9.0%	8.2%
Net underwriting profit growth year-on-year	395.0%	(9.0%)	(12.0%)	(17.0%)	62.2%

	2014 R'000	2015 R'000	2016 R'000	2017 R'000	2018 R'000
<b>SUMMARISED FINANCIAL POSITION</b>					
Property, equipment and intangibles	18 705	16 530	14 624	8 946	7 299
Deferred acquisition costs	32 314	37 668	45 428	53 269	59 498
Financial assets at fair value through profit and loss	3 906 069	4 347 666	4 390 597	3 890 058	5 644 715
Reinsurance contracts	27 092	19 618	20 717	24 202	24 830
Cash and cash equivalents	1 240 288	1 344 566	1 767 111	2 790 334	1 940 774
Other assets	254 263	292 850	359 448	330 307	339 269
<b>Total assets</b>	<b>5 478 731</b>	<b>6 058 898</b>	<b>6 597 925</b>	<b>7 097 116</b>	<b>8 016 385</b>
Capital adequacy reserve	350 610	377 385	434 750	480 286	529 709
Retained earnings	4 296 106	4 674 237	4 937 786	5 284 277	6 097 080
Deferred income	4 159	5 146	5 968	7 219	4 321
Insurance contract liabilities	677 004	839 586	1 044 395	1 202 314	1 179 404
Other liabilities	150 852	162 544	175 026	123 020	205 871
<b>Total equity and liabilities</b>	<b>5 478 731</b>	<b>6 058 898</b>	<b>6 597 925</b>	<b>7 097 116</b>	<b>8 016 385</b>
<b>FINANCIAL POSITION RATIOS</b>					
Return on equity	15.7%	12.7%	9.7%	9.8%	9.8%
Consumer price index	6.1%	4.6%	6.4%	6.1%	3.8%
<b>SUMMARISED CASH FLOW</b>					
Cash generated from operations	393 531	556 261	520 258	542 427	517 462
Dividends and interest income	275 968	310 060	367 332	436 646	470 340
Net realised gains/(loss) on investments	94 030	65 926	111 160	(16 018)	21 889
Income tax paid	(206 003)	(210 722)	(180 348)	(304 034)	(279 796)
<b>Net cash from operating activities</b>	<b>557 526</b>	<b>721 525</b>	<b>818 402</b>	<b>659 021</b>	<b>729 895</b>
Purchase of investments	(446 350)	(422 560)	(207 463)	516 913	(1 413 231)
Other purchases and disposals	(15 565)	11 091	(5 189)	(1 475)	(3 245)
<b>Net cash (used)/from investing activities</b>	<b>(461 915)</b>	<b>(411 469)</b>	<b>(212 652)</b>	<b>515 438</b>	<b>(1 416 476)</b>
Dividends paid	(107 287)	(205 778)	(183 205)	(151 236)	(162 979)
<b>Net cash flows from financing activities</b>	<b>(107 287)</b>	<b>(205 778)</b>	<b>(183 205)</b>	<b>(151 236)</b>	<b>(162 979)</b>
Net movement in cash and cash equivalents	(11 676)	104 278	422 545	1 023 223	(849 560)
Cash and cash equivalents at the beginning of the year	1 251 964	1 240 288	1 344 566	1 767 111	2 790 334
<b>Cash and cash equivalents at the end of the year</b>	<b>1 240 288</b>	<b>1 344 566</b>	<b>1 767 111</b>	<b>2 790 334</b>	<b>1 940 774</b>





**Value  
creation**

# Dual mandate

Sasria is wholly-owned by the state. We are the only short-term insurer in South Africa that provides cover against special risks such as civil commotion, public disorder, strikes, riots and terrorism.

We are accountable to the Minister of Finance via National Treasury. As with all other insurance companies in South Africa, we operate within a well-developed framework outlined in the Financial Sector Regulation (FSR) Act 9 of 2017. This act:

- Gives the South African Reserve Bank (SARB) an explicit mandate to maintain and enhance financial stability through the establishment of the Prudential Authority to regulate the financial sector; and
- Established the Financial Services Conduct Authority (FSCA) as a market conduct regulator outside the SARB, replacing the Financial Services Board (FSB) on 1 April 2018.

Sasria is a member of the South African Insurance Association (SAIA) and the International Forum for Terrorism Risk (Re)Insurance Pools (IFTRIP).

Sasria has a dual mandate:

- Our legislative mandate as a short-term insurance company is to provide cover for special risk events in terms of the Sasria Act. In addition, it is the purpose of Sasria to research and investigate coverage for any special risk that can be considered to be of national interest; and
- Our broader strategic mandate as a state-owned entity is to make a positive contribution to transforming the financial services industry in line with the National Development Plan (NDP) in order to create a better, sustainable economic environment for all in South Africa.

We do business in a responsible, disciplined, professional and well-governed manner. As a state-owned entity, we also play a meaningful role in our society by offering products that will assist in the protection of assets in South Africa against potentially catastrophic special risk events. We are proudly South African and passionately committed to accelerating our Company's growth and business transformation goals.

## Our vision

Our vision is to protect the assets of all in South Africa against extraordinary risks.

## Our mission

Our mission is to drive a sustainable and vibrant business by:

- Balancing shareholder value creation with having a positive social impact;
- Providing excellent customer service;
- Being clear and consistent in our communication with our stakeholders;
- Developing the skills and capacity of our employees;
- Improving our current strategic partnerships and establishing new ones; and
- Providing innovative and relevant products.

Our values	
<b>Professionalism</b>	We treat our shareholder, employees, customers and other stakeholders with respect and dedication while remaining accountable to them.
<b>Integrity</b>	We conduct ourselves in a manner that is fair, transparent and ethical, and that upholds high levels of equality and trust.
<b>Teamwork</b>	We are guided by the ideals of unity of purpose, cooperation and mutual respect.
<b>Innovation</b>	We create opportunities for creativity and learning and encourage the same amongst our employees.
<b>Customer-centricity</b>	We strive at all times to meet and exceed our customers' expectations.

# Our business model

Our unique business model allows us to:

- Run a lean and sustainable low-cost structure through the network of agent companies;
- Offer affordable products and guarantee the availability of special risks cover for all in South Africa, irrespective of their risk profile;
- Offer special risk cover on a non-cancellable, non-declinable basis;
- Apply our values of professionalism, integrity, teamwork, innovation and customer-centricity; and
- Sustain our solid track record of financial performance.

Our business activities are as follows:

Business process	Explanation	Stakeholders
<b>Provide special risk cover</b>	We do not sell our products directly to our end-customers. Instead, we enter into agreements with other short-term insurance companies and intermediaries in South Africa who then, as agents, represent and sell the special risks cover to our end-customers, be they individuals, businesses, government or corporate entities. The agents and brokers (intermediaries) engage with our end-customers on policy administration and collect premiums on our behalf.	<ul style="list-style-type: none"> <li>• Customers</li> </ul>
<b>Pay fees</b>	We pay the agents binder fees for performing administration on our behalf. We also pay intermediaries commission for selling our products to current and new customers.	<ul style="list-style-type: none"> <li>• Agents and brokers</li> </ul>
<b>Pay claims</b>	The only contact that we have with end-customers is on the settlement of claims. Customers submit claims to the intermediaries or insurance companies, who confirm their validity prior to submission to Sasria. We receive and verify all claims before payment directly to the customer.	<ul style="list-style-type: none"> <li>• Customers</li> </ul>
<b>Reinsure risks</b>	We buy reinsurance cover to protect and strengthen our balance sheet and pay reinsurance premiums to reinsurers. We receive recoveries from reinsurers when the reinsurance treaties are triggered.	<ul style="list-style-type: none"> <li>• Reinsurers</li> </ul>
<b>Pay salaries and other expenses</b>	We incur costs in managing the business, including paying our directors, employees and service providers, as well as suppliers, for goods and services, and benefactors of our corporate social investment activities.	<ul style="list-style-type: none"> <li>• Employees</li> <li>• Suppliers</li> <li>• Community</li> </ul>
<b>Pay taxes and fees</b>	We pay all the relevant taxes and statutory fees to the authorities.	<ul style="list-style-type: none"> <li>• Authorities</li> <li>• Regulatory bodies</li> <li>• Associations</li> </ul>
<b>Invest</b>	Our premium, after payment of claims and expenses, is invested, whilst ensuring and maintaining the adequate liquidity levels for claims payment. Our investments earn good returns in the form of interest, dividends and capital growth.	<ul style="list-style-type: none"> <li>• Investments</li> </ul>
<b>Pay dividends</b>	We pay our shareholder a dividend from our distributable reserves.	<ul style="list-style-type: none"> <li>• Shareholder</li> </ul>

Our key relationships on pages 24 to 25 expand on our interaction with each stakeholder group in order to meet their expectations.

# Our product

Sasria is the primary short-term insurer in South Africa that provides affordable, voluntary cover against special risks such as civil commotion, public disorder, strikes, riots and terrorism available to any individual, business, government or corporate entity that has assets in South Africa. We work through a network of agent companies and intermediaries who distribute our products on our behalf.

The need for our product is reinforced by the recent service delivery protests, student protests and labour strikes and the increase in international terror incidents.

- **Affordable**

We charge a set premium rate per class of business. For example, Sasria cover on a private motor vehicle costs only R2 a month or R20 per annum, regardless of the car's value. If the car is destroyed in a special risk event such as a protest, Sasria pays out the retail value of the vehicle.

- **Voluntary**

Our cover for special risk is not compulsory and is available to all customers who require it.

- **Cover**

Our current product range offers R500 million primary cover at set rates in the following classes of insurance business: material damage (including motor and money), business interruption, construction and goods-in-transit. On request, we also provide our corporate customers with additional cover of up to R1 billion, called Sasria Wrap, which is subject to a separate rating structure.

- **In South Africa**

The special risk insurance cover is only applicable within South Africa's borders on both land and water. As the only insurer in South Africa that provides special risk cover, we are not allowed to cancel or reject or decline cover, irrespective of the claims.

For more detail on our product range, please visit our website, [www.sasria.co.za](http://www.sasria.co.za)

## Financial inclusivity

As part of our strategic mandate, we are investigating alternative products and distribution channels to reach the uninsured market and thereby enhance financial inclusivity. We plan to start introducing some of these products, tailor-made for this market, in the near future.

See more about the new products and customers on page 43.

# The capitals we employ

We are financially strong and stable, and we have adequate capital to provide cover for losses, attritional losses (small claims), as well as big and major catastrophic losses. We are self-funding as a business and, in addition to the taxes and dividends that we pay, we contribute to the growth and transformation of the South African economy.

By practically demonstrating our reliability, financial strength and responsible, well-governed business practices, we earn the trust of our end-customers, since they know that all their claims will be paid. This guarantee also serves to encourage local and international businesses to invest in our country, thereby creating job opportunities.

Our customer-centric focus means that we ensure that the needs of our end-customers are met through our product offering. We seek to promote and support increased financial inclusion, because it can be a powerful agent for robust growth that will help to uplift the South African society and eradicate abject poverty.

We define the capitals that we employ in our value creation process as follows:



## Financial capital

The pool of funds available to Sasria to finance our business activities such as settling claims, paying suppliers, paying dividends to our shareholder and making investments and maintaining adequate levels of capital to meet our current and future liabilities, as required by the regulator. We generate our own financial capital.



## Human capital

Our people's competencies and capabilities, and their motivation to innovate allow them to utilise their skills, knowledge and experience to improve our product, processes and customer-centric service delivery, as well as contribute to fulfilling our strategic mandate. The selection, management and development of our people indicates the value we place on human capital.



## Intellectual capital

Our intangible infrastructure that we use to conduct our business and to create value. This includes intangibles, such as brand value, reputation, software, rights and licences, as well as our tacit knowledge, systems, procedures and protocols.



## Social and relationship capital

The collaborative relationships that we have with our stakeholders, such as our shareholder, customers, agents, intermediaries, regulators and suppliers enable us to deliver on our legislative and strategic transformation mandates. Our relationship with our stakeholders is based on mutual respect, shared norms and values, transparency and upliftment.

We recognise that we will only remain relevant as a state-owned entity when we meet our shareholder's primary expectation, which is for us to make a positive difference in South Africa. In order to remain relevant, we strive to strengthen our relationships to enhance the trust that our stakeholders have in our Company.

# Our value creation process

Overleaf, we show how our business model draws on the various capitals as inputs and, through our business activities, converts them to outputs. Our activities and outputs lead to outcomes in terms of effects on the capitals. We have identified risks and opportunities relevant to our strategy and business model. Our strategy is aimed at mitigating or managing the risks and maximising the opportunities, while satisfying the legitimate needs of all of our stakeholders. The key performance indicators (KPIs) from our measurement and monitoring systems provide information about our performance and aid future decision-making:

## Our value creation process

	Inputs	Business activities	Outputs	Outcomes	
 <p>Financial capital</p>	<ul style="list-style-type: none"> <li>Retained earnings</li> <li>Profit for the year</li> </ul>	<ul style="list-style-type: none"> <li>Deploy and manage capital</li> <li>Sell product through agents/intermediaries</li> <li>Collect premiums</li> <li>Pay claims and suppliers</li> <li>Effective accounting</li> <li>Manage financial risk</li> <li>Procurement</li> <li>Manage investments</li> <li>Pursue increased level of financial inclusivity</li> </ul>	<ul style="list-style-type: none"> <li>Cash flow generated operations</li> <li>Pay taxes</li> <li>Pay dividends</li> <li>Return on our investments</li> <li>Return on equity</li> <li>Compliant with solvency and capital requirements in terms of the Insurance Act</li> </ul>	<ul style="list-style-type: none"> <li>Sasria is financially stable</li> <li>Sasria is self-funded</li> <li>Contributes to growth, development and transformation</li> <li>Increased shareholder value</li> </ul>	
 <p>Human capital</p>	<ul style="list-style-type: none"> <li>Talented employees</li> <li>Effective leadership</li> <li>Attractive employee value proposition</li> <li>Equal opportunity employment</li> <li>Fair employee practices</li> <li>Appropriate organisational structure</li> <li>Effective recruitment, retention and recognition</li> <li>Clear performance targets</li> <li>Safe work environment</li> </ul>	<ul style="list-style-type: none"> <li>Training and development</li> <li>Balanced scorecard manages individual performance</li> <li>Total rewards framework</li> <li>Recruitment process</li> <li>Manage employment equity</li> <li>Graduate programme</li> <li>Professional employee wellness support</li> <li>Address the skills shortage in the industry</li> </ul>	<ul style="list-style-type: none"> <li>Most vacant positions filled within specified timelines</li> <li>Improved skills and knowledge</li> <li>Creating jobs</li> <li>Employment equity targets met</li> <li>Lower attrition rate</li> <li>Engaged workforce</li> </ul>	<ul style="list-style-type: none"> <li>Workforce to maintain a sustainable business</li> <li>Workforce to remain financially stable</li> <li>Workforce committed to growth, development and transformation</li> <li>Living the values</li> <li>Strategic business objectives are met</li> </ul>	
 <p>Intellectual capital</p>	<ul style="list-style-type: none"> <li>Tacit product knowledge and experience</li> <li>Research and development</li> <li>Product development</li> <li>Innovative solutions</li> <li>Values-based behaviour</li> <li>Product and service offering</li> <li>Culture</li> <li>Brand and reputation</li> </ul>	<ul style="list-style-type: none"> <li>Employees and knowledge retention</li> <li>Research new product and additional distribution channels</li> <li>Fraud prevention and whistle-blowing</li> <li>Risk management</li> <li>Brand awareness survey</li> <li>Initiatives to improve brand visibility</li> </ul>	<ul style="list-style-type: none"> <li>Satisfactory Ethics Awareness Assessment</li> <li>Adherence to King IV principles</li> <li>Satisfactory legal compliance</li> <li>Healthy solvency position</li> <li>Increased brand awareness</li> </ul>	<ul style="list-style-type: none"> <li>Improved customer satisfaction and increased revenue</li> <li>Financial stability</li> <li>Protection from reputational damage</li> <li>Loyal employees</li> <li>Responsible corporate citizen</li> <li>Brand and social relevance elevated</li> </ul>	
 <p>Social and relationship capital</p>	<ul style="list-style-type: none"> <li>Skilled relationship managers</li> <li>Ongoing stakeholder engagement</li> <li>Agreed terms with agents/intermediaries</li> <li>Partnering and supporting industry and regulatory bodies</li> <li>Socio-economic development (SED) investments</li> <li>Communication and marketing</li> </ul>	<ul style="list-style-type: none"> <li>Training relationship managers</li> <li>Identify material issues and develop initiatives</li> <li>Partner with regional institutes</li> <li>SED, 48% of which in education, training and skills</li> <li>Raising product and brand awareness</li> <li>Contribute to improving financial literacy</li> </ul>	<ul style="list-style-type: none"> <li>Increased revenue</li> <li>Contribution to education and training</li> <li>Development of actuaries through the South African Actuaries Development Programme</li> <li>Provided bursaries to 50 students</li> <li>Contributed to job creation through graduate programme</li> <li>Improve insurance advice through the distribution channel</li> </ul>	<ul style="list-style-type: none"> <li>Relevance is elevated</li> <li>Relationship with key stakeholders is improved</li> <li>Positive impact on the skills shortage and job creation</li> <li>Long-term sustainability</li> <li>An efficient state-owned entity that delivers on its mandate</li> </ul>	

	Risks <sup>1</sup>	Stakeholders affected <sup>2</sup>	Strategic focus area <sup>3</sup>	Key performance indicator <sup>4</sup>
	<ul style="list-style-type: none"> <li>Loss of investor confidence in South Africa</li> <li>Socio-economic challenges</li> <li>Loss of stakeholders' trust</li> </ul>	<ul style="list-style-type: none"> <li>Customers</li> <li>Agents</li> <li>Employees</li> <li>Board</li> <li>Regulatory bodies</li> <li>Shareholder</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable revenue growth</li> <li>Capital management</li> <li>Infrastructure and cost management</li> </ul>	<ul style="list-style-type: none"> <li>Gross written insurance premium</li> <li>Underwriting profit</li> <li>To develop a comprehensive Enterprise Architecture framework</li> <li>Implementation of the new IT strategy</li> </ul>
	<ul style="list-style-type: none"> <li>Skills shortage in financial and insurance sectors</li> <li>Failure to attract and retain skilled employees</li> <li>Decline in employee satisfaction</li> <li>Loss of employees' trust</li> </ul>	<ul style="list-style-type: none"> <li>Agents</li> <li>Employees</li> <li>Board</li> <li>Industry bodies</li> </ul>	<ul style="list-style-type: none"> <li>People, capacity and capability</li> </ul>	<ul style="list-style-type: none"> <li>Overall employees Individual Perception Monitor (IPM) survey score</li> </ul>
	<ul style="list-style-type: none"> <li>Loss of reputation</li> <li>Loss of revenue due to ineffective risk management</li> <li>Loss of skilled/experienced employees</li> <li>Loss of customer satisfaction and revenue</li> <li>Low brand awareness</li> <li>Loss of stakeholders' trust</li> </ul>	<ul style="list-style-type: none"> <li>Customers</li> <li>Agents</li> <li>Employees</li> <li>Board</li> <li>Industry bodies</li> <li>Media</li> </ul>	<ul style="list-style-type: none"> <li>Innovation (products and services)</li> </ul>	<ul style="list-style-type: none"> <li>Develop a comprehensive feasibility study document with regard to the implementation of a direct distribution channel to target the lower living standards measure (LSM) and small and medium enterprises market</li> </ul>
	<ul style="list-style-type: none"> <li>Loss of customer/stakeholder satisfaction</li> <li>Loss of revenue</li> <li>Loss of stakeholders' trust</li> <li>Loss of long-term sustainability</li> </ul>	<ul style="list-style-type: none"> <li>Customers</li> <li>Agents</li> <li>Industry bodies</li> <li>Regulatory bodies</li> <li>Media</li> <li>Shareholder</li> </ul>	<ul style="list-style-type: none"> <li>Customer-centricity</li> <li>Brand development</li> <li>Regulatory environment</li> </ul>	<ul style="list-style-type: none"> <li>% of all fast-track claims settled within 30 days</li> <li>% of large loss claims settled within 60 days</li> <li>% brand awareness within the distribution channels</li> <li>% brand awareness with the end-customer</li> <li>Points (out of 15) for recruitment and retention of black females at middle and junior management levels and attract people with disabilities – employment equity</li> <li>% increase in procurement spent with suppliers that are more than 50% black-owned</li> <li>% of net profit after tax as limit for irregular, fruitless, wasteful and unauthorised expenditure</li> </ul>

Footnotes:

<sup>1</sup> Our top risks are discussed in more detail on pages 37 and 38.

<sup>2</sup> Our key relationships/stakeholders are outlined on pages 24 to 25.

<sup>3</sup> We elaborate on the strategic focus areas in our 2014-2019 strategy on pages 39 and 40.

<sup>4</sup> Our performance against these targets in 2018 is reported on pages 52 and 53 and our performance targets are listed on pages 52 and 53.

## Capital trade-offs

Sasria allocates capital and resources efficiently in addressing the strategic focus areas introduced above and detailed on page 39 and 40. It requires making certain trade-offs, which are outlined below:

- **Sustainable revenue growth**

Sasria continues to grow its gross written premium in terms of its mandate as it expands its customer base and insured values increase. To deliver on its broader mandate of financial inclusivity, substantial investment has to be made into systems and knowledge in order to serve the currently unserved segments of the economy. We continue doing so without any burden on the fiscus. The investment will, however, significantly enhance the skills base and capabilities of the organisation.

- **Customer-centricity**

Development and investment of robust customer relationship management structures can be very costly. Sasria has therefore taken great care in identifying which processes and frameworks required attention to meet the targets of greater efficiency in claims settlement.

- **Brand development**

Enhancing brand and product awareness with agents and brokers, as well as existing and potential customers, is an essential contributor to sustainability and growth. We have been selective in our socio-economic development initiatives (see page 22) and marketing efforts to attain optimum benefits. The former has the benefit of building goodwill and social capital in line with our broader mandate.

- **Capital management**

Our reserves are vital in protecting our customers from special risks, especially in the event of a catastrophe event. We therefore engage professionals at significant cost to assist us in protecting and enhancing our capital base. We have extended this need into an opportunity to build social capital by developing deserving small- and medium-sized asset managers (see page 42).

- **Infrastructure and cost management**

We remain cost-efficient in our consciousness, in line with the directive from our shareholder through National Treasury. In doing so we have built the procurement capabilities (see page 60) to ensure that we procure both cost-efficiently and develop black designated groups while improving our social capital in line with the NDP.

- **People, capacity and capability**

Sasria relies on its people for its success. It therefore invests in the development of its employees to meet the future needs of the organisation. This significantly enhances its human capital, as outlined on page 26. See also page 48 for more information on the significant investment made in information and technology, which is increasing efficiency and effectiveness.

- **Innovation**

The focus on meeting future product demands and meeting more risks in building financial inclusivity is leading to Sasria's development of new products and services, as detailed on page 43. The learning experience in developing these new products and services is enhancing the organisation's intellectual capital.

- **Regulatory environment**

Regulatory demands have led to ever-increasing costs of compliance, both in terms of people and systems. However, we are doing so while also investing in our human and intellectual capital. Our good compliance record further enhances our reputation with our shareholder and the general public alike, enhancing our social capital.



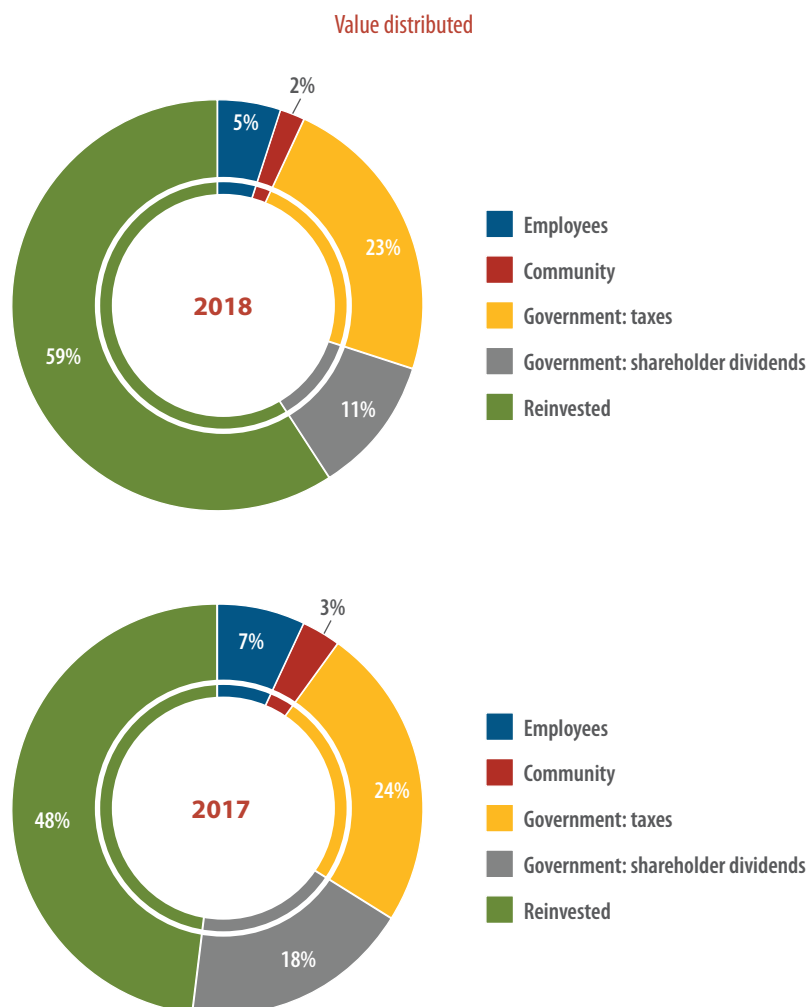
# How we distribute value

We distribute value:

- To our employees, by providing job security, professional growth and career opportunities;
- To the broader South African community, through our socio-economic development (SED) activities;
- To the government and its people, through the payment of taxes; and
- To our shareholder, through payment of a dividend.

We use the remaining profits to reinvest into the business to ensure that we can deliver on our legislative mandate and continue to create and distribute value.

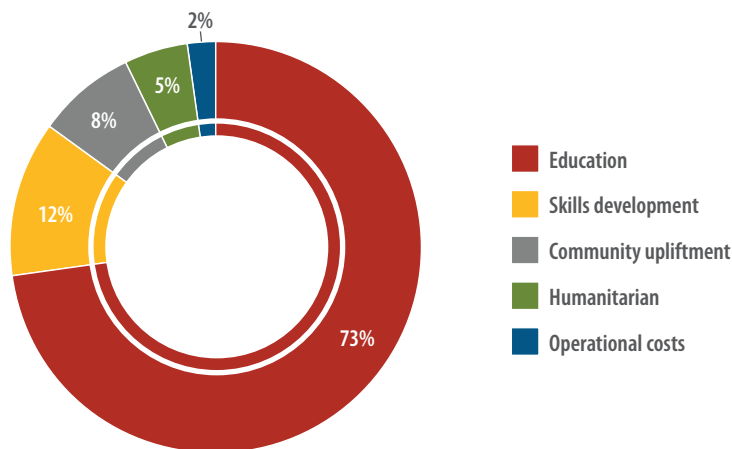
As part of our value creation process, we increased the percentage of profits reinvested from 48% in the prior year to 59% this year in order to prepare for the new five-year strategy the Company is embarking on. The share we invested in employees reduced from 7% to 5% and we reduced taxes paid to government slightly (24% to 23%). Dividends to shareholders reduced (18% to 11%). We decreased the value distributed through our SED initiatives (broader community) (2% of value distributed compared to 3% in the prior year).



## Socio-economic development

Our SED activities are integral to our value creation process, and assist Sasria, the financial services industry and the country to grow, develop and transform.

SED allocation per focus area



In 2018, R25 million was invested in social responsibility initiatives in line with our corporate social investment policy. The following are notable achievements and spend per focus area:

### Education

73% or R18 million of the 2018 financial year SED budget was allocated to initiatives that are focused on education with special emphasis on Mathematics and Science. Through our involvement in education initiatives, schools benefited from extra classes, school renovations, the provision of new equipment and furthermore the awarding of 59 bursaries to students to pursue commerce-related studies at different universities.

- **Tertiary intervention - Bursary scheme** - Since the inception of the Sasria bursary scheme in 2015, it has produced more than 20 graduates. In 2018, we spent R8.4 million on bursaries (tuition, accommodation and allowance) for 59 students. Altogether, 10 students completed their studies and they will now be contributing to the economy of the country with their skills.
- **Flagship programme** - South African Actuarial Development Programme (SAADP) is an independent, non-profit organisation which seeks to actively address the problem of an acute shortage of actuarial skills in disadvantaged communities in South Africa. SAADP has been a flagship programme for Sasria since its inception in 2003 as it is in line with our commitment to developing scarce skills in the financial sector. To date, 38 actuaries have been delivered by this programme. This year, Sasria sponsored R5.5 million towards the programme.
- **School intervention** - R2.8 million was spent on school intervention initiatives to impact matric results positively.

*The Mathematics and Physical Science Programme is aimed at providing examination-focused support to Grade 12 learners from underprivileged communities in preparation for the final matriculation examinations. Sasria partnered with Primestars*

on this initiative. They use Ster-Kinekor cinemas nationally as "Educational Theatres of Learning." We managed to reach more than 30 000 underprivileged learners.

*School intervention: Limpopo and Eastern Cape Province:* The initiative to provide equipment valued at an estimated R3 million for five computer labs for selected disadvantaged schools in the Eastern Cape, has commenced. In Limpopo, more than 20 schools in the Ngwaritsi and Tubatse district of Limpopo also benefited from extra classes in Mathematics, Physical Science and English.

- **Consumer relations** - A contribution of 0.2% of profit after tax (R2.1 million) was paid to the South African Insurance Association as part of our contribution to consumer education.

### Skills development

- **Insurance Leadership Development Program (ILDP)** - R2 million was invested in this programme of the Insurance Institute of Gauteng, facilitated by the University of Pretoria's Gordon Institute of Business Science (GIBS). The objective of the programme is to develop skills and capacity in the financial sector and attract a talent pipeline that we can draw from when the need arises. In the 2017 academic year, 25 delegates completed the programme.
- **Graduate programme** - Sasria is committed to building capacity within the insurance industry and the financial sector as a whole. In 2015, 17 graduates were appointed and some graduates were placed with our partners, i.e. loss adjusters, reinsurers, brokers and agent companies, to acquire relevant skills and experience.

On completion of the programme, 83% were absorbed by Sasria and the partners participating.

The Sasria graduates are provided with meaningful employment and are thoroughly prepared for the working environment. The programme enables them to participate in the economy.

#### Humanitarian/employee initiatives

We encourage our employees to become directly involved in our SED initiatives by volunteering their time and resources to help communities. These initiatives allow employees to roll up their sleeves and get personally involved in community work. These efforts also boost employee morale and Company loyalty. Employee initiatives do not account for a significant share of the budget, but they do offer employees a vital opportunity to fully engage with community development projects that are close to their hearts. This enhances their job satisfaction and Sasria's employee value proposition.

- **Mandela day** - Six houses were built in Botleng, Delmas, for disadvantaged families at the cost of R600 000. Sasria employees

and bursary students dedicated their time to being part of this initiative. This project was conducted in partnership with the Insurance Institute of Gauteng (IIG) and Amor Community of Hope.

- **Employee projects** - In the spirit of giving, R79 000 was spent on initiatives identified by employees. This included a donation to an orphanage in eThekweni, equipment for a pre-primary school in Pretoria and participation in the IIG spinathon aimed at raising money for charity.

#### Community upliftment

- **Partnership for Risk and Resilience Programme** - We partnered with Santam in five municipalities with community-based risk assessments to identify the key underlying factors leading to Sasria claims. We invested R1 million in this project.



# Our key relationships

At Sasria, we believe that successful business is about healthy relationships. This belief fosters an inclusive approach towards all of our stakeholders. Our inclusive approach is focused on understanding the needs, interests and expectations of our stakeholders and has enabled us to create value for both the organisation and our stakeholders.

Stakeholder management is embedded in our strategic objectives, in particular: 'To improve our current strategic partnerships and establish new ones'. The inclusive approach helps us understand and respond to the material needs of our stakeholders, as well as identify key risks pertaining to our stakeholder management and ensuring that mitigating measures are in place.

The effectiveness of the inclusive stakeholder management approach is measured through a survey. The results of the 2018 survey indicated an 86% achievement in overall stakeholder satisfaction, which is an improvement of 1% from the previous year. It represents a satisfactory achievement against our target satisfaction level of at least 60% per stakeholder. We are actively working to improve our results further.

Below is an overview of our key stakeholders and their material needs together with our interaction and strategic responses thereto:

Stakeholder	Material matters	How we engage	Our response
<b>Shareholder</b>	<ul style="list-style-type: none"> <li>• Good corporate governance</li> <li>• Sustainability of the organisation</li> <li>• Relevance to government agenda (NDP)</li> <li>• Financial inclusivity and transformation</li> <li>• Strategy implementation</li> </ul>	<ul style="list-style-type: none"> <li>• Regular engagement with the shareholder on the broader mandate</li> <li>• Regular monitoring of the implementation of the five-year strategy plan</li> </ul>	<ul style="list-style-type: none"> <li>• Sound corporate governance practices</li> <li>• Focused approach on contributing to the NDP</li> <li>• Development of a product aimed at inclusivity of all South Africans</li> </ul>
<b>Distribution channels</b>	<ul style="list-style-type: none"> <li>• Regulatory changes</li> <li>• Product awareness</li> <li>• Brand awareness</li> <li>• Visibility and relationship management</li> <li>• Service satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>• Regular engagement with FIA and SAIA on regulatory changes</li> <li>• Monitoring of customer complaints and service levels</li> <li>• Regular product training</li> </ul>	<ul style="list-style-type: none"> <li>• Strategic brand and product awareness within the industry</li> <li>• Strategic stakeholder management with an inclusive approach</li> </ul>
<b>Insurance industry bodies</b>	<ul style="list-style-type: none"> <li>• Policy administration fee</li> <li>• Product awareness</li> <li>• Brand awareness</li> <li>• Visibility and relationship management</li> <li>• Service satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>• Obtain feedback on product performance, product development and overall service satisfaction</li> <li>• Participation in industry forums</li> </ul>	<ul style="list-style-type: none"> <li>• Annual review of the policy administration fee</li> <li>• Strategic brand and product awareness within the industry</li> <li>• Strategic stakeholder management with an inclusive approach</li> </ul>
<b>Regulators (including FSB/FSCA and National Treasury)</b>	<ul style="list-style-type: none"> <li>• Compliance</li> <li>• Continued solvency (sustainability)</li> <li>• Market conduct</li> <li>• Regulatory change</li> </ul>	<ul style="list-style-type: none"> <li>• Strategic engagement to influence changes in the regulatory environment</li> <li>• Regular meetings with the FSB/FSCA</li> </ul>	<ul style="list-style-type: none"> <li>• Zero tolerance to non-compliance</li> <li>• Sound corporate governance practices</li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>• Sustainability of the organisation</li> <li>• Development</li> <li>• Well-being</li> <li>• Retention</li> </ul>	<ul style="list-style-type: none"> <li>• Understand employee needs and create a conducive work environment</li> </ul>	<ul style="list-style-type: none"> <li>• Learning and development strategy</li> <li>• Talent management and succession planning</li> <li>• Competitive remuneration and employment conditions</li> <li>• Encourage diversity and inclusivity in the workplace</li> <li>• Health and safety management</li> </ul>
<b>Board</b>	<ul style="list-style-type: none"> <li>• Sustainability of the organisation</li> <li>• Governance</li> <li>• Strategy implementation</li> </ul>	<ul style="list-style-type: none"> <li>• Quarterly meetings</li> <li>• Regular interactions</li> <li>• Regular monitoring of strategic plan implementation</li> </ul>	<ul style="list-style-type: none"> <li>• Sound corporate governance practices</li> <li>• Strategy management framework with a long-term view</li> <li>• Strategic stakeholder management with an inclusive approach</li> </ul>

Stakeholder	Material matters	How we engage	Our response
<b>Media</b>	<ul style="list-style-type: none"> <li>Information on the impact of events</li> <li>Reputation</li> <li>Performance</li> <li>Public relations</li> </ul>	<ul style="list-style-type: none"> <li>Ad hoc interactions</li> <li>Television and radio interviews</li> <li>Articles on special risk</li> </ul>	<ul style="list-style-type: none"> <li>Improve media engagements and develop strategic partnerships</li> <li>Improve public relations management and media coverage</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>Product satisfaction and awareness</li> <li>Service experience</li> <li>Brand awareness</li> <li>Sustainability and viability of the organisation</li> <li>Information sharing</li> <li>Claims</li> </ul>	<ul style="list-style-type: none"> <li>Strategic engagements with corporate and commercial customers</li> <li>Consumer education</li> <li>Continuous monitoring of complaints</li> <li>Monitor ombudsman cases</li> </ul>	<ul style="list-style-type: none"> <li>Understand customer needs, enhance and design products based on these needs</li> <li>Effective and efficient claims and complaints management</li> <li>Improve media coverage aimed at customers</li> <li>Communication plan aimed at customers</li> <li>Embedding treating customers fairly throughout the organisation</li> </ul>
<b>Future customers</b>	<ul style="list-style-type: none"> <li>Survival</li> <li>Tailored product</li> <li>Accessibility of products</li> <li>Sustainability and viability of the organisation</li> <li>Prompt claims settlement</li> </ul>	<ul style="list-style-type: none"> <li>Market research</li> </ul>	<ul style="list-style-type: none"> <li>Understand customer needs, enhance and design products based on these needs</li> <li>Effective and efficient claims and complaints management</li> <li>Improve media coverage aimed at customers</li> <li>Communication plan aimed at customers</li> <li>Embedding treating customers fairly throughout the organisation</li> </ul>

Other significant stakeholders that we interact with include asset managers, banks, reinsurers, our SED partners and the general South African public. These stakeholders are not included above as they represent the outer layers of our stakeholder management framework and have a smaller direct impact on our business.



## Tshepiso Chocho

BA Hons MMDP

Acting Executive Manager: People Management

Tshepiso joined Sasria in May 2015 from Nedbank (Pty) Ltd where she was a Human Resource Consultant. She was appointed as the Acting Executive Manager: People Management on 1 September 2017.

Her current responsibilities include implementing effective people management solutions that support business objectives and create the desired corporate culture that is essential to attract, develop and retain talented employees.

Her combination of academic achievements and 17 years' working experience in the finance sector, 11 of which were spent in the Human Resource field of well-established financial institutions, makes her a valuable contributor and leader of her division. She believes in continuous growth and is currently registered as a mentor in IIG's Roots and Wings programme.

# Our employees

## Sasria's talent strategy

At Sasria, all of our employees are regarded as talent.

We recognise that a strong talent base with the right attitude and enthusiasm will allow Sasria to fulfil its mandate. We manage our talent to ensure that we have the right people in the right numbers at the right time in the right place, able, willing, wanting and being allowed to perform, thereby enabling Sasria to deliver excellent value to all its stakeholders.

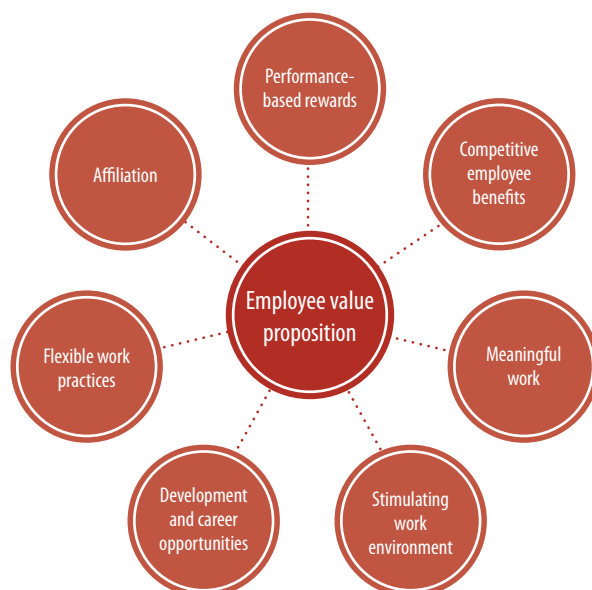
Managing talent enables us to:

- Implement our strategy timeously;
- Attain and sustain operational **excellence**;
- Continue **evolving** and delivering leading edge, innovative and trend-setting products; and
- **Embrace change** by capitalising on future opportunities and challenges.

## Employee value proposition (EVP)

Our EVP gives us a competitive edge in the talent market.

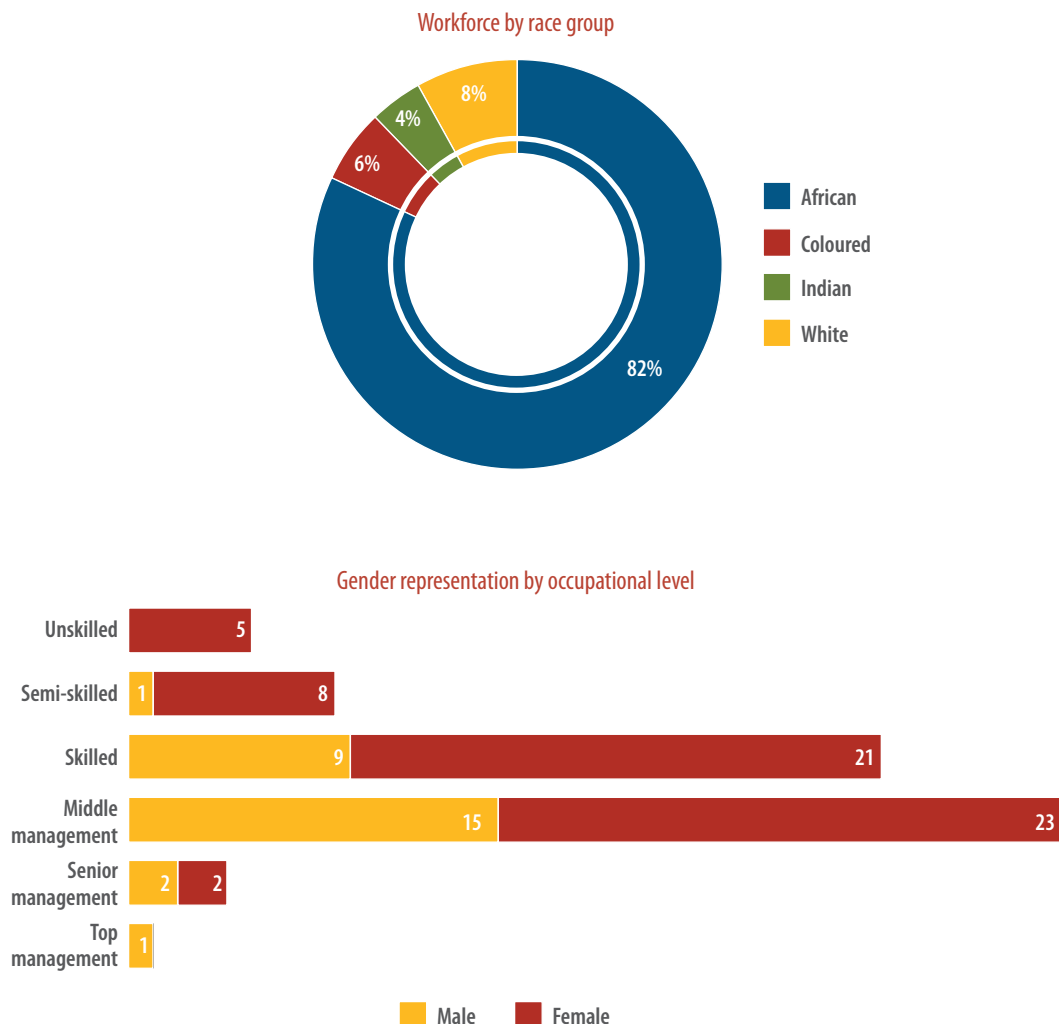
Our EVP is well-positioned and has enabled us to attract the best leadership (Finance Director, Executive Management), critical (actuaries, chartered accountants) as well as young (graduates) talent for the future. It also allowed us to gain a score of 3.77 in the 2017 climate survey. The responses for job advertisements placed on our website have increased, with some positions receiving more than a thousand applications. It has also helped to keep the turnover rate below our 10% threshold.



## Our demographics

We continuously aim to attract, develop and retain top talent who will be inspired and who will inspire others. Our workforce is diverse, made up of old and young, different race and culture groups as well as different skill sets and experience. Our employees embody the values of professionalism, teamwork, integrity, customer-centricity and innovation. Sasria is an equal opportunity employer and complies with the Employment Equity Act 55 of 1998.

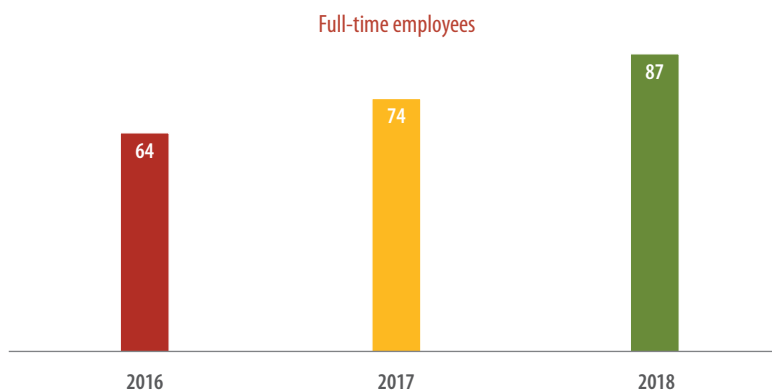
The tables below depict Sasria's workforce by race and gender:



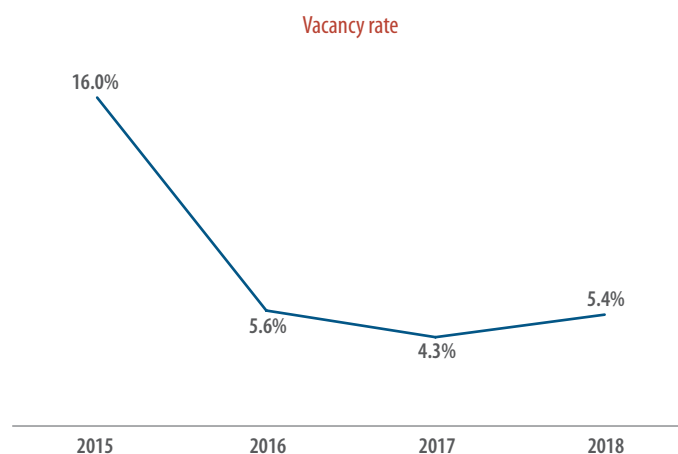
The majority of our workforce is female (68%). We support the advancement of women and the country's employment equity plans and use our vacancies as an opportunity to appoint black females in senior positions in the organisation. As a state-owned organisation, we are proud that our workforce represents the economically active population of Gauteng. We remain diverse and inclusive by promoting equality in the workplace.

The need for new skills in information technology and procurement resulted in growing our workforce by 17.5% by year-end. Technology was the focal point in 2018 after the results of the 2016 climate survey indicated technology as a weakness in the business. Our infrastructure needed improvement and we needed an updated strategy to deal with the emerging risks in technology as well as to be ready for the fourth industrial revolution. This meant bringing on board qualified and experienced specialists in the technology field.

Below is a graphical representation of headcount growth over the last three years:



The vacancy rate was 5.43% in March 2018. The rate has reduced significantly since the 16% in March 2015. Our recruitment procedures have helped ensure that all non-scarce resources are appointed within our three-month turnaround time. Over the past year, we have seen an increase in job applications from black professionals, whom we found difficult to attract in the past. The use of the Sasria website and other social media platforms, as well as our selected panel of recruiters, has benefited us. Our EVP message is being received positively and we are becoming an employer of choice amongst the country's top talent.



Our average turnover rate was 1% during the year as six people resigned. Even though this is low, we remain concerned about the threat of top talent leaving the organisation, especially in critical positions.

Sasria has just completed the fourth year of its five-year strategy. Any loss of top talent has a negative impact on the implementation of the strategy. However, the talent and succession plans that are in place have helped us mitigate the negative impact caused by the resignation of people in senior management positions.

The following were also implemented in 2018 to mitigate this risk:

- Approved salary adjustment for executive managers to the 75th percentile;
- Annual salary benchmarking;
- The approval of extended Sasria salary bands;
- Investigating long-term incentives;
- Development of a competency framework for executives, middle-management and other employees;
- Finalisation of the learning and development strategy;
- Talent and succession plans; and
- Continuous communication of our employee value proposition.



## Employment equity

As at the end of March 2018, we outperformed our targets on 12 out of 15 points. The maximum points set out by the Financial Sector Codes is 15. Our current employment equity score is 14.86. This success was due to focussing on the appointment of people with disabilities as well as black females at middle management level. It remains our strategic objective to develop our own talent, especially young black females. The targeted approach we use in recruitment has allowed us to meet and exceed most of our employment equity targets.

During the year we:

- Appointed more people with disabilities;
- Used our vacancies to appoint black females in senior management positions;
- Promoted females and black people to senior positions; and
- Increased our efforts to accommodate people with disabilities within the organisation.

We missed our target for people with disabilities due to a resignation. However, we will continue to focus our recruitment on people with disabilities to ensure that this target is met and maintained:

## FSC Employment Equity Scorecard

Scorecard Item	Weighting	Target	Achieved	Score
Black disabled employees as a percentage of all employees	0.5	3.0%	2.2%	0.36
Black women disabled employees as a percentage of all employees	0.5	1.5%	2.2%	0.50
Black senior management as a percentage of all senior management	3.0	60.0%	80.0%	3.00
Black women senior management as a percentage of all senior management	2.0	30.0%	40.0%	2.00
Black middle management as a percentage of all middle management	3.0	75.0%	87.8%	3.00
Black women middle management as a percentage of all middle management	2.0	37.5%	58.5%	2.00
Black junior management as a percentage of all junior management	2.0	80.0%	97.0%	2.00
Black women junior management as a percentage of all junior management	2.0	40.0%	72.7%	2.00
<b>Total</b>	<b>15</b>			<b>14.86</b>

## Talent pipeline for our future needs

It is our aim to develop employees and help them to obtain professional qualifications. Learning and development is Sasria's pride and joy, the part of the EVP most recognised by our employees. The consistent increase in spend every year is indicative of the commitment to attract, develop and retain top talent that will contribute to the achievement of our business objectives now and in the future.

During the year we undertook the following in order to achieve this:

- Spent R5.8 million on skills development;
- Identified skills gaps in technology and leadership;
- Created development plans for all our employees;
- Identified successors for all our critical roles;
- Finalised our competency framework;
- Implemented a graduate programme that will support the Company's talent pipeline; and
- Invested in management and leadership development, technical skills as well as various formal qualifications.

# Material issues related to our key relationships

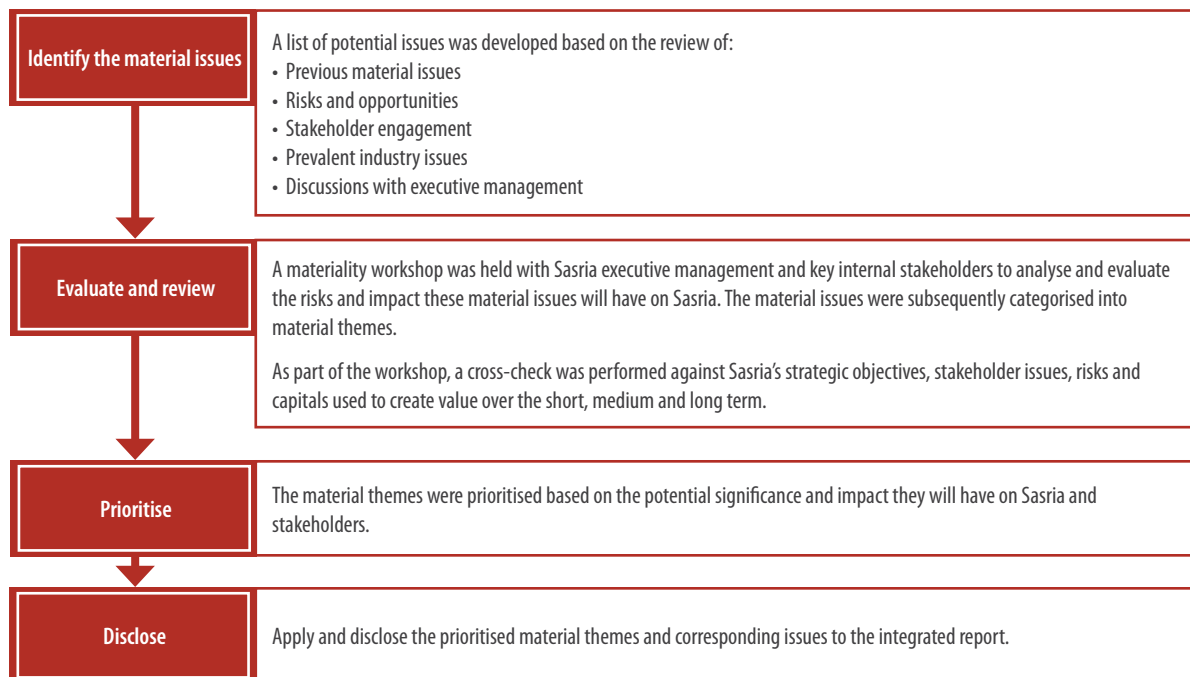
Our Executive Committee takes responsibility for managing Sasria's key material issues and its members follow a structured approach on an annual basis to revisit and determine the relevant material matters that could have a positive or negative impact on our business. Our Audit and Risk Committee assumes the oversight responsibility in this regard and considers and approves the material issues before presenting them to the Sasria Board for their endorsement.

Material matters are those matters of relevance we address and report on, considering their significance to both the business and our stakeholders and their potential to affect Sasria's ability to create value over the short, medium and long term. This allows us to evolve our strategy and tailor our reporting to ensure it is aligned with the interests and needs of our audiences, as well as those of the Company.

## Determining our material issues





We periodically review our material issues against the changing context of the business, stakeholder feedback and emerging issues.








PwC was engaged to facilitate a process to enable us to update our material issues assessment for the current year. This process centred on a materiality workshop attended by executive management to review Sasria's most critical issues. The materiality process followed was:



## Material issues and themes

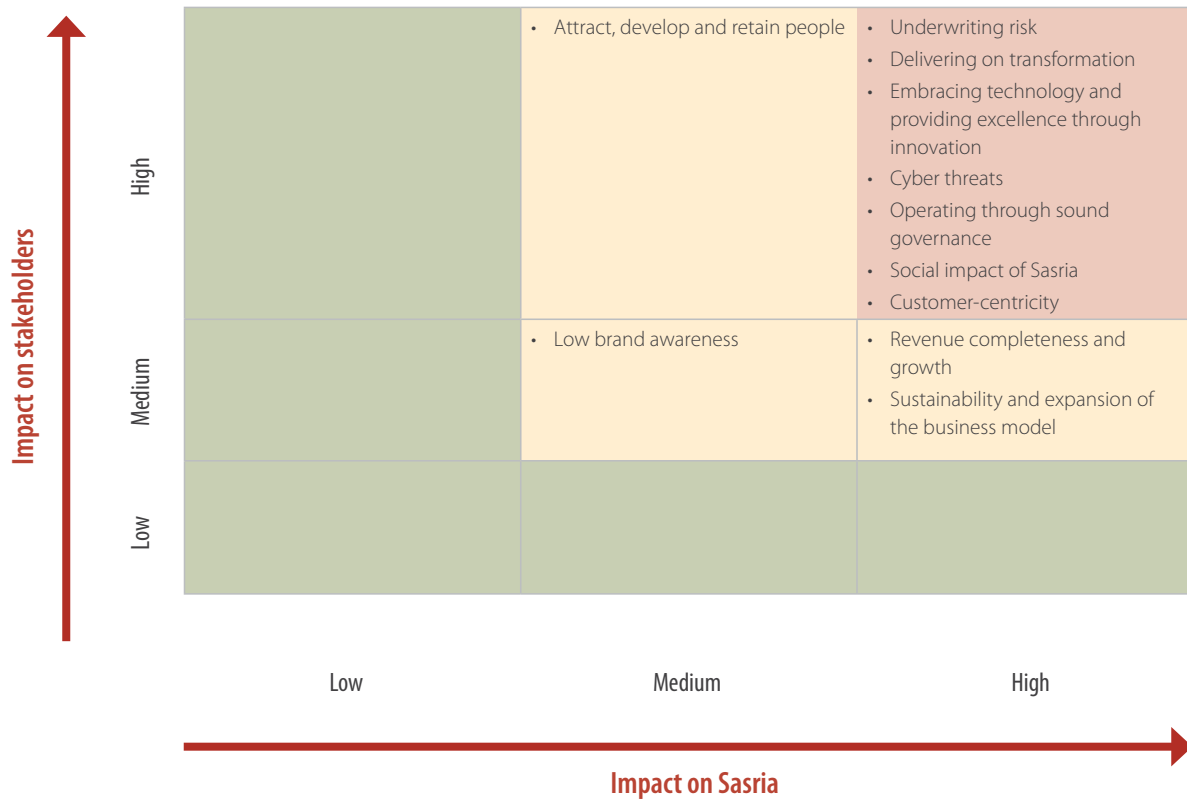
The material issues have been grouped into themes. Eleven themes have been identified. These are outlined and explained in the table below, showing the relationship to our strategic focus areas:

Material theme	Material issues	Strategic focus area
<b>Underwriting risk</b>	<ul style="list-style-type: none"> <li>• Maintaining solvency – ability to meet the current and future liabilities</li> <li>• Increased risk of claims</li> <li>• Municipalities – increase in claims due to mismanagement of municipalities</li> </ul> <p><i>Rapid urbanisation:</i></p> <ul style="list-style-type: none"> <li>• Change in demographics with people moving from rural areas to cities, and the increase in the size of cities, resulting in an impact on service delivery, water and housing and municipalities not coping with rapid urbanisation</li> <li>• Environmental changes and impact on people and cities</li> </ul> <p><i>Socio-economic environment:</i></p> <ul style="list-style-type: none"> <li>• Slow economic growth</li> <li>• High unemployment</li> <li>• Rise in Gini coefficient in South Africa</li> </ul> <p><i>Changes in political environment:</i></p> <ul style="list-style-type: none"> <li>• Union rivalry</li> <li>• Political rivalry</li> <li>• Instability and uncertainty of the political environment</li> <li>• Impact on service delivery</li> <li>• Political change in administration</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainable revenue growth</li> <li>• Capital management</li> </ul> 
<b>Delivering on transformation</b>	<ul style="list-style-type: none"> <li>• Performance against transformation objectives (comply with Financial Sector Charter (FSC)) and meeting the requirements in relation to: <ul style="list-style-type: none"> <li>- Procurement</li> <li>- Financial inclusion</li> <li>- Skills development</li> <li>- Employment equity</li> <li>- Enterprise and supplier development</li> </ul> </li> <li>• Contributing to the transformation of the financial services sector</li> <li>• Focus on Sasria to go beyond just the FSC and SOE requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Regulatory environment</li> </ul> 
<b>Embracing technology and delivering excellence through innovation</b>	<ul style="list-style-type: none"> <li>• Delivering relevant services in an efficient, simple and fast manner</li> <li>• Embracing technology and new platforms to meet customer satisfaction</li> <li>• IT governance</li> <li>• Data acquisition and analytics</li> <li>• Continuous research capability (in the area of special risk insurance)</li> <li>• Product development and enhancement</li> </ul> <p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>• Embrace emerging technology</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructure and cost management</li> <li>• Innovation (products and services)</li> </ul> 
<b>Cyber threats</b>	<ul style="list-style-type: none"> <li>• Internal and external attacks on Sasria</li> <li>• Cyber attacks on the value chain</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructure and cost management</li> </ul> 

Material theme	Material issues	Strategic focus area
<b>Attract, develop and retain people</b>	<ul style="list-style-type: none"> <li>Lack of skills in the financial services industry</li> <li>Mobility of critical skills within the financial services industry</li> <li>Future-proofing our workforce</li> </ul> <p><b>Opportunity</b></p> <ul style="list-style-type: none"> <li>Good employee value proposition</li> </ul>	<ul style="list-style-type: none"> <li>People, capacity and capability</li> </ul> 
<b>Operating through sound governance</b>	<ul style="list-style-type: none"> <li>Compliance of King IV, PFMA and any other relevant legislation and regulation</li> <li>Prevention of irregular, fruitless and wasteful expenditure</li> <li>Ensuring relevant governance in the distribution channels</li> </ul>	<ul style="list-style-type: none"> <li>Regulatory environment</li> </ul> 
<b>Revenue completeness and growth</b>	<ul style="list-style-type: none"> <li>Completeness of revenue</li> <li>Incomplete offering of Sasria's products by intermediaries and agent companies</li> <li>Lack of demand for our products due to: <ul style="list-style-type: none"> <li>Lack of product awareness</li> <li>Inferior products</li> <li>Self-insurance</li> <li>Lack of training</li> </ul> </li> <li>Slow economic growth</li> <li>Inaccessibility to Sasria's products</li> <li>Expansion into new markets to sell our products</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable revenue growth</li> </ul> 
<b>Low brand awareness</b>	<ul style="list-style-type: none"> <li>Lack of brand visibility</li> <li>Perception/image of SOEs (SOE negativity) <ul style="list-style-type: none"> <li>Negative perception of SOEs has direct impact on Sasria</li> <li>Customer and agent interactions</li> </ul> </li> <li>Harmful exposure by agent and intermediary actions</li> </ul>	<ul style="list-style-type: none"> <li>Brand development</li> </ul> 
<b>Sustainability and expansion of the business model</b>	<ul style="list-style-type: none"> <li>Perception/view of the short-term insurance industry on Sasria <ul style="list-style-type: none"> <li>Change in legislation which will impact Sasria</li> </ul> </li> <li>Ability/mandate to change business model</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable revenue growth</li> </ul> 
<b>Social impact of Sasria</b>	<ul style="list-style-type: none"> <li>Delivering on the dual mandate</li> <li>Being a responsible corporate citizen</li> <li>Being a special risk advisor to government</li> <li>Risk management initiatives <ul style="list-style-type: none"> <li>Municipalities (increased risk of mismanagement)</li> <li>Universities (helping to deal with security)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Customer-centricity</li> <li>Innovation (products and services)</li> <li>Regulatory environment</li> </ul> 
<b>Customer-centricity</b>	<ul style="list-style-type: none"> <li>Efficient and superior service <ul style="list-style-type: none"> <li>Develop relevant products</li> <li>Managing claims effectively and efficiently</li> </ul> </li> <li>Embedding treating customers fairly (TCF) principles</li> <li>Fair pricing</li> <li>Finding a solution for uninsured customers</li> </ul>	<ul style="list-style-type: none"> <li>Customer-centricity</li> </ul> 

## Material issues matrix

The material issue themes have been categorised based on management's view of the potential impact that these issues have on Sasria and stakeholders, and are presented in the materiality matrix below:





## Suzanne Harrop-Allin

*BCom Hons CA (SA)*

### Chief Risk Officer

Suzanne joined Sasria in October 2013 from PwC, where she was a senior manager in the Financial Services Insurance and Investment Management division.

Her experience in the insurance industry has enabled her to effectively manage Sasria's risk by ensuring control functions that are critical to proactive and effective risk management.

She oversees risk management, quality assurance and actuarial services as well as internal audit for administration purposes.

# Our top risks and how we manage them

## Introduction and framework

Sasria is exposed to a wide variety of connected (based on our business model) and interconnected risks. To ensure appropriate risk prioritisation and mitigation, we identify the internal and external events that may affect our strategies and potentially impact our results, capital and reputation.

Enterprise risk management (ERM) enables management to effectively deal with uncertainty and the associated risks and opportunities together with enhancing the capacity to build shareholder value.

Sasria has adopted a strategic, consistent and structured approach to ERM in order to pursue **excellence** while achieving an appropriate balance between realising the opportunities for gains presented in its **evolution and change** and minimising losses.

Through executing its business strategy, Sasria is exposed to a range of risks which it needs to manage within its risk appetite and tolerances. This will assist the Board and Management in achieving its business strategies and objectives. Sasria aims to align its strategy, processes, people and technology for the purpose of evaluating and managing the uncertainties that we face.

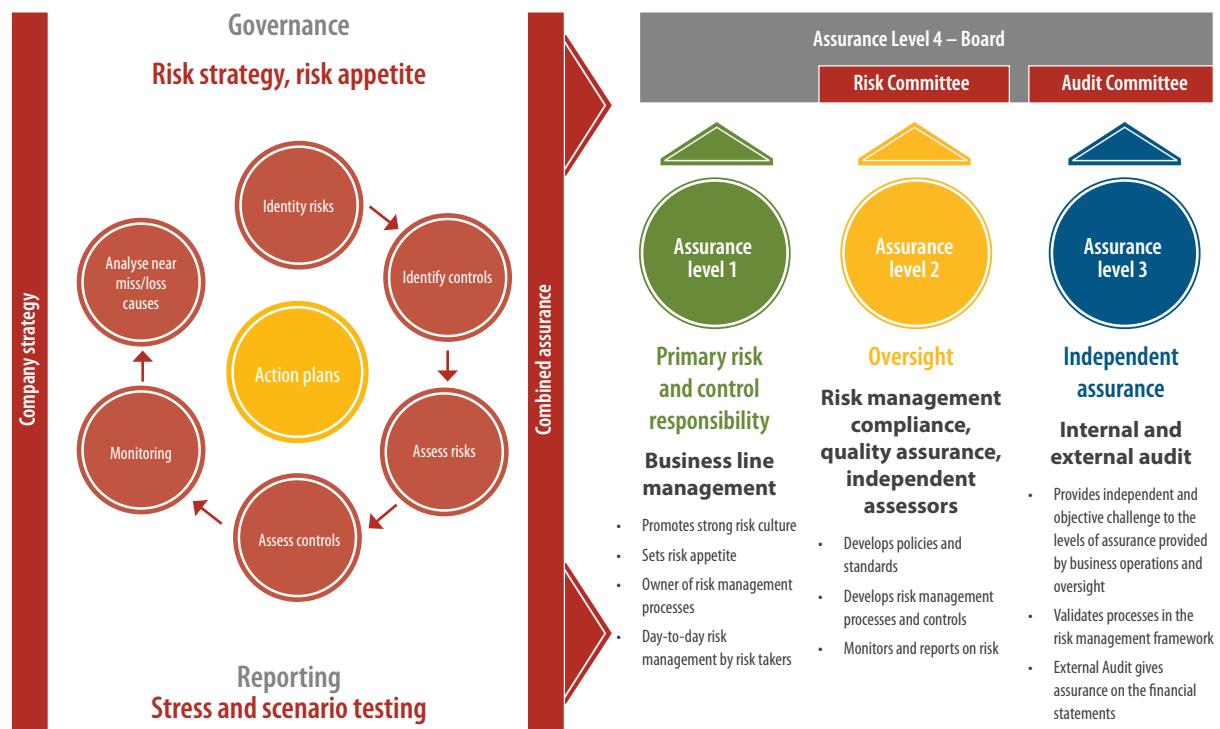
A proactive and integrated approach to managing our risks and opportunities is vital to our Company's continued growth, success and long-term sustainability. We acknowledge that this can only be achieved if all three elements of risk – namely threat, uncertainty and opportunity – are managed in an integrated fashion. Sasria aims to align its strategy, processes, people and technology for the purpose of evaluating and managing the uncertainties that we face.

Risk management is a continuous, forward-looking process that is an integral part of our business and technical management processes. Our key risk management strategies are to:

- Increase gross written premiums by maximising the existing product offerings to existing and potential customers;
- Optimise asset allocation to achieve a minimum investment return of CPI+2% over a three-year rolling period; and
- Use reinsurance contracts for capital optimisation and, in particular, for catastrophe events.

## Risk governance

The Board is ultimately responsible for the end-to-end process of risk management, as well as for assessing its effectiveness. Management is accountable to the Board for designing, implementing and monitoring the process and for integrating it into the day-to-day activities. The Board discharges these responsibilities by means of frameworks and policies approved and adopted by the Board and its designated committees that direct the implementation and maintenance of adequate processes for corporate governance, compliance, and risk management. Sasria's risk management value chain is used across all divisions, thereby ensuring that our risk universe is as complete as possible. We use our ERM framework to implement the relevant processes to make sure that all aspects and categories of risks are covered, assessed and monitored, and to ensure that we manage those risks within Sasria's identified risk appetite and risk profile. This includes key processes such as risk identification, risk assessment, monitoring, reporting and management actions.



## ERM excellence, while evolving and embracing change

### ERM maturity

Our ERM process is mature and market-leading in South Africa and evolving in relation to the UK market, given our size and complexity. Based on independent reviews and maturity assessments presented to the Risk Committee, the Board is confident that ERM is adequate in identifying current and emerging risks and ensuring these risks are managed appropriately.

### Risk culture

Risk culture significantly affects the capability to take strategic risk decisions and deliver performance promises.

Risk management embedding, awareness and culture have improved significantly in the last year. Risk culture can, however, never be perfect and there are still areas that require development. These will improve as risk management becomes a part of our day-to-day thinking, decision-making and reporting.

During the year, regular training was conducted and formalised for the whole business, which included a campaign on irregular, fruitless and wasteful expenditure, as well as educating employees on the importance of preventing and limiting this expenditure to be within risk appetite. There were a few incidents of fruitless and wasteful and irregular expenditure noted. Controls were updated and strengthened where needed to address the shortcomings, refer to page 129 for more details on these events.

## Combined assurance

The Combined Assurance Committee ensures that a coordinated and combined approach is applied in obtaining assurance on whether key risks are managed appropriately within the organisation and that relevant assurance is provided in these areas. The Combined Assurance Plan, the Charter and the committee were successfully embedded within the organisation during the year.

King IV principles relating to combined assurance were further embedded in Sasria in the year. In addition, material matters and key performance indicators were addressed through a combination of assurance providers and functions, as requested by the Audit Committee.

## Capital management and solvency

Sasria was adequately capitalised throughout the year. It also performed considerably better than in the previous year on a risk-adjusted basis: The overall return on risk-adjusted capital was 50% compared to 32% in 2017. For more detail on Sasria's solvency refer to the Finance Director's report on page 54.

We implemented a new, more advanced capital modelling system in the current year. It replaced the previous custom-designed system, which was limited to underwriting risk. We are now capable of modelling the other quantitative risks that Sasria faces using a wide variety of approaches.

## Risk appetite

The formulation and development of the risk appetite limits have been delegated to the Risk Committee by the Board. The methodology used for the setting of the limit was similar to that of the previous year and no changes were made to the risk limit and risk threshold percentages of solvency and economic capital requirements. For the determination of the risk appetite target, our approach has been to determine what size of catastrophe Sasria will be able to withstand. The catastrophes have been based on Sasria's own risk solvency assessment (ORSA) scenarios.

- **Capital at risk:** As at 31 March 2018, Sasria is adequately capitalised. The solvency capital requirement (SCR) coverage ratio of 260% and the economic capital requirement (ECR) coverage ratio of 249% are both more than Sasria's risk appetite target of 230%.
- **Earnings at risk:** Earnings at risk breached the risk limit as at March 2018 based on the forecasted results for the financial year. The largest contributor to the positive breach is the investment returns that are 77% above budget. The breach is further increased by the underwriting results that are 30% over budget.
- **Operational risk:** Operational risk events and incidences were monitored and detected throughout the year. Incidences were noted in the irregular, fruitless and wasteful expenditure and loss notification. None of these constitute a breach in risk appetite.

## ORSA

The ORSA increases Sasria's understanding of its risk exposures and enhanced capital structures and enables better-informed decisions. Sasria successfully completed its fourth ORSA report in March 2018, in line with the timelines it set at the beginning of the financial year. The process has been fully embedded within Sasria in the current year and covered an extensive range of scenarios and sensitivities and formed part of the strategic planning cycle.

## Risk and opportunity

In line with King IV, Sasria acknowledges that strategy, risk and opportunity are inseparable elements. In the current year, the Board started to govern risk and opportunity in a way that supports the Company in defining its core purpose and to set and achieve strategic objectives. Our risk and opportunity framework will be enhanced in the next financial year. The threat of global terrorism and other social, political and environmental issues have prompted an increased recognition of risk as a critical business issue. While the awareness of risk as a threat is imperative, so too is the recognition that risks can provide opportunities for innovation.

Our process in identifying opportunities was based on the risks that the Company is currently facing, risks which the industry is facing and risks that government is facing. In a world where the impact of climate change is a reality, the frequency and severity of disasters are increasing. Special risks, if not adequately addressed, pose a major risk to the economy, social structure and food security. They also pose an escalating threat to three primary problems facing South Africa, namely poverty, inequality and unemployment. Public-private partnerships are crucial to ensuring the financial resilience to withstand any special risk disaster.



In the year, we identified the following two opportunities:

- **Inclusive insurance project/SMME project**

The market failure in the delivery of insurance products to the vulnerable communities in South Africa represents one of the highest risk exposures facing government. Coupled with the high unemployment rate, lack of basic services and poverty facing many, the tension gives rise to incidents of protests – with a high probability that violence might lead to further losses which are not covered by general insurance. These losses place an additional burden on local municipalities and government. There is a need for Sasria to develop a product for the target audience. More detail on our efforts to develop a special risk product are outlined on page 46.

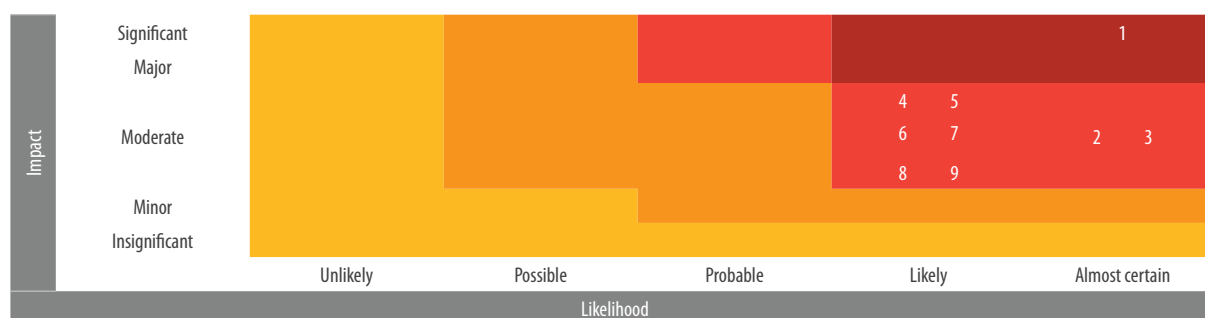
- **Agriculture insurance administration project**

During the past year, South Africa experienced its worst drought, followed by floods in various regions. This is expected to continue. Government has recognised the impact of weather and climate shocks on agricultural producers and the challenges they pose to the country's development objectives in terms of food security and rural development. Sasria, together with SAIA, committed to assisting government in finding solutions to allocating funds to mitigate against the losses due to drought suffered by both commercial and emerging farmers. A public-private partnership is proposed to explore this opportunity further.

## Our top risks

We identified the top risks that pose a potential threat to the execution of our business strategy and assessed these risks based on the impact or severity of the risk event should it materialise, as well as the likelihood of the risk occurring. We then developed mitigation strategies in order to manage these risks proactively.

The heat map below highlights the top inherent risks that we face based on impact and likelihood:



The table below highlights the residual risk ratings and control effectiveness per risk, which are consistent with the prior year unless otherwise indicated. We also detail our risk response and the primary controls that are in place:

2018	2017	Risk	Risk response and controls
<b>UNDERWRITING RISK</b>			
1	1	<b>Increased insurance risk as a result of strikes, protests and other special risks</b>	<p>Sasria's claims are extremely volatile and are interconnected to various risks facing the country, which include political risk, unemployment, poverty, inequality, service delivery, labour issues, student protests and, in some instances, water and drought issues. In the past few years, Sasria has experienced high and increasing loss ratios as a result of increases in service delivery protests, student issues, strikes and large claims in various classes of business.</p> <p>The insurance risks that we face provide us with opportunities to be closer to our customers and to ensure that our products are relevant for our customers. In addition, we have increased our brand awareness in the current year to ensure that we are relevant in the market.</p> <p>Sasria performed stress and scenario analyses on the key risks to evaluate the potential adverse impact of high losses to the current and future condition of the Company. We are confident that we will be adequately capitalised in the event of the deterioration of the underwriting risk.</p> <p>We identified various opportunities to mitigate the risk and have engaged in a number of initiatives during the year, which will be ongoing. These are discussed in more detail on page 46.</p>

2018	2017	Risk	Risk response and controls
OPERATIONAL RISK			
2	2	<b>Incomplete and inaccurate revenue</b>	<p>Premium leakage is a significant risk, mainly due to the Sasria business model, which is outsourced. We are highly dependent on our agents to provide us with the necessary policy information, write premiums and ensure that all required administration is done appropriately.</p> <p>To mitigate the risk, various reviews are being performed on the agent companies by Internal Audit, Quality Assurance and by the external auditors of our agent companies. We ensure that we assist and guide our agents where significant control weaknesses and misunderstanding of the products are identified.</p>
3	10	<b>Failure to calculate taxes accurately</b>	<p>The implementation of the VAT increase by one percentage point is complex in the industry and created a number of challenges due to the vast number of system changes required by our agents in effecting the rate change.</p> <p>Sasria had numerous engagements with the industry through SAIA and has further obtained external guidance to assist with the VAT calculation and actions to be taken.</p>
5	4	<b>Lack of policyholder data</b>	<p>Sasria currently does not receive all policyholder information from its agents. The outsource agreements between Sasria and the agents make provision for Sasria to have continued access to the policyholder and the Sasria policy information held by the agent companies. Sasria will be able to assess its risk exposure and pricing more accurately if the data can be obtained. In addition, the FSCA and PA require Sasria to obtain the policyholder data.</p> <p>We are currently performing possible maximum loss studies on selected known insured assets to ensure sufficient reinsurance is purchased, that we are adequately capitalised and able to pay losses.</p>
6	8	<b>Failure to comply with regulatory requirements and governance codes</b>	Refer to the Leadership and governance section on page 62.
7	5	<b>Inability to attract and retain specialised skills</b>	Talent and succession pools were created for key positions in the Company to ensure continuity for high-risk roles. More information on the challenges and mitigation is included on page 29.
9	7	<b>Cyber security risk</b>	<p>Cyber risks have evolved into a moving target, with digitisation advances, cloud computing adoption, mobile device usage, creative applications of exponential increases in computing power and innovative IT transformation initiatives continually outpacing the security protections companies have in place. Cyber risk has become complex and challenging to mitigate.</p> <p>We have identified opportunities to enhance and update our systems, initiated a cyber security programme, performed regular awareness training and performed several penetration tests.</p>
STRATEGIC RISK			
4	3	<b>Failure of business to respond to information technology developments</b>	<p>The rapidly-changing technological environment currently faced by Sasria poses a significant risk, especially if Sasria cannot respond adequately to these changes and therefore fails to remain relevant in a digital economy.</p> <p>In the year, we have identified the need for IT to be part of the strategic needs and future opportunities within the business to ensure that Sasria is an example of excellence in most facets of technology. We have appointed an Executive Manager: Business Change and Technology to align our strategy with our IT strategy to play a significant role in the future of the Company. We have finalised our enterprise architecture project, which highlighted existing process and resource gaps and we are in the process of integrating new technologies where needed.</p> <p>Refer to page 48 for more detail on the mitigation and actions.</p>
MARKET RISK			
8	6	<b>Erosion of capital due to deterioration of investment markets</b>	<p>We reviewed our investment strategy and strategic asset allocation during the year to ensure that it is appropriate and adhering to responsible investing. The investment policy statement limits the use of high-risk instruments, thereby limiting losses that can be suffered during deteriorating markets.</p> <p>Sasria holds a diverse range of assets so as to spread the risk of losses as evenly as possible. We prefer assets that are liquid and have established exposure limits.</p> <p>In line with the NDP, Sasria has identified an opportunity for the development of small- to medium-sized asset managers. Refer to page 42 for more detail on the incubation programme.</p>

# Our 2014 – 2019 strategy




Sasria's goal is to ensure that it:

- Remains a professional and efficient company;
- Establishes itself as a thought leader in the special risk space;
- Is innovative in terms of its product offering to achieve National Treasury's and the Financial Sector Conduct Authority's objectives of financial product inclusivity; and
- Remains sustainable.

To achieve the above, the strategic direction Sasria has chosen for the next year is focused on sustainable growth, efficiency, customer-centricity and social impact.

Our strategic focus areas, identified strategic objectives and how we are planning to achieve these objectives are detailed below:

	Strategic focus area	Strategic objective	How this will be achieved
 Financial capital	<b>Sustainable revenue growth</b>	<ul style="list-style-type: none"> <li>• To consistently outperform the industry average in premium growth</li> <li>• To improve our current strategic partnerships and establish new ones</li> </ul>	<p>These two strategic objectives will be achieved by embedding a strategic stakeholder management approach that is focused on the high-income generating distribution channel and high-income generating customers. This will be done through brand and product awareness to the target audience, technical support and product training to the distribution channel. Furthermore, focus will be given to maximise the current product offering to existing customers as well as taking the current product offering to new markets.</p> <p>The focus on the distribution channel will enable effective selling of our product by the distribution channel on our behalf as well as effective advice-giving and engagements with end-customers during underwriting. The focus on end-customers is to empower them with the knowledge on special risks in order to create demand for our product.</p>
	<b>Capital management</b>	<ul style="list-style-type: none"> <li>• To ensure compliance with statutory capital requirements and the calculation of an economic risk basis for capital value</li> <li>• To target a return on equity greater than the government bond yield</li> </ul>	<p>During 2019, Sasria will continue to implement the prudential SAM requirements to ensure compliance with statutory capital requirements, with the continued focus on the embedding of the ORSA methodology and processes, the parallel runs (of the economic capital models and the Solvency Capital requirements) It will further continue to improve on its calculation of an economic risk basis for capital value.</p> <p>Sasria aims to optimise its return on capital by growing its insurance premium income, managing expenses, yielding a return of CPI + 2% on investments over a three-year rolling basis and buying sufficient reinsurance cover to supplement its current capital, to cover potential maximum losses as per the annual probable maximum loss (PML) study conducted.</p>
	<b>Infrastructure and cost management</b>	<ul style="list-style-type: none"> <li>• To optimally enable business while satisfying regulatory requirements</li> </ul>	<p>Sasria's cost management is tightly controlled and all infrastructure spent is governed by Board oversight. Over the medium term, operational and capital expenditure is expected to increase above CPI in order to deliver on its five-year strategic plan as well as the government's broader expectations of Sasria.</p> <p>Sasria is embarking on an IT digital strategy and enterprise architecture (EA) framework to ensure that it is aligned with the Company's future strategy. The EA review will deliver an architecture vision (defining the future vision and buy-in), business architecture (understanding the business; defining future business), information systems architecture (defining application and data requirements), as well as a technology architecture (defining requirements in terms of platforms, software, security and tools).</p>

	Strategic focus area	Strategic objective	How this will be achieved
 Human capital	People, capacity and capability	<ul style="list-style-type: none"> <li>To attract, retain and develop skills that support our aspirations</li> <li>To maintain a high-performance culture</li> </ul>	<p>In 2019, the Human Capital department will facilitate recruitment for all vacant positions, ensure sufficient employee development plans are in place, facilitate the implementation of identified initiatives for key talent, and drive succession planning, while it continues to drive performance-based outcomes within the organisation.</p> <p>Sasria also realises that it needs to help build capacity outside the organisation and in support of the NDP. Sasria supports the education of the youth by contributing to school infrastructure projects, sponsoring bursaries and intervention programmes.</p>
 Intellectual capital	Innovation (products and services)	<ul style="list-style-type: none"> <li>To become a centre of innovation in special risk insurance</li> <li>To conduct feasibility studies for new products</li> <li>To establish new business distribution channels</li> </ul>	Refer to the section "Beyond 2020" on page 42 for a more detailed explanation on the initiatives to be undertaken.
 Social and relationship capital	Regulatory environment	<ul style="list-style-type: none"> <li>To proactively manage compliance</li> </ul>	The implementation of SAM policies and processes will continue in 2018-2019 in anticipation of the regime's implementation date of July 2018, to accommodate the legislative timeline for the Insurance Bill enactment. The Financial Sector Regulation Act No. 9 of 2017 (FSR Act) was processed by Parliament ahead of the Insurance Bill. This enables the Insurance Bill to build on the regulatory framework created through the FSR Act. The Insurance Act was signed into law in January 2018 and came into effect on 1 July 2018.
	Customer-centricity	<ul style="list-style-type: none"> <li>To provide relevant and appropriate products</li> <li>To provide superior service</li> </ul>	Refer to page 46 for the initiatives to develop relevant and appropriate products. Claims settlement turn-around time and communication is central to the customer-centricity theme. The Claims Department aims to settle 90% of all fast-track claims within 30 days in the 2018-2019 year. The department aims to accept liability on 70% of large losses within 60 days (from the date of submission).
	Brand development	<ul style="list-style-type: none"> <li>To create a trusted brand that resonates with all our customers</li> </ul>	<p>The elevation of the Sasria brand will continue to be focused on the biggest income-generating agents and brokers, corporate and commercial customers, as well as creating internal brand appreciation. Further brand building to customers will be enhanced via consumer education and awareness initiatives.</p> <p>This will be achieved through the following:</p> <ul style="list-style-type: none"> <li>Keeping abreast with market trends as well as developments within the environment in which we operate</li> <li>Collaborative and relationship marketing with all strategic stakeholders</li> <li>Elevation of the brand and product awareness to customers</li> <li>Developing sustainable relations with media partners</li> <li>Effective communication with all stakeholders</li> <li>Elevating brand and product awareness</li> </ul> <p>An integrated marketing and communications approach will be utilised to achieve the above via an "always on" media approach. This, together with clearly defined brand positioning, will enable the Sasria brand to move from an indifferent brand to becoming a top-of-mind brand within the stakeholder segments.</p>

## Our long-term contribution to South Africa's NDP

Sasria's objective is to deliver on its mandate which is to protect the assets of all in South Africa against special risk. This is done through the provision of guaranteed special risk insurance cover at reasonable cost, irrespective of the political risk in South Africa. Insurance is the backbone of every industrial economy and without the guarantees of assets protection for investors, the country will have difficulty attracting and retaining foreign investors.

The table below indicates the alignment between Sasria's strategic objectives and government's NDP priorities and outlines the specific contribution that Sasria makes to government's NDP priorities in general:

NDP outcomes	Sasria's contribution
<ul style="list-style-type: none"> <li>Decent employment through inclusive economic growth</li> <li>Quality basic education</li> <li>A long and healthy life for all South Africans</li> <li>All people in South Africa are and feel safe</li> <li>Sustainable human settlements and improved quality of household life</li> </ul>	<p><b>Ensuring jobs are not lost by:</b></p> <ul style="list-style-type: none"> <li>Reimbursing businesses for the loss of income due to business interruptions or damage to assets caused by events related to special risk events</li> <li>Restoring liquidity or business operations quickly and efficiently</li> </ul> <p><b>Contributing to economic empowerment and transformation by:</b></p> <ul style="list-style-type: none"> <li>Investing with B-BBEE asset managers</li> <li>Increasing procurement spend with black-owned businesses as per the FSC</li> <li>Applying these principles in the Company's procurement policies and practices</li> <li>Applying these principles in the Company's employment policies and practices</li> </ul>
<ul style="list-style-type: none"> <li>A skilled and capable workforce to support an inclusive growth path</li> </ul>	<p><b>Developing skills in the financial sector to ensure sustainability and transformation by:</b></p> <ul style="list-style-type: none"> <li>Investing 5% of after-tax profit in SED initiatives, with 85% of these funds allocated to education and development. This includes a particular focus on specialist skill sets required in the financial and insurance sectors</li> <li>Investing in the financial services sector (developing actuaries) through the support of the South African Actuaries Development Programme (SAADP)</li> <li>Training and developing Sasria's employees via its talent management strategy</li> <li>Taking in graduates and interns, and developing their skills</li> </ul>
<ul style="list-style-type: none"> <li>An efficient, competitive and responsive economic infrastructure network</li> <li>Protecting and enhancing our environmental assets and natural resources</li> </ul>	<p><b>Investing profits responsibly, developing infrastructure by:</b></p> <ul style="list-style-type: none"> <li>Encouraging and protecting infrastructure development by providing special construction risk insurance</li> <li>Investing Company profits responsibly to ensure that Sasria remains financially sustainable and is able to respond when South Africa needs it to pay claims</li> <li>Investing in infrastructure development through asset managers</li> <li>Investing a portion of Company profits in projects targeted at expanding the infrastructure of schools in underprivileged, underdeveloped and rural communities</li> </ul>
<ul style="list-style-type: none"> <li>Create a better South Africa, contribute to a better and safer Africa in a better world</li> </ul>	<p><b>Instilling investor confidence, by:</b></p> <ul style="list-style-type: none"> <li>Demonstrating Sasria's reliability and financial strength to act as a guarantee that all claims will be paid to help encourage businesses, both locally and internationally, to invest in South Africa</li> <li>Instilling an ethical culture in Sasria by fighting corruption through ethics and fraud prevention awareness campaigns</li> </ul>
<ul style="list-style-type: none"> <li>An efficient, effective and development-oriented public service</li> <li>A responsive, accountable, effective and efficient developmental local government system</li> </ul>	<p><b>Contributing to the fiscus of South Africa by:</b></p> <ul style="list-style-type: none"> <li>Creating income (dividends) for the shareholder by contributing to government's revenue for spending in any of its NDP priorities</li> <li>Being financially responsible and disciplined as a state-owned entity</li> <li>Delivering Sasria's legislative mandate in a highly effective and profitable manner</li> <li>Researching and investigating coverage for any special perils that could be considered to be of national interest</li> <li>Creating jobs for employees and for the insurance industry by providing learnership programmes</li> <li>Instilling a strong governance culture in Sasria</li> </ul>
<ul style="list-style-type: none"> <li>An inclusive and responsive social protection system</li> <li>A diverse, socially cohesive society with a common national identity</li> <li>Vibrant, equitable and sustainable rural communities contributing to food security for all</li> </ul>	<p><b>Affordable short-term insurance for the huge uninsured market by:</b></p> <ul style="list-style-type: none"> <li>Contributing to the growth and transformation of the insurance market and financial sector</li> <li>Doing research and making affordable short-term insurance protection increasingly available and accessible to the vast uninsured market</li> </ul>

# Beyond 2020

Sasria has started its journey to identify areas of focus for its strategy beyond 2020. These areas of focus provide opportunities to various stakeholders and specifically address the risks that the government, insurers and Sasria face.

Our process of identifying the areas of focus or opportunities was based on the risks that are currently faced by the organisation, risks which the industry is facing and risks that the government is facing.

In a world where climate change and its impact are realities, the frequency and severity of disasters are increasing. Special risks, if not adequately addressed, pose a major risk to the economy and also to the attainment of the NDP goals. The impact of special risk is not just economic and social – these risks further pose significant food security risks to the country. They also pose an escalating threat to the three main problems facing South Africa; namely poverty, inequality and unemployment.

Government is the reinsurer of last resort; its citizens expect the government to intervene and help its citizens in the event of a disaster. Public-private partnerships are crucial in making sure that the country builds financial resilience to withstand any special risk disaster.

Sasria has started the journey to address these challenges and achieve specific objectives, which include:

- Stimulation of inclusive economic growth;
- Building of skills and capacity;
- Protecting South Africans against all types of special risks; and
- Support of the NDP.

The focus areas and opportunities which we have identified to achieve these objectives and mitigate the risks are as follows:

- Extending Sasria's customer base, products and distribution channels as well as seeking new ones with the aim of achieving sustainable growth;
- Embracing technology and the opportunities it facilitates with the aim of improving efficiency; and
- Actively supporting transformation.

Based on the above, it can be concluded that the country is facing a number of challenges, including market failure, especially with regard to special risks caused by climate change.

If this is not resolved and solutions are not found, it has the potential of threatening the following:

- Achievement of NDP;
- Achievement of transformation and inclusive growth;
- Food security; and
- Alleviation of poverty and inequality.

# Transformation in our industry

Sasria has always played a leading role in the transformation of the short-term insurance industry and will continue to do so with increased commitment.

An example of a tangible effort to make a difference is outlined below:

## Incubation programme for black emerging asset managers

An incubation programme is being set up which will target small- to medium-sized black asset management businesses, to enable them to gain a foothold in the South African market and compete with traditional asset managers.

Transformation in the asset management industry remains slow and highly concentrated with the five largest asset managers managing almost 50% of the industry's assets, whilst black asset management businesses manage less than 9% of the industry's assets. The asset management industry maintains a high barrier to entry due to the majority of the assets being managed by larger asset managers with competitive pricing and high start-up costs.

Sasria acknowledges these shortcomings and wishes to make a positive contribution to the development of the South African economy, particularly the asset management industry. Sasria may not contribute to all these shortcomings, but will aim to create a valuable contribution within its risk appetite. Sasria recognises that not all managers will be successful and it is therefore essential to identify managers that have a high probability of building a successful and sustainable business that is competitive.

The Company's role as a business and corporate citizen is to create opportunities that will empower individuals, their capabilities and result in a meaningful change in our society. This will contribute to the country's NDP, which aims to create a prosperous future for all South Africans.

The first phase of approving the concept and guidelines has been completed. The programme will be implemented in 2019. Our objective is to have between 10% and 20% of our assets managed by the black emerging asset managers.

## New products and customers

Insurance Operations is accountable for the successful delivery of customer relations management (CRM), fulfilling claims and marketing the Sasria brand to industry and end-customers.

During the past year, we focused on **pursuing excellence** through:

- Developing and implementing technical underwriting capability within the department that is sustainable and mirrors and rivals the industry's best;
- Ensuring claims efficiency; and
- Service excellence that focuses on the customer experience.

## Premiums

Gross written premium (GWP) income for 2018 grew by 8.2% to almost R2 billion.

This represents an excellent performance, especially in light of low economic growth, which has also affected the short-term insurance industry. BMI Research forecast premium growth of 5.8% and 6.1% for 2017 and 2018 respectively.

The fire class of business remains the highest grossing class of business for Sasria. Premium income is driven by property values, whereas the short-term industry growth is typically motor, where the Sasria rate is low and therefore not yielding similar financial results. Goods-in-transit cover has become more relevant for end-customers in light of protest actions that include looting of trucks and the need to recover and re-establish themselves financially following such losses.

## Claims

Sasria is witnessing a steady increase in claims frequency (see graph on the next page) but without a corresponding increase on the claims severity.



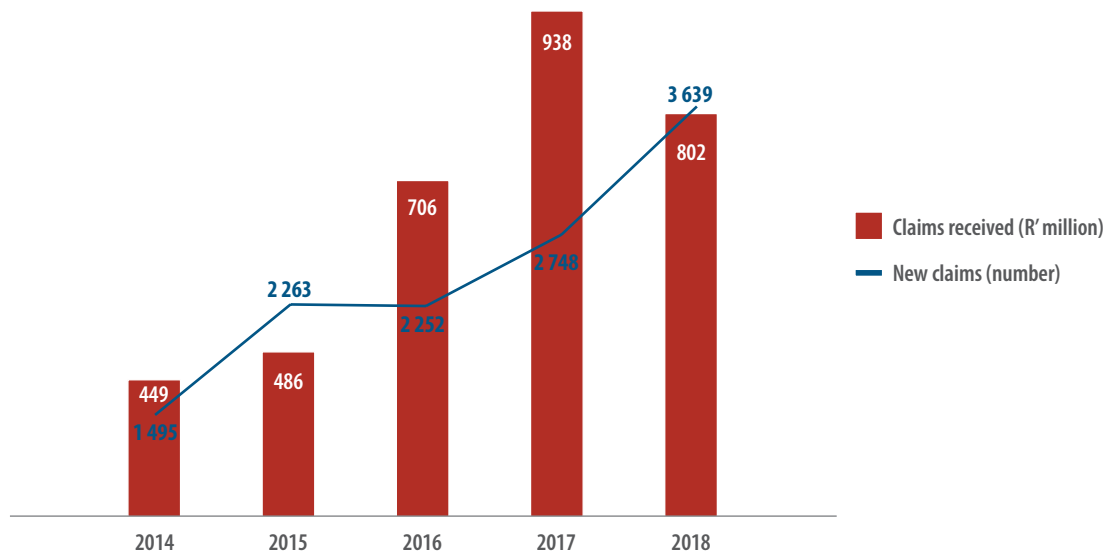
### Fareedah Benjamin

#### Executive Manager: Insurance Operations

Fareedah joined Sasria as the Executive Manager: Insurance Operations in March 2017. Her portfolio includes managing the Stakeholder Management, Claims and Underwriting departments.

With over 19 years' experience in the short-term insurance industry, she is a keen strategist, driven by the development of people and delivering extraordinary customer delight.

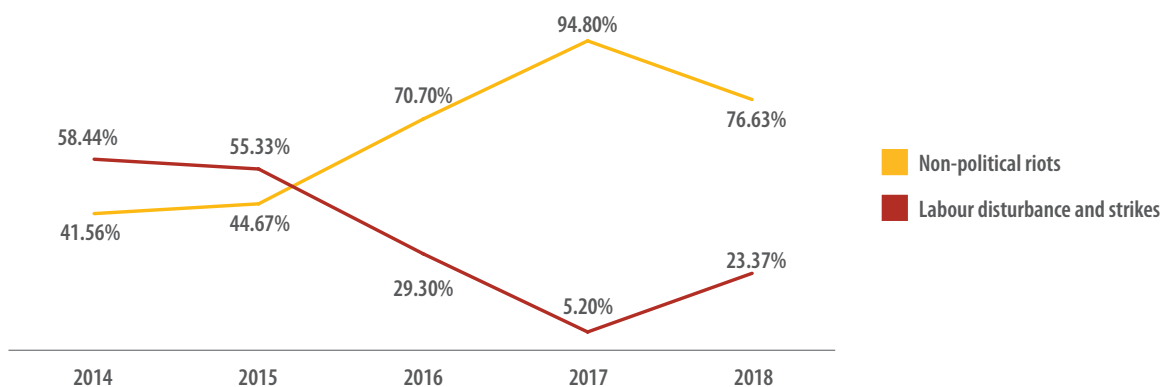
## Claims reported



New claims registered increased by 32.4% compared to the previous year. The severity decreased by 14.5%. The highest claim is R50 million compared to the previous year where it was R80 million.

The highest contributing peril is non-political riots. These claims account for approximately 90% of claims severity and frequency. This trend is not abating as evidenced by the continued service delivery protests witnessed across all provinces.

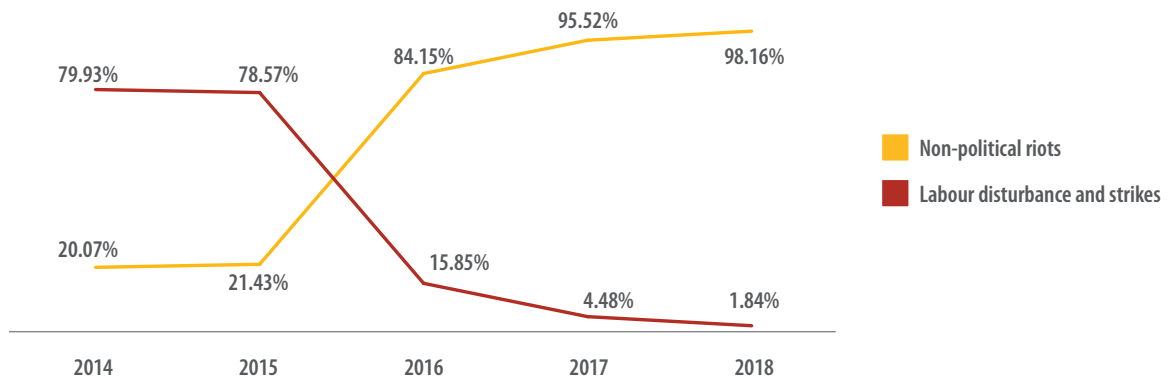
## Severity per peril



Service delivery protests remain the main driver of non-political riots at 76.6% of total claims received. The distribution between the two major perils has been fairly similar for the past three years.



## Frequency of claims per peril



Non-political riots have been consistent in frequency for the past three years. As seen in the media, service delivery protests and job demands have been on the rise and the figures indicate a new norm for Sasria. Wage negotiations at major unions have improved although strikes remain a concern due to volatility.

Sasria embarked on a business process re-engineering (BPR) project that identified key operational process, system and culture opportunities that will improve the overall performance and customer experience in the claims environment. Improving our efficiency is paramount to our future success and sustainability. An implementation team has been set up to look into both system and non-system related challenges, which the BPR process identified. The claims turnaround strategy is officially driven by a project launched within Sasria and with our agent companies to ensure delivery of this key objective.

## Underwriting

A key focus during the year was the establishment of the technical underwriting framework within Sasria, thereby ensuring focus on excellence in delivery of relevant underwriting expertise relating to the Sasria products, regulation and pricing. The rate indication exercise conducted by the Actuarial department gave rise to the review and implementation of rate increases in the Tertiary Institutions and Busses classes of business.

To ensure Sasria's sustainability in the event of magnitude claims, the Underwriting department negotiates and ensures adequate placement of reinsurance with various local and international reinsurers. In order to establish levels of cover required, research and studies are commissioned that allow for Sasria to have confidence in the adequacy of reinsurance purchased.

With the increase in protest actions specifically relating to service delivery within municipalities, and following the high-value claims due to student protests, Sasria, in its quest to **evolve and embrace change**, established a new risk mitigation framework. The Underwriting department, in partnership with the Claims department, identified key specific projects that were undertaken during the year, which include:

- **Salga/Santam/Sasria partnership for risk and resilience**

We entered into a memorandum of understanding with Santam to partner with their existing programme which addresses risks in various municipalities. We aim to identify five municipalities with the highest contribution to service delivery protest losses over the past 24 months. We are facilitating community social risk assessment engagements within the identified communities to help identify key burning issues and prioritise resolutions. The first such engagement was concluded with the Ehlanzeni District Municipality.

- **Pro-active technical underwriting**

To ensure that the Sasria premium remains affordable to most customers, the Technical Underwriting department identified customers who needed to be addressed more specifically. The top five loss-contributing customers based on both frequency and severity of their claim contribution to the overall loss ratio were identified. The coupon renewal terms are reviewed and additional underwriting measures and rate increases can then be applied to risks. These actions encourage customers to implement risk management principles as well.

- **Pro-active claims management**

To improve the speed of claims resolution, we are actively employing claims investigators/assessors/loss adjusters immediately following an event and deploying them to the scene of the incident.

## Customer focus

Sasria is committed to ensuring that the end-customer is fully informed and adequately covered. To deliver on this commitment, Sasria embarks on training sessions within the industry for our partners every year. During the financial year, the Underwriting department conducted 14 training sessions with specific insurance companies/brokers and system providers. Sasria further hosted six national training sessions, which were widely attended by the industry. These sessions were held in various major cities, which in this year included Johannesburg, Pretoria, Cape Town, George, Pietermaritzburg and Durban.

The training is supported by individual customer visits as well as representation of Sasria at various industry bodies facilitated by our Customer Relationship Managers. During the year, the Customer Relationship Managers conducted:

- 98 technical engagement sessions with insurance partners;
- 28 product awareness sessions with insurance partners;
- 28 industry body engagement sessions; and
- 9 system provider and end-user engagement sessions.

The value materialisation of these sessions is underpinned by full marketing support. To continue with efforts in increasing awareness of the Sasria brand, an above-the-line radio campaign is in progress to maximize Sasria's exposure amongst the high-reach audiences that radio stations have. The media exposure can contribute to increasing Sasria brand awareness at a reasonable cost.

Sasria measures the success of these activities actively through the annual customer survey, which includes both industry and consumers.

## Inclusive insurance project

The market failure in the delivery of insurance products to the vulnerable communities in South Africa, presents one of the highest risks facing the government in terms of risk exposure. Coupled with the high unemployment rate, lack of basic services and poverty facing many, the tension gives rise to incidents of protests, with a high probability that violence might lead to further losses which are not covered by general insurance. These losses place an additional burden on the local municipalities and government.

It was noted that various insurers adopted diverse approaches that either support their own business strategies or mere compliance. There are currently limited tailor-made insurance products for LSMs 1 to 6. The products offered do not entirely meet the requirements of generic standards. Each product is designed to meet the strategic requirements of the various organisations. More companies have now developed products for SMMEs as well, however, as with the personal lines products, these products do not fully meet the generic standards.

There is a need for Sasria to develop a special risk product for the target audience. A phased approach will be adopted:

- The first phase will focus on addressing the existing products with underlying insurers to meet the needs of the target audience as well as focusing on understanding the current alternative distributors of insurance to the target audience; and
- The second phase will focus on designing a stand-alone product for special risks in line with the needs and lifestyle of the target audience and the B-BBEE requirements. This will include a detailed analysis of how the product will be distributed in order to reach the entire spectrum of the target audience. It will also include a detailed analysis of establishing a separate company, financial analysis, analysis of risks and benefits and a resource analysis. This is highlighted in more detail below:

	Phase 1 – SMEs/SMMEs	Phase 2 – Lower LSMs	Phase 3 – Vulnerable communities
<b>Product design</b>	<ul style="list-style-type: none"> <li>• Sasria "limited" commercial product</li> </ul>	<ul style="list-style-type: none"> <li>• Sasria "Standard Personal Asset Cover" stand-alone</li> </ul>	<ul style="list-style-type: none"> <li>• Disaster cover for floods and fire and including Sasria standard cover</li> </ul>
<b>Distribution</b>	<ul style="list-style-type: none"> <li>• Digital application promoted by field agents</li> </ul>	<ul style="list-style-type: none"> <li>• Digital application promoted by field agents</li> <li>• Agent model</li> </ul>	<ul style="list-style-type: none"> <li>• Master policy linked to social grants as identifier of vulnerable communities</li> </ul>
<b>Product principles</b>	<ul style="list-style-type: none"> <li>• Affordability</li> <li>• Accessibility</li> <li>• Consumer education</li> </ul>	<ul style="list-style-type: none"> <li>• Affordability</li> <li>• Accessibility</li> <li>• Consumer education</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainability</li> </ul>

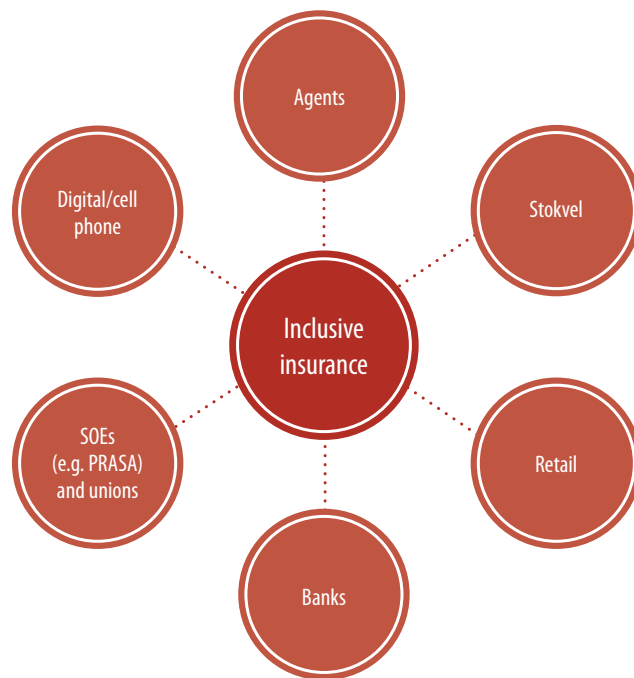
Phase 1 and Phase 2 of the project do not require any additional mandate or changes to the existing mandate. In order to proceed with Phase 3, an additional mandate will be required to allow for Sasria to offer natural disaster cover to the vulnerable communities.

The objective is to reach the uninsured market in a cost-effective manner and to ensure access to Sasria, while allowing for new alternative distribution models to be explored; and creating previously unreachable markets to the agent companies and increasing insurance penetration.

Market research has been conducted, including live surveys in each province.

The success of the distribution is dependent on the acquisition of a robust digital application that will allow for instant access to Sasria products. The SMMEs will be directed to the platform by field agents from the communities who will be acting as product ambassadors. This will allow for on-the-ground consumer education and brand building while creating a platform for these agents to enter the market. Service and customer queries will be outsourced to an external contact centre at a lower cost as we only require limited contact centre assistance.

The alternative distribution channels are:





## Sam Nkosi

*Digital Strategy (HBS) CIO Academy (Saïd Business School) ITIL (BCS) HDip BS (IBS) MSc IS (Leeds Beckett University)*

**Executive Manager: Business Change and Technology**

Sam joined Sasria in July 2017 following a period of three years at the Auditor General South Africa (AGSA) where he was a Chief Information Officer (CIO). His extensive experience was gained at Barclays Africa Group (Absa), Fujitsu, the South African Revenue Services (SARS), Wincor Nixdorf in the United Kingdom and the State Information Technology Agency (SITA). He commenced his career at Investec.

He is responsible for the implementation of the digital strategy that will enable new product development and distribution, underwriting and claims management, focusing on operational efficiencies and enhancing productivity.

# Role of technology

In line with Sasria's strategic goals, the Business Change and Technology division will be performing some adjustments to the technology roadmap as part of building the foundation to deliver sustainable information and technology services, and to enable and support Sasria. One of the Company's key material matters is technology and information as a cornerstone of its business operations. For this reason, we are continuously improving and enhancing our operational systems to ensure that our technology enables the business to **pursue excellence** in meeting its objectives and ensure that processes and systems are efficient.

Sasria strives to become an example of excellence in most aspects of technology and targets the following specific outcomes:

- **Increased agility and innovation to enable the Sasria 2019 – 2024 corporate strategy**
  - Enable the business, organisation and operations to adapt to changing business needs;
  - Full digital capability to allow automation of key business processes;
  - Agile mobility of applications (mobile apps), integrated reporting and related systems; and
  - Align and integrate our systems to drive better collaboration and ensure efficiencies and effectiveness in all work streams.
- **Improved performance and service excellence (customer-centricity and efficiency)**
  - Service-oriented culture and fully-engaged Sasria employees;
  - Trained and valued employees;
  - Increase user satisfaction in the use of technology and services;
  - Established dialogue between IT and business; and
  - IT delivering measurable value to business.
- **Governance, risk, security and compliance**
  - Mature IT processes that are exemplary;
  - IT is governed; risk and security threats and vulnerabilities are minimised;
  - Sasria office protected from external risks and exposures; and
  - Reduced audit findings.

## Sasria digital IT strategy framework

### Technology – growth and agility (1–5 years)

- Infrastructure refresh, upgrades and consolidation
- Business, applications, architecture and innovation
- Mobility/modernisation and innovation



### People/capability (1-3 years)

- Human capital development plan
- Skills assessments and specialisation
- Workforce plan and succession planning, i.e. skills transfer
- Internship – ICT pipeline, personal development plans, training
- Service management model and service-orientation culture
- Change management and principles

### Processes – operational efficiency implementation (1–3 years)

- IT governance framework (COBIT)
- IT service management (ITIL)
- Information security policy
- Review of IT policies (development, acquisition)
- Operational efficiency
- Configuration of management assets, development and operations

Professionalism, integrity, teamwork, innovation and customer-centricity

## Progress made in 2018

During the past year, we made significant progress on the technology front, including the following three main areas:

### • Infrastructure

- Infrastructure upgrades (e.g. Wi-Fi extensions) and automation to enhance the customer experience,
- Internet line upgrade to increase the user experience when accessing the network anywhere and at any time; and
- A web rates calculator, enabling accuracy of quotation for customers and which eliminates incorrect quotations and the financial risk of miscalculations.

### • Applications

- Customer web portal enhancements, allowing agents and brokers to interact and communicate with Sasria with regard to their claims and administrative matters; and
- Automation of paper-based processes and e-learning, ensuring compliance and governance.

### • IT governance and processes

- Claims business process re-engineering, to increase efficiency; and
- An articulation of the strategic requirements of the enterprise architecture, enabling models for Sasria's future state in line with the business strategy.

## Digitalisation

Sasria will stand to benefit from the impetus of digitalisation by allowing the Company to rethink its technology operations from underwriting to customer service to the management of claims.

Digitalisation will allow the Company to focus efforts on product development and distribution management, thus fostering change in the foundation of Sasria's technology, processes, systems and service models.

The division will ensure the following:

- **Alignment:** Strategic alignment of IT and the business with respect to services and projects;
- **Value delivery:** Ensure that IT delivers on the promised benefits against the strategy, optimising costs and proving the value of IT;
- **Resource management:** Ensuring proper management of critical IT resources, together with ensuring that there is adequate IT capability and infrastructure to support current and expected future business requirements;
- **Risk management:** Processes must be in place to ensure that risks have been well managed and compliance requirements understood; and
- **Performance measurement:** Verify achievement of strategic IT objectives and review the measurement of IT performance and the contribution of IT to business.

In future, technology needs to be kept up-to-date as systems could become redundant and the cost of catching up could be prohibitive and could cause business failure and inefficiencies. Sasria is currently in the 'catch-up' mode from 2018 to 2020 and therefore it is expected that the costs of the technology department will increase over the next three years. Innovative products and technologies will be introduced in the fourth year of the strategy when the basic platforms and architecture will be available to build upon.

	Financial year
Infrastructure technology	2019 to 2020
Application management	2019 to 2025
Information and cyber security	2019 to 2020
Mobile technologies	2019 to 2020
People, process and service	2019 to 2020
Big data capability	2019 to 2021

The introduction and deployment of new applications will be a step-change for Sasria, where the use of technology will be transformational and IT will be used as a strategic enablement tool. Applications and service excellence are central to Sasria's business. Therefore, systems need to be built to support these objectives. Sasria is also investing in its big data capability as we expect large volumes of information. To remain relevant, efficient and competitive, we have to mine information for insight innovatively. Sasria further requires a solution where stakeholder and agent data and information can be stored and could be accessible from a central location. This will allow all employees and management immediate access to real-time data.

Cyber security refers to policies and practices relating to the protection of information, data, systems and networks from attacks and unauthorised access. Cyber attacks and intrusions have increased dramatically over the years and have the potential to expose sensitive and personal information, disrupt the operations of the business and lead to reputational or other damage.

A mobile strategy should evolve and be aligned with Sasria's strategy. It should describe how mobile capabilities can assist with achieving Sasria's strategic goals. There is an opportunity to innovate with mobile technology, making use of mobile technologies as an extension to the web as a way of doing things that were previously not possible with any other technology. A demand and supply assessment will be completed to ensure that there is a genuine strategic advantage in the development or enablement of a mobile application.

People are the most critical element in driving Company strategy and vision. Attracting the right people with the necessary skills, at the right time, is key to enabling and supporting the business unit in achieving its strategic objectives by aligning itself to the Sasria five-year strategic plan and beyond.

By bringing together all the elements above, Sasria can continue to **evolve and embrace** the challenges associated with **change**.

# Performance



# Performance in 2018 and targets set for 2019

Our performance against the KPIs in 2018 was as follows:

	Strategic focus area	Strategic objective	Key performance indicator	
 Financial capital	<b>Sustainable revenue growth</b>	To consistently outperform the industry average in premium growth	Gross written insurance premium growth <sup>1</sup>	
	<b>Capital management</b>	To target a return on equity greater than the government bond yield	Maintain sustainable underwriting profit <sup>2</sup>	
		To ensure compliance with statutory capital requirements and the calculation of an economic risk basis for capital value	Embedding of the ORSA process and report	
	<b>Infrastructure and cost management</b>	To optimally enable business while satisfying regulatory requirements	To develop a comprehensive enterprise architecture framework Implementation of the new IT strategy	
 Intellectual capital	<b>Innovation (products and services)</b>	To establish new distribution channels	Develop a comprehensive feasibility study document with regard to the implementation of a direct distribution channel to target the lower LSM and SME market	
 Human capital	<b>People, capacity and capability</b>	To attract, retain and develop skills that support our aspirations	Achieve an overall employee IPM survey score of	
			% of all individual employee development plans completed	
			% key talent identified and appropriate career review actions completed	
			Succession plans completed for all critical (strategic and core) positions	
 Social and relationship capital	<b>Customer-centricity</b>	To provide superior customer service	% <sup>3</sup> of all fast-track <sup>4</sup> claims to be settled <sup>5</sup> within 30 days from the date of submission	
			% of large loss claims <sup>6</sup> settled within 60 days from date of submission	
	<b>Brand development</b>	To create a trusted brand that resonates with all our customers	% brand awareness within the distribution channels (independent survey)	
			% brand awareness with the end-customer (independent survey)	
	<b>Regulatory environment</b>	To proactively manage compliance	Points (out of 15) for recruitment and retention of black females at middle- and junior-management levels and people with disabilities	
			% of the requirements of the Financial Services Sector Codes preferential procurement target <sup>7</sup> (excluding binder fees and claims procurement)	
			% of Enterprise and Supplier Development (ESD) budget spent on supplier development <sup>8</sup>	
			% of ESD budget funds spent on enterprise development	
			% irregular, fruitless, wasteful and unauthorised expenditure <sup>9</sup> after recoveries <sup>10</sup>	

The Company has developed several key performance indicators (KPIs) that will reflect whether the business plan was successfully implemented. These KPIs are reconsidered annually for relevance. In developing the targets and KPIs for 2019, the following were taken into consideration:

- Sasria's mandate – that the Company continues to deliver on its mandate;
- Alignment to Sasria's five-year strategic plan and long-term objectives;

- Sasria's customers – imbedded TCF principles; customers should always be at the forefront of Sasria's planning and decision-making;
- Capital adequacy – the Company should always be able to honour its commitments;
- Risk management – making ORSA the way business is managed on a day-to-day basis;
- Corporate citizenship – Sasria's role in supporting the government's NDP; and
- Ensuring a balanced scorecard.



	Actual 2017	Target 2018	Actual 2018	Variance % Achieved or not	Target 2019	Weight (2019)
	R1 843 million	R2 003 million	R1 994 million	Not achieved, 0.42% variance	R2 182 million	10%
	R357.5 million	R413.3 million	R580 million	Achieved, 40.35% variance	R300.3 million to R450.5 million (decrease/increase of 20%)	10%
	Completed	Not applicable	Not applicable	Not applicable	Not applicable	-
	Not applicable	Completed	Completed	Achieved, no variance	Not applicable	-
	Not applicable	Not applicable	Not applicable	Not applicable	Completed	5%
	Not applicable	Completed	Completed	Achieved, feasibility report was approved by the Board	Not applicable	-
	3.77	Not applicable	Not applicable	Not applicable	≥3.8	5%
	100%	Not applicable	Not applicable	Not applicable	Not applicable	-
	100%	Not applicable	Not applicable	Not applicable	Not applicable	-
	Completed	Not applicable	Not applicable	Not applicable	Not applicable	-
	87.2%	85%	86.5%	Achieved	90%	10%
	79.1%	60%	88.7%	Achieved	70%	10%
	100%	≥90%	Agents 100% Brokers 94%	Achieved	≥95%	5%
	Not applicable	≥30%	80%	Achieved	≥40%	5%
	13.8 points	≥12 points	14.86 points	Achieved	≥13 points	5%
	19.65%	10% increase	58%	Achieved	≥80%	10%
	Not applicable	Not applicable	Not applicable	Not applicable	≥70%	5%
	Not applicable	Not applicable	Not applicable	Not applicable	≥30%	5%
	Not applicable	Maximum 0.05% of budgeted net profit after tax	R449 647	Not achieved	0% after recoveries	15%

- Growth is based on the forecast for the year ended 31 March 2018 at the time of preparing the budget for the year ending 31 March 2019.
- Calculated as follows: GWP less movement in unearned premium reserve, less reinsurance premiums, less claims and loss adjustment expenses, less expenses for the acquisition of insurance contracts, less managing and other expenses (excluding investment manager fees and corporate social investment), plus commission earned from reinsurers.
- The claims turnaround targets on both the fast-track and large claims were reduced from the targets set in the five-year strategic plan. The rationale is as follows: a) the current increase in claims frequency is set to continue; and b) claims have become more complex in nature and thus take longer to settle.
- Claims with an estimate below R250 000.

- Turnaround time is calculated from the time a claim is recorded on the insurance management system until a release is issued and repairs are authorised. Should liability be declined (letter sent to the insured), the date of the letter will be used for the turnaround time calculation.
- Claims with an estimate above R250 000.
- Claims procurement is currently outsourced to third parties.
- Enterprise Supplier Development allocated budget of R5 million.
- Including any procurement-related and any other form of irregular, fruitless, wasteful and unauthorised expenditure.
- Excluding actual costs of recoveries.



## Bajabulile Luthuli

*BCom Hons CA(SA)*

Finance Director

Bajabulile is a highly-achieved business leader with over 20 years' of progressively diverse experience in finance and business operations. She kick-started her career at Deloitte. In her CFO and financial leadership roles in South African Port Operations, Unilever SA and Hewlett Packard SA, she has demonstrated her ability to increase efficiencies while improving profitability and cash flows. She has served on various boards, including as a non-executive director and Audit and Risk Committee chairperson for ACSA and Eskom.

Her current responsibilities include statutory reporting, investments, capital management and procurement.

# Finance Director's report

## Financial performance

It gives us great pleasure in presenting Sasria's 2018 results which show a substantial improvement over the previous year, providing the business with an excellent track record to be proud of.

South Africa had low economic growth in the year (GDP grew by only 1.3%) affecting various industries, alarming news of irregular accounting in listed companies and the country slipping into an economic recession. Equity was impacted by the devaluation of Steinhoff shares due to potential reporting irregularities. Naspers shares were devalued due to the selling of a stake in Chinese company Tencent. Cash performed in line with expectations, while bond markets reflected bearish trends as the appetite for government debt remains volatile. The investment portfolio continues to be impacted by weak business confidence, which is driven by the low growth.

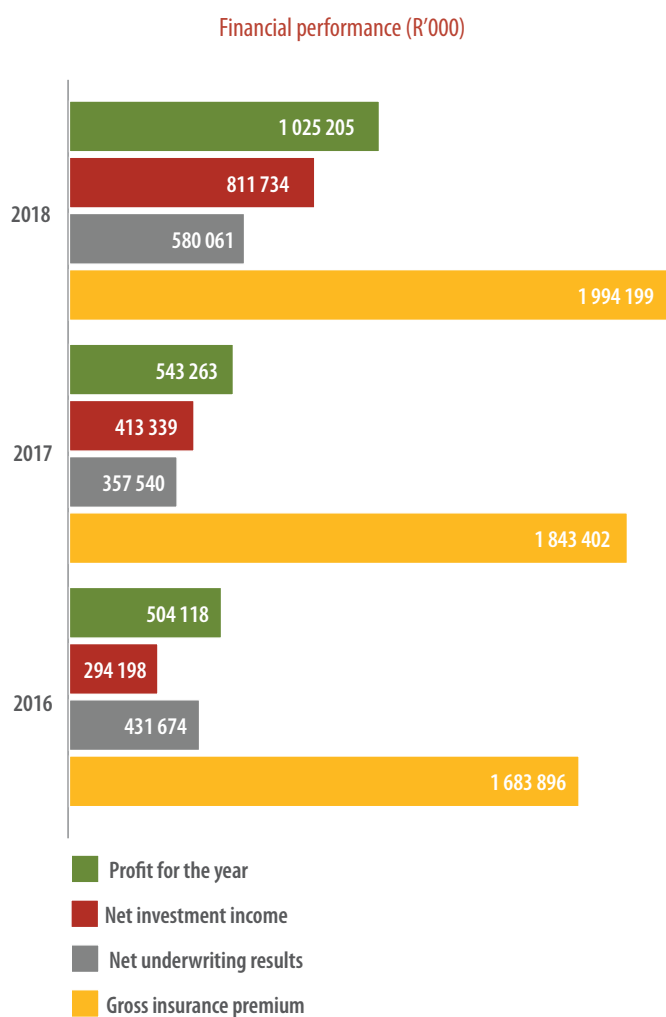
Despite all of this, Sasria was able to increase premium income by 8% to R1 994 million (2017: R1 843 million), which is higher than the industry growth of 7%. Net investment income increased by 96% from the prior year. Administrative and marketing expenses were managed within budget. This strong financial performance discipline assisted our customers in getting their lives back on track after suffering at the hands of riots and strikes, by paying their claims and our suppliers timeously. As an SOE that continues to be profitable, Sasria has met all its obligations to the fiscus by paying all its taxes on time and paying a dividend to our shareholder.

This year, claims severity and value were lower compared to the previous year, even though claims frequency has grown year-on-year (30%). 90% of claims arise due to non-political riots. Total claims for 2018 amounted to R663 million (2017: R766 million). The loss ratio improved due to the lower severity.

The Company achieved a net profit before tax of R1 367 million (2017: R744 million), allowing it to meet and exceed the five-year strategy.

We are proud to be able to contribute to paying claims, suppliers, government, employees and make a social contribution. Refer to the value distribution section on page 21 for the extent thereof.

The Company's financial position has remained strong over the years, providing a solid base from which to achieve our future five-year strategic objectives. The asset-liability-matching (ALM) was amended to align to the business requirements at the beginning of the year through a fixed income tender.



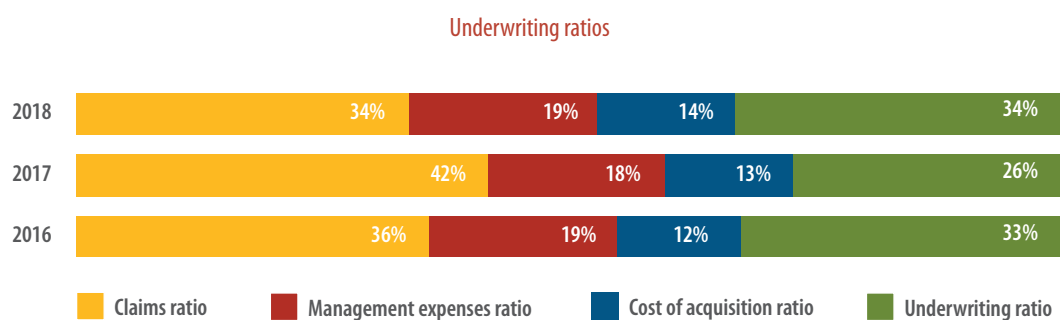
### Philippa Viljoen

*BCompt Hons CA(SA) SLDD*

Acting Finance Executive

Philippa was appointed acting Financial Executive from 1 December 2017 until 30 April 2018 and was responsible for managing Sasria's finances and investments. She joined Sasria as Statutory Reporting Manager in July 2014 after holding various strategic roles in the financial services industry.

Philippa has a broad range of interests and abilities, she has a solid work ethic and believes in going the extra mile to deliver exceptional results.



## Summarised financial performance

	2016		2017		2018	Note	2019 Projection
	R'000		R'000		R'000		R'000
Gross written insurance premiums	1 683 895	9.5%	1 843 402	8.2%	1 994 199	1	2 182 321
Unearned premium reserve movement	(38 162)	1.5%	(38 751)	(44.8%)	(21 372)		(35 097)
Acquisition of insurance contracts expenses	(205 515)	15.2%	(236 850)	14.5%	(271 091)		(320 235)
Administration and marketing expenses	(308 527)	5.9%	(326 787)	13.8%	(371 945)	2	(420 074)
Gross insurance claims and loss adjustment expenses	(585 786)	30.8%	(765 994)	(13.5%)	(662 881)	3	(881 608)
<b>Gross underwriting results</b>	<b>545 905</b>	<b>(13.0%)</b>	<b>475 020</b>	<b>40.4%</b>	<b>666 910</b>		<b>525 307</b>
Insurance premiums ceded to reinsurers	(139 084)	4.4%	(145 246)	2.4%	(148 802)		(186 360)
Reinsurance portion of claims incurred	(1 270)	(45.9%)	(687)	(98.5%)	(10)		(1)
Commission earned from reinsurers	26 123	8.9%	28 453	117.8%	61 963		26 708
<b>Net reinsurance expense</b>	<b>(114 231)</b>	<b>2.8%</b>	<b>(117 480)</b>	<b>(26.1%)</b>	<b>(86 849)</b>	4	<b>(159 653)</b>
<b>Net underwriting results</b>	<b>431 674</b>	<b>(17.2%)</b>	<b>357 540</b>	<b>62.2%</b>	<b>580 061</b>		<b>365 654</b>
Net investment income	294 198	40.5%	413 339	96.4%	811 734	5	566 871
Other income	124	358.1%	568	96.5%	1 116		-
Corporate social investment	(16 627)	62.9%	(27 089)	(6.1%)	(25 446)	6	(26 998)
<b>Total investment and other income</b>	<b>277 695</b>	<b>39.3%</b>	<b>386 818</b>	<b>103.6%</b>	<b>787 404</b>		<b>539 873</b>
<b>Profit before tax</b>	<b>709 369</b>	<b>4.9%</b>	<b>744 358</b>	<b>83.7%</b>	<b>1 367 465</b>		<b>905 527</b>

### Ratios

	7			
Claims ratio	36%	42%	33.6%	41%
Management expenses ratio	19%	18%	18.9%	20%
Cost of acquisition ratio	12%	13%	13.7%	15%
Underwriting ratio	33%	26%	34%	24%
GWP per employee	26 311	24 911	22 922	21 188
CSI % of net profit after tax	3%	5%	2%	4%
Effective tax rate	28.93%	27.02%	25.02%	27.3%
Reinsurance as a % of gross	8%	8%	7%	9%

#### Notes:

- 1 Gross written premium has grown above the industry rate of 7%, due largely to increased branding awareness of Sasria.
- 2 Administrative and marketing expenses increased due to an increase in binder fees as a result of the increase in gross written premium and employee benefits due to an increase in staff numbers and senior/middle management.
- 3 Claims increased in frequency but decreased in severity. There was a significant reduction in student protests. However, service delivery protests are on the rise. This has an impact on the increase in net underwriting results.
- 4 There were no amendments to the reinsurance structure in 2018. The movement was as a result of profit commission received in 2018.
- 5 The achieved investment return is 8.35% above CPI on a year-to-date basis and 6.52% above the benchmark of CPI +2%. On a rolling 12-month basis, the portfolio yielded a return of 12.17% compared to the benchmark of 5.81%. On a rolling 36-month basis, the portfolio yielded a return of 12.12% compared to the CPI +2% benchmark of 5.80%. The achieved investment return is 0.20% above CPI on a 36-month rolling basis.
- 6 Socio-economic development expense of R25 million was used largely on education (73%). Refer to page 22 for further information.
- 7 In total, 33.6% of net premiums was applied to claims (2017: 42%), the cost of acquisition changed marginally (13% - 13.7%) and the management expenses ratio increased from 18% to 18.9%, giving Sasria an underwriting ratio of 34% (2017: 26%).

## Summarised financial position

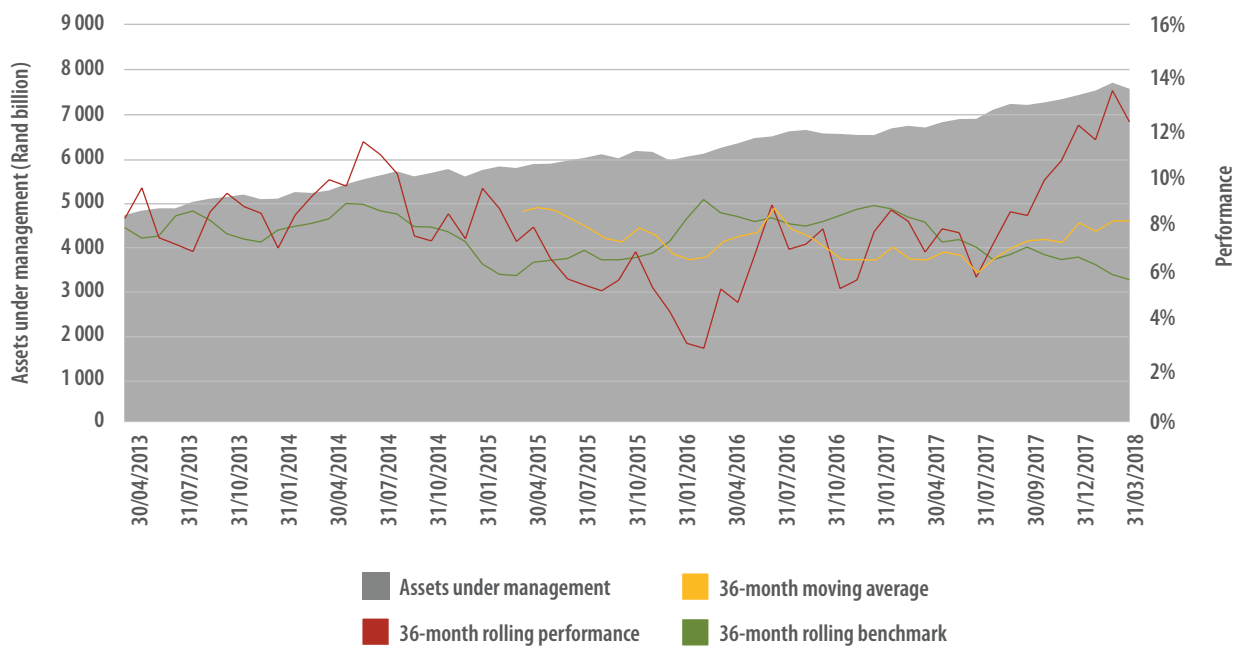
The Company's balance sheet also continues to remain strong, providing a solid base from which to achieve our future five-year strategic objectives.

	2016		2017		2018	Note	2019 Projection
	R'000	Variance	R'000	Variance	R'000		R'000
<b>Assets</b>							
Property, equipment and intangibles	14 624	(38.8%)	8 946	(18.4%)	7 299		10 247
Deferred acquisition costs	45 428	17.3%	53 269	11.7%	59 498		124 421
Financial assets at fair value through profit and loss	4 390 597	(11.4%)	3 890 058	45.1%	5 644 715	1	5 787 619
Reinsurance contracts	20 717	16.8%	24 202	2.6%	24 830		13 852
Cash and cash equivalents	1 767 111	57.9%	2 790 334	(30.4%)	1 940 774	1	1 771 135
Other assets	359 448	(8.1%)	330 307	2.7%	339 269		375 717
<b>Total assets</b>	<b>6 597 925</b>	<b>7.6%</b>	<b>7 097 116</b>	<b>13.0%</b>	<b>8 016 385</b>		<b>8 082 991</b>
<b>Equity</b>							
Capital adequacy reserve	434 750	10.5%	480 286	10.3%	529 709		495 513
Retained earnings	4 937 786	7.0%	5 284 277	15.4%	6 097 080		6 209 208
<b>Total equity</b>	<b>5 372 536</b>	<b>7.3%</b>	<b>5 764 563</b>	<b>15.0%</b>	<b>6 626 789</b>		<b>6 704 721</b>
<b>Liabilities</b>							
Deferred income	5 968	21.0%	7 219	(40.1%)	4 321		4 156
Deferred income tax	15 361	18.2%	18 159	405.9%	91 860		14 809
Insurance contract liabilities	1 044 395	15.1%	1 202 314	(1.9%)	1 179 404	2	1 035 904
Other liabilities	159 665	(34.3%)	104 861	8.7%	114 011		323 401
<b>Total liabilities</b>	<b>1 225 389</b>	<b>8.7%</b>	<b>1 332 553</b>	<b>4.3%</b>	<b>1 389 596</b>		<b>1 378 270</b>
<b>Total equity and liabilities</b>	<b>6 597 925</b>	<b>7.6%</b>	<b>7 097 116</b>	<b>13.0%</b>	<b>8 016 385</b>		<b>8 082 991</b>

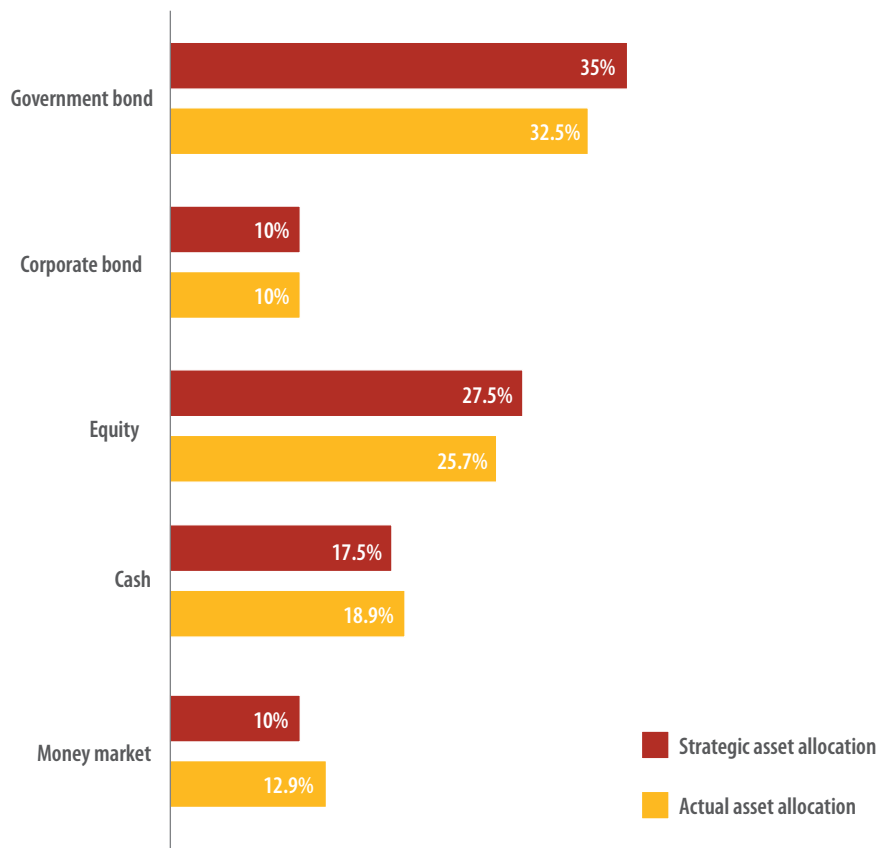
Notes:

- The financial assets at fair value through profit and loss increased and the cash decreased due to the allocation of new investment mandates shortly after 31 March 2017. Shortly before the prior year-end, the old mandates were liquidated. This has allowed for the rebalancing of our investments to be in line with our strategic asset allocation.  
Sasria's investments are predominantly short term. We also monitor our assets/liability matching, which ensures we have sufficient funding to meet the Company's insurance liabilities, pay claims and suppliers and ensure the shareholder's fund is not unduly exposed to investment risk.  
Sasria's investments continue to be outsourced to independent asset managers.
- Insurance contract liabilities consist of claims reported, claims incurred but not yet reported (IBNR) and unearned premiums. The decrease is in line with the change in IBNR and the decrease in claims reported in 2018.

Assets under management 36-month rolling period



Strategic and actual asset allocation at 31 March 2018



## Summarised cash flow

Sasria generated R730 million in cash through its operating activities, compared to R659 million in the prior year. This increase is primarily due to interest received and realised gains on investments.

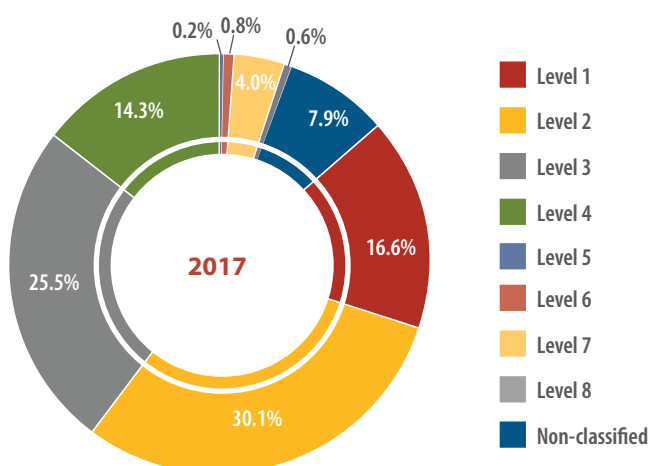
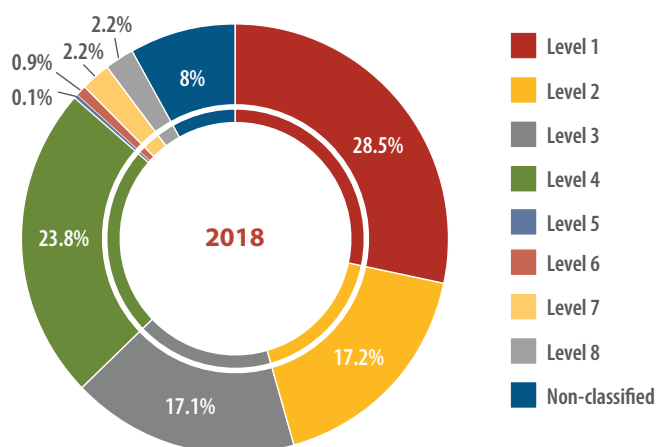
	2016		2017		2018	Note
Financial performance	R'000	% change	R'000	% change	R'000	
<b>Operating activities</b>						
Cash generated from operations	520 258	4.3%	542 427	(4.6%)	517 462	
Dividend income	35 054	39.6%	48 921	7%	52 337	
Interest income	332 278	16.7%	387 725	7.8%	418 003	
Realised gains/(losses) on investments	111 160	(114.4%)	(16 018)	236.7%	21 889	
Income tax paid	(180 348)	68.6%	(304 034)	(8%)	(279 796)	
<b>Net cash from operating activities</b>	<b>818 402</b>	<b>(19.5%)</b>	<b>659 021</b>	<b>10.8%</b>	<b>729 895</b>	1
<b>Investing activities</b>						
Purchase of property and equipment	(3 545)	(64.8%)	(1 248)	64.2%	(2 049)	
Proceeds on disposal of property, equipment and intangibles	27	101.3%	55	56.4%	86	
Purchases relating to intangible assets	(1 671)	(83.1%)	(282)	354.6%	(1 282)	
Net (purchase)/sale of investments	(207 463)	(349.2%)	516 913	<b>373.4%</b>	<b>(1 413 231)</b>	
<b>Cash (used)/from investing activities</b>	<b>(212 652)</b>	<b>(342.4%)</b>	<b>515 438</b>	<b>174.8%</b>	<b>(1 416 476)</b>	2
<b>Financing activities</b>						
Dividends paid	(183 205)	(17.5%)	(151 236)	7.76%	(162 979)	
<b>Cash used in financing activities</b>	<b>(183 205)</b>	<b>(17.5%)</b>	<b>(151 236)</b>	<b>7.76%</b>	<b>(162 979)</b>	3
Net movement in cash	422 545	142.2%	1 023 223	(183.0%)	(849 560)	
Cash and cash equivalents at the beginning of the year	1 344 565	31.4%	1 767 111	57.9%	2 790 334	
<b>Cash and cash equivalents at the end of the year</b>	<b>1 767 111</b>	<b>57.9%</b>	<b>2 790 334</b>	<b>(30.45%)</b>	<b>1 940 774</b>	4

Notes:

- 1 The movement in cash from operating activities is due mainly to realised gains in 2018 versus losses in 2017, as well as a reduction in taxation paid in 2018.
- 2 The large decrease movement in investing activities is due to the purchase/sale of investments as a result of the liquidation of certain investment mandates at the end of 2017 to allow for the rebalancing of the strategic asset allocation in 2018.
- 3 Sasria paid a dividend to its shareholder in line with the dividend policy and per the capital management policy.
- 4 Cash decreased as a result of the liquidation of certain investment mandates at the end of 2017 and the rebalancing of the strategic asset allocation in 2018.

## Procurement

Sasria remains committed to ensuring that the Company procures goods and/or services in a manner that is fair, equitable, transparent, competitive and cost-effective while advancing transformation that redresses historical imbalances, creating opportunities and promoting economic growth in alignment with government policies. In addition, Sasria is also committed to uplifting black female-owned suppliers particularly, which is part of the Company's KPIs, and this approach is embedded in the Procurement function. The year saw growth in the participation of Level 1 suppliers as follows:



## Principles for responsible investing

Sasria has been a proud signatory to the United Nations Principles for Responsible Investments (UNPRI) and supports the Code for Responsible Investing in South Africa (CRISA) since 2012.

Sasria has lived up to the principles in the following ways:

### Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

Our external investment managers undergo a rigorous appointment process, which incorporates the review of their investment philosophy and processes. We encourage academic enrolment.

### Principle 2: We will be active owners and incorporate ESG issues into ownership policies and practices.

Asset managers act in a fiduciary capacity upholding a stewardship role for the assets they manage on our behalf. We monitor the proxy voting activity on the portfolio.

### Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Asset managers vote on proxies and some of our managers disclose results directly to the public.

### Principle 4: We will promote acceptance and implementation of the principles within the investment industry.

We include a mandatory requirement in requests for proposals (RFPs) for bidders to be signatories of the UNPRI, encouraging them to adhere to the UNPRI standards. We engage with our external managers on various ESG issues to ensure a responsible approach to asset stewardship.

### Principle 5: We will work together to enhance our effectiveness in implementing the principles.

Sasria is an active member of the UNPRI South Africa network, having participated in both local and global conferences. Some of our external managers are founding members of CRISA.

### Principle 6: We will report on our activities and progress towards implementing the principles.

We engage with asset consultants to perform a benchmarking exercise on the investment portfolio. This is used as a tool to engage with the managers.

We monitor proxy voting activity on our portfolio and report to the Investment Committee quarterly.

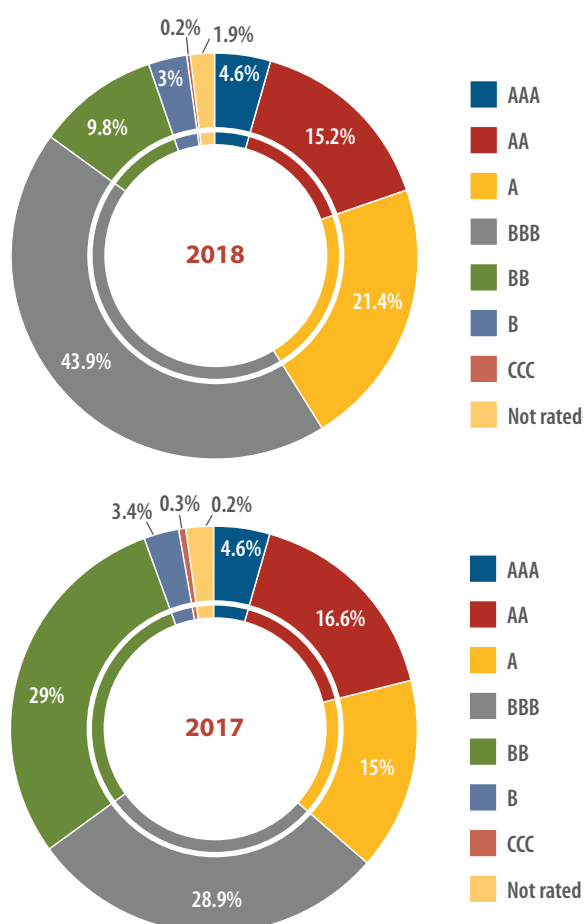
Through disclosure in the integrated report, Sasria raises awareness amongst a broader group of stakeholders.

During the prior period, there was a change in Sasria's fixed-income managers in order to correct the amended strategic asset allocation. Since 2017, there has been an increase in ESG disclosure in the integrated report.

The percentage of AAA stocks has remained the same as the prior year while the percentage of stocks in the A to AA category has increased. Sasria's allocation to BBB and BB has decreased while also reducing the B and CCC categories.



Breakdown of Sasria's index equity portfolio for the period ended 2018/2017:



## Looking ahead

Sasria has a sustainable level of capital as it embarks on the next five-year strategy. This capital will be used in line with the focus areas discussed in the new strategy. These are:

- Information and technology (refer to page 48) to ensure that the Company becomes more cost-efficient, working closely with the end-customer and investing in new systems;
- Becoming more financially inclusive (refer to page 46);
- Leading in governance within the SOE and industry space – through adherence to POPIA and the implementation of IFRS 17 (see below);
- Spending more effort on Enterprise, Supply Development as well as continuing the excellent work within the SED space; and
- Employing new capable employees to cater for our growth and expansion.

## IFRS 17 project

In May 2017, the International Accounting Standards Board (IASB) issued the new accounting standard, International Financial Reporting Standard (IFRS) 17, a comprehensive new accounting standard covering recognition, measurement, presentation and disclosure of insurance contracts.

IFRS 17 will replace IFRS 4 in accounting for insurance contracts and become effective for annual reporting periods beginning on or after 1 January 2021. This will affect systems, people and processes within the business.

## Regulatory solvency and capital management

### Capital management

Sasria's capital management philosophy is to maximise the return on our shareholder's capital within an appropriate risk management framework and to ensure that our policyholders' assets are protected against special and catastrophic risks through a high standard of governance and financial control. Management continuously monitors Sasria's solvency levels and required solvency range in light of industry changes, regulatory requirements and the new Insurance Act.

### Risk management

Sasria is exposed to several financial and other related risks, namely market risk, credit risk, insurance risk, liquidity risk, operational risk and legal risk. These risks are discussed in the risk management section and also in the annual financial statements included in this report. Further information on risk management can be found in the risk section of the integrated report.

## New Finance Director

It has been a great pleasure fulfilling the role of Acting Finance Executive over the last 18 months and I am glad to hand over the reins to our new Finance Director, Bajabulile Luthuli, who joined us at the beginning of May 2018. I wish her all the best in the position and offer her my continued support. The Company can benefit greatly from her vast experience in the Finance Director/non-executive roles she has been in over the years.

**Philippa Viljoen**

**Acting Finance Executive**

16 August 2018



# Leadership and governance

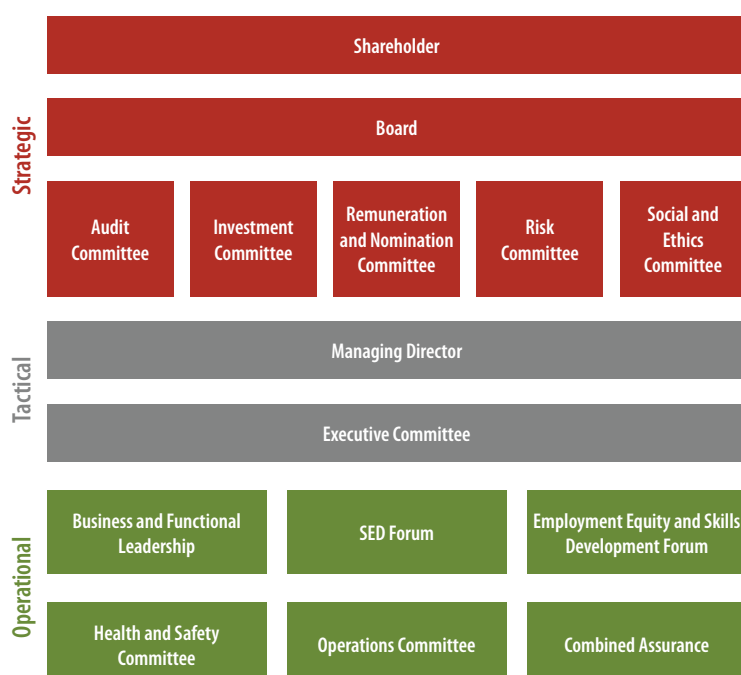
# Corporate governance framework

Sasria continued its practice of applying sound governance structures, procedures and processes during the period under review. We consider these as fundamental to the effective delivery of our dual mandate, and to ensure our Company's long-term sustainability.

To Board, as the accounting authority, is committed to the principles of openness, transparency, integrity and accountability as advocated in the King IV Report on Corporate Governance for South Africa 2016 (King IV). This commitment to good governance is formalised in our Company's charters, policies and procedures.

To achieve the principles of corporate governance, and to ensure that these are embedded throughout strategic and operational processes, four statutory committees, namely the Audit Committee, Risk Committee, Remuneration and Nomination Committee and the Social and Ethics Committee, as well as the Investment Committee, were established as Board Sub Committees.

The committees are outlined below:



## Mziwoxolo Mavuso

*BProc LLB GMP GEDP*

**Executive Manager: Governance and Company Secretariat**

Mzi was promoted to the position of Executive Manager: Governance in December 2014, from his position as Senior Manager: Governance and Company Secretary, which he has held since June 2011. Previously he was the Company Secretary for the Eastern Cape Development Corporation.

He oversees Legal, Compliance and Company Secretariat.

# Board of Directors

The Board is responsible for Sasria's strategic direction and adherence to sound ethical business practices and governance processes. The Board provides the strategic direction, while our Managing Director, who is assisted by the Executive Committee, is accountable to the Board for implementing the strategy.

The majority of the Board members are non-executive directors, namely eight, of whom seven are independent. At year-end, there was only one executive director, the Managing Director, with the Finance Director joining after year-end as a second executive director.

Three Board members' terms ended on 30 November 2017 and were extended to 31 May 2018 in terms of the memorandum of incorporation. These are the Chairperson, Deputy Chairperson and Chairperson of the Risk Committee. They retired by rotation on 31 May 2018 and three new members were appointed to the Board.

The Board is appropriately balanced in terms of gender, race, age distribution and experience. During the period under review, the Board was sufficiently capitalised in terms of core and critical skills. These include insurance, reinsurance, financial, risk, actuarial, investment, leadership, governance and human capital. To facilitate an orderly rotation of directors that preserves the core skills required on the Board at any given time, the Remuneration Committee adopted a Board succession plan in 2014. The plan calls for early identification of suitable candidates, on-boarding a mix of youth and experienced directors to the Board and rotation of responsibilities in the committees to develop and enhance directors' experience and exposure. The Board is also satisfied with the succession plan for the Managing Director and the Finance Director. When the Managing Director's term ended on 30 April 2017, he was reappointed for a further five-year term.

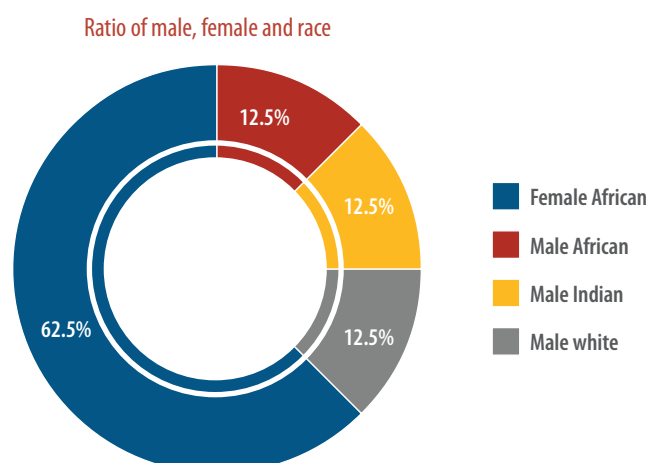
**During the past year,** the Board:

- Approved and recommended the dividend methodology to the shareholder;
- Approved new and revised policies reserved for Board approval;
- Approved the proposed Long-Term Incentive (LTI) Scheme framework, subject to shareholder approval;
- Approved the going concern statement contained in the 2017 integrated report;
- Approved the ORSA results; and
- Approved the 2019 annual salary review mandate.

**During the coming year,** the Board will be focusing on the new five-year strategy of the Company. This will permeate through to the work of the Board committees and to the key focus areas of the management team.

## Board demographics

Our directors have diverse skills and business experience in the areas of insurance, risk management, actuarial, financial, human capital and strategic leadership. The composition of the Board of Directors is based on principles of transformation and gender representation and also taking into consideration South Africa's diverse society. The Board of Directors includes eight non-executive directors of which three are male and five are female. A breakdown is outlined below:



## Chairperson and independent non-executive director

**Norman Baloyi** *BCom MSc MBA MPhil*

Norman has extensive knowledge, education, experience and expertise in research and the finance sector. He has filled positions such as Chief Operations Officer, General Manager, Director and Senior Manager in a number of organisations in South Africa. He is qualified in commerce, business, engineering, and management and his skill set includes but is not limited to accounting, financial management, development finance, human resources, investment, information technology, auditing and risk management. He also has extensive experience in corporate governance, having been a board member of various companies.



## Deputy Chairperson and independent non-executive director

**Onkgodisitse Mokonyane** *BSc (Hons) Actuarial Science AMASSA*

Onkgodisitse is a board member of the Nelson Mandela Children's Fund. She also sits on the Seriti Institute's Audit, Finance and Risk Committee. She is a former trustee on the boards of the Momentum Retirement Annuity Fund, Momentum Pension Preservation Fund, Momentum Provident Preservation Fund and the Self-Financed Retirement Annuity Fund. She is the former President of ASABA and founding Chair of ASABA's Actuarial Women's Committee.

Onkgodisitse has held several leadership and actuarial specialist roles within the financial services industry, including at Absa Insurance Company, Liberty Holdings, Momentum Retail and currently at Discovery Insure. Her experience in financial services spans across life insurance, general insurance, investments, pensions, healthcare, enterprise risk management and strategy.



## Executive directors

**Cedric Masondo** *BCom FIISA AMLP (Oxford, Saïd Business School)*

### Managing Director

Sasria's Managing Director, Cedric Masondo, was reappointed in May 2018, as Managing Director and executive director for a further five-year term, ending April 2022. He is also the Chairperson of the South African Actuaries Development Programme and non-executive director of the South African Insurance Association.



**Bajabulile Luthuli** *BCom Hons CA(SA)*

### Finance Director

Bajabulile is a highly-achieved business leader with over 20 years' of progressively diverse experience in finance and business operations. She kick-started her career at Deloitte. In her CFO and financial leadership roles in South African Port Operations, Unilever SA and Hewlett Packard SA, she has demonstrated her ability to increase efficiencies while improving profitability and cash flows. She has served on various boards, including as a non-executive director and Audit and Risk Committee chairperson at ACSA and Eskom.

Her current responsibilities include statutory reporting, investments, capital management and procurement.





## Independent non-executive directors

### **Tando Mbatsha** *BCom MBL*

Tando is a member of both the Audit Committee and the Social and Ethics Committee and is also the Chairperson of the Investment Committee. Tando has been reappointed to the Board for a further term ending March 2020. She is also a director at Nexia SAB&T.



### **Baba Mkangisa** *Diplomas in General Nursing, Midwifery, HR Med Primary Health Care*

Baba chairs the Social and Ethics Committee and is Deputy Chairperson of the Remuneration and Nomination Committee. She has been reappointed as a director until 30 November 2018. She also holds a directorship in Vulisango Holdings.



### **Tshwarelo Moutlane** *BCom Information Systems BCompt Honours CA (SA)*

Tshwarelo serves as the Chairperson of the Audit Committee and member of the Risk Committee. She was reappointed to the Board for a further term ending March 2020. She is also a director at Lion of Africa.



### **Maki Ndlovu** *BA Management Programme (Lincoln)*

Maki chairs the Remuneration and Nomination Committee and is the Deputy Chairperson of the Social and Ethics Committee and member of the Investment Committee. She has been reappointed as Board Director until 30 November 2018. Her previous directorships include Simmer and Jack Mines, Zibula Exploration, Barloworld Equipment RSA, a division of Barloworld (Pty) Ltd, and Kagiso Solutions.



### **Christiaan van Dyk** *BSc Actuarial Science (cum laude) FASSA*

Christiaan's career spans a period of three decades. He is a Fellow of the Faculty of Actuaries in Scotland as well as of the Actuarial Society of South Africa. He has worked with Natsure, Momentum Wealth and Metropolitan Life. He is currently the Group CEO of Assupol. Outside of financial services, Christiaan is also involved in the wine industry through his involvement as the founder and partner of Ataraxia, an award-winning South African wine business.





## Non-executive director

**Jayaseelan Nair** *BCom NDip (Government Finance)*

Jayaseelan serves on the Board in his capacity as an employee of the National Treasury. He replaced Higgo du Toit, whose term as a director ended on 31 May 2016. He has been appointed as a director until 30 September 2019. He is a member of both the Audit Committee and the Social and Ethics Committee.

Three directors retired by rotation on 31 May 2018. They were:

**Adam Samie** *BCom AIRMSA MDP FCII FIISA*

**Former Chairperson – non-executive director**

Adam is an experienced Chartered Insurer. He currently manages Timesquare Investments, a business consultancy firm.

**Ranti Mothapo** *BEcon BSc Hons FFA FASSA*

**Former Deputy Chairperson, independent non-executive director and Chairperson of the Investment Committee**

Ranti is a financial services entrepreneur with extensive consulting and advisory experience in, amongst others, banking, insurance, derivatives, investments and pension benefits. He has served on boards of other insurance companies such as the Land Bank Insurance Company and the Export Credit Insurance Corporation.

**Herman Schoeman** *BCom HED MBA*

**Former independent non-executive director and Chairperson of the Risk Committee**

Herman serves on boards of numerous other financial services companies, both locally and internationally, including the Guardrisk and MMI groups, as well as the South African Insurance Association.

## Membership and attendance

The membership of the Board committees, as well as the attendance at meetings of these committees, is outlined below:

	Board	Audit Committee	Investment Committee	Remuneration and Nomination Committee	Risk Committee	Social and Ethics Committee
<b>Adam Samie</b> ©	© 4 of 5		4 of 4	5 of 5	3 of 4	
<b>Ranti Mothapo</b> ©	4 of 5		© 4 of 4	4 of 5	3 of 4	
<b>Baba Mkangisa</b>	5 of 5			5 of 5		© 4 of 4
<b>Maki Ndlovu</b>	5 of 5		4 of 4	© 5 of 5		4 of 4
<b>Herman Schoeman*</b> ©	5 of 5	5 of 5			© 4 of 4	
<b>Tando Mbatsha*</b>	5 of 5	5 of 5	3 of 4			4 of 4
<b>Tshwarelo Moutlane</b>	5 of 5	© 5 of 5			4 of 4	
<b>Jayaseelan Nair</b>	4 of 5	3 of 5	-	-	-	4 of 4

© = Chairperson \* Depicts that the member attended some meetings through teleconference © Retired by rotation on 31 May 2018

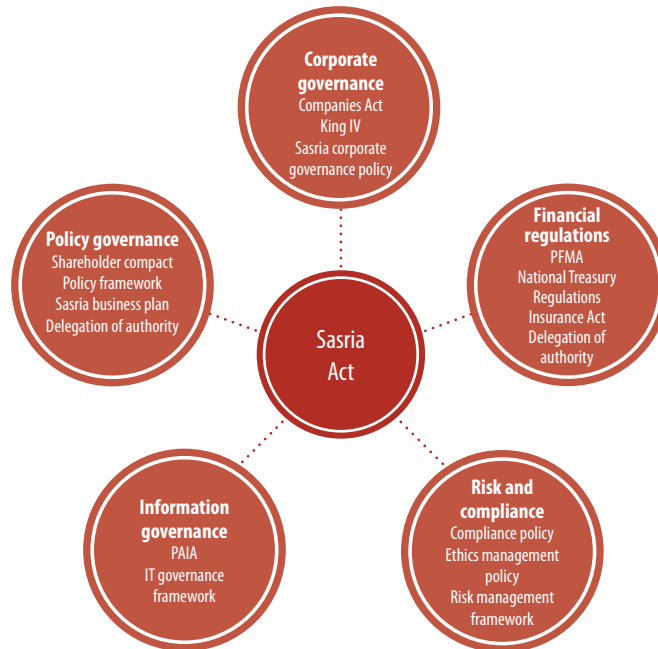
## Executive Committee

The Executive Committee currently comprises the following:

- Managing Director (see page 6 for Cedric Masondo's bio);
- Finance Director (see page 54 for Bajabulile Luthuli's bio);
- Chief Risk Officer (see page 34 for Suzanne Harrop-Allin's bio);
- Executive Manager: Governance and Company Secretariat (see page 63 for Mziwoxolo Mavuso's bio);
- Executive Manager: Insurance Operations and Stakeholder Management (see page 43 for Fareedah Benjamin's bio);
- Executive Manager: Business Change and Technology (see page 48 for Sam Nkosi's bio); and
- Acting Executive Manager: People Management (see page 26 for Tshepiso Chocho's bio).

## Compliance with laws

Sasria is driven by prescribed legislative and regulatory frameworks and standards, including its own regulatory framework aligned with the overarching policies. During the period under review, the Board and its committees continued to monitor the implementation of Sasria's compliance policy and legal compliance processes. The Board is comfortable that we have achieved a satisfactory level of compliance throughout the year including submission of compliance reports to all regulatory structures. A summary of these legislative and regulatory frameworks is depicted below:



## Promotion of access to information

In line with the new requirements, Sasria submitted its second Annual Promotion of Access to Information Act 2 of 2000 Report to the South African Human Rights Commission, covering the period 1 April 2017 to 31 March 2018.

## Disclosure in terms of section 55(2)(b) of the PFMA

During the year under review there was:

- No material loss suffered through criminal conduct;
- No criminal step taken as a consequence of such losses or expenditure; and
- No financial assistance received from the state nor any commitments made by the state on its behalf.

However, we did identify incidents of irregular, fruitless and wasteful expenditure during the reporting period. This is reported as part of the annual financial statements (note 29). We implemented the necessary disciplinary procedures against the relevant individuals.



# King IV application register

In order to benchmark Sasria's practices against the latest available guidelines and trends, we completed an assessment of our practices against the principles of the King IV Report on Corporate Governance for South Africa 2016 (King IV), which was launched on 1 November 2016. A gap analysis was conducted to ensure that the Board and its committees ensure adherence to King IV, the Board and committee charters were reviewed and aligned with King IV. The adoption of this report is indicative of a commitment to good corporate governance by the Board. Below are detailed the practices implemented and progress made towards achieving the 16 principles and desired governance outcomes:

Principles	Practices implemented and progress made
<b>Governance outcome: Ethical culture</b>	
<b>1. The Accounting Authority should lead ethically and effectively</b>	Sasria's directors hold one another accountable for decision-making and act in a way that displays the ethical characteristics stated in King IV. The Chairperson monitors this as part of his duties. After the annual Board evaluation, the Board Chairperson holds feedback sessions with the Chairperson of each Board committee to address areas of concern or development.
<b>2. The Accounting Authority should govern the ethics of the SOE in a way that supports the establishment of an ethical culture</b>	Sasria has established the values of honesty, communication, effectiveness and transparency as the convictions that guide the way in which the Company conducts itself. Sasria has an ethics policy in place which applies to Board members and employees. During the period under review, Board members and employees have declared conflicts of interest and gifts in line with the ethics policy. Where there was non-adherence to the policy, disciplinary action has been taken.
<b>3. The Accounting Authority should ensure that the SOE is and is seen to be a responsible corporate citizen</b>	Sasria strives to integrate responsible corporate citizenship as part of the way it does things and performance measures in respect thereof are shared across functions and business units. The Board has delegated to the Social and Ethics Committee, amongst others, the responsibility for monitoring the overall responsible corporate citizenship performance of Sasria. In this regard, the committee is working closely with the Managing Director, SED Officer, SED Forum and the executives responsible for risk, human resources and stakeholder relationships. For more detail on how Sasria addresses responsible citizenship, refer to the Social and Ethics Committee report on page 75.
<b>Governance outcome: Performance and value creation</b>	
<b>4. The Accounting Authority should appreciate that the SOE's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process</b>	<p>The integrated report demonstrates that organisational performance is understood as both the achievement of objectives and the enhancement of the capitals and relationships that Sasria uses and affects i.e. value creation. The Board assesses, on a continual basis, the positive and negative outcomes resulting from its business model and responds to it as highlighted in the integrated report.</p> <p>To view Sasria's core purpose, risks and opportunities, strategy and business model, as well as its performance in terms thereof, refer to the section "Value creation", which commences on page 13.</p>
<b>5. The Accounting Authority should ensure that reports issued by the SOE enable stakeholders to make informed assessments of the SOE's performance and its short-, medium- and long-term prospects</b>	<p>The integrated report presents material information in an integrated manner and provides users with a holistic, clear, concise and understandable presentation of Sasria's performance in terms of sustainable value creation in the economic, social and environmental context within which it operates.</p> <p>Sasria's complete integrated report can be downloaded from our website, <a href="http://www.sasria.co.za">www.sasria.co.za</a>.</p>

Principles	Practices implemented and progress made
Governance outcome: Adequate and effective control	
<b>6. The Accounting Authority should serve as the focal point and custodian of corporate governance in the SOE</b>	<p>The role and responsibilities of the Board are set out under principle 6 of King IV. These roles and responsibilities are articulated in the Board Charter.</p> <p>In the view of the Board, it is serving as the focal point and custodian of corporate governance of Sasria both in terms of how its roles and responsibilities are documented and the way that it executes its duties and decision-making. The Board Charter was reviewed and aligned with King IV. The Board has a Deputy Chairperson who leads in the absence of the Chairperson. The Chairperson is always an independent non-executive director in terms of the memorandum of incorporation and the Board Charter.</p>
<b>7. The Accounting Authority should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively</b>	<p>The Board, with the assistance of the Remuneration and Nomination Committee, considers on an annual basis, its composition in terms of the balance of skills, experience, diversity, independence and knowledge and whether this enables it to discharge its role and responsibilities effectively. The Board is satisfied that there is a balance of skills, experience, diversity, independence and knowledge needed to discharge its role and responsibilities.</p> <p>For more detail on the composition of the Board of Directors, refer to page 64.</p>
<b>8. The Accounting Authority should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with the balance of power and the effective discharge of its duties</b>	<p>The composition of the committees of the Board and the distribution of authority between the Chairman and other directors is balanced and does not lead to instances where an individual(s) dominates decision-making within governance structures or where undue dependency is caused.</p> <p>For more detail on the composition of the Board's committees, refer to page 67.</p> <p>The Audit Committee is satisfied that the auditor is independent as the audit firm has been appointed with the designated partner having oversight of the audit.</p> <p>The Finance Director is the head of the finance function and she has three senior managers reporting to her. Internal Audit is fully insourced and independent of management. It reports to the Audit Committee.</p> <p>An assessment of the effectiveness of the finance function and Internal Audit is performed annually by the Audit Committee.</p> <p>The Audit Committee's report can be found on page 84.</p>
<b>9. The Accounting Authority should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness</b>	<p>The evaluations of the performance of the Board structures and its members are conducted simultaneously every three years. The three-year interval allows the opportunity for thorough remedial interventions. The Board has, furthermore, with the assistance of the Sasria Company Secretary, undertaken a holistic review of its Board Charter and the terms of reference to achieve better integration and coordination amongst the Board and all of its committees.</p>
<b>10. The Accounting Authority should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities</b>	<p>The Board has reserved for itself the powers as referred to in the Board Charter. The Board also reserves the right to finally approve strategy, business plans, annual operational budgets and key policies as defined, as well as employee collective bargaining agreements. A detailed delegation of authority is in place.</p> <p>The Managing Director does not have work commitments outside of Sasria. There is a succession plan in place for the Managing Director.</p> <p>For the executive and senior management structure, refer to page 67.</p> <p>Sasria has a full-time Company Secretary with the requisite knowledge, experience and stature. The Company Secretary signs off on disclosure of membership of Board structures, number of meetings of each and attendance at each meeting as well as overall content of the committee information and reporting that are in the public domain.</p> <p>For an abbreviated bio of the Company Secretary, refer to page 63.</p> <p>The Board is satisfied that Sasria is appropriately resourced and that its delegation to management contributes to an effective arrangement by which authority and responsibilities are exercised.</p>

Principles	Practices implemented and progress made
<b>11. The Accounting Authority should govern risk in a way that supports the SOE in setting and achieving its strategic objectives</b>	<p>At Sasria, anticipating and responding to risk is a fundamental part of delivering on our mandate and ensuring that we deliver on a sustainable basis. The Sasria Board is ultimately accountable for the effective management of risks and has adopted an enterprise-wide risk management (ERM) framework and approach to managing risk exposures. The Audit and Risk Committees assist the Board with the governance of risk.</p> <p>For more detail on Sasria's risks and the management thereof, refer to the section "Our top risks and how we manage them" on page 34.</p>
<b>12. The Accounting Authority should govern technology and information in a way that supports the SOE setting and achieving its strategic objectives</b>	<p>The Board is aware of the importance of technology and information as it is inter-related to the strategy, performance and sustainability of Sasria.</p> <p>The Audit Committee assists the Board with the governance of information technology. The internal audit function annually issues a written assessment to the Audit Committee, providing assurance by Internal Audit on the overall control environment, taking cognisance of the governance, information technology, risk management and operational/financial risk areas. The assurance provided is informed by the outcome of the audits/reviews conducted based on an approved risk-based audit plan.</p>
<b>13. The Accounting Authority should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the SOE being ethical and a good corporate citizen</b>	<p>There were no material or repeated regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations.</p>
<b>14. The Accounting Authority should ensure that the SOE remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term</b>	<p>Sasria remunerates fairly, responsibly and transparently to deliver on its strategic initiatives and to promote the creation of value in a sustainable manner.</p> <p>For more information, refer to the Remuneration and Nomination Committee report on page 73.</p>
<b>15. The Accounting Authority should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the SOE's external reports</b>	<p>Sasria has implemented a combined risk assurance model which is coordinated and managed by the risk management function. A combined assurance policy has been developed, which includes the formation of a formal Combined Assurance Working Committee comprising representatives from business, risk management and compliance, as well as our internal and external auditors.</p> <p>The Board is satisfied that assurance results in an adequate and effective control environment and integrity of reports for better decision-making.</p> <p>For more information on Sasria's combined assurance model, refer to page 36.</p>
<b>Governance outcome: Trust, good reputation and legitimacy</b>	
<b>16. In the execution of its governance role and responsibilities, the Accounting Authority should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the SOE over time</b>	<p>Sasria has identified key stakeholder groupings and their legitimate and reasonable needs, interests and expectations. Stakeholder relationship programmes have been developed to ensure continual engagement and staying attuned. Sasria has also introduced systems to gather and analyse information that could provide useful intelligence on stakeholder perceptions or which could adversely affect Sasria's reputation.</p> <p>For more detail on Sasria's interaction with its stakeholders, refer to the section "Our key relationships" on page 24.</p>

# Investment Committee report

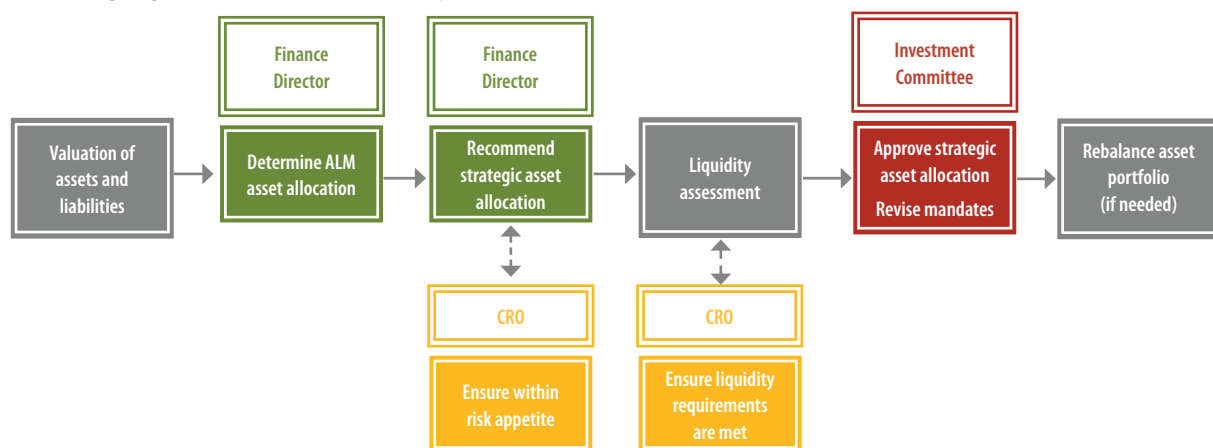
We are pleased to present our report for the year ended 31 March 2018.

## Membership

The Investment Committee members and their attendance of meetings during the year are reflected on page 67.

## Investment process

The following diagram summarises the investment process:



## Investment function

The Investment Committee provides oversight in respect of investment activities within Sasria. The primary purpose of the committee is ensuring that Sasria's investments are managed within the investment objectives and risk appetite as set by the Board committee.

## Activities during the year and priorities for the year ahead

Activities in 2018	Additional priorities for 2019
Provided guidance to the Board on the investment portfolio managed for Sasria and the performance in line with the mandates.	Monitor and provide guidance on the transformation of the asset management industry.
Made recommendations for the investment philosophy.	
Reviewed and monitored the implementation of the investment policy, including the strategic asset allocation and the appropriateness of selected benchmarks.	
Monitored adherence to credit and market risk limits.	
Ensured effective collaboration and exchange of information relating to investment through cross-membership between committees and avoided duplication of fragmented functioning as far as possible.	
Reviewed the implementation of Principles for Responsible Investments (PRI) and the annual report to the PRI.	
Reviewed the investment income and expenses budget.	
Reviewed the ORSA scenarios.	
In consultation with various committees, dealt with relevant internal and external audit matters raised.	
Applied collective mind to the information, opinions, recommendations, reports and statements presented by management for quarterly recommendation to the Board.	
Monitored the investment portfolio.	
Monitored and evaluated the performance of the investment managers.	

The committee is satisfied that it has complied in all material respects with its responsibilities and has assisted the Board on oversight of the investment portfolio.

**Tando Mbatsha**

**Chairperson of the Investment Committee**

16 August 2018

# Remuneration and Nomination Committee report

We are pleased to present our report for the year ended 31 March 2018.

The Remuneration and Nomination Committee has adopted appropriate formal terms of reference as its Remuneration and Nomination Committee Charter, has regulated its affairs in compliance with this Charter, and has discharged its responsibilities as contained therein.

## Membership

The Remuneration and Nomination Committee members and attendance are reflected on page 67.

## Remuneration

Sasria prides itself on being a good employer, and as such, it offers employees fair remuneration and incentives. Sasria aims to attract and retain valued employees and ensures that employees are rewarded and recognised for high performance.

### • Remuneration approach

Sasria's remuneration approach is aligned to its Total Rewards framework thereby ensuring that the remuneration practices support the business objectives. The remuneration policy is applicable to the Managing Director, Finance Director, executives and all employees. This policy has also been aligned with the requirements of the State-Owned Enterprises Remuneration Guidelines, Financial Services Board and King IV to ensure that directors and executives are remunerated fairly and responsibly.

Basic salaries are benchmarked annually by an independent consultant to ensure that our employees receive market-related remuneration in terms of their grade, role and level of experience. The annual remuneration and benefit benchmark review was conducted in November 2017.

### • Salary increases for 2018

The salary increase process for 2018 was concluded, providing an average increase of 6.5% for the skilled professionals and middle management and 7% for the semi-skilled levels. This process was based on and informed by a number of factors, such as affordability and individual employee's performance. Executive Managers' salaries were increased by 5% and the Managing Director received an increase of 4.5% as part of our conscious effort to reduce the gap between the highest and lowest paid.

### • Board remuneration

Directors' remuneration is reviewed annually by the shareholder and approved at the annual general meeting. In considering the revision of Board remuneration, the shareholder takes into account the Board's performance against the strategy and Corporate Plan of the Company, as well as the effectiveness of the Board in executing the strategy, board annual assessment results and meeting attendance by each director. Directors were afforded a 6% increase.

## Company performance, market trends and the employee retention strategy

### • Short-term incentives (STI) of 2017 administered in 2018

Two elements played a key role in determining individual STI payments based on the 2017 performance: business and personal performance metrics. The business metric was based on the measures of underwriting profit as well as other business KPIs that were critical to the achievement of our 2017 business objectives. The personal metric focused on an individual employee's performance, as determined through the performance management process. The implementation of incentive schemes takes into account the different hierarchical levels informed by complexity, decision-making and judgement. This results in a higher weighting toward financial outcomes and was applied to the most senior management individuals, who have the line of sight to influence these outcomes. Individuals in the lower levels of the organisation, with limited ability to influence such outcomes, had little or no weighting assigned to financial achievements.

Weightings for business and personal performance metrics to determine STIs were:

Participants	Business (%)	Personal (%)
Executives (levels 8 – 9)	50	20
Senior management (level 7)	35	25
Middle management (level 7)	20	30
Employees (levels 1-6)	0	40

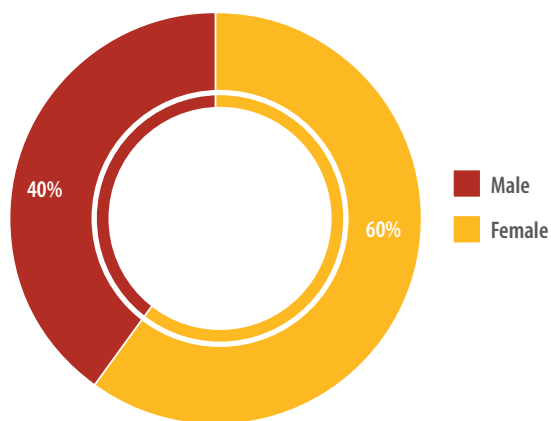
### • Other benefits

In addition to benefits related to Sasria's pension contribution (employer and employee), medical aid and medical vitality fringe benefits, Sasria also offers its employees a number of other benefits, such as cover for permanent health insurance, accidental disability, disability protector, dread disease and a funeral benefit. Sasria provides comprehensive risk cover to our employees, especially with additional health cover and cover for disability.

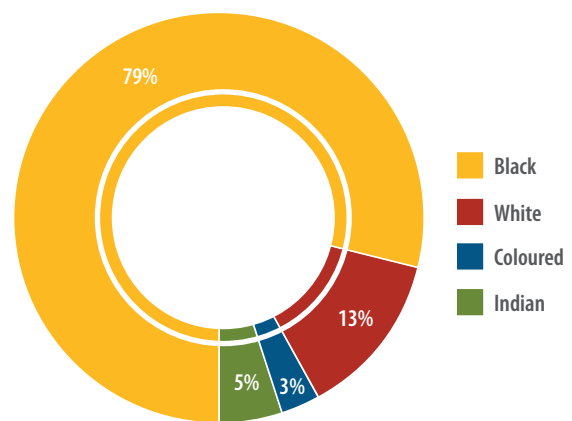
### • Learning and development

Total spend on learning and development interventions amounted to R5.8 million. There was a strong focus towards formal education and professional development, and also accredited programmes with registered institutions. Sasria continued to develop the skills of professional and middle management employees on legislative updates, customer-centricity, information technology and computer skills, as well as technical/functional skills (marketing, insurance operations, actuarial, risk, audit, human resources and financial skills). Pivotal training approved by the INSETA generated a credit of R338 691.

Learning and development spend by gender



Learning spend per EE demographics



#### • Education for family members

Sasria also offers non-executive employees financial assistance in the form of bursaries, to empower them to help their family members to study. The details are as follows:

Level	Amount per child per annum	Number of children	Total value 2018
Scholars	R6 000	42	R312 000
Tertiary studies	R10 000	4	R40 000
<b>Total</b>		<b>46</b>	<b>R352 000</b>

## Succession planning

Succession planning and identification of successors for the critical roles and leadership roles was achieved.

The critical roles identified within Sasria for succession planning purposes are:

- Top management: Managing Director;
- Senior management: Chief Risk Officer, Finance Director, Executive Manager: Insurance Operations and Executive Manager: Business Change and Technology; and
- Middle management: Claims Management, Head of Actuarial, Technical Underwriter and Customer Relations Officer.

The successors for all the critical roles have been identified internally. The identified internal successors have been engaged in career, talent and development discussions. The development initiatives will be implemented in 2019.

## Performance bonuses

The bonus pool for the year ending 31 March 2019 is capped at a maximum of 2.5% of the budgeted net profit after tax for the year. (Forecast 2018: 1.24%, actual 2017: 1.78%, actual 2016: 2.70%.)

The bonus pool for the year ending 31 March 2019 is capped at 20% of the total employee expenditure, including bonuses. (Forecast 2018: 12%, actual 2017: 15.82%, actual 2016: 23.58%)

The bonus pool will only be paid once three gatekeepers have been met as per the Sasria Total Rewards Policy.

The gatekeepers are:

- Achievement of an unqualified audit report;
- Achievement of 60% of the Company's KPIs as per the corporate plan; and
- Achievement of 70% of the forecast underwriting profit.

*Maki Ndlovu*

**Maki Ndlovu**

**Chairperson of the Remuneration and Nomination Committee**

16 August 2018

# Social and Ethics Committee report

We are pleased to present our report for the year ended 31 March 2018.

The Social and Ethics Committee has adopted appropriate formal terms of reference as its Social and Ethics Committee Charter, has regulated its affairs in compliance with this Charter and has discharged its responsibilities as contained therein.

## Membership

The Social and Ethics Committee members and attendance are reflected on page 67.

## Activities during the year

The committee is one of the statutory committees of the Board and is constituted in terms of the Companies Act to have an independent role.

During the period under review, the committee assisted the Board in monitoring Sasria's activities in terms of legislation, regulation and codes of best practice relating to ethics, transformation, empowerment, corporate social responsibility and stakeholder engagement.

The committee also assists the Board in ensuring that the sustainability strategy and objectives are effectively integrated into the business.

The responsibilities of the committee include monitoring Sasria's activities relating to social and economic development, B-BBEE and employment equity, and monitoring good corporate citizenship, including the promotion of equality, corporate social responsibility, ethical behaviour and managing environmental impact.

During the year, the committee made the following key decisions and recommendations to the Board:

- Reviewed and approved the Ethics Management Policy, Fraud Prevention and Whistle-blowing Policy, Records Management and Retention Policy and Complaints Policy;
- Recommended the Conflict of Interest Management Policy and Stakeholder Management Policy to the Board for approval;
- Recommended the development of a comprehensive transformation strategy for the Company;
- Assigned responsibility to one of its members, who is also a member of the Investment Committee, to report on the activities of the committee to the Investment Committee and vice versa;
- Approved the 2018 socio-economic development (SED) budget and plan. This was used to implement the SED initiatives for the year, which made a difference in the communities in which Sasria implemented such initiatives;

- Oversaw the development of a research paper on the incubator fund and recommended it for Board approval. The paper was approved at the Board's strategy meeting on 27 September 2017;
- Exercised oversight over the ethics culture in the Company;
- Monitored the implementation of the Procurement Policy to address all socio-economic aspects; and
- Oversaw the implementation of Sasria's SED initiatives for the reporting period.

## Impact of King IV

King IV recommends that the committee should "uphold, monitor and report on organisational ethics, responsible corporate citizenship, sustainable development and stakeholder-inclusivity beyond mere compliance".

The committee has reassessed its composition to ensure that the requisite skills and experience are present to fulfil the requirement of the oversight of ethics management including the social aspects of the Remuneration Policy. The composition was aligned with the requirements of King IV and the Committee Charter was updated accordingly. The committee also reviewed its functioning and focus areas. This resulted in the committee agreeing that there was a need for it, amongst others, to:

- Submit a formal written report on its work to all the Committees;
- Review its work plan, agenda and policies;
- Oversee the development of a social and ethics strategy;
- Oversee the development of an overarching transformation policy;
- Oversee the implementation of the Procurement Policy; and
- Oversee the implementation of community upliftment projects.

All of these will be implemented in the 2019 financial year.



**Baba Mkangisa**

**Chairperson of the Social and Ethics Committee**

16 August 2018

# Risk Committee report

We are pleased to present our report for the year ended 31 March 2018.

The Risk Committee has adopted appropriate formal terms of reference as its Risk Committee Charter, has regulated its affairs in compliance with this Charter and has discharged its responsibilities as contained therein.

## Membership

The Risk Committee members and attendance are reflected on page 67.

## Impact of King IV

King IV introduces the term “risk and opportunity governance”. The Board is stretched to utilise integrated thinking to exercise caution and not to take excessive risks that may lead to organisational failure by considering both negative and positive potential governance outcomes. The Board is responsible for setting the risk tolerance levels relevant to the organisational strategy and objectives.

Our significant risks are detailed in the section “Our top risks and how we manage them” on page 34.

## Activities during the year and priorities for the year ahead

Activities in 2018	Additional priorities for 2019
Approved the 2019 strategic risks.	Monitor the progress of the data acquisition project.
Approved the technical valuation methodology and results.	Ensure that risk governance encompasses:
Approved the economic capital model (ECM) parameters.	• The opportunities and associated risks to be considered when developing strategy; and
Recommended the dividend methodology for Board approval.	• The potential positive and negative effects of the same risks in the achievement of organisational objectives.
Reviewed and recommended the extension of the reinsurance broker tender to the Board for approval.	
Exercised oversight over the Risk, Compliance and Insurance Operations reports during the year and made recommendations for improvements where relevant.	
Recommended the 2019 risk appetite limits for Board approval.	
Recommended an unaltered 2019 reinsurance treaty renewal for Board approval.	
Reviewed and recommended the 2019 underwriting budget for Audit Committee approval.	
Recommended the ORSA report for Board approval.	
Reviewed and approved all risk policies within its mandate and recommended others to the Board for approval as part of a periodic review of policies.	
Approved the 2019 key risk indicators.	

The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.



**Christiaan van Dyk**

**Chairperson of the Risk Committee**

16 August 2018





# Annual financial statements for the year ended 31 March 2018

The annual financial statements were prepared by:

Welile Ngqobe BCom Hons  
Financial Accountant  
Sasria SOC Limited

The annual financial statements were reviewed by:

Philippa Viljoen CA (SA)  
Acting Finance Executive  
Sasria SOC Limited

The annual financial statements have been audited in compliance with section 30 of the Companies Act 71 of 2008, of South Africa.

# Approval of the annual financial statements

The Board, assisted by its Audit Committee, is responsible for the preparation, integrity and fair presentation of the annual financial statements. The external auditor is responsible for independently reviewing and reporting on the annual financial statements.

The annual financial statements set out in this report have been prepared by management in accordance with the provisions of the Companies Act and the PFMA and comply with International Financial Reporting Standards (IFRS). They are based on appropriate accounting policies which have been consistently applied and which are supported by reasonable and prudent judgements and estimates.

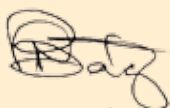
The going concern basis was adopted in preparing the annual financial statements. The directors have no reason to believe that the Company will not be a going concern in the foreseeable future based on forecasts and available cash resources. The Company's viability is supported by the annual financial statements.

The Company's internal controls and systems are designed to provide reasonable assurance on the integrity and reliability of the annual financial statements and to adequately safeguard, verify and maintain accountability of assets. Such controls are based on established written policies and procedures that are monitored throughout the Company and all employees are required to maintain the highest ethical standards in ensuring that the Company's business practices are conducted in a manner that, in all reasonable circumstances, is above reproach.

Sasria's 2018 annual financial statements were audited by the independent auditor SizweNtsalubaGobodo Grant Thornton Inc. The auditor was given unrestricted access to all financial records and related data, including minutes of meetings with the shareholder, the Board and Board committees. The Board is comfortable with the integrity of all information and representations made to the independent auditor during their audit. The unqualified audit report is presented on page 81.

The Board, assisted by its sub-committees, has also considered and approved the issues material to Sasria's continued sustainability, which included key non-financial outcomes attributable to or associated with stakeholders other than the shareholder. It has considered the risks, opportunities and material matters. The directors have not noted anything to indicate that there was any material breakdown in the functioning of internal controls, systems and procedures during the year under review. The directors are of the opinion that Sasria's risk management process is effective.

The Company's 2018 integrated report and its annual financial statements, set out on pages 86 to 129, were approved by the Board of Directors in accordance with their responsibilities and were signed on their behalf by:



**Norman Baloyi**  
**Board Chairperson**

16 August 2018

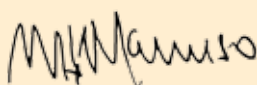


**Cedric Masondo**  
**Managing Director**

16 August 2018

## Company Secretary certificate

In accordance with section 88(2)(e) of the Companies Act 71 of 2008 as amended (the Act), it is hereby certified that the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Act and that such returns are true, correct and up to date.



**Mziwoxolo Mavuso**  
**Company Secretary**

16 August 2018

# Directors' report

The directors have pleasure in submitting the annual financial statements of Sasria SOC Limited (Sasria) for the year ended 31 March 2018.

## Nature of the business

Sasria is the only short-term insurer that offers special risk cover to all individuals and businesses that own assets in South Africa, as well as government entities.

This is unique cover against risks such as civil commotion, public disorder, strikes, riots and terrorism, making South Africa one of the few countries in the world that provides this insurance, particularly at affordable premiums.

By enabling businesses to restore their liquidity or operations quickly and efficiently after experiencing loss or damage due to special risk events, Sasria plays a significant role in preventing job losses, maintaining livelihoods, restoring pride and dignity and facilitating economic stability.

A state-owned entity, Sasria has a legislative mandate that governs day-to-day business operations and a broader strategic mandate to make a positive contribution to transformation within the industry and South Africa.

There have been no material changes to the nature of the Company's business from the prior year.

## Financial affairs

The statement of comprehensive income of the Company shows a profit of R1 025 million for the year ended 31 March 2018 compared to a profit of R543 million for the prior year.

The annual financial statements for the year ended 31 March 2018 appear on pages 86 to 129 and comply with International Financial Reporting Standards and the requirements of the South African Companies Act.

## Dividends

An ordinary dividend of R163 million (2017: R151 million) was declared and paid during the year.

Sasria has adopted a steady, consistent and transparent dividend policy that will not place undue strain on the cash resources and liquidity of the Company, or result in inadequate cash reserves to meet future growth requirements.

## Share capital

There were no changes to the authorised or issued share capital. Further details regarding the authorised and issued share capital appear in note 12 to the annual financial statements.

## Directors and Company Secretary

There have been no changes in directors or secretary during the year under review.

Directors retiring in terms of the Company's memorandum of incorporation on 31 May 2018, all of whom were not eligible for re-election, were:

Adam Samie, the independent Chairperson of the Board, Ranti Mothapo (Deputy Chairperson of the Board and Investment Committee Chairperson) and Herman Schoeman (Risk Committee Chairperson), who retired on 31 May 2018. New Board committee members were appointed on 6 June 2018.

During the year under review, no contracts were entered into in which directors of the Company had an interest.

The Finance Director position, which had been vacant since November 2016, was filled on 1 May 2018 with the approval of National Treasury.

As at the date of this report, the directors of the Company were as follows:

### **Chairperson and independent non-executive director**

- Norman Baloyi

### **Deputy Chairperson and independent non-executive director**

- Onkgodisitse Mokonyane

### **Independent non-executive directors**

- Tando Mbatsha
- Baba Mkangisa
- Tshwarelo Moutlane
- Maki Ndlovu
- Christiaan van Dyk

### **Non-executive director**

- Jayaseelan Nair

### **Executive directors**

- Cedric Masondo (Managing Director)
- Bajabulile Luthuli (Finance Director)

The Company Secretary is Mziwoxolo Mavuso and his business and postal addresses appear on page 132.

## **Special resolutions**

The following special resolutions were passed by the Company during the year:

- Approval of remuneration of executive directors and executive managers of Sasria SOC Limited; and
- Approval of Annual Inflationary Adjustment Remuneration of Non-Executive Directors.

## **Regulatory matters**

The Audit Committee and Risk Committee discharged all of those functions delegated to them in terms of their mandate and section 94(7) of the Companies Act. Further details on the roles and functions of the committees may be found in the reports of the Risk Committee on page 76 and the Audit Committee on page 84.

## **Auditor**

SizweNtsalubaGobodo Grant Thornton Inc. was appointed as Sasria's external auditor for the year ended 31 March 2018. Refer to page 132 for further details. They were assisted by AM PhakaMalele.

## **Events after balance sheet date**

No event material to the understanding of this report has occurred between the reporting date and the date of this report. Refer to note 31 to the annual financial statements.

## **Going concern**

The Board believes that the Company will continue to be a going concern in the year ahead. For this reason, the Board continues to adopt the going concern basis in preparing the annual financial statements.

# Independent auditor's report to Parliament

## Report on the audit of the annual financial statements

### Opinion

We have audited the annual financial statements of Sasria SOC Limited (the Company), as set out on pages 86 to 129, which comprise the statement of financial position as at 31 March 2018, the statements of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the annual financial statements, including a summary of significant accounting policies.

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Sasria SOC Limited as at 31 March 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa.

### Basis of opinion

We have conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the annual financial statements section of our report.

We are independent of the public entity in accordance with the Independent Regulatory Board for Auditors' *Code of professional conduct of registered auditors* (IRBA code) and other independence requirements applicable to performing audits of the annual financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IESBA code and in accordance other ethical requirements applicable to performing audits in South Africa. The IRBA code is consistent with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (parts A and B).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of the Board of Directors for the annual financial statements

The Board of Directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of these annual financial statements in accordance with the International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa, and for such internal control as the accounting authority determines is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the accounting authority is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting, unless the accounting authority either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the annual financial statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

As part of an audit in accordance with the ISAs, we exercise professional judgement and maintain professional scepticism throughout our audit of the annual financial statements, and the procedures performed on reported performance information for selected key performance areas and on the public entity's compliance with respect to the selected subject matters. We also:

- Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the public entity's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority;
- Conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the annual financial statements. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the annual financial statements. Our conclusions are based on the information available to us at the date of the auditor's report. However, future events or conditions may cause a public entity to cease to continue as a going concern; and
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also confirm to the accounting authority that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on our independence, and where applicable, related safeguards.

## Report on the audit of the annual performance report

### Introduction and scope

In accordance with the Public Audit Act of South Africa 25 of 2004 (PAA) and the *General Notice* issued in terms thereof, we report the following findings relevant to the reported performance against predetermined objectives, compliance with laws and regulations as well as internal control. We performed tests to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, we do not express an opinion or conclusion on these matters.

Our procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. We have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. Our procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of the future periods that may be included as part of the reported performance information. Accordingly our findings do not extend to these matters.

We evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the public entity for the year ended 31 March 2018:

Key performance area	Page no.
Sustainable revenue growth: To consistently outperform the industry average in premium growth	52 to 53
Capital management: To target a return on equity greater than the government bond yield	52 to 53
Customer-centricity: To provide superior customer service	52 to 53

We performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. We performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

We did not raise any material findings on the usefulness and reliability of the reported performance information for the selected objectives indicated above.

### Other matters

We draw attention to the matters below.

#### Achievement of planned targets

Refer to the information in the Directors' report on the performance information as set out on pages 79 to 80 of the annual financial statements for information on the achievement of planned targets for the year.

# Report on the audit of compliance with legislation

## Introduction and scope

In accordance with the PAA and the general notice issued in terms thereof, we have a responsibility to report material findings on the compliance of the public entity with specific matters in key legislation. We performed procedures to identify findings but not to gather evidence to express assurance.

We did not identify any instances of material non-compliance with specific matters in key legislation set out in the general notice issued in terms of the PAA.

## Other information

The accounting authority is responsible for the other information. The other information comprises the information included in the integrated report, which includes the Board of Directors' report, the Audit Committee report and the Company's Secretary's certificate as required by the Companies Act of South Africa. The other information does not include the annual financial statements, our report on the audit of the annual financial statements, our report on the annual performance report and our report on the audit of compliance with legislation.

Our opinion of the annual financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements and the selected objectives presented in the performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in this other information, we are required to report that fact. No material inconsistencies were identified.

## Internal control deficiencies

We considered internal control relevant to our audit of the annual financial statements, reported performance information with applicable legislation, however, our objective was not to express any form of assurance on it. We did not identify any significant deficiencies in internal control.

## Other reports

We draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the annual financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of our opinion on the annual financial statements or our findings on the reported performance information or compliance with legislation.

We were engaged to perform the following audit-related services:

- Short-term Insurance Statutory Return in compliance with section 19(7) of the Short-term Insurance Act 53 of 1998 for the year ended 31 March 2018.



**SizweNtsalubaGobodo Grant Thornton Inc.**

**Director: Nhlanhla Sigasa**

Chartered Accountant (SA)

Registered Auditor

16 August 2018

20 Morris Street East

Woodmead

2191

# Audit Committee report

## for the year ended 31 March 2018

### Audit Committee responsibility

The Audit Committee has complied with its responsibilities arising from the Board and section 51 of the PFMA, Treasury Regulation 27.1 and the Companies Act. In addition, the Audit Committee has adopted appropriate formal terms of reference as its Audit Committee charter, which have been approved by Sasria's Board. It has also regulated its affairs in compliance with this charter and discharged all its responsibilities contained therein.

### Membership

The Audit Committee members and their attendance of meetings during the year are reflected on pages 67.

### King IV

King IV expects "five lines of assurance" to incorporate all assurance providers to enable an effective control environment to strengthen decision-making. This has been addressed within Sasria. Horizontal assurance includes internal audit, risk and compliance while vertical assurance includes line managers, frameworks, policies, procedures and system controls. Internal audit remains a pivotal part of governance relating to assurance and is tested through an external quality assessment review of the Internal Audit Charter, in line with the international standards for the professional practice of internal auditing. The Internal Audit function is relied on to not only contribute insight into the organisation, but also to provide foresight through the use of pattern recognition, trend assessment, analysis and scenarios. As more reliance will be placed on Internal Audit, the committee and the Board will apply its mind to the assurance standards expected from Internal Audit.

### Effectiveness of internal control

The effectiveness of internal controls was reviewed principally through a process of management self-assessment, including formal confirmation per representation letters by executive management. Other relevant input to the review included reports from Sasria's internal and external auditors, as well as its compliance and the ERM processes. Where necessary, programmes for corrective action have been initiated. Nothing material has come to the attention of the Audit Committee, or to the attention of the external or internal auditors, to indicate that any material breakdown in the functioning of the internal controls and systems (which includes the internal financial controls) occurred during the period under review.

### Quality of monthly and quarterly reports submitted in terms of the Act

The Audit Committee is satisfied with the content and quality of the reports prepared and submitted to it by Sasria management.

### Finance function

We believe that Ms Philippa Viljoen CA (SA), who was Acting Finance Executive throughout the year in review, possesses the appropriate expertise and experience to meet her responsibilities in that position.

We are satisfied with the adequacy and effectiveness of the resources within the finance function.

Based on the processes and assurance obtained, we believe that the accounting practices applied in the period under review are effective.

### Regulatory compliance

The Audit Committee complied with all applicable legal, regulatory and other responsibilities.

### External audit

The auditor was appointed as external auditor for the year ended 31 March 2018 during February 2018 after a decision taken by the former Finance Minister to not continue engagements with certain external audit firms due to reputational risk. In line with the Companies Act the Audit Committee reviewed and is satisfied with the independence, skills and competence of the new external auditor.

In line with the Companies Act, the Audit Committee reviewed and is satisfied with the independence, skills and competence of the new external auditor.



To assess the effectiveness of the external auditor, the committee reviewed:

- The fulfilment of the agreed audit plan and variations from the plan; and
- The robustness of the external auditor in its handling of the key accounting and audit judgements.

Regarding the oversight of the external audit process, the Committee reviewed:

- The areas of responsibility and scope of the audit;
- Issues that arose from the audit and their resolution;
- Key accounting and audit judgements; and
- Recommendations made by the external auditor and management's response.

## Evaluation of annual financial statements in accordance with the framework

The Audit Committee has assessed the functionality of the finance function as well as the external auditor who participate in preparing and reviewing the annual financial statements respectively. The committee has reviewed and discussed queries relating to the audited annual financial statements to be included in the integrated report with the external auditor and the Acting Finance Executive.

The Audit Committee concurs with and accepts the opinion of the external auditor regarding the annual financial statements and is of the opinion that the audited annual financial statements should be accepted and read together with the report of the independent auditors.

## Activities during the year and priorities for the year ahead

Activities in 2018	Additional priorities for 2019
Recommended the appointment of the new external auditor for the year ended March 2018 to the Board.	Appointment of external auditor for a five-year period.
Reviewed the combined assurance model.	Assessing the progress of the IFRS 17 implementation project.
Assessed the performance and effectiveness of the internal audit function, external audit function, finance function and the Acting Finance Executive.	Assess the implementation and progress of the IT strategy.
Reviewed and approved the external audit plan and fees for the year ended March 2018.	
Reviewed the external audit opinion in respect of the year ended 31 March 2018.	
Reviewed IT, technology, tax and legal proceedings.	
Reviewed IT strategy and governance.	
In consultation with other committees, dealt with any internal and external audit matters.	
Liaised with other committees to exchange information relating to investments and underwriting results.	
Reviewed the ORSA scenarios.	
Approved the internal audit plan and reviewed and discussed the internal audit reports.	
Reviewed and recommended the 2019 budget to the Board.	
Reviewed and approved all policies within its mandate and recommended to the Board for approval as part of a periodic review of policies.	

Signed on behalf of the Audit Committee.



**Tshwarelo Moutlane**

**Audit Committee Chairperson**

16 August 2018

# Statement of financial position

as at 31 March 2018

Figures in Rand thousand	Note	2018	2017
<b>Assets</b>			
Property and equipment	5	5 754	7 542
Intangible assets	6	1 545	1 404
Deferred acquisition costs	7	59 498	53 269
Financial assets			
- at fair value through profit or loss - designated	8.1	5 644 715	3 890 058
- loans and receivables	8.2	124 736	141 497
Insurance receivables	9	176 465	161 978
Reinsurance contracts	10	24 830	24 202
Current income tax receivable		38 068	26 832
Cash and cash equivalents	11	1 940 774	2 790 334
<b>Total assets</b>		<b>8 016 385</b>	<b>7 097 116</b>
<b>Equity</b>			
Share capital	12	-	-
Capital adequacy reserve		529 709	480 286
Retained earnings		6 097 080	5 284 277
<b>Total equity</b>		<b>6 626 789</b>	<b>5 764 563</b>
<b>Liabilities</b>			
Deferred income	15	4 321	7 219
Deferred income tax	16	91 860	18 159
Employee benefit liability	14	19 173	11 228
Insurance contract liabilities	10	1 179 404	1 202 314
Current income tax payable		-	-
Payables	13	94 838	93 633
<b>Total liabilities</b>		<b>1 389 596</b>	<b>1 332 553</b>
<b>Total equity and liabilities</b>		<b>8 016 385</b>	<b>7 097 116</b>

# Statement of comprehensive income

for the year ended 31 March 2018

Figures in Rand thousand	Note	2018	2017
Gross written insurance premiums	17	1 994 199	1 843 402
Insurance premiums ceded to reinsurers	17	(148 802)	(145 246)
<b>Net insurance premiums income</b>		<b>1 845 397</b>	<b>1 698 156</b>
Change in gross unearned premiums provision	17	(22 029)	(42 923)
Change in reinsurers' share of unearned premiums provision	17	657	4 172
<b>Net insurance premiums earned</b>	17	<b>1 824 025</b>	<b>1 659 405</b>
Commission earned from reinsurers		61 963	28 453
Investment income	18	833 654	436 997
Other income		1 116	568
<b>Net income</b>		<b>2 720 758</b>	<b>2 125 423</b>
Gross insurance claims and loss adjustment expenses	19	(662 881)	(765 994)
Claims and loss adjustment expenses recovered from reinsurers	19	(10)	(687)
<b>Net insurance claims</b>		<b>(662 891)</b>	<b>(766 681)</b>
Expenses for the acquisition of insurance contracts	20	(271 091)	(236 850)
Expenses for administration and marketing	21	(419 311)	(377 534)
<b>Total expenses</b>		<b>(690 402)</b>	<b>(614 384)</b>
<b>Profit before tax</b>		<b>1 367 465</b>	<b>744 358</b>
Income tax expense	23	(342 260)	(201 095)
<b>Profit for the year</b>		<b>1 025 205</b>	<b>543 263</b>
Total comprehensive income attributable to:			
<b>Ordinary shareholder</b>		<b>1 025 205</b>	<b>543 263</b>

# Statement of changes in equity

for the year ended 31 March 2018

Figures in Rand thousand	Share capital	Capital adequacy reserve	Retained earnings	Total equity
<b>Balance at 1 April 2016</b>	-	<b>434 750</b>	<b>4 937 786</b>	<b>5 372 536</b>
Changes in equity				
Comprehensive income for the year	-	-	543 263	543 263
Transfer to capital adequacy reserve	-	45 536	(45 536)	-
Dividends paid	-	-	(151 236)	(151 236)
<b>Total changes</b>	-	<b>45 536</b>	<b>346 491</b>	<b>392 027</b>
<b>Balance at 1 April 2017</b>	-	<b>480 286</b>	<b>5 284 277</b>	<b>5 764 563</b>
Changes in equity				
Comprehensive income for the year	-	-	1 025 205	1 025 205
Transfer to capital adequacy reserve	-	49 423	(49 423)	-
Dividends paid	-	-	(162 979)	(162 979)
<b>Total changes</b>	-	<b>49 423</b>	<b>812 803</b>	<b>862 226</b>
<b>Balance at 31 March 2018</b>	-	<b>529 709</b>	<b>6 097 080</b>	<b>6 626 789</b>

Note

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# Statement of cash flows

## for the year ended 31 March 2018

Figures in Rand thousand	Note	2018	2017
<b>Cash flows from operating activities</b>			
Cash generated from operations	26	517 462	542 427
Dividends income	18	52 337	48 921
Interest income	18	418 003	387 725
Realised gains/(losses) on investments	18	21 889	(16 018)
Income tax paid	28	(279 796)	(304 034)
<b>Net cash from operating activities</b>		<b>729 895</b>	<b>659 021</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	5	(2 049)	(1 248)
Proceeds on disposal of property, equipment and intangibles		86	55
Purchases relating to intangible assets	6	(1 282)	(282)
Net (purchase)/sale of investments		(1 413 231)	516 913
<b>Net cash (used)/from investing activities</b>		<b>(1 416 146)</b>	<b>515 438</b>
<b>Cash flows from financing activities</b>			
Dividends paid		(162 979)	(151 236)
<b>Net movement in cash and cash equivalents</b>		<b>(849 560)</b>	<b>1 023 223</b>
Cash and cash equivalents at the beginning of the year	11	2 790 334	1 767 111
<b>Cash and cash equivalents at the end of the year</b>	11	<b>1 940 774</b>	<b>2 790 334</b>

# Notes to the annual financial statements

## for the year ended 31 March 2018

### 1. Introduction

Sasria SOC Limited (Sasria or 'the Company') underwrites short-term insurance risks generally not covered by a traditional insurance company. These risks include loss of or damage to property, directly related to or caused by:

- Any act (whether on behalf of any organisation, body or person, or group of persons) calculated or directed to overthrow or influence any state or government, or any provincial, local or tribal authority with force, or by means of fear, terrorism or violence;
- Any act which is calculated or directed to bring about loss or damage in order to further any political aim, objective or cause, or to bring about any social or economic change, or in protest against any state or government, or any provincial, local or tribal authority, or for the purpose of inspiring fear in the public, or any section thereof; or
- Any riot, strike or public disorder, or any act or activity which is calculated or directed to bring about a riot, strike or public disorder.

These products are offered only to the domestic market.

Sasria is a state-owned company incorporated and domiciled in the Republic of South Africa.

#### 1.1 Statement of compliance

The financial statements are prepared in accordance with the requirements of the Companies Act of South Africa, the Public Finance Management Act 1 of 1999 (PFMA) and International Financial Reporting Standards (IFRS).

#### 1.2 Basis of presentation

These financial statements have been prepared in accordance with IFRS, the Companies Act of South Africa and the PFMA.

The financial statements have been prepared under the historical cost convention, on a going concern basis in compliance with IFRS, modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss. The exception lies with insurance contracts liabilities which are valued in terms of the Financial Soundness Valuation (FSV) basis contained in the Standards of Actuarial Practice (SAP) 104, issued by the Actuarial Society of South Africa.

Sasria prepares and reports its financial statement in Rands (R). Due to rounding, numbers presented may not add up precisely to totals provided.

The Company's statement of financial position is not presented using a current/non-current classification.

The following asset balances are current: cash and cash equivalents, insurance receivables, prepayments, deferred acquisition costs asset, current income tax receivable and reinsurance contracts.

The following asset balances are generally considered to be non-current: property and equipment, intangible assets.

The following liabilities balances are current: current income tax payables, payables, employee benefit liabilities and deferred income.

The following liabilities balances are generally considered to be non-current: deferred income tax liability.

#### 1.3 Use of estimates and judgements

The preparation of the financial statements in accordance with IFRS requires the use of certain critical accounting estimates of certain assets and liabilities. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. This is specifically true for the estimation of liabilities from insurance contracts, including the estimate of the provision for claims incurred but not reported (IBNR). The estimates and assumptions are based on historical experience and various factors that may be relevant at the time. Actual results may subsequently be different from the estimates. Estimates and judgements are annually evaluated and based on the historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 10.

## 2. Accounting policies

### 2.1 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, except as noted below.

#### 2.1.1 New and amended standards adopted by Sasria

##### 2.1.1.1 Effective in the current financial year and have an impact on Sasria

The following standards, amendments to standards and interpretations have been adopted by the Company for the first time in the current financial year:

IASB effective date	Standards
1 January 2018	<p><b>IFRS 15, 'Revenue from contracts with customers'</b></p> <p>This standard contains a single model that applies to contracts with customers and two approaches to recognise revenue: at a "point in time" or "over time". The model features a contract-based, five-step analysis of transactions to determine whether, how much and when revenue is to be recognised.</p> <p>Sasria should not be impacted by IFRS 15. However, management is still assessing the impact of the standard.</p> <p><b>IFRS 9, 'Financial instruments'</b></p> <p>On 24 July 2014, the IASB issued the final IFRS 9, 'Financial instruments' standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39, 'Financial instruments': Recognition and measurement.</p> <p>This standard could have a significant impact on the Company which may include changes in the measurement bases of Sasria's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been amended from an "incurred loss" model from IAS 39 to an "expected credit loss" model.</p> <p>Management is assessing the impact of this standard on Sasria.</p> <p><b>Annual improvements to IFRSs 2015-2017 cycle (Amendments to IFRS 3 Business Combinations):</b></p> <p>The disclosure requirements for remeasurement of previously held interests. This has had no impact on Sasria.</p>

#### 2.1.2 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are available but neither effective nor early adopted yet. These will not be applied in preparing the financial statements for the year ended 31 March 2018. None of these are expected to have a significant effect on the financial statements of the Company, except the ones set out below:

IASB effective date	Standards
1 January 2019	<p><b>IFRS 16, 'Leases'</b></p> <p>This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("Lessee"), and the supplier ("Lessor"). IFRS 16 replaces the previous leases standard, IAS 17 "Leases" and the related interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. No significant changes have been included for lessors.</p> <p>Management is assessing the impact of this standard on Sasria. The standard is effective for annual periods beginning on or after 1 January 2019 and has to be applied retrospectively. Early adoption is permitted. Sasria is expecting to adopt IFRS 16 in its financial statements for the year ending 31 March 2019.</p>

IASB effective date	Standards
1 January 2021	<p><b>IFRS 17, 'Insurance Contracts':</b></p> <p>The standard supersedes IFRS 4 Insurance Contracts.</p> <p>IFRS 17 addresses the recognition, measurement, presentation and disclosure of insurance contracts issued, reinsurance contracts held and investment contracts with discretionary participation features. The standard contains guidance on when to separate components in an insurance contract and account for them in terms of another standard. The components that have been separated (subject to certain criteria) are embedded derivatives, distinct investment components and distinct goods and non-insurance services.</p> <p>The standard requires an entity to identify portfolios of insurance contracts and to group them into the following groups at initial recognition:</p> <ul style="list-style-type: none"> <li>• Contracts that are onerous;</li> <li>• Contracts that have no significant possibility of becoming onerous subsequently; and</li> <li>• The remaining contracts in the portfolio.</li> </ul> <p>An entity may simplify the measurement of a group of insurance contracts using the premium allocation approach if certain criteria is met.</p> <p>The new standard will have a significant impact on Sasria's recognition, measurement, presentation and disclosure in the financial statements of insurance contracts issued.</p> <p>Management has started to assess the impact of this standard on Sasria.</p> <p>The standard is effective for annual periods beginning on or after 1 January 2021 and has to be applied retrospectively. Early adoption is permitted. Sasria is expecting to adopt IFRS 17 in its financial statements for the year ending 31 March 2021.</p>

## 2.2 Property and equipment

The cost of an item of property and equipment is recognised as an asset when:

- It is probable that future economic benefits associated with the item will flow to the Company; and
- The cost of the item can be measured reliably.

Property and equipment is initially recognised and measured at cost.

Costs include costs incurred initially to acquire or construct an item of property and equipment and costs incurred subsequently to add to, or replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property and equipment, the carrying amount of the replaced part is de-recognised. Property and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value. Property and equipment is carried at cost less accumulated depreciation and any impairment losses.

Subsequent expenditure is capitalised when it is probable that it will give rise to future economic benefits.

The useful lives of items of property and equipment have been assessed as follows:

Item	Average useful life
Computer equipment	3 years
Furniture and fittings	10 years
Leasehold improvements	5 years
Motor vehicles	5 years
Office equipment	5 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate. The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset. The gain or loss arising from de-recognised of an item of property and equipment is included in profit or loss when the item is de-recognised. The gain or loss arising from de-recognised of an item of property and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. The gain or loss on disposal is the difference between the net proceeds received and the carrying amount of the assets.



## 2.3 Intangible assets

An intangible asset is recognised when:

- It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- The cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost. Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- It is technically feasible to complete the asset so that it will be available for use or sale;
- There is an intention to complete and use or sell it;
- There is an ability to use or sell it;
- It will generate probable future economic benefits;
- There are available technical, financial and other resources to complete the development and to use or sell the asset; and
- The expenditure attributable to the asset during its development can be measured reliably.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of directly attributable overheads. Other development expenditures that do not meet these criteria are recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. To the extent that subsequent costs are incurred in the development phase, these are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured. All other repairs and maintenance expenditure is charged to profit or loss during the financial period in which it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses. The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

Item	Average useful life
Computer software	3 – 5 years

## 2.4 Financial assets and liabilities

### 2.4.1 Classification

The Company classifies its financial assets into the following categories: financial assets held at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

#### 2.4.1.1 Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated as at fair value through profit or loss at inception. A financial asset is classified as a trading instrument if acquired principally for selling in the short term and/or forms part of the portfolio of financial assets in which there is evidence of profit-taking, or if so designated by management. Derivatives are also categorised as held for trading.

Financial assets designated as at fair value through profit or loss at inception are the following:

- **Financial assets that are managed and their performance is evaluated on a fair value basis**

Information about these financial assets is provided internally on a fair value basis to Sasria's key management personnel. Sasria's investment strategy is to invest in equity and debt securities, and to evaluate them with reference to their fair values. Assets included in these portfolios are designated upon initial recognition as at fair value through profit or loss.

Recognition and measurement of financial asset purchases and disposals are recognised on trade date – the date on which Sasria commits to purchase or sell the asset. Financial assets are initially recognised at fair value. Transaction costs are recognised in the statement of comprehensive income. Financial assets are de-recognised when the rights to receive cash flows from the assets have expired or have been transferred and Sasria has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Unrealised movements arising from changes in the fair value of financial assets at fair value through profit or loss are included in the statement of comprehensive income in the period in which they arise. Dividend income and interest accrued from financial assets at fair value through profit or loss are recognised in the statement of comprehensive income as part of investment income when Sasria's right to receive payments is established. Realised gains on financial assets at fair value through profit or loss are calculated as the difference between proceeds received and cost. Realised gains are recognised as part of net loss/gain on financial assets and liabilities at fair value through profit or loss in investment income.

The fair values of quoted investments are based on current stock exchange closing prices at the close of business on the reporting date. If the market for a financial asset is not active or if it is unquoted, Sasria establishes fair value by using valuation techniques. These include discounted cash flow analysis, recent arm's length transactions, premium/discount to net asset value and price-earnings techniques. Sasria's main valuation techniques incorporate all factors that market participants would consider and make maximum use of observable market data. Debt securities are measured at fair value based on the market rate of an equivalent non-convertible bond. Unit trusts are measured at fair value based on the quoted repurchase prices.

- **Derivatives**

Derivative financial instruments which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates. Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss. Derivatives are classified as financial assets at fair value through profit or loss.

#### **2.4.1.2 Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short term or that it has designated as held at fair value through profit and loss.

- **Trade receivables and payables**

The carrying values of trade receivables (less impairment provision) and payables are assumed to approximate their fair values. These spreads are internally reviewed by the committees of the respective asset managers. Subsequent changes to these valuations would result in fair value adjustments.

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method.

Trade and other payables are recognised when Sasria has a present obligation arising from past events, settlement of which is expected to result in an outflow of economic benefits from Sasria. Trade and other payables are initially recorded at fair value plus transaction costs and, subsequent to initial recognition, they are carried at amortised cost.

- **Cash and cash equivalents**

Cash and cash equivalents are measured at initial recognition at fair value plus transactional costs.

Cash and cash equivalents comprise cash on hand and deposits held on call with banks. Cash equivalents comprise highly liquid investments that are convertible to cash with insignificant risk of changes in value and with original maturities of less than three months and are held at amortised cost.

#### **2.4.2 Offsetting**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention and ability to settle on a net basis, or to realise and settle the asset and liability simultaneously.

### 2.4.3 De-recognition of financial assets and financial liabilities

The entity shall de-recognise a financial asset when the contractual rights to the cash flow from the financial assets expire or it transfers the financial assets and the transfer qualifies for de-recognition. An entity shall de-recognise a financial liability when the obligation specified in the contract is discharged, cancelled or expires.

## 2.5 Impairment of financial assets

The carrying amounts of all Sasria's assets, other than those classified as fair value through profit and loss, are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such indication exists, the carrying value is reduced to the estimated recoverable amount by means of a charge to the statement of comprehensive income.

### 2.5.1 Receivables including insurance-related receivables

Receivables including insurance-related receivables are impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that receivables including insurance-related receivables are impaired includes observable data that comes to the attention of Sasria about the following events:

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for the financial asset because of financial difficulties; and/or
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual assets in the group, including:
  - Adverse changes in the payment status of issuers of debtors in the group; and/or
  - National or local economic conditions that correlate with defaults on the assets in the group.

Sasria first assesses whether objective evidence of impairment exists individually for assets that are individually significant. If Sasria determines that no objective evidence of impairment exists for an individually assessed asset, whether significant or not, it includes the asset in a group of assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised through profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, Sasria may measure impairment on the basis of an instrument's fair value using an observable market price. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed. The amount of the reversal is recognised through profit or loss.

### 2.5.2 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. In the case of non-financial assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. The reversal is taken through profit or loss. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## 2.6 Insurance classification

Sasria issues contracts which transfer insurance risk or financial risk or, in some cases, both. Insurance contracts are those contracts under which Sasria (as insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects them. Such contracts may also transfer financial risk. Receipts and payments under insurance contracts are accounted for in the statement of comprehensive income in accordance with the requirements of IFRS 4, 'Insurance Contracts'. The insurance contracts that Sasria underwrites are classified and described below:

### 2.6.1 Short-term insurance

Short-term insurance provides benefits under short-term policies, which include special risk cover for engineering, fire, transportation, motor and guarantee or a contract comprising a combination of any of those policies. Short-term insurance contracts are further classified into the following categories:

- Personal insurance, consisting of insurance provided to individuals and their personal property; and
- Commercial insurance, providing cover on the assets of business enterprises.

## 2.7 Recognition and measurement of insurance contracts

### 2.7.1 Gross written insurance premiums and outward reinsurance premiums

Gross written insurance premiums exclude value added tax and comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period and are disclosed gross of commission payable to intermediaries. Gross written insurance premiums include adjustments to premiums written in prior accounting periods. Premiums are earned from the date the risk attaches, over the indemnity period, based on the pattern of the risk underwritten. Outward reinsurance premiums are recognised as an expense in accordance with the risk pattern of cover ceded.

### 2.7.2 Provision for unearned premiums

The provision for unearned premiums represents the portion of the current year's premiums that relate to risk periods extending into the following year. As the majority of the underwriting risks are incurred uniformly over the term of the contract, the unearned premium liability is calculated on the straight-line basis, using the 365<sup>th</sup> method.

### 2.7.3 Deferred acquisition costs (DAC) and deferred income

The costs of acquiring new and renewal insurance business that are primarily related to the production of that business are deferred and recognised when they can be identified and measured reliably and it is probable that they will be recovered. The costs are subsequently amortised to the income statement as the premium income is earned. Deferred income relates to the deferred reinsurance acquisition revenue. This is recognised in respect of fees paid at inception of the contract by the policyholder that are directly attributable to a contract. A liability is raised and released to revenue as the services are provided over the expected duration of the contract.

### 2.7.4 Commission paid

Commissions paid to intermediaries are accounted for over the risk period of the policy to which they relate. The portion of the commission which is deferred to subsequent accounting periods is termed deferred acquisition revenue.

### 2.7.5 Liability adequacy test

At each end of the reporting period, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC assets. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision). Any DAC written off as a result of this test cannot subsequently be reinstated.

## 2.7.6 Claims incurred

Claims incurred exclude value added tax and consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims and provision for claims incurred but not reported (IBNR). Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to Sasria.

## 2.7.7 Provision for outstanding claims and reinsurance recoveries

Provision is made on a prudent basis for the estimated final cost of all claims that had not been settled on the accounting date, less amounts already paid. Sasria's own assessors or contracted external assessors individually assess claims. The claims provision includes an estimated portion of the direct expenses of the claims and internal and external handling expenses. Claims provisions are not discounted.

Claims provisions are determined based upon previous claims experience, knowledge of events, the terms and conditions of the relevant policies and on the interpretation of circumstances. Each notified claim is assessed on a separate case-by-case basis with due regard to the specific circumstances, information available from the insured and/or loss adjuster and past experience with similar cases and historical claims payment trends. The approach also includes the consideration of the development of loss payment trends, the levels of unpaid claims, legislative changes, judicial decisions and economic conditions. Sasria employs individuals experienced in claims handling and rigorously applies standardised policies and procedures to claims assessments. The ultimate cost of reported claims may vary as a result of future developments or better information becoming available about the current circumstances. Therefore, case estimates are reviewed regularly and updated when new information becomes available.

The provision for outstanding claims is initially estimated at a gross level. A separate calculation is carried out to estimate reinsurance recoveries. The calculation of reinsurance recoveries considers the type of risk underwritten, the year in which the loss claim occurred and under which reinsurance programme the recovery will be made, the size of the claim and whether the claim was an isolated incident or formed part of a catastrophe reinsurance claim.

## 2.7.8 Provision for claims incurred but not reported (IBNR)

Provision is also made for claims arising from insured events that occurred before the close of the accounting period, but which had not been reported to Sasria at that date. This provision is calculated using actuarial modelling with at least five years' historical claims experience where possible. Sasria adopts multiple techniques to estimate the required level of provisions. This assists in developing a greater understanding of the trends inherent in the data being projected.

Sasria does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to Sasria and statistical analyses for the IBNR claims, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

### 2.7.8.1 The basic chain-ladder methodology, Bornhuetter-Ferguson and average cost per claim methods

Sasria uses the basic chain-ladder, Bornhuetter-Ferguson and the average cost per claim methods to estimate the ultimate cost of claims. The basic technique involves analysing historical claims development factors, net of reinsurance, and selecting estimated development factors based on this historical pattern. The selected development factors are applied to cumulative internal claims data for each incident year that is not yet fully developed to produce an estimated ultimate claims cost for each incident year.

A stochastic process is applied to the choice of development factors for each incident year in accordance with standard statistical practices. Numerous simulations are performed to obtain a distribution of the ultimate claims cost.

The claims provisions are subject to close scrutiny within Sasria. In addition, for major classes where the risks and uncertainties inherent in the provisions are the greatest, regular and ad hoc detailed reviews are undertaken by advisers who are able to draw upon their specialist expertise and a broader knowledge of current industry trends in claims development. The results of these reviews are considered when establishing the appropriate levels of provisions for the outstanding claims and unexpired periods of risk.

### 2.7.8.2 IBNR provision is held so as to be at least sufficient at the 75<sup>th</sup> percentile

As this method uses historical claims development information, it assumes that the historical claims development pattern will occur again in future. There are reasons why this may not be the case. Such reasons include:

- Change in processes that affect the development/recording of claims paid and incurred;

- Economic, legal, political and social trends;
- Changes in the mix of business; and
- Random fluctuations, including the impact of large losses.

The degree of uncertainty will vary by policy class according to the characteristics of the insured risks and the cost of a claim will be determined by the actual loss suffered by the policyholder. There may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to Sasria. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude and timing of the settlement of the claim. The establishment of insurance liabilities is an inherently uncertain process and, as a consequence of this uncertainty, the eventual cost of settlement of outstanding claims can vary substantially from the initial estimates. Sasria seeks to provide appropriate levels of claims provisions taking the known facts and experience into account.

### **2.7.9 Reinsurance contracts held**

Reinsurance arrangements do not relieve Sasria of its direct obligations to its policyholders. Amounts recoverable under reinsurance contracts are assessed for impairment at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that Sasria may not recover all amounts due and there is a reliably measurable impact on the amounts that Sasria will recover from a reinsurer. Impairment losses are recognised through the statement of comprehensive income.

Reinsurance contracts are only recognised as such when they give rise to significant transfer of insurance risk from Sasria to the reinsurers. These reinsurance contracts meet the definition of an insurance contract as defined above. Contracts that do not meet these classification requirements are classified as financial assets. Claims that are recoverable under such contracts are recognised in the same year as the related claims. The benefits to which Sasria is entitled under its reinsurance contracts held are recognised as reinsurance assets.

These assets consist of short-term balances due from reinsurers on settled claims, as well as estimates that are dependent on the outcome of claims experiences related to the reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when incurred. The reinsurer's share of unearned premiums represents the portion of the current year's reinsurance premiums that relate to risk periods covered by the related reinsurance contracts extending into the following year. The reinsurers' share of unearned premium is calculated using the 365<sup>th</sup> method.

### **2.7.10 Reinsurance commission**

Reinsurance commission is deferred in line with the reinsurance premium expense. Profit commissions receivable should be taken into account when they are likely to be realised and are measurable.

### **2.7.11 Receivables and payables related to insurance contracts**

Receivables and payables are recognised when due. These include amounts due to and from intermediaries.

### **2.7.12 Salvage reimbursements**

Some insurance contracts permit Sasria to sell (usually damaged) property acquired in settling a claim (i.e. salvage). Sasria may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation). Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims. The allowance is the amount that can reasonably be recovered from the disposal of the property. Subrogation reimbursements are also considered as an allowance in determining the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

## **2.8 Taxation**

Income taxation expense comprises current and deferred taxation, it is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or other comprehensive income.

### **2.8.1 Current income tax**

The current income tax charge is calculated on the basis of the South African tax laws enacted or substantively enacted at the statement of financial position date, and any tax payable in respect of prior years. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

## 2.8.2 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor the taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred income tax is provided on temporary differences arising, except where Sasria controls the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority. The tax effects of unused losses carried forward or unused tax credits are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

## 2.9 Employee benefits

### 2.9.1 Pension obligations

Sasria provides for the retirement benefits of its employees through a defined contribution plan. The assets are held in separate trustee-administered funds. Sasria pays defined contributions into these funds and thereafter, Sasria has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all the employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is assured.

### 2.9.2 Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. Sasria recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after the reporting date are discounted to present value.

### 2.9.3 Bonus plan

Sasria recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to Sasria's shareholders after certain adjustments. Sasria recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

### 2.9.4 Leave pay

Employees' entitlement to annual leave and long-service leave are recognised when they accrue to employees. Provision is made for the estimated liability of this leave as a result of services rendered by employees up to the statement of financial position date.

## 2.10 Provisions

Provisions are recognised when Sasria has a present legal or constructive obligation of uncertain timing or amount as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are measured as the present value of management's best estimate of the expenditure required to settle the obligation at the reporting date. When the effect of discounting is material, provisions are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Provisions are not recognised for future operating losses. When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Claims benefits payable and the provision for claims that have occurred but have not yet been reported as at the reporting date are disclosed under insurance liabilities.

## 2.11 Revenue recognition

The accounting policy relating to the recognition of revenue from insurance contracts is disclosed as part of 2.7 above, which describes the recognition and measurement of insurance contracts in detail.

### 2.11.1 Interest income and expenditure

Interest income and expenditure for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, is recognised within investment income and finance costs in the profit and loss using the effective-interest method.

### 2.11.2 Dividend income

Dividend income for equities is recognised when the right to receive payment is established, which is the last day of trade in respect of quoted shares, and when declared in respect of unquoted shares. Dividends include shares received in terms of capitalisation issues, irrespective of whether there is an option to receive cash in lieu of the shares.

## 2.12 Operating leases – lessee

The difference between the amounts recognised as an expense and the contractual payments is recognised as an operating lease asset. This liability is not discounted. Any contingent rents are expensed in the period they are incurred.

## 2.13 Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in Sasria's financial statements in the period in which they are approved by the Company's Board of Directors.

## 2.14 Critical accounting estimates and judgements in applying accounting policies

### 2.14.1 Ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is Sasria's most critical accounting estimate. Several sources of uncertainty have to be considered in estimating the liability that Sasria will ultimately be exposed to for such claims. The risk environment can change quickly and unexpectedly owing to a wide range of events or influences. Sasria is constantly refining the tools with which it monitors and manages risks to place the Company in a position to assess risk situations appropriately, despite the greatly increased pace of global changes. The growing complexity and dynamism of the environment in which we operate, however, means that there are natural limits. There cannot and never will be absolute security when it comes to identifying risks at an early stage, measuring them sufficiently, or correctly estimating their real hazard potential. Refer to notes 3 and 4 – Management of insurance and financial risks for further detail on the estimation of the claims liability.

### 2.14.2 Valuation of unlisted investments

The unlisted equity investment is reviewed by management for reasonableness on an annual basis. Sasria accounts for its share of the fair value movements as described in 2.3 above. The unlisted bond investments, which are held through appointed asset managers, are valued based on market observable data and expert judgement. The valuations are also reviewed by management for reasonableness. The market observable data would be the interest rate at which a listed liquid government bond will trade. To determine the spread at which the unlisted bond should be valued requires the use of an expert. These spreads are internally reviewed by the credit committees of the respective asset managers. Subsequent changes to these valuations would result in changes to fair values. Sasria accounts for its share of the fair value movements as described in 2.3 above.

### 2.14.3 Capital adequacy requirement reserve

Sasria calculates its solvency capital requirement (SCR) in accordance with Board Notice 169 of the Financial Services Board. The SCR is based on the risk profile of Sasria's underwriting activities and asset mix. Minimum allowable asset, equal to the calculated SCR value, needs to be maintained throughout the period.



### 3. Management of underwriting risk

Underwriting risk is the risk that claims and related expense experience is worse than anticipated in the pricing and reserving of the underlying products. For Sasria the drivers of underwriting risk include changes in the political, social and labour climate of South Africa, as well as economic changes such as higher than expected inflation.

The Company manages underwriting risks through its underwriting strategy, appropriate pricing, adequate reinsurance arrangements and pro-active claims handling.

#### 3.1 Exposure to underwriting risk

The Company underwrites risks that natural persons, corporate or other entities wish to transfer to an insurer. While the Company provides cover relating to conventional fire, motor and engineering, the specific risks covered are restricted to material damage arising from riots, strikes, labour disturbances and terrorism.

As such, the Company is exposed to uncertainty surrounding the timing and severity of claims under insurance contracts which would be impacted by circumstances such as political unrest, downturn in the state of the economy and organised labour issues. These insurance events are, by their nature, random and given the type of risks that the Company underwrites, the actual number and size of events during any one year may vary from those estimated. The actual amounts in any one year may be greater than has been provided for.

In accordance with Sasria's business model, most of the administration is outsourced to Sasria's agents. This includes the issue of Sasria coupons, as well as the collection of Sasria premiums. The Sasria agents allow the Sasria coupons to attach to their policies. A Sasria agent is typically a registered conventional short-term insurer or short-term insurer underwriter who has entered into an agreement with the Company. The agent agreement clearly sets out the manner in which the agent company should administer the Sasria business. The agents are also provided with a comprehensive set of guidelines detailing the processes and procedures relating to the issue of the Sasria's coupons, the collection of premiums and reporting of claims on its behalf and the method of payment of the premiums to Sasria.

The Company underwrites primarily short-tail risks, which means that the majority of claims are typically settled within one year of the occurrence of the event/s giving rise to the claims. Risks that are long-tail in nature represent an insignificant portion of the Company's insurance portfolio.

The product features of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts underwritten by the Company, are set out below:

**Fire** – provides indemnity for loss of or damage to immovable property. This includes commercial and residential properties.

**Transportation** – provides indemnity for loss of or damage to goods-in-transit, marine cargo and marine hull, which includes ships and small craft as well as the marine or inland transit of cargo.

**Motor** – provides indemnity for loss of or damage to all types of motor vehicles.

**Guarantee** – provides indemnity to banks for default by their customers due to the occurrence of a Sasria peril and is sold by the Home Loan Guarantee Company.

**Engineering** – provides indemnity for loss of or damage sustained to machinery and equipment or damage to buildings or structures during the course of construction.

#### 3.2 Limiting exposure to underwriting risk

Due to the business model followed by Sasria, there is no direct underwriting performed on the coupons up to R500 million. Sasria directly underwrites all the coupons in excess of R500 million but not exceeding R1.5 billion. Sasria offers cover on a non-refusable basis. The premium rates that the agent companies use are set by Sasria in its underwriting guidelines. The underwriting risk is mitigated by the fact that the Sasria cover, being a coupon policy, attaches to a conventional insurer's underlying policy. If no cover is provided by the non-mandated intermediary company, then no Sasria cover attaches.

The insured have an option of taking up the Sasria cover at the holding company level or at subsidiary level. Adequate reinsurance has been arranged to mitigate the increased exposure.

### 3.3 Underwriting strategy and limits and policies for mitigating underwriting risk

The legislated monopoly enjoyed by Sasria, as well as the underwriting philosophy of the Company, results in the Company underwriting a large number of diverse risks, resulting in a balanced portfolio spread across personal and commercial policyholders.

By using gross written insurance premiums in each class as an indicator, the table below illustrates the Company's distribution of risks underwritten:

Category of risk policy	2018 %	2017 %
Property	80.33	80.27
Transportation	1.42	1.16
Motor	13.65	13.63
Guarantee	0.05	0.05
Engineering	4.20	4.48
Miscellaneous	0.35	0.54
<b>Total for all categories</b>	<b>100.00</b>	<b>100.00</b>

### 3.4 Concentration of insurance risks

The Company has a diversified insurance portfolio of risks across South Africa's geography, and across all types of industrial and commercial enterprises as well as personal lines. However, as a result of Sasria's predominant presence in this particular market and the types of risks covered, any single event could result in a large number of claims. The maximum any one insured can claim is R1.5 billion. Losses arising from an event (where more than one insured is affected by the same event) in excess of R500 million will trigger Sasria's catastrophe reinsurance.

By using gross written premiums as an indicator, the Company's insurance portfolio could also be divided between personal and commercial (all insured's other than natural persons) policies as follows:

Split by type of policyholder	2018 %	2017 %
Personal policies	20.85	21.14
Commercial policies	79.15	78.86
<b>Total personal and commercial policies</b>	<b>100.00</b>	<b>100.00</b>

The Company ensures that agent companies adhere to the set underwriting guidelines through bi-annual audits conducted at each agent company. In addition, the Company's own Internal Audit department conducts reviews of the Sasria process carried out on the Company's behalf by agent companies, their underwriting managers and brokers. Follow-up reviews are performed by the Quality Assurance department to ensure that findings are resolved and closed within a reasonable time and no additional risks are encountered.

During the past year, quality assurance performed pro-active reviews on agents in addition to their follow-up reviews.

Any changes to the guidelines are communicated to all agent companies and their underwriting managers by way of written circulars. The ability to adjust rates, either for monthly or annual business (depending on the contract term), allows the Company to mitigate the risk of underwriting losses. These adjustments would be from renewal date on annual policies and over a period of a few months on monthly policies. The Company monitors the incidence of claims per insured, class and sector and, if necessary, has the ability to impose deductibles where necessary.

Pricing is based on historical claims, frequency and severity and includes catastrophe modelling. The methodology used estimates the anticipated cost per policy. Claims remain the Company's most significant cost. Further adjustments are made in the pricing estimate for expenses, commission, cost of capital and profit allowance, investment income and expenses and reinsurance allowance.

Catastrophe risk is managed and mitigated through the use of reinsurance.

The split between annual and monthly premiums written is as follows:

Split by type of policy	2018 %	2017 %
Annual policies	49.03	49.60
Monthly policies	50.97	50.40
<b>Total annual and monthly policies</b>	<b>100.00</b>	<b>100.00</b>

The incidence of fraud is reduced by robust claims handling processes and regular review of these processes. The Company's Internal Audit department conducts annual reviews of the in-house Claims department to ensure adherence to the Company's internal controls procedures. On a monthly basis the underwriting results per class of business are monitored against pre-determined budgets. The premium income and reversals are also monitored for each agent on a monthly basis and compared to the previous period. Any major fluctuations are investigated.

### 3.5 Reinsurance strategy

Sasria's reinsurance strategy is driven by the desire to use capital efficiently, protect the statement of financial position and hence ensure a sustainable business. The strategy is to retain as much premium as possible subject to a solvency ratio target.

Reinsurance is placed on the local and international reinsurance markets. Reinsurance arrangements in place include proportional and non-proportional reinsurance which include catastrophe cover. The reinsurance programme is aimed at reducing the volatility of the Company's underwriting results and protecting its capital. The Company purchases catastrophe reinsurance to protect itself against losses arising from major catastrophes. The level of catastrophe reinsurance purchased is based on the Company's maximum probable loss and capital adequacy exercise, which is performed annually. Sasria evaluates and monitors the type and amount of reinsurance to be purchased within the Company's risk appetite framework and measures.

### 3.6 Claims management

The Claims department monitors most of the media on a daily basis to consider all events likely to result in claims against the Company. The outstanding claims provision is monitored on a monthly basis by management. No provision for an outstanding claim estimate is reversed until the Company is reasonably assured that no litigation will occur. The outstanding claims provision is annually tested for adequacy as part of the liability adequacy test noted in 2.7 above. The process regarding the claims development is discussed in note 10 which includes sensitivities.

## 4. Management of financial risk

The Company is exposed to financial risk through its financial assets, reinsurance assets, financial liabilities and insurance liabilities. The most important components of this financial risk are market risk, credit risk and liquidity risk. These risks arise from investments in various asset classes whose values are exposed to the current macro-economic environment resulting in market price movements.

The following financial instruments and insurance balances excluding reinsurance contracts and insurance contract liabilities are disclosed in classes based on their similar characteristics:

Figures in Rand thousand	2018	2017
<b>Financial and insurance assets</b>		
Listed and quoted equity securities	1 878 619	1 718 727
Unlisted and unquoted equity securities	6 300	6 300
<b>Total equity securities</b>	<b>1 884 919</b>	<b>1 725 027</b>
Unitised linked investments	248 324	215 997
Money market fund (>3 months)	409 653	757 874
Government and semi-government bonds	2 452 798	369 493
Other bills and bonds (fixed rate)	649 021	821 667
<b>Total debt and money market securities</b>	<b>3 759 796</b>	<b>2 165 031</b>
<b>Total financial assets at fair value through profit or loss</b>	<b>5 644 715</b>	<b>3 890 058</b>

Figures in Rand thousand	2018	2017
Insurance receivables	176 465	161 978
Loans and receivables	120 616	141 497
<b>Total loans and receivables including insurance receivables</b>	<b>297 081</b>	<b>303 475</b>
Reinsurance assets	24 830	24 202
Cash and cash equivalents	1 940 774	2 790 334
<b>Total financial and insurance assets</b>	<b>1 965 604</b>	<b>2 814 536</b>
<b>Financial and insurance liabilities</b>		
Deferred income	4 321	7 219
Insurance contracts	1 179 404	1 202 314
Payables	84 595	93 633
<b>Total financial and insurance liabilities</b>	<b>1 268 320</b>	<b>1 303 166</b>

### 4.1 Market risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, equity prices and foreign currency exchange rates.

Market risk arises due to fluctuations in both the value of financial liabilities and the value of investments held. The management of the Company is tasked with the responsibility of managing key market risks to which the Company is exposed. Sasria's investment portfolio is structured to withstand shocks such as the credit rating downgrade through its strategic asset allocation which allows for diversification and flexibility to reduce a significant drag on relative performance. Sasria's investment philosophy is centred on an asset-liability matched investment approach which ensures that the underlying assets into which the funds are invested are matched to meet the duration and Rand value of the liabilities at a given point in time. When a suitable asset-liability matched position is achieved, Sasria will optimise returns on the non-liability matching assets within the risk appetite limits. The investments market positions are monitored daily by the external investment

managers and reviewed monthly by the Finance Director, the Risk department and quarterly by the Investment Committee. For each of the major components of market risk, described in more detail below, the Company's Board has put in place policies and procedures to set out how each risk should be managed and monitored and the approach to setting an appropriate risk appetite.

## 4.2 Interest rate risk

The Company does not have any borrowings. The Company is exposed to interest rate risk on its investments due to the fixed rate instruments such as other bills and bonds, which exposes the Company to the fair value risk, and other interest-bearing securities such as cash on fixed deposits, call accounts and other money market instruments, which exposes the Company to interest rate risk. These interest-bearing instruments are exposed to the interest rate risk as a result of the sovereign credit rating downgrade which is an indication of the government's ability to meet its debt obligation and also increases its cost of borrowing when issuing new interest-bearing instruments or servicing the current debt. This risk is limited through a well-diversified portfolio which allows for flexibility to ensure that managers can adopt a defensive stance in the current environment.

The risk is further limited by regular trading of the portfolio, providing diversification in terms of yield profiles and an asset and liability matching strategy.

A hypothetical 1% decline or increase in the interest rate relating to cash and interest-bearing securities would result in an increase/decrease in interest earned of R53.2 million (2017: R49.6 million) or an increase/decrease in profit before tax of R53.2 million (2017: R49.6 million) respectively.

A 1% increase in interest rates would expose the Company to the risk of losing value in other bills and bonds by R194 million (2017: R32.1 million), while a decrease would expose the Company to the risk of gaining value by R221 million (2017: R35.9 million). A 1% increase in interest rates would expose the Company to the risk of losing value in the infrastructure development bond fund by R18.2 million (2017: R14.2 million) while a decrease would expose the Company to the risk of gaining value by R18.2 million (2017: R14.2 million).

The loans and receivables and trade and payables are not sensitive to interest rate fluctuations as they are expected to be settled within three months when they fall due. Exposure to interest rate risk is monitored and managed by management.

## 4.3 Equity price risk

The Company's objective is to earn competitive relative returns by investing in a diverse portfolio of high-quality, liquid securities. Portfolio characteristics are analysed regularly and equity price risk is actively monitored and managed by management.

Investments in listed equities, which are carried at fair value on the reporting date, have exposure to price risk, being a potential loss of market value resulting from adverse change in prices. Investments in marketable securities are valued at fair value and are therefore susceptible to market fluctuations. Sasria's equity asset class was exposed to equity price risk as result of the sovereign credit rating downgrade, these risks were limited as the portfolios underlining constituencies consist of quality Rand-hedge stocks which act as a natural hedge against exchange rate risk.

All of the Company's investments are managed through outsourced reputable investment managers. Each of these managers is given a mandate to ensure that market risk is mitigated through diversification and investing in reputable companies and institutions.

Investment decisions are made by the Board's Investment Committee, which has ultimate responsibility for determining the investment portfolio's strategy and takes investment decisions within the risk profile and risk appetite.

At 31 March 2018, the Company had quoted ordinary share investments which have been disclosed at their fair values. A hypothetical 10% decline or increase in quoted investments would result in a decrease/increase in profit before tax by R187.9 million (2017: R171.9 million). A hypothetical 10% was used during the current financial year due to the expected movements in the equity market. The full impact of a decrease or increase in individual prices of instruments would affect the Company's profit or loss since these investments are in the Company's capital portfolio. The table below clearly illustrates the impact of the assumptions used above.

Figures in Rand thousand	2018	2017
<b>Quoted investments</b>		
Effect on profit before tax at 10% (fluctuation)	187 862	171 873
Effect on profit before tax at 15% (fluctuation)	281 793	257 809

## 4.4 Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will default on debt failing to make payments when due. The key areas which give rise to credit risk exposure for the Company are:

- Reinsurers' share of insurance liabilities that have not yet been paid;
- Reinsurers' share of claims already paid;
- Amounts due from insurance contract holders;
- Premiums and other amounts due from agent companies; and
- Amounts invested with investment counterparties.

The Company only conducts its business with reputable reinsurers rated above a certain level as shown in the ratings table on page 106. The credit risk exposure of agent companies is managed by only conducting business with approved agents. Such risks are subject to an annual review and ongoing monitoring.

Reinsurance is used to manage underwriting risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on a monthly basis, along with their external ratings as indicated below.

### 4.4.1 Credit risk on reinsurance contracts

Reinsurance risk arises due to uncertainty regarding the timing and amount of future cash flows from reinsurance contracts. This could be due to the financial standing of the reinsurer, or due to changes in the appropriateness of cover in the future.

The credit risk that originates from the reinsurance transactions is managed as follows:

Independent credit ratings of all existing and prospective reinsurers are monitored prior to entering into reinsurance transactions. The credit ratings of all existing reinsurers are also monitored on an ongoing basis throughout the year and remedial action is taken if required. In addition, reinsurance contracts make allowance to replace reinsurers in the case of a downgrade of the reinsurers rating, below A-. The table below shows the credit ratings of the Company's five largest reinsurers on the reinsurance programme.

#### 2018

Reinsurer	% of total cover provided	S&P rating*
Swiss Reinsurance Company Limited, Switzerland	21.83	AA-
Lloyds Underwriters	14.95	A+
Hannover Reinsurance Africa Limited, South Africa	14.37	A-
Munich Reinsurance Company of Africa Limited, South Africa	11.97	A-
SCOR Africa Limited	11.15	A-

#### 2017

Reinsurer	% of total cover provided	S&P rating*
Lloyds Underwriters	28.90	A+
Lancashire (UK)	21.50	A-
Munich Reinsurance Company of Africa Limited, South Africa	12.30	AA-
Hannover Reinsurance Africa Limited, South Africa	12.00	AA-
Swiss Reinsurance Company Limited, Switzerland	10.20	AA-

\*The Company does not have any foreign currency risk exposure as the reinsurance contracts are denominated in Rand.

#### 4.4.2 Credit risk of financial assets

The Company does not have collateral, credit enhancements or renegotiated financial assets.

Sasria has exposure to Steinhoff International Holdings, which was impacted negatively by the independent investigation being conducted into potential accounting irregularities. Sasria incurred unrealised losses estimated at R35.8 million and incurred a realised loss of R8.3 million in this regard. The exposure Sasria has as at 31 March 2018 is R2.1 million in assets under management. Bonds were all sold in February 2018, with a market value of R4 million as a nominal loss.

The credit rating of an individual instrument is an indication of the issuer's ability to meet its debt obligation; a lowered rating will affect the cost of borrowing (interest rates) as well as the cost of serving its debt, which therefore poses constraints on the ability to borrow. Sasria investment portfolio is impacted by South Africa's sovereign credit rating downgrade as government's ability to borrow money to fund projects has been constrained. This risk is mitigated by the investment mandates managed through outsourced reputable investment managers. Mandates include credit rating exposure limits, duration limits and the use of derivative instruments to hedge the portfolio without having to dispose of the underlining instruments. Each of these managers is given a mandate to ensure that credit risk is mitigated through diversification and flexibility, which allows for a defensive strategy in the current economic environment.

Credit risk from balances with banks and financial institutions is managed by the Investment Committee in accordance with the Company's investment policy. Investments in surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Board of Directors on an annual basis and may be updated throughout the year, subject to approval by the Investment Committee. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

### 2018

Figures in Rand thousand

Financial and insurance assets	AAA	AA	A	BBB	BB	CCC	Not rated	Total
Government bonds	2 325 521	35 313	-	54 479	33 405	-	4 080	2 452 798
Other bills and bonds	49 189	537 078	15 322	36 425	-	-	11 007	649 021
Money market fund	-	336 879	-	26 604	-	-	46 170	409 653
Unitised linked investments	-	248 324	-	-	-	-	-	248 324
Insurance receivables	-	-	-	-	-	-	176 465	176 465
Loans and receivables	-	5 104	-	-	-	-	115 512	120 616
Cash and cash equivalents	831 587	1 100 386	-	5 600	-	-	3 201	1 940 774
<b>Total</b>	<b>3 206 297</b>	<b>2 263 084</b>	<b>15 322</b>	<b>123 108</b>	<b>33 405</b>	<b>-</b>	<b>356 435</b>	<b>5 997 651</b>

### 2017

Figures in Rand thousand

Financial and insurance assets	AAA	AA	A	BBB	BB	CCC	Not rated	Total
Government bonds	330 279	39 214	-	-	-	-	-	369 493
Other bills and bonds	197 982	473 550	98 905	12 228	39 002	-	-	821 667
Money market fund	-	715 550	14 231	-	28 093	-	-	757 874
Unitised linked investments	-	215 997	-	-	-	-	-	215 997
Insurance receivables	-	-	-	-	-	-	161 978	161 978
Cash and cash equivalents	876 645	1 910 687	3 000	-	-	-	2	2 790 334
Loans and receivables	-	4 015	-	-	-	-	137 482	141 497
<b>Total</b>	<b>1 404 906</b>	<b>3 359 013</b>	<b>116 136</b>	<b>12 228</b>	<b>67 095</b>	<b>-</b>	<b>299 462</b>	<b>5 258 840</b>

The assets analysed above are based on external credit ratings obtained from various reputable rating agencies. The ratings used above are based on Standard & Poor's national scale ratings which are comparable to the prior year.

The rating scales are based on long-term investment horizons under the following broad investment grade definitions:

- AAA: Highest quality with minimal credit risk;
- AA: Very good quality and is subject to very low credit risk;
- A: Good quality with a low credit risk although certain conditions can affect the asset more adversely than those rated AAA and AA;
- BBB: Medium quality with moderate credit risk;
- BB: Low quality with higher credit risk;
- CCC: Low quality with extremely high credit risk; and
- Not rated: Amounts falling within the "not rated" category are managed by the Finance department on a daily basis to ensure recoverability of amounts.

The Company has an Investment Committee that reviews the credit risk on all the financial instruments and measures are put in place to minimise the credit risk. The risk on our investments is further minimised through limiting the dependency of the Company on any one investment manager and through requiring depth and breadth of resources and financial stability in respect of any investment manager appointed by the Company.

The Company monitors its exposure to its counterparties for regulatory reporting and policy adherence purposes. The credit risks are further monitored to ensure that there are no risk appetite breaches. Reporting is provided to the Executive Committee and the Risk Committee on a quarterly basis.

## 4.5 Liquidity risk

The Company is exposed to daily calls on its available cash resources mainly from claims arising from short-term insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost.

The majority of the Company's investments are maintained in short-term liquid investments that can be converted into cash at short notice with insignificant risk of changes in value and would be available to match liabilities which are short-term in nature.

For the purposes of the liquidity analysis below, financial instruments are presented on an undiscounted, contractual and worst-case basis while insurance assets and liabilities are presented based on expected cash flows.

The following liquidity analysis provides details on the expected settlement of the financial and insurance liabilities recognised at reporting date:

<b>2018</b>	Within 0 to 3 months	3 months to 1 year	1 to 2 years	More than 2 years	Total
Deferred income*	4 321	-	-	-	4 321
Payables	84 146	-	-	-	84 146
<b>Total</b>	<b>88 467</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>88 467</b>

<b>2017</b>	Within 0 to 3 months	3 months to 1 year	1 to 2 years	More than 2 years	Total
Deferred income*	7 219	-	-	-	7 219
Payables	87 560	-	-	-	87 560
<b>Total</b>	<b>94 779</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>94 779</b>

\*The unearned premiums and the deferred revenue are being realised on a straight-line basis over the period of one year.



The following maturity analysis provides details on the expected maturities of the financial and insurance assets held at reporting date:

<b>2018</b>	Within 0 to 3 months	3 months to 1 year	1 to 3 years	More than 3 years	Total
Financial assets at fair value through profit or loss	1 889 582	406 064	173 933	3 175 136	5 644 715
Loans and receivables	67 457	-	53 159	-	120 616
Insurance receivables	176 465	-	-	-	176 465
Reinsurance contracts	24 830	-	-	-	24 830
Cash and cash equivalents	1 940 774	-	-	-	1 940 774
<b>Total</b>	<b>4 099 108</b>	<b>406 064</b>	<b>227 092</b>	<b>3 175 136</b>	<b>7 907 400</b>

<b>2017</b>	Within 0 to 3 months	3 months to 1 year	1 to 3 years	More than 3 years	Total
Financial assets at fair value through profit or loss	1 838 785	495 359	572 531	983 383	3 890 058
Loans and receivables	74 532	-	50 519	-	125 051
Insurance receivables	161 978	-	-	-	161 978
Reinsurance contracts	24 202	-	-	-	24 202
Cash and cash equivalents	2 790 334	-	-	-	2 790 334
<b>Total</b>	<b>4 889 831</b>	<b>495 359</b>	<b>623 050</b>	<b>983 383</b>	<b>6 991 623</b>

The above maturity analysis is based on the original contract maturity. However, we have moved ABIL exposure from the "0 to 3 months" category to the "1 to 3 years" category due to the uncertainty on when payment may be expected.

## 4.6 Operational risk

Operational risk arises as a result of inadequate or failed internal processes, people and systems, or from external events. These risks are mitigated through a comprehensive system of internal controls, comprising policies and standards, procedures, systems and information to assist in achieving established objectives and goals.

Sasria manages operational risk using a range of techniques and tools to identify, monitor and mitigate its operational risk in accordance with its risk appetite. These tools include risk and control self-assessments and questionnaires, Key Risk Indicators, scenario and sensitivity analyses and loss data collection/notification. In addition, Sasria has developed a number of contingency plans including incident/loss notification and a business continuity management (BCM) plan which is tested on a regular basis. The BCM is reviewed by internal audit every three years.

## 4.7 Capital management

Sasria's capital management philosophy is to maximise the return on the shareholder's capital within an appropriate risk management framework and ensure that our policyholders' assets are protected against special and catastrophic risks. Management will continue to monitor Sasria's solvency levels and required solvency range in light of industry changes and regulatory requirements. Sasria is committed to efficient capital management and a decision was taken by the Board to maintain an appropriate level of capital with the balance of the required capacity being made up of reinsurance in line with the Company's risk appetite.

Sasria manages its capital through different methods or tools which include the following:

### 4.7.1 Own risk and solvency assessment (ORSA)

Solvency assessment and management (SAM) introduces a requirement for general insurers to conduct an ORSA. ORSA is "the entirety of the processes and procedures employed to: identify, assess, monitor, manage and report the short and long-term risks an insurance undertaking faces or may face and determine the own funds necessary to ensure that the undertaking's solvency needs are met at all times".

ORSA is one of the primary tools used to test whether the Company operates within or outside of the risk appetite over the business planning horizon. Part of the assessment includes carrying out stress and scenario testing over the business planning horizon. The ORSA process requires Sasria to identify the most significant risks facing the organisation, quantifying the capital requirements for these risks and finally

comparing the capital requirement to the own funds available on its statement of financial position. The ORSA process allows management to identify appropriate management actions and embed these actions in the event of a specific event realising.

Sasria performed an ORSA report of the business over the planning horizon and presented the results to its executive management, Risk Committee and the Board. Stress scenarios include economic stresses, demographic stresses and stresses resulting from operational risk.

#### **4.7.2 Capital at risk**

Sasria will, at all times, hold sufficient eligible financial resources to ensure it meets the relevant SCR, as well as its internal (economic) assessment of the capital required (ECR) to deliver on its business plans, reasonable policyholder expectations and claim payments as they fall due.

The Company has established risk appetite measures for the capital at risk as well as limit and threshold allocations to manage the key risks (non-life underwriting risk, credit risk and market risk) identified within the organisation. The establishment of the risk appetite measure is to ensure that the directors have appropriate risk management practices in place. The management of risk within the organisation is governed by the Board and overseen by the Risk Committee.

When determining capital requirements, the Company uses a risk appetite measure of capital at risk over a one-year time period. The Company's capital at risk measurement is based on the higher of the SCR or the ECR. The Company aims to hold adequate capital to remain solvent in the event of substantial deviations, such as a 1-in-200 year event.

#### **4.8 Internal used – ECR**

The Company has developed tools for the purpose of calculating an internal economic view of risk and capital requirements as well as capital projections. The Company has therefore aligned itself to a more appropriate calculation of capital through the development of an economic capital model.

The economic capital model is used to support, inform and improve the Company's decision-making. It is used to determine the optimum capital structure, the investment strategy and its reinsurance programme.

#### **4.9 Solvency capital requirement (SCR)**

SCR is a formula-based figure calibrated by the FSB to ensure that all quantifiable risks are taken into account, including non-life underwriting, market, credit, operational and counterparty risks. Insurers are required to maintain minimum required capital at all times throughout the year.

Sasria's Board of Directors targets an economic capital coverage ratio of between 180% and 230%. In addition, the regulatory capital coverage ratio must exceed predefined threshold levels.

The Company reports to the FSB only on the SCR and not on the ECR.

#### **4.10 Fair value hierarchy**

This requires the Company to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

##### **Level 1**

Quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

##### **Level 2**

Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

##### **Level 3**

Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety, is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Company. The Company considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following table analyses within the fair value hierarchy the Company's financial assets (by class) measured at fair value at 31 March 2018.

## 2018

Figures in Rand thousand

Asset	Level 1	Level 2	Level 3	Total
Equity securities – listed and quoted	1 878 619	-	-	1 878 619
Equity securities – unlisted and unquoted	-	-	6 300	6 300
Debt securities	951 746	2 150 073	-	3 101 819
Money market fund	-	409 653	-	409 653
Unitised linked investments – unlisted and unquoted	-	145 961	102 363	248 324
<b>Total financial assets designated at fair value through profit or loss</b>	<b>2 830 365</b>	<b>2 705 687</b>	<b>108 663</b>	<b>5 644 715</b>

## 2017

Figures in Rand thousand

Asset	Level 1	Level 2	Level 3	Total
Equity securities – listed and quoted	1 718 727	-	-	1 718 727
Equity securities – unlisted and unquoted	-	-	6 300	6 300
Debt securities	369 493	821 667	-	1 191 160
Money market fund	-	757 874	-	757 874
Unitised linked investments – unlisted and unquoted	-	124 246	91 751	215 997
<b>Total financial assets designated at fair value through profit or loss</b>	<b>2 088 220</b>	<b>1 703 787</b>	<b>98 051</b>	<b>3 890 058</b>

**Level 1** – The fair value of financial instruments traded in an active market is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Investments whose values are based on quoted market prices in active markets, and therefore classified within Level 1, include active listed equities. The money market fund does not adjust the quoted price for these instruments.

**Level 2** – Financial instruments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs, are classified within Level 2. These include investment-grade corporate bonds, money market instruments and over-the-counter derivatives. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

**Level 3** – Investments classified within Level 3 have significant unobservable inputs as they trade infrequently. Level 3 instruments include private equity and corporate debt securities. As observable prices are not available for these securities, the Company has used valuation techniques to derive the fair value. The Level 3 equity amount consists of a single private equity position. The main inputs into the Fund's valuation model for these investments include earnings multiples (based on the historical earnings of the issuer over the past decade) and discounted cash flows. The Company also considers original transaction price, recent transactions in the same or similar instruments and completed third-party transactions in comparable instruments. It adjusts the model as deemed necessary. The Company also considers other liquidity, credit and market risk factors. It adjusts the model as deemed necessary. Discounted cash flows are calculated using the average rate of inflation during the financial year.

The following table presents the movements in Level 3 instruments for the year ended 31 March 2018 and 2017 by class of financial instrument.

Asset	Unitised linked investments	Equity securities	Total
Opening balance	91 751	6 300	98 051
Additional investment made	10 612	-	10 612
Movement in Investments	-	-	-
Dividends received	-	-	-
<b>Closing balance</b>	<b>102 363</b>	<b>6 300</b>	<b>108 663</b>

The following table shows the sensitivity of Level 3 measurements to reasonably possible favourable and unfavourable changes in the assumptions used to determine the fair value of the financial assets.

Figures in Rand thousand	2018	2017
<b>Level 3 investments</b>		
Effect on profit before tax at 10% (fluctuation)	10 866	9 805
Effect on profit before tax at 15% (fluctuation)	16 299	14 705

The Level 3 investments are valued by determining Sasria's portion of the underlying investment that is held through unlisted equity instruments. The investments are fair valued using the discounted cash flow technique, refer to note 2.14 - Critical accounting estimates and judgements for detail.

## 5. Property and equipment

Figures in Rand thousand	2018			2017		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Computer equipment	8 457	(6 859)	1 598	7 321	(6 050)	1 271
Furniture and fittings	3 754	(2 033)	1 731	3 222	(1 711)	1 511
Motor vehicles	594	(556)	38	594	(478)	116
Office equipment	2 563	(1 952)	611	2 262	(1 706)	556
Leasehold improvements	11 567	(9 791)	1 776	11 567	(7 479)	4 088
<b>Total</b>	<b>26 945</b>	<b>(21 191)</b>	<b>5 754</b>	<b>24 966</b>	<b>(17 424)</b>	<b>7 542</b>

### Reconciliation of property and equipment – 2018

Figures in Rand thousand	Opening net book amount	Additions	Disposals	Depreciation charge	Total
Computer equipment	1 271	1 206	(19)	(860)	1 598
Furniture and fittings	1 511	562	-	(322)	1 731
Motor vehicles	116	-	-	(78)	38
Office equipment	556	301	-	(246)	611
Leasehold improvements	4 088	-	-	(2 312)	1 776
<b>Total</b>	<b>7 542</b>	<b>2 049</b>	<b>(19)</b>	<b>(3 818)</b>	<b>5 754</b>

## Reconciliation of property and equipment – 2017

Figures in Rand thousand	Opening net book amount	Additions	Disposals	Depreciation charge	Total
Computer equipment	1 482	738	(5)	(944)	1 271
Furniture and fittings	1 783	54	(10)	(316)	1 511
Motor vehicles	194	-	-	(78)	116
Office equipment	341	417	-	(202)	556
Leasehold improvements	6 358	39	-	(2 309)	4 088
<b>Total</b>	<b>10 158</b>	<b>1 248</b>	<b>(15)</b>	<b>(3 849)</b>	<b>7 542</b>

Depreciation expense of R3.82 million (2017: R3.84 million) has been included in expenses for administration and marketing.

## 6. Intangible assets

Figures in Rand thousand	2018			2017		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated depreciation	Carrying value
Software	22 717	(21 172)	1 545	21 435	(20 031)	1 404
<b>Total</b>	<b>22 717</b>	<b>(21 172)</b>	<b>1 545</b>	<b>21 435</b>	<b>(20 031)</b>	<b>1 404</b>

### Reconciliation of intangible assets – 2018

Figures in Rand thousand	Opening net book amount	Additions	Disposals	Depreciation charge	Total
Software	1 404	1 282	-	(1 141)	1 545
<b>Total</b>	<b>1 404</b>	<b>1 282</b>	<b>-</b>	<b>(1 141)</b>	<b>1 545</b>

### Reconciliation of intangible assets – 2017

Figures in Rand thousand	Opening net book amount	Additions	Disposals	Depreciation charge	Total
Software	4 466	282	(83)	(3 261)	1 404
<b>Total</b>	<b>4 466</b>	<b>282</b>	<b>(83)</b>	<b>(3 261)</b>	<b>1 404</b>

## 7. Deferred acquisition costs (DAC)

Figures in Rand thousand	2018	2017
Balance at the beginning of the year	53 269	45 428
Movement in income statement	6 229	7 841
<b>Balance at the end of the year</b>	<b>59 498</b>	<b>53 269</b>

## 8. Financial assets

The Company's financial assets are summarised by measurement category in the table below.

Figures in Rand thousand	Note	2018	2017
Fair value through profit or loss	8.1	5 644 715	3 890 058
Loans and receivables	8.2	124 736	141 497
<b>Total financial assets</b>		<b>5 769 451</b>	<b>4 031 555</b>

The assets classified as held at fair value through profit or loss are detailed in the tables below:

### 8.1 Fair value through profit or loss

Figures in Rand thousand	2018	2017
<b>At fair value through profit or loss – designated</b>		
<b>Equity securities</b>		
Listed and quoted	1 878 619	1 718 727
Unlisted and unquoted	6 300	6 300
	<b>1 884 919</b>	<b>1 725 027</b>
<b>Unitised linked investments</b>		
Listed and quoted	-	-
Unlisted and unquoted		
- Infrastructure development bond fund	248 324	215 997
	<b>248 324</b>	<b>215 997</b>
<b>Money market fund</b>		
Money market fund	<b>409 653</b>	<b>757 874</b>
<b>Other bills and bonds</b>		
Debt securities – fixed interest rate:		
Other bills and bonds	649 021	821 667
Government and semi-government bonds	2 452 798	369 493
	<b>3 101 819</b>	<b>1 191 160</b>
<b>Total financial assets at fair value through profit or loss</b>	<b>5 644 715</b>	<b>3 890 058</b>

All the above assets have been designated by the Company as held at fair value through profit or loss.

Figures in Rand thousand	2018	2017
<b>Movement in financial assets at fair value through profit or loss</b>		
Balance at the beginning of the year	3 890 058	4 390 597
Transfer from/(to) cash and cash equivalents	1 024 506	(833 530)
Interest received	336 420	307 377
Dividends received	52 337	48 921
Realised net fair value gains/(losses)	21 889	(16 018)
Unrealised net fair value gains/(losses)	341 425	16 369
Investment administration expense	(21 920)	(23 658)
<b>Total</b>	<b>5 644 715</b>	<b>3 890 058</b>

## 8.2 Loans and receivables

Figures in Rand thousand	2018	2017
Other loans and receivables	120 616	125 051
Prepayments	4 120	16 446
<b>Total</b>	<b>124 736</b>	<b>141 497</b>

The above balances are receivable within twelve months. Fair values therefore largely approximate carrying values. Interest accrued of R55.8 million (2017: R39.9 million) is included.

## 9. Insurance receivables

Figures in Rand thousand	2018	2017
Profit commission	27 417	23 515
Outstanding premiums	149 048	138 463
<b>Total insurance receivables</b>	<b>176 465</b>	<b>161 978</b>

Figures in Rand thousand	2018		2017	
	Gross	Impairment	Gross	Impairment
The trade receivables due from agents at reporting date was:				
Not past due	139 447	-	119 302	-
Past due	9 571	-	19 161	-
<b>Total</b>	<b>149 048</b>	<b>-</b>	<b>138 463</b>	<b>-</b>

The above balances are receivable within 12 months. Fair value therefore approximates carrying value. The outstanding premiums have been received after year-end therefore the Company does not deem it necessary to provide for impairment.

## 10. Insurance contract liabilities and reinsurance contracts

Figures in Rand thousand	2018	2017
<b>Gross</b>		
Claims reported and loss adjustment expenses	729 529	759 682
Claims incurred but not yet reported	34 566	49 352
Unearned premium provision	413 964	393 280
Unexpired risk provision	1 345	-
<b>Total insurance contract liabilities</b>	<b>1 179 404</b>	<b>1 202 314</b>
<b>Recoverable from reinsurers</b>		
Claims reported and loss adjustment expenses	108	137
Claims incurred but not yet reported	-	-
Unearned premium provision	24 722	24 065
<b>Total reinsurers' share of insurance liabilities</b>	<b>24 830</b>	<b>24 202</b>
<b>Net insurance contract liabilities</b>		
Claims reported and loss adjustment expenses	729 421	759 545
Claims incurred but not yet reported	34 566	49 352
Unearned premium provision	389 242	369 215
Unexpired risk provision	1 345	-
<b>Total insurance contract liabilities (net)</b>	<b>1 154 574</b>	<b>1 178 112</b>

The 'outstanding claims and loss-adjustment expenses' and the 'claims incurred but not yet reported' above are net of expected recoveries from salvage and subrogation. The amount for salvage and subrogation at 31 March 2018 is R2.78 million and for 31 March 2017 is R1.75 million. These are not material.

## 10.1 Movements in insurance liabilities and reinsurance assets

The movements for the year are summarised below:

### a) Claims reported and loss adjustment expenses

Figures in Rand thousand	2018			2017		
	Gross	Reinsurance asset	Net	Gross	Reinsurance asset	Net
<b>At 31 March</b>						
Balance at the beginning of the year	759 682	137	759 545	600 682	810	599 872
Claims paid	(708 218)	(363)	(707 855)	(650 990)	(71)	(650 919)
Claims raised	678 065	334	677 731	809 990	(2 222)	810 592
<b>Balance at the end of the year</b>	<b>729 529</b>	<b>108</b>	<b>729 421</b>	<b>759 682</b>	<b>(1 483)</b>	<b>759 545</b>

### b) Claims incurred but not yet reported (IBNR)

Figures in Rand thousand	2018			2017		
	Gross	Reinsurance asset	Net	Gross	Reinsurance asset	Net
<b>At 31 March</b>						
Balance at the beginning of the year	49 352	-	49 352	93 356	13	93 343
Movements for the year	(14 786)	-	(14 786)	(44 004)	(13)	(43 991)
Claims raised	-	-	-	-	-	-
<b>Balance at the end of the year</b>	<b>34 566</b>	<b>-</b>	<b>34 566</b>	<b>49 352</b>	<b>-</b>	<b>49 352</b>

### c) Unearned premium provision

Figures in Rand thousand	2018			2017		
	Gross	Reinsurance asset	Net	Gross	Reinsurance asset	Net
<b>At 31 March</b>						
Balance at the beginning of the year	393 280	24 065	369 215	350 357	19 893	330 464
Premiums writing during the year	1 994 199	148 802	1 845 397	1 843 402	131 436	1 711 966
Less: Premiums earned during the year	(1 973 515)	(148 145)	(1 825 370)	(1 800 479)	(127 264)	(1 673 215)
<b>Balance at the end of the year</b>	<b>413 964</b>	<b>24 722</b>	<b>389 242</b>	<b>393 280</b>	<b>24 065</b>	<b>369 215</b>



#### d) Unexpired risk provision

Figures in Rand thousand	2018			2017		
	Gross	Reinsurance asset	Net	Gross	Reinsurance asset	Net
<b>At 31 March</b>						
Balance at the beginning of the year	-	-	-	-	-	-
Movement during the year	1 345	-	1 345	-	-	-
<b>Balance at the end of the year</b>	<b>1 345</b>	<b>-</b>	<b>1 345</b>	<b>-</b>	<b>-</b>	<b>-</b>

These provisions represent the liability for short-term insurance contracts for which the Company's obligations are not expired at year-end.

#### Short-term insurance contracts – assumptions, change in assumptions and sensitivity.

##### e) Process used to decide on assumptions

Underwriting insurance risks incorporates unpredictability and the Company recognises that it is impossible to predict future claims payable under existing insurance contracts with absolute certainty. To this end, the Company has, over time, developed a methodology that is aimed at establishing insurance provisions that have a reasonable likelihood of being adequate to settle all its insurance obligations.

## 10.2 Claim provisions

The Company's outstanding claims provisions include notified claims, IBNR claims as well as ULAE.

The claims provisions:

- Reflect the 'best estimate' of likely future claims experience;
- Include an allowance for 'pure IBNR' (late reported claims) and 'IBNR' (development of known claims);
- Implicitly allow for claims inflation; and
- Include an allowance for direct claims handling expenses (e.g. loss adjuster fees).

In addition to the best estimate, a risk margin is included to bring the claims provision up to the 75% probability of sufficiency level. In other words, a provision is held against the worst outcome expected in any one year over a four-year period.

#### Notified claims

Each notified claim is assessed on a separate, case-by-case basis with due regard to the specific circumstances, information available from the insured and/or loss adjuster and past experience with similar claims. The Company employs employees experienced in claims handling and rigorously applies standardised policies and procedures around claims assessment. The provision for each notified claim includes an estimate of the associated claims handling costs but excludes Value Added Tax.

The ultimate cost of the reported claims may vary as a result of future developments or better information becoming available about the current circumstances. Case estimates are therefore reviewed and updated as new information becomes available.

#### IBNR claims

Assumptions for each line of business are determined based on historical data. The expected claims liabilities are estimated for specific lines of business.

For Motor, Property and Engineering classes, there was sufficient data to enable the valuation of the claims provisions using actuarial methods, gross and net of reinsurance claims data.

For other classes (Guarantee, Miscellaneous and Transportation), the IBNR reserve was calculated using a simplification in line with the SAM Insurance Prudential Standards.

The provisions for the notified claims and IBNR are initially estimated at a gross level. A separate calculation is then carried out to determine the estimated reinsurance recoveries. The calculation of the reinsurance recoveries considers the type of the risk underwritten, which year the gross claim occurred and therefore under which reinsurance programme the recovery will be made, the size of the claim and whether or not the claim was an isolated incident or not. These factors form part of a catastrophe reinsurance claim.

### 10.3 Assumptions

The assumptions that have the greatest effect on the measurement of insurance contract provisions are:

- The selected development factors for the basic chain-ladder and Bornhuetter-Ferguson methods;
- Loss ratios used in the Bornhuetter-Ferguson method;
- Large loss frequency and severity; and
- Risk margin assumptions.

### 10.4 Changes in assumptions and sensitivity analysis

Large losses were analysed separately from attritional losses during the current year. Sasria's experience shows that large losses develop at a different rate to attritional claims.

The reasonableness of the estimation process is tested by management and reviewed on an annual basis. The source data used in the estimation process is the past claims experience. The Company believes that the liability for claims carried at period-end is adequate.

As part of the process of estimating the provision for outstanding claims, the Company prepares a sensitivity analysis. The analysis provides an indication of the adequacy of the Company's claims estimation process. During the current financial period, an analysis was done to determine the sensitivity of profit assuming an additional 25% in outstanding claims including IBNR. The gross impact on profit before tax would be a reduction of R191 million (2017: R209 million). The net impact after reinsurance on profit before tax would be R191 million (2017: R209 million).

Due to there being no specific claims trends, an assumption of 25% was used.

In addition, the sensitivity of IBNR was calculated based on the loss ratios for the Motor and Property classes.

The sensitivity was based on the following:

- The loss ratios are 10% higher than those chosen in the base, i.e. multiplied by 1.1 (Sensitivity 1); and
- The loss ratios are 10% lower than those chosen in the base, i.e. multiplied by 0.9 (Sensitivity 2).

The following table shows the sensitivity by class of business, gross of reinsurance.

#### Sensitivity analysis – gross

Gross	Base (recommended)	Sensitivity 1 (LR - 10% higher)			Sensitivity 2 (LR - 10% lower)		
Class of business	IBNR	IBNR	Change	% change	IBNR	Change	% change
Engineering	2 311	2 885	574	24.9	1 736	(574)	(24.9)
Motor	4 430	6 682	2 451	55.3	1 979	(2 451)	(55.3)
Property	24 064	36 394	12 330	51.2	11 734	(12 330)	(51.2)
Other	3 761	244	(3 517)	(93.5)	244	(3 517)	(93.5)
Total	34 566	46 205	11 838		15 693	(18 872)	

## 10.5 Claims development tables

The presentation of the claims development tables is based on the actual date of the event that caused the claim (accident year basis). The claims development tables represent the development of actual claims paid.

### Payment development – gross

	Total	2018	2017	2016	2015	2014	2013	2012	2011
Gross	R million	R million	R million	R million	R million	R million	R million	R million	R million
<b>Reporting year</b>									
<b>Actual claims costs</b>									
2018	<b>708 218</b>	263 400	262 703	171 440	8 361	498	1 816	-	-
2017	<b>650 995</b>		297 447	290 826	55 871	6 109	771	(28)	-
2016	<b>421 884</b>			196 415	179 076	38 255	6 848	1 124	166
2015	<b>300 034</b>				162 141	105 950	31 932	11	-
2014	<b>506 688</b>					139 265	305 987	55 716	5 659
2013	<b>252 845</b>						149 387	71 787	24 606
2012	<b>186 234</b>							91 327	60 520
2011	<b>141 663</b>								108 540
2010	<b>79 166</b>								
2009	<b>59 470</b>								
2008	<b>11 631</b>								
Cumulative payments to date		263 400	560 150	658 680	405 449	290 076	496 740	219 938	199 491

### Payment development – net

	Total	2018	2017	2016	2015	2014	2013	2012	2011
Net	R million	R million	R million	R million	R million	R million	R million	R million	R million
<b>Reporting year</b>									
<b>Actual claims costs</b>									
2018	<b>707 855</b>	263 400	262 703	171 440	8 361	498	1 453	-	-
2017	<b>650 847</b>		297 377	290 896	55 871	6 109	617	(23)	-
2016	<b>420 239</b>			196 415	179 076	38 255	5 478	899	116
2015	<b>293 645</b>				162 141	105 950	25 545	9	-
2014	<b>432 642</b>					139 265	244 789	44 573	3 961
2013	<b>199 108</b>						119 509	57 430	17 224
2012	<b>137 919</b>							73 062	42 364
2011	<b>99 161</b>								75 978
2010	<b>55 263</b>								
2009	<b>40 461</b>								
2008	<b>6 672</b>								
Cumulative payments to date		263 400	560 080	658 750	405 449	290 076	397 392	175 950	139 643

## Reporting development – gross

	Total	2018	2017	2016	2015	2014	2013	2012	2011
Gross	R million	R million	R million	R million	R million	R million	R million	R million	R million
<b>Reporting year</b>									
<b>Provision raised</b>									
2018	<b>719 269</b>	436 639	216 762	62 017	3 184	126	541	-	-
2017	<b>746 818</b>		438 263	269 620	36 601	1 647	687	-	-
2016	<b>587 883</b>			460 749	107 702	15 380	4 052	-	-
2015	<b>427 936</b>				307 060	109 772	11 104	-	-
2014	<b>252 070</b>					205 665	45 126	1 090	189
2013	<b>476 586</b>						381 369	91 926	3 281
2012	<b>174 609</b>							138 881	28 732
2011	<b>147 647</b>								104 502
2010	<b>69 774</b>								
2009	<b>129 058</b>								
2008	<b>144 472</b>								
Cumulative payments to date		436 639	655 025	792 386	454 547	332 590	442 880	231 898	136 705

## Reporting development – net

	Total	2018	2017	2016	2015	2014	2013	2012	2011
Net	R million	R million	R million	R million	R million	R million	R million	R million	R million
<b>Reporting year</b>									
<b>Provision raised</b>									
2018	<b>719 161</b>	436 639	216 762	62 017	3 184	126	433	-	-
2017	<b>746 681</b>		438 263	269 620	36 601	1 647	550	-	-
2016	<b>587 073</b>			460 749	107 702	15 380	3 242	-	-
2015	<b>425 715</b>				307 060	109 772	8 883	-	-
2014	<b>242 770</b>					205 665	36 101	872	132
2013	<b>380 940</b>						305 096	73 541	2 297
2012	<b>136 064</b>							111 105	20 113
2011	<b>101 553</b>								
2010	<b>47 042</b>								
2009	<b>88 352</b>								
2008	<b>96 230</b>								
Cumulative payments to date		436 639	655 025	792 386	454 547	332 590	354 304	185 518	22 542

## 11. Cash and cash equivalents

Figures in Rand thousand	2018	2017
Cash and cash equivalents comprise:		
Call account	1 238 081	2 229 957
Money market instruments with maturities of less than three months	529 948	259 579
Bank and cash balances	172 745	300 798
<b>Total</b>	<b>1 940 774</b>	<b>2 790 334</b>

The effective interest rate on short-term bank deposits with maturities of less than three months ranges between 7.2% and 8.4% (2017: 7.78% and 8.80%). The effective interest rate on the call account at the reporting date ranges between 6.75% and 6.25% (2017: 6.74% and 6.75%) and on the Reserve Bank account between 7.07% and 7.65% (2017: 7.18% and 7.26%).

## 12. Share capital

Figures in Rand thousand	2018	2017
<b>Authorised</b>		
1 ordinary share of 100 cents	-	-
<b>Issued</b>		
1 ordinary share of 100 cents	-	-

The issued share capital consists of one ordinary share with a par value of 100 cents, and is unchanged from the previous financial year. The share is fully paid up.

## 13. Payables

Figures in Rand thousand	2018	2017
Trade payables and accrued expenses	70 445	63 203
Value Added Tax	10 692	6 073
Amounts due to reinsurers	13 701	24 357
<b>Total</b>	<b>94 838</b>	<b>93 633</b>

All payables are current liabilities. Fair values therefore largely approximate carrying values.

## 14. Employee benefit liability

### Reconciliation of employee benefit liability – 2018

Figures in Rand thousand	Opening balance	Additions	Utilised during the year	Reversed during the year	Total
Leave pay	1 611	710	(109)	(103)	2 109
Bonus	9 617	17 137	(9 690)	-	17 064
<b>Total</b>	<b>11 228</b>	<b>17 847</b>	<b>(9 799)</b>	<b>(103)</b>	<b>19 173</b>

## Reconciliation of employee benefit liability – 2017

Figures in Rand thousand	Opening balance	Additions	Utilised during the year	Reversed during the year	Total
Leave pay	1 532	304	(136)	(89)	1 611
Bonus	13 489	9 617	(13 489)	-	9 617
<b>Total</b>	<b>15 021</b>	<b>9 921</b>	<b>(13 625)</b>	<b>(89)</b>	<b>11 228</b>

The leave pay provision relates to vested leave pay which employees may become entitled to when they leave the employment of the Company or utilise as accrued leave.

The bonus provision consists of a performance bonus accrual based on the achievement, prior to year-end, of predetermined financial and qualitative targets.

## 15. Deferred income

Figures in Rand thousand	2018	2017
Balance at the beginning of the year	7 219	5 968
Movement in income statement	(2 898)	1 251
<b>Total</b>	<b>4 321</b>	<b>7 219</b>

## 16. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The gross movement on the deferred income tax account is as follows:

Figures in Rand thousand	2018	2017
At the beginning of the year	(18 159)	(15 361)
Income statement charge	(73 701)	(2 798)
<b>Total</b>	<b>(91 860)</b>	<b>(18 159)</b>

Figures in Rand thousand	Balance 31 March 2017	(Charged)/ credited to the income statement	Balance 31 March 2018
Provisions	3 146	3 171	6 317
Deferred acquisition costs and other intangible assets	(26 729)	(3 295)	(30 024)
Unrealised appreciation of investments	5 424	(73 577)	(68 153)
<b>Total</b>	<b>(18 159)</b>	<b>(73 701)</b>	<b>(91 860)</b>

Figures in Rand thousand	2018	2017
Deferred income tax assets	6 317	8 570
Deferred income tax liabilities	(98 177)	(26 729)
<b>Net deferred tax balance</b>	<b>(91 860)</b>	<b>(18 159)</b>

## 17. Net insurance premium earned

Figures in Rand thousand	2018	2017
<b>Insurance contracts</b>		
Gross written insurance premium	1 994 199	1 843 402
Change in gross unearned premium provision	(22 029)	(42 923)
Premium revenue arising from insurance contracts	1 972 170	1 800 479
<b>Reinsurance contract</b>		
Insurance premium ceded to reinsurers	(148 802)	(145 246)
Change in reinsurers' share of unearned premium provision	657	4 172
Premium revenue ceded to reinsurers	(148 145)	(141 074)
<b>Net insurance premium earned</b>	<b>1 824 025</b>	<b>1 659 405</b>

Excess of loss reinsurance cover was purchased for 2018 at a cost of R85.15 million (2017: R87.50 million). There were no events in either 2018 or 2017 that prompted losses of sufficient size to trigger a recovery from these contracts.

## 18. Investment income

Figures in Rand thousand	2018	2017
<b>Investment income on cash and cash equivalents</b>		
Interest income	<b>418 003</b>	<b>387 725</b>
<b>Investment income on financial assets held at fair value through income</b>		
Dividend income	52 337	48 921
Unrealised net fair value gains/(losses)	341 425	16 369
Realised net fair value (losses)/gains	21 889	(16 018)
	<b>415 651</b>	<b>49 272</b>
	<b>833 654</b>	<b>436 997</b>

## 19. Insurance claims and loss-adjustment expenses

Figures in Rand thousand	2018	2017
<b>Gross</b>		
Gross insurance claims and loss adjustment expenses	707 820	650 990
Movement in outstanding claims and IBNR	(44 939)	115 004
	<b>662 881</b>	<b>765 994</b>
<b>Reinsurers' share</b>		
Reinsurers' share of gross insurance claims and loss adjustment expenses	(39)	-
Movement in outstanding claims and IBNR and loss adjustment expenses recovered from reinsurers	29	687
	<b>10</b>	<b>687</b>

## 20. Expenses for the acquisition of insurance contracts

Figures in Rand thousand	2018	2017
Gross commission paid	280 219	243 439
Movement in net deferred acquisition cost	(9 128)	(6 589)
	<b>271 091</b>	<b>236 850</b>

## 21. Expenses for administration and marketing

Figures in Rand thousand		2018	2017
Expenses for administration and marketing include:			
Advertising expenses		5 384	5 950
Auditor remuneration: statutory audit		1 922	1 490
Auditor remuneration: other services (training)		438	40
Total auditor remuneration		2 360	1 530
Depreciation – property and equipment	5	3 818	3 849
Investment administration expenses		21 920	23 658
Employee benefit expense	22	78 760	56 934
Social responsibility allocation		25 446	27 089
(Profit)/loss on sale of property, equipment and intangibles		(67)	43
Consulting and professional fees		1 663	871
Policy administration fees		247 538	225 412
Operating lease expense		4 410	5 279
Amortisation – intangible assets	6	1 141	3 344

## 22. Employee benefit expense

Figures in Rand thousand	2018	2017
Wages and salaries	49 166	37 207
Bonuses	17 137	9 617
Medical aid	2 304	1 936
Leave pay provision charge	607	215
Post-employment benefits: Pension – defined contribution plan	9 546	7 959
	<b>78 760</b>	<b>56 934</b>
Number of employees (full-time)	87	74



## 23. Income tax expense

Figures in Rand thousand	2018	2017
<b>Major components of the tax expense</b>		
<b>Current</b>		
Current year normal tax	293 894	202 156
Prior year adjustment	(25 335)	(3 859)
	<b>268 559</b>	<b>198 297</b>
<b>Deferred</b>		
Deferred income tax (note 16)	73 701	2 798
	<b>342 260</b>	<b>201 095</b>
<b>Reconciliation of the taxation</b>		
Profit before tax	1 367 465	744 358
Tax at the applicable tax rate of 28% (2017: 28%)	382 890	208 419
<b>Effects of income not subject to tax</b>		
Other income exempt for tax purposes	22 479	11 925
Other expenses not allowable for tax purposes	(37 377)	(17 470)
Prior year adjustment – income tax	(25 335)	(3 859)
Prior period (under)/over provision – deferred tax	(401)	2 080
Capital gains taxation	4	-
<b>Tax charge for the period</b>	<b>342 260</b>	<b>201 095</b>
Effective rate (%)	25.03	27.02

## 24. Related party transactions and balances

### 24.1 Relationships

The Company is 100% owned by its shareholder, the government of the Republic of South Africa, represented by the National Treasury.

Sasria is a schedule 3B public entity in terms of the PFMA, 1999, as amended. The related party disclosure is in terms of the requirements of IAS 24, 'Related Party Disclosures'.

The related parties of Sasria consist mainly of government departments, state-owned enterprises and other public entities in the national sphere of government and key management personnel of Sasria or its shareholder and close family members of these related parties. The list of public entities in the national sphere of government was provided by National Treasury on their website [www.treasury.gov.za](http://www.treasury.gov.za). They also provided the names of subsidiaries of public entities.

The comparative information has been based on the list of public entities and their subsidiaries effective at 31 March 2018.

The following transactions were carried out with related parties:

### 24.2 Sales of goods and services

Sasria does not make any direct sales to related parties. All sales are made indirectly through the agents and passed on to Sasria in total through a bordereau without disclosing the identities of the individual insured. Sasria would only interact with individual insured in the event of a claim being presented through the agents.

## 24.3 Dividend payment

A dividend of R162.9 million (2017: R151.2 million) was declared and paid to the shareholder during the year.

Figures in Rand thousand	2018	2017
<b>Purchase of goods and services</b>		
Shareholder, including government departments	217 471	151 574
<b>South African Revenue Services (SARS)</b>		
Taxation paid to SARS (Income Tax, VAT and PAYE)	278 923	214 887
<b>Financial Services Board (FSB)</b>		
Fees paid to FSB	1 192	1 033
<b>Interest and refunds received (SARB and INSETA)</b>	55 384	60 650

## 24.4 Key management compensation

Key management is defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. Please refer to note 25 for directors and executive management emoluments.

Figures in Rand thousand	2018	2017
<b>Year-end balances arising from transactions</b>		
<b>Assets included in the statement of financial position</b>		
Bonds issued by government and semi-government	2 454 790	389 594
Money market instruments issued by government and semi-government	2 400	7 598
Cash held at government and semi-government	871 770	987 249
<b>Closing balance</b>	<b>3 328 960</b>	<b>1 384 441</b>

# 25. Directors and executive management emoluments

## 25.1 Non-executive directors

### 2018

Figures in Rand thousand	Salary/fees	Total
MA Samie	725	725
BJ Mkangisa	337	337
SH Schoeman	387	387
R Mothapo	425	425
MO Ndlovu	408	408
T Mbatsha	386	386
MT Moutlane	405	405
JM Nair**	281	281
	<b>3 354</b>	<b>3 354</b>

\*\* Fees paid to National Treasury.

No bonus and retention, contributions or car allowances were paid to non-executive directors.

## 2017

Figures in Rand thousand	Salary/fees	Total
MA Samie	737	737
CH du Toit*	49	49
BJ Mkgangisa	329	329
SH Schoeman	353	353
R Mothapo	462	462
MO Ndlovu	434	434
T Mbatsha	376	376
MT Moutlane	363	363
JM Nair**	99	99
	<b>3 202</b>	<b>3 103</b>

\* Resigned by rotation on 31 May 2016

\*\* Fees paid to National Treasury, started 1 October 2016

## 25.2 Executive directors

### 2018

Figures in Rand thousand	Salary/fees	Bonus and retention	Contributions	Car allowance	Total
CM Masondo	2 844	498	237	76	3 655
	<b>2 844</b>	<b>498</b>	<b>237</b>	<b>76</b>	<b>3 655</b>

### 2017

Figures in Rand thousand	Salary/fees	Bonus and retention	Contributions	Car allowance	Total
CM Masondo	1 887	755	755	76	2 911
K Pepler *	1 057	438	438	-	1 581
	<b>2 944</b>	<b>1 193</b>	<b>1 193</b>	<b>76</b>	<b>4 492</b>

\* Resigned 30 November 2016

## 25.3 Key management

### 2018

Figures in Rand thousand	Salary/fees	Bonus and retention	Contributions	Car allowance	Total
TC Mahlangu **	293	328	27	17	664
S Harrop-Allin	1 629	342	134	21	2 125
M Mavuso	1 650	328	134	-	2 111
R Mathafena ***	537	299	44	-	880
F Benjamin	1 536	-	125	-	1 660
AS Nkosi ****	1 714	-	139	-	1 853
	<b>7 358</b>	<b>1 297</b>	<b>601</b>	<b>38</b>	<b>9 293</b>

\*\* Resigned 30 June 2017

\*\*\* Resigned 31 August 2017

\*\*\*\* Started 1 July 2017

## 2017

Figures in Rand thousand	Salary/fees	Bonus and retention	Contributions	Car allowance	Total
TC Mahlangu	1 145	340	177	66	1 728
KTW Fick*	453	339	105	28	925
S Harrop-Allin	1 263	346	104	21	1 734
M Mavuso	1 154	315	234	-	1 703
R Mathafena	1 230	319	126	-	1 675
F Benjamin**	116	-	9	-	125
	<b>5 361</b>	<b>1 659</b>	<b>755</b>	<b>115</b>	<b>7 890</b>

\* Resigned 31 August 2016

\*\* Started 1 March 2017

## 26. Cash generated from operations

Figures in Rand thousand	2018	2017
Profit before tax	1 367 465	744 358
<b>Adjustments for:</b>		
Investment income	(833 654)	(436 997)
Depreciation	3 818	3 849
Amortisation of intangible assets	1 141	3 261
Loss on sale of assets	(67)	40
Movements in employee benefit liability	7 945	(3 793)
Operating profit before working capital changes	546 648	310 718
Reinsurance contracts	(628)	(3 485)
Deferred acquisition costs	(6 229)	(7 841)
Insurance receivables	(14 487)	(3 269)
Loans and receivables	16 761	59 242
Insurance contract liabilities	(22 910)	157 919
Deferred income	(2 898)	1 251
Payables	1 205	27 892
	<b>517 462</b>	<b>542 427</b>

The Company classifies the cash flows for the purchase and disposal of financial assets in its operating cash flows, as the purchases are funded from the cash flows associated with the origination of insurance contracts, net of the cash flows for payments of insurance benefits and claims.

## 27. Capital commitments

Figures in Rand thousand	2018	2017
<b>Operating leases – as lessee (expense)</b>		
<b>Minimum lease payments due</b>		
- within one year	6 625	5 764
- one year to five years	32 243	-
	<b>38 868</b>	<b>5 764</b>

Operating lease payments represent rentals payable by the Company for its office properties. Leases are negotiated for an average term of five years and rentals are fixed for an average of five years. No contingent rent is payable.

## 28. Tax paid

Figures in Rand thousand	2018	2017
Balance at the beginning of the year	26 832	(78 903)
Current tax for the year recognised in profit or loss	(268 560)	(198 299)
Balance at the end of the year	(38 068)	(26 832)
	<b>(279 796)</b>	<b>(304 034)</b>

## 29. Information required by the PFMA – Fruitless and wasteful expenditure and irregular expenditure

### 29.1 Losses through fruitless and wasteful expenditure

Figures in Rand thousand	2018	2017
Balance at the beginning of the year	-	36
Current year expenditure	55	75
Amounts written off	-	(36)
Amounts recovered	(55)	(75)
<b>Balance at the end of the year</b>	<b>-</b>	<b>-</b>

In terms of the significance and materiality framework, any losses due to fruitless and wasteful expenditure must be reported.

At year-end R54 783 has been recovered (2017: R74 603).

### 29.2 Incidents of fruitless and wasteful expenditure

There were five incidents of fruitless and wasteful expenditure incurred by the Company during the year amounting to a total of R55 075.

### 29.3 Incidents of irregular expenditure

Irregular expenditure of R449 355 was incurred. None has been recovered.

In all instances, management has instituted preventative and corrective measures, including disciplinary action, as considered appropriate.

## 30. Contingencies

The Company, like all other insurers, is subject to litigation in the normal course of business. The Company does not believe that such litigation will have a material effect on its profit or loss and the financial condition at year-end. However, it is difficult to assess the ultimate outcome of such litigation.

## 31. Events after the statement of financial position date

No issues have arisen between the date of the statement of financial position and the date of financial statement sign off, that are significant and need reporting in the financial statements.

## 32. Going concern

The Board believes that the Company will continue to be a going concern in the year ahead. For this reason, the Board continues to adopt the going concern basis in preparing the annual financial statements.

## 33. Approval of financial statements

The financial statements were authorised for issue by the Company's Board of Directors on 16 August 2018.

# Terminology

Term	Description
<b>Acquisition cost</b>	Costs primarily related to the acquisition of new or renewal of insurance contracts e.g. commissions and management expenses. Acquisition costs are often expressed as a percentage of earned premiums and referred to as the acquisition cost ratio.
<b>AURR</b>	Additional unexpired risk reserve, a prospective assessment of the amount that needs to be set aside in order to provide for claims and costs that will result out of unexpired future periods of cover.
<b>Binder</b>	An authority issued by an insurer to another party to enter into, vary or renew a short-term policy on behalf of that insurer; to determine the wording of a short-term policy; to determine premiums under a short-term policy; to determine the value of policy benefits under a short-term policy; or to settle claims under a short-term policy.
<b>Bordereau</b>	A bordereau (plural – bordereaux) is a report providing premium or loss data with identified specific risks. Bordereaux are prepared submissions to reinsurers by the ceding insurers or reinsurers.
<b>Claim</b>	A demand on the insurer for indemnification for a loss incurred from an insured peril.
<b>Claims incurred</b>	Claims cost for an accounting period made up of: <ul style="list-style-type: none"> <li>• Claims paid for the period, including claims handling expenses;</li> <li>• Less outstanding claims provision at the end of the preceding accounting period, including IBNR provision;</li> <li>• Plus outstanding claims at the end of the current accounting period, including IBNR.</li> </ul>
<b>Claims incurred but not reported (IBNR)</b>	Claims resulting from loss events that occurred prior to year-end, for which the insurer has not yet received notices or reports of loss by the end of the accounting period. An estimate is made of the amount of these claims based on previous experience.
<b>Claims ratio (Loss ratio)</b>	The ratio which expresses the relationship between claims and premiums. <ul style="list-style-type: none"> <li>• The net claims ratio expresses claims net of recoveries from reinsurers as a percentage of premiums net of premiums ceded to reinsurance.</li> <li>• The gross claims ratio reflects the position before reinsurance is taken into account.</li> <li>• This is also referred to as the loss ratio.</li> </ul>
<b>Combined ratio</b>	The combined ratio is a measure of performance used by underwriters/insurance companies. A combined ratio of less than 100% indicates underwriting profitability, while anything over 100% indicates an underwriting loss. To calculate the combined ratio, the loss ratio (claims ratio) is added to the expense ratio.
<b>Deferred acquisition costs (DAC)</b>	Acquisition costs relating to unearned premiums, disclosed as a separate asset on an insurer's balance sheet.
<b>Earned premium</b>	The proportions of premium attributable to the period of risk that relate to the current accounting period. It represents written premium adjusted by the unearned premium provision at the beginning and end of the accounting period.
<b>Expense ratio</b>	The percentage of premium used to pay all the costs of acquiring, writing and servicing insurance and reinsurance.
<b>FSB</b>	The Financial Services Board – the regulator of insurance companies in South Africa up to 31 March 2018. Superseded by FCSA on 1 April 2018.
<b>FSC</b>	Financial Sector Charter.
<b>FSCA</b>	The Financial Sector Conduct Authority is the market conduct regulator of financial institutions which superseded the FSB on 1 April 2018.
<b>Gini coefficient</b>	A statistical measure of distribution, often used as a gauge of economic inequality, measuring income distribution among a population. 0% represents perfect equality and 100% represents perfect inequality.
<b>Gross written premium (GWP) or gross written insurance premium</b>	The premium that an insurer has received from the insured party in relation to contracts of insurance or from other insurers in relation to inwards reinsurance contracts. These are premiums on contracts entered into during the accounting period or adjustments from prior years. Also defined as premiums written and received but before deduction of reinsurance ceded.
<b>Intermediary</b>	A person who negotiates contracts of insurance or reinsurance with the insurer or reinsurer on behalf of the insured or reinsured.
<b>Net written premium</b>	Gross insurance premium written or received on all business less return premium and premium ceded to reinsurers.

Term	Description
<b>OCR</b>	Outstanding claims reserve.
<b>ORSA</b>	Own risk and solvency assessment.
<b>Outstanding claims provision</b>	A provision for claims resulting from loss events that occurred prior to year-end that have not been paid by the insurer by the end of the accounting period.
<b>Prudential Authority (PA)</b>	Regulating authority for the financial sector established by the Financial Sector Regulation Act 9 of 2017.
<b>PML</b>	Probable maximum loss – the maximum, worst-case scenario loss that an insurer would be expected to incur on a policy.
<b>Reinsurance premium</b>	The premium paid by the ceding company to the reinsurer in consideration for the liability assumed by the reinsurer.
<b>Salvage</b>	The amount received by an insurer from the sale of (usually damaged) property on which the insurer has paid a total loss to the insured.
<b>Short-term insurance</b>	Defined in the Short-Term Insurance Act 53 of 1998 as providing benefits under short-term policies, which means engineering policies, guarantee policies, liability policies, miscellaneous policies, motor policies, accident and health policies, property policies or transportation policies or a contract comprising a combination of any of those policies.
<b>Solvency assessment and management (SAM)</b>	The project launched to develop a new solvency regime for the South African long-term and short-term insurance industries, in order to align these industries with international standards; specifically, the Solvency II initiative under way in Europe.
<b>SAM solvency capital requirement cover ratio</b>	The anticipated solvency capital requirements (SCR) expected under the eventual SAM regime. It is calibrated to ensure that an insurer could withstand a 1-in-200 year stress event. It represents the actual capital held, expressed as a percentage of the SCR.
<b>ULAE</b>	Expenses that are not attributed to the processing of a specific insurance claims. Unallocated loss adjustment expenses, or ULAE, are part of an insurer's expense reserves.
<b>Underwriting</b>	The process of examining, accepting or rejecting insurance risks, and classifying or segmenting those selected, in order to charge the proper premium for each.
<b>Underwriting cycle</b>	The regular pattern of higher profits and increased premium and reduced profits/losses and decreased premium experienced in short-term insurance. The cycle starts when insurers' underwriting standards become more stringent and premiums increase. This happens once underwriting losses reach unacceptable levels.
<b>Underwriting result</b>	The underwriting profit or loss calculated by deducting claims incurred, net of commission and management expenses, from premium earned.
<b>Unearned premium provision</b>	The portion of premium attributable to the periods of risk that relate to subsequent accounting periods and which are carried forward to such subsequent accounting periods.

# Company information

<b>Registration number</b>	1979/000287/06
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<b>Legal and Compliance Officer</b>	M Mavuso +27 87 358 7619 (Direct)
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<b>Bankers</b>	Nedbank Limited 81 Main Street, Johannesburg, 2001
<b>External auditor</b>	SizweNtsalubaGobodo Grant Thornton Inc. 20 Morris Street East, Woodmead, 2191
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