3 December 2020

RMI ANNUAL GENERAL MEETING

RMI
OPTIMISE
DIVERSIFY
MODERNISE

THE CORE DESIGN FEATURES

- **A** Committed to investment in companies in the insurance sector …
- **B** … with a bias towards short-term (P&C) insurance
- **C** Geographic diversification into growth countries
- **D** Long-term partner to management, with a focus on active involvement and empowered and incentivised, non-corporate management teams
- **E** Key focus on capital prudence
- **F** Efficient allocator of capital through the life cycles of the companies in the portfolio

MEASURING SUCCESS

Value = capital growth + dividends

Target = rf + (10 - 15%)

RMI

UNPACKING THE CORE DESIGN FACTORS

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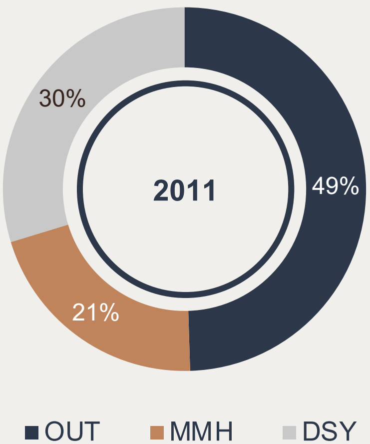
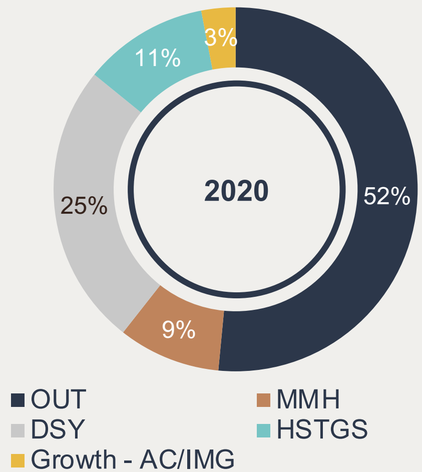
A AN EVOLVING PORTFOLIO **COMMITTED TO INSURANCE**

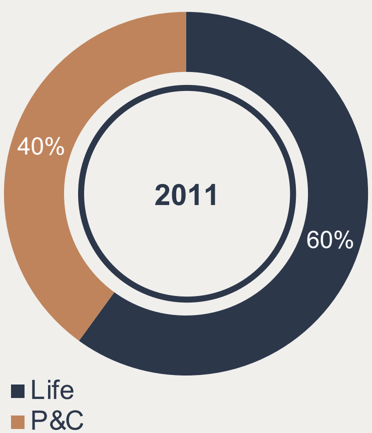
Significant investment into traditional, insurance focused portfolio and a next-generation portfolio
Over time, **focus shift to short-term insurance**

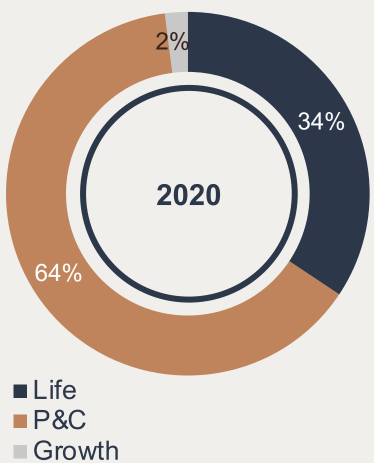
PORTFOLIO*





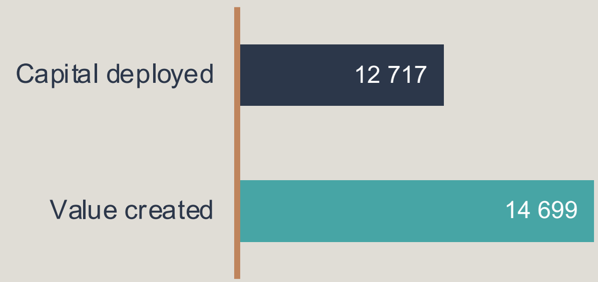
INDUSTRY*



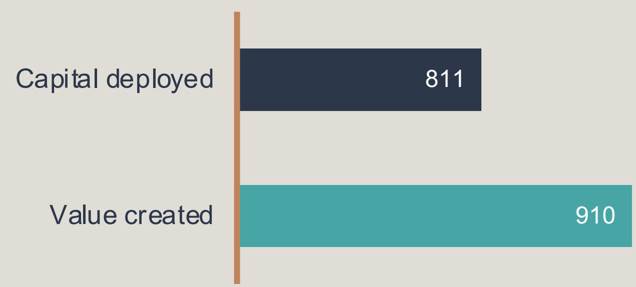


SINCE 2014 (R'm)

Investment activity: traditional portfolio



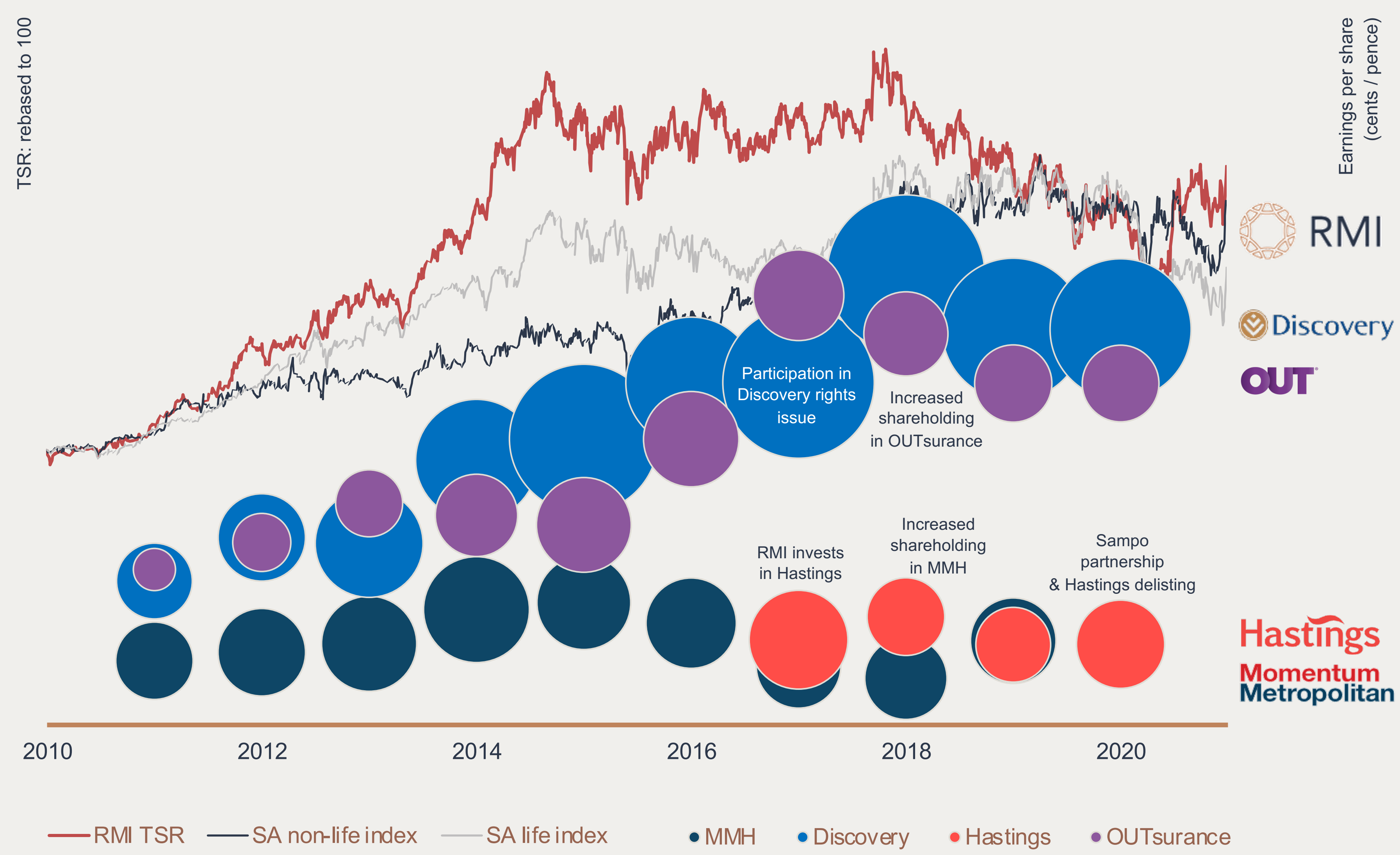
Investment activity: next generation portfolio



* *Note: based on % contribution to earnings*

A TRACK RECORD OF SUSTAINABLE AND SIGNIFICANT BUSINESSES

Solid track record in insurance with **16.3% TSR** for RMI since listing and investments in the underlying insurance portfolio over time



A RECIPE FOR SUCCESS TO DATE

RMI

RMI would consider the following ingredients as **key contributors to the portfolio's success** to date …

i Differentiated business models in a rapidly changing and competitive market

Many insurance companies have exited the local market, strong competition from incumbents and emerging fintech insurers

1986	1993	1994 - 1998	1998 - 2020
AA Mutual collapsed in May 1986 and the winding-up of the short-term business continued well into the next decade	**IGI** was placed in final curatorship in 1993	A number of **foreign insurers** entered the South African insurance market, but were subsequently bought out or exited. These included Winterthur Insurance Company Ltd (Swiss), The St Paul Insurance Company SA Ltd (American), Allianz and Pinnafrica Insurance Ltd (United Kingdom)	**Demutualisations** of Sanlam and Old Mutual. Failure of Fedsure. Merger of Southern Life, African Life, Capital Alliance **Exit** of Zurich, entry of Fairfax, Marsh acquired and exited Alexander Forbes and emergence of fintech players

ii Talented actuaries and management teams able to excel in a complex industry

iii World-class entrepreneurs

iv Innovative products → Vitality, OUTbonus

v Distribution channels which were expanded with product

Discovery Health Medical Scheme

vi Access to capital, and the efficient allocation thereof

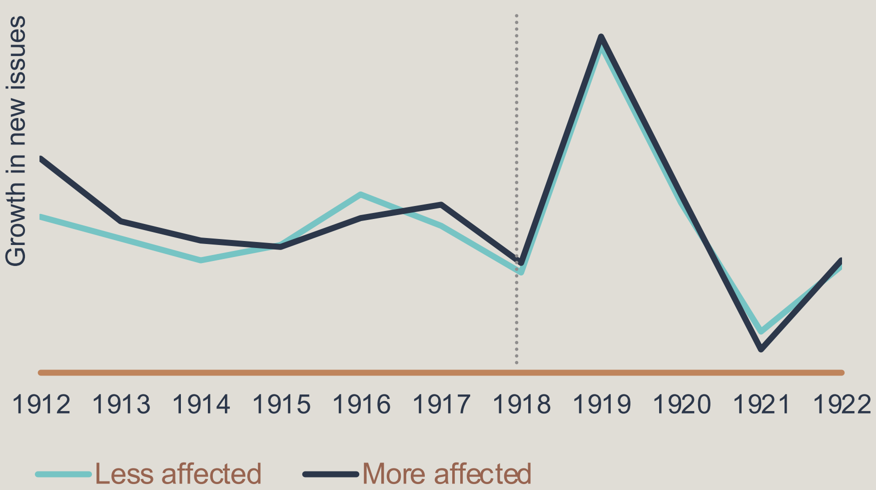
NEW ATTRIBUTES REQUIRED IN A CHANGING MARKET …

- **Scale** is critical given increasing regulatory complexity and entrenched distribution platforms (insurance still a sold product)
- **Replicable** and / or exportable **IP (relaxation of Excon rules)**
- Track record and **credibility**
- Flexibility of business model

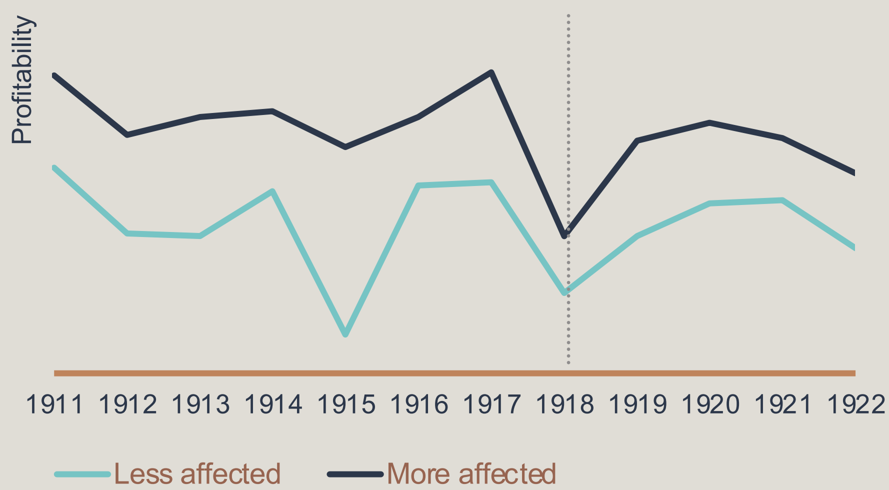
Lessons learned from previous pandemics: the Spanish flu did not kill the insurance industry …

- +8% spike in 1919 in the number and average value of newly issued contracts: consumers realised the necessity of life insurance
- Between Oct and Dec 1918 (deadliest wave of the pandemic) – life insurance stocks increased c.4%, indicating that investors were not concerned about the (potential) repercussions of the pandemic
- Life insurance stocks followed the overall market's upward trajectory in the post-1921 period
- Increase in the number of newly formed insurance companies in 1919 (an increase in demand met an increase in the supply of life insurance products)
- There were no significant differences in profitability across insurers before and after the pandemic
- Macroprudential control from state regulators mitigated further financial problems: focus on solvency, requiring insurers to hold more reserves for death claims and the use of more rigorous actuarial techniques

Growth in value of new insurance contracts



Profitability of life insurance companies



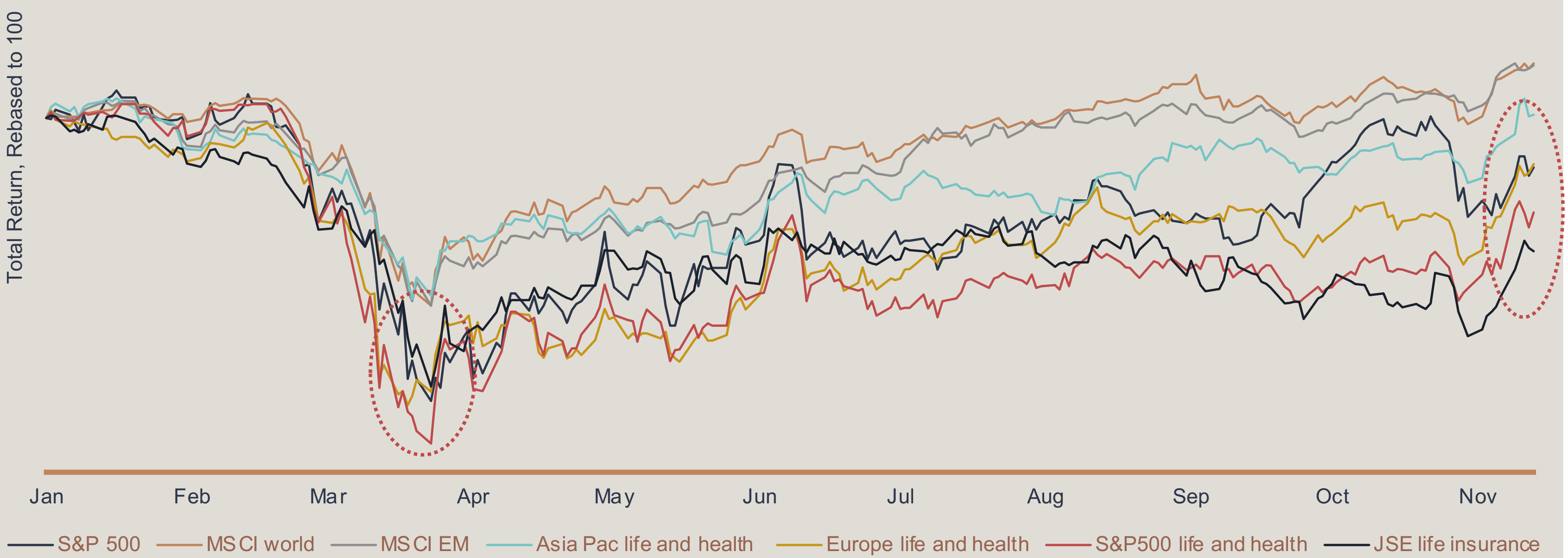
Source: Verdickt, G. 2020 "Did the 1918-19 Influenza Pandemic kill the US Life Insurance Industry?"

WHAT WILL DRIVE **RETURNS IN A POST COVID WORLD?**

…Covid has had a significant impact on the industry … but less severe than initially expected…

- Life insurers experienced a c. 50% drop at peak market weakness in April
- Covid depressed global interest rates even lower than in the GFC, which led to a disproportionate impact on life insurance stocks (reduced attractiveness of savings type products and lower profitability)
- As with the Spanish Flu, this pandemic has raised risk awareness and increased demand for risk protection products (especially for health and mortality)
- Non-life premiums expected to be flat in 2020, underpinned by stronger than expected rate hardening in commercial
- Emerging market are anticipated to navigate the crisis strongly with 3% non-life premium growth forecast for 2020
- Global life premiums expected to decline 6% in 2020, with total premium volumes expected to remain muted over the next two years

Developed market and SA life indices lag the broader market recovery off peak Covid induced lows in April



Source: Reuters, Swiss Re data

A WHAT WILL DRIVE **RETURNS IN A POST COVID WORLD?**

RMI

… how are / will our businesses need to position in post Covid world …

OPERATING MODEL OPTIMISATION

Future proof business models

- **Digital-first approach**: direct digital sales, boosting agent productivity with digital, enhanced customer engagement platforms
- Automation of back-office (underwriting, servicing and claims)
- **Agile, stable, secure and cost-effective** organisational structures
- **Focus on human talent** and non-traditional recruitment and working models

- **Various stages of digital, led by Hastings and OUTsurance**

ADVANCED DATA ANALYTICS

Advanced risk pricing and data analytics

- **Leverage advanced data analytics** for lead generation, underwriting, pricing, risk management, claims handling, fraud detection
- Reinsurance pricing terms a key determinant of portfolio returns

- **The ability to accurately price risk is at the core of all RMI's insurers**

ECOSYSTEM MINDSET

Ability to form partnerships

- **Ability to form partnerships** critical:
  - Integrate non-insurance into insurance
  - Access new leads and distribution channels
  - Expand/diversify core business into new services
- Rewards programmes / **benefit sharing / value added services** critical enablers to retention and new business

- **Discovery 'Shared Values'**
- **Discovery / Ping An**
- **OUTsurance / Shoprite**
- **Hastings / Sampo / OUTsurance**
- **MMH / Birla / AYO**

PRODUCT DEVELOPMENT

Product innovation and value

- Innovative products which are flexible and hyper-personalised to client needs will be key
- **Focus on value for money – price, service and trust**
- Development of capital-light products
- Align internal capabilities / partnerships to create novel products and services

- **Generally extensive, dynamic and relevant product set across the RMI portfolio**

RMI

UNPACKING THE CORE DESIGN FACTORS

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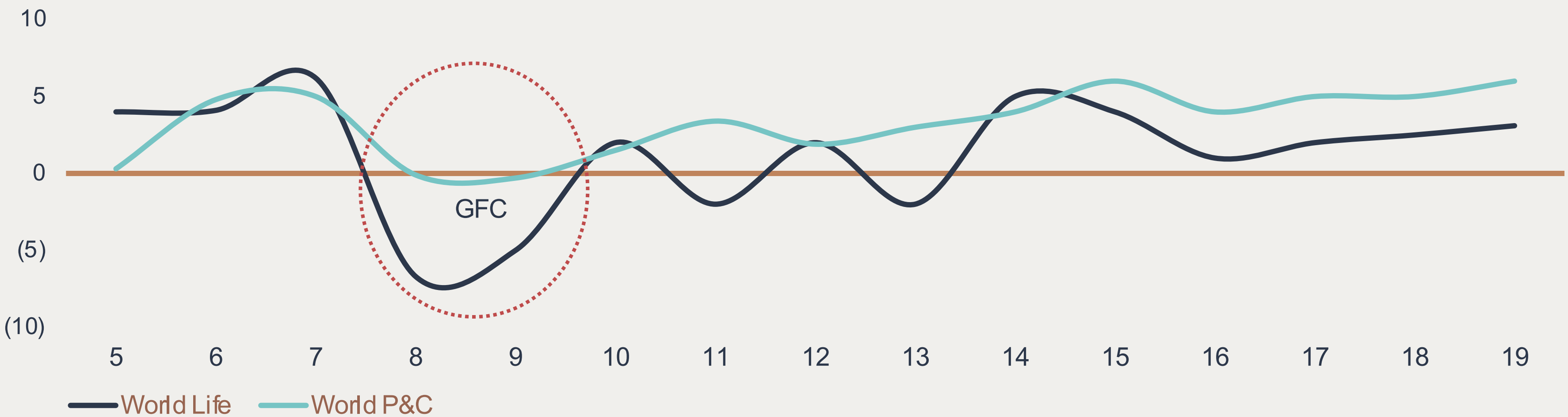
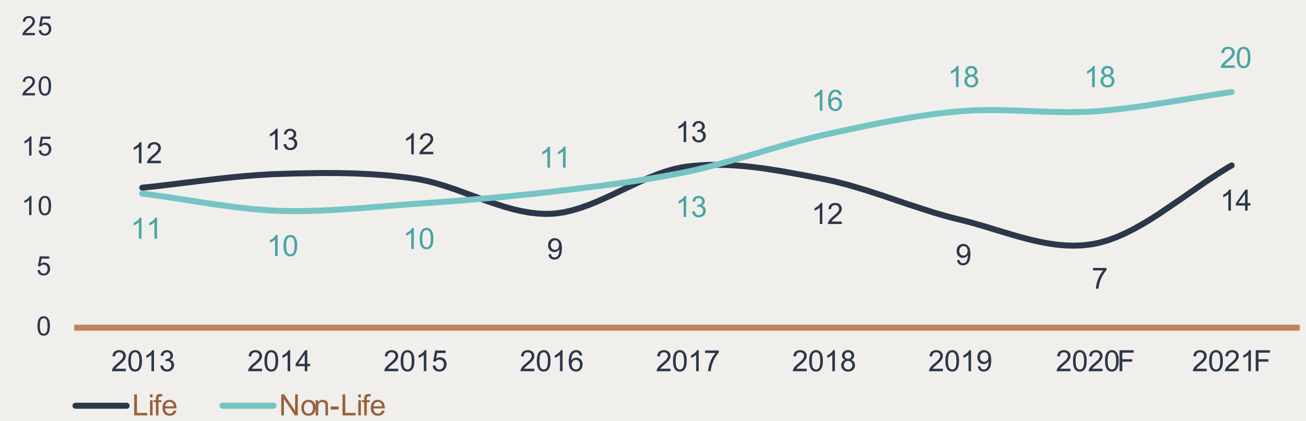
RMI

Preference to invest in P&C insurance vs life insurance given higher relative growth prospects of the sector …

Globally, P&C expected to outperform life: less volatile during periods of recession



P&C has generated historic and forecast ROEs greater than life insurance



WHY P&C

- P&C cashflow vs life 'opacity'
- Low interest rates headwind to life
- More defensive if macros worsen
- Supportive pricing in some markets
- Lower penetration rates vs life in some growth markets

B SPECIFIC INTEREST IN **SHORT-TERM INSURANCE**

… the thesis starts with **auto** and the key disruptive factors impacting…

POWERTRAIN EVOLUTION

- By 2025, 25% of cars sold will have fully electric or power-cell based engines
- Fuel cell vehicles will begin to become economically viable
- Battery technology will improve, reducing cost, increasing range and reducing charging time

MANUFACTURING COMPLEXITY

- Manufacturers are focusing on the overall weight of the car, favouring aluminium and carbon-fibre reinforced plastic
- Intelligent lighting and entry, more advanced interiors, and more sophisticated navigation will increase cost to build and cost to repair

NEW ENTRANTS

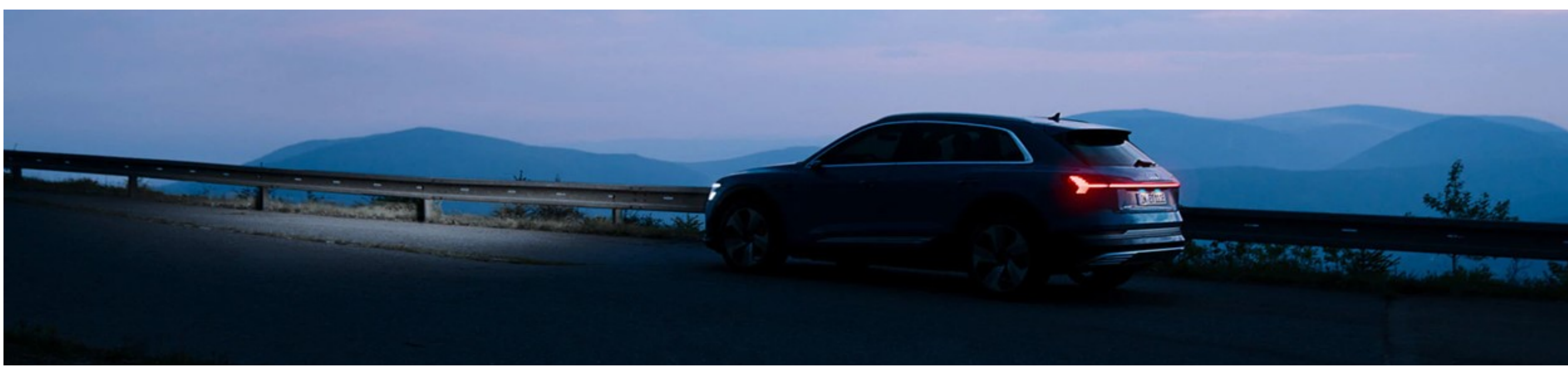
- As software and other technologies move to the forefront of the driving experience, consumer tech and other companies are becoming increasingly important
- Electric vehicles have just 1/3 the parts of conventional vehicles, lowering the barriers to entry

SUPPLY AND REPAIR CHAIN EVOLUTION

- As vehicles become more complex to manufacture, R&D processes will become more specialised. Supply chain integration will become more complex
- Vehicular repair will also evolve as cars become more complex and OEMs assume more responsibility post-sale

OWNERSHIP MODEL EVOLUTION

- Individual car purchases will fall but overall car sales will rise
- Split between shared ownership models in developed economies and direct ownership models in developing economies
- Developing nations will still have large demand for smaller cars with lower prices and operating costs



SPECIFIC INTEREST IN **SHORT-TERM INSURANCE**

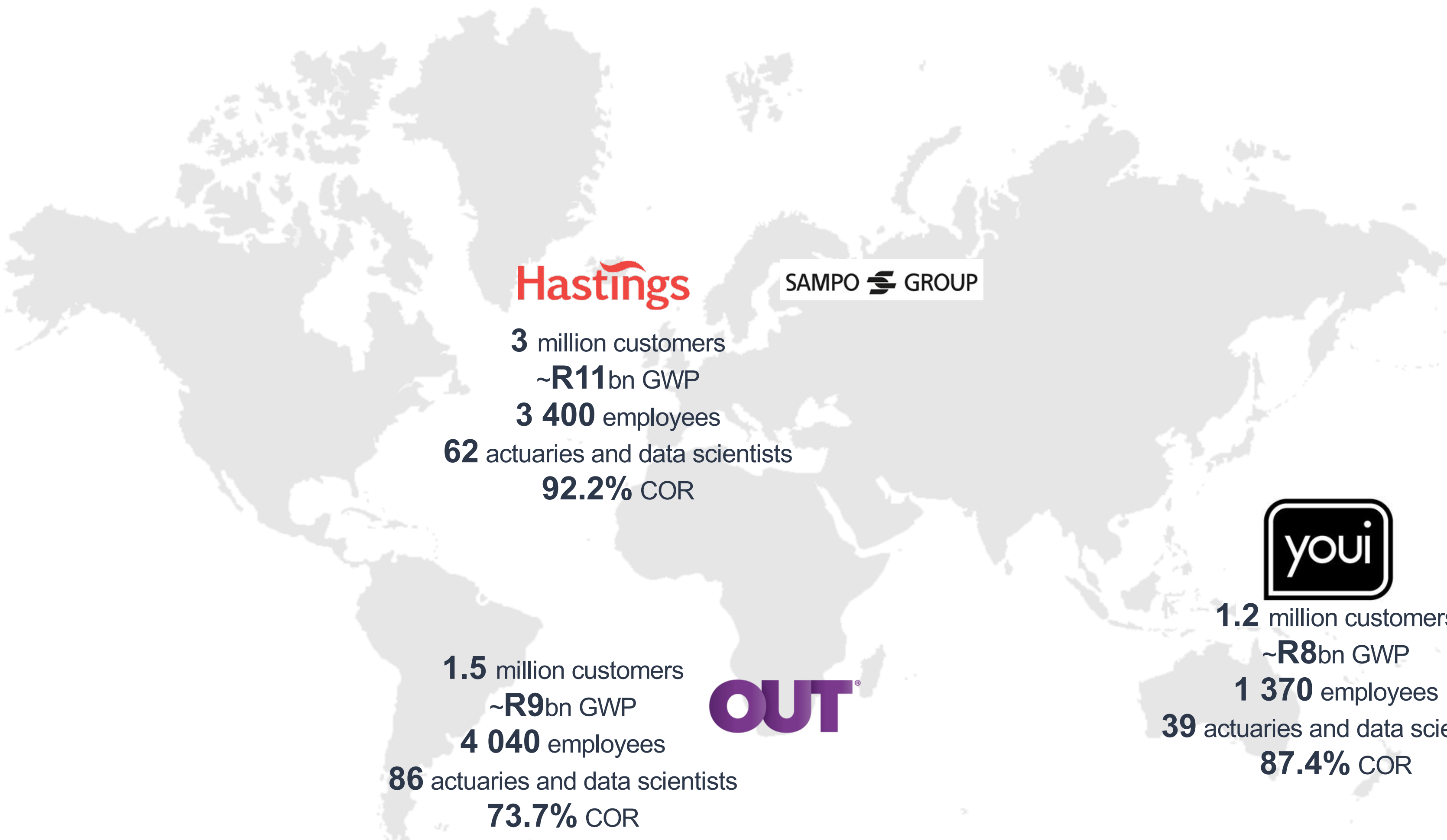
… declines in **traditional motor premium** to some extent mitigated by focus on other lines …

HOME	○ Traditionally a lower premium and margin line of insurance – yet with higher retention ○ Premium inflation caused by expensive home automation and exterior solar panelling, coupled with higher incidence of natural catastrophes ○ Sophisticated data analytics and damage prevention technology required ○ More complicated claims management process ○ Distribution channels undergoing change – mortgage providers being disintermediated
COMMERCIAL	○ Resilient through-out COVID ○ Positively correlated to increase in e-commerce and digital economy ○ Predominantly still a face-to-face distribution channel
AUTONOMOUS VEHICLE PRODUCT	○ Wholesale risk carried by OEM a possibility ○ In discussion with Volvo (and Toyota)

B SPECIFIC INTEREST IN **SHORT-TERM INSURANCE**

… leveraging the **IP and significant ownership in OUTsurance** specifically

5.7 million customers	**R28** billion GWP	**8 810** employees	**187** actuaries and data scientists



Hastings

3 million customers
~**R11**bn GWP
3 400 employees
62 actuaries and data scientists
92.2% COR

SAMPO GROUP

OUT

1.5 million customers
~**R9**bn GWP
4 040 employees
86 actuaries and data scientists
73.7% COR

youi

1.2 million customers
~**R8**bn GWP
1 370 employees
39 actuaries and data scientists
87.4% COR

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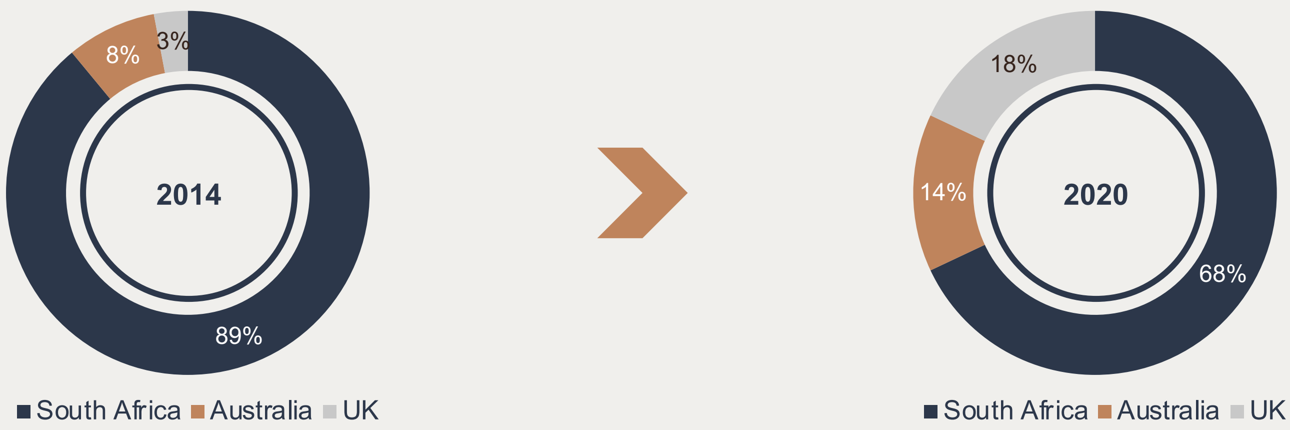
i. GEOGRAPHIC FOCUS AND DIVERSIFICATION

RMI has diversified its portfolio geographically since 2014 …



… local factors driving need for diversification …

i. A challenging macroeconomic and SA insurance landscape

ii. The direction of regulatory travel in South Africa

RMI

… with direct implications for our business model

COMPETITION COMMISSION

- The Competition Commission's scrutiny of concentrated ownership structures across industries, including insurance, **limits our ability to add a meaningful insurance business alongside the existing portfolio**

S46: TAXATION LAWS AMENDMENT

- Final amendment will comprise, *inter alia*:
  - a *de minimus* rule has been introduced in that only holdings of 5% or more by disqualified persons will be impacted
  - the rule will change from an outright denial of the whole transaction where the threshold is breached to a 'to the extent' test, e.g. if 90% of shareholdings are not disqualified, relief on those will apply. Tax is then only levied in respect of the 10% held by disqualified person(s) but tax is payable by the unbundling company
- The definition of 'disqualified persons' remains unchanged and continues to apply to not only to non-residents, but also retirement funds and CISs
- **Both the PIC and Allan Gray own > 5% of RMI and may be classified as 'disqualified shareholders' depending on the ultimate beneficial owners of each**

JOINT STANDARD: SIGNIFICANT OWNER

- **RMI meets the definition of a Significant Owner**: holding a qualifying stake (15%) in financial institutions
- As such, and in accordance with the provisions of the FSR Act, RMI must:
  - demonstrate that it has the necessary competence, integrity and financial standing to support a financial institution
  - have access to adequate funding or access to future capital to support the financial institutions in its portfolio when required
  - the standard does not require additional capital to be held, and we are comfortable that RMI will be able to meet the fit and proper requirements for Significant Owners

FINANCIAL CONGLOMERATES (FC)

- **RMI could only be classified as a FC on its own, or together with OUTsurance as a subsidiary**
- Definition does not extend to Discovery and MMH (any increases in shareholdings in these businesses would increase the risk of classification as a FC)
- Our view is that OUTsurance could only be classified as a FC if there were risks that the regulator believed were not captured in the categorisation as an insurance group (e.g. contagion and concentration risk at the insurance group level)
- The FC designation is intended to capture groups that comprise banks, insurers and securities services businesses, which OUTsurance does not
- **We believe that there is a low risk that RMI will be classified as a FC**, but in the event that we are, there will be strong grounds to challenge such a designation
- The risk that RMI will then be required to hold capital against its investment in OUTsurance in terms of the Draft Capital Standards once finalised in 2-3 years, is low
- **Given the testing process for any capital requirements, there will be engagement with the regulator before a final determination is made**

KEY TOPICS RAISED IN RECENT SHAREHOLDER ENGAGEMENTS

RMI

Opportunity for further clarity

HIGH

AlphaCode

- Thinking on composition of the fintech portfolio and the focus areas going forward

Regulatory implications

- Consequences of proposed s46 tax amendments as well as the financial conglomerate and group capital legislation on RMI

Strategy

- Management's view on the discount and the narrowing thereof
- Portfolio composition going forward, including IPO of OUTsurance and fit of MMH stake

Digitisation

- Clarity on digitisation strategies across the group, particularly OUTsurance

Sampo partnership

- Interest in how the transaction with Sampo came about and the decision to delist the company
- Strategy for Hastings going forward and process of determining strategy alongside Sampo

Remuneration policy

- Requesting clarity around the SARs and management participation structures

COVID provisioning

- View is that the provisioning for COVID across the life companies has been conservative

COVID impact across portfolio and payment of BI claims – particularly OUTsurance

- Complimentary of OUTsurance's decision to pay out BI claims

OUTsurance and YOUi growth vectors

- Thinking on OUTsurance geographical expansion versus new product lines in country
- Understanding Shoprite partnership model for funeral cover and Blue Zebra distribution and future opportunities

LOW

LOW HIGH

Degree of investor focus

OPTIMISE
DIVERSIFY
MODERNISE