

R1 BILLION RELIEF PAYMENT TO CONTINGENT BUSINESS INTERRUPTION (CBI) POLICYHOLDERS



Intermediary Q&A

1. How did you get to an amount of R1-billion for relief?

The impact of COVID-19 both locally and globally is unprecedented. While the insurance industry cannot underwrite the economic impact of this global pandemic, for our relief to be in any way meaningful for our policyholders we recognise it has to be of significant value. We believe the relief we are offering achieves the aim of a meaningful contribution to our most impacted policyholders. Our COVID-19 relief payment of up to R1-billion is in addition to our R400 million already spent or committed on premium refunds, premium relief, supplier support and corporate social investment initiatives.

2. Why only 70%, on average, of a policyholder's claim?

70% is based on a view that the businesses would have experienced variable expense savings during the lockdown. Such variable cost savings include items such as travel and accommodation, transport, entertainment, advertising, electricity and water, variable staff costs and temporary employer / employee relief initiatives etc. We recognise that each business will be different. The ratio of 70% has been determined to be a reasonable average by Santam and has been applied consistently to all policyholders.

3. Why is the 70% applied to 2 months of sum insured?

The two months are indicative of the period where most businesses were impacted by the restrictive trading environment imposed by the Level 4 and 5 lockdown in the country. The period applied is therefore considered equivalent to the length of the hardest impact of the lockdown.

4. Has Santam engaged with the Regulators on this proposal?

Yes. Santam has engaged extensively with the Financial Sector Conduct Authority (FSCA) and the Prudential Authority (PA) throughout the lockdown. Santam's commitment to its policyholders and to meeting all its obligations fairly in respect of its policies remains paramount. We confirm we have received no directive from the FSCA to pay claims. We voluntarily approached the authorities with this relief offer as an interim measure of assisting clients. The regulators support the relief payment from Santam. The FSCA further said that the relief payment was fair towards clients and we note the FSCA's latest press release issued on 24 July where they commit to the need for legal certainty.

5. You mention that you still plan to go to court, why?

It is important to go to court to obtain legal certainty, for ourselves, our reinsurers and our policyholders as to the requirements for a CBI policy to respond to a claim. Santam remains firm in its view that the lockdown is not an insured peril in respect of its Contingent Business Interruption policies. For a policyholder to have a valid claim in terms of its policy contract, its business must have been interrupted due to the specific instance of disease at or around the premises and the quantum of such loss must be adjusted for events happening either before or after such event that would have impacted the business irrespective of the occurrence of the specific instance of disease or not.

6. How do policyholders apply for this relief payment?

Policyholders do not apply for the relief payment. Commercial policyholders within the hospitality and leisure as well as the non-essential retail services industries who had taken out Santam's CBI extension prior to 18 March 2020 and who have registered or notified a claim in respect of their CBI policy within required notification periods will qualify for relief. Such policyholders will be sent a Fund Release form for acceptance and confirmation of the qualifying criteria via their intermediaries. The forms are scheduled to be sent out within five working days from the date of this announcement. On return of the completed and signed Fund Release form, Santam will commence processing of the relief payments to those policyholders.

7. What is the significance of 18 March 2020 in the qualifying criteria?

On 17 March 2020, Santam issued formal communication restricting the addition of a CBI policy extension to any new or existing policies. Any action performed to add this extension after this date represents anti selection against Santam and is not considered to form a valid part of the policy contract.

8. How long will you take to pay out these relief payments?

On receipt of the signed and returned Fund Release forms, Santam will endeavour to make relief payments within five working days. Santam acknowledges the urgency required and will make every effort to manage the payments quickly and efficiently, although high volumes and actions such as processes to verify different bank accounts for payment may cause limited delays.

9. R1-billion is not a small sum, but why did it take you 2 months to finally support your policyholders?

Santam provided near immediate support to its policyholders and suppliers by extending R400 million in COVID related relief initiatives and committed to an ongoing review of mechanisms to provide further support. The R400 million was provided through the months of April, May and June. With the lockdown being extended and the benefit of court certainty still to take time, we understand the need to support our policyholders now. We had valuable engagements with all stakeholders, including our regulators in this regard.

10. How does this impact Santam's liquidity and balance sheet?

The combined value of our relief offerings of R1.4 billion reflects a major commitment by Santam to its policyholders worst impacted by COVID-19. The relief payments will not affect Santam's ability to meet ongoing obligations towards its policyholders.

11. Has Santam settled any claims related to COVID-19 to date?

We are actively settling a number of COVID-19 related claims, including those for event cancellation, travel insurance and CBI claims where the interruption of the business was directly attributable to a localised COVID-19 infection.

12. If I have a policyholder that has CBI cover but has not been included for relief, is there a process where I can still submit a motivation for such policyholder's inclusion?

Santam's relief payment initiative is limited. A committee has however been established to consider motivations for policyholders to be included in the relief payment initiative. Requests will only be considered for policyholders with our CBI extension and no expectations should be created with policyholders. Motivations for such relief requests must be made through your Relationship Manager or Regional Manager.

13. Why are payments made to VAT registered vendors calculated on a VAT exclusive basis?

Payments are made to VAT registered vendors on a VAT exclusive basis because the relief payments do not constitute an indemnity payment under a contract of insurance as required by section 8(8) of the VAT Act. Santam will also not claim an input VAT deduction in terms of section 16(3)(c) of the VAT Act from SARS. The Funds Release form specifically requires confirmation whether the policyholder is registered for VAT or not.

14. What will the VAT treatment be if the courts rule that the lockdown is not an insured peril?

Should the Courts ultimately rule in Santam's favour and determine that the lockdown is not an insured peril, then the amounts paid will still be considered relief payments in respect of registered claims to policyholders. This will confirm that the relief payment is not an indemnity payment under a contract of insurance and consequently no output VAT will be due to SARS in terms of section 8(8) of the VAT Act by a VAT registered policyholder.

15. What will the VAT treatment be if the courts rule that the lockdown is an insured peril?

Should the Courts rule against Santam and declare that the national lockdown is an insured peril, the amount paid will then be netted off against any finally determined claims against Santam under the CBI extension. Such a decision will confirm that the policyholder is at that point indemnified for an insured peril under the CBI extension. Any VAT due to VAT registered policyholders will then be included in the finally determined amount and paid to policyholders and output VAT will then become payable in terms of section 8(8) of the VAT Act.