




# Our environment, risks and opportunities

Discovery's operational environment plays a significant role in our ability to meet performance objectives.

Our robust business model enables the business to manage and mitigate risks, and capitalise on market opportunities.

Our business model and the framework we apply have been responsive to broad environmental risks, supporting our business strategy and performance.

 Read more about our business model on [page 30](#).

Our Group Risk Management assists the Discovery Board to identify, assess, monitor, and mitigate material risks. This page provides details of the main opportunities and risk areas, the main stakeholders they affect, and our response.

## AMBITIOUS BUSINESS GROWTH

We have identified various future opportunities to grow existing and new businesses. This growth presents various risks, including business delivery, operational and funding risks. Information technology stability and cybersecurity are key areas that require focus to support our success.

### How we respond to possible risks

Governance structures across the Group oversee the development of strategies and implementation of key initiatives. Our capital framework allocates capital and helps to source required funding. Capital and liquidity requirements are monitored regularly and are linked to the risk management process.

We apply stringent business continuity, systems performance, technical risk management, and data security processes across all businesses.

#### Our stakeholders:



## ENTERING THE BANKING MARKET IN SOUTH AFRICA

The launch of Discovery Bank is on track and our offering is well developed. Products and systems need to be robust and effective to resource and manage the business effectively. We also have to attract new and retain existing customers in an industry that is increasingly competitive, yet movement of customers is generally conservative.

### How we respond to possible risks

A highly experienced team is in place to oversee and manage the launch and roll-out of Discovery's banking offering. Products are supported by effective technology and are unhampered by legacy system issues. Strong governance and oversight ensure all risks are proactively identified and managed.

#### Our stakeholders:



## THE ECONOMIC ENVIRONMENT

**South Africa:** Our economy experienced another year of low growth. Global and national factors contributed to the South African Reserve Bank cutting the growth forecast. Inflationary pressures, brought on by the depreciating rand and the current high unemployment rate, place consumers under considerable strain. These factors all play a role in our new business growth, as well as lapse, credit default and claims rates.

**The United Kingdom:** The economic uncertainty surrounding the exit from the European Union, coupled with subdued levels of inflation, have had a number of implications. The most significant has been low interest rates, which affected product pricing and actuarial reserves.

### How we respond to possible risks

Our business model remains competitive regardless of prevailing economic circumstances.

Diversification by geography and industry helps improve resilience. Innovative products and products that are responsive to the environment, provide some protection against the level and volatility of interest and inflation rates for the company and clients. Retention and growth strategies are in place across our established, emerging and new businesses.

#### Our stakeholders:



## ACCESS TO, AND USE OF DATA

Through the Shared-Value Insurance model and members that take part in health-improvement, Vitality has access to member-collected data to provide services or develop further products. The responsible collection, use and security of personal and other data are vital to operating ethically and to preserve trust.

### How we respond to possible risks

We have a formal data privacy framework in place that includes policies on the handling, storage and use of personal information. Our information privacy policy is comprehensive and supported by data security mechanisms to ensure the protection of data.

#### Our stakeholders:



## TRANSFORMATION IN OUR SENIOR MANAGEMENT TEAM

We support transformation across our business. There is a risk that this transformation is not occurring at the required pace at senior management levels. We are also focusing on attracting, developing and retaining black South African employees at all levels.

### How we respond

Our corporate culture embraces diversity, and transformation remains a key focus for the Discovery Board and management. It is part of our remuneration system for management incentives. We have targeted recruitment, retention and training programmes, and offer financial support for career growth through bursaries.

#### Our stakeholders:



## INSURANCE RISK AND REGULATORY REQUIREMENTS

Our licenced businesses in South Africa and the United Kingdom have material insurance risks in the life insurance and non-life insurance sectors, including claim, expense and lapse risks. Regulatory changes in these environments present requirements to change how we operate and there are various risks associated with these changes.

### How we respond

Our insurance underwriting policies remain robust and responsive. We monitor all lapse rates closely, and manage all reinsurance and other related risks under guidance from our Actuarial Committee.

Discovery has a zero tolerance for regulatory non-compliance. We adhere to all requirements and ensure we remain engaged with regulators and lawmakers. During the year, European businesses had to comply with new laws around client communication, the General Data Protection Regulation (GDPR). The SAM framework took effect in South Africa on 1 July 2018.

Developments occurred in Treating Customers Fairly, the Financial Intelligence Centre Act, Financial Services Charter Sector Codes and Fit and Proper requirements under the Financial Advisory and Intermediary Services Act. There were also developments on National Health Insurance and proposed amendments to the Medical Schemes Act.


The new regulatory environment in South Africa will see a greater focus on Group supervision as Discovery becomes regulated as a financial conglomerate, with both banking and insurance activities.

Looking ahead, we are preparing for:

- National Health Insurance and the Medical Schemes Amendment Bill
- The Retail Distribution Review
- The Protection of Personal Information Act
- IFRS 17 and reporting on profits and financial metrics
- Recommendations of the Health Market Inquiry

#### Our stakeholders:



 We discuss our progress and responses to these and business-specific focus areas in the business reviews from **page 39**.

