

Transforming Our Business in South Africa – The Financial Services Charter

Thursday 4th December 2003

(9.00 am)

JULIAN ROBERTS: We are doing something a little bit different. Instead of Peter Moyo, our Deputy Managing Director of our life business in Cape Town, standing up and presenting, we wanted you to get a feel for the work we have done on the Financial Services Charter through questions and answers. James Agnew, Managing Director, Deutsch Bank, who knows our group extremely well, has agreed to act as question master, and therefore the style of it will be very much an interactive one with you invited to participate fully.

The Financial Charter comes into operation on 1st January 2004. A lot of people do not understand the details of it. Some know it is a balance score card. Some know there are a number of different items. Some of you are aware there are target dates of 2008 and 2014 to complete key stages of transformation. Many of you may have fears about the consequences for our South African businesses. But in many respects we hope today, through this session, that we can allay most, if not all, of those fears.

South Africa has had political transformation. Black economic empowerment is a set of policies to assist economic growth, to boost the economy, to bring new opportunities through the transformation of business, above all to bring all sections of society to play a productive role in economic development. There is a large workforce in South Africa that is under-utilised.

The Financial Services Charter is different from anything that has happened to date, for instance the Mining Charter and other charters already agreed. This is something that the industry itself has come up with. Peter, as you may know, was the Chairman of the Life Offices Association of South Africa. He has been heavily involved with drafting this charter with colleagues in the banking and short-term insurance industry. Government has really only come in at the end of it. What you may know is Old Mutual has been moving forward as a group for a number of years already, along the lines of the balance score card. This session is to ensure you know a lot more.

JAMES AGNEW: Thanks very much, Julian.

Peter, to begin with, could you talk a little bit about yourself and how you came to be where you are, and your experience in the business at Old Mutual.

PETER MOYO: Thanks, James. I have been with Old Mutual for the last six years. I am currently Deputy Managing Director of Old Mutual South Africa. Prior to joining Old Mutual I was a partner in Ernst and Young. In the last six years, some of the things I have done at Old Mutual include being Chief Executive of our employee benefits business. Some of you might know that EB is our second biggest profit generator in South Africa, and quite a lot of our new business in the last few years has been coming from that business.

In addition to Employee Benefits, I have responsibility for health care and group schemes. I really got involved, in the Financial Sector Charter through my position as the Chairman of the SA Life Officers' Association. Over the last year I really spent quite a lot of my time heavily involved in drafting the Financial Services Charter with, as Julian said, some of my colleagues from the banking council.

JAMES AGNEW: Maybe next we could have a quick high level view of the Charter and how it is supposed to work.

PETER MOYO: (See slide). What we tried to do in the Financial Services Charter is to come up with something that is very, very broad-based. A lot of people, when we started, thought we were only talking about ownership. We actually felt that the economic transformation of South Africa did not only hinge on

ownership; it hinged on quite a lot of other things.

As you can see on the slide, we have six attributes to measure: employment equity and skills development; empowerment financing; access to financial services, and so on. But a very interesting thing which might actually surprise a lot of people is that ownership only carries 14 points. Out of the six attributes, ownership is No. 5 in importance. This is also where we have a huge difference with the Mining Charter, because the problems with the Mining Charter came around ownership. In our case ownership is clearly fifth in importance out of six.

If you also look at how broad-based it is, employment equity, access to financial services, procurement, and corporate social investment and so on, it actually touches the lives of quite a lot of South Africans. So it is a charter that actually brings quite a lot of economic transformation to our country, not just to a few people, but it touches the lives of a lot of people.

One of the important things about this charter is that we put in a sunset clause. It is going to run from 2004 to 2014, because we believe that South Africa has to go back to a normal society, and we have given ourselves ten years to do that.

JAMES AGNEW: The question a lot of people are going to ask is how much of a change this is actually going to represent for you and for Old Mutual?

PETER MOYO: Well, it depends what one understands about change. If you look at all those attributes, on our journey at Old Mutual, each of those attributes are clearly reported on in our Corporate Social Citizenship Report, and this is the second year that we have been doing this.

So at an Old Mutual level there is not a lot of change that the Charter is going to bring. We have been working on some of these things. Yes, in some areas we actually have to positively pick up the pace, but essentially there is nothing new for us. We have been on this journey for the last six or so years.

JAMES AGNEW: If we may look at some of these categories in a bit more detail, in your view what does "employment equity" actually mean?

PETER MOYO: Earlier we talked about the political change in South Africa. What happened pre-1994 was that we had a lot of people -- black people in particular -- that were excluded from management levels. Employment equity is bringing about transformation to ensure that we have a more representative workforce.

In my opinion it is possibly the single most important issue around the Charter. This is because it could be the catalyst of getting all those other things happening in a lot of corporations. So you score points around changes in your board and at your management levels.

You will also notice that in the Charter we only focus on management, because a lot of companies have a lot of black people in positions below management, and the Charter, being transformational, is really focusing on the areas where we need to make changes. It is in the area of management that we most need to make those changes.

JAMES AGNEW: The concern people would have around that is on two fronts: Firstly that it is going to be competitive, there is a limited pool of talent available. And secondly how do you protect yourself against higher costs from that competition for talent.

PETER MOYO: Let me put this in the context of Old Mutual. We have been doing this for six or so years. When I joined Old Mutual in 1997 I was the only black executive at my level. The Charter talks about a target of 25 per cent black executives by 2008. As we stand today at Old Mutual, 20 per cent of executives are black. We still have another five years to go.

Now, there is the question of whether we are able to retain the talent. We have been able to do it for the last six years. It is also true to say that, with a lot of companies moving ahead on employment equity, a lot of people might actually be wanting to poach our staff. We have not as yet seen any cost pressures, we have not had to pay any black person outside of our normal pay scales.

It is important for us when we give people jobs we give them jobs that are meaningful. I fundamentally believe that if people have something significant yet to do in an organisation, they will stay.

But we are also not naive. We realise that people might actually want to poach our staff, and we are right now thinking about a scheme to ensure that we retain our top black talent in all our management levels.

Going back to your question around costs, do I think it is going to be too costly? Yes, we are going to incur a once-off cost. Do I think that cost is too high? I actually do not think it is too high. The ongoing costs will not be anything that will really be even noticeable in our operating statements, even at a South African level. So I am very, very comfortable that it is not going to bring any undue costs and undue pressures to the business.

JAMES AGNEW: If we move on then to empowerment financing. You obviously control a large pool of assets, and there must be some concern that you are pressurised into investing in vehicles that do not produce the right returns?

PETER MOYO: Well, one of the critical things when we drafted the Financial Services Charter was the government accepted that it was important for us to ensure we have a viable financial services industry in South Africa. Critical for us is that we are not going to invest or use policy holders' money or shareholders' money in investments that are going to give sub-economic returns.

It is important for us to always ensure that we can always meet the reasonable benefit expectation of our policy holders. So when we go into some of these investments, we are going to assess the risks, we are going to ensure that we get the right kind of returns.

It is for this reason that empowerment financing is one of the areas that we still need to do some more work. For example if we decide to back some of these investments, which are going on to help the country develop its infrastructure, it will be important for government to come in as well and help us on some risk mitigation. It actually makes sense for us then to go in, because we are managing the risk and we can deliver the kinds of returns that our policy holders and our shareholders want.

JAMES AGNEW: Access to finance is more of an issue for banks than for the life companies. But how does that impact on Old Mutual? And what do you plan to do about it?

PETER MOYO: Access to financial services clearly focuses on the lower income segment. From Old Mutual's point of view, we have been in that business (Group Schemes) now for many years. We know how to run that business, and have run it very, very successfully over a number of years. Looking at the Financial Sector Charter, there is not too much extra at Old Mutual that we will have to do. We already touch, literally, every corner of South Africa. We have products that are accessible to literally everyone in South Africa. Our low end premiums are some of the lowest in the world. If you look at the productivity of our group scheme's advisors, they are some of the highest in the world. For us it will be normal business as usual to comply.

JAMES AGNEW: Moving down to procurement, is it actually going to be achievable to meet the procurement targets, given the nature of your requirements?

PETER MOYO: When we drafted the Charter, we set those targets on one very big assumption. That was that we are going to see charters in other industries, for example in the IT sector. At Old Mutual, after people, IT is our single biggest cost, and we cannot achieve those targets if the IT industry does not change.

So it is clearly written in the Charter that it assumes that there will be charters in other industries: IT, advertising, car and household repair particularly for the short-term insurance industry. The beauty of it, is that what this does is it starts giving the insurance companies a kind of power over the suppliers. We can now go to our suppliers and say "We would like you to change if we are going to do business with you."

We have seen, as Old Mutual, since we started on our affirmative procurement policies, quite a lot of small black suppliers coming in. What that has done for us? We have seen some of our costs coming down, because for a lot of those people to be able to do business with Old Mutual is a big boost for them.

The nice thing about it is that we are already beginning to see some short-term gains as Old Mutual. But it has a much bigger effect. It starts creating a lot of black entrepreneurs in the country, which can only be good for the economy and for us. If the economy grows, it is also good for companies such as Old Mutual.

Our affirmative procurement policy is already operational. So I also do not see any huge costs coming out of that.

JAMES AGNEW: Okay. If we move on to ownership, I guess, as you said it is surprising to a lot of people it comes as far down the list as it does. Obviously Old Mutual has been, on the face of it, slower to rush out and do big deals in this area than some of the competition. Does that concern you, and is that something you expect to change?

PETER MOYO: Well, firstly it does not surprise me that it is much lower priority, because when we started with the Charter we said we were drafting a charter that was meant to bring about broad-based economic transformation. A lot of people have rightly said that the kind of ownership patterns that we have seen in South Africa have resulted in only a few black billionaires, to the exclusion of the the majority of people that were excluded from the economy of the country. And so really, where it is does not surprise me.

Does it bother me that we have actually not done something at Old Mutual? It really does not bother me. Because if you go back to the time of our demutualisation and listing, we were the first company to bring a vast number of black people into the Stock Exchange and direct ownership of our shares. As we stand today, we estimate that between 4 and 5 per cent of our direct shareholders are black. So we have time, we are not under pressure.

Clearly if you just look at it from the Charter's point of view, it is actually not something that is too high on the Charter's agenda. Are we thinking about it? Yes, we are thinking about it. But it is not something that is causing us to lose any sleep.

JAMES AGNEW: Can you tell me: have you actually done anything in the area of ownership? If you do make further moves, are they likely to come at the top company level or subsidiary level, or where are they likely to take place?

PETER MOYO: At this point in time we have actually not done anything. We need to start thinking about it. If we do it, it is very clear in our minds that it has to create shareholder value. We are only going to do it if it is going to create more shareholder value.

JAMES AGNEW: Great.

Finally I guess Corporate Social Responsibility is only a small number of points, but we should not gloss over that.

PETER MOYO: No, we should not. But if you look at our Corporate Citizenship Report, we are already doing much more than what the Charter is asking us to do. And we are going to carry on doing that. We are doing that through the Old Mutual Foundation. Some of you might remember that at the time of our demutualisation and listing, we donated some shares to the Foundation, and it is out of the income of that that we carry on with our corporate social investment.

JAMES AGNEW: We have talked quite a lot about the costs, and obviously there are a few areas, like procurement, where you might see some benefit. But looking more widely, what sort of benefits do you see, if any, coming out of this process, and how will you get at them?

PETER MOYO: Well, as a starting point, there are, I guess, much bigger opportunities to be had as a nation if we can get some of these things right. It creates certainty. It creates certainty for investors. And growth at least when people invest in South Africa they know what they are going into. So in my opinion there is a very big benefit out of that.

But let us look at it in the context of Old Mutual. Firstly, for us, what this enables us to do is say "We are a transformed company, we are a South African company, and we can get quite a lot of business purely because of our transformational credentials".

Have we seen that happening? Yes, we have seen it happen.

We all know that in South Africa, for example our Government is looking at restructuring its medical aid scheme business. If, as Old Mutual, we can get, say, 20 per cent of that, we will grow our own business by more than 150 per cent. And one of the key issues that the Government is obviously going to be looking at, is our achievements against the Charter. I am convinced that we are going to be right now an "A" performer, which has a lot of benefits for us.

JAMES AGNEW: How transparent do you think progress is going to be?

PETER MOYO: Old Mutual is going to be very transparent. We have been reporting on these things for the last two years. The Charter calls for reporting against the Charter on an annual basis. For us it is going to be an integral part of our normal external reporting.

Within the business we have to start incorporating some of these in our own management reporting. Over the past few days all our senior executives took time out to see how we incorporate this and it becomes part and parcel of our business.

JAMES AGNEW: What are the biggest risks? Is it the competition and the risk that you provide the solution to other people's problems?

PETER MOYO: Well, for me the single biggest risk is if we do not do this, we could then lose quite a lot of business. So the question is: are we managing that risk? All these things we have been working on for some considerable time already. We have been measuring them and setting targets. If you take employment equity, management has been incentivised on targets for the last three years.

Looking from the perspective of an outside investor one of the risks is: can somebody just change this Charter going forward? Can the goalposts be moved? We thought about that when we drafted the Charter. We put in a "Charter Council" which is going to be comprised of at least 50 per cent of the industry's representatives to control future changes. That is a safeguard that we have put in the Charter.

JAMES AGNEW: How do you think your competitors are doing? Where do you see yourselves relative to them?

PETER MOYO: You would expect me to say we are doing better than everyone. By the way, I actually believe that.

Let us look at the different components. Employment equity and skills development, we are by far ahead of everyone in terms of our black management team. I am not only talking at an insurance company level, but in the broader financial services industry I do not believe that there is any company in our country that has a better cadre of black management. You will see in our Reports, the amount of money we spend on training and development. The Charter calls for us to spend 1.5 per cent of our payroll. We are already spending in excess of 6 per cent, and more than 50 per cent of that is directed at black employees. There are very few

companies, not just in South Africa but the world over, that can say they are spending that kind of money on human resource development.

If you talk about empowerment financing, we have done more deals in South Africa than anybody else. There are a whole lot of black groupings that we have been involved with, even before demutualisation and listing. So we have relationships with more black groupings than anybody in South Africa.

Empowerment financing also talks about infrastructural development. We have invested in infrastructure more than any insurance company. We even have a fund in our asset management business that focuses only on infrastructural assets.

Access to financial services. I cannot say much more than I have said about our group scheme's business. I will say it is possibly the darling of the crowd in terms of to lower income groups.

Procurement is actually one of those that is quite frankly very difficult to measure. I really do not know what our competitors are doing. But what I do know is that there are very few people that have come out with an affirmative procurement policy.

On the ownership side, I have already alluded to the fact that we have done very well as far as our demutualisation and listing. We still need, maybe, to think about how we push that to 10 per cent. Some people have focused on it more than they have focused on the other things.

On the corporate social investment, again we are doing much better than what we are expected to do.

So I fundamentally believe that we are actually doing much better than our competition. A lot of people ask me why I have stayed at Old Mutual? I actually do not think there is a better entity. That is actually why I am still around.

DISCUSSION

JAMES AGNEW: We will throw it open to the floor at this point.

QUESTION: On the ownership issue, you said 4 to 5 per cent of shareholders were black. Where does the foundation come into this? There is also some unclaimed shares around as well. Others have used that as part of their BEE deal. I wonder to what extent you can quantify those amounts, and where you come in the rankings for these things.

JULIAN ROBERTS: The Unclaimed Shares Trust, finishes at the end of next year. So that is something we will be dealing with closer to the time.

The total of Black shareholders is an unaudited figure at the moment, it is an approximation. We are doing quite a lot of detailed work to validate that number.

The auditors each year will sign off each of these items on the score cards. So at the end of each period of time you will be able to compare exactly where we are compared with our competitors, and therefore all of these issues of the ownership and the numbers will be quite clear, because our auditors will sign them off.

JAMES AGNEW: When will sign off and reporting happen for the first time?

PETER MOYO: The first audited reports are required in about March of 2005.

QUESTION: Was the Foundation shares also 4 to 5 per cent?

JULIAN ROBERTS: No. It is 2.9 per cent in the Unclaimed Shares Trust.

JAMES AGNEW: One question, in relation to group schemes business. It is obviously highly profitable for

you. Do you see a risk that other people, in an effort to meet their Charter targets may come into that business and it may become more competitive? And how easy would it be for your other competitors to break in there?

PETER MOYO: Well, access to financial services is the only area where we say that in the life industry we want to measure it across the whole industry rather than in individual companies. All the other aspects are going to measure as different companies.

The reason is obvious because we did not want the Charter to change the way business is done in South Africa. One company, for example, operates largely in the high income market. We did not want to have a Charter that then forced such a company to start going down the chain. So in fact I do not expect to see a lot of companies coming down market and making that market competitive.

QUESTION: How does it work with your subsidiaries, both the wholly-owned subsidiaries in South Africa, and also with Nedcor and M&F? Are they looked at collectively or as separate businesses?

PETER MOYO: Well, the Charter, talks about "listed financial services companies". Our intention in South Africa is that we are going to measure Old Mutual, as a group with its 100 per cent owned subsidiaries in South Africa. Nedcor will be measured separately, as will Mutual and Federal.

JULIAN ROBERTS: There is a wash-down, through each of the subsidiaries from the ownership at the parent company level in proportion to our share ownership. So the fact that PLC has an interest in 53 per cent in Nedcor and 51 per cent in M&F and 100 per cent in OMSA, in each category the score from the PLC passes down to those units, although there is a different grossing-up because of the percentage ownership.

JAMES AGNEW: Would it be fair to say that it is more valuable to do empowerment deals or to extend empowerment ownership at the top level than it is at the subsidiary levels?

JULIAN ROBERTS: This is something we are working through at the moment. It is simpler in some respects to have it at the group cascading down, but in some business such as health care it may be preferable to have local partners.

The difficulty of that is that you could end up with lots and lots of minority partners in different parts of the business, and that starts to become a little bit complicated. So therefore we are working through exactly what the right balance should be. We are not there yet.

PETER MOYO: It is also important to note that the Charter only applies to South African assets.

QUESTION: You referred to an "A" category. That implies there are different categories in terms of score card points. Can you give some idea of how the build-up of target scores goes from now through to 2014?

PETER MOYO: We have not finalised how the interim scoring is going to work. Old Mutual has our own view as part of the core group. When we looked at what we think is going to happen and started scoring ourselves against that, we came up as an "A" performer, which is what we want to be.

Soon we will clarify some of the interim scoring. The two critical dates in the Charter are 2008 and 2014. So the targets that have been set are against those two dates. In some categories we have actually not even not set the 2014 targets.

But the important thing is we want companies to start working on it. We will come up with a format of interim scoring between 2004 and 2008, and between 2008 and 2014.

QUESTION: The second part of my question is: What is "A"? Is there a percentage of the target that is A and B. Or is that also not determined yet?

PETER MOYO: There are going to be five categories, "A" being the best performer, and E being the worst performer. From C upwards -- I think I am right -- you are deemed to be a good contributor to black economic empowerment. So it is our intention, to always stay right at the top as an "A" performer.

QUESTION: Can you talk a little bit about sanctions, and what happens if you do not comply, what happens if you fail? Especially in terms of financing. What about shareholders' funds?

PETER MOYO: Firstly, talking about empowerment financing, although I talked about policy holders' funds, if I failed to mention shareholders' funds it was an omission. From a policy holder's perspective we will look at our reasonable benefit expectations for our policy holders. If we do not believe that the investments are going to cut it, we are not going to get involved.

From a shareholder's perspective, if investments for shareholders funds do not meet our hurdle rates, we are by the same token not going to get involved in them either.

Be very clear that we are not going to go into subeconomic returns, both for policy holders and shareholders.

When it comes to the question of sanctions, the biggest sanction is in business acquisition, particularly around procurement. What procurement targets do is create both a carrot and a catalyst, so people that have not transformed their businesses will actually find it difficult to be operating in South Africa going forward. So that is actually the one kind of sanction.

We have not talked about penalties, as far as the Charter Council is concerned, because remember this is a voluntary contribution by the industry. It is something that we want to do. And talking to the chief executives of all the major banks and the major life insurers, they all want to do it.

I am actually very positive, very, very positive about the Charter.

QUESTION: Bearing in mind it is voluntary, do you think you will be able to get Government support for helping you with risk mitigation or agreeing to participate in any sub-economic investments? Are we talking about investments which are essentially project-based investments, or infrastructure, or are we also talking about venture capital type investments to build new businesses?

PETER MOYO: The Charter actually talks about "financing" and "targeted investments". Targeted investments are largely infrastructural-type projects. I expect Government to come to the party to support those. Quite frankly, the building of infrastructure in South Africa is the domain of Government. So what the financial services industry is really saying is "Government, we are actually prepared to help you", on proper business terms.

Government can come in, particularly on a risk mitigation basis, they themselves would get to the point where they do stretch their budgets as far as those investments are concerned. So I am comfortable that Government is going to come in.

We are already talking to Government. This is the one area where we have not finalised this Charter. We will find out how we can work together to make sure we have a very good example of a private-public partnership, and ensure that our country develops. And it is really going to be around infrastructure and projects. Out of the 22 points, 17 are on targeted investment, and then 5 are around financing the transactions.

JULIAN ROBERTS: There is an ongoing discussion with Government, which is scheduled to come up with something by the end of the the first quarter next year?

PETER MOYO: Yes, that is the intention. We can stretch it to June, but we actually want to do it as soon as possible.

QUESTION: Do you think the Charter has safeguards built into it? You said only parties within the Charter are going to be able to actually change it. If a new government came along and says the Charter is not going far enough could it be thrown out, and would you then be perhaps in a worse position?

PETER MOYO: Well, as a starting point, we have elections coming up in April next year, and all the indications are that the current ruling party will be the party that is going to be in government. So we are not, at this point in time, too concerned that Government can change this. It is the same Government that actually stood up and actually talked to the world about how good a Charter it had been. We expect that the Financial Services Charter is going to be used as the basis of all the future Charters in the country.

The Charter has quite a lot of flexibility. It is interesting if you go into the subtargets, for example that in the senior management category, we ended up talking about a target range. In the junior management category we also ended up talking about a range. We did that to give flexibility. We are mindful that we are starting from a particular point. We did not want to come up with something that was too rigid. We said at the senior management level, for example, that 25% was possibly the transformation needed. But given where we are coming from, to try and go for 25 per cent in one fell swoop is a bit too rigid. So I do believe the Charter has quite a lot of flexibility.

JULIAN ROBERTS: Our feedback is that the Government are really very pleased with the Charter. This is not a government push-down. It is the industry that has come forward with this. The Government is very aware that it did not want to do anything that destabilised the financial infrastructure of the country. This is a very, very different basis from where the Mining Charter started.

PETER MOYO: A small example: One of the negotiating parties in the Charter was the Association of Black Securities and Investment Professionals. They were carrying the mandate of black business. Even if somebody wanted to change it, it would actually not be that easy, because you have industry, you have representatives of black business and because the beneficiaries of this are black business. So I must say, I am very relaxed about future Government interference.

All I want us to do is actually make sure we go on and do what we set out to do, because we believe that they are worthwhile intentions as far as the Charter is concerned.

QUESTION: Is there a disconnect between black business and the disenfranchised groups? This is aimed mostly at the disenfranchised, poor is it not?

PETER MOYO: There is not a disconnect between black business and the disenfranchised, because if you look at employment equity and skills, you are actually talking about black people that are employed in the financial services industry. So you are not only talking about black business. If you talk about access to financial services, you are talking about access for black business people that want to go into business, but you are also talking about basic financial services to your lower income mass market (LSM 1-5). Are they going to get insurance products? Are they going to be able to open bank accounts? Are they going to be able to get credit?

So there is not a disconnect in this Charter. That is why you find that something like ownership, which is really the domain of a very, very few people in the country, ranks as a low priority, because the big issue for us was broad-based economic empowerment.

QUESTION: Obviously you mentioned the IT sector as being a significant area of procurement for yourself. Has there been much interaction between the different industries, and do you have any idea how far down they are with their Charter?

PETER MOYO: There has not been that much interaction as yet, but we know that the IT industry has already started talking about its own Charter.

QUESTION: Coming back to procurement, how important do you see the diversity of scoring across the score card? Are you going to look at the companies simply on the basis of how are they scoring? Or is it important to get a breadth of different suppliers? Some companies will think we really cannot be bothered with this or that but we are still going to get a good score because we are going to score highly on other areas of the score card"?

PETER MOYO: At the end of the day, this is a starting point. Everybody will try and score in every category. If the Charter Council ends up finding that a lot of people are not meeting some targets, for example let us say on procurement, the council will go back and look again. Because we have people in the industry that understand the dynamics of the market, you are going to get a lot of insights as to why that is happening.

This is also where the flexibility in the Charter comes in. We already have, a case where the short-term industry is saying "Can we review procurement going forward". They have a whole lot of small suppliers and it may take time to achieve transformation in each sector of those. We are prepared for that. But the commitment from the big players, both from the banking side and from the insurance side, they are really committed.

JULIAN ROBERTS: Procurement is an interesting challenge. As you go down the score card you can see some categories are easier for the life companies to deal with. Others may be more difficult and it will be different for the bank. Procurement for a short-term insurer is fundamental to the business. But one of the things that I am pleased about is we are such a dominant market player, we know we are giving quite a lot of business to a number of suppliers and can assist in meeting the targets.

I am hopeful we can use that leverage to make sure the suppliers change.

PETER MOYO: We are not just creating a stick. We actually want people to perform against these targets. It is not about point scoring. The fundamental issue is about the transformation of our country.

The points are really a way of encouraging people to make sure that we create a much better future for all of us and for business to operate in South Africa.

QUESTION: Can you tell me as a company what steps you are taking to secure, if you like, your long-term supply of talented black workforce? Namely, do you work with schools, universities? Do you finance education, university students, et cetera?

PETER MOYO: That is a very good question. We are working on that on a lot of different fronts. Let me start off at the top. When we bring people into the organisation, it is important for us to give them meaningful jobs where they believe that there is something significant for them yet to do in the organisation. I fundamentally believe that if people believe that there is a lot that they can add in the organisation, they are going to stay.

We have been looking at how we retain talent. There are some things we are doing there.

But it is also important to make sure that our existing people are always developed. We have very, very good development processes. Two years ago we set up the Old Mutual Business School, which has been voted one of the best business schools in the world. We focus on the development our top management through our own business school.

We have middle management programmes running through the business school. When it comes to the selection and the recruitment, we possibly have the most rigorous recruitment and selection process in the financial services industry. Part of it is how we recruit people into the business. We believe that we recruit only the best people into the business. Then we help them with the processes of development. For example, for divisional managers, both black and white, we have executive coaches, because it is important for us that those people develop, and through the business.

Then at the lower levels, I have already talked about the amount of money that we spend for training and development, which is much bigger than anybody else. In bringing forward talented black people, we have one of the best bursary schemes in the country. Nearly 60% of the people that are in our actuarial bursary scheme are black. So we are already doing something to make sure we bring the black talent through the professions.

In South Africa we have chartered accountants training outside of the profession. We are one of the few private sector companies involved in "top training" CA's outside of public practice. We focus particularly on black people. We also do have programs where we go down into schools.

So we actually have huge processes to make sure we get very good black people into our organisation.

QUESTION: Companies are outsourcing their skill base to competing countries like India, where the technical expertise, for whatever reason, is staying ahead of the game. What sort of programs is Mutual putting in place to keep the non black skill base in Cape Town? You have a black program in place. How do you incentivise the white guys and non-black people to stay?

PETER MOYO: We actually have to be careful here. People start thinking that, because of our employment equity drive, we are actually saying that white people do not have a future in our company. They do have a future, and we have clearly said that we are going to keep our top talent, whether black or white. We continue to promote white people.

It is important for us to clearly demonstrate that we are creating a future for everyone. But an exciting thing for me is that we are then going to be very rigorous on our performance management. We are going to keep those white people that can add value to the organisation, those white people that are high performers. Similarly with black people, we are only talking here about people that are going to be top performers.

So for as long as people are top performers, we will make it very easy for them to stay in the organisation. To the extent that they are not good performers, we will also make it very easy for them to exit the organisation. So it is something that has not concerned me.

But what has also helped us internally is we have admitted that there are white fears. We must not pretend that there are not. And it is also real that there are black aspirations. So we conduct diversity workshops so that people understand why we are doing what we are doing. White people need to understand why we are moving this fast on our employment equity side. Black people need to know why we are moving so slowly. At the end of the day we have a business to run. We cannot have a business without skills of all colours.

QUESTION: You talked about how you recruit, retain and train the people once they are inside. Going back to the education issue, is there any money going into the education system? Is money actually going into the education system to get people up to speed before they actually become, perhaps, employees?

PETER MOYO: When you start talking about education, because of the size of our population, any amount of money that any corporation puts into education, with respect it is going to be miniscule. That is actually the area of Government.

In discussing the Charter, we have said that Government needs to start thinking about how they encourage young people to go into medicine and sciences, business. In our own program on the educational, side we have tended to focus on maths, sciences and medicine, but we need to just bear in mind that it can only go up to a point.

There are other private-public sector initiatives through entities like the Business Trust where I am a trustee. We also have the skills development programmes through the Government. So there are a whole lot of things that are happening.

QUESTION: For clarification, we have had a lot of black and white. I am not exactly sure where the shades in between go. But also, the diversity point, we seem to have completely different rules for women versus men. I was wondering how acceptable it was that you can have three times as many men as women in some of these positions?

PETER MOYO: You are talking like our Government!

"Black" is defined in the Charter as African, as in pigmentation, and Indian and coloured; essentially the people that were formerly disenfranchised. That is essentially the people we are talking about. It might not be easy for somebody sitting here to understand it, but actually in South Africa it is not a problem: everybody understands exactly what we are talking about.

Talking about why we would have three times the number of men than we have of women, is actually really a legacy of the past. The ratio of men and women in senior management positions, in South Africa it is not different to a lot of the developed world. I mean, you just need to look at the analyst community even in this country.

So South Africa is not alone in that. The reason we specifically talked about black women is that there is a clear absence of black women in senior management positions in South Africa. We are saying that this is an area that needs intervention. We are not going to intervene in everything. But we will say "Let us look at targets for black women executives". The targets actually look very, very low. But that is also recognition of our starting point. It goes back to the question around the flexibility of the Charter. We have got to also take reality into account when we look at our aspirations.

QUESTION: On a practical note, what can we expect to be disclosed in terms of reporting on the detail on the score card. Will we see where you are scoring? Will you be commenting on every single category on which you score various points, and therefore will you be compared on every single category?

PETER MOYO: Well, clearly the score card is going to be audited. You will see it in the year end reports.

In the annual report you are going to see something that goes through all of those issues. Everybody keeps talking about competitors. At the end of the day each company has to do what it thinks is right for its stakeholders.

QUESTION: Looking at the junior, middle and senior management as defined in the Charter, is it defined in terms of salaries?

PETER MOYO: Yes.

QUESTION: Two questions, really: (a) are you concerned that that is going to lead to inflationary salary pressures within the management sectors themselves; (b) in terms of the practicalities, if you do see inflation of salaries, can people who are at a higher level be counted at a lower level and vice versa?

PETER MOYO: I think that is a very good question, because it took us a long time to decide to use salary bands. This process has been driven by the executives in the industry, it is what works for them.

We all believe we pay people for the jobs that they do. Salary is possibly the easiest measure of grading. We do have an employment equity legislation that talks about all these different levels. In our employment equity legislation, we came up with categories that nobody understands in the country. We tried to use these same categories and they did not work. And what you call a general manager at Old Mutual might actually be different to what we call a general manager at Sanlam or at Nedcor, or at Standard Bank.

But generally you will find that when we pay somebody 450,000 rand a year, they are actually doing more or less the same kind of high level job across all entities. I am not too concerned personally that we are going to see this leading to quite a lot of cost pressures. I am actually quite relaxed about it.

QUESTION: Presumably at some stage, in terms of procurement, Old Mutual will be introducing policies as to who you deal with in terms of what ratings they have to have. What sort of timetable are you planning for that?

PETER MOYO: We are talking about this at the moment. We plan to write to our suppliers. We will put something on the Internet and will also be sending it out to them. We are saying "We are very serious about transformation. We do have an affirmative procurement policy. You, as our suppliers, need to start giving us this information and telling us how you rate against this criteria."

Our finance department is setting up the systems now.

CONCLUSION

JULIAN ROBERTS: I hope you have found the presentation helpful. I learnt something new myself from these discussions. Old Mutual has a very strong franchise in South Africa. We intend, as you hear from Peter Moyo, to make sure that that franchise is kept strong and grows. Therefore it is our intention to make sure that each of our businesses are right on top of the Charter. You may turn round and say "This is a defensive move". But we do not think it is. We think we have the leverage to gain new opportunities where we can continue to gain more business.

You can tell that Peter is very proud. We really are quite advanced in the life business. Certain other areas of our business are catching up fast. Being advanced, we believe we can use that as a competitive advantage, and we believe we can use that to gain businesses.

There are challenges. Let us not lie about it. There are some issues that we do have. As those who know us well have got used to us, we do not duck those challenges. We face them and we move forward.