Presentation transcript

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ANNUAL RESULTS

Sizwe Ndlovu

Good morning and welcome to each of you. We are delighted to be hosting the financial results for the first time in person in two years. Welcome to everyone joining us online as well as the webcast and the audio call. Thank you all for taking the time today. Shifting gears -Accelerating growth. That's the theme of today's presentation. We really and truly are past the recovery phase of our journey. This is a journey that many of you have been on with us and you would have heard the many promises we've made and the ambitions that we've shared. As we will shortly hear, the promises are being kept and the ambitions now becoming realities.

Today's update will provide insight on how we progressed on the execution of our strategy in 2021 and how we've responded to the myriad challenging external factors including the impact COVID-19 has had on our business. We will also share some of the highlights from our segments so you can see how each part of the business is handling and responding to its own unique set of challenges and opportunities. We will talk to you about our current performance which has shifted gears and gained substantial momentum. And lastly, we're going to give you a good sense of what we believe lies ahead for Old Mutual and a future built on these strong strategic foundations.

To answer your questions today all our MDs are in the room, so please feel free to ask any questions that you may have, if you could please communicate these questions via the webcast or conference call. Starting off today will be our Chief Executive, Iain Williamson, followed by our Chief Financial Officer, Casper Troskie. Over to you, Iain.

Iain Williamson

Thank you, Sizwe, and welcome to all of you. I would especially like to welcome Zureida Ebrahim, our Chief Operating Officer, to our leadership team and also to thank Heloise for diligently caretaking the COO function for over two years. Last year, the second year of this global pandemic, we held our ground and reaffirmed our commitment to our values, to our stakeholders, including of course to you, our investors. Our truly mutual strategy can be understood through three primary components. The first is our vision or victory condition of becoming our customers' first choice to sustain, grow and protect their prosperity. This means that we want to be top of mind with regards to our brand presence, our distribution reach and the breadth of solutions we offer to our customers.

The second leg is our execution framework, the how of our strategy: rectify, simplify and amplify, which breaks down our long-term ambitions into shorter-term tactical steps that will allow us to reach our destination and deliver on the commitments we've made to you as investors. And the third leg is our value drivers which focus on the what, the tangible outcomes we will deliver to shareholders. Revenue growth, operating margins, capital efficiency, competitive strength and execution and delivery.

Our implementation of ESG principles across our dual roles of asset owner and asset manager continues at pace. We are now an official member of both the Net Zero Asset Owner Alliance as an asset owner and the Net Zero Asset Managers Alliance through the Old Mutual Investment Group. Apart from preserving the planet for future generations, we've got a fiduciary duty to ensure the sustainable continuity of our business and protect our stakeholders' interests. Please look out for our first climate report based on TCFD principles which will be released next month.

On a personal note, during 2021 my eldest daughter wrote her matric exams. And watching her work so incredibly hard and succeed amidst the challenges and pressures of writing matric compounded by the challenges of separation from friends, online schooling and a complete shift in school norms, was made acutely aware of how much COVID-19 has impacted our young people. And how our children have responded to this pandemic has reminded us all of what is possible and how resilient we can all be in the face of adversity.

At Old Mutual we've similarly seen the response and ability to persevere in our results. But before I break the results down, let's start with headline performance indicators. 2021 was a really significant year for us as we recovered from the enormous impacts that COVID had on our operational and financial performance in 2020. As you can see, we are green across our key metrics. We have honoured our commitment to our customers and paid out over R21 billion in claims in our life business in South Africa, which is the primary driver of our net client cash flow outcome. We achieved a massive recovery in the front end of our business that was driven by much better productivity reflected in the significant improvement in life APE sales, the value of new business and in funds under management.

In a moment I will go into some detail to highlight areas that have really been spectacular not just against 2020 but also against 2019. While we're here, I'm delighted to tell you that our board has approved a final dividend per share of 51 cents for 2021, at the top end of our policy range for the cover ratio. It has taken this decision given its confidence in the strength and resilience of our balance sheet, but also taking into account some lingering uncertainty around a possible breakout variant of COVID. This dividend declaration follows on from the bold step we took towards simplifying the group when we distributed 12.2% of our stake in Nedbank, allowing us to focus on our core business while also providing a substantial return of capital to shareholders.

These results are the outcome of focussed execution on our rectify, simplify and amplify framework and the clarity that this brings for our people. To recap quickly, rectify means fixing areas within our value chain that are not working as well as they should and reorientation towards new ways of thinking and operating. Simplify is about leveraging our existing resources and further streamlining our processes, systems and products through the use of technology, allowing us to respond to the constantly evolving needs and expectations of our customers. And rectifying and simplifying allows us to then amplify, setting the foundation to enhance the breadth and scale of our capabilities through strategic partnerships, through investing in innovation and through using our extensive resources to tackle societal challenges.

By delivering through this framework we keep our promises to you, our investors. You will remember that I made you a number of firm commitments at our interim results last year. I promised you that we were going to revolutionise our customers' experience of Old Mutual and change the trajectory of that experience. I said we would build an entirely new insurance business end to end to deliver exactly what our customers expect and more. We promised you that our relentless drive to improve efficiency would translate into measurable and sustainable cost savings of R750 million by the end of 2022.

We undertook to harness the unrivalled force of Mass & Foundation's distribution engine to regain our competitiveness. I said that we would complete re-energise the customer and advisor experience in Personal Finance and Wealth Management, and so continue to earn our place in this highly contested space. I promised that we would improve investment performance in Old Mutual Investments and that we would embed digitalisation across all parts of our business. As we take you through our results journey I'm confident that you will agree that we've delivered against these commitments.

So with that context I'll move on to the external environment within which we delivered these results. In 2021 global economic growth rebounded after the sharp declines of 2020. This was in large part supported by the rollout of vaccines and the relaxation of previously imposed COVID-19 restrictions resulting in increased demand and increased economic activity.

We also saw equity markets recover right across the continent, although once again that growth was somewhat constrained by continuing outbreaks of new COVID-19 variants. While markets are improving, we are acutely aware of the pressures consumer remain under with rising global inflation putting continued pressure on interest rates and on GDP growth as well as heightened volatility in the global geopolitical landscape. In the rest of Africa markets remained largely on a growth trajectory.

During 2021 South Africa experienced material excess mortality during the second and third waves of COVID. Notably, the third wave, the Delta wave, had a double hump or double peak which impacted both our Personal Finance and Corporate businesses severely. The fourth wave then saw the emergence of Omicron, which was highly transmissible but very much milder in terms of severity.

In 2021 the impact of COVID-19 on our segments resulted in materially higher claims than we had modelled for at the beginning of the year. In total in the year we paid out more than R13 billion in COVID related claims across the group. And in the second half of the year we raised additional provisions of R2.2 billion which Casper will take you through in detail. We've responded by repricing our group life business and individual business on the expiry of guarantee terms, as well as repricing new business for unvaccinated lives.

During the year we implemented a mandatory vaccination policy for our employees in South Africa, and today well over 90% of our staff is vaccinated. And we've accommodated those who choose to not be vaccinated, requiring them to undergo weekly PCR testing. But what about the future? In our response to COVID we have taken into account all research and expert projections including those of medical experts such as Professor Salim Abdool Karim who recently met with our ExCo leadership team. After what we experienced with the fourth wave, wider but less severe infections, we now believe that the world may finally be getting to grips with COVID. But the threat of a new breakout virulent strain of the virus does remain. Whatever the outlook, vaccinations remain an essential part of our human defence against the virus.

Given the backdrop that I've sketched out of market recovery, increasing consumer pressure and the challenges brought by a shifting and unpredictable global pandemic, our segments have really performed exceptionally well. In the Mass & Foundation cluster led by Clarence results from operations excluding COVID increased by more than 50%. We strengthened our tied distribution channels which have enabled them to deliver a sharp increase in productivity levels with a focus on both advised and non-advised products.

Our alternative and foundation market channels delivered strong sales growth with a higher proportion of risk sales helping us to improve margins. Thanks to the focus and investment we've put into the sales force and the productivity recovery we experienced because of it, our sales have continued to grow consistently right across the business. This has been boosted in no small part by Old Mutual Protect sales, most of which come from the Mass & Foundation cluster.

As Clarence mentioned at last year's capital markets day, we are pursuing opportunities to expand into the full value chain of funeral services through strategic partnerships. And we will update you at interims on the progress we are making. As a result of all our efforts in 2021 VNB recovered strongly from last year's low, with our VNB margin ending at the lower end of our target range of 6% to 9% for this segment. Risk sales are up 40% and savings are 20% higher than in 2020. This mix does dilute the reported margin.

Old Mutual Finance had an exceptional year, delivering the lowest credit loss ratio in its history. But I must caution that as we continue to prudently increase our lending volumes we aim to maintain a sustainable loss ratio of 7% to 9%. Even as we expand our alternative channels, the face to face sales force will remain absolutely relevant as a core part of a multi-channel distribution strategy. It has been the secret sauce inside MFC for many a year.

Excluding considerable pandemic claims, the front end of the Personal Finance business had an absolutely outstanding year. As with MFC, our strong focus on advisor productivity and improving customer experience resulted in sales exceeding 2019 levels. We've also seen good traction in the take-up of new solutions, particularly of Old Mutual Protect which has supported our recovery in the recurring premium business and has replaced our previous flagship risk product, Greenlight.

When customer appetite returned, Old Mutual Protect proved that it is exactly the product the market was looking for, offering customers modular tailored benefits to suit any budget or need. We do acknowledge though that we still have work to do across the value chain to extract further benefit from Old Mutual Protect, work that will result in an uplift in margins. We are also on track to launch our savings and income proposition which builds on the benefits of this platform.

On the other hand, net client cash flow remained under significant pressure driven primarily by the payment of claims during COVID waves two and three. Expense management has been nothing short of excellent with growth in expenses coming in at below inflation for the second year in a row despite investment in digital enablement and the rollout of new solutions.

In Wealth Kerrin and the team have focused on both our distribution capability and investment performance. In the distribution arena we are focussing on capabilities in areas we have previously been under-represented in. and I'm confident that these ventures will bear fruit because of the tremendous success our team has experienced in seeding adjacent new businesses within particularly the Wealth business. Just think, for instance, of our private client securities business which we've taken from zero to R40 billion in assets under management in the last five years.

On investment performance the team has achieved an exceptional outcome in a highly competitive environment. Compared to the largest balanced funds, Old Mutual Multi-Managers now ranks first over the one, two, five and ten year investment horizons. Old Mutual Wealth Tailored Fund Portfolios is in the top 15% of ASISA peer groups over one, two and three years. Across Personal Finance and Wealth Management the team's efforts have resulted in improved sales with gross flows increasing by 15%.

Demand for offshore solutions remains strong with Old Mutual International recording net client cash flow growth of 36%. And finally, we have concluded successfully the administration platform migration of Old Mutual Unit Trusts and made subsequent enhancements to this platform, which have created a truly exceptional performance for both advisors and customers.

Moving on to Old Mutual Investments, we've made tremendous progress in setting up our strategic foundation for success here. Over the last two years Khaya and his team have completely overhauled and simplified the boutique model to allow for a greater focus on specific competitive capabilities. We called this Project Lego and the pieces have now all been put into place. The affiliate model is now embedded and the execution of our private market strategy is on track. This focus has allowed us to seed the new product capabilities with increasing investor favour.

In 2021 alternatives and specialised finance invested more than R9 billion of existing capital into unlisted credit and equity assets, and we've had another successful fund raising in alternatives of R9.9 billion that will be drawn down and invested in the future. Investment performance in our multi-asset and equity portfolios has delivered top quartile results against peers across one, three, five and ten years. Our short-term investment performance has improved markedly and has further enhanced the competitiveness of our long-term investment performance.

Gross flows and net client cash flow in this business are a t their highest levels in four and five years respectively, and this together with improved market levels has resulted in assets under management growing by 15% and RFO exceeding 2019 levels by 10%, a really solid performance by Khaya and his team. One last but extremely important point on Old Mutual Investments. I'm really proud that the team has concluded the sale of 21.2% of Old Mutual Investment Group's share in Future Growth Asset Management to African Women Chartered Accountants Investment Holdings, or AIH, a 100% black women-owned investment company. This transaction was concluded at market prices. Although still subject to certain conditions precedent being met, it is the first step in a phased implementation of our strategy to achieve best in class empowerment credentials for the Old Mutual Investment Group.

The next step of the transaction will be structured in terms of statement 102 of the Financial Sector Charter and has the prospect of increasing black ownership of both Future Growth and Old Mutual Investments to 51%. Achieving this will be a real game-changer for Future Growth, for Khaya's business and for Old Mutual Corporate. I really believe this provides a competitive edge for our businesses as they seek new markets and defend existing territory. We are delighted to be working with a partner of AIH's calibre and look forward to a mutually beneficial relationship.

Corporate sales returned to a healthy position as life APE sales rose nearly 40% in the second half of the year compared to the first half. Quote activity for group risk business remains high with a number of brokers testing the market for better deals for their clients. And very pleasingly, we've seen improved client and intermediary satisfaction scores with both net promoter and net effort scores exceeding 70% by the end of the year. These higher levels of customer satisfaction have made a positive contribution to retention risk, client terminations and net client cash flow in H2. This was despite some challenges relating to claims processing which we are prioritising for resolution.

Digital adoption by retirement fund members also continues to improve and was 40% higher than in 2020. We focused on improving the competitiveness of our super fund offering to support large enterprises and on integrating our risk propositions into the super fund. Management actions have seen a significant improvement in our group life assurance results.

At the same time we've invested in the SME space which Prabashini and her team have identified as a growth vector for the future. We're excited about Corporate's new innovative SME Go offering which is gaining traction, giving us credibility in the small business space as we push to create value for an underserved but hungry new market. Also encouraging is Corporate's improved VNB performance in the second half of the year as well as our existing deal pipeline which supports positive momentum into 2022.

Garth and the Old Mutual Insure team are beginning to see the results of their two year journey to turn this business around. In that time two of Old Mutual Insure's business units, being CGIC and Speciality, have undergone restructuring processes across technology and operations. And they have now retuned very pleasing results. In fact, in the overall increase in total gross premiums was led by CGIC and we believe that a reasonable proportion of CGIC's wins are sustainable given a dominant market share, lower risk profile and better margins. In addition, iWYZE did particularly well in 2021.

All of this has contributed to an 8% growth in gross written premiums plus an improved claims ratio which led to a 69% rise in the result from operations and a substantial turnaround in the net underwriting result. Retail premium growth has been limited, however, despite strong sales from the new premier product offering. The much improved net underwriting result was achieved despite a few large risk events such as the UCT fire and weather related claims in the latter part of 2021. We managed to achieve our target of our net underwriting margin being solidly within the range of 4% to 6%.

The retail businesses had an excellent claims ratio, but there is a need to further improve the expense ratio and make this business more cost effective. What we used to call our complex commercial business has now been rebranded premier, and we have grouped it together with the speciality business rather than with standardised commercial lines, given the differing nature of the business being written. This particular business is still in rectification mode.

Old Mutual Insure will continue to focus on further product simplification, simplifying processes and IT systems to unlock further sustainable cost efficiency across the business. The required investment in technology will delay the realisation of some cost savings perhaps by a year or two, but will not impact on our group savings targets. Finally, I'm really pleased with the acquisition by Old Mutual Insure on 1st January of 51% of One Financial Services. This gives Old Mutual Insure access to new risk pools and to One's world class technology for administering off platform insurance risk.

In the rest of Africa I am also pleased to say that the business is showing early evidence of improving. In 2021 we saw top line growth with good margins and market share gains. However, the segment suffered considerably worse COVID impacts than in 2020 with Namibia in particular experiencing significant claims during the third wave. In addition, in most of our markets, as you would expect, higher economic activity post lockdowns also translated into higher property and casualty claims. Despite this the team achieved a 33% growth in RFO excluding the direct impact of COVID. And as I have suggested, there were a number of standout positives.

Value of new business more than doubled with margins increasing from 1.3% to 2.9%. These gains were driven by tight expense management in the southern regions and by a pivot towards corporate business in both East and West Africa which positively impacted both sales and margins. We experienced lower credit losses and higher net lending margins on the back of stricter lending criteria and increased collections. And improving productivity levels will remain a priority as we continue to optimise our retail distribution and improve relationships with brokers across the various regions.

In the context of our rectify framework we've worked hard to fix our control environment in Kenya and we've recently achieved similar successes in West Africa. But as a general comment, we still have some way to go in putting in place a world class control environment across all of our markets and lines of business in these territories. Clement and his leadership team are alive to this need.

Finally, a short comment on a business that we do expect much from and which is also headed in the right direction, and that is our joint venture in China. The business delivered life APE sales growth of 58% with VNB margins expanding by 50 basis points to 7.1%. Funds under management also grew by 20% to R6.6 billion, all in all a pleasing performance.

We are invigorated by the work done and the progress that we've made during 2021. Our people at every level of our organisation have bought into the vision and purpose of our business has much as the leadership team has, which speaks volumes to its relevance. Our competitive advantage is well and truly alive, and the end result is a greater strength we can see across all the various indicators. And on that note I'd like to hand over to Casper.

Casper Troskie
Thanks Iain. I agree this is a great set of financial outcomes given the extremely challenging environment with strong lead indicators of improved sales and productivity across the group. And on a personal note, it has been great to experience some of this recovery on the home front as well. I was really happy to be able to reunite with my family after two years. I was able to spend some time with my son who travelled from New Zealand as well as my brother and his family who travelled from the Netherlands. Adversity builds strength and resilience, and I'm pleased to be able to show you how this is reflected in our results.

We have seen a continued positive trajectory on key metrics relating to earnings, capital and value. Overall we were pleased with the strong recovery in results from operations to R9.1 billion on a pre-COVID basis as a result of the sales and flow recovery in all our segments. Results from operations include a number of once-off items which I will unpack later. Adjusted headline earnings more than doubled in 2021, benefitting from results from operations growth as well as substantial increase in shareholder investment portfolio returns across the group.

Our return on net asset value improved from 3.8% to 9% and excluding the direct impacts of COVID was estimated to be 13.6%, which is within our target range and ahead of our cost of equity. As Iain mentioned, a final dividend of 51 cents was declared at 1.51x cover relative to adjusted headline earnings. The dividend was supported by high levels of free surplus generation as well as a strong balance sheet with the life company's capital coverage ratios in the upper end of the target range.

Value of new business was up substantially to just under R1.3 billion from R621 million in 2020 on the back of strong volume growth and acquisition cost efficiencies. The value of new business margin recovered from 1.1% to 1.9%, just below our target range of 2% to 3%. All of this has resulted in a 5.9% growth in group equity value excluding the impacts of the Nedbank unbundling.

We started 2021 with a pandemic provision of just under R4 billion. we raised further provisions for R4.2 billion and released R5.3 billion resulting in a closing provision of R2.9 billion after raising the additional R2.2 billion in the second half. The closing provisions were set taking into account the most recent experience and assume that there will be no breakout variants that bypass immunity in future. In terms of stresses and sensitivities on these provisions, if the immunity benefit from vaccination and prior infection reduces by 25% the provision would increase by R1.4 billion. And if vaccine take-up reduces by 10% the provision increases by R327 million.

COVID-19 resulted in additional deaths relative to our prior expectations and provisions, particularly in our Personal Finance, Old Mutual Corporate and Rest of Africa businesses whilst impacts on our Mass & Foundation cluster remained more muted. The net impact of the pandemic on results on operations in 2021 was just over R4.7 billion, and this was made up of R6.8 billion in excess deaths which were partially mitigated through net provision releases and management actions.

Building on what Iain mentioned earlier, let's look at the underlying performance of our businesses. In Mass & Foundation cluster RFO excluding the impacts of COVID-19 of R3 billion grew 50%, mainly due to higher life sales, good cost management, improved retention experience and reduced credit losses. Personal Finance was up 6% despite lower net positive basis changes and once-off items than 2020, benefitting from higher market levels, improved morbidity experience and continued good cost management. Wealth Management improved by 58% due to higher asset levels and fee income driven by positive net client cash flows as well as the market recovery.

Old Mutual Investments was up 3% largely due to higher annuity revenue offset partially by higher expenses. Old Mutual Corporate recovered by 13% due to higher asset based revenue earned from improved market levels together with releases of discretionary margins on investment guarantees. And Old Mutual Insure improved by 69% due to the positive claims experience in CGIC, some provision releases and good control over costs. Our Rest of Africa business was up 33% with higher banking and lending profits due to lower credit losses, tight cost management and prior year East Africa write-offs not repeating.

The increase in central expenses is largely due to costs relating to our growth in innovation initiatives which Iain touched on earlier as well as IFRS 17 project costs, share incentive costs and property rental concessions. Personally, I was satisfied with how each of our segments have delivered in 2021 as we changed gears and positioned ourselves for growth.

I am also pleased to see the improvement in adjusted headline earnings of more than 100% as a result of our recovery in operating profits supported by shareholder investment returns improving substantially relative to 2020 with a 69% increase. This was driven largely by a rally in equity markets across the group. Income from associates was up with Nedbank earnings recovering on the back of lower credit impairment and strong revenue growth off 2020's low base, offset by a R37 million loss in our China operation.

In order to simplify and understand how we get from adjusted headline earnings to headline earnings there are two material adjustments. Firstly, the impact of restructuring largely comprises the recognition of tax of R1.2 billion on the full Nedbank stake that was held prior to unbundling.

Secondly, the results for Zimbabwe are excluded from adjusted headline earnings due to us not being able to access our capital. The increase in Zimbabwe's profits was mostly driven by an increase in investment returns with the Zimbabwe Stock Exchange generating a 311% return in 2021. Despite high volume on the exchange, we remain extremely cautious of valuation levels given the closed nature of that economy.

Lastly, between headline earnings and IFRS earnings the main adjustment includes an impairment on our property at 1 Mutual Place to better reflect prevailing market conditions. Overall IFRS earnings improved to R6.7 billion from a loss of R5.1 billion in the prior year, with the Nedbank impairment of R8.8 billion largely impacting the 2020 results.

As previously mentioned the impacts of COVID include both excess deaths over provision changes as well as mitigating management actions largely related to the repricing of risk books. Results from operations excluding COVID-19 items of R9.1 billion were higher than the results from operations of R8.7 billion we achieved in 2019. However, 2021 results benefited from other key once-off items, and in particular in Old Mutual Insure R211 million represents CGIC's once-off release of reserves that are not likely to repeat in 2022.

R653 million in Old Mutual Finance related to once-off benefits in credit charges given the rundown of the book. But as the business returns to normal lending levels we expect a longer term sustainable credit loss ratios of 7% to 9%. And R844 million of benefits related to the continued optimisation of our risk product hedging strategies following on the R1.8 billion uplift in 2020. Implementation of this strategy is now completed and the uplift will not repeat.

We have now completed our process with the regulator for the application of the accounting consolidation method which was approved in December 2021. Subsequent to this approval we have revised the group target range from 170% to 200%, whilst the OMLACSA target range remains 175% to 210%. The capital coverage for the group was 184% and the life company was capitalised at 201% after taking into account the final dividend declared. The reduction in coverage ratios from the prior year was driven by strong retail risk sales, a 9% increase in the prescribed equity stress, the increase of the value of Zimbabwe which is included at a 1x coverage ratio given non-fungibility of capital.

Since listing the group has returned R75.4 billion to shareholders. This includes just under R50 billion of capital returns from the two stages of Nedbank unbundling. In addition, just under R10 billion of special distributions were made in the form of share buybacks and special dividends. Due to the strong cash generation from the business and our capital levels, we have also declared dividends using the full capacity of our dividend target range. We remain disciplined in our capital management and will continue to evaluate any growth opportunities in line with our strategy and return hurdle rates.

We are pleased with the overall recovery in new business to just under R1.3 billion compared to R621 million in 2020, as well as the recovery of value of new business margin to 1.9%. This improved margin is proof of our sales recovery across the group together with tightly controlled cost management. I was particularly pleased with the value of new business recovery in Mass & Foundation and our Rest of Africa business.

Return on group equity value was 8.1% and 10.3% if we exclude the impact of COVID. The share price continues to trade at a significant discount to IFRS NAV, eligible own funds and group equity value. By unbundling Nedbank we've delivered on our promise to reduce complexity and simplify, allowing for a clearer understanding of our core business. We believe that the execution and delivery on our strategy is allowing us to strengthen our competitive position and further amplify our competitive advantage, and ultimately close the gap between our market capitalisation and group equity value.

In summary, we have seen a strong recovery in results from operations and adjusted headline earnings before COVID impacts, an improvement in our return on net asset value to be closer to the cost of equity with the pre-COVID return already ahead of cost of equity, a recovery of our value of new business margin to be close to our target range of 2% to 3%, with our group solvency ratio remaining strong within the adjusted target range of 170% to 200%.

And finally, as Iain mentioned earlier, we are delivering on our promise to meet the R750 million of annual run rate cost reductions by 2022, this having already banked R450 million in savings from a combination of non-commission expenses in our life business and non-commission and claims administration expenses in our property and casualty business. This target excludes investments in our new growth businesses. Overall we believe there is hard work on the road ahead, but we are on track to deliver against our medium targets, which you will remember we revised upwards in June. With that, back to you, Iain.

Iain Williamson
Thank you Casper. Achieving some of these targets will require us to work with resolve, but I'm confident that we've put in place the strategic foundations and execution steps required to deliver on our targets. Earlier I promised to give you an update on how we've delivered against our commitment to you, our investors. I promised that we were going to change the trajectory of our customer experience, and our much improved customer ratings prove that we are delivering against this.

We said we would build a new financial services business. Given the success of Old Mutual Protect we now have the chassis on which to continue to expand this. We promised you we would realise sustainable cost savings, and as I said, we are well on track. We undertook to regain Mass & Foundation's competitiveness, and I think you will agree that the numbers show that that is happening. I said we would re-energise the customer and advisor experience in Personal Finance and Wealth Management. The palpable energy in that segment has translated into really pleasing numbers.

I committed to do all we could to improve the performance of our investment business, and here again we've indeed improved performance against peers and benchmarks across the one, three and five year time horizons compared to where we were a year ago. And lastly, while the digital landscape is constantly evolving and our journey will never truly be complete, we are certainly delivering on our promise to embed digitalisation of our business.

Our work in the digital space is paying off, and I'm pleased to tell you that the number of customers who choose to engage with us digitally has increased by 28% in 2021 to 1.1 million. We've also used WhatsApp, USSD and the My Old Mutual web-based platform to process more than 65,000 claims in South Africa, which is more than double that of 2020. We've used machine learning tools to automate capabilities and improve the service we offer customers. And as at the end of December we had migrated 51% of our South African technology estate to the cloud resulting in improved processing levels and reliability. And as of today we've completed 67% of this task.

Our investment into the migration and updating of our end to end systems is one of the drivers that have delivered the improvement in our sales trajectory and our efficiency gains. This together with the execution of our Truly Mutual strategy has resulted in improved experiences for our customers. You may ask how we measure this.

We do so using the South African customer satisfaction index also known as SACSI, an independent national benchmark of customer satisfaction with the quality of products and services available to household consumers. Our 2021 SACSI customer satisfaction score moved up from 78.9% in 2020 to 82.5%. And in addition, as measured by the same survey providers, our reputation net promoter score increased from 29.8 in 2020 to 46 in 2021, an impressive increase by all accounts.

The Old Mutual of 2022 is substantially rectified, it is certainly a lot simpler than it was only a few years ago, and it is already starting to be amplified. I was to reiterate we are fully committed to working with Future Growth and AIH, our new partners in that remarkable business to raise Future Growth and the Old Mutual Investment Group's black ownership to 51%.

This is part of the phased implementation of our strategy to achieve 30% black ownership for the entire group, which at the time of our listing would have been best in class. Our empowerment commitment is exactly in line with our Truly Mutual strategy. As we move to implement these transactions we are clear that the benefits will far exceed the implementation costs, and we will keep you updated on developments as we move through this.

We are also adding additional capabilities as we build out the financial services business of tomorrow. Our ambition of expanding our transactional capability in phases to ultimately be at scale will continue. Enhancements to our existing capabilities are being implemented, and here again we will update you on our progress. As you have heard, Old Mutual Protect has done exceptionally well, but it needs to be further embedded in the market. We're going to use all the learnings from Old Mutual Protect to replicate its success with our savings and income product range. Lastly, I expect great things from the new growth in innovation office we launched in September last year. The team is a vibrant, exciting focus point for our aspirations both internally and with multiple partners in various industries and sectors to drive longer term growth.

We have delivered across all five areas of shareholder value creation. We've grown revenue, we've increased our operating margins, we've improved our competitive strength, we've executed and delivered significant strategic progress, and we did all of this while improving our capital efficiency. And we delivered to our customers on the promises that Old Mutual has always stood for.

As we look outside Old Mutual we take comfort from a South African budget that was measured, realistic and encouraging in its outlook. Events in Europe over the last few weeks are nothing short of a humanitarian disaster and deeply concerning for all. While none of us knows what the full impact will be, we can safely say that we have a resilient business with a well-capitalised balance sheet and strong liquidity, giving us the platform to remain a certain friend in uncertain times.

So looking forward we want to build on these successes to shift gears and to accelerate our growth trajectory. I thank everyone both in the room and on the webcast and on audio for your time today. Casper and our leadership team look forward to answering any questions that you may have, and I hand back to Sizwe to coordinate our Q&A process.

Sizwe Ndlovu
Thank you so much, Iain. Just as a start before we begin with the Q&A I would just like to draw the attention of all our participations in the room, by webcast and audio of some additional videos that we have of our MDs who will be covering a little bit more detail about their segment performance and to be able to give you better insights into their prospects as well. Today we've got questions on the conference call, if the operator can confirm that she's on.

We also have participants that are in this room. If you have a question and you are in this room, if you may please raise your hand and we will provide you with a roving mic so that you're able to ask and also be answered. Also then we have questions on the webcast which I have. Operator, if you are ready I would like to start with the conference call, and we will go around until we finish.

Operator

We have a question from Andrew Sinclair from Bank of America. Please go ahead.

Andrew Sinclair

Thanks and morning everyone. A usual three from me please. Firstly is on COVID. I just really wanted to understand a little bit more about the cost of wave four of COVID and how that compared to the earlier waves, and then what you're looking at in terms of how many future waves and how you're expecting the cost to further reduce for those waves. That's question one.

Secondly, thanks for calling out all the material one-offs in the 2021 results. That's super helpful. I realise we're still at an early stage, but are there any material one-offs that you have sight of for 2022 results, for positive or negative? And thirdly was just on margins and volumes for new business. It was a really good recovery in volume for new business, but margin still a touch below. What do you think is needed to get margins back to the middle of that target 2% to 3% level? Is that just continued volume recovery, or is there anything specifically you can call out to get to that level? Thank you.

Casper Troskie

So I'll start and then if I lose something out any of the segment MDs can add on. For COVID, the wave four provisions, we obviously did see some lower claims experience coming through on deaths relative to the other waves. When I went on leave in December I had a very big number in my head, and we were able to reduce that number a little bit. We were also able to implement some management actions at the year end and include that in our proper modelling, which also helped reduce the provision that we raised at year end. But we have modelled claims in PF for the next eight waves.

In Mass & Foundation our mortality basis is quite conservative, so you don't notice any additional provisions after the second or third waves. In our corporate business we obviously rely on repricing. So we've set up best estimates across all our insurance businesses at year end. And then we've raised some additional discretionary margins – this is fully set out in our booklet – in our retail business just because of the heterogeneity of the claims that we saw. We've also raised an additional discretionary margin in our corporate business. And how we've set that up is a one in ten risk event.

For retail it has been set up as a full year experience, and in our corporate business we've set it up as 50% of that variance given that we are able to reprice our corporate book. In Mass & Foundation and in the Africa business we felt that we already had sufficient discretionary margins at the year end. So we have modelled forward looking waves. We have updated our assumptions relating to expected deaths and we've also updated our final expectation of vaccination rate, which we've reduced from 70% to 60% in our final provisioning. I hope that answers your first question, Andy. Just remind me of the second.

Andrew Sinclair

Some helpful colour there. The second question was just on one-offs. You called them out for 2021. I realise we're still only in March, but any sight that you have of any one-offs that you're expecting in 2022.

Casper Troskie

Andy, I'm not aware right now of any one-offs. I think the biggest one-off we would expect – and we've seen that in January – is we are seeing slightly lightly death experience than the provisions we've set up at the year end. So the once-off will be mainly related to COVID experience. Obviously we started the year with a strong end in our asset levels, which would have helped most of our businesses in terms of the margins that we earn. But obviously the recent turmoil in East Africa and the drop in markets is going to negate that a little bit. But I'm not aware of any other big once-offs, unless any of the leaders – I see them all shaking their head. Not aware of anything else.

Sizwe Ndlovu

Thank you Casper. Andy had one more question. I think it was on margin if I'm not mistaken.

Andrew Sinclair

Yeah, just on margins. What will it take to get to the middle of the 2% to 3% margin target range?

Casper Troskie

If Prabashini sells a lot of new business we're not going to get there because the corporate margin is a little bit lower than the rest. Sorry, Prabashini. But Clarence is expecting to be able to improve his risk margin based on improving volumes in 2022. And Kerrin is looking at the mix of business especially in the risk book to see whether we can improve that going into 2022. Those are the two big levers. Kerrin, I don't know if you want to add anything.

Kerrin Land

Thanks Casper. I think Personal Finance is probably the area where we need to do the most around our margin. We focussed in 2021 very much on getting the productivity levels back and the activity levels back, and I think that has happened well. But what we did see was a gravitation of customers towards the cheaper end of the product spectrum. So for us getting that mix and up-selling to the more complex benefits, the critical illnesses, the sickness benefits as opposed to vanilla life and lump sum death benefits will be quite important. I think the second thing to be aware of is that we actually did in Personal Finance, is an expense allocation exercise in 2021 and we have actually shifted our allocations between the life and non-life products. So that did have a one-off reset of margins in the life space.

Sizwe Ndlovu

Thank you Kerrin.

Andrew Sinclair

Super helpful. Thank you.

Sizwe Ndlovu

Thanks. Operator, if you can just hold for a bit I'm going to go now to the webcast. We've got one question from Jared at All Weather. He's a buy-side analyst, is the RFO excluding COVID-19 impacts a base off which you can grow going forward?

Casper Troskie

I'll tackle that, Sizwe. I think you need to look at the slide which I put up around the once-off impacts of other items. So that gives you a more sustainable base from which to grow. That's particularly why we've highlighted those items, because they are not going to recur. We had a big negative impact of COVID, but we also had some positives that are not going to recur. You should rather look at that R7.5 billion as the sustainable base off which to grow without factoring additional – as we said, we are not aware of additional once-offs going into 2022 at this stage, so that's a better view to use.

Sizwe Ndlovu

Thank you Casper. I'm going to offer the opportunity for any participants in the room who have a question with us here in the venue. If there are none, operator, we can go back to the Choruscall please.

Operator

Thank you sir. The next question we have is from Michael Christelis from UBS.

Michael Christelis

Hi guys. Can you hear me?

Sizwe Ndlovu

Yes, Michael. Clearly.

Michael Christelis

Thanks so much for the time, guys. Three questions from me as well then. Firstly, I noticed your commentary around Mass having gained its competitive advantage. Yet when I look at your sales growth in funeral or where your sales are in funeral relative to pre-COVID FY19 levels, you are still lagging behind those levels where your two largest competitors in that space are above. I am just curious as to how much more there is to go in terms of this growth rate and how quickly you can get back to those pre-COVID levels.

Secondly, just on the Old Mutual Finance banking expansion that was discussed in your capital markets day late last year. You spoke a bit about deploying some capital there. Can you give us an update on what has been done, what has been deployed, what the plans are there and how you think that develops over the near term? And then the last one is just around your COVID provision. Can you talk about the effective expectation around a release of that provision? I think Casper mentioned you have modelled a further eight waves. Just to clarify, is that eight more waves or is that total eight waves? How quickly can we expect that provision to be written back if by some sort of magic COVID is behind us? Thanks.

Sizwe Ndlovu
Thank you Michael.

Clarence Nethengwe
Can you hear me? So Michael's question is we are far off 2019 in terms of funeral sales. And my reading of it is that we are about 2% below 2019 or around about there. The 2019 levels we achieved with close to 4,900 advisors. And the advisor numbers that we had in 2021 were around 3,900. So you need to factor that part of the equation. Then secondly, we are now building up the advisor force, but in a different way. We have introduced new channels, which is our franchise channel as well as our low income foundation market channel. And we have got advisors built up to about 500 extra. That should help us in terms of continuing to see the recovery in terms of our risk sales, in particular funeral sales.

And then the third element of it, as we communicated at our capital markets day, we are shifting focus away from being predominantly on funeral but also doing underwritten life. And our aim is that over a three year period our underwritten life should constitute about 20% of our overall sales. So there is momentum. Probably when we get to interims you will see that actually we would have recovered beyond 2019 when it comes to risk sales. So I'm quite comfortable that that recovery that you saw last year of about 40% growth on 2020 is sustainable for a year or two before we get back to single digit numbers of growing in that funeral space.

Sizwe Ndlovu
Thank you Clarence. The next question was around transactional.

Iain Williamson
Michael, to your question on what we're doing in the transactional banking enhancement, essentially the investment to date over last year has primarily been a team of people with skills in that arena and in essentially technology capability to put down a properly digital chassis for payments essentially. And that piece of work is progressed in terms of both having the team in place, the core contracts with key providers signed from a technology perspective, and work progressing. So that's where we're at.

Sizwe Ndlovu
Thanks Iain.

Casper Troskie
Michael, on the release of COVID provisions we obviously agree a release pattern upfront with our audit committee for discretionary margins. So the discretionary margins that we set up at the end of 2021 we have agreed if not utilised in 2022 will be released at the end of 2022. The best estimate liability will obviously be updated at each and every reporting period for what our view is at that point in time. We've seen a little bit better experience relative to our provisions starting out in 2022. If that continues, it will obviously allow us to

adjust our best estimate liabilities at the next reporting period. So that is how we will deal with the best estimate liability. As I said, with the discretionary margins those will be released or used in 2022.

Michael Christelis
Great. Thanks very much guys.

Sizwe Ndlovu
Operator, before we move to the next person on the Choruscall I would like to ask a couple of questions I have here. One is from News24 or Londiwe Buthelezi. You mentioned the joint venture in China is a business you are most excited about. I remember in 2017 there were reports that Old Mutual was considering selling its 50% stake there. How different are the prospects for that business now? Why the renewed excitement? I thought Old Mutual planned to focus on Sub-Saharan Africa post the managed separation. That’s the first question. Then the second one is how have you dealt with the impact of the pandemic on your front line staff? I’ll stop there for now.

Iain Williamson
Okay. So with regard to China I think we are still excited about the prospects for that business. I think the numbers I quoted should give you a good indication that we’ve got reason to be excited. I don’t think anyone wouldn’t be excited about 58% sales growth at 7.1% VNB margins. The competitive advantage that that business has against most foreign joint ventures in China is that we have a license that spans nine cities, nine large cities in China. So the addressable market is absolutely enormous.

The business is tiny from a market share perspective, but it does have a prospect of growing quite strongly. Obviously given what is happening in Russia and Ukraine at the moment we are just keeping a close eye on the geopolitical context around Chinese business, and we will take appropriate decisions around any required capital allocation certainly in the short term, just keeping an eye on that. That’s the only reason for some measure of caution around how we think about that for the immediate future.

Sizwe Ndlovu
Thanks Iain. The second question on front line staff I’m going to give to Kerrin. She would like to respond.

Kerrin Land
We’ve dealt with the impact of COVID in our front line staff in three ways: number one, keeping them as safe as possible; two, enabling them to work; and three, helping staff who fell ill or had bereavement to deal with it. In terms of keeping our staff safe we had very strict protocols in place. We issued all our advisors with screens. We allowed them to work from home as much as possible. And we actually set up and invested in a lot of digital technology to allow them to work remotely with their customers. So the WhatsApp claims lines, the ability to meet with customers, digital signing etc. In terms of keeping them safe we’ve been very aggressively encouraging vaccination and allowing them to work from home. And then our staff who fell ill, really helping

them with a care line, helping them with packages and really helping deal with funeral arrangements and the like where people were bereaved.

Sizwe Ndlovu
Thank you very much, Kerrin, for that response. I would like to ask a question also that we've received around further detail around the black economic empowerment transaction done in the Old Mutual Investment business. If you can provide any further detail on that and what prospects are for it.

Khaya Gobodo
Hi. Thanks Sizwe. I think there are three things to consider about that transaction. One is we concluded the transaction at market prices. So from a shareholders' point of view it's a value for value trade. Andin fact if we think of the strategic value of what we've done there, we've put Future Growth in a position to be extremely competitive in the space where clients are increasingly asking especially in the institutional space to deal with 51% black owned fund managers. So that puts us in an incredibly strong position competitively.

The third thing I'd like to highlight about that is something that Iain referred to, and maybe I'll embellish that a little bit. We have structured the transaction as a Statement 102 transaction. What that means is the selling entity derives the same benefit from ownership points as the entity involved in the transaction. So Old Mutual Investment Group as the selling entity will derive the same level of ownership value, which means it takes both businesses one step closer to being 51% black owned. So I think it's very good for the ecosystem, very good for our clients, and we've done it at a price point and at a cost level that is negligible for shareholders.

Sizwe Ndlovu
Thank you Khaya. Operator, if we can go back to the Choruscall for the next question.

Operator
Thank you sir. The next question we have is from Warwick Bam from Avior Capital Markets. Please go ahead.

Warwick Bam
Good afternoon everyone. Thanks for the opportunity. I'll ask my questions one by one. It will make it a little bit easier. The first question is do you believe the repricing of risk products across the industry had a beneficial effect on your competitiveness and sales volume in the second half?

Sizwe Ndlovu
Kerrin again and/or Clarence.

Kerrin Land
Clarence might want to add. I think there are two kinds of repricing. Repricing to be more competitive in particular pockets of business where we wanted to grow market share I think was positive. We on the risk side did look at particular cohorts of people where we wanted to gain market share and adjusted pricing. But then

repricing to take into account unvaccinated people and COVID effect I think on balance was actually probably difficult for us. So, not all competitors did it at the same pace. Some were also less obviously about how they did it. We were quite public about it. So on balance I actually think that hurt us a little.

Sizwe Ndlovu
Thanks Kerrin. No further comments on that question, Warwick, if you can move on to the next question.

Warwick Bam
Great. Thanks for that. You've got a call option to increase your stake in Old Mutual Finance from 75% to 100%. Do you intend triggering this option, and do the legal proceedings with Business Doctor Consortium have any effect on your ability to call that option?

Iain Williamson
So in short it's a put and a call, Warwick. So I would expect that one way or the other that transaction will be concluded. It's just a question of the time and the process that's envisaged in the contract to get to resolution on the valuation for that transaction to take place. The Business Doctor litigation is something that is separate but in my mind is clearly motivated by trying to influence the valuation at which that transaction would take place. So it is something that we would need to manage.

Sizwe Ndlovu
Thank you Iain. Warwick, last question.

Warwick Bam
Thanks. The last one is just in terms of the Mass & Foundation cluster. Your saving and investment product sales levels are still well off 2019 levels. I appreciate that you had some change in product mix and focus areas, but do you believe that you could get your savings and investment product sales levels back to 2019 levels?

Sizwe Ndlovu
Thank you. Should we give that to Clarence?

Clarence Nethengwe
Warwick, the intention is not to get back to that level because it was a deliberate action first of all to try and push risk more than savings. The reason for that is from a savings perspective the margins are very thin. And the savings product plays two roles for us. The one is just a retention mechanism. And secondly, it also helps cove some of our distribution expenses that enable us to write better margin risk business.

So we took a deliberate action not to increase the volumes by increasing minimum premium for the savings product in 2020, and we again implemented another minimum premium increase in February of 2022 with the intention to continue shifting our advisor force towards more and more risk. And then we also changed our rem model for the tied advisor force in order to drive them more towards the risk side without pushing too much of the savings.

The reason why, besides the whole thing around margins and everything, is that contractual savings are a little bit difficult for a mass market customer in the low income space. And there is a lot of what I call value destruction for customers. That's the reason why we had to make some of these changes particularly around minimum premium in order to target the right type of customer rather than everybody in that space.

Sizwe Ndlovu
Thank you Clarence. Operator, if we can move to the next caller.

Operator
At this stage, sir, there are no further questions on the Choruscall line.

Sizwe Ndlovu
Okay. If that is the case, operator, then I'll move on to the webcast. There are two questions. There is one from PSG Wealth.. He asks what the return on GV is in 2021 relative to 2020. That's the first question. We then have a second one. What is the Old Mutual strategy on ESG? That's Peter Crafford. We have Zaeem Kumandan who is asking how you are thinking about acquisitions over the next few years. Are there any specific areas where you'd like to add more scale or new business ventures and any potential of any further buybacks secondary to M&A?

Iain Williamson
Casper, do you want to do the first one and I'll do the other two?

Casper Troskie
For this year as I said in the presentation it was 8.1% and 10.2% if you strip out COVID impacts. Also just remember that when you calculate a return you need to adjust for the big distribution that we made for Nedbank during the year. I'm trying to see if the team has got last year's number. We will send that through post the call.

Sizwe Ndlovu
Sure, we can do that. Iain, the ESG strategy followed by the M&A strategy.

Iain Williamson
I'll talk about the ESG. So we are putting out our integrated report and our climate report literally at the beginning of next month, so you can get full detail in there. But in summary, we consider the nature of our business and the competencies that we have. Essentially we've got three core competencies ultimately. We are an asset gatherer. That means that we gather assets into scalable, investable amounts and then we can

put those into portfolios. We're a risk pooler, so we can pool risk on behalf of clients and help them to manage that risk. And we are an investor fundamentally.

And if you take those activities and think about what that means from an ESG perspective, we believe that on the environmental side the biggest influence we have is as an investor in how we ultimately influence portfolio investee companies to behave in such a way that drives towards net zero carbon emissions. That is our strategy, essentially to use that capability to advantage to drive through necessary change in behaviour in the world and to think about what new start-up capability we are prepared to fund and not prepared to fund to drive change over time. That's essentially the biggest lever we have from an environmental perspective.

We can do a little bit on the operational side. We've got buildings. We consume water. We consume a bit of energy. But we're not a massive carbon emitter in our own right. But having said that, many of our flagship buildings across our portfolio of property are five and six star green rated buildings with significant attention paid to things like solar energy, water recycling and waste management.

From a social perspective I think many people are familiar with the fact that we really do believe in long-term sustainability of communities. In our core business it's about serving our customers responsibly, making sure that they get access and that we give them good advice in thinking about their own affairs. And then from an after profit perspective a lot of what we do drives around financial inclusion and financial education for the community at large on an after profit basis.

And then finally from a governance perspective very much standing up for good governance and making sure that it's embedded into everything that we do as an organisation. So I think that's a summary, but you will get a fuller articulation of that if you have a look at the reports we put out in the next couple of weeks. Sorry, Sizwe, you will have to remind me what the third question was now.

Sizwe Ndlovu
I'm happy to do that, Iain. How are we thinking about acquisitions over the next few years, and are there any specific areas where we would like to add more scale and new business ventures. Then there are a couple of questions on this theme around where buybacks rank relative to acquisitions.

Iain Williamson
Okay. All right. So in a sense we see organic and inorganic growth as complementary to each other as part of just being able to compete. What you saw with the one acquisition in Old Mutual Insure for example was clear strategic logic. It makes sense from a capital return perspective and it doesn't create massive risk from an integration or transformational point of view in terms of the scale of the acquisition. We will absolutely pursue opportunities like that. And there are a number of areas that we have identified where either we could scale up complementary capability inside our existing businesses or drive for scale in markets where we are currently subscale.

And I think one of our competitors is on record in the last week saying financial services is a scale business. He is right. But it's not a scale business across borders, to be clear. It's a scale business in country. It is very hard to drive scale efficiencies on a regulated business across borders. So the way to think about it in my mind is if a business is small in a particular market there may well be disproportionate value in thinking about accelerating the growth of that business through inorganic means. That's a short summary.

I think we demonstrated that we're disciplined about how we think about this. We have been in a number of conversations in the last year particularly in our rest of Africa portfolio. None of them have met our criteria for what we would require to see in order to consummate any sort of transaction. So we will continue to be patient, but it does remain a part of our growth strategy.

And then briefly on the new growth and innovation side, an alternative name for the portfolio is what we call innovation at the edge. It's essentially looking at two growth horizons, a slightly shorter-term horizon three to four years out mainly through partnerships and partnering for complementary capability, and then a slightly longer growth horizon probably in the five plus year category which is more around building capability from scratch. But it's unlikely to be capability that's competitive to our core as such but more complementary to our core business. That's essentially the framing of how we're thinking about it.

Sizwe Ndlovu
Thanks Iain. The last one is capital returns versus investment, or M&A versus buybacks. What is our preference?

Iain Williamson
Oh, the buybacks. So I think share buybacks will remain on the agenda. There are certain of our shareholders who have a stated preference. Large shareholders have a stated preference for special dividends, so we will balance our thinking depending on where share price is at a particular point in time. And if we have deployable surplus capital that we don't have a more attractive use for, certainly buybacks would come into consideration.

Sizwe Ndlovu
Thank you Iain. Operator, we've reached the end of our time here together. I would like you guys on the call to disconnect if there are still any people. But otherwise for those in the room in Johannesburg and via the webcast, thank you all for your time in joining us today. Those who are in Johannesburg with us physically we ask you to just remain behind while we close off the end of the proceedings. Thank you all.

END OF TRANSCRIPT