

Presentation transcript

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H1 2023 RESULTS ANALYST PRESENTATION

Bonga Mriga

Greetings, everyone, those who are here in the room, those who are joining us on the webcast, together with those who will join us later on the conference call. You're welcome to the Old Mutual interim results for 2023. We are privileged to have you here today and we hope that it is a good experience that we will share with you together with Iain and Casper, who will join me later on.

Moving on to our agenda for today, we've got the strategic review that will be covered by Iain Williamson, who is our CEO. This will be followed by Casper Troskie, who is our group CFO. After Iain has rounded up the presentation itself, I'll come back onto the stage to lead the Q&A session, which we will explain the details about once we get to that stage. And with that, I'd like to call upon Iain to come onto the stage. Thank you.

Iain Williamson

Thank you, Bonga, and welcome everybody and thanks for your time this morning. I'm really proud to be standing here as the face of a very robust set of results driven by continued progress on our integrated financial services strategy. We've delivered these results against the backdrop of a very challenging macroeconomic environment. I'm particularly pleased with the exceptional value creation and strong new business growth as we continue to gain market share in key market segments and reap the benefits of a well-diversified portfolio of businesses.

Our life APE sales excluding China grew by 14% and gross written premiums were up by 16%. And this strong sales momentum was evident in our VNB growth, up 32% to R937 million backed by strong margin growth. Result from operations was up 3% with good performance across our businesses, partially dampened by persistency pressure in the Mass & Foundation cluster, where we prudently adjusted existing short-term provisions to cater for the persistency experience arising from the economic climate.

We were able to deliver a meaningful improvement in return on net asset value, which increased by 180 basis points, and our core return on net asset value increased to 13.1%. Our board declared an interim dividend of 32 cents per share, which is a growth of 28% on the prior year, while remaining within our group solvency capital target range. Our strategic framework remains unchanged and continues to provide a north star for our business activities.

To recap, in 2019, we set our victory condition to be our customers' first choice to sustain, grow, and protect their prosperity. Our value drivers create a link between our strategic actions and the value creation impact on the group. At our investor update in July, we provided detail on our integrated financial services strategy, which aims at creating engaging experiences for customers that serves to educate, empower and encourage them on their journey to financial wellness. And at the centre of this strategy is the My Old Mutual ecosystem and our ambition

to become a one-stop shop for all of our customer needs. This integrated financial services ecosystem is advised, integrated, tech-forward and trusted.

We also introduced five focus areas to measure our progress in meeting our victory conditions and building out the capabilities behind this integrated financial services business. And we split these focus areas between our core business and unlocking new growth engines. In growing and protecting the core, we're looking to deliver more holistic coverage of customer needs, enhanced distribution and digital engagement, and further operational efficiencies. While in unlocking new growth engines, we're looking to both entrench our presence in certain key markets, East Africa, West Africa and China, while also building adjacent businesses as we invest for tomorrow's success.

So, with that in the framework, I'll move on to talk about delivery. Looking at the holistic coverage of customer needs, our focus has been on the launch of our new propositions. Old Mutual Protect remains a competitive proposition and we look forward to launching our savings and income proposition on the same platform. The integration of the Old Mutual rewards programme continues across our solution set. We have 2 million rewards members, and rewards members have a 20% lower lapse rate on their funeral policies compared to non-rewards members. We've launched Old Mutual Health Solutions in our corporate business. And we've launched our home loan ecosystem on the life company balance sheet. We are already seeing the success of this strategy with market share gains in our core retail segments.

Turning to distribution and digital engagement, we've completed a number of acquisitions and cemented strategic relationships across our segments, which enhance our distribution reach. And looking forward, we're focusing on the development of our needs-based goals and financial wellness platform, as well as on the implementation of our digital enabling solutions for our advisors in partnership with OneConnect, a subsidiary of Ping An in Asia. And in driving operational efficiencies, we continue at pace with the modernisation of our platforms and our IT estate, including the decommissioning of heritage systems and the cloud migration of our IT.

Notably, this includes the recent September migration of our Greenlight book of business, which has resulted in us moving over R1.2 trillion of cover onto the same modernised platform, which is at the core of our Old Mutual Protect product. This is the largest migration of a legacy risk book in South Africa, and we are already paying Greenlight claims from the new system. I'm extremely proud of the team for this fantastic achievement.

We're also underway with laying the foundation for our new growth engines. In East and West Africa, we're looking to be top three in those markets. And if this becomes unattainable in a particular country, we will seek to exit that market for value. We continue to see a growing contribution from corporate sales, owing to our pivot to corporate strategy in these markets.

And finally, in China, you will note that our sales declined. And the reason for this is that we stopped the sale of a key savings product in the first quarter of this year, because we were uncomfortable with the pricing in a lower interest rate environment. The regulator subsequently intervened across the industry with minimum pricing regulation and effectively all our competitors were forced to withdraw similar products. Our proactive action

allowed us to design and obtain the necessary regulatory approvals for an updated product suite and our run rate sales have already significantly recovered.

In July, we shared progress on our bank build, including the fact that we are awaiting the regulator's response to our Section 16 application. Delivery of the build of the bank remains on track and within budget. We're confident that the launch remains on track for next year. We've recently announced our strategic relationship with the Vodacom group delivered through Next176. This is progressing well following the transfer of Vodacom's standalone retirement funds onto Old Mutual's superfund umbrella fund. Next176 has also partnered with Openview and Shoprite X, which is a digital hub of the Shoprite group. This partnership has launched a buy now, pay later venture called OsioPay that's currently live in the market.

And finally, TEBA and Old Mutual Wills have partnered to offer TEBA's employees and over 280,000 customers access to a TEBA branded digital will solution, empowering these customers to protect their estates, safeguard their legacy and address the financial burdens associated with death expenses.

In driving beneficial impact for all our stakeholders, we continue with our leading sustainability and culture initiatives. We were recognised as the asset owner of the year at the inaugural 2023 Intellidex Africa Investment Awards. We were ranked as the number one insurance brand in South Africa and the eighth strongest brand overall in the country by Brand Finance. And we were recently voted the coolest insurance brand in South Africa at the 19th Sunday Times GenNext Awards, an indication of work to attract younger customers.

I'm extremely pleased to announce that both our Future Growth and Old Mutual Investment Group businesses are now majority black owned, allowing us to compete for a wider range of investment mandates as allocators of capital and particularly pension funds increasingly require black ownership as a criterion. We continue our efforts in active stewardship, voting against 11.4% of the almost 660,000 resolutions that we voted on in the period.

Our investments in the green economy grew 14% over the last six months to R167 billion. And we continue to see good flows into our Old Mutual ESG equity fund, which is AA rated by MSCI. We see the value of diversity in our workplace and remain committed to promoting an environment where previously underrepresented groups thrive. Female representation in our senior leadership is at 42%, while black representation in the same group is now at 55%.

So, before I go into the performance of our business segments, let's take a brief look at the operating environment, which forms a backdrop for these results. I think as we all know, the macro environment across all of our markets remains challenging. Inflation in South Africa is moderating from a 12-month period of elevated levels, driven by global supply constraints that were influenced by pandemic restrictions and the Russia-Ukraine conflict. Disposable income growth has lagged inflation, challenging our customers' ability to afford our products.

And furthermore, in South Africa, we continue to see stubbornly high unemployment rates, with just less than 8 million people actively looking for work and being unable to find jobs. Load shedding continues to dampen

economic growth, although there is an expectation that we should start to see some improvements in the new year.

As far as the markets were concerned, a somewhat more positive backdrop with the South African equity market up 2.3% for the year to June. However, we have had a rising interest rate environment adding to uncertainty and volatility in the equity market. Across other Southern African markets, markets held up with Malawi strongly outperforming, but with Kenyan equity markets pulling back materially.

I'll now discuss some highlights from our segmental performance, starting with the Mass & Foundation cluster, where Clarence and the team have again delivered a great outcome. The distribution channel diversification strategy that we embarked on a few years ago, continues to deliver excellent results. And the core sales engine of this business is firing on all cylinders. Life APE sales were up 18% and gross flows up 10% for the half. Underwritten life sales continue to deliver significant growth up 89% through Old Mutual Protect, although off a low base.

To address the persistency challenges that our customers are experiencing, we've made further improvements to both our collections process, as well as our customer retention efforts using predictive data analytics. We intend to further enhance our distribution reach through the acquisition of 75% of the Two Mountains Funeral Services Group. We've now received approval for this transaction from the Composition Tribunal but await the outcome of our application to the Prudential Authority.

In our lending business we've maintained a conservative approach to credit extension, the loan book growing at a muted 3%. Partly because of this, I think our credit loss ratio has held up well in a tough environment and is still within our guided range of 6% to 8%. We've also furthered our partnership with Bridge Taxi Finance, benefiting both MFC in developing leads for our advisors, as well as Old Mutual Insure with incremental short-term insurance premium flow.

Personal Finance and Wealth Management also continue to deliver strong growth in top-line metrics and gains in market share. Life APE sales grew by a robust 12% with good growth in high margin recurring savings and guaranteed annuities, as we continue to drive actions to improve the mix of our risk sales towards more complex, margin-rich products. The strong life sales were somewhat dampened by decreased demand for offshore investments in wealth due to the weaker Rand, and from rotation from living annuity into guaranteed annuity products with this uncertain economic climate.

I'm really pleased with the trajectory of our VNB margin recovery, driven by management actions to improve the contribution of higher margin products. We've again seen improved productivity across our advisors from all of our distribution channels, and I'm confident that Kerrin and her team's efforts will continue this trajectory. Net client cash flow in this business turned negative due to higher disinvestments in both institutional and retail businesses, with institutional outflows coming from a number of large treasury clients seeking liquidity, while on the retail front, continued economic pressure on our customers manifested in increased disinvestments from savings and investment products to fund lifestyle.

In our Wealth Management business, our high net worth proposition continues to show growth in both client numbers and in assets under management. At this point, I would like to mention that we have chosen to prioritise the implementation of the new two-pot regulations for retirement products, which we expect to become effective early next year. We're making good progress in enabling our operations for this change, and we are also updating our planned new savings and investment range to ensure that we launch it in full compliance with the two-pot regulations.

Turning to Old Mutual Investments, we continue to see the benefits of a diversified capability set across these businesses. We saw great top-line growth with revenue up 15%, including a meaningful 9% growth in annuity revenue, aided by exceptional 61% growth in non-annuity revenue. Gross flows improved by 71% to R17.4 billion, most notably in money market, fixed income and alternative products. Outflows continue to be impacted by client liquidity requirements and structural strain in the local pension fund market, as well as by expected liability-driven investment benefit payments and terminations related to client restructures.

As a result of all of this, net client cash flow improved by 33% but is still negative, noting that revenue-weighted net client cash flow is positive, given the weighting to outflows from lower margin funds. Capital raised by our alternatives business was again exceptional, with fresh capital of R5.8 billion being raised, and just under R3 billion of that coming from third party institutional clients. There's also been significant deal flow in this business, with R9.2 billion of capital deployed in the period. The move of the credit origination capability within specialised finance to alternatives has allowed us to build a comprehensive alternatives platform for third party clients.

In Corporate, life APE sales grew 7% driven by good savings and pre-retirement sales. And we have an extraordinarily healthy pipeline in this business. Gross flows grew by 19% driven by recurring premiums on the risk side and strong performance in Superfund, which is our market leading umbrella fund offering. Net client cash flow improved by 31%, bolstered by improved gross flows and better retention, partially offset by higher pre-retirement benefit payments. Corporate delivered R120 million of new business, delivering an outstanding 1.6% margin. And our smooth bonus funds have shown great resilience, maintaining good performance in a tough market.

The Old Mutual Corporate value proposition will also be affected by the two-pot system that I spoke to earlier, and the team is making good progress in preparing for this. We continue to broaden our capability set to create new revenue streams. We launched Old Mutual Health Solutions in partnership with Genrec, which broadens our employee benefits proposition, and we continue to bolster our REM [?] channel capability, having now added a leading executive reward advisory team.

In Old Mutual Insure, we've seen 17% growth in gross written premiums, with a strong contribution from the existing portfolio of business. Excluding the newly acquired Genrec Business, our GWP was up a pleasing 12%. Our net underwriting margin came in below the target range of 4% to 6% due to an increase in weather related events and moderating profits from the CGIC business. We remain confident in the turnaround of this group of businesses with the underlying book quality having improved substantially.

We continue to add new capabilities and consolidate our presence across the short-term insurance value chain and to further expand our solution set through acquisitions and partnerships. With the recently completed acquisitions, integration process into the group is now largely complete with Genrec in our results for the first time, adding R391 million of gross written premium and also enabling the launch of the Old Mutual Corporate Health Solutions offering. We continue to embed innovation in order to tap into underserved markets. With iWYZE, our direct channel, seeing pleasing growth and our InsurTech partnership with Pineapple allowing us to tap into a younger customer demographic.

Clement and the team have worked hard to deliver strong top line growth across all regions and lines of business in Africa Regions, with life sales growing 18% and gross return premiums up 12%. We saw strong growth in gross flows, which were up 34%, primarily driven by new mandates in Kenya and increased unit trust sales in Uganda. I'm really pleased with the significant increase in the result from operations, as we continue to reduce the number of loss-making businesses in this portfolio, and we see the success of our strategic decision to pivot to corporate in our life businesses in East and West Africa.

In our property and casualty business, the net underwriting margin improved from minus 13.9% to minus 2.7% as repricing, improved claims management and efficiency initiatives continue to bear fruit. Our banking and lending businesses came under some pressure, particularly in Faulu. So, despite a strong performance in old mutual finance in Namibia, the challenging macros had a major impact on Faulu, which was exacerbated by the entrance of tier one banks into the micro lending space in Kenya.

We continue to pursue new ways of servicing our customers. In Zimbabwe, we launched a new capability we call O'mari, which is an app and USSD-based fintech solution encompassing mobile money, InsurTech, and health tech. O'mari reached 50,000 customers in just five weeks, of which 84% are new to group customers. We're therefore looking for opportunities to scale this successful proposition into other markets in our portfolio. And with that, I'll hand over to Casper to take you through the detail of the financial results. Casper, over to you.

Casper Troskie

Thanks, Iain, and good morning all. Iain has taken you through our strategy execution and our operating results. I will be providing you with an update in respect to our financial performance and capital position. We provided you in July with provisional IFRS 17 results for December 2022. We have published a separate bridging pack in which we show how we adjust from our June and December 2022 IFRS 4 results to our IFRS 17 results. As we noted at our investor update, our full year 2022 profit was negatively impacted by IFRS 17 due to the difference in accounting for discretionary margins, with discretionary margins contributing R2 billion to 2022 earnings under IFRS 4.

You will note that our results from operations and adjusted deadline earnings disclosed here is R250 million higher than the provisional number disclosed in July. This is due to further refinements made in our Personal Finance and Wealth business for hedging mismatches on conversion from IFRS 4 to IFRS 17. This refinement did not impact our IFRS profits but rather adjusted the accounting mismatches line in our adjusted headline earnings

reconciliation. The June RFO under IFRS 17 was 4% higher than IFRS 4, providing us with a strong and robust 2022 IFRS 17 profit base from which to grow.

Despite the backdrop of ongoing economic challenges, we have seen continued progress in our financial delivery. Results from operations increased by 3% to R4.4 billion. All of our segments showed good operational performance, which was partially dampened by continued persistency challenges in our Mass & Foundation cluster. Adjusted headline earnings grew 23%, mainly as a result of increased returns on our shareholder portfolios, with cash generation remaining strong at 74%. Our return on net asset value improved to 11.9% due to earnings growth and continued capital optimisation.

An interim dividend of 32 cents per share was declared in line with our dividend policy. We changed our policy in the prior year to remove the requirement to pay interim dividends at 40% of adjusted deadline earnings. We have paid out the interim dividend at 50% of adjusted deadline earnings at a dividend cover of 2x, resulting in a strong increase in the dividend of 28%.

I am extremely pleased with our sales traction, with the value of new business increasing substantially by 32% to R937 million, and the value of new business margin increasing to 2.6%, now above the midpoint of our target range. Despite the persistency challenges in the Mass & Foundation cluster, net operating variances of over R1 billion were delivered from our life and savings businesses on an EV basis, reflecting the robustness of the assumptions underpinning EV. We have made good progress on our actions to increase value delivery across the business, with the analysed return on group equity value improving to 10.5%.

Our results from operations increased to R4.4 billion. Despite strong operational performance and top-line growth, RFO and Mass & Foundation reduced by 46%. Life profits were negatively impacted by worse persistency and prudent strengthening of our short-term retention provisions. The continued pressure on our customers affected our banking profits with higher credit losses and funding costs contributing to the decline in profits. Personal finance and wealth management increased by 23% to R1.9 billion, a great result.

Personal Finance RFO increased by 11% mainly due to improved market performance and higher morbidity profits, partially offset by lower mortality profits given the excess COVID-19 provision releases in the prior period. Wealth management RFO increased by 74% with higher average asset levels supporting increased annuity revenue. Non-annuity revenue was robust due to improved market valuations on our seed capital investments and a weaker US Dollar-Rand exchange rate.

Old Mutual Investments was up 14% largely due to an impressive increase in non-annuity revenue of 61% with annuity revenue growing by 9%. This was partially offset by higher expenses with continued investment into revenue generating initiatives and technology and mark-to-market losses in our specialised finance business. Old Mutual Corporate RFO reduced by 2% to R787 million off a very high base. We continue to see the normalisation of mortality experience in our risk and annuity book, and good asset-based income on the back of higher average funds under management and prudent expense management.

Old Mutual Insure decreased by 2% to R370 million. The net underwriting result was down 57%, mainly as a result of reduced CGIC profits, higher claim costs due to inflation, and more weather-related catastrophe events not triggering our insurance treaties. This was offset by much higher investment returns on our insurance funds. Old Mutual Africa Region's RFO almost tripled to R478 million. Well done, Clement and team. This was driven by strong growth in our life savings and asset management businesses, improved underwriting and high investment returns in our property and casualty businesses.

In addition, the listed equity market in Malawi generated high returns, and we are keeping a close watch on the market in Malawi. This was partially offset by a decline in our banking and lending business due to the challenging macroeconomic environments. Net result from group activities decreased 3% to R472 million, the increase in operational costs, and the continued investment in new growth and innovation initiatives was more than offset by the increase in interest on income due to the rising interest rates.

Adjusted headline earnings grew 23% to R3.2 billion, mostly driven by a significant increase in the shareholder investment return. I remind you that compared to the IFRS 4 base, our shareholder investment return is reduced under IFRS 17 due to the allocation of shareholder assets to segments to back increased transition liabilities. The increase in shareholder investment returns is driven largely by higher equity and bond returns in South Africa and higher Africa Regions equity returns. The shareholder investment strategy continues to meet the main objective of protecting and preserving shareholder capital.

Increasing finance costs driven by higher interest rates in South Africa, as well as increased levels of subordinated debt in OMLACSA, following the issuance of R859 million of floating rate subordinated debt in May this year. Income from associates represents our investment in China, which increased due to fair value gains on financial assets of the recovery of capital markets. Shareholder tax increased as a consequence of increased profits. The effective tax rate remains above the statutory rate, primarily due to disallowed tax deductions for expenditure determined on the ratio of taxable to non-taxable income.

The main movement between adjusted headline earnings to headline earnings results from our operations in Zimbabwe, which remain excluded from adjusted headline earnings due to us not being able to access the majority of our capital. Zimbabwe profits of R2 billion more than offset the Zimbabwe Dollar to Rand deterioration which increased the balance sheet foreign currency translation reserve by R1.6 billion with an increase in net asset value of R400 million.

Accounting mismatches consist mainly of hedging losses that arise from the transition of the hedging programme to IFRS 17. We expect this mismatch to reduce in 2024 as the hedging programme is largely transitioned to an IFRS 17 basis. This line item also includes mismatched losses and gains on policyholder investments. The impact of Residual Plc on our profits continues to decrease as we unwind our operations and reduce cash balances. Overall, IFRS earnings reduced by 10% to R4.4 billion.

From our opening contractual service margin on 1 January 2023 of R59.8 billion, the main movements are the effect of writing new business in 2023 which grows our CSM by 5.5%, annual interest which is added to this CSM

every year, which equates to an annualised return of 7.1% compared to 5.6% for 2022. The key item to note is the R3.2 billion that is released into profit based on allocation rates. The R1 billion economic experience is driven by actual returns being higher than expected on policyholder funds, resulting in an increase in expected assets-based fee income on most investment and smooth bonus products across the group.

The group's value of new business margin increased to 2.6%, now above the midpoint of our target range of 2% to 3%, with the value of new business up 32%. The value of new business margin in Mass & Foundation was up by 120 basis points to 8.9% due to the continued growth in risk-sale volumes and effective cost management. Personal Finance and Wealth continued its recovery with the value of new business models improving to 0.8% following implementation of the management actions that Iain highlighted earlier. The margin in Old Mutual Corporate increased to 1.6%, mainly driven by an improved product mix within our new tier and risk offering, positive risk basis changes, and acquisition expense efficiencies.

In Old Mutual Africa Regions, the value of new business margin fell 2.1%, mainly due to new business written in Malawi and Namibia that was weighted towards less profitable contracts. This was partially offset by an increase in margin due to the ongoing pivot to more profitable corporate business in Kenya and Nigeria. The strong growth in value of new business and the value of new business margin can be seen in our embedded value. Overall, the operating embedded value earnings increased to R4.5 billion.

Experienced variances improved compared to the prior period with positive mortality and expense variances partially offset by worst persistency. In a return on embedded value of 13.9%. The analysed return on group equity value was 10.5% over the period, driven by positive operating performance and frontline growth in most segments. The share price continues to trade at a discount to our group equity value, as well as our regulatory-owned funds. We believe that the combination of improved margins and improved returns from our core and the traction on our new growth engines will close the gap between our market capitalisation and group equity value.

In July, I took you through our capital management framework. The starting point of this framework is to set appropriate targets to ensure that our balance sheet is adequately capitalised with enough liquidity. Next, we ensure that any surplus capital is optimally allocated. This allows us to generate shareholder value by delivering sustainable growth at returns on capital that exceed the cost of equity. We have been actively managing the group balance sheet and have substantially reduced complexity over the last five years, which has improved the efficiency of the balance sheets whilst retaining our strong group solvency ratio. Over the half year, our group solvency ratio remains robust and within our solvency target range. The group solvency ratio decreased to 186%, mainly on the back of the reduction of the OMLACSA solvency ratio, which dropped 209%, which is now within our target range.

Free surplus generated represents the cash generated by our operations that is paid to the centre. The free surplus is net of central cost and is first deployed to ordinary dividends with the remainder contributing to or reducing the discretionary capital balance. We expect cash generation to be between 70% and 80% of adjusted headline earnings. Operating segments generated gross fee surplus of R2.3 billion over the first half of 2023, representing 74% of adjusted headline earnings. In years where we have capital optimisations, this would increase the free

surplus generated and contribute to discretionary capital, which was the case in 2022. We continue with various initiatives to optimise our capital, which will support capital generation in the medium term.

Discretionary capital represents the surplus assets that are available for reinvestment or special distributions. The group proactively manages discretionary capital by optimising its allocation within the group. The capital allocation for the first half of the year includes the generic acquisition and the buyout of the minorities in Old Mutual Finance Namibia. In addition, capital support was provided to existing businesses with the largest allocation to fund the bank build. R1.5 billion will be returned to shareholders by the share buyback, noting that we have completed more than 90% of these repurchases. The June discretionary capital balance of R1 billion has been earmarked for the acquisition of an equity stake in the Two Mountains group, as well as continued investment in our growth and innovation initiatives.

Our group return on net asset value increased by 180 basis points to 11.9%, supported by the large improvement in adjusted headline earnings. Core RoNAV, which excludes the costs of our new growth and innovation initiatives, increased by 230 basis points to 13.1%. Improvements to our core RoNAV are dependent on three factors, the ongoing optimisation of our balance sheet, the continued market share recovery in our retail segments, and the impact of external markets and investment returns. We have revised our medium-term targets and introduced a target to grow gross flows and gross written premiums ahead of nominal growth in the South African economy over the medium term.

Gross flows and gross written premiums represent growth across life, asset management, and property and casualty through new and existing business. As we invest in the business for future growth, we are focused on optimising the return on net asset value of the core segments, targeting between cost of equity plus 2% to 4%. Our strategic targets include delivering the building blocks to enable integrated financial services offering with a focus on scaling the goals-based needs engine in the near future. Value of new business margin, net underwriting margin, net return on net asset value, dividend cover, solvency targets remain unchanged.

So, how are we performing against these targets? Our gross flows and gross return premiums are tracking well ahead of nominal GDP plus 1%. Our value of new business margin is within the high end of our target range. All mutual insurers underwriting margin is below target due to elevated weather-related events. And the group return on net asset value has continued to strengthen and is trending towards our cost of equity with core RoNAV now exceeding our cost of equity at 13.1%. Our group and OMLACSA solvency targets are within their target ranges and an interim dividend of 32 cents was declared in line with our dividend policy. And with that, over to you, Iain.

Iain Williamson

Thank you Casper. Looking forward, we remain positive and committed to delivering our top line growth and market share gains, thereby delivering on our growth aspirations. I'm confident that we'll continue to deliver on our targets, noting that we still have some work to do in our property and casualty business as we continue to see the benefits from synergies from our recent acquisitions. I'm also confident that our return on net asset value will remain on its upward trajectory through various optimisation initiatives.

So, in conclusion, I'd like to re-emphasise, we have a clear strategic direction in our core and our growth businesses. We're making good progress in delivering on our five focus areas. We delivered strong operational performance with significant top line growth across our business, excellent value creation with strong outperformance in the value of new business and improving efficiencies with a strong upward trajectory in both our group and core return on net asset value. I'd like to thank you all for your time, your interest and your support for our business. And with that I'll hand over to Bonga to facilitate a Q&A session.

Bonga Mriga

Thank you, Iain. That was a good set of results to talk to. We do acknowledge that there were a few people who had technical difficulties in following the webcast. We'll make the recording available, starting from 13:00 today. So, the Q&A that we are about to get into, I would just like to indicate that we'll cap the number of questions that each person can ask to about two, both here in the room if there are any people, and together with the people that are on the webcast.

So, beginning with people here in the room, just to note as well in terms of technical questions, could you please reserve those for the one-on-one sessions that we will have beginning from 12:45 this afternoon? So, could you please raise your hand and the mics will be brought to you if you're here in the room and you would like to ask a question please. Okay. I think that indicates no questions here in the room. Operator, could you please let me know whether there are any questions or people queued up for questioning on the conference call?

Operator

Yes, sir, there are. The first question comes from Andrew Sinclair of Bank of America.

Andrew Sinclair

Thank you very much everyone. I'll keep it to two. As although I'd love to ask more, but I'll keep it to two for today. First is on just the provisions for persistency. I just really wondered if you could give us a little bit more context around what's implied by the provisions that you've taken for persistency. How long do you expect that to cover for and what's the term? And also, that's just in Mass & Foundation. Any colour on persistency in your other business units and whether anything could be needed to be topped up in the future. That's a long question, one.

And second, it was really good news to hear on the system migration that you were talking about. Just really wondered if you can give us a little bit more colour in terms of what that generates in terms of ability to turn off systems, cost savings from that and just expand on that a bit wider. If you can give us any colour on the cost income ratio for the business today and how that's evolving with your cost initiatives. Thank you very much.

Iain Williamson

Nico, can you pick up the persistency question?

Nico van der Colff

Thanks. The MFC business has seen elevated persistency for a while now and we've been doing short-term provisions because it seems to be quite highly correlated with the economic environment. So, we've been doing short-term provisions, you would have noticed, for a period of time now. And we had a short-term provision that was already supporting experience in this period. It was releasing into experience. Our first six months had a persistency experience, particularly reserve strain.

There was a little bit of adverse premium variation, but not as materially. But the reserve strain is about the loss of policies that are still on our books as assets because future premiums are bigger than future [unclear]. And on those policies, we had bigger strain than we expected in the first six months. And so effectively, we'd said there was an expected improvement over time as the economic environment is expected to normalise. But we're sitting with a shortfall in this period, and so we've effectively just protected ourselves against that extra experience that we're currently seeing until we can revert to the expected improvements that we were seeing into the course of next year. So, it's mostly a 'this year' provision.

Iain Williamson

Yeah, so I'll start that question and maybe ask Zureida to chip in. So, Andy, essentially what's happened is, as I said in the presentation, we've moved the Greenlight book of business, which is the book of business sold in Personal Finance from 1999 until we opened Old Mutual Protect. So about 20 years' worth of sales. We moved that entire book onto the same platform that now supports Old Mutual Protect. So, in principle, I would expect that we can extract some operational efficiency from the fact that call centre agents, servicing people, etc. all now have one set of processes, one set of systems to use in servicing both those books of business.

However, we can't entirely switch off the technology operating cost underneath that system because the source system that supported Greenlight is the same one that supports our savings and income proposition. So, until we move savings income across, which we do intend to do as well, we won't get the full benefit. I think Zureida is indicating I've answered the question.

Bonga Mriga

Thanks Iain. Any more questions, operator?

Operator

Thank you sir. The next question comes from Michael Christelis of UBS. Please go ahead.

Michael Christelis

Thanks for the time. I'll ask three. I'll try and keep the technical one as non-technical as possible, but just a question around the level of onerous product losses that you've got in this half year and where are those being experienced. Is that all MFC savings? And if that's the case, then presumably that's a big reason for the difference between your IFRS 4 and IFRS 17 numbers in MFC. So, that's the first question.

The second one, I think Andy asked this. You didn't really give us an answer. It's persistency trends in, for example, PF and by product. What are you seeing in terms of investment versus risk products and persistency in that

business? And then lastly, on your one slide, you show a long-term ROE target of cost of equity plus 4% rather than the 2% to 4% range. Is that all driven by the expected growth of the bank and what that does to the group ROE? Thank you.

Iain Williamson

Nico, can we start with you again?

Nico van der Colff

On the onerous contracts actually it's a lot less MFC savings than you'd expect. Because of granularity and mix, a material piece of onerous contracts is actually in the Greenlight book where there's more of a pricing mix and a client getting an average across some profitable and onerous contracts. At the investor update, we also shared that onerous does not necessarily mean loss-making. So, you have positive VNB onerous contracts in the mix too, which we can have the technical piece of that in the one-on-one. Then MFC is contributing some onerous contracts, not just on the savings side. There is some onerous risk as well. It is the retail books that provide the bulk of the onerous contracts. But it's definitely not an MFC saving story predominantly.

Iain Williamson

Kerrin, do you want to pick up the PF persistency?

Kerrin Land

Thanks. So, economic challenges in the PF and Wealth market have manifested somewhat differently to in retail mass, and really coming through in the form of withdrawal pressure on savings and investments. So, people withdrawing to fund lifestyle in essence. On the persistency front, we haven't made any provisions at this point. Our persistency experience is slightly negative but it is not far off our embedded assumptions in our pricing models. So, at this stage we don't feel the need to raise provisions there.

Iain Williamson

And then, Casper, do you want to pick up the ROE question?

Casper Troskie

So, Michael, on the return on net asset value we're looking at both improving the profitability in our core operations as well as some capital optimisation initiatives that we're looking to extract over the next two to three years which will start improving the overall ratio to get to above the cost of equity plus 4%. So, it's not necessarily the bank. I think the bank base does have a higher ROE than that cost of equity plus 4%, and we'll give you feedback on how that develops as we get to each of the hurdles that the board has set for us. But the real improvement is coming from the core business and improvements in the RoNAV of the core business.

Michael Christelis

Great, thanks, guys.

Bonga Mriga

Maybe let's take one more if we do have on the Choruscall, operator.

Operator

Yes, sir. The next question comes from Francois du Toit of Anchor. Please go ahead.

Francois du Toit

Hi. Good morning, guys. First question relates to your IFRS earnings. I don't see any targets, medium-term targets that refer to IFRS or is IFRS earnings related. Is that a reflection maybe of the quality in terms of conveyance of shareholder value creation of IFRS 17 or is it a reflection maybe of challenged earnings outlooks? You can maybe just talk to the absence really of IFRS earnings targets firstly.

Secondly, the second question relates to your hedging costs and losses of R823 million that you have adjusted for. You mentioned that you expect this to reduce in future. Can you comment on whether you expect there to be recurring costs related to hedges and mismatches that you think we should expect to recur? Why do you think it was fair to adjust for the full R823 million in these earnings? I've got one more last question that I want to sneak in, please. Can you maybe give us an indication of whether there's been an impact on the value of new business as a result of reallocation of costs associated with IFRS 17? I think obviously there's less cost defined as new business related under IFRS 17 than under IFRS 4.

Nico van der Colff

Okay, yeah. So, Francois, in an IFRS 17 basis, depending on whether contracts are onerous or not, the treatments of the profits could either go through income statement or unlock the CSM. So, your targets, if you set them on an IFRS 17 basis, you get potentially a very one-sided view. And therefore, we are looking at spending more time on looking at value targets and refining those value targets and bringing that back as a refinement to targets. So, we've placed a lot of emphasis currently on value for your business in our actual formal targets, which we are trying to monitor and build more capability around the operating EVs, the group equity value, that's moving more to value. That's because you can have a big debit in IFRS earnings and a big credit in your CSM in the same year, which distorts the numbers. I think it's just important to understand that, and we'll give you more communication around value targets over the next few periods. I think that's important to understand.

The next question. The hedging piece, Francois, relates directly to the fact that we were hedged on an IFRS 4 basis. You saw that we had quite a big transition impact between IFRS 4 and IFRS 17. And we managed our balance sheet up until 31 December on an IFRS 4 basis and then transitioned from IFRS 4 to IFRS 17. So, any mismatches between IFRS 4 and IFRS 17 you'll see coming through the 2022 results that would be a straight mismatch between the liability and the hedge position on both bases. And then in 2023, what you're seeing is the actual repositioning, that's the cost of repositioning the portfolio and the fact that your hedges weren't 100% hedged on day one starting the year. So, that's coming through your income statement. We have now transitioned largely those portfolios to an IFRS 17 basis and we should see minimal hedging issues coming through that line going forward. I hope that answers the question.

Iain Williamson

The final piece about the ongoing cost of hedging under IFRS 17 and IFRS 4. So, if anything, the ongoing cost should go down a little bit.

Nico van der Colff

Now, Francois, on the VMB, no, it's not an IFRS 17 artifact at all. In fact, we had said we are not changing our VNB methodology. We're kind of still calculating in a similar way. We're using IFRS information, but then we're adjusting for the things that IFRS 17 creates undue good news. And so, we kind of take a new business CSM and add the owner's contract piece and take off tax. That's probably what you assume. But then we also take out the future expenses that we would have had in the VNB that under IFRS 17 aren't in those numbers. And so, there's post-tax more than R100 million hit for those expense values for new business that weren't in an IFRS 17-based new business, CSM-only-based approach to doing a VNB. So, it's still a comparable VNB in methodology and approach to what we had in the past.

Bonga Mriga

Thank you. Thank you, Nico. We've got a few here that I'm going to run through and then we'll probably go back to Choruscall and close it. The first one is from Baron of JP Morgan. Apart from higher credit impairments, are there other reasons for the material decrease in RFO at Old Mutual Finance?

Clarence Nethengwe

No.

Bonga Mriga

Thank you. And then we've got one that is looking at both the new business in terms of sustainability together with the RFO performance from Old Mutual Africa, just seeking clarity in terms of how investors should be looking at that in terms of H2 and beyond H2.

Clement Chinaka

Okay, the results that we got from Old Mutual Africa, there are two main big contributors. The first thing was investment performance or rather investment variance in Malawi is a big driver. But a bigger story is actually the turnaround in PNC business. So, the PNC performance, we expect that to be more sustainable, but on the economic variances, we'll get what we get. We are not in control of that. Thank you.

Bonga Mriga

Thank you. The last one on my end is looking at the dividend policy. We've got a question that's just seeking clarity in terms of should investors be expecting any changes in terms of the policy itself in light of the introduction of IFRS 17?

Casper Troskie

Bonga, at this stage what we have said at our investor day is that we'll be aligning our dividend payments strongly to cash generation, so there's no intention to change our dividend policy at this stage.

Bonga Mriga

Thanks, Casper. And as we probably are just close to concluding, operator, do we have maybe just one on the conference call?

Operator

No, sir. We have no further questions on the conference lines. Thank you.

Bonga Mriga

Thank you so much. Iain, I think we are done on our end.

Iain Williamson

Okay. So, if there are no further questions, thanks very much, everybody, for your time and attention. And I look forward to engaging with many of you one-on-one over the coming week or so to unpack further. Thanks very much.

END OF TRANSCRIPT