

Conference call transcript

2 June 2025

Q1 UPDATE

Operator

Good day, and welcome to the Old Mutual Q1 voluntary update. All participants are in listen-only mode. The question-and-answer session will follow the formal presentation. If you should require operator assistance during the conference, please press * and then 0 on your telephone keypad. Please note that this event is being recorded. I would now like to hand you over to your host, who is Head of Investor Relations. Langa, please go ahead.

Langa Manqele

Thank you very much, Judith, and good day to everyone who has joined us on the call. My name is Langa Manqele. As introduced, I head up investor relations. We issued our SENS on the 29th, so hopefully you have had time to digest it. I would like to just quickly introduce you to who is on the call. We have on the call Jurie Strydom. You will all recall Jurie Strydom is on his first day. We are excited to have Jurie at the helm of the Group. So, he has joined us. Formally he's on the driving seat. You all know Casper. Casper is on the call, our group CFO. Also, on the call joining us today is Ranen Thakurdin. Ranen has transitioned from the Head of Group Reporting and Insight and is now our Chief Accountant. And as part of his portfolio, he still oversees Group reporting and insights. I would like to hand over to you Jurie to say a few words, and you may kindly hand over to Casper shortly thereafter. Thank you.

Jurie Strydom

Thanks, Langa. Afternoon everybody. As Langa said, this is day one, actually the afternoon of day one, so a good way to start with a voluntary update and investor call. I'm obviously delighted to be leading this Group from today onwards. I think I'm pleased to have been on the board for 18 months or so, just over, and I think what that's given me is a sense of orientation around the major issues and obviously the people and the organisation itself. So, I think I'm feeling like I can hit the road running with the team. I think, as I'm sure you'll appreciate, there's a process of getting in and getting feet under the desk and driving forward some of the initiatives with the team. So, I'm going to hand over to Casper to cover the voluntary update and then I'm happy to jump into the Q&A later.

Casper Troskie

Thanks, Jurie. From an operating environment perspective, the global economy remains uncertain, and we've seen growth forecasts being reduced during the year. In South Africa, market sentiment has been affected by political uncertainty around the GNU and the impact of the US tariffs. Inflation slowed to 2.7% year-on-year in March, but high interest rates continue to pressure consumer affordability and persistency. We did obviously see a small rate reduction last week, which would hopefully help going forward.

Our Africa regions experienced mixed performance in Q1 2025, influenced by tariffs, donor funding withdrawals, inflationary pressures and currency volatility. In terms of Life Savings and asset management, our Life APE sales decreased by 2% to R3.1 billion, mainly due to a 39% decrease in guaranteed annuity sales in Personal Finance, in line with a market-wide decline due to reduced yields.

The high base in the prior year from the non-repeat of savings sales contributed to a 38% decrease in Old Mutual Corporate's Life APE. Mass and Foundation Cluster was up 7% due to good risk sales. In our African Regions, APE was up 12%, driven by strong corporate sales, particularly in Namibia and Malawi.

Gross flows increased by 6% to R53.2 billion from the prior year, driven by a 28% increase in Wealth Management due to inflows across both local and offshore platforms, and in particular private clients and cash liquidity solutions and the 12% increase in our Old Mutual Africa Regions from higher asset management inflows in Namibia. This was partially offset by a reduction in Old Mutual Investments and Old Mutual Corporate.

Our net client cash flow was negative at R4.8 billion despite 6% gross flows. This may be impacted by a low margin indexation outflow of R6.4 billion from a large offshore mandate within Old Mutual Investments and terminations of R3.6 billion in Old Mutual Corporate in respect of the exit of unprofitable business that we made during the course of this year.

We have not seen an improvement in Mass and Foundation Cluster persistency. We continue to closely monitor the impacts on the economic recovery reserve and reassess the need to strengthen our persistency basis at 30 June. We will only be completing our work, the latest possible in terms of the half-year prices, so that we can have the most up-to-date view when we come to market in September.

The regulatory solvency ratio for OMLACSA remains strong at the upper end of our target range, while the group shareholder solvency ratio remains within our target range. Gross return premiums grew by 7% to R7.4 billion, driven by 12% gross written premium growth in Old Mutual Insure, supported by strong management actions, pricing adjustments and speciality, as well as the benign weather experience coupled with strong investment performance.

The growing diversity of the Old Mutual Insurance revenue in Old Mutual Insure makes it increasingly resilient to claims correlated to climate change. This was offset by a 5% decrease in gross written premiums in Old Mutual Africa Regions. Loans and advances of R18.7 billion were flat from the prior year, in line with our cautious lending approach. The launch of OM Bank remains on track for public rollout later this year. I'll stop there and I think we can go to questions. I don't know if anyone wants to add any points that I might have missed.

Langa Manqele

Thanks Casper. We're comfortable to head up straight for questions. At this point I'd like to ask Judith to just remind all the participants on the procedure to put through their questions. Over to you, Judith.

Operator

Thank you, sir. Ladies and gentlemen, if you'd like to ask a question, please press * and then 1 on your telephone keypad or the keypad on your screen. A confirmation tone will indicate that your line is in the question queue. You may press * and then 2 if you decide to leave the question queue. Just a reminder if you have asked a question, you're welcome to press * and then 1. We have a question from Francois du Toit of Anchor Stockbrokers. Please go ahead.

Francois du Toit

Hi guys. Maybe, Jurie, if you can comment on immediate plans you've got, maybe more in relation to current strategies of the executive, especially maybe in relation to buybacks. Do you think in the short term that will continue? I think there's been approval granted for further buybacks. So, that's the first question.

Is it possible for you to give us a bit of colour on new business value? I know the new business value would be quite sensitive to interest rates as well, which I think moved nicely in your favour because you used the year-end interest rates right for your new business value calculations. And to what degree does the lower interest rates offset the reduction in guaranteed annuities? I'm trying to get a sense of the new business margins in the period.

And maybe if you can comment on persistency for us and your view about the potential. Or maybe if we can have a rule of thumb impact on the EV of persistency changes that would get rid of all of the negative variances in the absence of any operational or in the absence of any environmental changes. So, what would you need to do to actuarial assumptions to fix the lapse risk?

So, let's say there's a R1 billion negative variances. Would you need to have R7 billion? So, what sort of multiple, what sort of capitalisation factor, what sort of PE ratio would need to be applied to fix the actuarial assumptions completely to provide sufficiently for that in the absence of any operational changes, any environmental changes? You can also just comment about what operational interventions you think can be had and the impact that it's likely to have.

Jurie Strydom

Hi, Francois. I hope you're well. Can I go Langa? Yeah, I suppose as I said, it is day one. But what I can do is give you a flavour a little bit for what the priorities are that we've got as a team. We have a process now of obviously coming as a new CEO, there's some strategic work of kind of reviewing where we are with our strategy, much of which is to do with the implementation execution rather than a complete strategic overhaul.

But there is that process that we'll go through as a team with our board over the next couple of months. And then, I think the next real stop for us is the interims, where we'll be able to communicate much more clearly around some of the things you've raised, and then after that more broader market engagement. What I would say to you at this stage is I think the priorities are obvious and will be familiar to you.

For me, I think getting to grips with where the persistence experience is. And I think we've alluded to the fact that we did allude to what's happened, what we've observed this quarter, that we've not seen an improvement.

It hasn't deteriorated from last year; we've not seen an improvement as we expected. I think there are operational interventions around collections. There is also some product and distribution and competitive related aspects there that the team has been looking at and that I will certainly be getting up to speed on and will be looking at in greater detail.

In the PF space, there will also be work done there on the competitiveness of our offering there, and how we stack up, and the experience of intermediaries in that market. And then I'd say the third big operational area is of course, the readiness of our launch of OM Bank. And I think we've alluded to the fact that we're comfortable with where we're tracking there. So, those are the three we are comfortable for our planned public rollout towards the end of the year. So, I think those are the areas that I'm going to be getting into initially as Group CEO as a priority with the team.

I'm also mindful of some of what we've said to you before around costs and expenses and the role that plays ultimately in margins and returns. So that's certainly a very live issue for us as well. I will just comment that I think if you look at the performance of the businesses, I do think we must also acknowledge and we're pleased with the turnaround that we've seen in OMI, both in business overall but in particularly in margin. And also, the performance of the wealth business I think continues to be to be something that's a positive. Cas, I think I'm going to ask you to comment on maybe one or two of the more specific questions that I expect we're not in a position to give clarity on yet.

Casper Troskie

So, Francois, I think to give you detailed clarity on your question at this point would be difficult when we haven't completed the work. And we obviously want to see how much of the persistency issue we can deal with by management actions and how the rest is expected to run off. So, we will be able to give you a more detailed update at the half year around what that looks like. So, in the meantime the only publicly available information you would have would be the sensitivities we've published in our financials. So, you can have a look at that.

We've also given you a sense of how long these provisions have been set aside for. And generally, from the end of 2024 we were expecting to get back to a normalised position by the end of 2026, maybe a little bit into 2027. So, you can look. So, if that was not to come back, you can try and gauge the size of the adjustment required from that. That's also publicly available information, the shape of that curve.

And then on the buybacks, we gave an update at the AGM. What we said on Friday was that we'll update you on the work we've been doing on capital optimisations, on especially capital position and our views on capital going forward at the half year. And we'll be able to give you the comprehensive updates at that point.

Francois du Toit

Thank you. Maybe also a quick comment on your short-term insurance premiums. Gross written premium growth accelerating very strong compared with peers as well. Can you maybe give a bit of colour? I think you've mentioned it comes from specialist lines largely, the increase. Are we seeing that the pricing is reducing or not growing as fast anymore in the motor book, and that there's still scope for premium increases elsewhere? Am I

reading too much into that? And maybe if you can also just give us the net earned premium growth rate for the period?

Langa Manqele

Thanks. Over to you Casper.

Casper Troskie

Thanks. Francois, we haven't disclosed that net earned premium growth rate. So unfortunately, we won't be able to give you that for the period. But just to comment on the gross written premium growth of 12%, it is linked to a number of pricing actions. It is also linked to the improvements in almost all the books. We've been able to put the business on a new footing. It also talks to being more successful in our specialty business which has been a problem in the past. So, it's a broad-based improvement across most of our books. And then obviously, with the Blue Sky portfolio, we continue to see that portfolio performing well, which is off a very low base.

Francois du Toit

Excellent. Thank you very much for the time to ask questions.

Langa Manqele

Thanks Francois.

Operator

Thank you. Ladies and gentlemen, just a reminder, if you'd like to ask a question, you're welcome to press * and then 1 to place yourself in the question queue. We have a question from Marius Strydom of Austin Lawrence Gidon. Please go ahead.

Marius Strydom

Hi, Jurie and team. Jurie, my first question to you is insofar as Old Mutual strategy goes, are there any sacred cows from your perspective? And number two, Casper, the time you are taking over the buyback, should we read anything into your outlook for earnings and the ability to build your discretionary capital? Those are my questions.

Jurie Strydom

Thanks. I think on the sacred cow question, I think the correct answer is of course I come in with a fresh pair of eyes to a degree. So, of course we'll be looking at all aspects of the strategy. But I will say the emphasis. I think we've got a lot going on and lots of things that have been in the pipeline including our own bank but also a number of other things that you'll know from a technology point of view and so on to improve the competitiveness of our businesses. So, that's a lot more about execution than it is about changing strategy. So, that's on the one hand.

I think on the other hand we will be determined also to make sure that we demonstrate the good capital stewardship. And so, capital allocation is going to be an important theme for us to make sure that, as we allocate the capital from the group, that that gets done appropriately and in a value-creating way. That certainly is going to be a big focus at the group strategy level. Cas, Segway to you on that.

Casper Troskie

Marius, look, I've said we'll give you guys updates. As we said on Friday, one of our team targets is to actually try and get the RONAV up. So, we're working very hard at trying to optimise the balance sheet and make sure we can free up further efficiencies on a forward-looking basis. So, yeah, in fact, as you know, we are continuing to work on our long-term objective of getting the RONAV into a region where it's acceptable to our investors.

Marius Strydom

And if I may ask a quick other question about OM Bank. You gave us guidance. I think it was start-up losses of R1.2 to R1.3 billion per annum. I'd just like to know if those costs would include client acquisition costs once the bank is actually launched.

Casper Troskie

Yes, those would include client acquisition costs. And the guidance we gave was run rate that was similar to 2024 for 2025, maybe a little bit higher, and then reducing to a break even during F2028, a break even on a monthly position during F2028. So, that could then include any revenues and any acquisition costs for clients in the bank.

Marius Strydom

Okay. Thank you very much.

Operator

Our next question comes from Jared Houston of All Weather Capital. Please go ahead.

Jared Houston

Good afternoon, Jurie, Casper, and the rest of the team on the call. Can I just ask, obviously a lot of time has elapsed since the March end. We've had a full two months here. Are you able to give us some colour in terms of either sales or persistency trends post the March period? And then also if you can give some comment on how different parts of the business have held up in the volatility within the market in April in particular, if there any dislocations or anything to note, given how volatile the period has been?

Langa Manqele

Thank you, Jared. Over to you, Casper.

Casper Troskie

We haven't given you any commentary on the period post March. I think it would be appropriate to give you comment now. What I would say is yes, we did see some disturbances in the levels beginning of April. But that's

largely been restored. So, we haven't seen any material impacts on our solvency ratios and our risk positions or anything like that. So, the balance sheet remains very strong. And we've obviously monitored what's happened post the end of March from a risk perspective, so we are comfortable with that. We will be able to give you an update on the trends post March as soon as we come to market, and as soon as we do the next update to the market, which will be during July and August. Thanks. Sorry, we are just not in a position to comment on anything after that.

Jared Houston

Thanks very much.

Langa Manqele

Thanks, Jared. There are no further people queuing up for Q&A on my side, Judith. I'm happy for you to double check and then let's wrap up the call.

Operator

Thank you very much, sir. Ladies and gentlemen, at this point we have no further questions on the lines. I will now hand back for closing remarks.

Langa Manqele

Thank you. Over to you, Casper, for the closing remarks.

Casper Troskie

Yes. Thank you, everyone, for joining us today. Once again, to reiterate that it was a difficult trading period as you saw. Lots of volatility in the markets. We were able to grow our gross flows and we were able to steady the ship in terms of Life APE sales, despite some one-offs in the prior year. We continue to work on trying to widen the jaws, i.e., improve revenues more than costs. And we have a very strong focus on managing our costs during this period. And we continue to work on our balance sheet and balance sheet optimisation initiatives. And as we said before, we'll come back with more detail at our half year results. Thanks.

Langa Manqele

Thank you. Bye.

Operator

Thank you, sir. Ladies and gentlemen, thank you for joining us for this event. You may now disconnect your lines.

END OF TRANSCRIPT