Annual Results Presentation Transcript

23 March 2021

Good morning, Ladies and Gentlemen.

Thank you very much for taking the time to be with us today. With me today in Cape Town and Johannesburg is the Old Mutual leadership team. Looking at the agenda I'll spend some time looking at how we fared against our strategy in all areas of the business. I'll then hand over to our CFO, Casper Troskie, to provide a financial review before making some concluding remarks which will be followed by a question and answer session.

For the better part of two centuries Old Mutual has stood for a promise that we will work to champion mutually positive futures. This did not change in 2020. This past year was one of extreme crisis and uncertainty, a year in which Old Mutual prevailed. And kept its promises.

The impact of COVID-19 on human life was immense, and the impact on capital markets and economies significant. By now we've all been affected in some way by the pandemic. We offer our condolences to all those who have experienced loss including members of the Old Mutual family.

In 2020 we were extremely sensitive to the pressures our customers were facing, undertaking meaningful initiatives designed to assist them, their families and businesses. We paid mortality claims to the value of R13 billion, supporting our customers and their loved ones in their times of need.

We also stood in solidarity with our frontline healthcare workers who were battling this pandemic by providing R4 billion of premium-free life cover, and we played the important role of fund administrator for the Solidarity Fund as well as pursuing various other initiatives across the continent.

On the operational front, we redoubled our efforts to make sure that our customers kept receiving the high quality of service they have come to expect from us. We enhanced the digital capability of advisers to sell remotely across our channels while keeping our staff safe.

Our diversified business model proved to be resilient and we have remained profitable, despite some material one-off items related to the pandemic. In contrast to the economic slowdown witnessed in the year, our product rollout accelerated its pace as our teams all stepped up to take control of our fortunes and those of our customers.
Our balance sheet remains strong and I am pleased to tell you that the board has declared a final dividend for 2020 of 35 cents per share, consistent with our dividend policy.

I'm proud of the difference we were able to make in these remarkable, unsettling times. I'm proud of our people and the many ways in which we kept our promises to our customers.

On this slide we cover the macro environment in our operations. The South African economy went through a severe COVID induced fall in Q2 2020 before recovering sharply in Q3 and recovering to end the year better than most commentators had expected. As the economy rebounded, the investments we had made in products, in digital and in making our delivery as lockdown-proof as possible, meant we were well equipped to maximise every opportunity.

On the right-hand side you can see how South African equity markets slumped at the time of hard lockdown before beginning a gradual but sustained recovery, to end the year at levels similar to those at the end of 2019.

Finally, equity markets in our other African markets suffered more pronounced losses – with a similar recovery pattern except for Namibia – which remains well below its pre-pandemic market levels.

On the left of this slide is data confirming the weekly excess mortality we experienced in South Africa and a forecast up to the end of September 2021.

Our Wave 2 experience was significantly worse than that of Wave 1 with infections and deaths accelerating in the fourth quarter. Despite this, our Wave 2 increase in excess deaths has not been as severe as the national experience. The forecast by the South African Medical Research Council is key to considering the likelihood, timing, and severity of a third wave.

We have been closely monitoring infection rates and mortality data on a weekly basis. The short-term provision raised in H1 was utilised by the year-end, and we incurred R1.9 billion of claims during the first two months of 2021. We have set aside R2 billion for experience beyond February, which includes an anticipated third wave at similar but less severe levels than Wave 1.

Despite continuing uncertainty around this virus, we believe this is a solid basis on which to provide for the future effects of the pandemic.

This slide gives a quick snapshot of Old Mutual's resilience in the face of the events of 2020. Our reported results from operations were 81% down compared to 2019. Excluding the direct impact of the pandemic these were down 14%. From a business point of view COVID has remained an earnings event and not one that has impacted the strength of the fabric of our business. Gross flows drove increased positive net client cash flow, which speaks to the underlying strength of the business. The positive momentum experienced in the last quarter has continued into the first quarter of 2021 and is gathering pace.

Our Life as well as Property and Casualty businesses bore the brunt of the COVID impacts, through mortality and business interruption claims and reserves as well as – indirectly through the lockdown and financial pressures that clients experienced.

Casper will go into more detail about COVID related impacts on our earnings. Our cash generation remains extremely solid and the decisive actions we've taken resulted in our liquidity and solvency levels remaining robust in all stress scenarios.

Our customer-facing segments fared differently during the year but all demonstrated that our commitment to be a certain friend in uncertain times ultimately prevailed.
The Mass and Foundation Cluster customer base was particularly vulnerable to the impacts of the pandemic and it was here that we paid out many of our COVID-related mortality claims.

Encouragingly, we witnessed solid and sustained growth in productivity and sales from H2 – which momentum is continuing. Recovery in the cluster's life sales was robust and the Q4 result was just 15% lower than that recorded in the same quarter of 2019. Similarly our credit loss ratio has improved following the unwinding of pricing pressure on a cohort of loans granted 18 months ago.

Personal Finance and Wealth Management experienced increased demand for risk over savings products, and a growing preference for single-premium business.

The business managed its expenses extremely well to deliver flat expense growth from the prior year while focusing on digital enablement of the sales force in a very competitive environment.

Personal Finance's pre-COVID results for the year include substantial overall net positive basis changes whereas in 2019 these were negative. However, even without these changes and COVID impacts, the segment's performance was encouraging.

I might mention here as well that both Mass and Foundation and Personal Finance have had very encouraging reinstatement rates among those customers who took up our offer of premium relief.

Old Mutual Investments demonstrated some encouraging trends in 2020. Highlights were good origination in the alternatives business and encouraging net client cash flow performance which was driven by buoyant retail inflows to our income solutions franchise. The first-half equities slump penalised the segments' equity fund performance following earlier long South Africa investment calls. However, asset values recovered well in the second half and short-term listed investment performance has been good.

The segment maintained high levels of deal flow during the year, originating more than R15 billion particularly in unlisted equity, infrastructure, and credit – which will allow it to take advantage of subsequent opportunities.

Our Group Assurance offering in Old Mutual Corporate experienced substantial mortality losses and the segment was further impacted by a limited ability to generate new business as employers took a cautious view in responding to the pandemic.

Old Mutual Insure achieved pleasing growth in most of its business lines although the underwriting result as well as margins suffered this year. CGIC experienced an unprecedented level of claims in the first half as the economy struggled. But I am pleased to report that from late August last year we have seen a sustained recovery in CGIC's business performance, and our digital short-term offering, iWyze, surpassed R1 billion in premium income for the first time.

The impact of COVID-19 on the Rest of Africa business has been much lower than that of South Africa, our largest market. We continued to make improvements in our Rest of Africa business during 2020. Our Property and Casualty business showed good top-line growth, Asset Management recorded strong inflows and Malawi continued to achieve good growth, particularly in the Life business. Also pleasing was the extent to which our West Africa operation's losses have reduced. I am confident we are poised for growth in this portfolio.

Across the business in the face of everything that the year threw at us our fundamentals, our brands, and our channels remained solid.

This slide gives a sense of how lockdown affected our ability to drive new business and the recovery we saw in the second half of the year.

In Q1, weekly activity levels were tracking close to prior-year levels in the Mass and Foundation Cluster and Personal Finance and Wealth Management. And then hard lockdown was imposed. The impact was sudden, and it was severe, for both segments. During this time, we fast-tracked our digital offerings and supported our advisers by enabling remote selling in several dynamic, practical ways.

As we gradually mobilised our on-the-ground presence and rolled out our fully digital risk product, Old Mutual Protect, a more encouraging picture began to emerge. By Q4, both Mass and Foundation and Personal Finance and Wealth Management were recovering and this momentum continues to date.

The Q4 green shoots I pointed to in the previous slide derived largely from our three phase coronavirus response strategy which we first communicated to you six months ago. The first phase was about stabilisation. We continued to do well in optimising our capital and the dividend declaration in line with our policy points to our ability to continue to reward shareholders. The wellbeing of our people and customers was always a non-negotiable, and I'm satisfied that we did everything we could to minimise the health risks posed by the pandemic.

Six months ago I shared with you that we had already embarked on phase two, transitioning out of the immediate first effects of COVID-19 and working to mitigate the impacts on our results and business for the medium term. We also focused on accelerating digital transformation and broadening our solutions set. After stabilising and transitioning our business, moving it beyond risk to opportunity, we embarked on the final phase. This involved re-envisioning a nimble, impactful Old Mutual which unashamedly puts the customer front and centre of a refreshed strategy.

I'll briefly touch on how we see re-envisioning the business as a forward looking process that builds on our core strengths to meet the opportunities presented by a rapidly changing world, a world in which competition is fiercer than ever and disruption is a given. We have an extremely solid core based on diversity of markets, products and delivery channels. We will keep this core strong. It has been the lifeblood of Old Mutual for over 175 years and the reason why our brand remains so strong, and it is fit for purpose, the purpose which is now embodied in our new strategy.

We began re-envisioning Old Mutual before anyone had heard of COVID-19. This manifested itself in our digital transformation which in this time of severe crisis has stood us in good stead, making us more robust, more adaptable and more relevant to our customers. In the next few slides I will discuss how our strategy is deliberate in aggressively driving brand differentiation, providing solutions that meet changing customer needs and enabling a seamless transition between face-to-face and digital customer journeys.

In 2019, we refreshed our strategy and transitioned from a tactical plan which we referred to as the eight battlegrounds into our Truly Mutual strategy.

We believe that we can become our customers' first choice to sustain, grow and protect their prosperity by delivering on the five interconnected pillars summarised by the acronym CARES. Old Mutual CARES means that we will be always present first for our customers – wherever and whenever they need us with propositions and advice that are relevant to their needs. And, increasingly, we will offer customers rewarding digital engagements. Engaged employees, who feel a deep sense of belonging and connection with our purpose, will deliver a customer experience which embodies our Truly Mutual strategy. They will deliver solutions that lead whatever the need or product may be.

We will continue to invest in our core propositions which are advice, insurance and investing. And as we move forward we will deepen our capabilities in transactional and lending solutions.
When we bring these five pillars together they work coherently and in an interconnected way to generate mutually beneficial outcomes for all our stakeholders. Every time we interact with a customer or design a product or solution we're thinking about how we can make a difference and demonstrate that Old Mutual CARES. As we succeed in delivering on these pillars we will become our customers' first choice. Ultimately, this will enable us to build the most valuable businesses in our industry in a responsible manner.

This slide covers proof points pointing to some of the ways in which we have delivered against our CARES strategy. We've invested more than R140 billion in the green economy to preserve our planet and its people for the next generation. Our funds are invested in renewable energy, housing, agriculture and a variety of sustainable ventures and they are delivering risk adjusted returns. We play a stewardship role over assets totalling more than R300 billion to meet our fiduciary obligations in managing client funds.

I have already mentioned the R13 billion we paid in mortality claims to our customers, keeping our promises at a key moment of truth for them. The ways in which we consistently keep our promises helped to make Old Mutual the fifth Most Valued Brand in Africa in 2020. In independent customer satisfaction benchmarks Old Mutual Insure and the South African life operation were rated first and second respectively in their categories.

In September I told you that in South Africa we were rapidly developing, testing and deploying new digital channels. In the second half of the year we continued along that path, expanding our platforms through public websites, mobile apps as well as WhatsApp and USSD channels across our regions.

We continued to increase digital adoption by our customers and today we have 406 000 active digital customers, an exceptional growth of 50% from the prior year.
Our rewards programme continues to retain and attract customers. To date we have awarded an amazing 1.6 billion points which customers can redeem with a growing set of rewards partners.

We greatly value the way in which our people persevered and serviced our customers despite the multiple challenges of working from home. A distributed workforce pilot will support new ways of working, and our diversity and inclusion strategy has enhanced how we work together. At our interim results I told you how we were working hard to keep employees in the loop about our business despite them being physically dispersed. I'm therefore pleased to note that a recent culture survey found our people remain engaged, that they feel a sense of belonging and connection to the organisation.

Six months ago I also mentioned that we had processed 14,000 applications for our new flexible digital risk proposition, Old Mutual Protect, in South Africa and Namibia. I can tell you that since then we've processed more than 202,000 applications for this ground-breaking product. This time a year ago I told you that we were using automation to drive down costs, improve operational efficiency and to make greater use of data-driven new business leads. We have delivered on all of these aspirations.

In South Africa Old Mutual Insure has deployed a software tool that allows prices, rules, adjustments and risk scores to be deployed into the market in real time. This will enable us to be more competitive and improve the customer experience. In Malawi we've launched insurance products tailored for women as well as SME retailers. And in South Africa and Malawi we've launched non-advised funeral products which are affordable and easily accessible. All these achievements represent how we remain resilient, focussed on our customers' futures and our growing ability to develop and implement compelling digital tools and services in an age of increasing disruption. I will now hand you over to Casper to take you through our 2020 financials. Casper, over to you.

Casper Troskie
Thank you, Iain, and good morning ladies and gentlemen.

I will be focusing on our financial delivery for the 2020 financial year and will deal with key movements in our earnings. Firstly, results from operations were resilient on a pre-COVID basis at R7.7 billion, 14% down on the prior year. Direct COVID impacts for the full year amounted to R6.1 billion due to an increase in pandemic reserves, business interruption claims and negative mark-to-market losses in our credit and private equity portfolios. Adjusted headline earnings of R2.5 billion were 75% down on the prior year, impacted further by lower shareholder investment returns and Nedbank earnings.

Our group solvency ended the year in a very strong position with the benefits of key regulatory approvals and other capital management actions offsetting significant stress from lower earnings and additional provisions raised for COVID-19. The return on embedded value remained positive despite the substantial provision raised for COVID-19 impacts. On a pre-COVID basis the profitability of most of our businesses was further impacted by negative GDP growth, job losses and a significant drop in investment markets at the end of the first quarter. This negatively impacted asset returns, sales levels and persistency levels.

Old Mutual Insure had an excellent year on a pre-COVID basis given much slower claims experienced. Net expenses from central functions were higher mainly due to lower interest earned on central cash balances and a small treasury loss on central assets held, more than offsetting a decrease in gross expenses. Given improved activity levels towards the end of the year we expect a strong recovery in operating earnings in all our businesses in 2021.

We have applied a methodology largely consistent with the half year reporting to identify direct COVID-19 related items. Business interruption and rescue reserves in respect of Old Mutual Insure, CGIC and Rest of Africa including IBNRs of R791 million have been provided for. We have included profit of R293 million relating to the personal lines' motor book given the abnormal circumstances in the year resulting in lower claims.

Unrealised mark-to-market losses across the investment, credit and private equity portfolios, which we carry at fair value, had an aggregate impact of R704 million. The impact on the credit portfolio is largely due to the widening of credit spreads during the year. The equity portfolio has seen some fair value adjustments in line with listed sectors impacted by the pandemic. These impacts are expected to reverse as spreads normalise and we are largely satisfied with the quality of our investment credit portfolio. We have increased our expected credit loss provisions in Old Mutual Finance and Faulu by R169 million to allow for the deterioration in forward-looking economic forecasts. We have also incurred incremental net expenses of R315 million directly due to the pandemic to stabilize and transition Old Mutual out of the crisis.

On this slide we analyse movements in pandemic reserves to 31 December 2020. We raised total reserves of R1.3 billion at the half year. In total actual claims in the second half of the year were R204 million higher than the provision raised at the half year with an acceleration in infection and excess death rates in the fourth quarter. As Iain explained, we therefore raised additional reserves of R3.9 billion at year end, bringing the total amount provided for to R5.5 billion. Of the R3.9 billion we have already recorded COVID related mortality claims of R1.9 billion in January and February, leaving R2 billion for future claims. We have released discretionary reserves of R1.1 billion relating to mortality experience in Mass and Foundation, reducing the overall income statement impact to R4.4bn.

We have discussed the results from operations both on a pre and post-COVID basis. The reduction in the shareholder investment return was mainly due to the lower interest rate environment, the decline in the average shareholder asset base and fair value losses on unlisted equity portfolios.

Finance costs were down due to lower average debt levels and fair value gains on interest rate swaps.

Income from associates was down 64% from R2.5 billion to R917 million, largely due to the decrease in Nedbank earnings.

The decrease in non-controlling interests is driven by lower profits in Old Mutual Finance.

A reminder that adjusted headline earnings is the key earnings measure that is used to set management targets for earnings growth and RONAV. Here we provide a reconciliation of adjusted headline earnings to headline earnings as well as a reconciliation of headline earnings to IFRS earnings. Items excluded from adjusted headline earnings are the elimination of negative investment return on sales investments in group equity and debt instruments. The impacts of restructuring includes the reversal of the data provision in Wealth relating to prior year provision raised for the take-on of an international IT platform from Quilter. Zimbabwe recorded profits of R1.1 billion where substantial investment returns exceeded hyperinflation and the devaluation of the Zimbabwean dollar.

We caution investors that these returns may reverse in future and we remain concerned that the required IFRS accounting treatment results in income statement profits being partially offset by FCTR losses recorded in reserves. Residual Plc reported a profit of R229 million as losses on residual investments and running costs were more than offset by a tax refund received. Excluded from headline earnings are impairment of goodwill and other intangibles mainly relating to Old Mutual Finance and the write-down of investments in associate undertakings in respect of Nedbank to recoverable value.

Here we focus on key areas of emphasis from a finance perspective. The first relates to significant balance sheet judgements finalised during the year end. The finalisation of the pandemic reserve in the life business was dependent on getting accurate, up to date information on the extent of Wave 2 infections and deaths which only peaked in late January and early February, as well as taking into account potential further waves given the slow rollout of vaccines in South Africa. Equally, provision for business interruption remained complex as the impact of court cases and further interpretations of potential reinsurance outcomes caused us to revise our estimates post the year end. We reassessed the value of use in respect of Nedbank with no further impairment required. Additional provisions were also raised in East Africa following a balance sheet remediation exercise.

On the market risk front we made solid progress in the implementation of the Three Manager Model which allows us to better manage risk across the whole balance sheet. We successfully executed the change in investment strategy in respect of our risk products which resulted in a substantial de-risking of our balance sheet as well as a one-off financial benefit of R1.8 billion. We will continue to focus on capital optimisation as well as expense reduction initiatives.

We are pleased with the group as well as the OMLACSA solvency positions, which have remained extremely robust. In OMLACSA, the reduction of the Nedbank share price reduced both own funds and the capital requirement.

The transfer of 12.4% of Nedbank shares to Old Mutual Emerging Markets further decreased own funds and capital requirements. The OML 2019 ratio has been re-presented to reflect the insurance group designation, treating Nedbank as an equity rather than on a Basel III basis and increasing the ratio from 161% to 189%.

Both own funds and the solvency requirement reduced during the year due to the reduction in the value of Nedbank. We are in the process of revising our group target ranges of 155% to 175% for OML and expect an upward revision of that target range. The actual ratio of 185% is expected to remain in the upper end of our target range. An ongoing recovery in the economy and reduced risk levels could see an acceleration of capital returns to shareholders in the near to medium term.

Our return on embedded value was position with new business value of R621 million and existing business contributions of R5.8 billion exceeding the impact of negative operating variances, basis changes and economic changes. Extremely pleasing were the positive expense variances given strong expense management during the year. Basis changes were dominated by short-term COVID related changes of R4.3 billion and a strengthening of mortality and persistency bases, partially offset by the positive impacts from the change in investment strategy on our risk books.

Group equity value represents management's view of equity valuations for each of the underlying businesses and has reduced to R98.5 billion from R116.5 billion in the prior year. Our life and savings business or covered business was valued using embedded value where embedded value recognises future profit streams for business that is in existence at the end of the year but does not recognise future new business and excludes the value of our asset management and lending businesses. Material non-covered businesses were valued at fair value using a combination of discounted cash flow models or comparable price earnings or price to book multiples.

We reflect own funds that have been calculated in accordance with the regulatory rules. The key differences between own funds and our Group Equity value is the lower value that the regulatory basis requires for Nedbank, offset by the inclusion of subordinated debt and the non-recognition of intangible assets and participations, spoken about earlier.

For Nedbank we have used the recoverable value of future dividend streams that we expect to receive over time discounted at an appropriate interest rate.
It should be noted that the share price currently trades at a substantial discount to all measures of value including IFRS net asset value.

Thank you for your time. I will now hand you back to Iain.

Iain Williamson
Thanks Casper.Ladies and Gentlemen, thank you for your attention this morning. And for your ongoing interest in Old Mutual.

We have come through an exceptionally difficult year in good shape and extremely well equipped to build on our core, our brand, our strategy, and our strengths. Already this year we are seeing strong evidence of how our productivity levels are recovering. Our digital rollout stood us in good stead in 2020 and we will keep delivering on digital at pace as we continue with the dynamic, ongoing process of re-envisioning Old Mutual.

Casper and I have discussed our discussed our COVID-19 provisions for the rest of 2021, and we are confident these are appropriate.

We believe that the disciplined and accelerated execution of our refreshed strategy will put us in a good position to win in the market as the economy recovers. With engaged employees in 2021 we're succeeding in gaining new customers by being always present first with simpler, more impactful, improved product sets with solutions that lead delivered through a rewarding digital experience. As we give customers a richer, more rewarding Old Mutual experience we're increasingly enhancing and expanding our suite of products including transactional and lending to improve our customer value proposition.

While our business was challenged under the pandemic we are confident that our results from operations and return on net asset value will recover to 2019 levels by 2023, given economic tailwinds possibly sooner. In the medium term we are targeting a new business margin of 1.5% to 3% across our segments. we anticipate our underwriting margin target will remain at between 4% and 6% and by the end of 2022 we are confident of having delivered on our target run rate cost savings of R750 million. Delivery of this will come from automation and process efficiencies in our core life and short-term businesses. As Casper has said, barring unanticipated risks materialising we anticipate an acceleration in the pace of capital returns to shareholders in the medium term as we refine our capital ranges. We look forward to giving you further detail on these developments at a capital markets day in June. We will now open up for any questions that you may have. Thanks very much.

Tokelo Mulaudzi
Thanks. I would now like hand over to the operator to give us the questions on the line.

Operator
Of course. The first question we have is from Andrew Sinclair from Bank of America.

Andrew Sinclair
Thanks. Good morning everyone. Three from me as usual if that's okay.

The first one is just on liquidity. You've got very strong capital levels, but I just wondered if you could tell us a little bit more about liquidity levels. What is the current level of holding company liquidity?

Secondly on capital, you talked about the target solvency range potentially being revised, but you've also talked about potential for accelerating capital return as the economy recovers. I wondered if you could give us a bit more colour on how we should think about the range and what sort of colour you can give us around excess capital in the business today.

And thirdly was just around the change in investment strategy on the risk book which I think led to a nice R700 million gain in Mass and Foundation and another R1 billion in Personal Finance. I wondered if you could tell us a little bit more about how that was generated and if there is potential for anything similar in the future.

Thanks.

Casper Troskie
I'll start and then I'll ask Iain if I've missed anything. You can chip in, and then we can ask Nico to talk through the detail on the change in the investment strategy.

Andy, we are expecting to revise our ranges upwards. We've done most of the work on it. We just want to stress test that by running our stress scenarios based on the year end results, which we haven't yet done, to make sure we're comfortable with those ranges. Those are not expected to be a material increase in the ranges that you see today, but they will move upwards. We're also expecting to see some positive improvements in our capital post the year end post the one application and one item we need to resolve, and that's the application for the accounting consolidation method as well as certain methodology participations where we're expecting to improve our capital ratios. So we should see an uptick in the range and we should see an uptick in the actual ratio post the year end.

Just to confirm to investors that the capital ratio at the end of December already takes into account the foreseeable dividends that we have declared both at an OMLACSA and OML level.

So despite the fact we're moving our ranges upwards we expect our capital range to be at or in the upper end of the target that we will be communicating. So that obviously puts us in a strong capital position. We are also very comfortable with liquidity levels at OMLACSA and OML in terms of the liquidity position. We don't double count liquidity, so we make sure that we're comfortable with our liquidity at OMLACSA, and if we have excess liquidity in OMLACSA we don't count that for OML. So we are comfortable for both companies that we have strong liquidity positions.

In terms of the change in investment strategy we effectively moved – and I'll ask Nico to add if I miss anything – the change in investment strategy from a balanced fund type investment at a ten year valuation basis to a risk free yield curve. So we have therefore hedged that portfolio with a portfolio of bonds to hedge the underlying movement in that portfolio going forward. That's very similar to what some of our competitors have done in prior years. Experience there has shown that your volatility in hedging reduces materially, and consequently we were able to also then reduce some of the discretionary margins we were holding against that volatility that you experienced when you hedge only on the ten year point. Nico, anything to add from your side?

Nico
No, that was perfect. It is a materially de-risked balance sheet and therefore able to have similar protection against future risk with smaller discretionary margins.

Casper Troskie
I hope I answered all the questions, Iain. I don't know if I missed anything.

Tokelo Mulaudzi
Operator, what's the next question?

Operator
The next question we have is from Warwick Bam from Avior Capital Markets.

Warwick Bam
Morning everyone. Thank you for the presentation. Three questions from me.

Can you give us some more insight into the possible outcomes for business interruption claims?

The second one is if you do experience mortality claims which exceed the existing provision do you still have discretionary margins that would absorb the excess?

And lastly, could you give us some more colour around your loyalty programme and the success that you've experienced there, and whether you've had any material difference in actuarial or sales experience from those loyalty members versus non-members? Thanks.

Iain Williamson
Garth, if you could pick up the first question on business interruption please.

Garth Napier
I think on the net BI claims we're reasonably confident with the reserves we've put through. Obviously quite a lot of reinsurers that needed to be taken into account. The gross number is the

one where there's probably still a bit of uncertainty. It's dependent on a couple of things. The way BI works is you obviously identify people for their losses over a period of time. Our BI claims typically run 12 months but we do have some indemnity periods of 18 months, so we need those indemnity periods to be complete before we have a sense of the total quantum of claims. So the gross number may go up, but the net number I think we've been reasonably conservative on and quite confident around it.

Warwick Bam
Thanks guys. If you can add any more detail as to why you're confident around the net number that would be useful.

Garth Napier
I think the reason for that is there are two treaties that will apply and on both of those we're reasonably confident that the treatment we've applied is aligned with how the reinsurers are seeing it playing out. And the gross quantum of our claims is well below the top end of our reinsurance treaties, so therefore we don't expect to exceed the top end of our reinsurance. It's really about the deductible that we would need to pay reinsurers, and hence the confidence. So our portion of the BI claims is reasonably clear in terms of our proportional treaty as well as our cat treaty. So again there shouldn't be too much movement on the net side. The gross obviously as the claims progress we'll get a firmer view on that.

Warwick Bam
Thanks.

Tokelo Muluaudzi
Does that answer all of your questions, Warwick?

Warwick Bam
My second question was around discretionary margins.

Iain Williamson
Nico, can you pick up the discretionary margin point please?

Nico
We have set up best estimate provisions for COVID, which is disclosed, as required in South Africa. We did not add additional discretionary margins on top of that. We do have discretionary margin. It is disclosed. I just checked in the results booklet on page 96. You can see the size of the discretionary margins we still have available. Those are a number of discretionary margins each with their own purpose, set up to protect us from a specific area of uncertainty or set up to deliver a specific type of smoothing of results.

But there isn't a piece of specific COVID included in there. So not a direct release from discretionary margins if additional claims exceed the provisions set up. That would look similar to what happened in the second six months of 2020 when we released the provisions we'd set up but actually experience was a little bit heavier than that, and that came through as an experience variance in the second six months. So that's the default. But you can see the size of the discretionary margins, on page 96 in the booklet, also still protect the balance sheet.

Casper Troskie
We would also think about starting to take more active management actions if we see a continuation of COVID-19 claims. Obviously in certain of our books it's easier to implement management actions on shorter data, but certainly some of those management actions would start looking at price increases for some of our products if we do see this now going into our base.

Iain Williamson
Okay. And then the last question Warwick had was on the rewards programme. Ray, do you want to pick that one up?

Raymond Berelowitz
So our rewards programme is sitting on about 600,000 customers as members of the programme. The programme is about two and a half years old, so it's still fairly early days. We haven't seen any material differences between actual and expected yet. The initial indications around the impact of the rewards programme on new business, up-sell, cross-sell and persistency is actually very encouraging.

Warwick Bam
Thank you.

Iain Williamson
Operator, I think we can move to the next question.

Operator
Thank you sir. The next question we have is from Larissa Van Deventer from Barclays.

Larissa Van Deventer
Thank you. Good morning. Three quick ones please.

The first one, on the R1.1 billion of discretionary reserves that you mentioned in the presentation that you released mainly into Mass and Foundation, is that the main reason for Mass and Foundation not declining to the same extent as the Personal Finance division? Relating to that, why was the impact of COVID so pronounced in the Retail Affluent division when flows were still relatively strong in the industry? And lastly, on Plc you reported net profit of R229 million. They appear to be largely once-off in nature. How should we think about Plc earnings going forward? Thank you.

Iain Williamson
Casper, do you want to farm those out?

Casper Troskie
On the Mass and Foundation piece, yes, Larissa, the fact that we were able to use pre-existing pandemic reserves in Mass and Foundation as well as some additional reserves that we were holding for customer value initiatives did decrease the COVID impact on Mass and Foundation. So that was a benefit. We didn't have to set up as much of that. Maybe Kerrin should pick up the item on Personal Finance.

Kerrin Land
Sure. Thanks Casper. I think on the Personal Finance side it was really nothing to do with flows or sales. Our impact was entirely the provisions we actually set up on the COVID front and the mortality experience we saw in 2020 and the first couple of months in 2021. So ex the provisions our underlying profit is actually quite strong at R2.8 billion. So if you look at that relative to prior years it's quite a dramatic increase. Our prior year number was R1.7 billion. That is a little bit flattering. The prior year had some negative basis changes in it and this year we had the discretionary margin release as a result of changing the risk strategy and the risk investment strategy and valuation basis. However, that R1 billion that came through from the risk change, we actually used the opportunity to strengthen our bases in a couple of areas. The net impact was some R450 million positive on our numbers. So actually if you strip out all the funnies we are comparing roughly R2.2 billion normalised for 2019 to R2.4 billion in Personal Finance normalised for 2020, so actually a little bit of an increase in a tough environment. And that was as a result of the sales momentum into the second half and good expense management.

Casper Troskie
I can't remember the first question, Larissa.

Larissa Van Deventer
It was on Plc normalised earnings going forward.

Casper Troskie
Larissa, depending on the investment returns that we earn on that base, which is quite small, and a very small cost base, I would expect a zero or small credit or debit going forward. We are bringing back more capital in the first half of this year, so we're not expecting to see any big debits or credits in that book going forward.

Larissa Van Deventer
Are you able to quantify how much you're bringing back, Casper?

Casper Troskie
I don't have that in my head. I can check with the team and let you know. We will try and check before the end of the call.

Larissa Van Deventer
Thank you. That's kind of you. I appreciate the trouble.

Operator
That was our final question on the call.

Tokelo Mulaudzi
Okay. Moving on to the webcast questions, the first one I'm going to read out is from Musa from Differential Capital. There are multiple questions.

The first is on MFC covered business new business has been weak throughout the pandemic while peers have seen strong numbers. How much of this underperformance is due to digital capability, to talent retention in the sales channel, and worksite access during COVID respectively? And how do you turn this around in 2021?

The second is on OMF. He asks that we please provide more detail on the cohort of loans that experienced credit deterioration as mentioned in the presentation and the booklet. Was this trend exclusive to OM Finance or is it industry wide?

Then again on OMF he asks what our appetite is for credit origination in 2021 relative to pre-COVID levels and how much of new loans are consolidated loans.

Iain Williamson
Clarence, would you pick up those? I think they are all in your business?

Clarence Nethengwe
Can you just repeat the question again for me because I was not writing down everything as I go through answering it? I think Musa's question is was it because of lack of digital capabilities. I need to correct him. We do have digital capabilities within the business. And sales that have come through our digital as well as direct channels were quite good actually versus the sales that were generated by our commission channel as well as our adviser force. What we are going to do going forward is to increase capacity in our direct telesales channels to be able to pick up all those customers who engage with us digitally but do not fulfil the entire process. From that perspective we are in the same space with everybody else in the bank.

Talent retention in the sales channels, particularly the tied channel – I suspect that is where your question is headed – we have retained quite a lot of the leadership in that space. I will explain to you why the so-called underperformance that you have highlighted. It has got nothing to do with talent retention. It has got more to do with two things. First, access to worksites. And two, moving people to work remotely. It's very difficult to manage the performance of financial advisers when you are not going to sit down in a room with them on a daily basis and help them with understanding where they are falling short. But what we saw in H2 was a huge improvement when we moved into what we call a hub strategy where we could meet financial advisers across the country. And we have 80 of them in each hub. So each and every Friday management could go into this hub and improve the performance of the advisers. That's why if you look at our productivity in Q4 of 2020 it was down almost 15% versus Q4 pre-pandemic in 2019, which was quite pleasing. And that performance has continued very strongly in Q1. With about two weeks to go it is almost at good levels versus Q1 of 2020, which again was a pre-COVID environment. So we are quite pleased with that.

Insofar as it relates to Old Mutual Finance first of all you need to have an understanding – and I think we do disclose it – that we did a reclassification of one of the categories of performing loans into default to align with contractual delinquency versus. So that is one of the things that you need to take into account. In terms of other cohorts of loans that we experienced credit deterioration it was more towards your high-risk type of customer. And most of that happened before the pricing changes when we enhanced our score bands and score cards in 2019.

What is our appetite for credit origination in 2021? The reality is that we are living in a very difficult environment. From an economic perspective growth is quite muted. Yes, there is going to be a

3.5% or so growth in GDP, but that is way below pre-pandemic levels. And it will be very much silly of us to behave as if we are in a pre-2019 level and then increase our appetite for credit origination. So that will always be in line with the current cycle that we are living in and we will see very little appetite for credit origination at the level of 2019. How much of the new loans are consolidation loans? Very small number of consolidation loans. And by consolidation loans I think you are referring to a product that we had in the market around 2011 to 2013. We are no longer offering that. We are just offering loans in a different way.

Tokelo Mulaudzi
Thanks Clarence. The next question is from Michael Christelis from UBS. His question is could you provide more detail as to what level of capital we currently deem to have in excess of our medium-term requirements.

And then I'll just tag onto that John Storey's question from JP Morgan. He is asking whether we think there are any issues in our underwriting standards in PF given the size and frequency of mortality claims experienced over the past two years.

Casper Troskie
I'll deal with the capital question. So we'll be able to bring that sort of messaging during the capital markets day. We want to firm up on the stress testing around the year-end balances and firm up on our capital range at group level, in which case we'll be able to give you a bit more detail on the excess capital. On the Residual Plc dividend we're expecting to bring back about £25 million by June. And the rest of that Plc NAV will release slowly as the risks relating to what's in that balance is released, and some of those are very long-dated risks. Iain, back to you on the other question.

Iain Williamson
I'll ask Kerrin and Nico to add to this, but essentially we are not concerned about our underwriting standards in PF particularly. We have had them reviewed by reinsurers who have confirmed that there are no particular issues there. And we have also done a comparison of the level of claims we've experienced relative to some of the competitors and most of it is down to the shape and profile of the underlying book. Perhaps Nico or Kerrin can embellish a little bit on that piece.

Kerrin Land
Perhaps let me add. We did do a basis change in 2019 to Greenlight to really allow for some of the cross-subsidies we were seeing in pricing between ages. And it was a little bit too short to tell, but the experience coming through pre-COVID in the first bit of 2020 seemed to indicate that those were effective and correct. If we look at the actual claims we've experienced in the course of 2020 the typical duration of the claim on book was more than five years. So I don't think it's an underwriting problem. As Iain said, we simply have a shape of book and a size of book. Our actual normal claims that we pay in a year are R4 billion and last year was closer to R5 billion. So we have a larger book of in force business than I think some of the competitive set do.

Tokelo Mulaudzi
Thanks. And then the last two questions, as we are running out of time.

The first is from Stella who is asking how productivity has been for our sales force compared to last year in January and February. And the second is from Justice at MMH who is asking what our earnings projections are for 2021.

Casper Troskie
Kerrin, do you want to start with the Q1 productivity please?

Kerrin Land
So Q1 productivity I think we saw a continuation of the momentum of Q4. The first part of January was quite slow as we were in the middle of Wave 2. And I think also with schools going back later and the economy restarting a bit later in January than is normally the case, it was a bit of a slow start, but actually looking really good as we sit today and definitely that momentum we saw in H2 last year continuing and some strong numbers coming through. In terms of mix and shape a continuing preference by customers for risk business and single premium business over recurring savings. But those are both quite good margin areas, so looks like 2020 actually still delivering decent margins.

Iain Williamson
Thanks. Clarence, would you like to add?

Clarence Nethengwe
I am more than pleased with the performance in the first two months of the year, and I'm particularly pleased by the performance of the branch channel. And when I talk about the branch channel we introduced a non-advised product that is handled by financial consultants who we have never used for insurance purposes inside the branch. And that product is performing very well in line with some of our competitors in the market. So I'm absolutely pleased with that performance so far.

Iain Williamson
Thanks Clarence. Casper, I think the second question was more directed at you.

Casper Troskie
Tokelo, can you just repeat the second question?

Tokelo Mulaudzi
Sure. The second question was just about earnings projections for 2021.

Casper Troskie
Oh. So we don't normally give earnings projections or forecasts as part of the year end. But we have given you guidance around what we're trying to achieve as a management team, which is to recover profitability and margins as quickly as possible to what would have been a 2019 number. Iain has in his outlook given you a view that we're trying to target that in 2023. And then we're trying to make sure that our RONAV, our return on net asset value, exceeds the cost of equity as quickly as possible. And once again we think we'll be able to get there by 2023. But that's very dependent on what happens with GDP and markets. If we have strong GDP growth and supportive market levels it makes it a little bit easier to get there. And conversely it will be

more difficult if we have very weak GDP and weak market levels. Our business is geared to those two factors. But as Iain said, as a management team that's what we're trying to deliver.

Tokelo Mulaudzi
Thanks. That's it from the questions. Back to you, Iain.

Iain Williamson
Okay. So, ladies and gentlemen, that brings us to the conclusion of our presentation and questions this morning. Thanks very much to all of you for your interest and attendance. We will be meeting with a number of you one-on-one over the coming days. Thanks very much to the management team for all your hard work during 2020. I think we've got a business in really good shape to take on the challenges of 2021. Thanks everybody.

END OF TRANSCRIPT