

Conference call transcript

22 November 2023

Q3 UPDATE

Operator

Good day, ladies and gentlemen, and welcome to the Old Mutual Limited voluntary update for the third quarter. All participants will be in listen-only mode and there will be an opportunity to ask questions later in the conference. If you should need assistance during the call, please signal on the operator by pressing * and then 0. Please note that this event is being recorded. I will now hand the conference over to the Head of Investor Relations, Langa Manqele. Please go ahead.

Langa Manqele

Thank you, Chris, and good afternoon to everyone. As already mentioned, welcome to the Old Mutual conference call on the operational update for the third quarter. Today's call will be conducted by our CEO, Iain Williamson, and our CFO, Casper Troskie, joined by Ranen Thakurdin, who is our Head of Group Reporting and Insight. That's all from my side for now, and with that I turn the call over now to Iain.

Iain Williamson

Thanks, Langa. And good evening everybody, and thanks for taking the time to join us. As you would have seen in the scenes announcement we put out this morning, we're very pleased with the continued momentum in our top line, with life and savings sales growing well on the back of continued channel productivity improvements and management actions and focus on both the mix of business and on persistency. That's driven the growth in the volumes and the sales momentum across the segments and the regions in a difficult operating environment.

In our Africa regions business, we've seen strong retail and corporate sales from new business, renewals and improved productivity in the East Africa region. So overall, the life APE sales ex-China were up 13% to R9.6 billion. And with China in, we're looking at a 4% increase on the prior period up to R9.85 billion. And if you break that down into product lines, the mix of sales is 51% in savings and investments, 42% in risk and credit sales. And from a segmental contribution perspective, we've got Mass & Foundation cluster contributing 37%, PF and Wealth contributing 36%, and Africa Regions contributing 12%, being the primary contributors to the life APE sales.

Gross flows were also continuing to show strong momentum up 8% to R146.5 billion with higher inflows in Africa regions, annual premium increases put through on our Mass & Foundation cluster book – and that usually happens in July – higher single premium flows in PF and investments in Namibia. We have a very strong secured to flow pipeline in our prudential corporate business and we've also secured new mandates and higher unit trust sales in the East Africa region.

Net client cash flow remains under pressure as it was at the half year. We've seen strong growth in MFC and in PF with net client cash flow in those businesses up 12% and 40% respectively. And that's on PF, excluding the wealth segment. But that's been offset by significant outflows in both Old Mutual Investments and in the wealth segment for similar reasons to what we stated at the half year, clients continuing liquidity requirements given the challenging economic conditions, higher contractual benefit payments from our liability driven investments unit in the investment business, and then a large outflow from a very large index client in OMIG, who have restructured their portfolios away from the emerging markets index solution that they were using. While that's a large outflow, it's also extremely low margin business with revenue margins of two to three basis points. So, the economic impact is limited.

Our gross written premiums on the short-term insurance side were up 15%. That's driven by a combination of new business growth, increased prices on the back of both inflation and particularly more producer parts inflation than CPI, and a successful renewal round in terms of persistency. The acquisition of Genric also added volume and excluding the Genric acquisition, which we consolidated from the 1st of January this year, gross written premiums are up 11%.

The East Africa region contributed to the growth in both the medical and the general insurance book, including new oil and gas business secured in Uganda. On the banking and lending side, we continue to take a cautious approach and loans and advances grew by a marginal 2%, mainly in the financial finance business in South Africa.

And finally, you would have seen in our operating update this morning that our CFO, Casper, is on the call is due to reach our normal retirement age in April next year. The board has agreed with Casper to extend his contract and Casper has willingly agreed to stay on for a year longer to the end of April 2025. We're very grateful to Casper for agreeing to do that because of the need, we feel, for another cycle of reporting under the new IFRS 17 accounting standard under the guidance of an experienced CFO who knows the group well. So, delighted that Casper has agreed to stay with us for an extra year.

That's all from me. I would like to open the call to questions and I'll ask Casper and Ronan to help me in answering them. So, Operator, if I can hand back to you to please assist us with managing the questions that are coming in from the call. Thank you.

Operator

Thank you very much, sir. Ladies and gentlemen, if you do wish to ask a question, please press * and then 1 on the touchtone phone or on the keypad on your screen. You will hear a confirmation tone that you have joined the queue. If you decide to withdraw the question, please press * and then 2 to remove yourself from the list. Our first question is from Andrew Baker of Citi. Please go ahead.

Andrew Baker

Great. Thanks. Thanks for taking my questions, guys. Three for me, if that's okay. First is, are you able to provide any insight into how new business margin has developed in the third quarter? And then secondly, in the release

this morning there was a line around management interventions to mitigate persistency pressures were starting to yield positive results. Are you able to give a little bit more colour around what the positive results you are seeing there? And then finally, have you seen any increase in the credit loss ratio in your Mass & Foundation lending business in Q3? Any insight there would be helpful. Thank you.

Iain Williamson

Okay, thanks. Casper, can I ask you to have a first pass at that?

Casper Troskie

Yeah, so let me start with the last question first. So, on the credit loss ratio, I think it's in line with what we saw at the half year. But there is risk still to – there is pressure in the system. So, we are watching our impairments really carefully. But there's no deterioration from what we saw to half year. In terms of the persistency, what we have seen is improvements or slight improvements in the performance of the book. But there's still a bit of work required to get us back to where we want to be. So, we are watching that closely and we'll have to assess how we see the trajectory of improvements from here onwards into next year at the year end.

I think that's the crucial part. How quickly does the reduction in the inflation rate that you've seen and the other pressures that are affecting consumers, how quickly does that dissipate? Because that's one of our key assumptions that we need to assess running into the year end. I think on the VNB margin, the only fact that I would mention is that the margin is sensitive to the mix of business between our businesses. So, if you look at the individual business units, I think we're comfortable that margins have remained intact. But we're probably going to see a bigger contribution from our corporate business, which has a lower margin. So, the mix of the margin will be different between the business units.

Andrew Baker

Great. Thank you so much, guys.

Iain Williamson

Thanks. I'll just add one thing on the persistency. I think the way I would summarise it is that it's probably stabilised from the half year. The lead indicators from a collection success rate perspective on first time collections and that sort of thing have improved. But as Casper says, the forward looking view still needs quite a bit of work to establish how we deal with that at the year end. So, we haven't landed on a call on that yet. Thanks, operator. Could we take the next question, please?

Operator

Of course, sir. The next question is from Mike Christelis of UBS. Please go ahead.

Michael Christelis

Hi, guys. Thanks for the time. Can you comment around the underwriting profitability of Old Mutual Insure during Q3? And also, specifically with respect to last week's significant hail event in Jo'burg, how big do you think that could be given your higher cat limits? The second one is just around PF and the volume of risk

business being sold in Q3 last year if you can. And then lastly on mortality profits, particularly in Corporate where you had really strong positive variances in half one, can you give us an indication of whether those have been sustained at those levels or if they've started to come down materially yet? Thanks.

Iain Williamson

I'll have a go at the first one and then I'll ask Casper to assist with the others and also maybe to embellish. The underwriting profit in OMI has held up well, in particular referencing the hailstorm that you're referring to. It's a bit too early to yet assess the full likely runoff of claims. We saw a very fast first registration of claims literally within 48 hours of the event, and we've only seen a trickle since then. And the last number I had was circa R50 million odd of claims had come in. That number could easily be double that, but we don't know at this point where that's going to land. We'll probably know in a week or two's time.

Michael Christelis

But Q3 itself was still relatively good. You didn't have any major fire or...

Iain Williamson

Other than that, there was no material event to write home about. In fact, let's just say we'd built up a bit of a buffer. So, usually what happens seasonally with the book is that you do build up a bit of a buffer in Q3 and then you get the hailstorms in Q4. We got the one a bit early, but I think we're comfortable with the position we find ourselves in.

Michael Christelis

Understood.

Iain Williamson

Casper or Ranen, do you want to comment on sales volumes in PF and on the corporate mortality profit development?

Casper Troskie

So, I don't have a detailed breakdown of the sales volumes in PF, but I'll just give... Let's say we have seen continued strong single premium guaranteed annuity sales and higher recurring premium saving sales. So, the guaranteed annuity sales are high margins, so that will help the margins in PF. The sales were up circa 14% for the nine months. I think that's pulled back a little bit from where we were at the half year if I remember correctly. Ranen, do you have it?

Ranen Thakurdin

I'm happy to comment. We are seeing a shift between more risk business and less funeral business, which was in line with the goals that we were trying to drive. And the risk business sales here to date are up 8% on the prior period within retail.

Iain Williamson

And in corporate mortality?

Casper Troskie

Iain, I'm just having a look. seen anything out of the ordinary in the corporate mortality in the business.

Michael Christelis

Does that mean that very strong mortality profits that you saw in H1 are continuing? I'm just trying to understand that comment.

Casper Troskie

We have consistently not commented, Michael, on any profitability metrics at this stage. So, I can't give you more detail than...

Iain Williamson

I think what we can say, Michael, is that the pattern of renewals on our corporate book is such that a big chunk of them happen in April and there are some in July, but there's not a material amount beyond that in the third quarter. So, you wouldn't see much – you wouldn't see a material impact on the overall book one way or the other just because of the pattern of when the premium increases happen.

Michael Christelis

Okay, perfect. Thank you.

Operator

Thank you. The next question is from Baron Nkomo of JP Morgan. Please go ahead.

Baron Nkomo

Thanks. Hi, everyone. Just two questions for me. On corporate new business, you've mentioned that there's some business that's secure that's awaiting regulatory approvals, and I wonder if you can give us timelines on the realisation of that business. And then secondly, just to go back to your operating earnings or your results from operations, I wonder if you can give us any sort of high-level guidance for the second half of the year. I know there's a lot of moving parts, but I just wonder if you can give high level guidance. Can we expect a similar performance to H1 broadly, or is it going to be slightly better or worse? I'm just wondering if you can help us with that. Thanks.

Iain Williamson

On the corporate pipeline, as you know, these things are very hard to predict. There's a material deal that won't flow this year. So, at best we'll see it flow next year, but we may actually see essentially the forward recurring premium part of it flow next year and the back book even only flow the year after, depending on how long the regulatory process takes. So that's the level of uncertainty we're dealing with around that time frame. That's about as good a guide as I can give you. Casper, anything to say on the...? I mean we explicitly haven't disclosed much on RFO but anything you want to add on the broad trends?

Casper Troskie

No, Iain. There's nothing that I'm aware of that materially affects our operating profits, but we still have to go through our year-end process. So, it's very difficult to say whether that's going to stay that way. What we have seen, obviously we've seen lower markets in the second half, so we did have tailwind from market improvements in the first half, so we're going to have to see where we end up from a market level perspective, because that does impact our business, especially the fee that we earn. And obviously the fees that we earn on our assets are quite sensitive to that, and we have seen markets reduce a little bit in the second half. So, just think about that. On corporate yield, I just wanted to add that there are two big deals. So, we anticipate that the one deal might land this year, and as Iain said, with the second deal, potentially the recurring piece landing next year, and the full fund landing the year after that.

Iain Williamson

Yeah, thanks Casper. Operator, more questions please.

Operator

We've got one more question in the queue and that is from Warwick Bam of RMB Morgan Stanley. Please go ahead.

Warwick Bam

Thanks, Iain, Casper and the team. Thanks for the time. You spoke about several African markets experiencing severe currency depreciation. At the half, Malawi was quite a material contributor to profits. And just give us a sense of the cash you've historically extracted out of the Rest of Africa portfolio, and whether there's any dependence on this cash and whether there could be any detrimental impact in terms of cash and distributions at a group level?

Casper Troskie

Iain, do you want me to take that one?

Iain Williamson

I'm just checking with Warwick that he's just got the one question.

Warwick Bam

Yeah, I'll leave it there for now. Thanks.

Iain Williamson

Okay, thank you. Casper, please go ahead.

Casper Troskie

So, we've generally extracted dividends from Namibia, Malawi. The contributions from other countries have been smaller. And generally, our Africa Portfolio, we've over time invested more than we've extracted. So, from

a half year perspective to now, I think the one country that we have seen deteriorate obviously is Malawi, and we've seen quite severe currency devaluation. So, we are watching that closely and it could impact the fungibility of funds in the short term from the impact from Malawi. But the real contributor to cash flows in the OMAR business has been from Namibia, and there's no impact at this stage there.

Warwick Bam

And Casper, would you consider changing some of the disclosures to specifically highlight some of these movements in Malawi?

Casper Troskie

I think what we are doing, Warwick, is in line with our new definition of cash generation is we are giving you more visibility of the dividends that we receive operating businesses in the centre. So, in line with that change, we will be giving more visibility on the cash generation. So, we should be able to give a little bit more sense. And then we do give you disclosure on which parts of the capital that we have invested, and those we consider as non-fungible. So, that is already disclosed. If you look at our capital disclosures, how much we've taken out of capital for what we believe are non-fungible pieces. So, anything that we see as non-fungible is already impaired in our funds disclosure, so you can go and look at that.

Warwick Bam

That's helpful, thanks. And then just the last one, Iain. Any update on the transactional banking business and I guess the launch thereof?

Iain Williamson

Yeah, look, it remains very much on track. As we've said previously, the regulatory process is moving along. Basically, on budget and on track in terms of the build part of it, so the tech build is actually very close to being done in terms of the core infrastructure. The regulatory process, as you know, we've submitted Section 16. We've had a round of feedback from the regulator. It's not heavy. We're dealing with that and expect to be able to go through the next gates early in probably first quarter next year, and then we'll take it from there. So, it remains on track as per the timelines previously communicated. We're likely to be able to, if things carry on this way, mainly from a regulatory approval dependency perspective, we should be launching to market end of next year or early 2025, which has pretty much always been the timeline.

Warwick Bam

Thanks very much.

Operator

Thank you. We do have a question from Jared Houston of All Weather. Please go ahead.

Jared Houston

Evening, Iain and team. Thanks for the update. Just a quick question, we saw the news yesterday about the two part retirement reforms and the implementation date being moved back to next year. Can you just give us a comment on operational readiness to deal with that and the potential impact that you expect?

Iain Williamson

Yeah, sure. So, we had been working towards that March 2024 date anyway. And I think it is fair to say, we did take our foot off the accelerator a little bit when we saw the initial relaxation announcement. So, we will have to do a little bit of scrambling to put the thing back on track. But we think it's doable. The challenge is going to be really at the regulatory clarity level. Because there's no regulatory clarity yet enshrined in legislation and regulation on some key items, it's actually hard to know what's expected, what you actually need to do on certain of these things or on certain aspects of it.

And I think the other problem that you've got is that the pension funds themselves can't change their rules until the legislation is enacted so that they've got the enabling legislation to change the rules. So, I actually think that not for reasons of operational readiness, but for other reasons, the timeline if it goes ahead in its current form, it's going to cause some chaos. So, we have been in communication. But let's just watch the space. I think operationally we can be ready. Whether the broader system and the expectations of the citizenry around what actually happens on day one are well managed is the thing that I'm worried about.

Jared Houston

Sure. Thank you.

Operator

Thank you very much. Ladies and gentlemen, we have no further questions in the queue, and I'd like to hand back to Langa for some closing remarks.

Langa Manqele

Good day. The conference call is now closed.

Operator

Thank you very much. Ladies and gentlemen, you may now disconnect your lines.

END OF TRANSCRIPT