



financialmail

Corporate report

www.financialmail.co.za

July 19, 2018

OLD MUTUAL

Embracing change

New listing heralds a new era and a new lease on life

OVERVIEW

Entering a new era with confidence

The recent listing gives the company an opportunity to grow and build on its rich legacy

● Old Mutual Ltd (OML) is well positioned across multiple geographies in Africa and multiple lines of business, which bodes well for its future as a standalone company following its listing last month.

The process of bringing OML to market has been a long and complex one and all eyes are now on how it will tackle the opportunities and challenges that lie before it and how it will build on its long and proud 173-year-old tradition in Africa.

“Our market leadership position and capital, combined with the strength and breadth of our offerings across the financial services spectrum, ensure that we are positioned for longer-term sustainable growth,” says CEO Peter Moyo.

“With over 12m customers on the continent and assets under management of about R1.2 trillion, we are possibly the biggest insurance business in sub-Saharan Africa. We are strongly positioned in SA – the biggest market in the region – as well as the SADC region and have a growing exposure to the economies of other regions on the continent, particularly East Africa, which is about four times the size of the SADC market.

“We are embedded in the social fabric of the communities in which we operate, and we are a respected brand in those communities. We do so because we recruit through the networks that we have established in these communities. We seek people who have a passion for making a positive difference in

the communities that they live or work in. We have the largest multichannel distribution network in the industry, including a large and productive agency force. Our customers prefer face-to-face contact, whether it is at home, in one of our branches or at work.”

The size of the group’s tied agency force was about 7,900 at the end of 2017. Most of these agents are deployed mainly in the Mass and Foundation and Personal Finance Clusters.

“As we look to the future we are increasingly focused on growing our digital and direct channels. This will also allow us to streamline our own processes and drive efficiencies. The breadth and depth of our distribution reach gives us a distinct competitive advantage over our peers, both traditional and new,” says Moyo.

He notes that the group’s adjusted headline earnings (AHE) – the metric it has adopted for reporting its overall performance – is the largest among its peers in SA.

“An important change in the new way of reporting our results is that we no longer make use of a smoothed investment return but, instead, report the actual investment return on the

shareholders’ investment portfolio. While this will provide a more accurate picture of performance it is likely to cause some fluctuations in the results,” he says.



Freddie Marunda

What it means:
New listing and growing presence on the continent provide a platform for even more growth opportunities

The group has also refreshed its key performance indicators (KPIs) in preparation for being a standalone business.

“These are the metrics that we will be using externally to report on, be paid on and use to manage the business. The key measure of our performance is ‘Results from Operations’, which reflects the underlying performance of our segments as well as our central costs,” says Moyo.

He adds that the incentive structure that has been put in place for senior executives is fully aligned with the metrics it will report to shareholders.

Commenting on the next phase of the managed separation process – reducing over the next six months, OML’s current 54% shareholding in Nedbank to 19.9% by distributing these shares to OML’s shareholders – he says: “We have, in fact, negotiated better commercial terms for our new relationship with Nedbank, which will be at arm’s length. We also intend to remain long-term shareholders in the bank.”

On assuming the CEO position last year, Moyo set out eight “battlegrounds” for the group. At a recent presentation to analysts he recapped these in broad terms: “Firstly, areas where we need to defend and consolidate our position and, next, areas where we frankly need to improve our performance and, finally, areas where we need to strengthen our competitiveness and productivity.

“We have made great strides in consolidating our leadership position in our large established businesses, the Mass and Foundation Cluster and Corporate. We still have more work to do in our Personal Finance business. We have seen strong signs of improvement in Wealth and Investments and

Peter Moyo: Market leadership position will help navigate and grow the company into the future

Old Mutual Insure. There is still work to be done in East Africa, but I am confident we are showing a positive trajectory."

Moyo reports good progress in "winning the war for talent" which is one of the battlegrounds he identified.

"We have been rated as the top employer in all 13 African countries in which we operate. We have also made a number of key appointments, fostering talent from within the group as well as bringing in expertise from outside," he says.

"In fact, we are leaders in economic transformation in the industry. I do not believe there is any other major insurance company in SA where black executives are in control of the same amount of assets as in our case. An example of our commitment in this connection was the appointment of a young black woman, Karabo

Morule, to head our Personal Finance business. This is a very senior position and I doubt if there is any woman in the industry in a similar position."

He says that "overarching all the battlegrounds is the need to execute in a cost-efficient manner – what we call 'cost efficiency leadership'. We have identified potential cost savings of R1bn by the end of 2019, net of the cost to achieve this".

The group is transitioning from a product-focused to a customer-led business, and in doing so is fostering a culture that is agile and execution-focused and will improve customers' experience.

"A good example is in our funeral benefits, where the time for payment of a claim is generally no more than 24 hours, and in some cases as low as four hours.

"We have brought to market a

group with a clear idea of how we will deliver on shareholders' expectations. Our product offering and market exposure give us confidence that we can grow our

results from operations at nominal GDP plus 2% over the three years to 2020 and support a return on net asset value of average cost of equity plus 4%." x

LISTING

Old Mutual returns to its roots in Africa with listing of OML

The primary listing of Old Mutual Ltd (OML) on the JSE on June 26 2018 marked the culmination of Old Mutual Plc's managed separation process, to separate the London-based group into four independent, standalone companies.

OML essentially consists of the African operations of the erstwhile Old Mutual Plc together with various other

assets, including a 54% interest in Nedbank, which is to be reduced to 19.9% by the end of the year.

The anchoring of OML in Africa marks the return of Old Mutual to its roots in Africa, where it is an iconic brand with a 173-year history.

In this special supplement we look in detail at OML and several of its main operating segments. x

PERSONAL FINANCE

Focus on middle-income market

Company targets growing middle income segments in order to become their key partner in financial management

● The Personal Finance (PF) segment of Old Mutual Ltd (OML) became a standalone segment in 2015 after the Retail Affluent business at the time was split into PF and Old Mutual Wealth.

"We target the middle-income market, which is defined as individuals who earn between R20,000 and R80,000 per month," says Karabo Morule, MD of Personal Finance.

"Last year we contributed 27%, or R3.1bn, to OML's result from operations. This was roughly the same as contribution by the Mass and Foundation Cluster (MFC), which caters to the lower-income segment."

The segment provides holistic financial advice and long-term

savings, investment income and risk-protection solutions. It had about 2m customers on its books at the end of last year.

"A key focus for us is growing in the black middle-income market (BMI). This segment has been growing at about three times the rate of the total middle-income market in terms of customer numbers. Their spend on savings, insurance and medical aid in particular has been increasing rapidly," says Morule.

The PF segment predominantly distributes its products through face-to-face distribution and has about 3,000 field advisers on its payroll. It has also, since 2016, been placing PF advisers in Old Mutual Finance (OMF) branches.



Fredrick Marunda

Karabo Morule: Innovation key to meeting customer needs

"We believe that financial advice and financial education are key to achieving higher share of wallet, which is in line with how we can grow the SA economy by achieving a higher savings rate. We have propositions to deliver on this.

"To continue growing our business we want to align the location of our adviser force more closely with the geographic location of our target market. Currently only about 26% of our tied advisers are located in Gauteng while about 40% of the PF target market resides there.

To improve this imbalance we will be biasing the appointment of new advisers towards Gauteng.

The MFC segment also aims to open about half of its new branches in the middle and higher-income footfall areas," Morule says.

She notes that because younger customers show a growing preference for digital sales and service, the segment has been growing its digital offerings.

"Our current digital initiatives include 22seven – our personal financial management app, which

corporate report **old mutual**

can help with budgeting, thus laying a foundation for sound financial planning, and Moneyversity – a digital platform that allows customers to access financial education which, in turn, can assist with market development.

“We have seen active engagement by customers with these tools and intend to actively market them. For our younger customer segment, we complement our proposition with two additional digitally available products, namely an online stock broking capability and a retirement annuity provided by Old Mutual Wealth and Old Mutual Unit Trusts respectively.

“Also available is the very successful iWye Life offering, which was launched last year and leverages the direct brand of Old Mutual Insure. It is important for us to

continue innovating so as to be fit for the future.”

The contribution of digital distribution channels to the segment’s gross sales has more than doubled in the past three years – to R77.2m last year, from R31.1m in 2015.

Morue stresses that customer-centricity is a major differentiator between OML’s PF segment and that of its competitors.

“We really walk the talk when it comes to being customer-led rather than product-led. We make a continual effort to truly understand our customers’ needs and tailor our offerings accordingly.”

She singles out the collaboration between PF and the rest of OML as a key element of its strategy.

“For example, when it comes to collaboration between us and the

MFC segment, we are targeting customers who were previously in the low-income group with our customer propositions as their income levels rise.

The MFC segment’s unparalleled strength in the public sector is also a boon for us. Customer income levels are generally higher in this sector, thus providing us with excellent opportunities to grow our target market.

We also work with MFC in the area of funeral cover, which is available online as well.

“As many of our customers carry debt, we collaborate with OMF (which is part of MFC) to provide transactional products to our target market, namely debt consolidation and the innovative Money Account. In this respect we wholeheartedly endorse OMF’s ethos of

responsible lending.”

She notes, too, that the Corporate segment provides opportunities for collaboration.

“We are able to leverage the relationships they have with their customers to provide financial advice at work sites. This offers customers the opportunity to complement the benefits provided as part of their employee benefit schemes with tailored products that suit their individual needs and aspirations.

“Personally, I am very excited about being part of such a great executive team under the exceptional leadership of Peter Moyo. Everyone in the business is very excited about the listing and the changes that are taking place now mean we are in control of our own destiny as an business.” x

MFC

Leading its chosen market

Largest tied adviser force in the industry is key to Mass and Foundation Cluster’s success

● The Mass and Foundation Cluster (MFC) of Old Mutual Ltd (OML) holds a leading position in its target market of formally and informally employed individuals earning from R1,000–R20,000 per month.

“The total market comprises just over 18m South Africans. About 10.6m of these are in the foundation level – people with an income of R5,000 per month or less – and the balance of about 7.4m falls into the mass market segment. At the end of last year we had 3.3m customers,” says Clarence Nethengwe, MD of the Mass and Foundation Cluster.

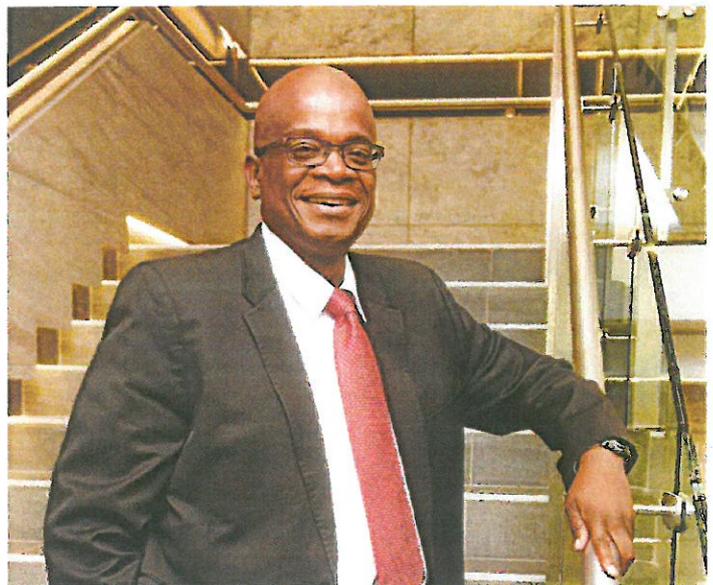
“They hold a range of products that we provide, such as risk cover – which consists of funeral insurance and life cover – savings,

group funeral cover, lending (including unsecured lending) and transactional offerings. We hold leading positions in both risk and savings solutions as measured by the number of policies across the industry.”

The segment is an important contributor to group profits. Last year its results of operations increased by 7% to just over R3bn, which was about 27% of the total for the group.

“At the level of gross flows, we have been achieving steady double-digit growth. Last year these flows increased by 11% to R12bn following an increase of 10% the previous year,” says Nethengwe.

“Our products are distributed through multiple distribution



Fredrick Mavumba

Clarence Nethengwe: Plan to enhance value proposition with new products

channels including a strong tied adviser force, which is the largest in the industry with over 4,000 advisers in the field and another 500-odd in the branches run by Old Mutual Finance (OMF) which belongs to us. We have worked hard at increasing the productivity of our field advisers, which has yielded good results. In 2016 our field advisers each wrote 6.5 poli-

cies per week on average – well up from the figure of 5.4 in 2014,” he says. The segment’s 323 branches accounted for 29% of life insurance product sales across the group last year.

“We believe growing our branch footprint will bring us closer to customers and we plan to continue opening new branches at a rate of about 30 per year. We have also

Lure of the umbrella funds

Entry into the industry has resulted in huge growth and opportunities opening up for the Corporate segment

● The Corporate segment of Old Mutual Ltd (OML) provides services to employer-sponsored retirement funds in SA. Its main products are preretirement plans, annuities and group risk insurance.

In the area of preretirement plans, Old Mutual Corporate's products range from smoothed bonus investments to multimanaged linked and structured passive investments. These amounted to R168bn at the end of 2017 – up from R152bn the previous year. The segment's annuity liabilities stood at R55bn at the end of last year, of which R42bn were higher margin (with profit) annuities and the remainder inflation-linked and level annuities.

"We have 1.6m customers drawn from about 5,700 employers. SA's private sector, employer-sponsored, retirement fund market had R1.8 trillion in assets at the end of 2016, of which we had a 12% share," says Old Mutual Corporate MD Clement Chinaka.

"However, the entire sector has not experienced much growth in real terms in recent years. According to data released last year by the then Financial Services Board, assets under management in the sector only grew by 4%/year from 2015 to 2017. A significant amount of assets have been paid out in benefits by the retirement fund industry, mainly as a result of job losses across the economy. These benefit payments have not been fully offset by new contributions and new entrants into the industry.

"But the slow aggregate growth picture hides an exciting growth opportunity in the market. The increasing burden of running a



Clement Chinaka: Strong relationships help retain customers in tough times

standalone retirement fund in a tighter operating environment has prompted increasing numbers of employers to convert their standalone funds to umbrella fund arrangements. At this stage there are only about 1,500 standalone funds left in SA compared to about 13,000 about six years ago. By contrast, there has been a proliferation of umbrella funds – with over 200 currently in existence and counting," says Chinaka.

Old Mutual Corporate operates the largest commercial umbrella fund in SA – the Old Mutual SuperFund – and administers three other industry umbrella funds. The SuperFund is experiencing rapid growth, with the number of active members having

grown by about 10,000 last year to about 415,000 and funds under management (FUM) increasing by R10bn to R104bn. In 2016 its market share in the R353m commercial umbrella funds industry stood at 27%.

"We continue to innovate and last year we launched the SuperFund DC (defined contribution) annuity and Nucleus Index Fund range," says Chinaka.

Last year the Corporate segment's results from operations rose by 12% to R1.6bn, recovering from the previous year's decline of 8%, which was due to weaker underwriting results from the group disability income assurance business. The business also experienced a net outflow of R7.1bn in the net cashflow from clients. Despite this, FUM increased by 4% to R256bn.

"The net outflow in the net client cashflow was due mainly to a significant non-covered outflow from a low-margin contract in the last quarter," says Chinaka.

He says the group risk market (where the segment has a market share of 29%) is facing a challenging underwriting experience, especially around income replacement benefits on disability. Premiums for this benefit are increasing to allow for the higher claims.

"However, we enjoy strong relationships with our customers and we have a reputation for great service – both of which maximise our ability to retain our customers during this challenging period.

"Furthermore, our business continues to prove its ability to generate free cash for the group with a consistently high conversion rate of profit into cash. We are also a key bulk acquirer of business for other parts of OML and have been very successful in converting members of our retirement funds into customers for other products we offer. In 2016, for example, we retained benefit payments of R2.9bn within the group and the retail business acquired about 23,000 new customers and chalked up R392bn in annual premium equivalent life insurance sales as a result," he says. ✕

AFRICA OPERATIONS

Great prospects for growth

Operations in Africa set to benefit from growing populations, GDP growth and low insurance penetration

● East and West Africa represent attractive areas of growth for Old Mutual Ltd (OML) due to their large and growing populations, generally high projected GDP growth rates and low levels of insurance penetration.

“As a pan-African business, OML must consider where its growth is likely to come from and where it ought to be on the continent. In the countries in which we operate, the population sizes in East and West Africa are four and five times higher than those of the SADC region. Insurance penetration ranges from 0.3% to 2.8% compared with about 17% in SA, so the potential is enormous,” says Jonas Mushosho, MD of Rest of Africa (ROA).

The segment operates in 12 countries broken down into three regions: SADC, East and West Africa. At the end of last year it had about 5.1m customers across the continent. Its core lines of business are life and savings, property and casualty (including health insurance), banking, lending and asset management. Last year the ROA segment's results from operations rose 26% to R1.1bn.

“Our operations in the SADC region are our torch bearers with Malawi, Namibia and Zimbabwe contributing the bulk of our profit. We have about 1.8m customers in the five countries in the region and occupy the first or second position in most of our markets in these countries. In Zimbabwe – where we have been extremely successful despite the political and economic turmoil – we have a market share of about 70% in the employee benefits area. We have also been

very successful in Malawi, where we occupy the number one position in life and savings as well as asset management. We will continue to defend our leading market position in the region while exploiting new opportunities for growth,” says Mushosho.

One such opportunity is the growth of the informal sector and the promotion of financial inclusion by governments.

“To access this market we have set up microfinance operations under the Old Mutual Finance (OMF) name in both Namibia and Zimbabwe. The infrastructure gap in much of Africa creates opportunities both for our asset management and general insurance businesses,” says Mushosho.

Regarding East and West Africa, he says: “While we have paid some school fees in the form of impairments, we believe the remedial action being taken, notably in East Africa, is having the desired effect. In East Africa we are now making an operating profit in each of our core operating businesses, but we are under no illusion about the work that still needs to be done.”

In East Africa the business acquired a 60.7% interest in UAP in 2015, which provided exposure to four more countries in the region. “The performance of the business has not matched our initial expectations,” says Mushosho. “However, we have now managed to



Jonas Mushosho:
Success in the rest of Africa creates room for growth

improve the unsatisfactory loss ratios which have been a critical focus across our East African insurance businesses – particularly in the health business, which formed part of the UAP acquisition. This has resulted in a positive effect on claims ratios and an uplift in the underwriting margin. We achieved it by exiting large unprofitable accounts and being selective in business written.”

On acquisition, UAP also had three stalled property developments which were subsequently completed. But their occupancy levels are still unsatisfactory. “We have made some progress with this situation, which is receiving ongoing attention,” says Mushosho.

In West Africa, where the segment pursues a capital-light strategy, a recent major breakthrough was the granting of a bancassurance licence in Nigeria.

“Our strategy in this region is to work in partnership with the banks and this holds enormous potential by giving us access to over 400 Ecobank branches.

“Overall, many customers in Africa require more accessible products and solutions such as digital distribution of funeral products, mobile phone-based payment platforms, and mobile savings for life events such as unforeseen health expenses.

“To ensure we meet our customers' needs, we have formed a number of partnerships with mobile network operators and fintech companies,”

Mushosho says, citing the following examples:

- M-TIBA – a mobile health savings product offered in partnership with Carepay and Safaricom in East Africa;
- Likandhela – a free funeral cover product offered in partnership with MTN in eSwatini; and
- Textacash mobile money transfer solution, offered by CABS, the group's wholly owned subsidiary in Zimbabwe, in partnership with Multipay. x

WEALTH AND INVESTMENTS

New business segment is now locked and loaded

The business is one of the largest private wealth and investment managers in Africa

● The long-awaited milestone of Old Mutual Ltd's (OML) listing on the JSE repositions Old Mutual as a standalone entity firmly embedded in Africa. The listing has increased transparency and focus across the group, highlighting its Wealth and Investments segment as a key area to improve overall competitiveness and raise market share.

The segment, formed in July 2017, comprises four distinct businesses: Old Mutual Wealth, Old Mutual Investment Group, Old Mutual Alternative Investments and Old Mutual Specialised Finance. With assets under management (AUM) of R737bn as at December 31 2017, it is one of the largest private wealth and investment managers in Africa.

"We see enormous growth opportunity ahead for this segment, particularly given our investment performance momentum, leading advice processes, customer friendly investment platforms and a full range of investment solutions," says Dave Macready, MD of Old Mutual Wealth and Investments. "Our growth and market share gains are particularly evident in the retail space, as well as the unlisted alternative investments, multi-asset and fixed-income arenas.

"We have done a lot of work in recent years to build sustainable world-class investment performance. The formation of the Wealth and Investments segment means we now have all the requisite building blocks to be truly competitive within a single business."

The strong growth of the retail market, in particular, has increased the opportunity set for the



Dave Macready: New segment is a growth lever for the newly listed OML

segment. The total market AUM in SA is about R4.4 trillion, almost equally divided between the retail and institutional market. However, the retail market is growing at almost double the rate of the institutional market, with this growth driven and dominated by independent financial advisers.

"Old Mutual's traditional focus in asset management has been predominantly in the institutional space and the retail focus was previously largely through our tied distribution network. We are already a significant player in the industry with unique differentiated capabilities in expected future growth areas, but we have a considerable opportunity to reposition in the retail space," Macready says. "The performance of our retail business through Old Mutual Wealth has improved significantly and is now one of the key providers of choice for independent investment advisers and intermediaries. We have significantly enhanced our service offer-

ing by investing more than R140m in improving both customer and adviser functionality in our local Old Mutual Wealth investment platform, which has significantly boosted our industry rankings in terms of retail flows both into unit trusts and industry platforms. Our current key focus is on upgrading the international platform through Old Mutual International."

He says a further lever for the segment lies within the unlisted investment market. The genesis of a significant life company has given the segment's Old Mutual Alternative Investments (OMAI) business a unique advantage to grow its unlisted investment business and market share, made up of infrastructure and renewable funds, impact funds such as housing and education, as well as private equity, both local and international. These asset classes are increasingly popular as advisers seek diversification and enhanced returns.

"OMAI, as the largest private alternative investment equity man-

ager in Africa with R54bn under management, is well positioned to build Africa's first alternative investments mega-manager."

Through its listed asset management business, Old Mutual Investment Group, the segment is already firmly established in, among others, multi-asset, fixed income, indexation and smart beta, as well as global solutions.

"We have distinct leading industry positions in these investment areas as the largest indexation and smart beta manager in SA with in excess of R80bn under management and a leading and innovative fixed income and credit business through our Futuregrowth boutique, which also plays a critical role in driving responsible investment across the industry," he says.

The Wealth and Investments cluster is a recognised leader when it comes to responsible investment, through its commitment to environmental, social and governance (ESG) principles that provide an important cornerstone for the future. "Such investments ultimately provide more sustainable returns," says Macready.

The segment is making great strides in helping to win the war for talent and is focused on attracting new and strong talent into key areas of the business.

"We are recognised as a great place to work and are proud of the fact that Old Mutual Investment Group recently received the award for the best managed company in the financial services sector, as well as winning the headline award for best managed company of the year at the Top 500 Awards 2018. We are backed by a trusted brand, a significant balance sheet and key distribution strength from the OML Group which are all key attributes for success.

He says the new segment is well positioned as a growth lever for the newly listed OML by winning market share in key market areas. ■

Corporate report compiled by David van Biljon
Advertising executive:
Debbie Montanari