Presentation transcript

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INTERIM RESULTS

Iain Williamson

Good morning, ladies and gentlemen. My name is Iain Williamson. As most of you know, I've recently hosted a number of these results presentations, but this is the first since I was appointed as Group CEO in July.

Before I start, I want to let you know that we heard yesterday of the sudden and unexpected passing of our former Chairman, Mike Levett, who was the architect of our demutualisation. We express our sincere condolences to our family.

Allow me to quickly repeat my thanks to the board and to our stakeholders including many of you taking part today for your support. I've got an exceptionally talented and established executive team at my side and with their ongoing support and that of our board I have no doubt that we will continue to consistently reward your confidence and trust. So thank you again.

The six-month period for which we've gathered– albeit remotely – to discuss today was certainly the most challenging faced by this organisation and is on a scale more severe than the Global Financial Crisis of 2008. We could say we're in the midst of the Great Lockdown Crisis. First up, I'll give you an overview of our delivery against strategy in these six months. Our CFO, Casper Troskie, will then unpack the numbers after which I will provide some concluding remarks and give you a sense of how we intend to move ahead in both the short and longer term. Casper, myself and our senior executives will then be only too happy to answer your questions.

This slide gives you a summary of the strategy we've shared with you in March. At that time I spoke about the five strategic pillars which we were then in the process of finalising. The pillars or building blocks of our refreshed long-term strategy are premised on demonstrating that we care. Old Mutual has an unwavering commitment to sustain, protect and grow the prosperity of its customers and communities. More than ever before this period has tested just how much Old Mutual cared, how engaged our employees were, how good our digital engagement was and whether we were really present in providing solutions that led.

I'm pleased to be able to tell you today that our strategic focus has more than weathered this global crisis. We've remained true to our commitment, to putting our customers first, to growing our digital business and to always finding new ways to do things better. I'm also pleased to report that we remain a strong, well-capitalised group with formidable liquidity and solvency. A group that is well positioned, not only to recover but to accelerate growth and to exploit the opportunities that will emerge as we recover from this crisis.

The first half of 2020 was a period of extreme crisis, a crisis of immense financial, social and human impacts across the globe. What began in China as a health crisis quickly spread to the rest of the world sparking a series of government ordered interventions including lockdowns and limitations on the movement of people and goods. Before I go into how we as a business responded to COVID-19 I must pause to acknowledge the very sad toll it has taken on some of our employees and their loved ones. To date eight of our colleagues have passed away having contracted COVID-19. We remember them with sadness and gratitude.

South Africa has so far borne the brunt of the pandemic with other territories in which we have a presence lagging but all have been impacted to a greater or lesser extent. I don't need to remind any of you how volatile global markets were during the first half of the year. The graph on the left shows the JSE SWIX which despite clawing back most of its COVID induced losses ended the period 8% lower than at the start of the year. Furthermore, credit spreads widen while GDP stalled and then quickly began to contract.

In South Africa and across Africa the pattern which first unfolded in the Northern Hemisphere was repeated. You've already seen the severe impact COVID-19 has had on our sector as reflected in recent trading updates and results announcements. Of course the trajectory of the pandemic remains uncertain and given the heightened forthcoming risk we are taking a scenario based approach which Casper will elaborate on.

We decided to tackle COVID-19 in three distinct stages. The first stage was stabilisation, stabilising our business to deal with the immediate challenges of the disease, to keep delivering exceptional service to our customers, to protect the health and safety of our staff, to support relief efforts in the community and to ensure the continued strength of our solvency and liquidity positions. When it became apparent that COVID-19 was one of the biggest crises in our 175 year history we established a High Level Internal Crisis Committee to protect our people and ensure business continuity. We also focused on enterprise wide risk management and the heightened cyber security threats that we anticipated would emerge. The wellbeing of our people was a non-negotiable and I'm satisfied that we did everything possible to minimise the health risks to the 30,000 people who work for Old Mutual all over Africa.

As early as May we embarked on the second phase of our COVID-19 response, transitioning to mitigate the effect of the pandemic on our results for 2020 and to assure that we sustain our market leading positions. Making sure that we've got the capacity and resources to compete even stronger than before resulted us in incurring short-term costs. Over and above our normal payments of salaries and commissions to our tied advisers we invested R40 million in remuneration underpins to ensure that we retain necessary capacity for the longer-term.

We're in the early stages of the reimagine phase, where we intend to bake into our plans our emerging view of what a new normal would look like and our response to ensure that we optimise the opportunities that this will present. Obvious examples include new ways of working, combining work from anywhere models with collaboration in our traditional office settings as well as a significant acceleration in our digitalisation ambitions.

Our early adoption of cloud based technology systems means that we're already well positioned in this area. We plan to accelerate that leadership based on what we've learnt and what we've achieved under lockdown. Done right digitalisation gives us a tremendous opportunity to meaningfully reward our customers and accelerate productivity gains.

In the short-term we've done everything humanly possible to ensure minimal disruption to our service delivery. Across the group 23,000 of our people were able to effectivity keep working from home. Pandemic lockdown conditions were hardly conducive to launching new products, but we've succeeded in bringing our strategically important new risk product range, Old Mutual Protect to market and to date we've processed some 22,000 applications for it. We focused intently on ensuring tight expense management. We froze new hires and deferred salary increases in the interest of sustainability and anticipated capacity that we would require in the medium-term. We've also begun working to further cost efficiencies and we're committed to delivering a further R750 million like for like savings by the end of 2022.

We demonstrated that Old Mutual really does care by extending free life cover worth R4 billion to 430,000 healthcare workers in South Africa and similar free cover worth Z$2 billion to those in the medical frontline in that country. As well as spending R67 million across our territories on the direct fight against the virus we worked with various likeminded partners to provide infrastructure, equipment and poverty relief. Our liquidity and solvency are major strengths of the group and all important buffers against extreme uncertainty. Despite this given the range of possible scenarios that could unfold in the short-term the board has deemed it advisable to defer a dividend decision to full year results. We will communicate the outcome of this decision in March.

Let's have a brief look in some of the ways in which we've gone to work with multiple stakeholders to use our strength and our footprint to assist our people and our communities across Africa though this crisis.

[Video plays].

We present here our results excluding directly attributable COVID impacts to give investors a better understanding of the underlying performance of our business. Nevertheless, the normalised Results From Operations which you see retain some significant impacts from the pandemic, such as significantly impacted sales volumes, which cannot be sensibly isolated out.

Our overall normal RFO was very similar to that of H1 2019 - the lack of growth is reflecting an ongoing recession on our biggest market, South Africa and very real economic challenges elsewhere. Most segments returned resilient performances under the circumstances and, excluding the direct impacts of COVID, some performed very well. Casper will unpack the line 'Items directly attributable to COVID-19' as well as the 'central expenses' line. I would just like to highlight that the COVID-19 impact is substantially related to provisions that we set aside for experience we anticipate in H2 rather than impacts that have already occurred in H1. They're about looking forward much more than they are about reflecting on our 2020 results to date.

The segment that's been most effected by the state of the economy and by COVID-19 was the Mass and Foundation Cluster where the economic slowdown translated into considerable pressure on customers' ability to pay the service retail loans and to honour premium payments. While we remain confident in the segment's business model it is, as you know, very dependent on gaining worksite access to customers and of course this is particularly impossible in quarter two. The results was a negative Value of New Business in this business unit, reflecting sizable distribution costs, and RFO inevitably suffered under what we hope will be once-in-a-lifetime conditions.

As with MFC Personal Finance and Wealth's restricted adviser access to customers also impacted their results. Despite this Personal Finance RFO held up well. Wealth, which now reports to the head of Personal Finance benefited from a strong performance by Old Mutual International. Should the new business volumes recover, we would expect out VNB margins to normalise across our South African Life business.

A much better normalised underwriting profit was registered by Old Mutual Insure. Underwriting profit benefitted from significantly lower motor accident claims under lockdown. Weighing on Old Mutual Insures' result though were negative outcomes from CGIC relating to the economic cycle.

The Rest of Africa's segment RFO was up 27%, and 23% in constant currency, a solid performance under difficult conditions.

I might also mention here that when physical contact became impossible we developed, tested and deployed new digital tools to further enhance our customers' digital experiences. These included new USSD, WhatsApp, email and Facebook Messenger options most of which would become part and parcel of our invigorated client interface. Our ongoing move to the cloud has started to pay tangible dividends in simplifying processes and improved productivity, as well as in saving costs.

With that let me hand you over to our CFO, Casper Troskie.

Casper Troskie
Thank you, Iain and good morning ladies and gentlemen. I will be focusing on our financial delivery during the first half and will deal with key movements in Adjusted Headline Earnings which were down 67% to R1.7 billion; the direct impacts of COVID-19 on our results which had an impact of R2.8 billion before tax, key movements in our group solvency position which ended the period in a very strong position at 182%; an analysis of the movement in our embedded value which ended the period at R67.8 billion; and the results for our stress tests and key management actions that we are taking.

Iain has taken you through the normalised results of our operating segments of R4.5 billion which was 4% down on the prior period. Net expenses from central functions increased as a result of lower cash balances held in the centre earning less interest partially offset by lower once off costs. The impact of directly attributable COVID-19 items of R2.8 billion was substantial and I will unpack this in detail later. The reduction in the shareholder investment return was due to lower equity markets which were 8% down in the period. Despite fair value losses on our listed equity portfolio we outperformed our benchmark as a result of our protected equity strategy. The value of our unlisted equity portfolio reduced in line with lower markets, partially offset by higher interest earned and a recovery in the investment returns in the rest of Africa.

Finance costs were down due to the redemption of the OMLACSA debt in March 2020 and fair value gains on interest rate swaps due to a reduction in the repo rate. Income from associates was down 75% from R1.4 billion to R364 million. Our joint venture in China contributed R104 million of this decline following lower sales on equity markets in the first quarter despite some recovery in the second quarter.

The rest of the decline of R963 million is due a reduction in Nedbank's' earnings as a result of substantially higher credit impairments and lower non-interest credit revenue earned following a reduction in transactional activity levels. Non-controlling interests were positive due to the minority share of losses in the Old Mutual Finance business.

On this slide we unpack those items directly attributable to COVID-19 which had an impact of R2.8 billion.

The biggest impact of R1.8 billion relates to additional short-term provisions for mortality and persistency where we expect the short-term experience to be worse than our long-term functions in the second half of the year. Our experience variances in the first half were positive with positive mortality and expense variances being partially offset but the negative persistency variances. However, we saw an increase of deaths in June and July resulting in an increase in actual over expected claims. This required additional short-term provisions to ensure IFRS reserves were not understated. The provision assumed elevated mortality experience for three months from July with a tapering off to the year-end.

Business interruption claims in the respect of Old Mutual Insure and business rescue claims in respect of CGIC including IBNRs of R464 million has been provided for.

Unrealised mark to market losses across the investment credit and private equity portfolios which we carry at fair value had an aggregate impact of R696 million. The impact on the credit portfolio is largely due to the widening of credit spreads both in the first and the second quarters. These impacts are expected to reverse as spreads normalise and we remain confident of the quality of our investment credit portfolio.

We have increased our expected credit loss provisions in Old Mutual Finance by R125 million to allow for the deterioration in forward looking economic forecasts.

We have also incurred incremental net expenses of R169 million directly as a result of the pandemic to stabilise and transition Old Mutual out of the crisis. This included IT and data costs in efforts to keep our people and advisers working during lockdown. It also included the costs of implementing COVID-19 safety measures at our offices and branches for the benefit of staff and customers. And we have netted off savings on travel and utilities because of the lockdown.

I will now deal with key items not included in adjusted headline earnings and as set out on page 22 of the results booklet. The investment return on group equity and debt instruments was negative but is required to be eliminated from IFRS perspective resulting in a positive adjustment to Headline and IFRS earnings of R1.3 billion. The impact of restructuring was positive following the resolution of data differences allowing for the release of data provision in Old Mutual International. The results of Zimbabwe of R411 million decreased by 31% from the prior year and was supported mainly by the investment returns from investments held on the Zimbabwe Stock Exchange. This profit was negated by foreign currency translation losses due to the decrease in the Zimbabwe Dollar relative to the Rand.

Residual PLC recorded a profit of R253 million mainly as a result of the tax refund during the period. During the period we impaired goodwill of R1.1 billion in respect of Old Mutual Finance following a reduction in the GDP growth outlook. We have also written down the value of our investment in Nedbank by R8.7 billion. We are required to, in terms of IFRS, to account for Nedbank at the higher of the recoverable value and the fair value. And the recoverable value is based on the discounted value of expected future dividends.

Here we show you how the key movements in our Embedded Value. Whilst new business remained positive, this reduced sharply from the prior period mainly as a result of a reduction in the value of new business in the Mass and Foundation Cluster where sales were materially lower.

Expected profits from our in-force book were R2.9 billion but more importantly experience variances were positive in a period of extreme stress highlighting the robustness of our existing assumptions.

Assumption changes relate mainly to the short-term provisions that I have already taken you through. The economic variances follow from lower than expected investment returns for equities, bonds and cash during the performance of the markets and the reduction in the repo rate by the SARB.

Capital outflows relate mainly to dividends paid to OML to support the group dividend paid in the first half. Our embedded value remains robust at R67.8 billion given the extreme market conditions that we are facing.

We are pleased with the group as well as the OMLACSA solvency positions which remain extremely healthy. Starting with OMLACSA – the reduction in own funds is due to a fall in the Nedbank share price during the period – which reduces the weight of the positive contribution of Nedbank to the OMLACSA ratio. The solvency capital ratio was further impacted by the repayment of subordinated debt of R962 million in the first quarter. OML's ratio has been represented taking into consideration the approval received from the Prudential Authority to bring Nedbank in on an equity holding basis versus the previous Basel 3 basis, as well a number of other refinements. This resulted in a substantial uplift in the ratio from 161% to 189% as of 31 December 2019.

We have applied for the use of the iterative risk margin and the accounting consolidation method. Either of these applications, if approved, will have a further positive impact on our actual ratios and once it is approved, will allow us to update and communicate updated target ranges for OML.

We have performed substantial work to try and understand the impact of the crisis on our impact under a number of different scenarios. These scenarios differ in severity with the L-shaped scenario being the most severe. In the L-shaped scenario we assume, for example: cumulative GDP contraction to 2022 of about 12%; equity market levels remaining below 70% of 2019 levels; significant excess debt as a result of COVID-19; fairly substantial business interruption claims; elevated persistency losses and outflows; and a large operational loss. As set out on the slide our capital position remains resilient under all three scenarios with the capital position ending at the lower end of the optimal range in the L scenario. We are therefore focused on a number of management actions including immediate expense savings, longer-term efficiencies relating to simplification and digitalisation as well as further initiatives to improve balance sheet efficiencies.

I will now hand back to Iain for his concluding remarks.

Iain Williamson
Looking to the future right now is of course clouded by unprecedented uncertainty.

I do believe, however, that we've succeeded in containing the worst fallout from this contagion and that we are adequately prepared for a fairly rapid return to a more normal operating performance. On pandemic related claims I might just mention that our experience points to our COVID-19 funeral claims having peaked in July. Although it may be too early to say that this applied on underwritten business as the claim cycle there tends to lag.

Given the extreme market and economic uncertainty caused by this pandemic, Old Mutual's medium-term targets – which you will know well – are of little relevance to out short-term performance right now. Therefore, we intend replacing several medium-term targets with shorter-term targets. On RFO instead of targeting a GDP plus growth figure we believe that by improving efficiencies through simplifications and digitalisation we can realistically achieve run rate expense savings of R750 million, with a stretch target of R1 billion by 2022. In due course we will give guidance on an RFO range we will be targeting for the full 2020 year. Delivering positive net client cash flows also remains a key focus for us.

Guided by these new short-term targets as a management team we pursue in the second phase of our response to COVID - transitioning our way out of this crisis. In this phase we're concerned with getting adviser productivity back to normalised levels as rapidly as possible. If anything our market leading digitalisation drive has only been boosted by the pandemic and we will continue to forge ahead with this to improve our customer's access and their experiences of Old Mutual. Digitalisation is already translating into simplification and this will be actively pursued in H2 while we focus more acutely on improving efficiencies and driving down costs.

Like almost every other business in the world we haven't been able to maintain anything like business as usual in the past few months. For those businesses like Old Mutual which have proven their resilience during COVID I do not believe there ever can or should be any going back to business as usual. We thank you again for your interest and your virtual attendance today. We look forward to receiving any questions that you may have.

Operator
Thank you. Well, ladies and gentlemen, just a reminder you have a question you're welcome to press star and then one. The first question comes from Michael Christelis of UBS.

Michael Christelis
Hi, guys. Can you hear me?

Iain Williamson

We can, Mike.

Michael Christelis
Hi, guys. Thanks for the time and for the presentation. Three questions, if I can. You've mentioned a few times that you've got what you think are market-leading digital capabilities. I mean, I wonder if you can maybe just elaborate on, you know, maybe give us a few examples or just what gives you confidence that you are actually market leading relative to some of our peers on your digital capabilities. So that's the first question.

Secondly, you talk about a R750 million cost-saving target. What is that as a percentage of your forecast costs for 2022? I'm trying to understand to what degree you're expecting to cut costs and if that is fairly represented across the businesses? Is it more towards the life cover businesses or some of the other areas of the business? Maybe if you can give us a bit more colour there.

Then lastly just on the COVID provision, just to make it clear, it sounds like you've only provided for a worsening experience this year. Am I right in saying that you haven't allowed for firstly, a second wave of the virus, and that you haven't planned for anything beyond December? So what you're implying here is that by December we should go back to normal from a mortality and persistency perspective. I just want to make sure I understand how exactly you calculated your provision. Thank you.

Iain Williamson
Thanks, Michael. Heloise, if you could maybe tackle the digitalisation question.

Heloise van der Mescht
Good morning. Can everybody hear me?

Michael Christelis
I can hear.

Heloise van der Mescht
So we have been on a journey for the last two years where we have invested quite heavily on our technology infrastructure in renewing our business and thereby it was just at the right time for us when the COVID-19 happened that we were more than ready to take up some of these challenges. We have changed and actually put in a new system which is my My Old Mutual which is our new website. We've enabled our customers to do business now through USSD, WhatsApp and we're actually growing that particular platform quite aggressively.

We've done extensive work on data lakes and data platforms and all of the work we've been doing the last 18 months is now delivering those capabilities to us and we have quite an extensive program for the rest of the two to three years. Just answering also the question on the work that we're doing on the savings, as we're using new technologies we are digitizing our business completely whereby customers and advisers can actually do their services digitally and that will enable us then to reduce the cost of our businesses via the digitisation. And we've done extensive work on robotics and AI and all of these things allow us, and I wouldn't call it cost cutting, I would call it a better price point, but actually a better customer and individual experience using these technologies aggressively.

Iain Williamson
So thanks, Heloise. Maybe Michael, if I can build on that as well, the Old Mutual Protect proposition that we've rolled out has also got both an adviser set of tools attached to it, which effectively enables straight-through processing of the vast majority of our risk business, which is something else that most of our competitors can't emulate at this stage. Casper, do you want to talk to the provisions question?

Casper Troskie
The provisions or the cost savings, Iain?

Iain Williamson
I think, well, Michael asked both, so by all means both.

Casper Troskie
Okay, I'll do that. Michael, so yes. We firstly were comfortable with the level of our reserving in any event and as you can see in the experience variances we were generating positive experience variances pre any of these assumptions and so we have to state that we are starting from a comfortable position. We have made it very explicit that the extra provisions that we've raised are intended to cover variances in the second half. But we believe that those have been set at a fairly prudent level and if we do then see elevated deaths or continued persistency going into 2021 or 2022 we'd have to look at it at that point, but we'd have to look at it relative to the experience we've seen on the rest of the book which, as I said, has been fairly positive.

On expenses, and this is just a back of a cigarette box calculation, the equate to 3% - 4% of the cost base and you'll note that Iain mentioned like-for-like, so that would exclude any acquisitions or changes we make to the business that's like for like on the current base.

Michael Christelis
Great. Thanks very much, guys.

Iain Williamson
And I think also, Michael, just to maybe go into one more aspect of your question on that one, we would expect to see savings coming from effectively a spread of all our businesses. It's not necessarily focused in one particular business unit.

Michael Christelis
Great. Thank you.

Operator
The next question comes from Warwick Bam of Avior Capital Markets.

Warwick Bam
Hi, Iain and Casper. Thanks very much for the presentation. Three questions from my side. First, can you isolate the lost income from premium relief in the first half and can you give us what your expectation is for the second half and I'm assuming you've included an expectation in that COVID provision. And then in your COVID provision can you just split out persistency versus mortality and morbidity losses for H2 or negative experience variances And then my last question in terms of the quantum of COVID-19 restructured debt in MFC, what is the quantum and how have you treated those restructured loans from an accounting perspective? Are they sitting in default or current? Thanks.

Iain Williamson
Casper, would you like to lead again and perhaps pull in any other members of your team?

Casper Troskie
Is Nico on the line? Not? Okay, then I'll, if you'll just give me a second I'll try and get that detail for you. Maybe ask another question, Iain.

Iain Williamson
Operator, while Casper is checking for that detail we could perhaps check for the next question.

Operator
Thank you. Warwick, you're welcome to press star and then one again to come back into the queue.

Ladies and gentlemen, just a reminder for the participants online, you're welcome to press star then one to place yourself in the question queue. The next question comes from Francois du Toit of Renaissance Capital.

Francois du Toit
Hi, guys. Just want to check, can you hear me?

Iain Williamson
Yes, we can hear you.

Francois du Toit
Okay, excellent. Thank you. Just first question, can you give a sense of what your normal level of new business trade is? The reason I'm asking is because I think you have changed the definition of new business costs a bit in this period and also it did increase quite a bit in thesecond half of last year. So should we expect it should go back in the second half to second half last year level in the life business? Obviously it's been very elevated in this time because of the ability to spread those new business costs. Then the second question relates to the positive experience variances which added around R500 million to earnings in this half year in the Life business. Obviously a little bit unexpected given that mortality contributed in all of the South African businesses to positive variances as well. Can you explain that, maybe, because I don't think you've had this level of positive variances in the recent past and can you ascribe to lockdown accidental death savings? I know the Medical Research Council has shown that there's been lower total deaths in South Africa up to about 15th of June and I would suggest that you've benefited in the period from that as well. And also related to the positive experience variances, expense variances in the life business was about twice as positive as it's been in the last few half years. Can we expect that to recur going forward? In other words, can we start accounting for the level of positive earnings contribution that we've seen in the last year or in this half year then? Also, in terms of the short-term insurance business, if you can maybe give us a sense of how much of the good motor insurance experience do you expect to recur as people continue to work from home and utilise motor vehicles less, so we could expect similarly strong numbers second half of this year as well, for example, and what has your recent experience been in that regard?

Iain Williamson
Okay. Thanks, Francois. Maybe I'll start with a brief introductory comment on the mortality variances, then ask Garth to talk to the motor book and then we can go back to Casper for the rest of your question as well as Warwick's earlier question. On the mortality side we certainly did see a reduction during particularly the level five lockdown in April of let's call it the unnatural causes of death aspects, which would have contributed a portion of the mortality variance. Effectively the pattern was that we had a significantly positive experience roughly up until the middle of June and then a fairly material spike in claims from that point onward. It's pretty much the picture on the mortality side. On expenses I think the positive experience variance is something that I think we have done a lot of work on and I would think that given the focus and the discipline continuing around expenses as we've indicated one would expect to hopefully maintain that kind of a position. Garth, you want to perhaps chip in on the motor book before we go back to Casper?

Iain Williamson
Garth, you there? Possibly not. Okay, if we're not able to raise Garth then I'll deal with that question in a while. I think, Francois, what we have seen is that the claim rates on motor in particular, but also on things like household break-in related issues and that kind of thing, had a significant reduction,

but it correlated almost totally to the level of lockdown. So at level five they were at their lowest, at level four there was a bit more, at level three a bit more, etc. So I would expect that most of that experience will normalise, if you like, to pre-crisis levels if we get back to a level one kind of scenario where the economy is operating again.

To the extent that there's a change in consumer behaviour I guess that will come through, but I wouldn't think that one would predict that this necessarily is the most likely outcome. It's a possibility.

Oh, Garth is indicating he's on, but we can't hear him. Garth, do you want to try again and see if you've got anything to add to that answer? Okay, we're having problems with Garth's sound. Casper, can I go back to you for the earlier question and the balance of the question from Francois now?

Casper Troskie
So Francois, just remind me if I've left something out. So if we just look at the makeup of the additional short-term provisions. Most of that relates to mortality, a little bit is on morbidity and some additional provisions for persistency in the second half, but the bulk of that was for mortality. In Mass and Foundation Cluster the bulk of the additional provisions relate to mortality only and then the corporate segment we have raised additional mortality for the expected increase in deaths in the second half. And then we've raised an additional amount for retrenchments in the second half. And then there were some small persistency adjustments in the Rest of Africa, which gets you to the total provision of R1.36 million. We also have made some adjustments for the second half where we expect some impacts on growth, from a persistency perspective. Those weren't made in IFRS, because we feel that with the IFRS provisions that we've already raised and we're sufficiently reserved at 30 June. So I hope that answers your question.

Operator
Francois, does that conclude your questions?

Francois du Toit
Yes, just on the new business strain if you can give us a sense of how elevated it was in this half year relative to normal levels. Should I use second half of last year's level as a normal level, and sorry, how fast do you think you can return new business strain to normalised levels, because I guess your fixed cost still remains relatively high and activities low in new business productions?

Casper Troskie
So Iain, I don't, maybe Clarence and Kerrin should give a respective view of their businesses.

Iain Williamson
Clarence, would you like to?

Clarence Nethengwe
Can you hear me, Iain?

Iain Williamson
Very well. Thanks.

Clarence Nethengwe
So I would not use the second half of 2019 as the guidance of what is likely to happen in the second half of 2020, for a number of reasons. First of all, the likelihood of return to normal in H2 of 2020 it's almost highly unlikely. I always use Old Mutual as sort of a yardstick to measure what is the likelihood of economic recovery. Worksites are opening up for our financial advisers to engage with customers. Currently as we speak less than 10% of Old Mutual employees are back at work and Old

Mutual is one of our biggest worksites. So if only 10% of the people are available to engage with customer that tells you what the likelihood of new business volumes picking up.

In the public sector you do have quite a lot of worksites opening up, but there's always this myth that has been built around the business, that the bulk of its customers are in the public sector, which is wrong, because the bulk of its customers happens to be in the private sectors. And in private sectors that where we're experiencing a lot of difficulty in terms of getting into worksites and engaging customers. As Iain has indicated earlier on, we have seen a pick up up to 60, 70% of activity in the worksites, but I don't expect that to be back to 100% by year-end. But we're planning to just keep pushing very hard using different ways of engaging with customers, either in their homes, virtually and in different ways, but I don't see reaching the same levels as H2 of 2019.

Francois du Toit
Thank you.

Iain Williamson
Thanks, Clarence. Kerrin, would you like to comment on the PF aspect?

Kerrin Land
Thanks, Iain. Can you hear me?

Iain Williamson
Very well.

Kerrin Land
Okay. So from a PF perspective I think you can take the second half of 2019 as a normalised level, but aligned with Clarence I would not expect us to get back there in the second half of this year. I do think barring a sustained and severe second wave we could hope to get back there in 2021. I think if we look at the business issued and the business volumes from a PF perspective we are more able given we're not worksite dependent to write business. So we saw quite depressed levels in sort of H1, but as lockdowns have eased we are gradually getting back to more normal levels and our recent experience sort of edging towards the 80% of normal level mark.

Francois du Toit
Thank you.

Iain Williamson
Thanks, Kerrin.

Operator
We've been re-joined by Warwick Bam of Avior Capital Markets.

Warwick Bam
Thanks for sticking it back to me. Just another question around the middle manager function and the potential profit and loss from the OML management and liquidity ratios, if you could give us a perspective or give us what the profit or loss was in H1 and whether you are experiencing or anticipating any specific risks within that middle manager function and I would have expected maybe some liquidity risks or strains just from the fact that you're seeing lower dividend declarations as well as reduced rental income. How's that impacting your ability to manage the guaranteed book? Thanks.

Casper Troskie
So if you look at the segmentals, you'll be able to see the net impacts of the three-manager model in the financials. You will see that it's a small negative in the current year. The reasons for the

negative are that we had to pick up the mark to market adjustments on some of the assets, so we call it the wedge that were transferred from PF to the middle manager. It's obviously intentioned for us to move those across the asset managers in the future. So there is a small negative M2M in the middle manager that you'll see in this set of results and hopefully going forward once we've moved all those assets across we won't see anything further.

That would have happened whether it was sitting in the wedge or not. The second piece relates to the net result of all the asset liability management activities in the period. That was a small net positive and we are trying to manage that position to zero. Any positive results that comes through our transfer pricing processes we are giving that back to the segment. We're not running middle manager as a profit centre, but as I said a very small positive on the hedging activity and then we have the R125 million mark-to- market loss that came through other group activities and that's sitting in that number that you'll see in the net expenses line. So hopefully that answers Warwick.

Warwick Bam
Thanks, Casper.

Iain Williamson
Thanks, Casper.

Operator
Gents, we have been joined by Garth.

Iain Williamson
Thank you. Garth, do you want to add anything to what I said earlier about the motor book?

Garth Napier
Hi, Iain. Thanks for the question. Sorry you couldn't hear me earlier. In terms of motor claims we're currently sitting at about 70% of where we were last year this time. So our view for the second half of the year is we don't think it will be as much of a benefit as we got through in level five lockdown, but we do think there will be a bit of upside at current levels. Non-motor claims are back to where they were prior to lockdown and on par with last year. So we're not seeing a significant benefit on the non-motor side, but we do think there will be some benefit for the remainder of the year on the motor side, but a lot lower than we experienced in the first half of the year. Iain, I'm not sure if that addresses the question asked.

Iain Williamson
Thanks, Garth. Any other questions on the phone line or shall we move over to the webcast?

Operator
There are no further questions on the line, sir. We can move over to the webcast for questions. Thank you.

Operator
The first question is from Richard Hasson and I think this is directed to you, Casper. He's asking you to please explain the difference between embedded value of R67.8 billion and the group equity value of R97.9.

Casper Troskie
The simple way to explain that is the embedded value of R67 billion effectively includes the results of our insurance businesses, so the covered business. So that's the full EV, so it includes all the future profits from the contracts that we've written. So the difference would then be the valuation of all the other investments we hold, like Nedbank, the asset management businesses, the banking

businesses that you need to add to that embedded value to get to the actual group equity value. So that part only really covers your covered business. I hope that explains, and there should be a reconciliation in the pack which can show you exactly how that is made up.

Operator
Thanks, Casper. The next one is from Larissa van Deventer from Barclays. She says you mention that you expect the group's capital position to remain resilient. Could you please elaborate on the nature, timing and potential impact of management actions that you are planning?

Casper Troskie
In the actual scenario testing that we've done we have included expense management actions. We have limited our ability to raise additional capital it's all about optimising the balance sheet as far as we can and then it's about playing through the actual, the dividend earnings policy through the actual profit that is generated in each of those scenarios. Those are the biggest impacts on our scenario testing.

Operator
Perfect. And then the next two questions I'm going to address to Garth. They're on Old Mutual Insure. The first is from Greg Wood from Standard Bank. He says please could you explain the move from profit of R505 million at the gross underwriting result to a loss of R52 million at net underwriting result in the speciality division in Insure, and then the next one is from Royce Long at Obsidian Capital and he asks what is the position regarding reinsurance for COVID business disruption claims within Insure? Also, can you contextualise the unrealised loss, sorry, that would back to you, Casper, the unrealised of R698m of the underlying unlisted equity and credit portfolio?

Garth Napier
Okay. So I think the first one, the specialty, the reason for the difference between the gross result and the net result is that this year we didn't have any massive large claims and as a result our reinsurance was at cost. We didn't have any claims against our reinsurance contracts and that's the reason for a pretty decent gross result, but unfortunately a disappointing net result there. So it's really lower large claims against our reinsurance treaties. That's the reason.

We do take a sizeable amount of facultative reinsurance to manage our risks and when you don't make claims against it obviously you can see the payment of the premiums but no recoveries against that. So that's the main reason there. In terms of our reinsurance for BI claims, we have two sets of reinsurance policies that would kick in. The first is our normal reinsurance quota share agreements against each of the different individual policies and then over and above that we have an excess of loss for catastrophe cover, which COVID would qualify as a catastrophe. We would be accountable for the first R75 million of claims against that and then we have cover up to about R4.5 billion over and above the R75 million, so quite a significant amount of cover in place against the COVID or BI claims.

Casper Troskie
Okay. Thanks, Garth. So in terms of the mark to market on our investment credit portfolio, just to remind everyone that insurers account for those credit assets at fair value. So when credit spreads blow out like they have in the six months we have to fair value those credit spreads into those assets. So you have a reduction in the credit assets, but then you earn higher yields on that credit asset going forward. Because we see it as a high quality diversified credit portfolio, as credit spreads normalise and if you look at the past it takes some time for them to normalise, we should get back the value of that credit spread and if we hold them to maturity we will get back the full value. So that's why I made the comment that I made, and we review the quality of our credit book and we're comfortable with how that's performing at this point in time. Hopefully that answers the question.

Iain Williamson
Thanks, Casper. Can I check probably last questions on the webcast, I think we're running up against time constraints, so just check if we've got a last round of questions perhaps?

Operator
Sure. I'll shoot the next through to Casper. The first one is from Johnny Lombridis and he's asking why Old Mutual doesn't simply carry Nedbank at book value in the balance sheet and at market value in group EV? He thinks that the current methodology is confusing. Then we've got one from Sean Lewis who asks about how big IFRS 17 is on our radar and if there's any information that you can give there. And then lastly there's a question here from Jovan, and he's saying Casper mentioned that debt relaxation by OMLACSA impacting on interest costs for OML, with shareholder investment return at R680 million, he just wants to know about the shareholder tax number and the rationale for the higher debt and increasing debt with higher credit spreads notwithstanding. That's it. Thank you.

Casper Troskie
Okay, I'll try, so let's start with Johnny's question. So we are required to value, we don't have a choice, we are required to value Nedbank at the higher of recoverable value and fair value. Our assessments of Nedbank's value is based on the dividends that we receive over time discounted back. We've done a fairly conservative calculation and that's our value that we've put in as the recoverable value. We believe that's a much better assessment of the value of Nedbank to us as a strategic investment.

What we have done given concerns raised by those shareholders is we've made sure that we disclose both amounts so that investors can make adjustments they need to make if they need to, but we're very comfortable with the business value that we've placed on Nedbank. In terms of OMLACSA we've repaid debt. So we've repaid debt and it's part of our subordinated debt program, so we've just repaid that in line with the redemption date of that debt and that's caused us not to pay further interest on that portion that was repaid. I hope I answered the question correctly.

Operator
That's perfect, Casper.

Casper Troskie
Sorry, just remind me of the other question.

Iain Williamson
Yes. How large is IFRS 17 looming on our radar?

Casper Troskie
On IFRS 17 we have a project team that's running that. We're very pleased with the work we've done and where we are. We are starting to run some of the parallel runs on that in the latter part of the year. We've done a lot of work on the choices and presented that to our auditory board. We obviously haven't finalised all of those, but we're well on track to delivering on implementing IFRS 17 in accordance with the timeline, but I think we've got a very strong understanding of what each of the options you choose could have on either our balance sheet or our earnings profile.

Iain Williamson
Thanks, Casper. Ladies and gentlemen, I think that concludes our presentation and broadcast for today. Thank you very much for your attendance and for your engagement in the questions. I look forward to meeting many of you in subsequent meetings in the coming week or so. Thanks very much.

END OF TRANSCRIPT