

Presentation transcript

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ANNUAL RESULTS

Bonga Mriga

Good day, everyone, and welcome to Old Mutual Limited 2022 annual results. We are live from Sandton in our offices in a warm Johannesburg, and I'd like to welcome those who are on the webcast, those who are in the room, together with those who have joined us on the conference call. And I'd like to say to those who are on the webcast to please continue queuing up their questions as the presentation is ongoing. For those who are on the conference line, you will be provided with instructions on how to queue up your questions for us to take once we are done with the presentation.

Moving now on to our agenda. We have Iain Williamson, our Chief Executive Officer, who will take you through the strategic review. This will be followed by the financial review which Casper Troskie, our Chief Financial Officer, will cover. Iain will return to provide you with his thoughts on what to look ahead to in 2023 and beyond. We will then conclude with Iain and Casper responding to any questions which you may have. And they will be ably assisted by our executive committee which is in the room. And with that I'd like to hand over to you, Iain.

Iain Williamson

Thanks, Bongo. And let me add a word of welcome to everyone who's joined us here this morning and online. It's a real pleasure and a privilege to be talking to you and summarising a really great set of results delivered in a very tough operating environment over 2022. Starting then with our financial highlights for the year, life APE sales were up 10% driven by strong sales momentum from our retail businesses. Gross written premiums on the short term insurance side were up 12% driven by strong growth from the Africa Regions business and a steady performance from Old Mutual Insure. Our value of new business margin remains well within our target range at 2.2%, with the Rand value of new business up 16% to R1.5 billion.

Our business remains well capitalised with our group solvency ratio coming in at 190%. Funds under management declined by 4% driven by flat markets and by net client cash outflows primarily from institutional counterparties seeking liquidity in their treasury operations, and that obviously being in cash management mandates. Results from operations is up meaningfully, 99% up year on year, driven by strong performance from our core business and the easing of previously severe COVID-19 mortality experience. This has assisted in driving our return on net asset value up to 11.1%. And that's up 240 basis points year on year on a consistent basis.

We have declared a final dividend per share of 51 cents, taking the full dividend for year to 76 cents. And that's up to 13% on 2021 if you strip out the impact of the Nedbank stake that we distributed in November last year. Casper will provide further details on these and other group KPIs later this morning.

These robust results were achieved on the back of our strategic framework or our north star. You will remember that in 2019, we introduced our victory condition of becoming our customers' first choice to sustain, grow and protect their prosperity. And we use our value drivers to create a link between the strategic actions that we take and the value creation impact for shareholders.

Over the past year, we've continued to shift our focus towards amplifying growth in the business while we deliver against this victory condition. We've made steady progress on both growing and protecting our core business, as well as on unlocking new growth engines as we work towards responsibly building the most valuable businesses in our industry.

In growing and protecting the core, we've provided our updates to investors in a consistent framework for the last few reporting periods, and I'm going to continue to use the same framework. In changing the trajectory of our customer experience, we continue to invest heavily into our servicing capability and into underlying infrastructure underpinning the efficiency of our processes and operations. We've seen Net Promoter Score move up from 62% in 2020 to 68% in 2022. And we've continued to focus on turnaround times at those key moments of truth for customers, with funeral claims paid in four hours or less moving up from 80% of the total in 2020 to 88% in 2022.

We've been building an entirely new financial services business for a few years now. We introduced the Old Mutual Protect product range in 2020, replacing our flagship Greenlight risk product. And our Old Mutual rewards programme has grown from 830,000 members in 2020 to 1.8 million members at the end of 2022. And importantly, the membership has higher needs met with us and better policy persistency than non-members.

We promised you that we would deliver R750 million in cost efficiencies by the end of 2022. And we've exceeded this target, achieving savings of R942 million on a sustainable basis from our core South African insurance and savings businesses, including Old Mutual Insure. In regaining our competitive advantage in our Mass & Foundation cluster, external surveys indicate that MFC has grown sales at 24%, above the market average of 5% as per the latest NMG survey available to us.

We've continued to re-energise both customer and advisor experience in Personal Finance and Wealth. Our registered financial advisor distribution footprint has grown 60% from 2019 to 2022. And activity levels in our tied advisor channel in PFA have grown by 22% between 2019 and 2022. In the risk market, we've grown our market share from 9.2% at the end of quarter three 2021 to 11.4% a year later at the end of quarter three 2022. We continue to see sustained improved investment performance in Old Mutual Investments, with funds above benchmark over a three year measurement period up to 75% in 2022 from 31% in 2020.

And finally, we continue on the journey of embedding digitalisation more firmly in our business operations. I'm pleased to announce that this last weekend, we concluded the final migration of our South African IT estate to the cloud and that job is now 100% complete. We continuing to entrench digital processes in the customer

usage of our digital channels. It has grown by around 30% year on year. So, I hope you'll agree that we have delivered on our commitment to strengthen the foundations of our core business.

Moving then to our new growth engines, we're well underway with laying the foundations for these to add additive growth to the group's financial outcomes. We told you in November that we received a Section 13 approval from the prudential authority to lodge an application for the registration of the bank. We are currently close to being ready to lodge our Section 16 application, which is the next step in the regulatory process towards securing a full banking licence. This is a natural progression in our core strategy of providing a holistic set of integrated financial services to sustain customers' prosperity.

Whilst the SA banking environment is congested, that does not mean in our view that it is fully competitive in the context of a new digital era. There are now opportunities to materially impact cost to income ratios, customer perceptions, customer experience, and provide a more holistic value proposition to our customers. The build of the infrastructure to support the bank is on track to launch in the second half of 2024, as previously communicated, and the approximately R1 billion spent to date is in budget in the context of the R1.75 billion we have budgeted to get to launch.

Moving then to our geographies to the north of us, outside of South Africa. The pivot to corporate business in East and West Africa has been well executed with progress on the corporate sales mix in both regions. Our control improvement programme in East Africa is now substantially complete, resulting in greatly improved predictability of results from that region. And finally, our life APE sales in China continue to grow rapidly and we're 84% up in 2022 on the prior year.

We continue to invest for tomorrow's success through Next176. And our innovation portfolio is showing strong traction with a few key lead indicators. In our digital wills business, completed wills grew tenfold year on year from 800 to 9,500. And in Oyster, which is our early childhood development centre tool set, we've seen membership, in other words the actual centres themselves who have signed up to use the tools, grow from 300 to 1,080. These are just a few of the areas we have started to unlock, and that are already showing great promise. I'm confident we've lived strong foundations in this portfolio, and that these initiatives will continue to enhance our position as our customers' first choice.

Responsibly building the most valuable businesses in our industry is absolutely core to who Old Mutual is and who we are. We look forward to releasing our 2022 sustainability and climate reports during April. But for now, just like to pick out a few highlights from our 2022 initiatives. As a responsible steward of customers' assets Old Mutual Investment Group proactively engages company boards, market regulators and stakeholder organisations on material ESG issues. We have R146 billion of funds under management invested into the green economy. And we continue to model active stewardship, with our investment teams having voted on over 960,000 shareholder resolutions that supported positive ESG outcomes.

Old Mutual promotes financial inclusion, and we do this through financial education and support to entrepreneurs. We empower individuals with knowledge and skills to make informed decisions about their

finances. By financially including vulnerable groups, we aim to reduce poverty and inequality and to produce services which support economic growth and stability. During last year, an absolute highlight in this area was our successfully completed Bula Tsela transformation transaction which completed in November.

We are the first insurer to directly issue to the black South African public and the first company in South Africa to include lower income earners via our retail scheme. Over 205 million new Old Mutual shares were issued, and the retail offer was oversubscribed, having received 38,000 applications. Bula Tsela was nominated for the BEE Deal of the Year at the 2022 Exxaro Dealmakers Awards. And that followed the earlier completion of the transaction to sell a minority stake in Future Growth Asset Management to the African Women Chartered Accountants Association. Diversity and inclusion are important to us, and we have great representation of both women and black people in our senior management teams at Old Mutual.

Now that we've gone through the strategy, and our delivery against our commitment, I'd like to take you through the operating environment in which these results were delivered. I don't think anyone needs reminding that it has been extremely tough out there. We've seen a mild easing of economic pressure towards the end of last year. But with the advent of additional loadshedding at the beginning of 2023, I think that this has been a temporary relief. Headline inflation peaked in the middle of 2022 and started to come back down, but food inflation remains elevated across markets and particularly in South Africa.

Headline CPI across all the markets on the African continent has resulted in affordability being under pressure with higher living costs and higher unemployment. As a result, persistency in our book continues to come under pressure. And while we've seen recent improvements in this area, it remains an area of concern which we are closely monitoring and managing.

According to the Reserve Bank, South Africa's electricity crisis costs the economy as much as R900 million a day, and the intense nature of higher stage power outages were a major reason behind the economy shrinking worse than expected 1.3% in quarter four. As a business firmly committed to helping South Africa and its citizens secure their financial futures, we are extremely concerned about the impact that load shedding is having on lives and livelihoods. And we will continue to support all moves to find and build alternative energy solutions that ensure long term energy sustainability.

Addressing crime and corruption is essential to rebuilding government institutions such as Eskom and indeed Transnet. As one of the largest green investors on the continent, we look forward to being key partners in more investable alternative projects to secure SA's future energy and logistics needs and create mutually beneficial outcomes for all of our people. Markets during 2022 were both volatile and unpredictable. The equity market closed flat in South Africa following a period of volatility, with bond markets being under pressure due to rising interest rates.

I'm now going to move on to discuss highlights from the performance of each of our major business segments. In the Mass & Foundation cluster, our distribution diversification strategy is paying handsome dividends. Our foundation market channels delivered growth in non-advice risk sales of 124% year on year, and our Old Mutual

Protect underwritten life APE sales grew by 92% off a low base, remembering that in this business, we have previously focused predominantly on non-underwritten sales.

We have bought out our minority shareholder in Old Mutual Finance and now own 100% of that business. And we have also announced the acquisition of a strategic equity stake in the Two Mountains group. This remains subject to regulatory approvals but gives us access to a micro insurance licence and to alternative distribution through the funeral value chain. We've seen continued sales momentum in the cluster with life APE sales up 21% and now comfortably above 2019 levels. Our value of new business is up 48% and our VNB margins of 7.6% are right in the middle of our target range.

Net Client Cash Flow was up by 13% and having maintained a conservative lending approach in this macroeconomic environment, our loan book was up by a more modest 5%. Both our credit loss ratios and debt lending margins are starting to normalise towards our target ranges. Overall, I'm delighted with the performance of the Mass & Foundation cluster business. I believe we have demonstrated outstanding resilience to regain our number one position.

In Personal Finance and Wealth, we have maintained competitiveness and market share in an extremely tough environment. We've had a focus on growing our registered financial advisor footprint, and this is up 60% over the last three years. We've seen good progress and expanding our genuine high net worth business within the Wealth segment and on building out further proposition enhancements for more holistic and integrated experience for both customers and intermediaries.

We've seen a significant recovery in profitability on the back of resilient life sales, and particularly with improved volumes and mix in H2 resulting in an improved value of new business for the year. The management team have delivered disciplined cost management in a constrained environment. I'm really proud of the team and how they've managed to deliver a strong turnaround in the face of extremely challenging market circumstances.

Turning to the Investment Group, underpinning the strength of this business is the increasing diversity of our investment platform. And this has allowed us to grow revenue despite poor or volatile market conditions. We've repurposed what was historically our shareholder credit capabilities to enable us to compete more broadly in the institutional market. And the completion of the African Women Chartered Accountants Future Growth BEE transaction and the closing of Bula Tsela moves the ownership of both Old Mutual Investment Group and Future Growth closer towards 50%. And in fact, we heard earlier today from our verification agencies that Future Growth is now over 50%. So, that's great news.

This business has had strong core growth with annuity revenue up 7% in a flat market. But what was really outstanding was the excellent non-annuity revenue growth of R515 million coupled with a record R17.4 billion of capital raised in the Alternatives business in the form of client commitments to new closed in funds. The commitment and catch up fees from the capital raisings far outweigh any loss of fees from our net line cash outflows, thus supporting the strong revenue growth in the business.

Assets under management as I said earlier, were down 4% due to the lower market levels, as well as the low margin outflows. Our investment business continues to deliver outstanding results in volatile global markets. We continue to back our investment philosophy and believe that we have the systems and processes in place to continue to achieve and sustain top tier investment performance.

In Old Mutual Corporate, we continue to have the privilege of having a set of market-leading propositions. Group assurance remains a leading proposition in the group risk area. SuperFund has retained its number one position in the umbrella fund market in South Africa. And we have expanded out our holistic SME proposition through the SMEgo Digital platform and have added the SME funding proposition through the acquisition of a minority stake in Preference Capital in November.

We've seen an excellent recovery in the core profits of this business, with strong growth in group assurance, new business sales and profitability. Pre-retirement sales and annuity sales have however been lower, driving lower life APE sales, with a value of new business benefiting from the favourable product mix. Our deal pipeline remains extremely strong, and we have a secured yet to flow pipeline, which is where clients have signed a mandate, but the funds have not flowed for regulatory reasons. That pipeline is valued at over R6 billion. So overall, we've seen a strong recovery and underlying profitability as we've retained our market leading position while continuing to grow our core value proposition.

Turning to Old Mutual Insure, we've seen strong top line growth particularly from CGIC, which is the trade credit insurer, iWYZE, and the specialty division. CGIC and iWYZE delivered strong underwriting results, but net underwriting margins overall were under pressure due mainly to the floods in KZN which had a gross impact of R1.4 billion and a net impact of R87 million on our underwriting result. We've seen increased weather related claims from elsewhere in the country and significant inflation pressure particularly on motor car parts. So, the net underwriting margin ultimately at 3.1% remains below target, but we are still committed to our 4% to 6% long term target through the cycle.

We continue to make progress with consolidation following earlier acquisitions of One Financial Services, Versma and Primak. We continue to grow our partnership in the insurtech space with Pineapple. And we closed the acquisition of 100% of Genric in early 2023. Looking forward our focus will now be on integration and on realising synergies in this business, and on managing the impact of the significantly hardening cycle in reinsurance renewals. Our short term business has shown resilience, delivering a profitable outcome in an incredibly tough environment. Despite the now reducing trajectory of inflation, input costs remain elevated, and we expect short term pressure to remain particularly given the elevated costs of reinsurance.

And finally, turning to Old Mutual Africa Regions. The team have delivered a significant turnaround in this business in 2022. The strategic pivot to corporate has paid off handsomely as life profits have improved in both East and West Africa. We progressed the turnaround of our loss making businesses and 80% of the businesses in this portfolio are now profitable. We've rebranded both our Kenyan and Rwandan businesses to Old Mutual to entrench our presence in those markets. And we've seen an improvement in net underwriting margins despite both motor and health plans remaining under some pressure.

Top line growth has been strong across both the life and Property and Casualty businesses with the value of new business stable year on year, gross flows up by 26%, and this has contributed to a 5% increase in funds under management. Like in South Africa, we've taken a cautious approach to lending, resulting in an improved net lending margin, but a muted growth in the book. The excellent sales and profitability performance is evidence of the strong progress we've made across this portfolio. And particularly pleasing is the turnaround in profitability across all three of the regions, SADC, East Africa and West Africa, delivering on the commitments we've made to investors. I'm now going to pause there and hand over to Casper to take you through the details of the financial result, and then I'll come back at the end to summarise. Casper, over to you.

Casper Troskie

Thanks, Iain, and good morning, all. It is pleasing to see that some of the key management actions that we have taken in the last few years are starting to bear fruit despite the very difficult economic backdrop. Post unbundling of our strategic investment in Nedbank, we have continued to see positive momentum in our core operations, with key metrics relating to earnings and capital improving, while some value metrics are impacted by lower market returns and economic pressures. Overall, we were pleased with the recovering results from operations of R8.7 billion on the back of strong sales and core operational performance across the group.

Adjusted headline earnings grew 34% excluding the earnings from the distributed stake in Nedbank from last year's base, supported by growth from our core businesses. Cash generated was strong at 170% of adjusted headline earnings, underpinning the robust nature of this result. Despite weaker market returns, our return on net asset value improved to 11.1%. A final dividend of 51 cents per share was declared, bringing the total dividend for the year to 76 cents. Adjusting for the impact of Nedbank in 2021, dividend growth was 13%. And I'll take you through a bit more detail later.

The value of new business was up 16% and the value of new business margin increased to 2.2%, well within our target range. Whilst group equity value decreased by 3%, we achieved a return on group equity value of 4% adjusting for dividends paid, as well as economic variances. Our results from operations almost doubled to R8.7 billion. Our life profits benefited from increased sales, lower mortality in the current year as the effects of COVID-19 eased, and the release of all remaining COVID provisions on the back of improved COVID experience. This was offset by the strengthening of our mortality basis to allow for endemic COVID-19 claims and increased provisions for worsening persistency. The release of excess discretionary margins and a refinement to methodologies also resulted in a positive impact of R1.3 billion.

Life profits in the Mass & Foundation cluster were up 23%. Despite this, results from operations reduced 11%, largely due to lower profits from the banking and lending business. And as you remember from last year, 2021 included a large once-off provision release on the back of a declining loan book. Personal Finance and Wealth Management recovered to R3.2 billion with Personal Finance recording R2.7 billion in results from operations, up from a loss last year. Life profits benefited from lower mortality losses, as well as net positive economic basis changes. And Wealth Management decreased by 4% to R550 million, with the underlying core operational performance improving on 2021, offset by the reduction in the value of our offshore seed investments.

Old Mutual Investments was up 12% largely due to strong increase in non-annuity revenue of 48%, with annuity revenue growing at 7%. This was partially offset by higher expenses with vacancies being filled and continued investments into revenue generating initiatives and technology. Old Mutual Corporate improved meaningfully to almost R2 billion. It's a pity we couldn't quite get there. A strong recovery in underwriting results which benefited from muted COVID experience and the release of current provisions and discretionary margins. This was further supported by good asset based income on the back of higher average funds under management and prudent expense management.

Old Mutual Insure decreased by 9% to R495 million. The net underwriting result was down 25%, largely due to poor claims experience as a result of weather related events, particularly the KwaZulu Natal floods, higher power surge claims, and the impact of inflation on the cost of claims. We've seen strong top line growth in our African Regions with improved profitability in the life book as we continue to pivot to corporate business. Profits were underpinned by a much improved mortality experience, resulting in the release of COVID provisions, offset by the strengthening of the mortality basis in Namibia. Southern Africa profits rebounded to R984 million, with East Africa returning a profit of R86 million and West Africa reporting 52% lower losses. This resulted in a very pleasing turnaround and an increase in results from operations to R842 million. So, well done to Clement and team.

The net result from group activities increased to a loss of R1.5 billion. This was as a result of continued investments in growth and innovation initiatives including Next176 and our transactional capability, as well as an increase in IFRS 17 project costs. Adjusted headline earnings grew 34%, excluding the earnings from the distributed stake in Nedbank from the prior year. And the decrease in shareholder investment returns were driven largely by lower equity and bond returns across the group. Despite the volatile and challenging investment environment, the shareholder investment strategy continued to meet the main objective of protecting and preserving shareholder capital.

Income from associates increase our investment in China and the prior year also included our investment in Nedbank, which was unbundled in November 2021. Shareholder tax increased on the back of improved profits, and without Nedbank in our income from associates line, the effective tax rate will now be more in line with movements in profits. The main movements between adjusted headline earnings to headline earnings is from operations in Zimbabwe. The results of Zimbabwe remain excluded from adjusted headline earnings due to us not being able to access the majority of our capital. Whilst investment returns on the Zimbabwe Stock Exchange remained positive, they have reduced substantially from the prior year and were more than offset by significant currency depreciation during 2022. Given the material reduction in the rates of exchange, a large negative adjustment of just under R3.2 billion is reflected in our foreign currency translation reserve for the year.

In the current year the impact of restructuring includes implementation costs for Bula Tsela, whilst the prior year included costs relating to the Nedbank unbundling. Residual Plc profits of R173 million were driven mainly by positive foreign exchange movements and lower staff costs with no remaining staff being employed by the end of the year. Overall, IFRS earnings increased 10% to R7.3 billion.

We remain committed to responsibly managing our capital through a disciplined capital allocation and acquisition framework. This includes returning capital to shareholders where appropriate opportunities for growth are not evident. Since listing in 2018, we have returned just under R60 billion to our shareholders in the form of special distributions as we reduce complexity, improve the focus on our core business and optimise our return on net asset value. The OML solvency coverage ratio has improved to 190%, at the upper end of the target trends.

The main driver for the improvement is the reduction in prescribed equity stressors set by the regulator. The group's discretionary capital balance was maintained at R3.5 billion. This is the result of strong cash generated at 117% of adjusted headline earnings for the full year, supported by releases from capital from Residual Plc and Old Mutual Investments, and allocations in the form of the buyout of the minority stake in Old Mutual Finance and continued investment into our growth and innovation initiatives.

R850 million of the discretionary capital balance is earmarked for the Genric transaction concluded in January, the minority buyout of Old Mutual Finance Namibia, and the acquisition of an equity stake in the Two Mountains Group, as Iain mentioned. We have earmarked between R1 billion and R1.5 billion for a share buyback, as we believe this is value accretive given current market conditions. We have initiated the approval processes with the board and the prudential authority, and we will be making further announcements relating to this in due course.

Return on net asset value of 11.1% increased by 240 basis points supported by a significant improvement in adjusted headline earnings, as well as capital structure optimisations. These optimisations included the issuance of subordinated debt at competitive rates to optimise the group's weighted average cost of capital in line with the optimal gearing ratio of 15% to 20%.

Our dividend policy targets an ordinary dividend cover range of 1.5x to 2x adjusted headline earnings. In 2021, we paid at the maximum of the range, as we believed in the recovery of the business, the future cash flow generation and the strong solvency position. Now that we have seen a strong recovery, we have declared a final dividend of 51 cents per share, taking the full dividend for the year to 76 cents. Excluding Nedbank, the dividend is up 13% on 2021. This takes the cover closer to the midpoint of the range, providing us with a platform to deliver on our growth aspirations.

The group's value of new business margin increased to 2.2% which remains within our target range of 2% to 3%, with the overall value of new business up 16%. The value of new business, as Iain mentioned, grew by 48% in the Mass & Foundation cluster with the margin improving to 7.6%. This was due to higher volumes and good cost management, partly offset by the strengthening of the persistency basis. In Personal Finance and Wealth Management, we have seen an improvement in the value of new business from the first half of the year, with a shift in mix to high margin risk business and a review of persistency assumptions in our funeral products. We continue to drive management actions to bring the value of new business within our target range.

The improved margin in Old Mutual Corporate mainly benefitted from a more favourable product mix within the investment offering, improved expense efficiencies and strong growth in group assurance new business sales. In Africa Regions improved recurring premium sales in Namibia, coupled with the more profitable sales mix, contributed positively to the value of new business. This was however more than offset by higher expense inflation, and increased sales of lower margin business in other regions, leading to a 2% decline in the value of new business.

Our return on group equity value was 4% over the period, driven by positive operating performance and frontline growth in most segments, but pulled back by the persistency basis changes in South Africa. The share price continues to trade at a significant discount to group equity value, as well as regulatory owned funds. We believe that the combination of defending and growing our core and the traction on our new growth engines will close the gap between our market capitalisation and group equity value.

In summary, we are through our recovery size and have largely made our 2023 targets. Our results from operations for 2023 was to deliver a target of the 2019 results plus 5% to 10%. Our 2022 results on a comparative basis to 2019, excluding the cost of our new transactional capability and Next176 costs, delivers on this target a year early. This was on the back of decisive and focused management actions through this recovery phase, resulting in sales and gross flows recovering to pre-COVID-19 levels. As Iain mentioned, we've also exceeded our cost efficiency targets, and our value of new business margin and group solvency remains within our target ranges.

Our return on net asset value has strengthened and is trending towards our cost of equity. And Old Mutual Insure's underwriting margin, whilst below the target, is mainly due to the KZN floods. Our next set of results will be prepared on an IFRS 17 basis, and we will be providing you with revised medium term targets in due course.

Changing tack, on the IFRS 17 front we have made significant progress and are on track to report under IFRS 17 for the first time for our 2023 interim results. We have completed work on our IFRS 17 transition, which includes detailed disclosure in our 2022 annual financial statements. This has not been without a lot of effort. We are well underway with our 2022 comparative reporting. Whilst we plan to go into significantly more detail on IFRS 17 at our next investor engagement, I would like to take you through some of the key impacts.

It is important at the outset to emphasise that IFRS 17 does not impact the underlying fundamentals of our business. IFRS 17 will not impact our cash or capital generation. It will not impact our ability to invest in new growth engines. It will not impact our solvency position or our ability to pay dividends, noting that our current dividend policy is wide enough to cater for the impacts of IFRS 17. What it does do is change the timing of profit recognition and how we report on our life and savings and property and casualty businesses. All of our segments' comparative results are impacted except for Old Mutual Investments and the net results from group activities.

IFRS 17 also creates a 1 January transition adjustment to shareholders' equity. We estimate that the impact of the initial application of IFRS 17 and consequential changes to other standards will be between R3.8 billion and R4.5 billion decrease to the group shareholders' equity on 1 January 2022. The decrease to shareholders' equity is net of deferred tax of between R1.9 billion and R2.2 billion. Transitional tax measures have been introduced in South Africa to defer and spread the tax impact of implementing IFRS 17 over a phased in period of six years for life insurers and three years for short term insurance.

The net reduction in shareholders' equity is driven mainly by the setup of the contractual service margin, or as we call it, the CSM, which exceeds the release of IFRS 4 prudent margins, with the largest impact being seen in the Mass & Foundation cluster. What you're really seeing here is the impact of historic strong management of our insurance book, being the positive basis changes recognised under IFRS 4, which are now added back into the CSM under IFRS 17.

IFRS 17 brings about a change in the timing of profit recognition, but not a change in the underlying value. The CSM represents future profits still to be earned on our insurance business and is expected to release into profit over time in a stable and predictable manner. To reiterate, despite all the moving parts, the fundamental cash dynamics of our business are not affected, and we don't expect IFRS 17 to materially impact how we think about future distributions. And with that, back to you, Iain.

Iain Williamson

Thank you, Casper. I hope you all agree that having gone through the detail, a really strong set of results across all of our operating entities. So, as we conclude, I'd like to just recap some key messages. Firstly, as we look back on what we've achieved over the last three years, I'm confident that we've delivered on the commitments that we've made to our investors and to ourselves. And I'd like to reiterate what Casper has shared with you. We've substantially made our 2023 medium term targets on an IFRS 4 basis despite the challenging headwinds that we've all faced over this period. We have a view on what the IFRS 17 transition impact will be on our balance sheet, but we don't expect it to impact the fundamental economics or cash generating ability of our business.

I'm incredibly proud of my colleagues, their resilience and their ability to deliver on the commitments that we've made, and to continue to set our business up for success on a forward looking basis. We are prepared for what lies ahead. We've demonstrated our ability to deliver on our strategy successfully. We continue to focus both on growing and protecting our core business, including focussed management actions to address the economic and resultant persistency challenges and as we seek to further gain market share in our retail businesses in particular, together with the unlocking of our new growth engines.

We continue to be excited about the potential for both the key geographies outside of South Africa, as well as our banking and other portfolio initiatives. As Casper said, we will announce new medium term targets in due course once we have fully worked through the implications of IFRS 17 on reported earnings. We've demonstrated resilience and the ability to deliver through the cycle. And I expect that we will continue to do so as we look ahead. I think we've got a brilliant team. We've got a strong balance sheet and sound strategy. All that's required is continued discipline and executing against that strategy. Thanks everyone for your time,

interest and support this morning and through time. And we will see you again at our AGM in May. We will now open for Q&A, beginning here in the room. And then I'll ask Bonga to facilitate questions via the call lines and webcast. Thanks. So, are there any questions in the room?

Bonga Mriga

We've got about five questions on the webcast. We'll go to the conference line next. We've got a question from Michael Christelis, who is asking: How have you achieved 44% growth in risk sales in MFC? Is it sustainable?

Clarence Nethengwe

I thought you were going to ask all the questions and then we'll tackle them. But if you recall, in 2021, we said we're going to change our strategy and focus on both advice and non-advice. And the reason why we did this was we realised that the market was looking for solutions that they could just simply engage with without somebody having to advise them. Particularly when the economic conditions are very difficult, they tend to buy down. So, we saw growth from those channels that we were providing. That's the first thing.

Then the second part of our growth was coming from underwritten life, as Iain indicated. There is a segment of the market within the middle income, just before Kerrin's customers, that are also very much open to the idea of leaving a legacy for their families. And underwritten life, it's the right solution. It is sustainable? My view is that there's still massive opportunities in the market to drive underwritten life. There are still opportunities, particularly in the foundation market space, to grow our non-advised risk sales. So definitely, we could sustain. But at those levels, in a tough environment probably we can't go to 44%. It is something which I don't foresee happening almost on a regular basis. But it should be something that is pleasing to us as a business as well as the market.

Bonga Mriga

Thank you. Thank you, Clarence. We've got two questions from Marius Strydom on IFRS 17. He says, you are flagging a decline in your IFRS equity as a result of the introduction of IFRS 17. You also explained that this is largely driven by your Mass & Foundation CSM. So, these are the two questions. Does this mean that MFC will represent the bulk of your total CSM and will equate to a higher proportion of the corresponding VIF [?] of the business than we will see for PF and Wealth? Then the second question is, does this mean that Mass & Foundation earnings will take longer to emerge and that the ROE for this business will therefore be lower under IFRS 17?

Casper Troskie

I'm happy to answer. We haven't disclosed the splits between the businesses. So, we will be disclosing the splits when we come back at our next investor day. It does mean that the future profitability of our MFC book will be higher than it would have been on a forward looking basis under IFRS 4. But we should see good profitability from most of our product sets. But the exact detail we'll bring back at a future date. The second question, I just can't remember.

Bonga Mriga

Does this mean that MFC earnings will take longer to emerge and that its ROE will therefore be lower?

Casper Troskie

No, you can't look at it like that. You have to remember that because we go back and restate you know the past MFC results, you are going to see the restatements being backdated to... Nico, I don't know what the last year was.

Nico van der Colff

1st January last year.

Casper Troskie

But how far did we go back?

Nico van der Colff

Oh, we went back as far as we had data, so early 2000s, 1990s.

Casper Troskie

So, you're going to be seeing the profits from books, business related to the 90s coming through as well as new business. So overall, we should still see a very strong ROE in the MFC business.

Bonga Mriga

Thank you. I think we'll take one more before we go to the conference line, Iain. It's from Baron Nkomo. Iain referred to a R6 billion pipeline in Corporate. When are we expecting these to materialise?

Iain Williamson

Prabashini, your turn to manage expectations.

Prabashini Moodley

Thank you. Yeah, we debated sharing that piece of data because we knew this question would come. So, Section 14 is a piece of regulation that governs the movement of assets between one pension fund and another. And that secured yet to flow number sits across a number of existing funds. So, the applications need to be made for every single fund, and then we are dependent on the regulator. It can take 12 to 24 months. So, it's difficult for us to give an exact timeline, but I think over the next couple of years, we should expect it to flow.

Bonga Mriga

Thank you, Prabashini. We will check with the operator. Do we have any questions on there?

Operator

Yes, sir. We have questions on the lines. The first one comes from Warwick Bam of RMB Morgan Stanley.

Warwick Bam

Good afternoon, everyone. Thanks very much for the call. Three from me. Can you contextualise the R1 billion buyout of minorities in Old Mutual Finance? What valuation metrics does this value imply? And what portion of Mass & Foundation cluster does it relate to? Number two, just on OMLACSA. The solvency ratio 214% seems to imply some flexibility. Just remind us just in terms of whether that solvency ratio is pre or post to the R5.5 billion dividend. And then lastly, the shareholders' investment return for the South African assets declined 62% year over year. Is there any structural impact from the unbundling of Nedbank? Or is this just simply market volatility? Thanks.

Casper Troskie

Okay, so Warwick, the buyout of the minorities in Old Mutual Finance is buying out the remaining 25%. So, we now own 100% of that business. And if you look at the profits generated by the banking and lending business in the Mass & Foundation cluster, if you look at our sources of earnings in the booklet, you'll see that there's just under R600 million profits generated in that business during the course of the year. So, I hope that answers your first question. On the capital ratio, we have now accrued the foreseeable dividend. Maybe if you could add colour on that.

Nico van der Colff

We've always taken a foreseeable dividend out of the solvency ratio as required by the prudential standards. So, the capital ratio you saw last year, and this year are both after the foreseeable dividends at that point. I wasn't sure what the rest of the question was.

Warwick Bam

I mean, maybe Nico, maybe you could just add a bit of colour around that 214% then in terms of discretionary capital on the balance sheet, the anticipation of share buybacks. Does it still imply that there is potential liquidity to come out of OMLACSA? Just give us a little bit more colour around 214% being slightly outside of your target range. Are you looking to bring that back, or is that the level that you're comfortable at?

Nico van der Colff

My boss says he wants this one.

Casper Troskie

Warwick, as we discussed at the last meeting, what we saw in the current period is support from lower prescribed equity stressors. And we've explained to investors before, that support can move our capital ratio quite substantially depending on how markets have moved. So, you have to take into account the fact that there is support from a lower prescribed equity stress that can reverse quite quickly if there is a change in markets. So, so I would see that the level being above the target as being temporary due to what we're seeing with this equity stress at the year-end but acknowledging that Old Mutual Life Assurance sits in the upper end of its target range.

Nico van der Colff

Warwick, you'll see the discretionary capital at group level is disclosed separately, and that's the number that will tend to drive things like share buybacks. It's not the OMLACSA number that will drive share buybacks. So, OMLACSA is in OMLACSA until dividends get released from there either via normal ordinary OMLACSA dividends to group or special dividends from OMLACSA to group. And the discretion capital you'll see elsewhere is what's at group level available for dividends and buybacks and other investments.

Warwick Bam

Thanks. The last question was on shareholders' investment return. That 62% decline in the South African component. Can you just unpack some of those dynamics?

Casper Troskie

So, Warwick, that's a direct reflection of what's happened to firstly the size of the shareholders' investment fund. If you look at the actual amount invested in the shareholder fund with the unbundling, the dividends that we paid during the course of the year, a total of R5.5 billion dividends out of OMLACSA, we have seen firstly a reduction in the actual portfolio. And then secondly, we've seen, as Iain explained earlier, the returns on the individual asset classes being lower than what we've seen in the prior year.

For most of those asset classes relative to our benchmarks, we were either in line or slightly better, with the exception of our unlisted equities where in the prior year we had a strong positive return, whereas the current year we have a negative return. And that's on the back of some legacy agri investments where we saw a reduction in market value. And then we had mixed results across the rest of Africa portfolios with two or three of the countries seeing a reduction in their shareholder investment portfolio profits and the other one seeing a big increase. We can certainly send you the detail on that. But it's a function mainly of lower bond and equity returns compared to last year. Thank you.

Warwick Bam

Thank you.

Bonga Mriga

Do we have more questions, operator?

Operator

Yes, sir. The next question comes from Francois du Toit of Anchor Capital.

Francois du Toit

Hi, guys. Can you hear me?

Iain Williamson

Yes. We can.

Francois du Toit

Okay. Excellent. Thanks. My first question is on the group risk book. It contributed more than 100% of your significant risk experience variances. In the period, your peers also enjoyed strong risk profits. Maybe can you give us a sense of what are normalised levels there, how long you expect this to last, and also whether this is an area where the Competition Commission is looking at pricing and data share behaviour. Should I ask all my questions now, or can we do one at a time?

Iain Williamson

Ask them all, Francois.

Francois du Toit

Okay, cool. Second question. Your short term lapse provisions of R750 million raised at the end of 2021 looks to have been inadequate with negative variances again in Mass & Foundation in the last year. Can you give a sense of what you're doing operationally and whether you think this will improve lapses? Because it looks like the lapse basis strengthening is fairly small in relation to the size of experience variances. Maybe a bit of colour around those lapse problems you're having and what you're doing to sort it out. And then the third question relates to the impact of bond curve movements on earnings. Maybe if you can give us a sense of why it added so much to earnings. The EV statement suggests that it added about R1 billion to earnings. I think one of your peers that I'm thinking about complained that bond curve movements impacted negatively on its earnings. And maybe also, what will happen to the sorts of movements in an IFRS 17 world as well. Those are my three questions, please.

Prabashini Moodley

Hi, Francois. I'll go first. It's Prabashini. So, on the group assurance markets, I think most people are aware the premiums are annually renewable. So, there tends to be a slight lag between recent experience and then the ability to price that experience into the premiums, or the premiums being fully adjusted to reflect that experience. And that's exactly what we experienced during COVID. So, if you look at the underwriting experience in 2020 and 2021, you will see that the underwriting experience was quite negative as COVID waves two and three exceeded our best estimates assumptions and the ability to price it into the premiums.

So, what you're seeing in 2022, is some of the ability to on annual renewals price for the most recent experience. And we don't think those levels are sustainable. It definitely won't be. So, we're already in a renewal cycle going forward. So, it won't recur. So, I would say look at the underwriting experience over the last three years, and not any of those years in isolation. So, already premiums are being renewed and rates are coming down because COVID has become pretty much endemic. What is normalised? I think a fraction of what you've seen in 2022. In a normal year, which we haven't had in the last three years, it's probably less than half of the underwriting experience. And it can be negative in some years. We do best estimates in our pricing. I hope that helps with you.

Francois du Toit

Yes, thank you. Very helpful.

Clarence Nethengwe

Francois, there are a number of interventions that we have put in place. And my team is going to kill me because I forgot the fourth one. I remember the first three. So, the first one talks to new business. So, one of the things that we need to do is to retrain most of our financial advisors in terms of identifying the right customer in terms of somebody who's going to commit over a long period of time to pay premiums. Then the second element of our intervention is around DebiCheck. You might have heard that DebiCheck is causing quite a lot of problems in the industry. It's not only Old Mutual, but almost all our competitors are having the similar problem.

The biggest challenge that we have with DebiCheck is that a customer has got about something like 120 seconds to accept the mandate. And in many instances, the telephone number or the cell phone number that will have given to their bank tends to be different from the one they are using at a point of sale. So, it tends to be a bit of a problem. We do collect mandates, meaning we activate them almost 98%. But the acceptance rate is around 27% or 32%. So, that's the biggest challenge. We need to turn that around. And that helps in terms of new business, and it also helps with the back book.

Because what we are doing currently, which is the second piece of our management action, is we need to make sure that the part of our book, our back book that is on debit order, needs to be on DebiCheck in order for us to successfully collect from our customers. And you can understand it's a massive book and we need to make sure. We have set ourselves a target of about 85% or 90% of getting those mandates, get them accepted by customers so that we can continue collecting. Because we saw quite a number of our customers not paying premiums last year on our back book, in particular the long duration stuff.

Then the third element of our management action relates to campaigns. We have got our rewards programme. We have seen that most of our customers that are on our rewards problem are very persistent. The persistency rate there is actually super good, almost more than 90% persistency that we see emerging from customers who have got our rewards programme. So, we are driving that very hard in order to make sure that most of our customers are part of our rewards programme. And the very same customers have got DebiCheck and the like.

Then the last one is around stop orders. So, there's this massive drive by all insurers at the low end of the market to get customers to sign up for stop order. But at the same time, we're seeing many employers wanting to get rid of that. So, we have to look for different ways of collecting that are quite as stable as our stop order premium collection mechanism. As to the short term provision, how much we have topped up, Nico, you're my man on that.

Nico van der Colff

Yeah, fine. Sure. This is clearly never going to be an exact science. When we had decided on the size of those provisions at the end of 2021, it was based on a future world. And I suppose 2022 has surprised most of us on the downside in terms of the economic pressures that it created for customers. And so, I suppose it's not that surprising that we had to reassess the size of the provisions at the end of last year. Is this the right number? Well, I suppose it all depends on whether the management actions deliver the value we're hoping they deliver. If

it turns out that there's further extraneous shocks economically that make things even worse, or if it turns out that our management actions aren't as successful as we plan and hoped them to be, then both of those would be downside risks. If the economy recovers and we revert to experience looking more like what we've seen in most prior years, then actually, that short term provision is more than sufficient. So yes, it is in the realm of reasonable short term provision, considering everything we know at this point.

And then I'll quickly comment on your last question, which was about the economic assumption change. Clearly, that's not just the impact of bond curves. And we've mentioned this a little bit. They were two items included in that line as well, which are somewhat once off in nature, and both of which you won't see in the embedded value economic variance information, but you will see in the RFO economic variance piece. And that is that we had two discretionary margins releasing money into profit. The one is we don't just try and hedge our economic exposure. We had put a material economic DM over it to deal with any fallout after we've tried hedging it, or for any risks we can't hedge, so that we don't end up having burn throughs in profit more regularly than we'd like to see them.

And our general rule for these DMs is to target them at a one in 10 variance. And so, on the economic DMS our hedging has gotten materially more mature over the last year. Our risk management there is quite good now. And therefore, the extent of economic DM we've had there has turned out to be materially more than was needed and delivered more than R900 million release into profit, about two thirds in PF and about a third in Mass. And then the other item was that the IGRs, we have this one in 10 protection after we have hedged the IGRs as well, the investment guarantee reserves.

And because of things like reduced market volatility and a little bit of the equity markets recovering in the last piece, which moves guarantees out of the money, and because of interest rates going up, those guarantees were less in the money. And those burned through the upper one in 10 discretionary margin too. And there we have released about R300 million in South Africa and another I think about R70 million in Namibia. And the South African release, the R300 million, was a little bit over half in PF and the rest in the Corporate segment. So, there were material upside items in that economic assumption change line you're referring to. It's not just the bond curve movement.

Bonga Mriga

That's all we've got time for, Iain. From a questions point of view, we're done. We're done with the questions now.

Iain Williamson

Are there no more on the line?

Bonga Mriga

Yes.

Iain Williamson

Right. Well, then in that case, that draws our presentation to a close. So, thanks everybody for coming and we look forward to engaging with some of you one on one in our various meetings over the coming weeks. Thanks very much.

END OF TRANSCRIPT