# OLD MUTUAL EMERGING MARKETS: CREATING VALUE AND BUILDING A SUSTAINABLE BUSINESS

UBS 17TH ANNUAL FINANCIAL SERVICES CONFERENCE

**Katie Murray, Finance Director: Old Mutual Emerging Markets**

16 October 2014

**INVESTMENT | SAVINGS | INSURANCE | BANKING**

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# DISCLAIMER

This presentation may contain certain forward-looking statements with respect to certain of Old Mutual plc's plans and its current goals and expectations relating to its future financial condition, performance and results.

By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Old Mutual plc's control including amongst other things, international and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing and impact of other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which Old Mutual plc and its affiliates operate. As a result, Old Mutual plc's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in Old Mutual plc's forward looking statements.

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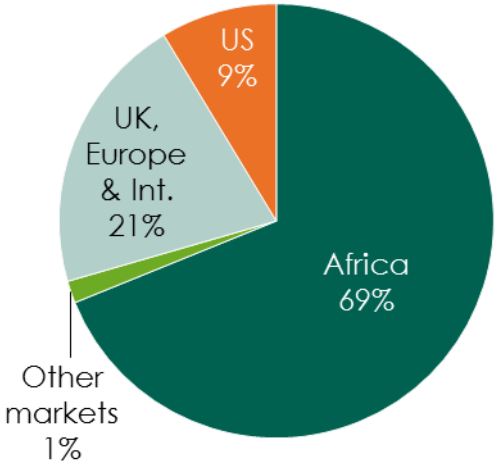
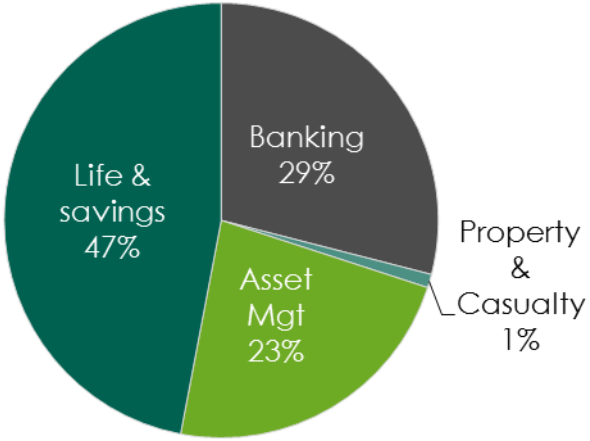
# SNAPSHOT OF THE **OLD MUTUAL GROUP**

- An international savings, investments, insurance and banking group
- A FTSE 100 company; founded in 1845
- Over 16 million customers
- 56,812 employees
- £300.5bn FUM
- NCCF of £1.6bn
- AOP of £761m[2]

**H1 2014 AOP[1] (£424m) by geography**




**H1 2014 AOP[1] (£424m) by line of business**




1. Core operations post-tax and non-controlling interest and includes LTIR
2. Core operations pre-tax and non-controlling interest and includes LTIR

* All data presented is at 30 June 2014, except for number of customers and employees which is at 31 Dec 2013

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# OUR **STRATEGY** FOR GROWTH

| | |
|---|---|
| **South Africa** | Align OMSA, Nedbank and Mutual & Federal to become the leading and most trusted financial services group. |
| **Rest of Africa** | Become an African financial services champion |
| **Old Mutual Wealth** | Build the best retail investment business in the UK |
| **Institutional Asset Management (US)** | Grow and improve our multi-boutique asset management business. |
| **Group-wide** | Be recognised as a leader in Responsible Business. |



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# OUR GROWTH IN AFRICA WILL BE DRIVEN BY **A STRONG BASE IN SOUTH AFRICA**

Leading SA **Retail & Corporate** market share

+

**Largest institutional asset management business in SA**

+

Integral **Property & Casualty** business

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increasing collaboration with Nedbank

MAKE THINGS HAPPEN

NEDBANK GROUP

Fully integrated financial services offering

**R1bn of Group synergies targeted in SA**



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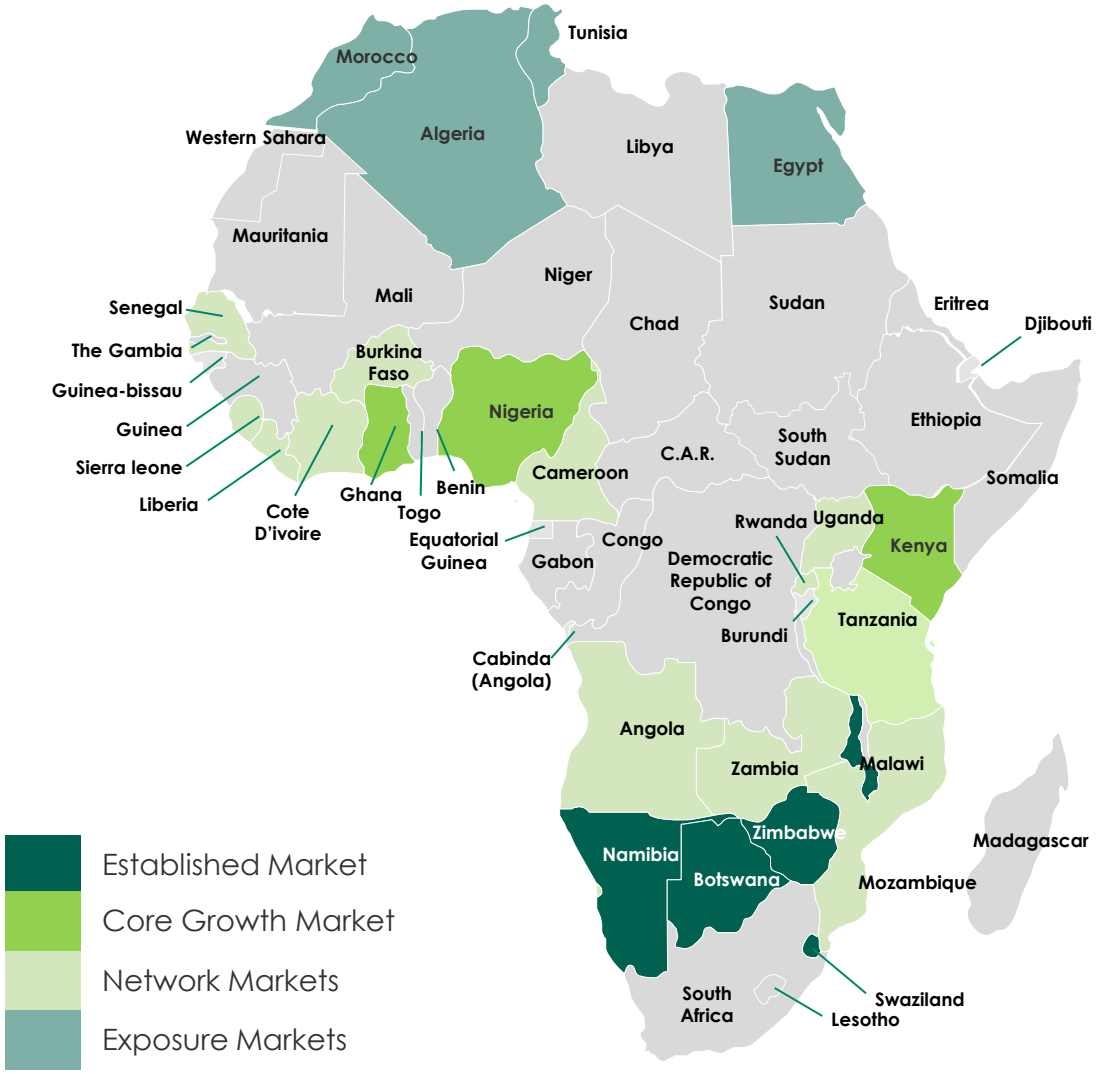
# OUR VISION IS TO BECOME THE **AFRICAN FINANCIAL SERVICES CHAMPION BY 2020**




## Our 2020 vision for Africa

- To be the #1 or #2 business in established and core growth markets, with strong franchises in other West Africa, East Africa and SADC countries
- To achieve a ROE of between 20% and 25%

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# OUR STRATEGY FOR **CREATING VALUE** AND **BUILDING A SUSTAINABLE BUSINESS**

1. Regional approach
   - Defend and grow our leading position in Southern Africa
   - East and West Africa as growth nodes of the future
2. Similar products, IT and processes to improve speed-to-market, create economies of scale and de-risking operations
3. Strategic alliances and partnerships
4. Acquisitions to accelerate growth in selected regions
5. Good governance, risk management and disciplined capital allocation



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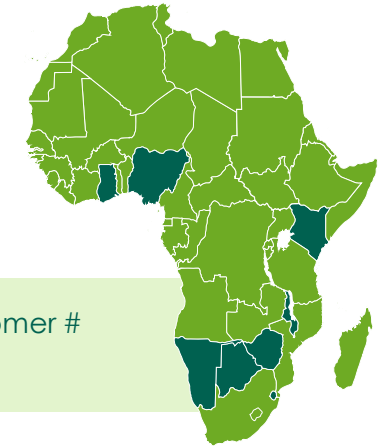
# EMERGING MARKETS **BUSINESS AT A GLANCE**

**South Africa[1]**

Customer # **5.7m**

FuM **R684bn**



**Rest of Africa**

**2.8m** Customer #

**R58bn** FuM

**Asia[2]**

Customer # **64k**

FuM **R14bn**

**Latin America**

**448k** Customer #

**R121bn** FuM

**FUM**
**R877bn**

**NCCF**
**R9.2bn**

**IFRS AOP**
**R5.2bn**

**Customers**
**c. 9m**

**Employees**
**c. 24k**

Source: Old Mutual plc interim results. Figures as at 30 June 2014
1. Includes retail and corporate customers
2. Excludes the number of customers in India

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# EMERGING MARKETS: **H1 2014 FINANCIAL HIGHLIGHTS**

| AOP (Rm) | H1 2013 | H1 2014 |
|---|---|---|
| OMLACSA | 2 874 | **3 564** |
| OMIG | 477 | **541** |
| P&C[1, 2] | (140) | **(75)** |
| LTIR[1] | 824 | **837** |
| **South Africa** | **4 035** | **4 867** |
| Rest of Africa | 367 | **357** |
| LTIR[1] | 197 | **246** |
| **Rest of Africa** | **564** | **603** |
| **LatAm and Asia** | **170** | **210** |
| Central costs[3] | (519) | (482) |
| **Total AOP (pre-tax)** | **4 250** | **5 198** |
| **Profit growth of 22%** | | |

1. H1 2013 restated to separately disclose Property & Casualty LTIR of R238m by geographic location
2. Property & Casualty AOP has been split according to geographic location. Comparatives have been restated
3. Includes central and administration expenses incurred in South Africa of R346m and Rest of Africa of R136m
4. Pre-tax, before LTIR and central costs.

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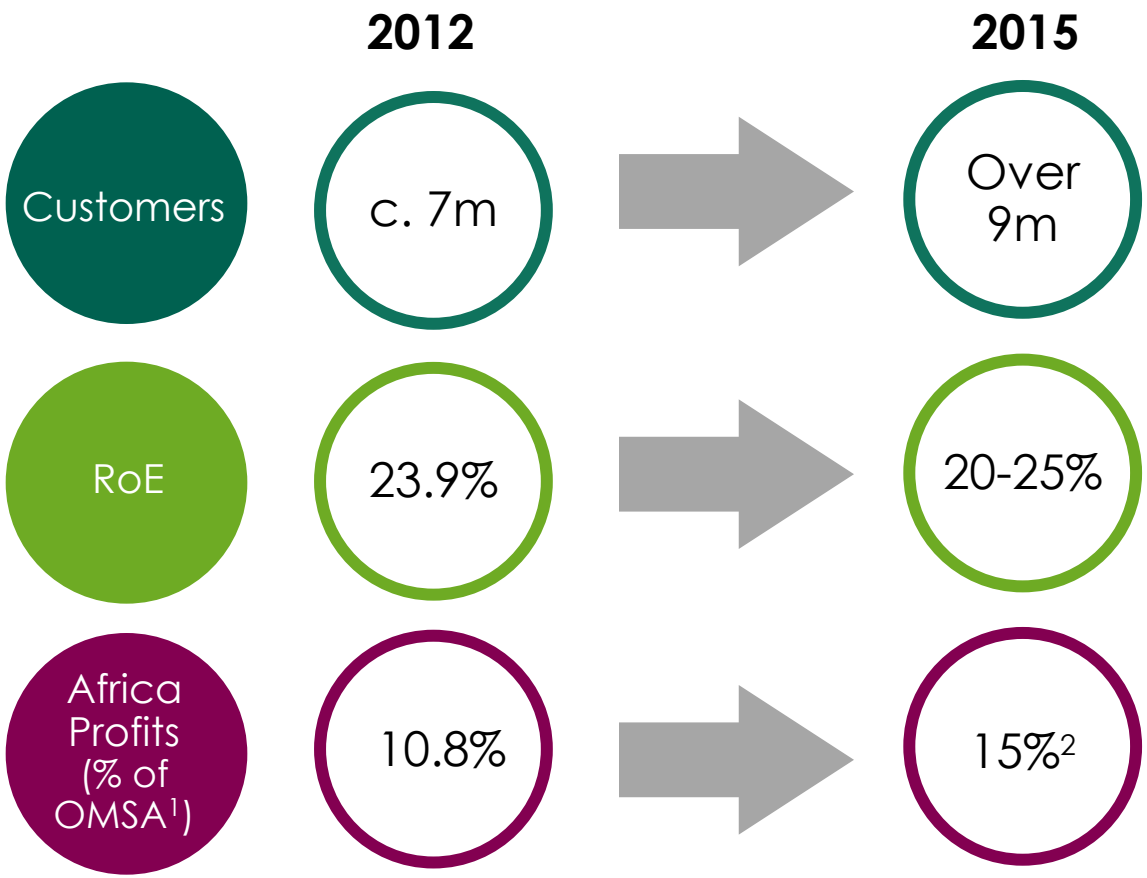
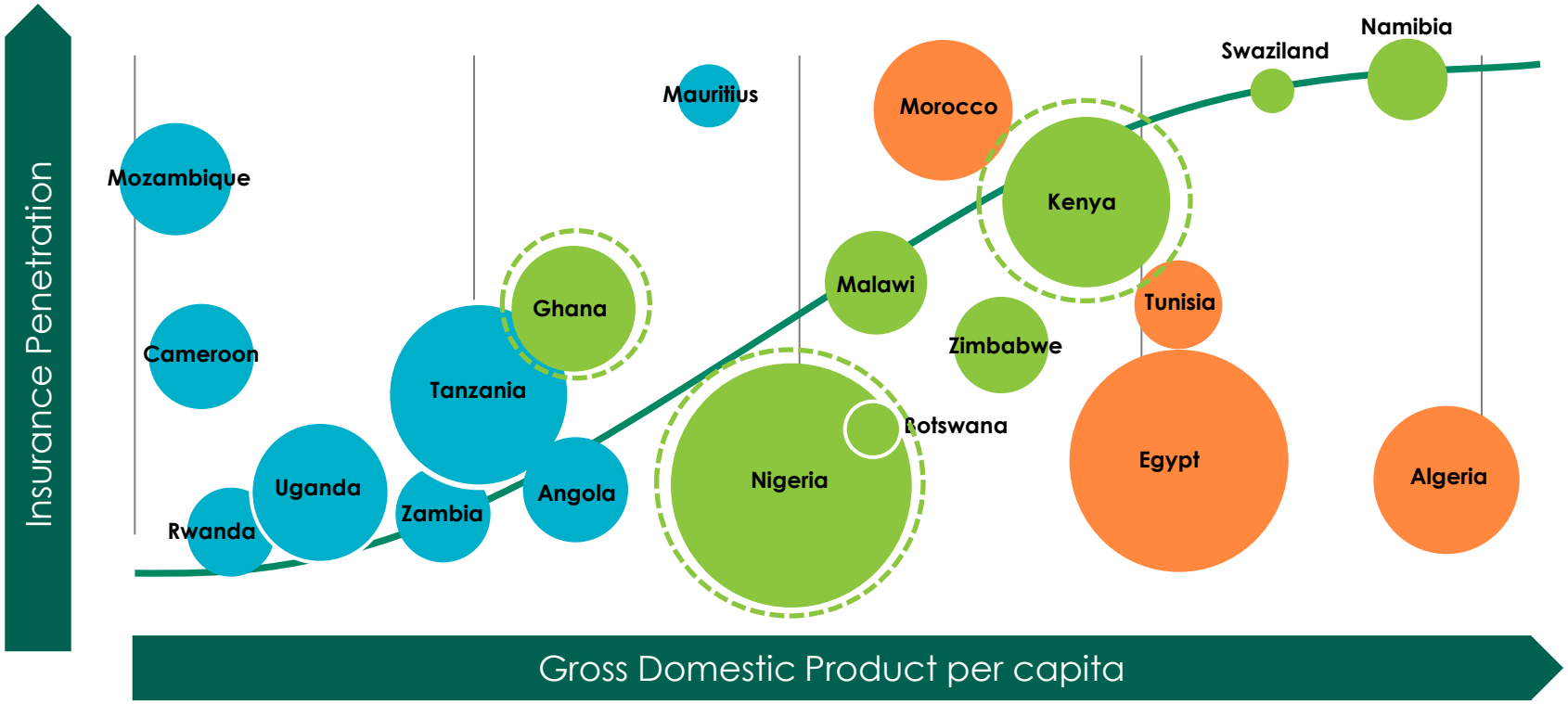
# 2012 TO 2015 TARGETS




1. Calculation is pre-tax and post-minorities and includes LTIR.
2. Target includes potential acquisitions and P&C earnings in Africa.

# AFRICAN INSURANCE MARKETS ARE **NASCENT AND UNDER-PENETRATED**




Size of bubble represents population size; green = OM current markets, blue = other SSA markets, orange = North Africa

Key growth markets for Old Mutual

Note: Based on Life and P&C insurance GWP

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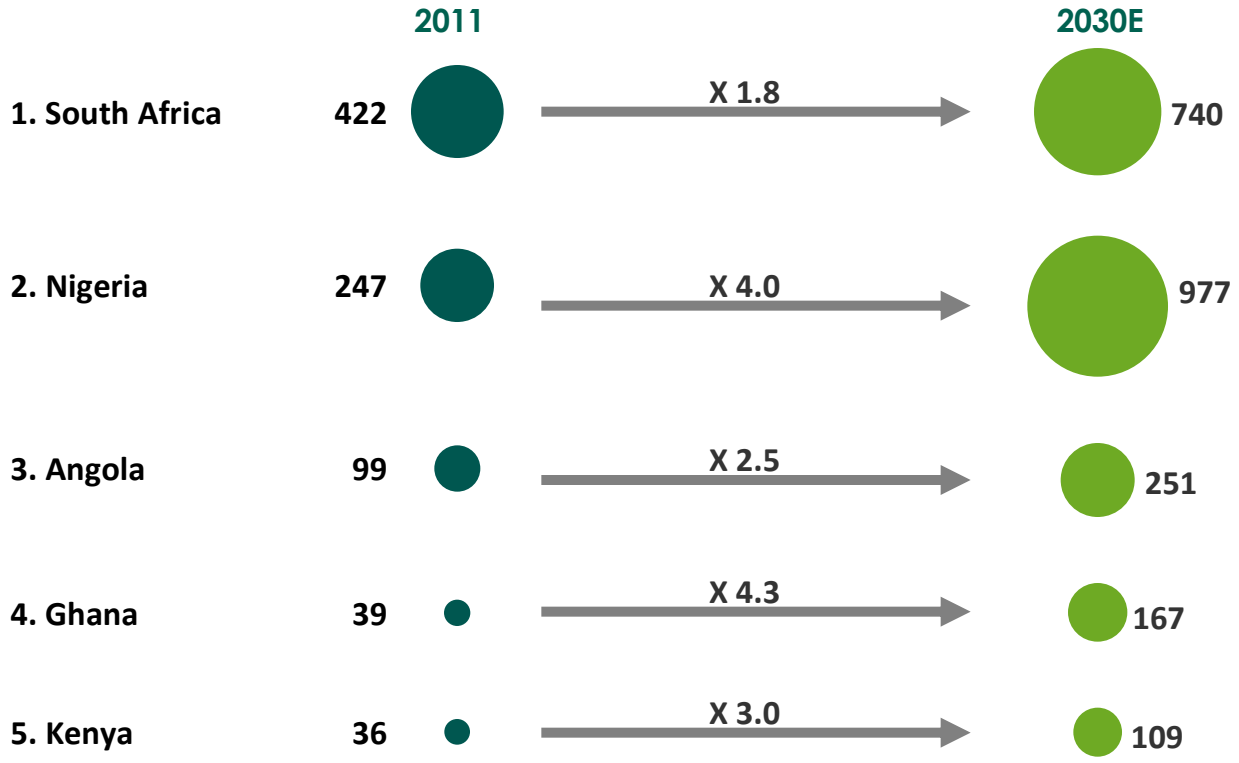
# MARKETS WITH GREAT OPPORTUNITY – **THE DEMOGRAPHIC DIVIDEND**

**Size of African economies – today vs. future in billion USD**
**Results of growth simulation based on current GDP trends**




Source: IMF WEO, April 2012 Standard Chartered Research

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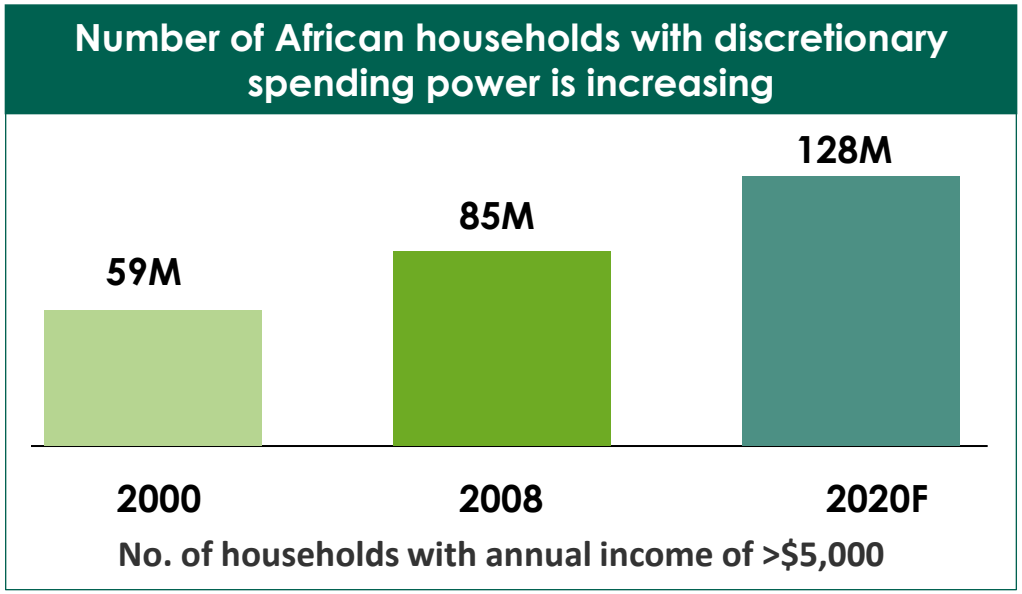
# **AFRICAN CONSUMERS** ARE ON THE RISE




- Consumer expenditure in Sub-Saharan Africa expected to reach nearly $1 trillion by 2020
- Poverty expected to fall to 20% by 2020
- By 2050, c60 % of people in SSA will live in cities, compared with 40 % in 2010. This means 800m more people will live in urban environments
- By the end of 2014, more than 600 million people will own a mobile phone giving Africa one of the world's highest mobile usage rates

Source: Lions on the move: The progress and potential of African economies (McKinsey & Company, June 2010); Building a strategy for Africa (Genesis Analytics); IMF World Economic Outlook; Accenture: Rise of the African Consumer

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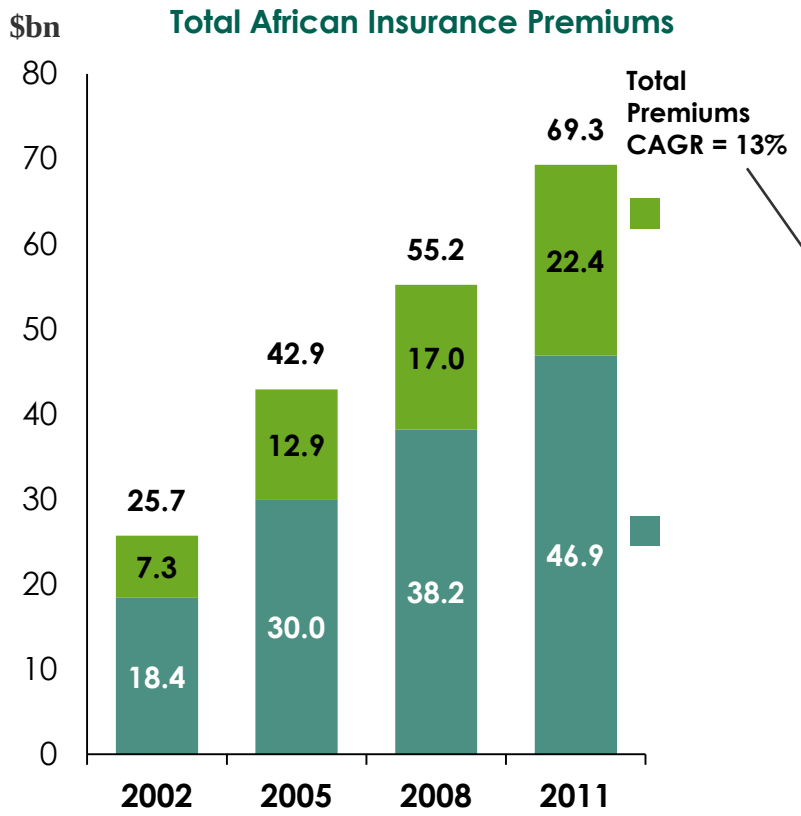
# INSURANCE GROWTH WILL FOLLOW

## At current growth rates, African insurance premiums are forecast to grow from $70bn in 2011 to $200bn in 2020




**Growth Scenarios: Total African Insurance Premiums ($bn)**

| CAGR | 2020 | 2030 | 2040 |
|---|---|---|---|
| 8% | 133 | 274 | 564 |
| 10% | 163 | 424 | 1,099 |
| 13% | 200 | 650 | 2,109 |
| 15% | 244 | 986 | 3,990 |
| 18% | 296 | 1,484 | 7,444 |

**Total African Insurance Premiums as a % of Total Global Premiums = 1.6%**

Source: Oliver Wyman

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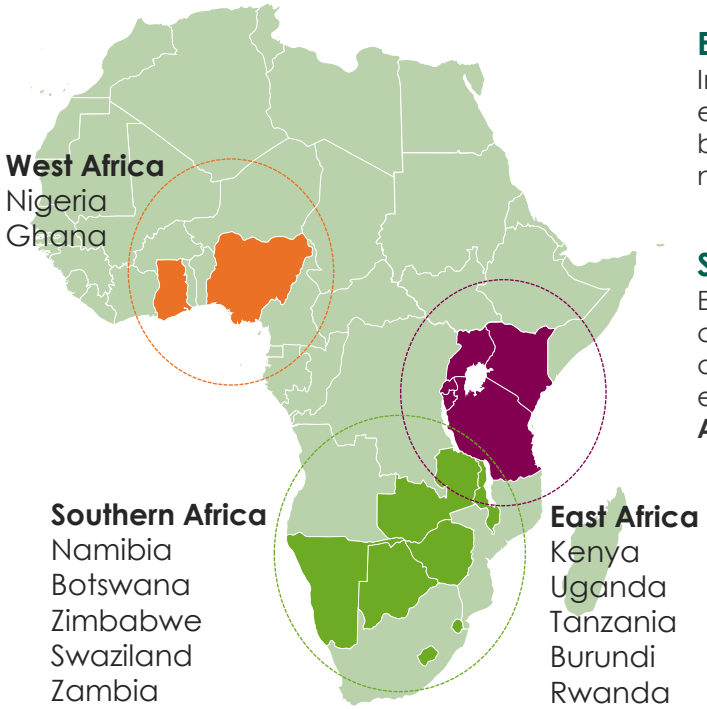
# **INSURANCE STRATEGY** FOR AFRICA




| Focus Countries | Sectors and Segments | Distribution Channels |
|---|---|---|
| **West Africa**<br>Successfully establish our new businesses in **Nigeria** and in **Ghana** | Export technical expertise and specialised industry knowledge, and couple with local needs | Leverage the Old Mutual brand, and key broker and corporate relationships for P&C |
| **East Africa**<br>Investigate opportunities to enter the region through our base in **Kenya**. Grow our new Faulu business. | Product roll-out to retail mass and middle income markets | Use of tied agency force and worksite model, using SA expertise, for retail protection and savings products as well as credit life |
| **Southern Africa**<br>Explore opportunities in countries such as **Swaziland** and **Zambia** and consider entry into **Mozambique** and **Angola** | Make capital-light entries via Corporate and Commercial for P&C | Actively pursue and capture Bancassurance opportunities as a Group (signed agreements with Ecobank in Ghana and Nigeria) |
| | Leverage our corporate relationships to follow our South African clients as they expand into the continent | Establish collaborative partnerships within the Group |
| | Capitalise on the demand for Agri insurance; investigate new sectors such as oil & gas | New world channels such as mobile telephony |

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# OUR **COMPETITIVE ADVANTAGES** IN AFRICA

**Brand strength**

- Strong African heritage
- International brand
- Highly trusted

**Market understanding**

- Understand economic, demographic & market trends
- Understand circumstances, needs & business models needed to serve mass and middle income customers
- Understand, anticipate and help to shape regulatory developments

**Distribution skills**

- Skilled at building and managing tied agency forces
- Build bancassurance relationships
- Use new generation distribution methods – mobile and digital

**Cost leverage**

- Scale advantage facilitates low unit-cost service
- Low admin cost per policy

**Financial strength**

- Strong balance sheet
- Growth can be funded by existing local cash and profit generation



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# WE ARE BEST POSITIONED TO TAKE ADVANTAGE OF THE **OPPORTUNITY IN THE REST OF AFRICA**

| Company | Geographic Reach | APE Margin %, 2012 | Operating Profit Rm, 2012 |
|---|---|---|---|
| OLDMUTUAL | | 40.3 | 857 |
| Sanlam | | 31.1 | 841 |
| LIBERTY | | 26.1 | 69 |
| MMI HOLDINGS | | 15.8 | 133 |

Source: Company annual reports, Old Mutual Africa strategy documents



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# **EXPANSION IN AFRICA:** PROGRESS TO DATE

| NIGERIA | GHANA |
|---|---|
| Acquired a majority stake in **Oceanic Life**: gaining new customers under Old Mutual brand | Acquired a majority stake in **Provident Life Assurance Company** |
| Acquired a majority stake in Ecobank's property & casualty business | Life & investment products |
| | Customer base mostly retail mass |

| KENYA | SOUTH AFRICA |
|---|---|
| Acquired a majority stake in **Faulu** | Concluded the transaction to acquire a further 25% of **OM Finance** |
| Extensive retail distribution network | Nedbank Group is to acquire a 20% shareholding in **Ecobank** |
| Customer base has similar demographic to Mass Foundation market in SA | |

**c. R952m (incl Nedbank) total spent; c. R700m (ex. OMF deal) of OMEM's R5bn allocation**



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# SUMMARY

| |
|---|
| Clear vision and strategy |
| Good financial performance |
| Well positioned for growth in Africa |
| Depth of experience |
| Committed to growing our footprint through respectful partnerships |
| Helping our customers achieve their lifetime financial goals |



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# Q & A

# APPENDIX

# CONVERSION OF BUSINESS UNIT AOP TO PLC CASH

| H1 2014 (£m) | AOP (post-tax & NCI) | Net free surplus generated | Discretionary BU remittance[2] | % of AOP converted into BU remittance |
|---|---|---|---|---|
| Emerging Markets[1] | 202 | 199 | 106 | **52%** |
| Nedbank | 140 | 74[3] | 74 | **53%** |
| Old Mutual Wealth | 101 | 67 | 1 | **1%** |
| Institutional AM | 42 | 51 | 60 | **143%** |
| **H1 2014 before GHO & finance costs** | **485** | **391** | **241** | **50%** |
| FY 2013 | 999 | 811 (81%) | 544 | 54% |
| H1 2013 | 492 | 460 (93%) | 201 | 41% |

**81% conversion of AOP into free surplus**

From 1 January 2014, all Property & Casualty business is reported as part of Emerging Markets.
Excludes cash flows from disposals and funding of businesses.
Nedbank free surplus represents Group share of Nedbank dividend.

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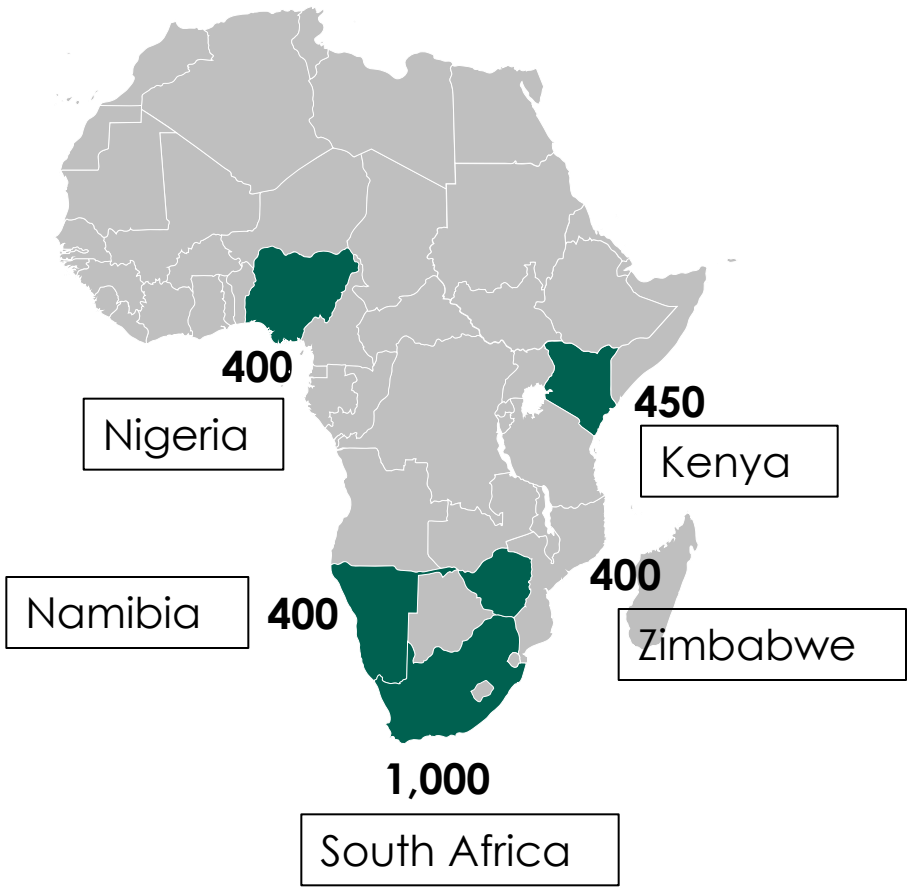
# 2013 SAVINGS & INVESTMENT MONITOR INSIGHTS




- Bi-annual survey in South Africa
- In 2013 extended to include other countries in Africa - **2,650** working metropolitan individuals interviewed
- Provides valuable insights into behaviours and attitudes of consumers
- Field test for new products



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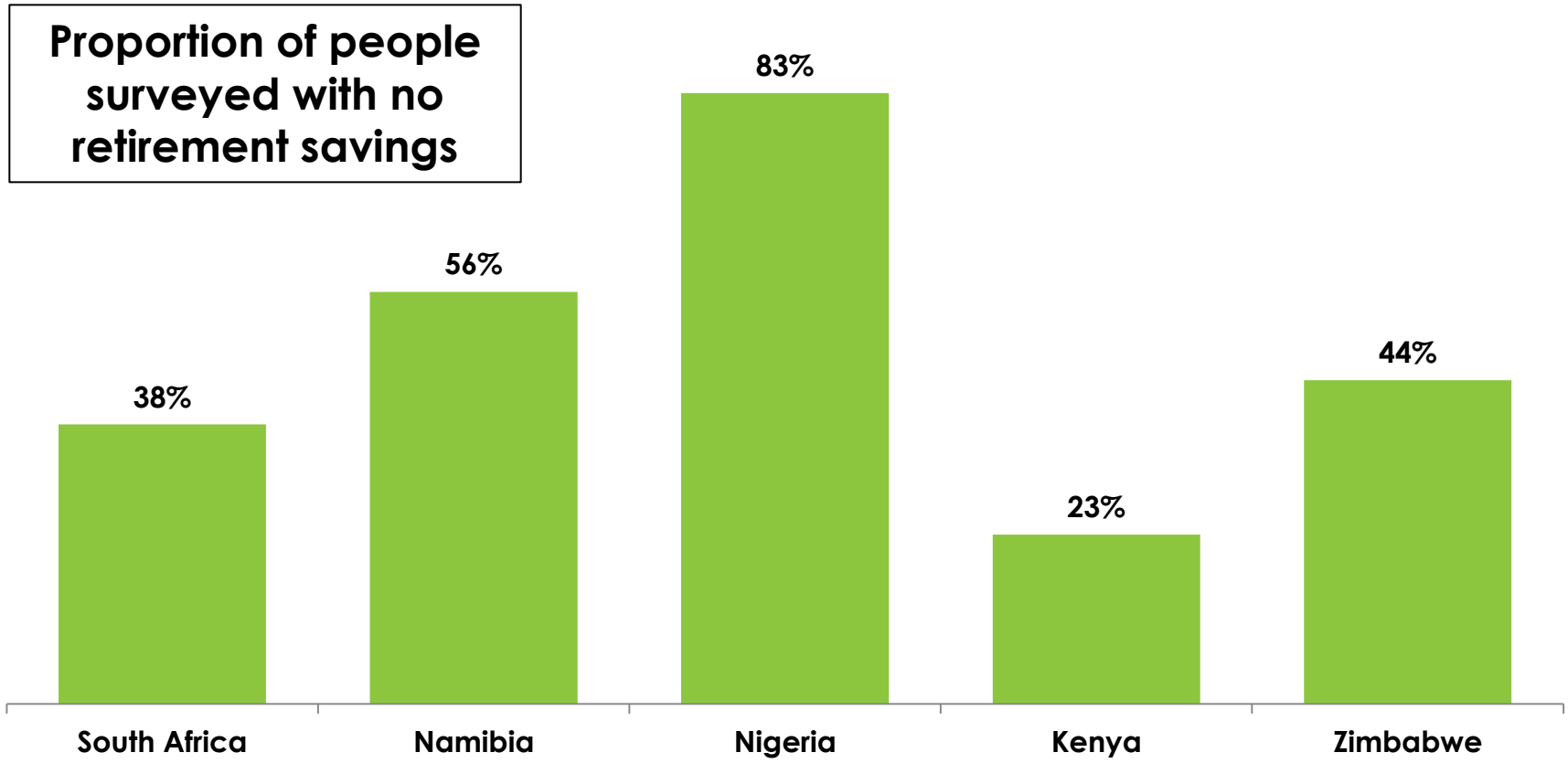
# LOW LEVEL OF RETIREMENT SAVINGS




1. Samples in each country consist of working metropolitan individuals
2. Sample sizes – SA 1,000; Namibia 400; Nigeria 400; Kenya 450; Zimbabwe 400



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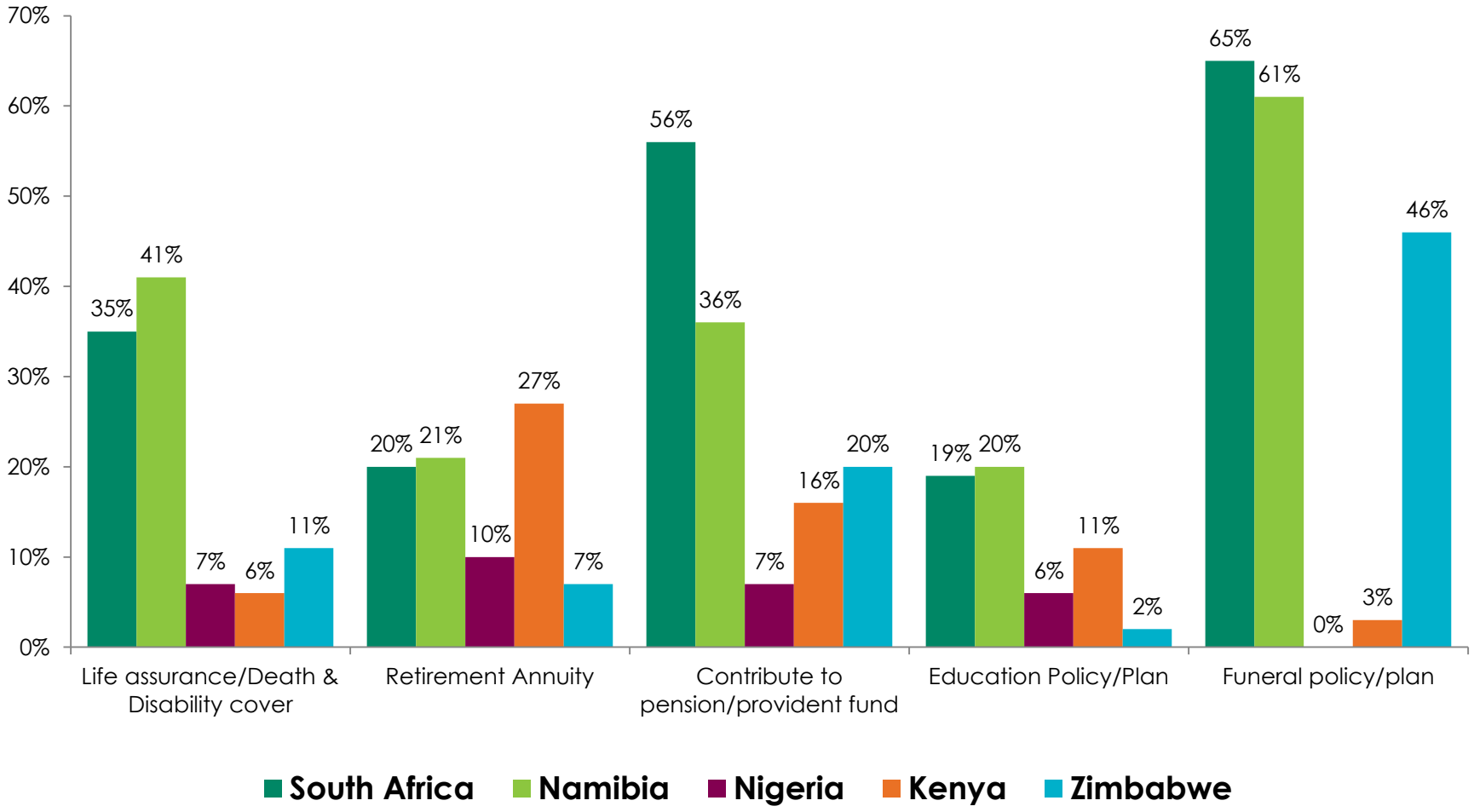
# SIGNIFICANT VARIATION IN PRODUCTS ACROSS COUNTRIES

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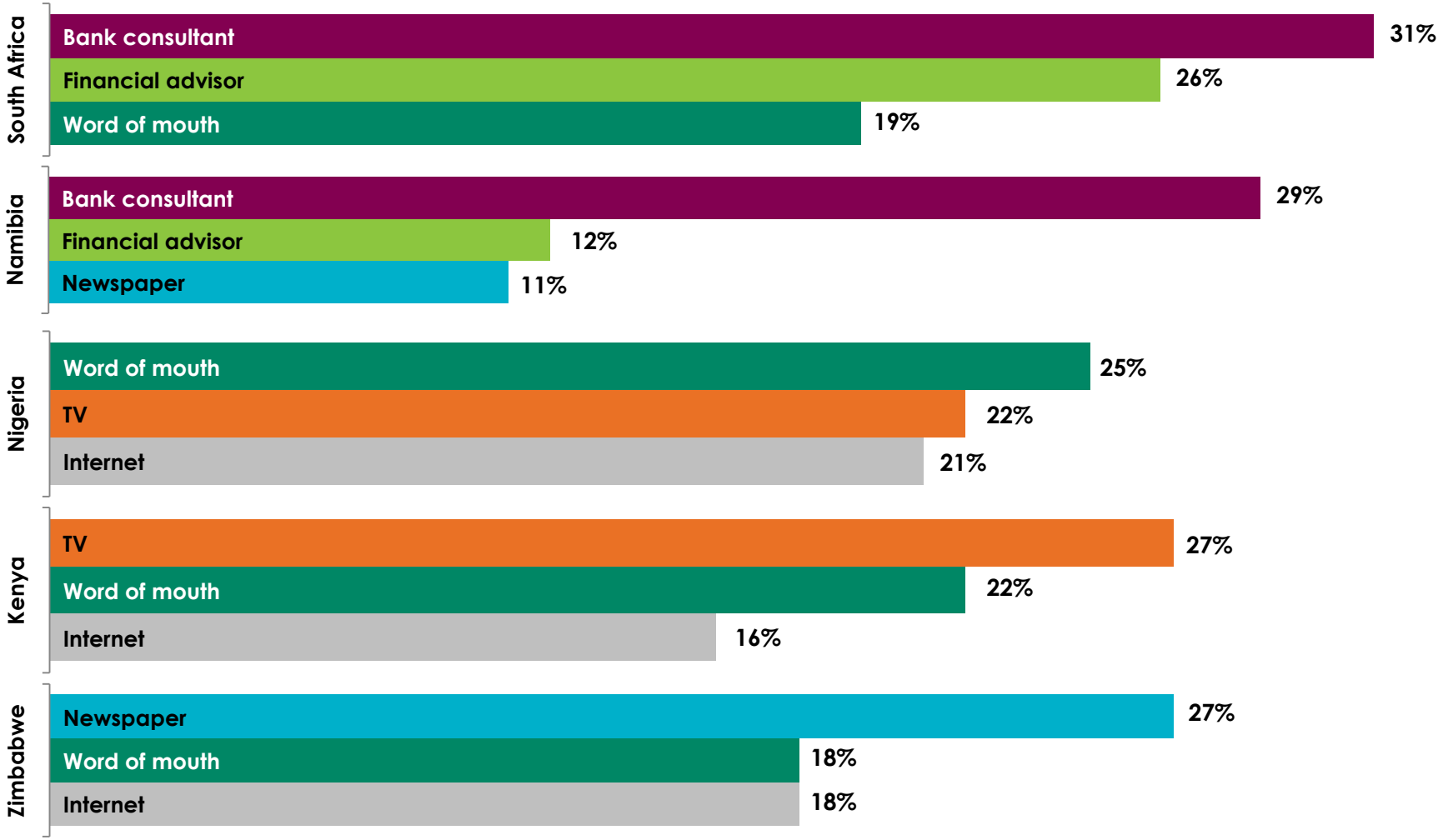
# TOP 2 SOURCES OF FINANCIAL INFO

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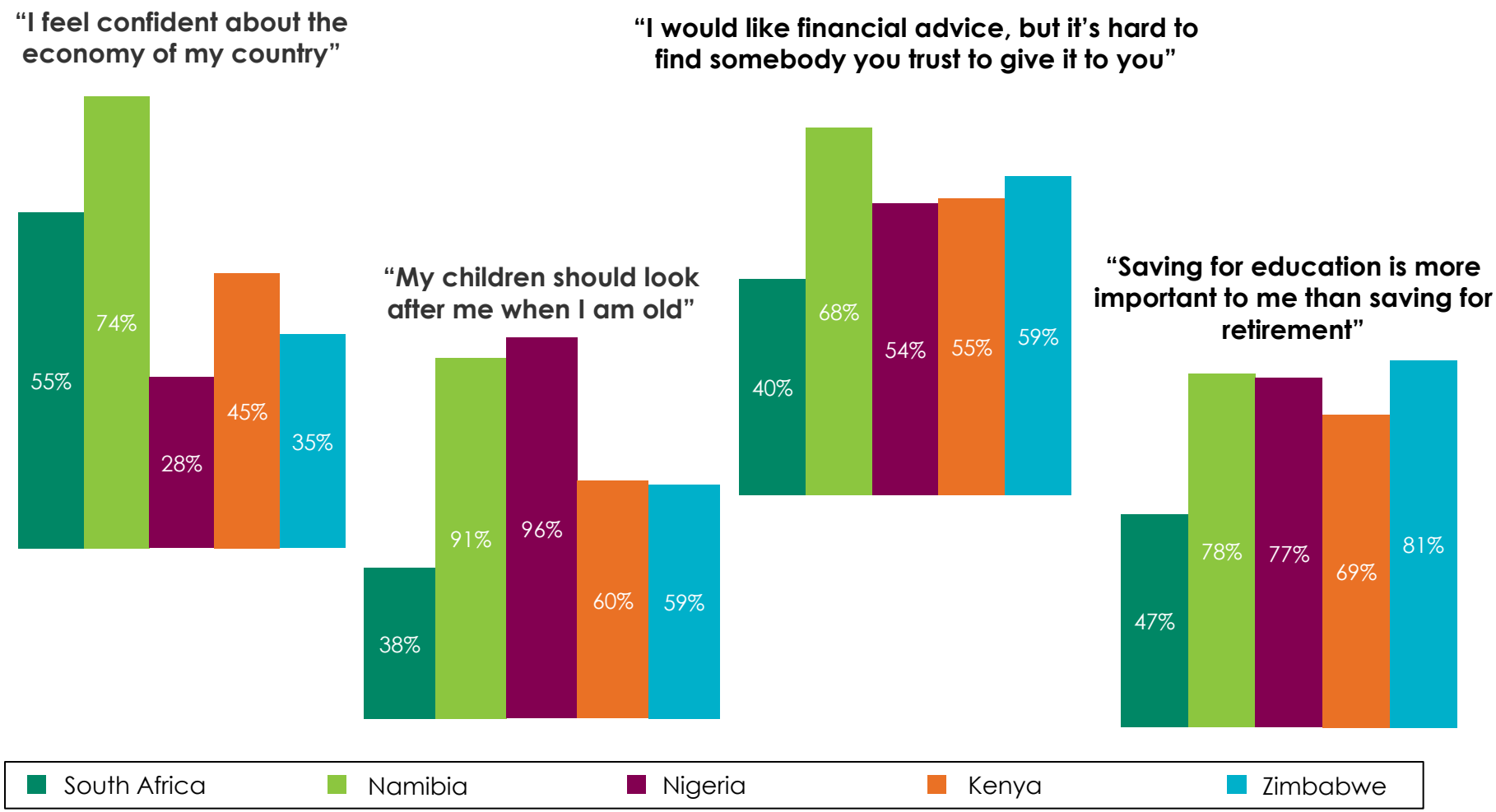
# CUSTOMER ATTITUDES AND BEHAVIOUR

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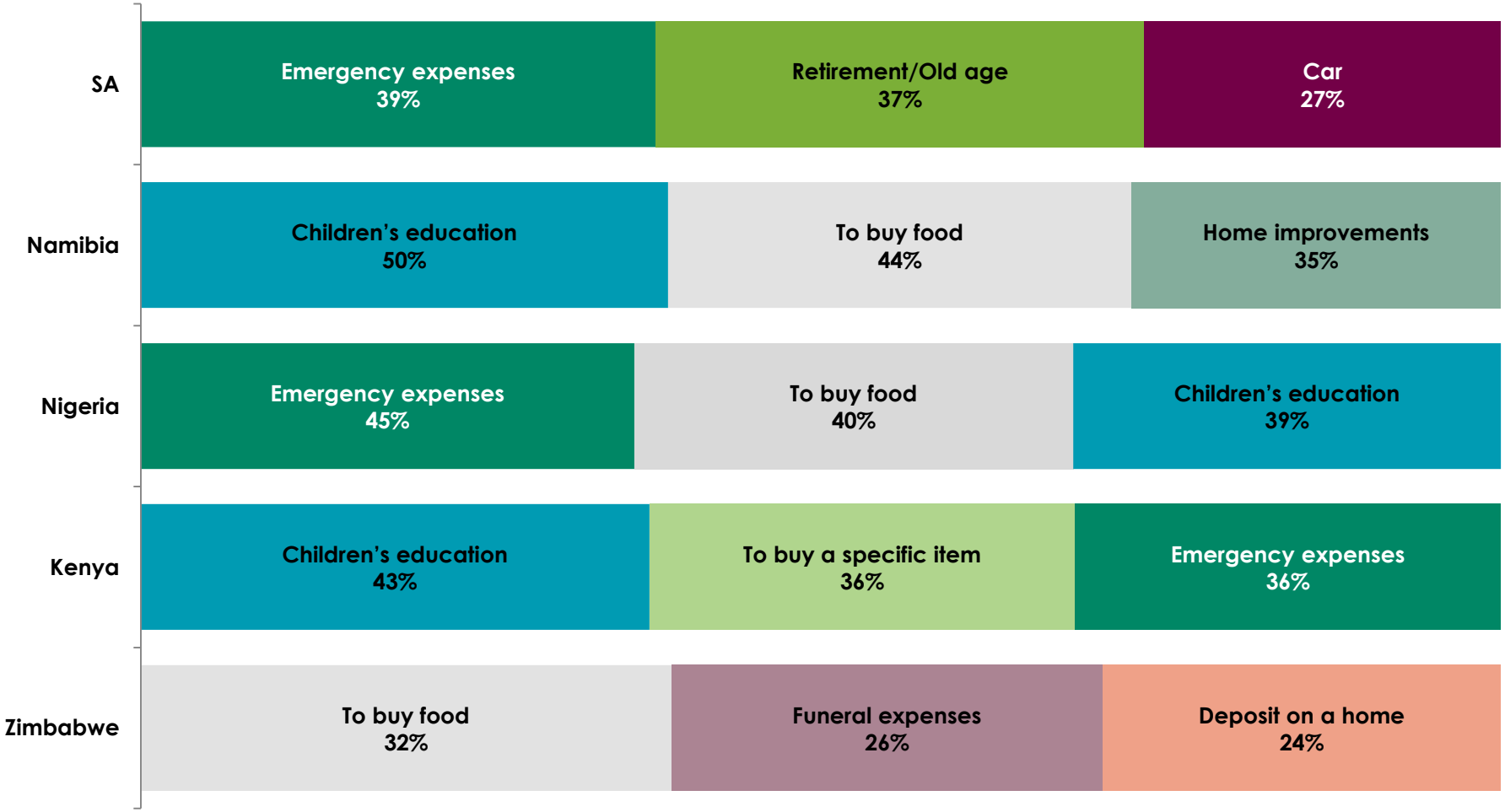
# TOP 3 SAVINGS PRIORITIES

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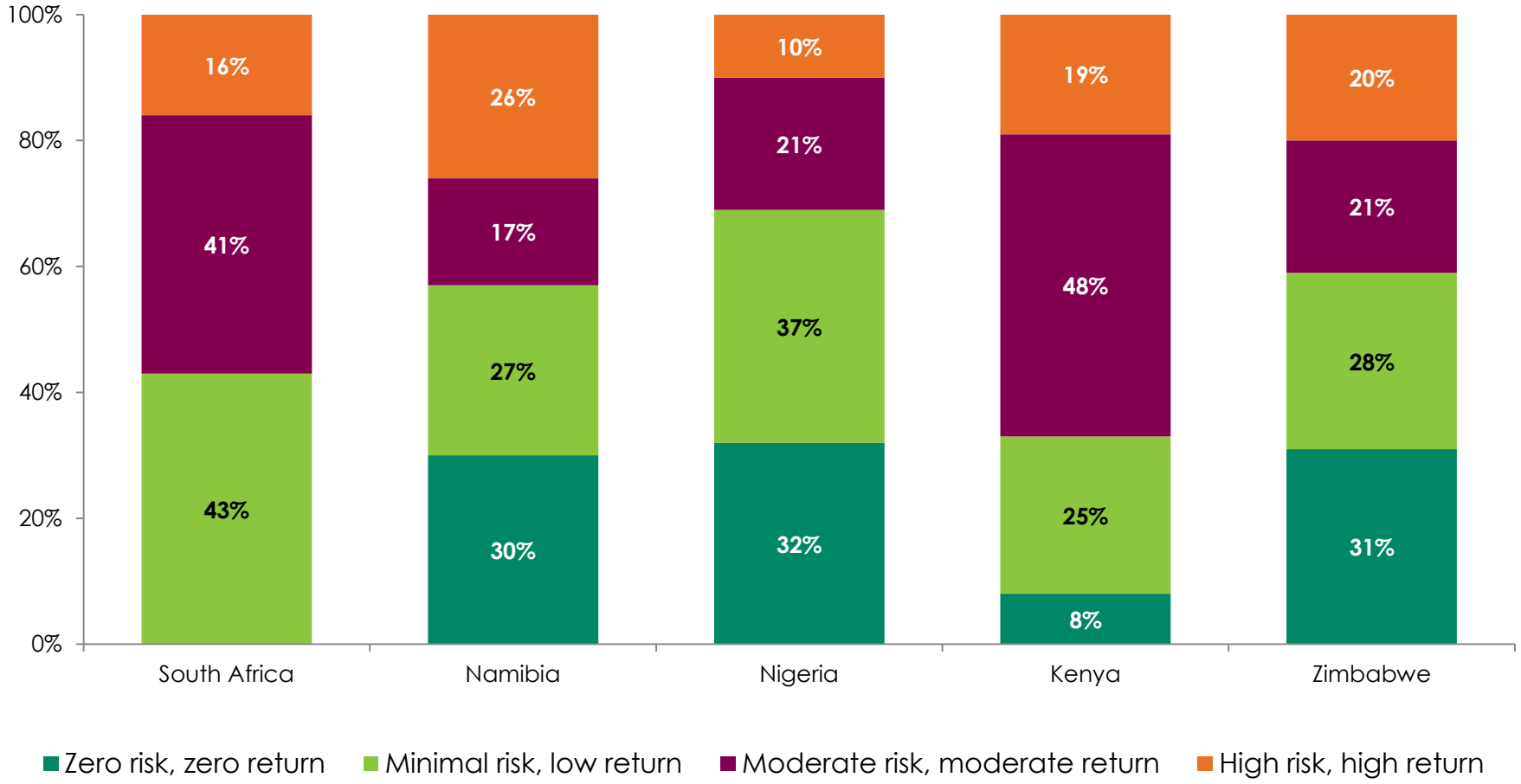
# RISK APPETITE ACROSS AFRICA




Classifications based on the following selections:

Zero risk, zero return: I would prefer not to invest my money (Note – this was not given as an option in the SA survey)

Minimal risk, low return: The returns are guaranteed but are very low and may not beat inflation

Moderate risk, moderate return: There is potential for moderate growth and interest, with some risk of losing money

High risk, high return: There is potential for very high growth and interest, but the risk of losing money is higher



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# CONTACTS

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