

MMI Holdings announces year-end results to 30 June 2017

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MMI Holdings Limited (MMI Holdings) announced its year-end results for the twelve months ended 30 June 2017, on 6 September.

The year under review was characterised by tough economic conditions, including the credit rating downgrade to sub investment grade for South Africa, business confidence reducing to levels last seen during the global financial crisis and weak equity markets.

MMI Holdings maintained diluted core headline earnings of R3.2 billion. Embedded value was R42.5 billion (R26.51 per share) at 30 June 2017, reflecting a 4.7% return on embedded value or embedded value earnings of R2 billion for the period. The group also declared a total dividend of 157 cents per share, the same dividend as the previous year.

Nicolaas Kruger, group CEO of MMI Holdings said: “Diluted core headline earnings (our measure of performance of our core businesses) were maintained over the year, supported by strong mortality profits and good expense management, but negatively impacted by underwriting losses in the group disability business

and muted growth in asset-based fee income as a result of weak investment markets”.

Momentum Retail contributed R1.27 billion to diluted core headline earnings, a 15% reduction compared to its 2016 contribution. The division’s value of new business was R228 million with present value of new premiums at R22.8 billion. Year on year, this is a reduction of 9% and 3% respectively on the previous year.

Momentum Retail plans to more than double its agency force from nearly 800 to 1 600 in the next four years to increase Momentum’s footprint and gain access to a broader client base.

Metropolitan Retail achieved a value of new business of R178 million (a 7% decrease on the previous year) and its present value of new business premiums was R5.2 billion (a 5% increase on the previous year). The division contributed R660 million in diluted core headline earnings to the group. The roll out of Metropolitan Retail’s joint venture with African Bank announced in June 2017 is showing good progress, with 96 agents already operating from 48 branches across three provinces. The joint venture is expected to build a loan book in excess of R10 billion in the first five years as well as an insurance distribution channel that is expected to generate in-force premiums in excess of R1 billion within the same period.

Momentum Corporate and Public sector segment significantly increased its contribution to diluted core headline earnings by 23% from R680 million in the previous year to R835 million. However, value of new business declined to R68 million from R199 million in 2016 as a result of competitive pricing in the industry. Present value of new business premiums declined by 16% to R11.1 billion. Group

life insurance profitability improved markedly from the previous year, but high group disability claims persisted, which MMI believes is linked to the current unfavourable economic conditions.

MMI has decided to increase its focus on South Africa. Significant progress has also been made to review MMI's operations outside South Africa, which have been rebalanced to have a stronger focus on countries in the south of Africa. These changes are supporting focused management attention and capital investment into business initiatives with potential to achieve scale and growth.

MMI's international operations reduced the group's diluted core headline earnings by R166 million, partly reflecting the start-up losses made in its Health joint venture in India (which is now fully operational) and the expenses incurred in its mobile joint venture in Africa with MTN (aYo). Value of new business in the rest of Africa grew by 3% to R73 million and present value of new business premiums also grew by 3% to R2.5 billion.

Momentum Short-term Insurance has seen an increase in sales of 20% over the year, while also improving the claims ratio from 82% to 73%. This progress was achieved with excellent service levels being maintained. Only 3.41 complaints out of every 1 000 claims were submitted to the short-term insurance ombudsman, with only 4.29% overturned. This is significantly below the industry average of 27% and the lowest of any short-term insurer in the South African industry.

The Momentum Health open scheme has increased its membership by 10.6% to 158 624 in an industry where growth is

mented. The health business restructuring has been completed as planned and the business is on track to generate earnings in excess of R200 million in the next year.

Good expense management contributed positively to value creation. MMI is targeting a reduction in annual expenses of R750 million by financial year 2019. Over the past two years, R323 million of annual expense savings have been achieved and MMI remains on track to achieve its R750 million target.

“MMI continues to invest in growth initiatives with the aim of enhancing shareholder value over the longer term. We are excited about our partnership with African Bank, which creates the opportunity to expand our distribution network and product solutions. Our health insurance joint venture with Aditya Birla in India is likely to be our largest investment initiative outside of South Africa in the near future,” says Kruger.

In addition, MMI’s Exponential Ventures continues to drive external innovation for the group and has made a number of investments through its local partner (4Di Capital) and Anthemis Group in the UK.

MMI has a solid capital buffer of R3.7 billion at 30 June 2017.

“Financial Wellness remains our unwavering purpose, driven by our strategic focus areas of client centricity, growth and excellence. Multiply continues to be an area of specific strategic importance to differentiate our client value proposition. We continue to focus on

unlocking value over time for our clients and shareholders,” concludes Kruger.