

Newly appointed MMI Holdings CEO to focus on client-centric strategy execution

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MMI Holdings Limited (MMI) today announced its results for the six months to 31 December 2017. The newly appointed MMI CEO, Hillie Meyer, says MMI remains committed to its client-centric strategy but a greater focus will be placed on the effective execution of this strategy.

"The MMI client-centric strategy, launched in 2014, is now well ingrained in the various business areas, and we are starting to see the benefit of the execution focus coming through in a number of areas such as our product offering, technology environment, and footprint growth in Momentum Retail and Momentum Corporate. We will increase our efforts to grow our core South African businesses," says Meyer.

R2 billion set aside for share buy-back

The group has decided to update its dividend policy to be consistent with its planned capital deployment and projected capital coverage profile. The group will also take a more proactive approach to capital management than in the past.

Financial Director for MMI, Risto Ketola, explains, “After much deliberation and careful consideration of the impact on our shareholders, we have decided to distribute capital to shareholders by means of a share buy-back in lieu of paying dividends. Given the current discount to embedded value, we are of the opinion that a share buy-back is the most efficient use of capital and will enhance value to shareholders. We plan to distribute R2 billion to shareholders through share buy-backs during the next 12 months.” In future, the group will target a dividend cover range centred around 2.5x core headline earnings compared to the 1.5x to 1.7x core headline earnings referenced previously.

With a capital buffer of R4.1 billion at 31 December 2017, MMI’s capital position is strong, allowing for statutory capital requirements, strategic growth initiatives and the share buy-back programme. At 31 December 2017 MMI held capital equal to 2.8x the minimum required statutory capital.

Earnings growth impacted by large investments in growth initiatives

The group reported diluted core headline earnings of R1.6 billion, a 3% reduction in the corresponding six months to December 2016. This was largely due to weaker persistency in Metropolitan Retail, weaker profitability in both new generation and legacy life products at Momentum Retail, and an increase in MMI’s share of losses, in line with business plans, on new initiatives such as the India joint venture.

MMI's operating businesses contributed R1.3 billion to core headline earnings, a 4% improvement compared to the same period in 2016. If MMI excludes its early-stage India, aYo and Money Management strategic initiatives, operating profit growth from core operating businesses was 11%.

MMI recorded an embedded value of R43.4 billion (R27.05 per share) and embedded value earnings of R2.3 billion, reflecting an 11.2% return on embedded value, nearly 7% higher compared to the prior period number of 4.5%, largely driven by supportive investment markets.

Momentum Retail recorded a R567 million contribution to earnings, 10% lower than the previous period. Metropolitan Retail contributed R317 million, a 15% reduction on the previous period, but Momentum Corporate increased its earnings contribution by 42% to R455 million. MMI's international operations in the rest of Africa and the joint venture in India reduced their losses by 56% to R27 million.

"Mortality underwriting experience in the retail segments, as well as Momentum Corporate, contributed positively to the results. Group disability experience, although still negative, showed a material improvement following the rate reviews across the disability book," says Meyer.

Value of new business was slightly down by 1% to R288 million compared to the half-year to December 2016. Momentum Retail's value of new business declined by 16% to R89 million, while Metropolitan Retail increased its embedded value of new business

by 38% to R130 million. Momentum Corporate recorded a value of new business result of R44 million, 4% lower than the previous period, while MMI's international businesses experienced a 46% decline in value of new business to R25 million.

Overall new business sales (measured on a present value of premiums basis) declined by 5% to R20.3 billion compared to the same period in 2016. Both of the retail operations grew new business sales, but sales were lower in Momentum Corporate and in the international businesses. Momentum Retail's sales was R11.2 billion, Metropolitan Retail contributed R2.9 billion, Momentum Corporate new business sales was R4.9 billion and the international businesses contributed R1.4 billion.

Strategic initiatives progressing well

Momentum Health, MMI's open medical scheme, increased its membership by 11% to 161 739 principal members. "The recently concluded Metropolitan Health strategic partnership with the Thebe Health Group and the Validate-Workerslife Consortium is also an exciting milestone for the group and positions our health business for growth in the closed scheme and public sector space," says Meyer.

MMI continues to invest in the Multiply programme, a key component of its client engagement strategy that aims to improve retention, cross-selling and underwriting experience.

Momentum Short-term Insurance performed well during the six months mainly due to good underwriting results as well as prudent

expense management. The claims ratio improved from 78% to 71% year-on-year.

Guardrisk, MMI's cell captive insurer, continued to post positive results with earnings growth at 42% for the first half of the financial year compared to the prior year. This was achieved on the back of a recovery in underwriting results and good growth in management fees representing the core of the business.

MMI is progressing well to rationalise its Africa portfolio and the health insurance joint venture in India continues to be MMI's largest ongoing strategic initiative outside South Africa. The health insurance joint venture with Aditya Birla in India demonstrated excellent progress and at 31 December 2017, the business had more than 800 000 insured lives.

In conclusion

"I am encouraged by MMI's commitment to enhancing the lifetime financial wellness of people, their communities and their businesses. We will achieve this by adopting a performance-focused culture, and by empowering business leaders to be accountable for their performance," concludes Meyer.