Fifty shades of Old Mutual green

It is surprising to see how limited Old Mutual's exposure to most of the large markets in Africa has been. For its first 160 years it focused on a few of the outposts of the British empire in East and southern Africa, with little claim to be a pan-African insurer.

But Ralph Mupita, chief executive of Old Mutual Emerging Markets, says that through "sensible acquisitions" it plans to be a dominant force across the more promising economies in sub-Saharan Africa. Three of the largest and most promising economies, Mupita argues, are Nigeria, Kenya and Ghana.

Mutual has spent R700m across these three countries so far. In Ghana it plans to buy control of Provident Life, an established business with about 7% of the Ghanaian life market.

In Nigeria it has bought Oceanic Life from Ecobank. Oceanic is a small company but nonetheless a platform to introduce Old Mutual to a country of 170m. In Kenya, where it already had an outpost, it has bought control of prominent micro-lender Faulu Kenya

In all these countries the businesses will replicate the model of the Old Mutual mass market business. The mass new recurring premiums of R1,36bn are now almost double the sales of the predominantly white retail affluent cluster. And, on the balance sheet, its sales are growing faster at 17% compared with 3% for retail affluent. Retail affluent, however, remains the main source of profits with gross sales of R26,6bn, including lower-margin unit trusts.

Mass market savings product

Old Mutual is the only large life office to provide a profitable savings product for the mass market and this was a big driver of the 25% increase in new recurring savings to R1,4bn.

At the interim results announcement in London last week, there wasn't much interest in mass market SA - even though it is the best-run unit in the group. A high proportion of the questions were about Old Mutual's UK platform. This despite the fact that it earned a derisory £2m in operating profit for the six months to June. Yet, arguably, the platform - what in SA is called a linked investment service provider - is the key to the future of Old Mutual's developed market business.

Group chief executive Julian Roberts says the platform will always be a low-margin business - especially compared with the on balance sheet endowment policies it is replacing. But it reached breakeven with £20bn under administration and this has increased to £25bn.

However, Old Mutual will make the bulk of its profits from products it can sell on the platform. It needs to replace the income it was making from what it quaintly calls the "Heritage" business, old-style, opaque life products from which it milked a tidy £53m.

The cross-border business, the old Royal Skandia and Old Mutual International brands, offers a similar range of products to the less price-sensitive, and less well regulated expatriate market, but even here margins have been squeezed. Despite an increase in net flows from £61m to £254m, operating profit fell by 14% to £31m.

Profits in fund management

Old Mutual has realised that the real profit lies not in administration but in the fund management or "manufacturing". It consolidated its domestic UK fund managers into Old Mutual Global Investors (OMGI), which had strong sales of £3,5bn, notably after hiring Richard Buxton, a "star" manager from Schroders. In the few weeks after the hire £250m flowed into the fund - not only on the Old Mutual platform but also from third-party platforms such as Hargreaves Lansdown. OMGI's profit was up 167% to £8m.

"We have decided that our core business is working with financial advisers and designing product," says Roberts. "I don't intend to see IT as a core competence, so the platform has signed a 20-year outsourcing agreement with IFDS, a large outsourcing firm that can worry about these things from now on," he says.

One part of the business that seems out on a limb, co-operating little with the rest of the group, is US Asset Management. It is a purely institutional business with no contact with the retail market. Many of the non-core fund managers (which only a few years ago were considered core) such as Dwight, Analytic and Larch Lane have been sold. Roberts says that after shrinking the business he believes the remaining businesses all have good prospects - the net client flows into the business increased from US2,4bn to US$10,6bn.

A separate listing in the US of these businesses is not imminent but is being considered. First prize would be a clean trade sale to one of the largest investment groups such as BNY Mellon or JP Morgan

The combined profit of the northern hemisphere businesses is £162m, substantially less than Nedbank after minorities. Analysts have stopped asking Roberts when he plans to sell Nedbank.

It would not be the right time, as it is midway through recovery. Three of the six largest profit contributors in the Mutual group are from Nedbank and its retail, corporate and capital units.

Nedbank

Nedbank boss Mike Brown's aim to be the most admired bank in Africa square with Old Mutual's aim to be to Africa what Prudential is to Asia - a dominant pan-continental force. Through its option to buy 20% of Ecobank, Nedbank has a new footprint from the badlands of northern Mali to the agreeable shores of Lake Kariba.

If Nedbank's plan to buy 35% of Banco Unico in Mozambique comes off, it might even kick-start a move by Old Mutual into SA's eastern neighbour.

Though earnings were up a respectable 13%, there were some slips. Nedbank's R182m provision against losses from First Strut led to a disastrous showing from business banking. The retail profit was down 12% as the credit loss ratio increased from 2% to 2,56%, but the corporate bank and capital (the merchant bank) had a strong period.

Roberts says Mutual & Federal (M&F) was the biggest disappointment of the period. These results are now reported under property and casualty. In future all general insurance businesses in Africa will carry the Old Mutual brand, including the

Oceanic Insurance business in Nigeria.

The direct insurer, Iwyze, already carries the Old Mutual brand as its endorser. And though it is "direct", a large part of its sales have been sourced by the Old Mutual mass market sales force.

Raimund Snyders, previously Old Mutual's head of distribution, has the challenge of repairing M&F. The insurer will be run with far less autonomy than in the past.

M&F's underwriting margin fell from 2,5% to a negative 2,7% and operating profit fell two-thirds to R135m.

Says Snyders: "We will take selective pricing action to help us get acceptable returns on poor-performing lines of business. And there will be a big focus on expense control."

So it seems all the units in Old Mutual will be marching to the same drum, just in different shades of green.

Source: Financial Mail via I-Net Bridge