Q1 2013 Sales and Revenue Call - Operational Update

Company Participants

- Johan van Zyl, Group Chief Executive Officer
- Kobus Moller, Financial Director

Other Participants

- Francois du Toit, Analyst
- Michael Christelis, Analyst
- Unidentified Participant

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Sanlam update for the four months ended the 30th of April 2013. All participants are now in listen-only mode and there will be an opportunity for you to ask questions after today's presentation. (Operator Instructions) Please also note that this conference is being recorded.

I would now like to hand the conference over to Johan van Zyl. Please go ahead, sir.

Johan van Zyl {BIO 4080290 <GO>}

Good afternoon, ladies and gentlemen, and welcome to this conference call. I'm joined on the call by our Financial Director Kobus Moller and also Wilkus Oliver, the Head of Group Finance.

By way of introduction, I'd like to say a few things. Firstly, consistent delivery has been a key feature of Sanlam over a number of years. The Group's strategy has been in place since 2003 and steady implementation thereof has transformed the Group into a diversified and resilient business. This resilience enabled us to again deliver a set of sound results for the four months ended 30 April, 2013.

The operating environment remained challenging in general, but in particular for our short-term insurance operations in South Africa, and also some of our rest of Africa businesses. Global economic growth remains constrained with low demand from developed economies for resource based exports from Africa. The South African economy continues to deliver low growth under these conditions, aggravated by the industrial action in a number of industries over the last few months. Pressure is mounting on certain over-indebted sections of the consumer base and this is evident in recent company results, not our own, but those of peers.

Claims experience in the South African short term insurance industry remains under severe pressure emanating from mainly unfavorable weather conditions and weakening rand. And the rest of Africa, the Songhai economy in particular continues to struggle. As anticipated, the South African investment market did not repeat its 2012 performance for the first four months in 2013, however, we've had a higher base to work from.

If we then move on to the results and an overview thereof, I'd like to mention that the key aspects of the operational results for the four months period are as follows. Firstly, overall new business volumes which excludes our white label products which are now diminishing, increased by 50%. This new life business is up 20% and new investment business by increasing by more than 30% as compared to the first four months of 2012.

The businesses performed as follows. Sanlam Personal Finance recorded a 28% increase in new business volumes with strong contributions from all market segments. The South African entry-level market recorded growth of 28% driven by more than doubling in new group life business. The 2013 results include the ZCC premium renewal which only contributes to new business every second year.

Single premiums remained a main contributor to new business growth in the middle income market. New risk business volumes growth remains disappointing but this was offset to some extent by very good growth in new RA recurring premiums. Glacier's superior offering attracted new business volumes that exceeded the prior year by more than 30% despite lower demand for international products given the current weak rand exchange rate.

In Sanlam Emerging Markets, new life recurring premiums increased by 26% on the first four months of 2012, a particularly satisfactory result. Sanlam Emerging Markets received large single premium inflows in 2012, in particular, the Namibian Unit Trust closed a [ph] large life insurance mandates in the rest of Africa. This did not repeat to the same extent in this year, but volatility is inherently part of single premium business and does not detract from a sound underlying performance. Our rest of Africa growth trajectory remained in line with expectations.

Sanlam Investments had a very good start to the year with most businesses delivering growth in excess of 50%. This translated into satisfactory net flows, despite two large withdrawals of some 4 billion in the four month period. Overall, net fund inflows of 9.4 billion represents an exceptional performance in the challenging conditions and this excludes the white label stuff.

Net result from financials services or our net operating profit decreased by 30%. This includes a first time contribution from the Group's increased stake in Shriram Capital that we acquired last year. Organic growth in the operating earnings of 22% was achieved, that is taking the Shriram Capital stake out of it, which we believe is still a very good result. All operations contributed to the growth apart from Santam, which has been hit by catastrophe and weather related agricultural trends.

A few comments on capital. We remained very well capitalized with a healthy solvency level. Sanlam Life Insurance Limited statutory capital covered its capital adequacy requirements, it's CAR, by four times on the 31st of March 2013. Here we do the calculation only every three months, so it's not for four months. The Group's discretionary capital amounts to some 3 billion after allowing for the special dividends and investments in Shriram Capital and Pacific & Orient. Our focus remains on computing value-adding opportunities to utilize the discretionary capital.

In conclusion, a prolonged global recovery will continue to impact growth prospects in the short-term. We, however, remain confident of the growth potential of the Group with the entry level market in South Africa, our rest of African businesses, the Indian and Southeast Asia remaining key focus areas.

Our investment markets are expected to remain volatile for the remainder of 2013, which will impact our returns on the Group's capital portfolio. Our strategic focus on maximizing shareholder value through optimizing return on group equity value is still key to our strategy and this is what we're driving and how we are incentivized.

Thank you. I will now open the call for questions from the audience.

Questions And Answers

Operator

Thank you very much, sir. (Operator Instructions) Our first question comes from Michael Christelis of UBS. Please go ahead.

Q - Michael Christelis {BIO 15233664 <GO>}

Hi, good afternoon, guys. Two questions if I can. Firstly, I am wondering if you can maybe comment just on the lapse experience you are starting to see. Are you seeing any deterioration particularly in the low income space in South Africa as we've seen at one or two of your competitors?

And then secondly, just to clarify the impact of the sort of reduced bond yields on your new business margin. Your commentary suggested you've got a marginal increase in margins, yet if you look at where bond yields were at 30 April a year ago and 30 April this year, this should be a good 10% move there in the new business margins. Maybe if you can just give me some clarity there. Are you writing lower margin business and therefore you have a slight improvement in margin or am I misunderstanding the comp here?

A - Johan van Zyl {BIO 4080290 <GO>}

Okay. Kobus will come back to the bond yields and the margin issue. Let me just talk a little bit about the lapse experience, particularly in the lower end of the market. We haven't seen in the South African market, the lapse experience a weaker scene, but you have to take into account that we've been managing this a lot over the last two years. We've placed tremendous focus on that.

And two years ago, you would recall, when most of our peers grew their books in the lower end quite substantially with no growth, resetting the base, really focusing on quality business and so forth and I think what we see now is the net effects of those things coming through. We write and we take substantially less of the business that we -- or much lower percentage of the business we would have taken in, we take in at present, really focusing on quality and we don't write business from people who are fully indebted or have too many policies already in the books.

So we don't see anything and we were within our assumption range in terms of performance of the book both in the middle market and the lower income market. The only area where we see some deterioration in our book is Botswana. We've spoken at several times in the past, but again around the issues there, we have quite inflation rates that are close to 10% in Botswana, yet we haven't seen any across the board increase, particularly in salaries of civil servants. The idea here is to decrease the overall salary level to become -- make the economy less reliant on diamond, and this is definitely impacting on our lapse experience. But overall nothing to be serious, but we see a weaker demand, nothing to be serious about.

And in terms of the bond deals, Kobus?

A - Kobus Moller {BIO 7480143 <GO>}

Michael, you're quite correct in terms of the impact of the rates. I think if you refer to the marginal improvement, it's really on a consistent rate. if you use the actual rates which end of April, I mean it is substantially better, but on a consistent basis it's just marginally better than the year ago.

Q - Michael Christelis {BIO 15233664 <GO>}

Okay. So, when you said your net value in your life business increased 27%, is that --?

A - Kobus Moller {BIO 7480143 <GO>}

That was actual and it's -- part of that is -- is the rates.

Q - Michael Christelis {BIO 15233664 <GO>}

Okay. Perfect. Thank you.

Operator

Thank you. Our next question comes from (inaudible) of Standard Bank. Please go ahead.

Q - Unidentified Participant

Yes, hi. Hi, gents. Just two questions. Also on interest rates, you in the outlook statement you sort of referred to possible impact of interest rates and profits. Now, you guys use an asset mismatch reserve for your nonprofit books. I would have expected your interest rate sensitivity in earnings to be quite low, so maybe just if you can maybe expand on exactly what you're referring to when you sort of warning about the possible impact of interest rates.

The second thing is, employee benefits. Now you mentioned that investments did very well. I'm not sure if you include EB under that title, because EB itself hasn't been mentioned anyway, so maybe some pointers on how EB did during the four months?

A - Johan van Zyl {BIO 4080290 <GO>}

Yes. Just start through the EB question. EB, the sales are actually a bit down on the previous, last year. But we didn't exclude it, so we included the number under the investment. So, they've done fairly well on the single premium side, slightly up but down on the recurring premiums. So overall I would say so (inaudible)

Q - Unidentified Participant

Okay. Thanks.

A - Kobus Moller {BIO 7480143 <GO>}

Reference to the interest rate, the outlook was really exactly what Michael's point that at the end of April the rates were very low but since then came back again, so it's more impact on your value of new business and the GEV impact that clearly monitor. You are quite right that on the -- the direct impact on the earnings is not that much.

Q - Unidentified Participant

Okay. Perfect. Thanks.

Operator

(Operator Instructions) Our next question comes from Francois du Toit of JPMorgan. Please go ahead, sir.

Q - Francois du Toit {BIO 16128719 <GO>}

Hi. The margin question can be clarified if you could just give us the PVNBP growth for the period, first question. And then maybe is it possible for you to give us the earnings growth excluding Santam? And then third question just on the impact of the ZCC premium increases? Can you give us an indication of how much of that 27% growth just simply came from the rate increase from the ZCC?

A - Johan van Zyl {BIO 4080290 <GO>}

I can try to help you on those. So even without the ZCC, the Group has doubled year-on-year. So I mean, we had to see it as a sizable part of that, but it's not that material, so the underlying business also is still much better than last year. On Santam, I don't think we'd like to give you that. I think, really Santam doesn't provide detail on their numbers, so by giving you that number it makes it easier to calculate the Santam numbers. We can't disclose what they haven't.

Q - Francois du Toit {BIO 16128719 <GO>}

Okay.

A - Johan van Zyl {BIO 4080290 <GO>}

PVNBP also I have disclosed. What was the increase there? Roughly 18%, 20% increase PVNBP.

Q - Francois du Toit {BIO 16128719 <GO>}

18% to 20% increase, okay. And that would have benefitted from the lower interest rate as well?

A - Johan van Zyl {BIO 4080290 <GO>}

To some extent, yeah.

Q - Francois du Toit {BIO 16128719 <GO>}

Okay. And the (inaudible) volume increase, you would get to disclose that?

A - Johan van Zyl {BIO 4080290 <GO>}

We haven't talked related to that.

Q - Francois du Toit {BIO 16128719 <GO>}

Okay. More or less in line or slightly below the PVNBP increase?

A - Johan van Zyl {BIO 4080290 <GO>}

I mean, as you know, we don't disclose that anymore, so it's not something that we focus on. I haven't done that calculation.

Q - Francois du Toit {BIO 16128719 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) Gentlemen, it appears we have no further questions. Do you have any closing comments?

A - Johan van Zyl {BIO 4080290 <GO>}

Yes, thanks. The only comment that I have is to, I would like to thank people for participating in the call. We appreciate the continued support and enjoy the rest of the day.

Operator

Thank you very much, sir. On behalf of Sanlam, that concludes this conference. Thank you for joining us. You may now disconnect your lines.