

# **Liberty**

## **Our Investment Case**

27 October 2011

Bruce Hemphill

Chief Executive



# Agenda

Our strategic objectives

Components of our Investment Case

Concluding remarks

# Our strategic objectives for 2011

Strengthen the insurance business

Excellence in balance sheet management

Diversification

We have delivered on:

Customer management and retention

Delivery of appropriate risk adjusted returns on the SIP

Reduction of earnings volatility in respect of asset and liability management

Key investments made to deliver on diversification initiatives

We are now focussing on:

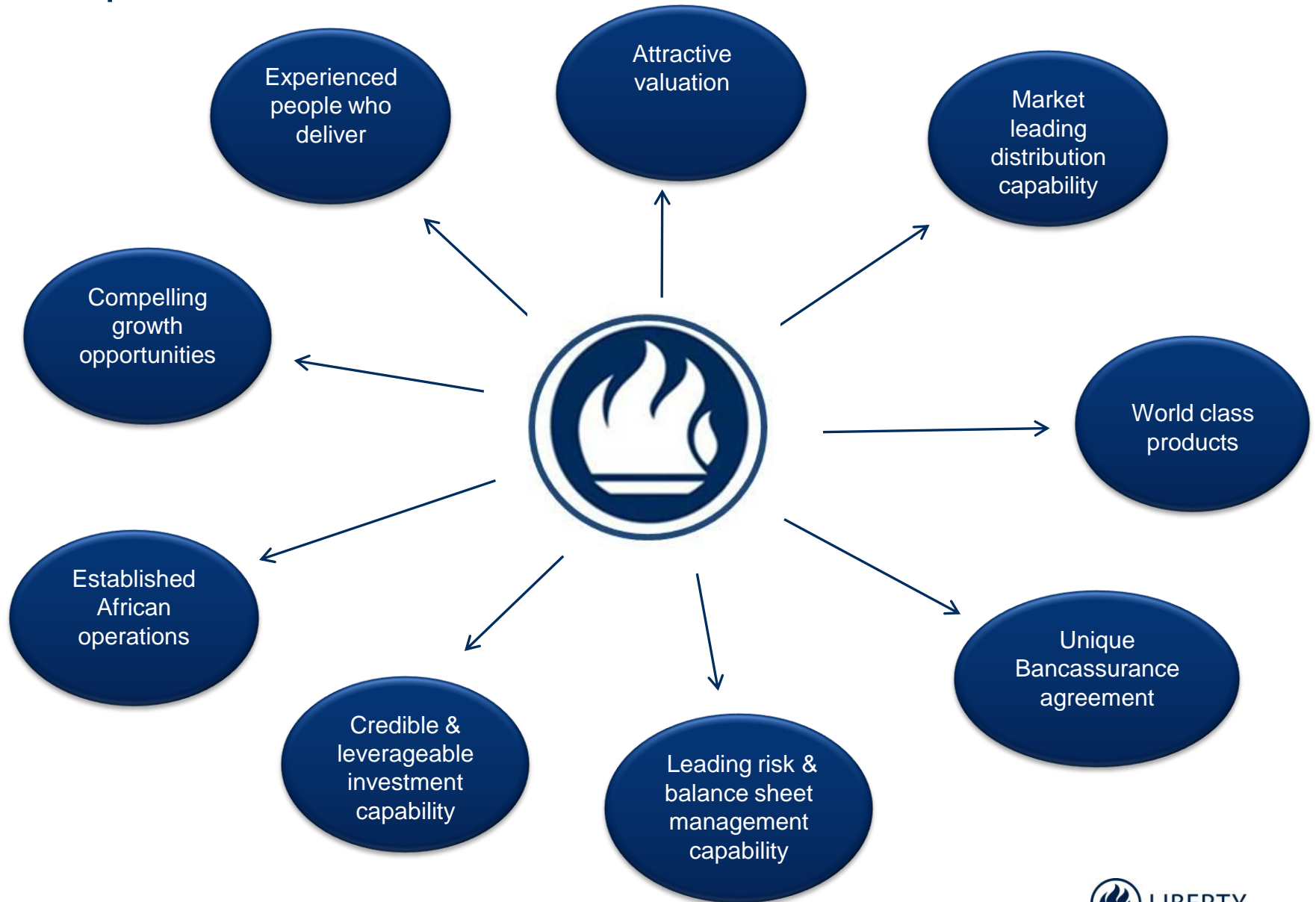
**Managing our businesses to model** and business case, realising the current equity value - lowering discount to EV

**Rejuvenating the business** to realise full equity value

**Expanding** selectively to establish a premium to equity value

A clear and consistent strategy to move the business forward

# Components of our Investment Case

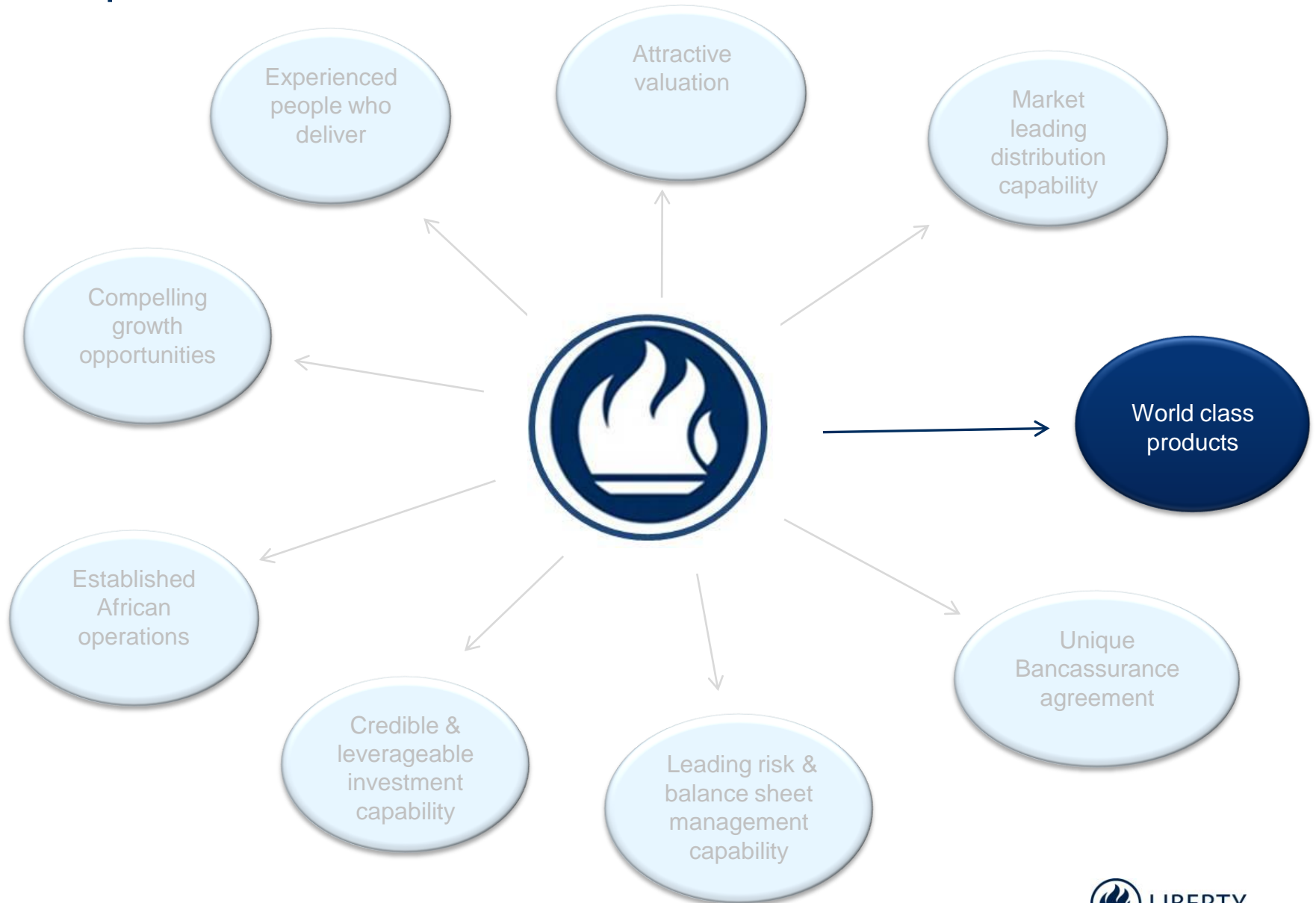


# Market leading distribution capability

- Retail SA is the largest writer of business in the retail affluent space, with the largest market share of life cover and disability cover sales
- A healthy mix across channels with diverse market penetration through the Bank, Liberty tied agents and IFA's
- Combined with the bancassurance channel we have one of the largest and most productive intermediated sales forces in the country
- We will be rolling out solutions on a direct and intermediated platform in a joint venture with Standard Bank of SA
- We have a leading distribution capability for both investments and insurance products supported by a world class and globally benchmarked financial adviser value proposition
- The **financial adviser value proposition** is multifaceted and designed to provide the “contract of choice”
  - Value of the proposition to the adviser is aligned to profitability of the book of business to Liberty
  - Timely and relevant management information is a leading differentiator in managing our advisers
  - Management of sales force and in-force book through the ‘Advisor Quality Code’
  - Differential pricing option
- We have built a low cost direct administration platform (as part of Frank) which can be utilised in South Africa and Africa to provide affinity solutions through a flexible web based platform

Strong intermediated offerings complemented by a unique direct capability

# Components of our Investment Case

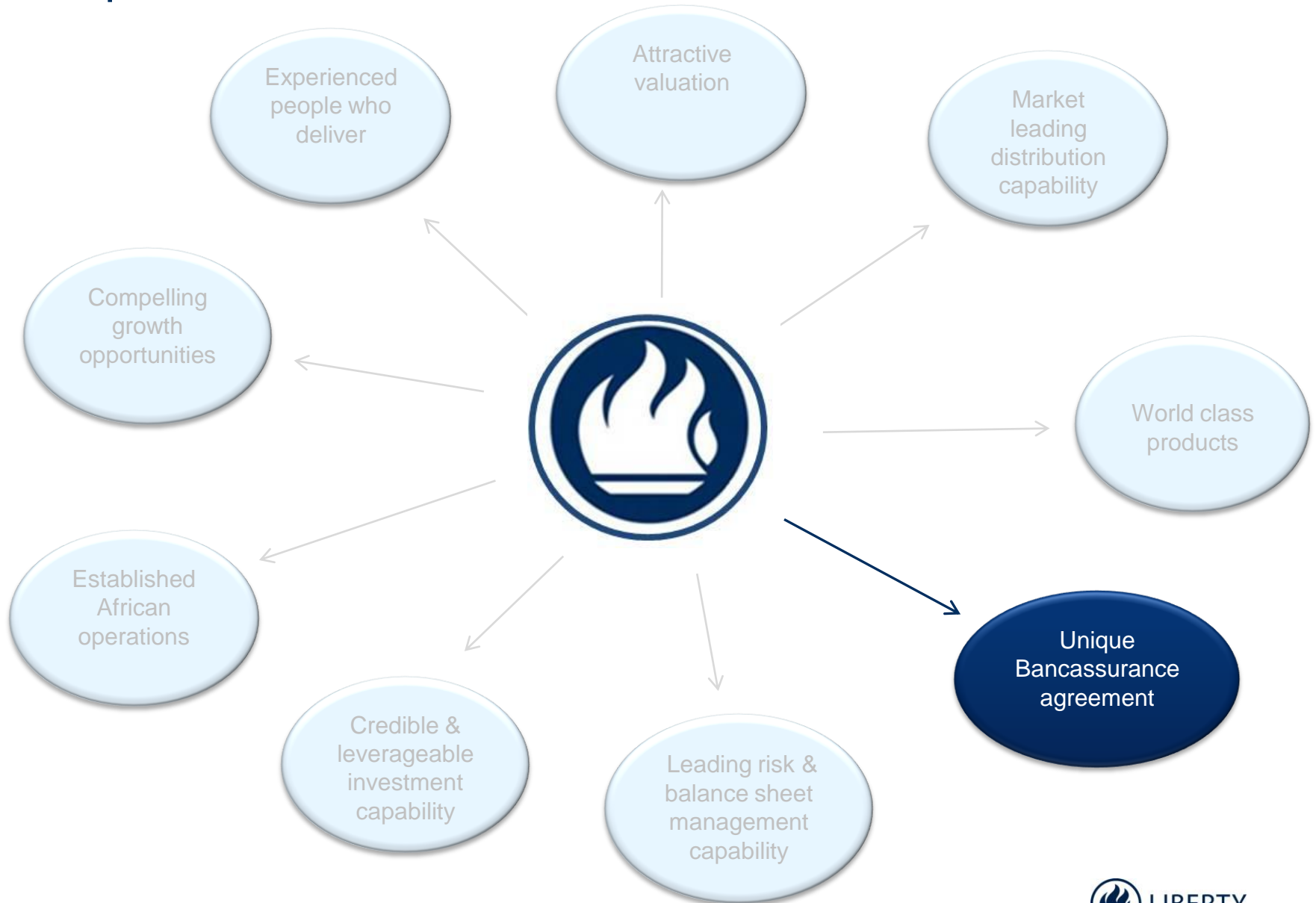


# World class products

- **Insurance and on balance sheet investment product;** we offer a full suite of competitive risk and investment products through Retail SA and Corporate
  - Competitive risk products voted the best by IFA's in 2011
    - › Product enhancements include; Life Disability benefit and new Whole of Life Income Protector product
  - Competitive guaranteed capital offering which is taking back market share
  - New investment product in 2012 through the strategic investment in LibFin
  - Market leading property investment offering
- **Investment and off balance sheet product;** we offer a full suite of investment products through STANLIB
  - Managing the oldest and largest unit trust fund in South Africa
  - The STANLIB Property Income Fund and the STANLIB Income Fund were named as top performers at 2011 Raging Bull awards
- **Health;**
  - South Africa – leading health product suite through our partnership with Liberty Medical Scheme
  - Africa – health products manufactured by Liberty Health

Full suite of products and the ability to innovate to meet the changing needs of our customers

# Components of our Investment Case



# Unique Bancassurance agreement

- The Bancassurance agreement with Standard Bank is unique – provides access to retail and corporate clients - South Africa and Africa
- The agreement in its current form;
  - Contributes  $\frac{1}{3}$  of Liberty's new business sales (June 2011:R2 288m)
  - $\pm 20\%$  of STANLIB's cash flows originate from Standard Bank channels
  - $\pm 35\%$  of funds under management in STANLIB were contributed by Standard Bank channels
- The agreement in its new form;
  - Enables us to grow sales and cash flows in South Africa and Africa whilst leveraging our investments in Health, Africa and direct to accelerate growth

Enables us to penetrate all levels of the market in South Africa and underpins our growth in Africa

# Components of our Investment Case

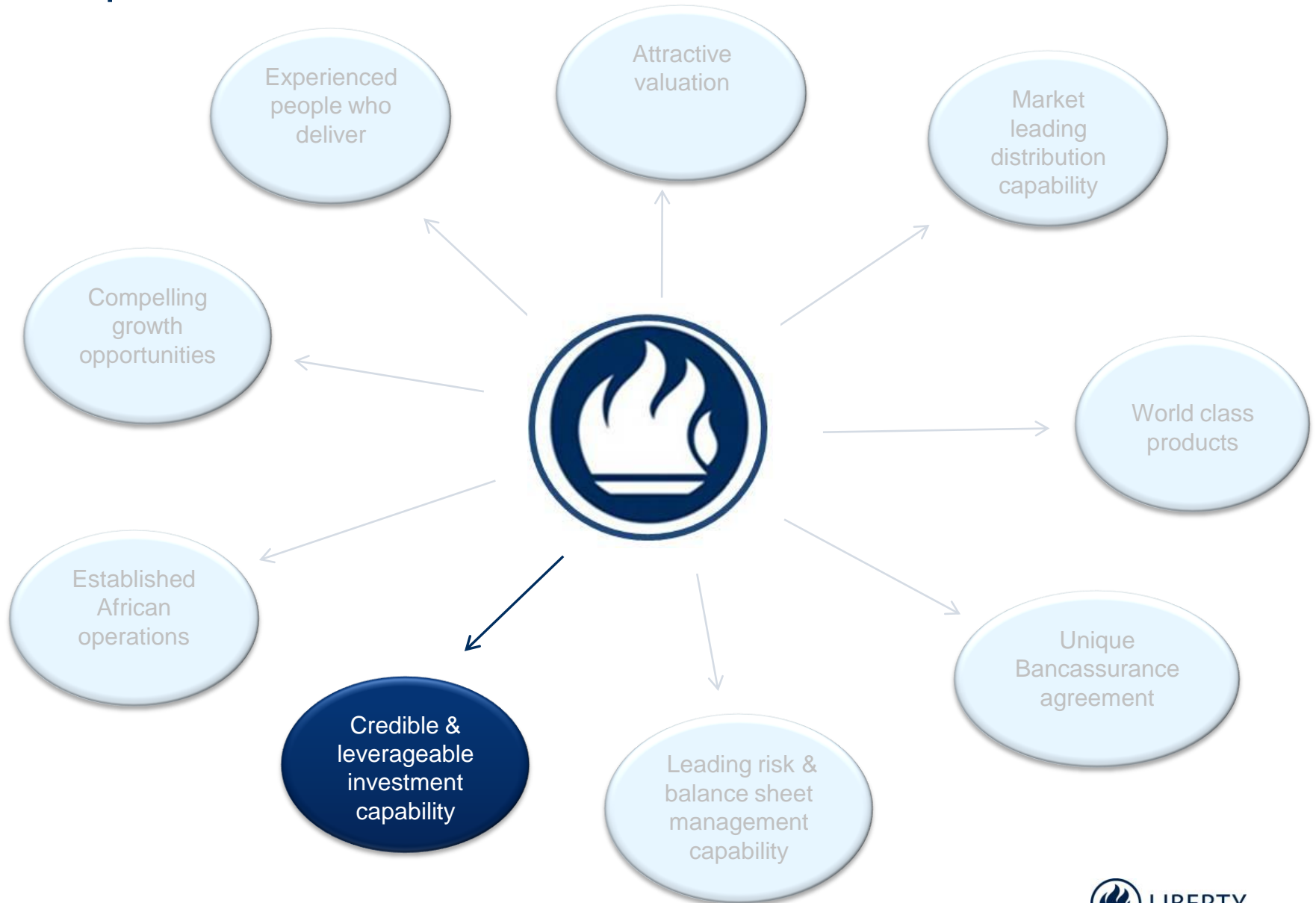


# Leading risk and balance sheet management capability

- Retail, Corporate and Health originate and manage insurance risk
  - Our business is to identify risk, price it, fetch it and manage it, to beat the profit expectation and the competition
  - To do this we are building world class risk management capabilities which will help expedite SAM implementation
- To manage non insurance risk associated with the balance sheet we created LibFin – which manages market, credit and liquidity risk
  - Reduces volatility in the earnings from the insurance book and improves the management of returns from the SIP
  - Reduces the capital required in respect of the insurance book by properly matching assets and liabilities
  - Enhances returns from the credit portfolios backing annuities and GCB's
  - Enhances on balance sheet investment capability

Management of risk becomes a competitive advantage

# Components of our Investment Case

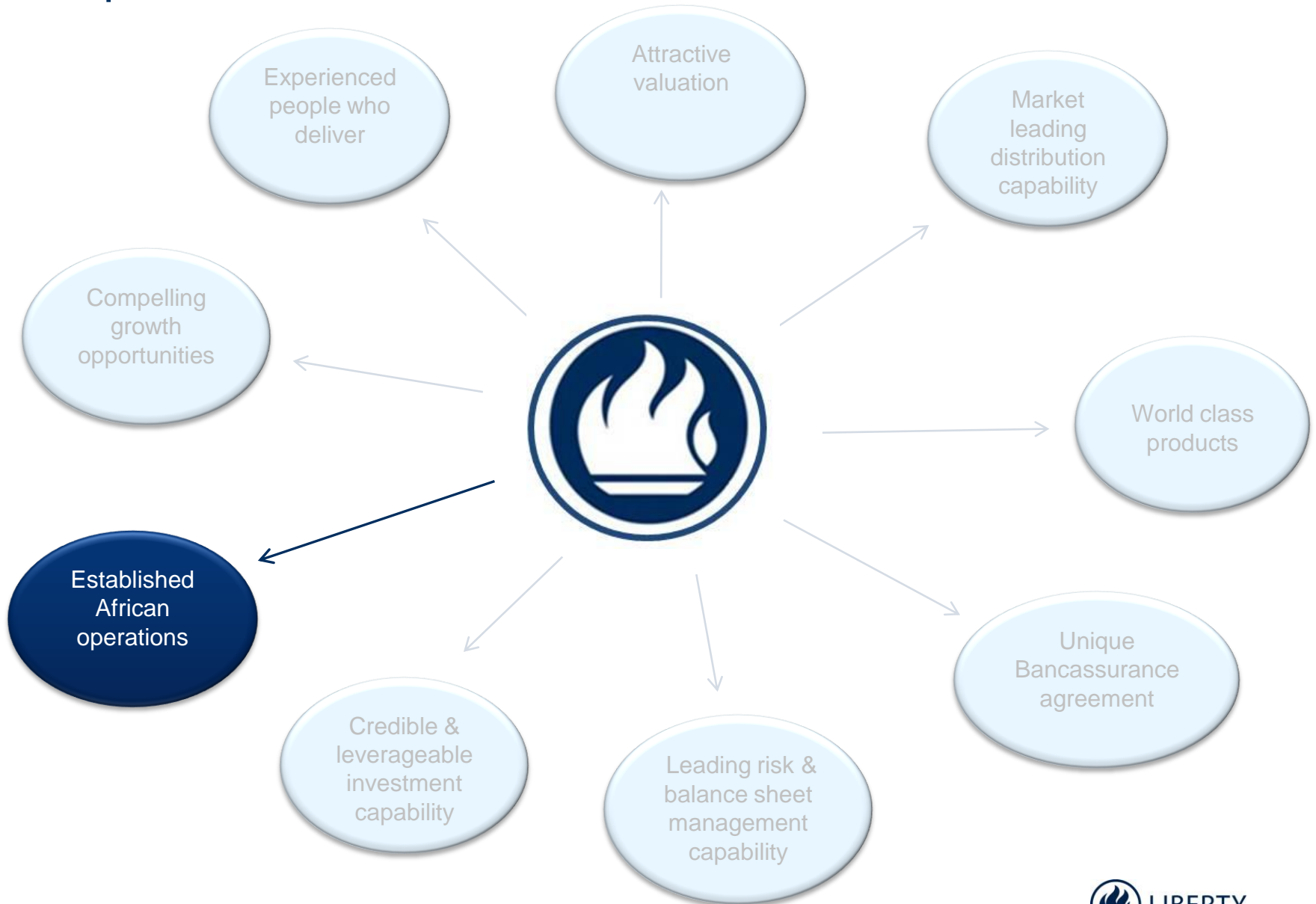


# Credible and leverageable investment capability

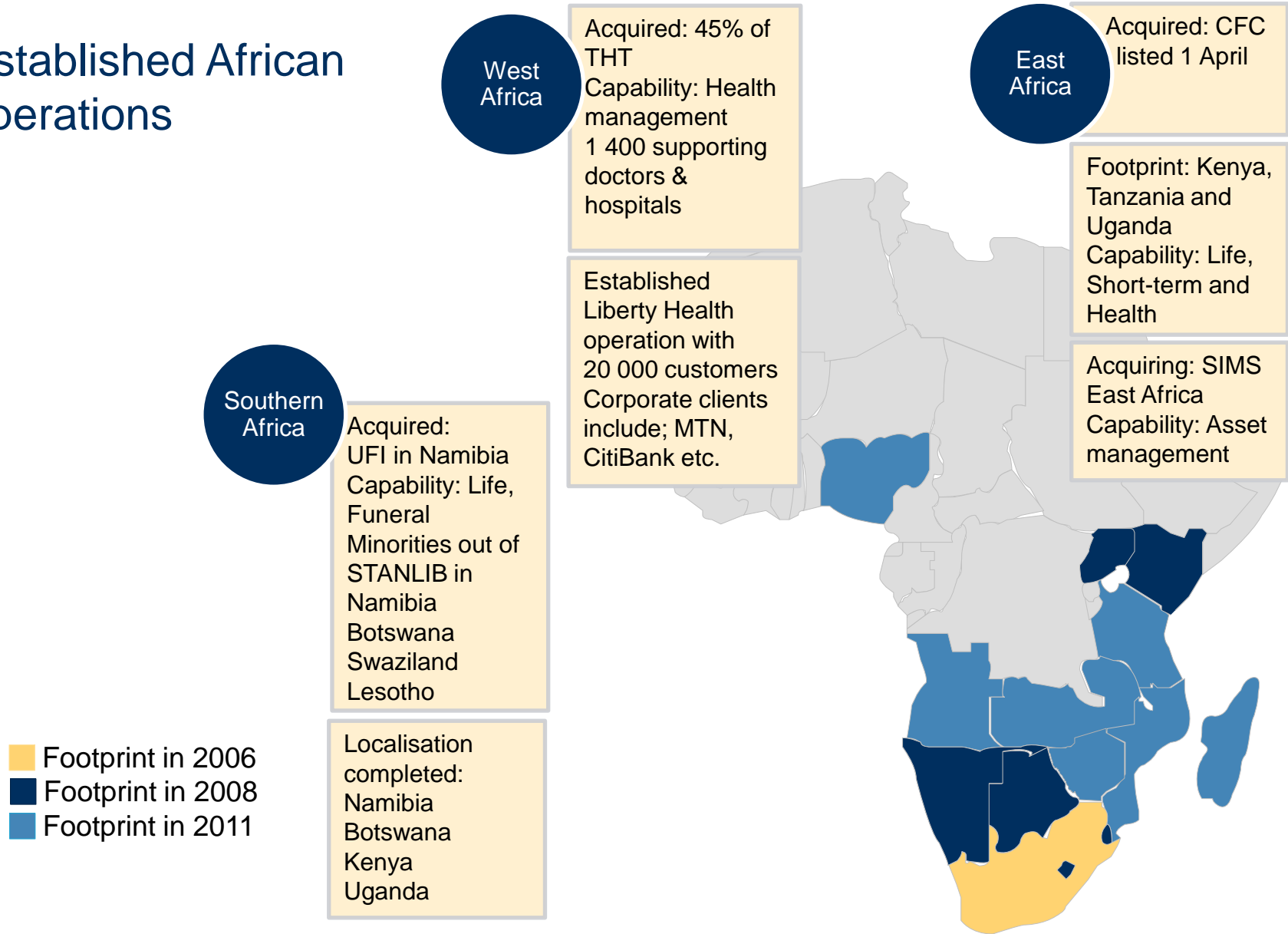
- STANLIB capabilities;
  - Strategic and tactical asset allocation
  - Leading listed property fund in the market
  - Leading fixed income fund
  - Strong balanced and money market funds
- Property
  - Unlisted property
- Africa
  - Pan African Equity
- LibFin capabilities;
  - Strategic asset allocation
  - Unlisted credit
  - On balance sheet investment products (guarantees etc.)

Significant investment capabilities which we can leverage to greater effect

# Components of our Investment Case

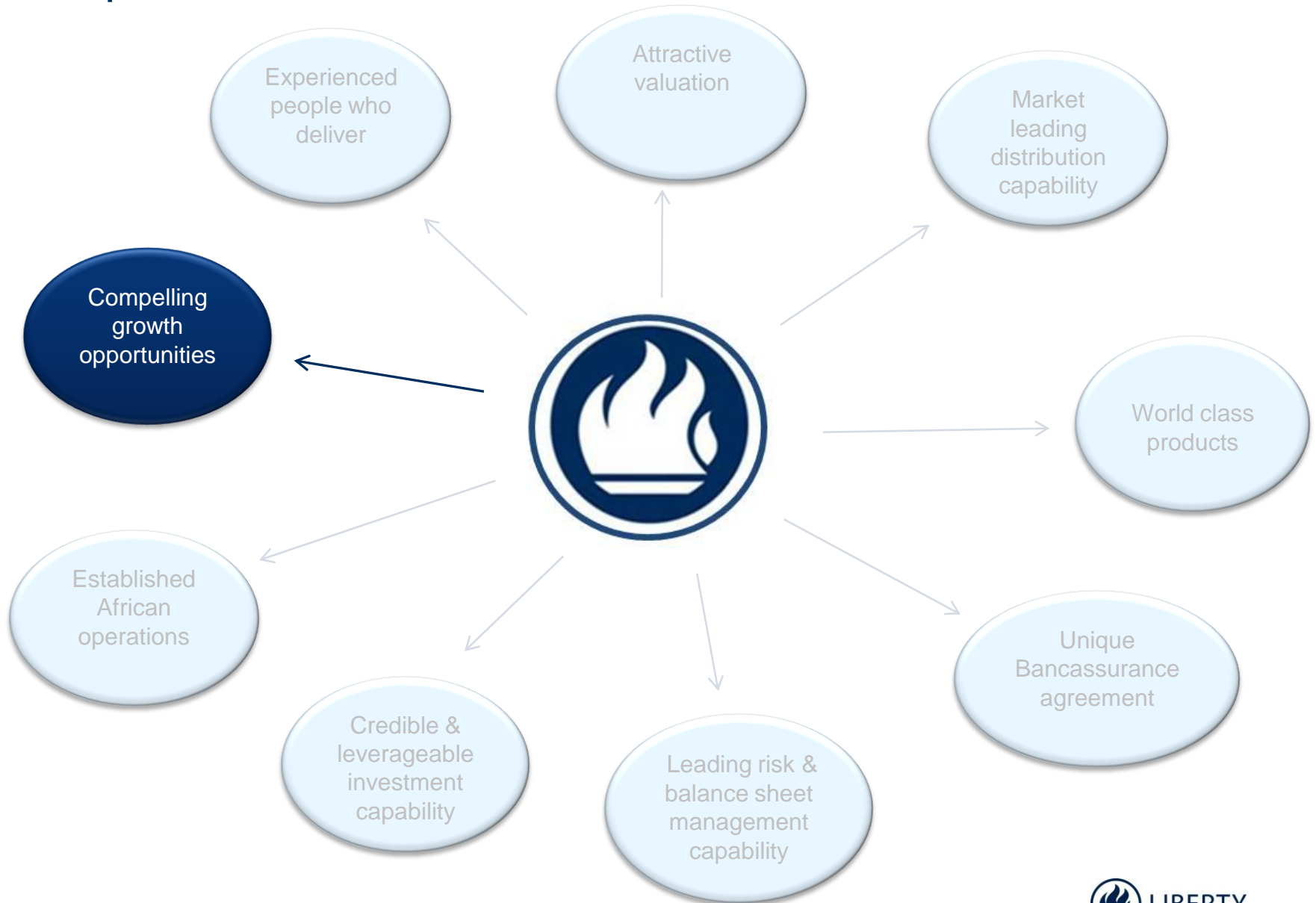


# Established African operations



Established an African footprint from no representation in 2006 to operations in 14 countries in 2011

# Components of our Investment Case



# Compelling growth opportunities – South Africa

- The South African economy continues to grow in terms of GDP

## Insurance

- Growth in high net worth and mass affluent segments continues
- The under penetrated lower income market represents an opportunity
- **Retail SA**
  - Significant progress has been made in re-establishing sales capacity and driving growth in traditional market segments to take back market share
  - Building on our existing capabilities in ELM to benefit from growth
- **Corporate**
  - Business built to support retail opportunity to leverage bancassurance, administration, LibFin, actuarial services and STANLIB to access new corporate customers
- **Frank.net**
  - Opportunity to capture a market not previously accessed and leverage infrastructure

## Asset management

- Market continues to grow, key drivers for this growth are investment market growth and inflows into unit trusts
- **STANLIB**
  - Has low market share in respect of equity and high margin products in the Retail and Institutional markets
  - Opportunity to create new capabilities such as unlisted property, debt and infrastructure reinforced by Reg. 28

Significant opportunities for growth in South Africa still exist

# Growth opportunities - Africa

- A significant emerging consumer population
  - IMF forecast - total population by 2025: 1,4bn
  - Collective GDP in 2020: \$2,6tn
- In general the African markets not mature enough to support traditionally distributed long-term retail products; this will change; we need to position ourselves for the change by;
  - Establishing a footprint – which we have done
  - Building a retail customer base through a corporate acquisition model by;
    - Offering Standard Bank's retail customers embedded products;
    - Offering asset management, health, short and long-term risk products to Standard Bank's 50,000 corporate customers in Sub-Saharan Africa;
    - Building our ability to operate affinities leveraging our investment in Frank

Pursuing growth in Africa through a low risk corporate acquisition model

# Components of our Investment Case



# Experienced people who deliver

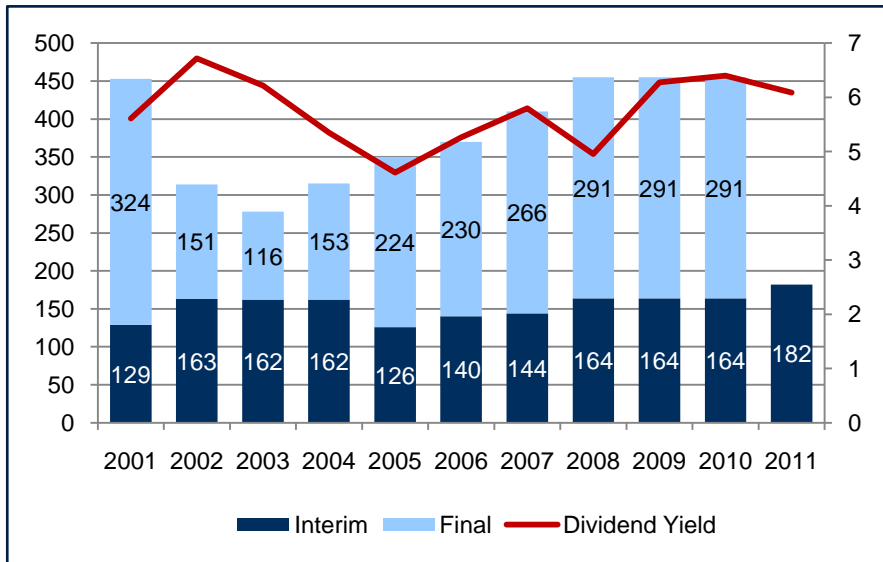
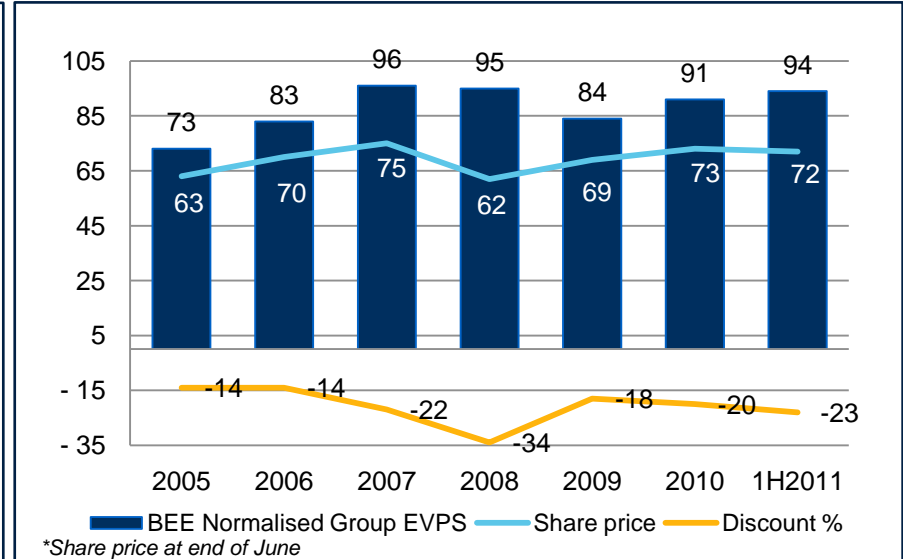
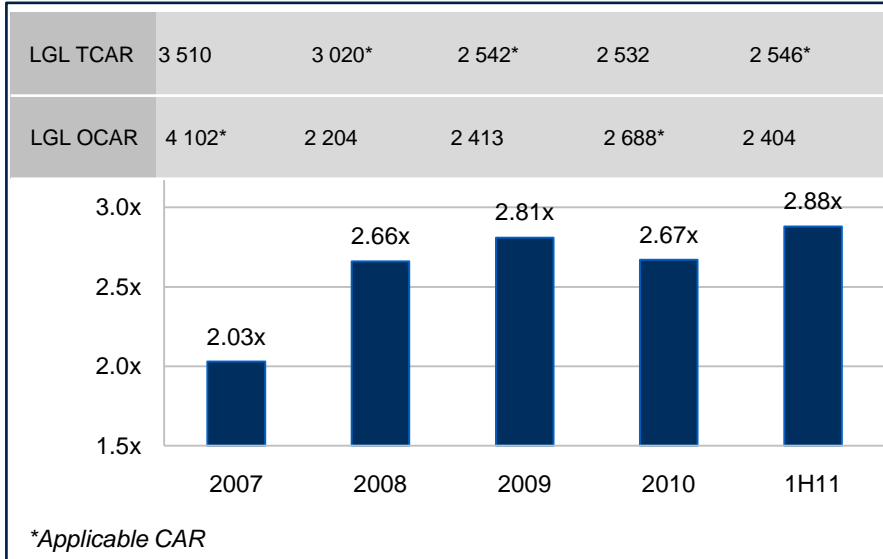
- The management team has extensive experience
  - Group executive committee has combined industry experience of 261 years
- Strong blend of business, insurance, actuarial, finance, legal and risk skills supported by local and international experience
- Stability - Staff turnover levels are currently lower than the industry
- The team delivers
  - Retail SA
    - Fixed the balance sheet, improved policyholder retention and new business sales
    - The product team have stability and depth
  - STANLIB
    - Restructured the business and implemented new operating model
    - Overhauled the investment team bringing stability and improved performance
  - Property
    - Delivered significant developments in the last 3 years, within budget and on time
  - Growth
    - Direct technology infrastructure built on time, within budget and delivering to business case
    - African footprint established
    - Health business established and Pan African insurance product launched

We have substantially transformed the business despite significant global uncertainty

# Components of our Investment Case



# Attractive valuation



- 1) Strong capital position supported by QIS 1 results
- 2) Equity trading at a discount to EV
- 3) Attractive dividend yield supported by updated dividend policy

Core strength in underlying earnings supports strong capital and attractive dividend yield

# Closing comments

- We are focussing on:
  - **Managing our businesses to model** and business case, realising the current equity value - lowering discount to EV
  - **Rejuvenating the business** to realise full equity value
  - **Expanding** selectively to establish a premium to equity value



A leading provider of investment and risk products in Africa



Creating a point of differentiation for our stakeholders

Close the gap to EV and establish a premium

**Thank you**

