

Group chief executive's review

Good progress made in delivering Liberty's turnaround plan

DAVID MUNRO – Group chief executive



Reflecting on 2018

In 2018, Liberty continued to fulfil its promises to clients and supported them through their life journeys. We paid R9,6 billion in death and disability claims, R5,8 billion in annuity payments, provided advice through approximately 3 500 tied financial advisers and insured over six million lives. The value of these payments is immeasurable for families following the passing of loved ones, for people who suffer disability or dread disease, or retirees and their families. We are privileged to work with people, helping them achieve their hopes, dreams and aspirations, partnering with them through their life journeys. Our ambition is for our humanity to differentiate Liberty in the provision of advice, insurance and investments.

In 2017, we acknowledged the need for Liberty to improve the performance of our South African retail long-term insurance business in order to win back our legitimacy and credibility, while addressing other immediate challenges and building a solid foundation for future success. In 2018 we made progress in several areas, reporting an improvement in our financial metrics and steady progress in implementing our client and financial adviser centric strategy.

While the earnings and related financial metrics showed improvement, new risk and on-balance sheet investment business volumes remained under pressure. We are addressing this by revitalising our advice philosophy, striving to improve the service that we provide to both clients and advisers, and improving the quality of our financial solutions that support the advice process. We are rapidly adopting new ways of working as we seek to bring the power of the digital world to augment our advisers and improve both client and adviser experiences. Our middle market offering continues to struggle due to a lack of scale, while we have seen a good improvement in volumes generated through our direct offering, particularly in partnership with SBG.

We embarked on, and completed, a comprehensive redesign of our organisation during the year, reconnecting value chains that had become disconnected and focusing on the needs and requirements of our clients and financial advisers. This was a complex but necessary exercise which triggered high levels of anxiety and stress in our teams in South Africa, but created the critical foundation for an aligned and successful business going forward.

Liberty Corporate, which is focused on employee benefits and group schemes, invested considerable effort and resources in addressing unclaimed benefits, paying out more than R175 million to over 23 000

fund members in 2018. This business unit also contributed to initiatives established by the regulator, such as a central database of unclaimed benefits, and participated in various community programmes, providing education sessions and search capabilities for Liberty Fund participants.

STANLIB's investment performance reflected improvement over the 12 months to 31 December 2018. This is a welcome indication that the interventions made to improve the investment processes are gaining traction. A single year is, however, insufficient to demonstrate a full turnaround, and we will need to see this trend continue over the next few years before the full benefit will be felt in our client franchise.

As part of the strategy work, various operations were identified as no longer central to Liberty's revised strategy. Consequently, a process of negotiation with potential partners has commenced. These operations include the asset management businesses in East and West Africa, Liberty Health and Liberty Africa Insurance's short-term insurance businesses in Malawi and Namibia.

With effect from 2 January 2019, we concluded the sale of Liberty's short-term insurance technology platform to SBG through an agreement which ensures that Liberty's short-term insurance offering will still be available to Liberty's financial advisers in the South African market to enhance the comprehensive product offering available to clients.

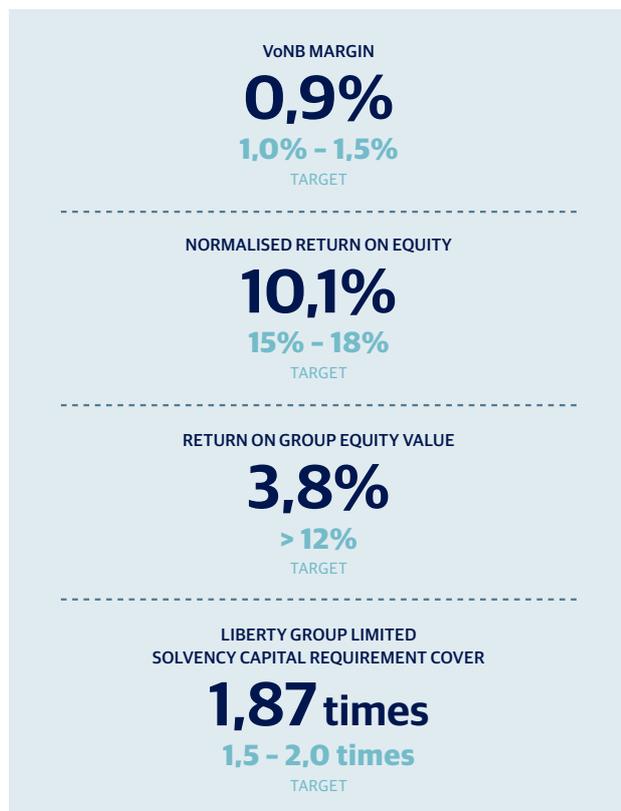
During the year, Liberty Two Degrees was restructured and converted to a corporate REIT, addressing shortcomings of the previous structure which were criticised by market participants. The portfolio of properties remains healthy and market leading, performing to plan in difficult trading conditions for many retailers.

SBG has remained a powerful partner for the group both from a business generation point of view and more broadly, through support provided on several fronts. We will continue to prioritise collaboration and leverage the respective capabilities for the group.

In June 2018, Liberty's information systems were subject to unauthorised and illegal access by an outside party in an attempted act of extortion. Clients, advisers, staff, regulators and stakeholders generally were informed as soon as was practically possible. No client suffered any financial loss, with only a limited amount of data illegally accessed. Additional security measures were implemented immediately and investment in further data and cyber protection was prioritised.

Group chief executive's review continued

Financial overview



As described in my report last year, we set ourselves key financial metrics to measure our progress in turning Liberty around and setting it on a sustainable path over the medium term while maintaining a strong capital position. Performance against these targets is summarised above.

Normalised operating earnings for the year ended 31 December 2018 of R2 006 million were up 42% on 2017, reflecting an improved operational performance in the South African Insurance Operations and STANLIB South Africa businesses. LibFin Investments – Shareholder Investment Portfolio (SIP) earnings of R250 million were, however, impacted by volatile market conditions and lower market returns, which resulted in normalised headline earnings of R2 256 million for the year (2017: R2 719 million). This resulted in a return on equity of 10,1% (2017: 12,3%).

The group value of new business of R371 million was up 59% from R233 million in the prior year, with margin improvement from 0,5% to 0,9%.

Group net external third-party client cash inflows amounted to R10,2 billion, up 57% on 2017 inflows of R6,5 billion, supported mainly by good STANLIB South Africa net external third-party client inflows as well as lower policy maturities and withdrawals in the SA Insurance Operations. Total group assets under management amounted to R718 billion (2017: R720 billion).

Continued focus on sales efforts and volumes resulted in an improved second-half sales performance, with the group's long-term insurance indexed new business of R8 051 million at similar levels to 2017, despite a slow start to the year.

Liberty remains well capitalised in respect of the new prudential regulatory regime, which became effective on 1 July 2018. The Solvency Capital Requirement Cover of Liberty Group Limited, the group's main long-term insurance licence, of 1,87 times at 31 December 2018 is at the upper end of our target range and underpins our commitment to fulfil our promises to policyholders and other stakeholders.

Group equity value per share was R139 (2017: R140) with the small reduction attributable to lower investment returns in line with investment markets.

Goals and priorities for 2019

The priorities and goals for 2019 remain consistent with those of 2018.

At the heart of our actions lies the goal of improving the quality of our relationships with, and service provided to, clients and financial advisers. Critical to this remains the delivery of smart tools and a motivated and engaged team.

2019 goals

Deliver exceptional client and adviser experiences that reflect our humanity and reinforce trust

Enable our clients, advisers and employees through digital platforms and smart tools

Maximise our relationship with SBG

Drive SA Retail performance

STANLIB to deliver compelling investment performance

Finalise outcomes for each of the group's growth initiatives

Create and maintain a motivated and transformed workforce that delivers brilliantly on the basics, with a sense of pride and ownership

The leadership team will continue to focus on restoring the financial performance and general competitiveness of our SA Retail business, where plans are in place to improve the delivery of risk and investment solutions through enhanced advice processes, deliver market-leading default investment solutions to the pension fund industry, improve service generally, and digitise both internal and client processes as rapidly as possible. Finalisation of the path forward for the emerging consumer and direct financial services businesses is a priority.

STANLIB will continue to focus on improving investment performance, while implementing plans to be more aligned to the needs of both Liberty and SBG clients.

Actions will be implemented to optimise the operations under ownership review, which will assist in bringing focus to and make resources available for the critical South African operations.

The relationship with the banking operations of the SBG remains a key differentiator, particularly in South Africa. Work and focus will continue on both sides to leverage the maximum outcomes from the bancassurance agreement and other areas of co-operation.

In conclusion, we are determined to leverage the hard work and foundations laid in 2018 to continue to improve delivery to our clients and financial advisers and in so doing, improve financial performance in line with the targets set for each of our key financial metrics.

Appreciation

I would like to once again thank our employees and advisers for their continued support. 2018 was a difficult year with considerable change and distraction. We covered a huge amount of ground and made good progress against our priorities. I remain confident that we will use 2019 to make similar progress towards restoring the health of our company. Most importantly, we will remain focused on delivering on the promises we have made to our clients and advisers, so that we can be true to our purpose of improving people's lives by making their financial freedom possible.

D Munro
Group chief executive

22 March 2019