Old Mutual's changes provide results

Is Old Mutual finally getting to grips with its complex international business model? Its third quarter results seem to show that it has made progress retaining assets: net client cash flow (NCCF) was still out of the door, but at least it was only £500m instead of £5,4bn.

Old Mutual's chief executive Julian Roberts says that a decisive influence was an improvement in the investment performance of its US Asset Management business, which turned client sentiment in its favour. Over three years a healthy 88% of assets gave a return above benchmark compared with 60% in three years to September 2011.

Roberts has sold businesses which, under previous management, were considered core such as fixed interest manager Dwight, the OMCAP retail fund business and quant manager Analytic Investors. Roberts says Old Mutual can now concentrate on those affiliates that are well positioned for growth and, above all, will help the group achieve its operating margin and NCCF targets.

In SA, the winners were not the traditional active management boutiques but the index tracker Dibanisa and the new Liability Driven Investment boutique, which helps clients such as pension funds that are anxious to ensure that funding levels stay above water.

For the first time Old Mutual will soon be competing all over the world using its own brand. Over the next two years it is phasing out the Skandia brand - the business in the UK and Europe will be rebranded Old Mutual Wealth - though confusingly the unit in SA called Old Mutual Wealth will not be part of this business.

Roberts has also continued to close businesses that are not likely to achieve group hurdle rates. He has closed the Austrian and German life offices to new business, though with their substantial embedded value, Roberts believes that they can still become profitable cash contributors to the group.

Roberts is still buying bolt-on acquisitions. On November 19, he bought Aiva, which provides platforms and distribution support for financial advisers across Latin America. It has built up an extensive working relationship with Aiva over many years.

"It allows us to grow in this vast market in a capital light manner," says Roberts.

An immediate opportunity will be to use Aiva's distribution model and expertise to develop a new broker channel in Mexico and elsewhere in Latin America.

Roberts will be glad that analysts should soon have no reason to quiz him on the US Life and Bermuda businesses, which between them nearly sank the group.

He says the only part of the US Life transaction outstanding is subject to a maximum purchase price adjustment of US$50m.

The Bermuda offshore life business is not quite out of the woods but Roberts says it continues to be very carefully managed and well capitalised to meet the potential guarantee embedded in the Bermuda products - more than 60% of contracts are being surrendered on or after their fifth anniversary date.

"Bermuda continues to be a risk due to the nature of the guarantees provided," says Roberts, "but we believe that we have a good understanding of the risks involved and are able to manage them accordingly."

Clients are showing a clear preference for unit trust sales over life, Roberts says Old Mutual continues to adapt the business model to this new world by increasing productivity and efficiency while reducing costs - it has no choice but to change in the UK, where the Retail Distribution Review is ending commission on investment products from January 1.

Roberts says non-covered sales require considerably less capital than life products - in spite of the switch to lower-margin unit trusts Old Mutual's operating profit has continued to grow as the sales have evolved.

SA was a tale of two halves, with the mass and foundation cluster sales up 22% while retail affluent was flat. Roberts says he does not consider the retail affluent business to be ex-growth given the potential for greater numbers of South Africans to continue moving up the income scale.

Source: *Financial Mail* via I-Net Bridge