# Liberty Holdings sales production up

Financial services and insurance group Liberty Holdings said on Friday that its core businesses are performing well despite the difficult market conditions.

In the first quarter of 2009 group sales production was up by 20.1% compared to the first quarter of 2008, with indexed new business from retail insurance operations declining by 1.5% which was pleasing given current economic conditions, the group stated in an operational update.

It added that the capital adequacy level remains strong at 2.5 times the required cover (after the payment of the final cash distribution of R850-million) and a significant reduction of the required economic capital has been achieved.

"One of the Group's stated strategies, the implementation of which commenced in the second half of 2008 and continues in 2009, was to reduce the levels of market risk so as to lower earnings volatility and strengthen capital.

"Confronted by the real possibility of a global financial market collapse, management acted in accordance with this strategy, taking the view that it was in the long-term interests of policyholders and shareholders to sacrifice short-term potential profit for long-term balance sheet strength.

"A significant portion of the group's equity exposure was therefore hedged and while the cost associated with this action has resulted in a mark to market loss in the first quarter, it has also ensured that the Group achieved the intended economic capital benefits, with a reduction in economic capital in excess of R1,5-billion," Liberty stated.

The group now has what it believes to be acceptable levels of interest rate and equity exposure, in the current economic environment, it said.

But it cautioned: "Ongoing interest rate, equity market and currency volatility have put significant pressure on earnings.

"Although operations continue to deliver earnings in line with expectations, the operational earnings have been exceeded by the impact of balance sheet management activities.

"The unrealised market risk loss consists of interest rate and equity mark to market losses of an estimated R250-million and R500-million respectively.

"This unrealised market risk loss was offset by an estimated R350-million of operating earnings from subsidiaries, resulting in an overall Group loss of approximately R400-million for the quarter (BEE normalised earnings)," it stated.

The group's indexed new business excluding premium escalations from life assurance was R991m for the first three months of 2009 compared to R1,042-billion in 2008.

"Sales of risk products were up, while sales of investment and savings products have declined reflecting t increased risk aversion of investors.

"Margin pressure experienced in 2008 has eased somewhat, however we continue to see slightly lower margins compared with the same period in 2008," the group said.

Retail net cash flows were strong for the first three months of 2009 and significantly better than the first quarter of 2008.

Corporate net cash flows, while negative, showed an improvement compared to the first quarter of 2008.

"Life assurance earnings continue to track in line with management expectations, and initiatives to improve customer retention are receiving significant management attention and the results of these activities are satisfactory to date," Liberty said.

Turning to the group's asset management business, Liberty said the ongoing market volatility continued to be reflected in customer investment decisions.

"The shift towards money market and fixed interest products and away from other investment classes has continued."

Assets under management decreased from R337,2-billion in December 2008 to R326,6-billion as at the end of March 2009 reflecting the decline in underlying asset values.

Total sales for the period (including Liberty Africa) were R42-billion, up 24.7% on the same period in 2008

Total net cash flows, while negative at R330-million, include a R8,3-billion outflow in respect of a rebalanci of the Public Investment Corporation Limited mandate with Stanlib.

"Income and money market products have seen strong inflows for the year to date. Stanlib's equity investment performance has shown a pleasing improvement in the first three months of the year.

"The operational performance of Liberty Properties remains strong, as does the demand for product containing Liberty's unlisted property portfolio," the group added.

In conclusion, it said that while earnings have been under pressure as a result of interest rate and equity mark to market losses and the actions taken to implement capital and risk policy, the group remains strong capitalised, and is trading satisfactorily given the economic circumstances.

"The intensive focus on operational efficiency, balance sheet management, investment performance, persistency of insurance operations, and the execution of the Group's other strategic objectives is beginni to show results.

"Although the challenging economic environment experienced in the first quarter of 2009 is expected to continue for the remainder of the year, the Group is expected to return to profitability for the full year.

"The Group continues to implement both its geographic and wealth diversification strategies," Liberty concluded.

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