Metropolitan's performance consistent despite economic downturn

Metropolitan's interim financial results for the six months to 30 June 2009, announced today (Wednesday 2 September), demonstrate that the group's ability to generate good cash returns has been sustained during these turbulent times.

"However, in certain respects we have fared better than expected, given the severity and extended duration of the recession and its impact on the financial position of our clients – both their ability to pay and their inclination to buy," says group chief executive Wilhelm van Zyl.

A salient feature of Metropolitan's results was the fact that neither the quantity nor the quality of new business production was as adversely affected as anticipated. Total new recurring premium income was 11% higher than in the equivalent six months of 2008, with all the life businesses achieving steady growth in this all-important area. Single premium income of R1.6 billion was collected despite the economic conditions. Very importantly, lapses at inception did not deteriorate as much as it had been envisaged they would.

"Although we are undoubtedly seeing the effects of the recession on the persistency of our in-force book of business, concerted retention efforts have meant that, overall, our persistency rates did not drop as much as we feared they might," says Van Zyl.

The value of the group's new life business did, however, fall by 5% as increases in retail business were negated by reductions in corporate (mainly due to reduced risk margins) and international (as a result of expense increases) business.

As Van Zyl points out, Metropolitan's performance on both the capital and cashflow fronts was also noteworthy.

"Thanks to focused management action we have strengthened our capital position at all levels. Our group capital adequacy requirement (CAR) cover of 3.2 times is generous in the present economic climate. The life companies' CAR cover of 2.4 times is also entirely appropriate. In addition, with net funds received from clients of R2 billion, we have succeeded in maintaining our positive cashflow status."

Many factors were responsible for three of the businesses within the group – retail, corporate and asset management - contributing less to group operating profit and core headline earnings of R408 million than they did in the equivalent period in 2008. Chief amongst these was the sharp decline in average investment asset levels, lower absolute investment performance thanks to continued market turbulence, lower risk profits and increased new business strain.

The international cluster and the Metropolitan Health Group (MHG) were the exceptions, with operating profit before tax up 4% and 26% respectively.

MHG's sterling achievement can largely be ascribed to continued growth in scheme membership, particularly of the Government Employees Medical Scheme (GEMS), as well as improved operational efficiencies due to increasing economies of scale. MHG's status as the largest administrator of closed medical schemes in the country remained uncontested.

International's contribution to operating profit was boosted by performances in the group's established markets of Namibia and Botswana. The so-called new markets contributed to an increase in new business for the cluster, with Nigeria playing the most significant part.

New recurring premium income in the retail cluster was 8% up, boosted by good sales through the personal financial adviser channel (tied agents). Both the independent (brokers) and wholesale distribution channels experienced a slowdown in new business. Retail single premium income fell 25% primarily because of restrictions that came into effect with respect to third party and other distribution agreements.

As far as the corporate cluster was concerned, a higher volume of risk business was the main driver of the 28% increase in new recurring premium income. In addition, significant quantities of new off balance sheet administration business were written on the new Neon product.

Good asset allocation decisions and an improvement in equity investment performance in the short term point to the fact that the investment process at Metropolitan Asset Managers (MetAM) is being successfully turned around. Further evidence of this is expected by year-end.

According to an independent report published earlier this month (August 2009) by Ketola Research, Metropolitan, of all the major life assurers in South Africa, has produced the best total return to shareholders over the past five years, thanks in part to "generous dividends and capital reductions".

For the period under review, shareholders will receive an interim dividend that has been maintained at 40 cents per share despite the severity of the downturn, a reflection of the board's confidence in both the group's current stability and its future prospects taking the current market volatility into account.

"Although all of our businesses are facing threats posed by the ongoing changes to the highly regulated environments in which they operate, we believe we are well positioned to turn these into opportunities thanks to our customer-centric approach in conjunction with our proven adaptability, track record of innovation and large-scale administration capabilities," concludes Van Zyl.

On 26 August shareholders approved the refinancing of Metropolitan's empowerment partnership with Kagiso Trust Investments (KTI). This will allow the group to further entrench its position as a leading driver of transformation in the financial services sector.

See over for a results summary

Summary of Metropolitan's results to June 2009

	June 2008	June 2009	% growth
Diluted core headline earnings	R472m	R408m	(14)
Diluted core headline earnings per share	70.03c	61.54c	(12)
Diluted earnings	R275m	R250m	(9)
Diluted earnings per share	40.80c	37.71c	(8)
Return on embedded value	2.9%	0.0%	[redacted]
Embedded value per share	1 819c	1 654c	[redacted]
Interim dividend per ordinary share	40.00c	40.00c	-
Total recurring premium new business	R565m	R628m	11
Total premiums received	R5.6bn	R5.3bn	(5)
Present value of future premium income (PVP)	R4.6bn	R4.1bn	(10)
Total assets under management	R106bn	R98bn	(7)

Notes

- Core headline earnings are a particularly appropriate measure of the performance of financial services groups such as Metropolitan in that they eliminate items of both a once-off and an inherently volatile nature, such as changes to the valuation basis, investment variances and capital appreciation/depreciation.
- Diluted core headline earnings have been adjusted for the convertible redeemable preference shares, the staff share scheme shares and the treasury shares in issue – all dilutory in nature. The preference shares were issued to Metropolitan's strategic empowerment partner, Kagiso Trust Investments (KTI).

end

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