FDI SPOTLIGHT – INTERVIEW WITH IAIN WILLIAMSON

FDI Spotlight: What is the DNA and footprint of Old Mutual?

Iain Williamson: Old Mutual has been in South Africa since its establishment in 1845, and is very much a household name. From a brand recognition perspective, a number of surveys indicate that we are the most highly recognised brand in financial services in the country.

Therefore we see ourselves very much rooted in South African society as a long term corporate citizen with a real role to play that is wider than the generic, narrow business role. We see ourselves as helping people save right and enabling them to save to the best of their abilities. In other words, when people choose to save, they do it in a way that they understand and that is meaningful to them. When these savings are deployed back into the economy, it goes back in such a way that enables the economy in a broader way.

Education, specifically financial education, is very important to us and it is one of the key pillars we emphasise within the company and within the communities we operate in. The responsible investment of client funds is another key pillar of ours; putting their money into the right kind of investments can make a real difference, which is very important to us.

From a footprint point of view, the emerging markets business covers, primarily, the SADC, East Africa and West Africa regions. While we have joint ventures in Asia, as well as businesses in Latin America, our core priority is the African continent. Old Mutual has been in Zimbabwe and Namibia for over 100 years, Kenya for 70 years and Malawi for decades also.

Our brand recognition in Zimbabwe and Namibia is similar to that of South Africa, so we are very much an African household name. It is safe to say we are an intrinsic part of the fabric of the countries we operate in.

What is the impact on the South African markets and development of the strategic move by Old Mutual to break the company up into four constituent pieces?

Iain Williamson: The London parent of Old Mutual Plc announced the decision in March of 2016. By the end of 2018, the company would be split into: a bank ((Nedbank), an African insurer, a US asset manager and a UK-based wealth manager.
I do not believe it will make much of a difference to the customer on the ground regarding their day to day business with us. The decision will, however, relocate the primary emerging markets business to Johannesburg in South Africa. In many ways, I think this takes Old Mutual back to its roots. It also means that the top level decisions on how the business deploys its capital, chooses to expand going forward and makes other strategic choices will be made by a South African domiciled board and governance structure. I would like to think that they are quite in touch with the risks and rewards in such a fast changing market environment.

There is a lot of sentiment and national pride around Old Mutual as a brand and seeing the business as coming home in a sense is something stakeholders talk about a lot.

As part of the move of the head office to Johannesburg, we are planning a story around coming home for Old Mutual – what it looks, feels and means to us.

**Do you think that South Africans can do a lot more to attach themselves to the brand of the country?**

**Iain Williamson:** I do believe that South Africans are deeply proud of the country, however perhaps quietly so. Our style is not brash and out there like many others.

It is true that we South Africans do not market ourselves well enough, and I believe that it is not just the nation. We as corporates also have a style that is understated, however it is something those in the corporate environment talk about. We need to tell people about our innovations and accomplishments.

Over the years, we have done quite a bit in the fields of education, infrastructure development, school leadership training, mathematics and science education, as well as renewable energy, student housing, and many more. These are not trivial investments and they add up to billions of rands over time. This is a story we definitely do not tell well enough.

**Given how fast technology and innovation on and due to the internet is advancing, what is Old Mutual’s approach to innovation?**

**Iain Williamson:** There are a couple of prongs to our innovation approach. To your point, due to technology advancing so quickly, you have to adopt a partnering approach to particularly cutting edge technologies. Therefore we do have investments in venture funds that specialise in fintech areas.
Firstly, you have to look at it as a case of staying close to the action, so to speak, in order to see what trends are emerging and what developments are happening, as well as to participate in those.

Secondly, there is the focus on the customer centric, core innovation of our own product range offering. We try to really keep in touch with what the customer values, how they choose to interact and how we can evolve our core business in those directions.

The latest developments we want to capitalise on have mostly been around three areas of technology.

Firstly, consumer education and financial advice; on the African continent this is moving very slowly.

Secondly, there is the focus on technologically enabled efficiency, which is transacting, straight through processing of, for example, motor insurance claims or administration applications. We have done a little bit in machine learning and robotics and, digitally speaking, a fair bit around the simpler end of our life and savings product range. For example, we have a Tax Free Savings Account, which is fairly simple and allows customers to invest a large amount of money tax free. About a quarter of our sales for this product are online and get processed straight through. The good thing about this is that the portal is already there, so we can add more products and experiment with what tends to be the easy purchases consumers make.

Thirdly, we have done a lot across Africa in the mobile space. We offer a product called TextACash, launched in 2011, which provides banking and a money transfer service using cell phone technology to both banked and unbanked Zimbabweans nationwide. The penetration rate in countries such as Zimbabwe is quite high, due to the high use in mobile phones and the need for locals to send money to a wide variety of different countries.

However, you also find that in countries like Kenya where the use of digital money is quite high, a short term insurance programme that has a direct offering through mobile phones and the internet has had no uptake. Therefore, culturally speaking, people are not ready to take that leap. In comparison, the uptake for a programme like that in South Africa is quite good, so there are cultural nuances to be considered with certain products.
In spite of the sovereign ratings downgrade, the weak Rand and the controversy around politics in South Africa, how do you see the financial services sector evolving in the short term?

Iain Williamson: My own view is that the financial services sector in South Africa is fundamentally strong and sound. It is well governed and ranked high on a global scale. The banking system is certainly one of the most highly rated sectors in the world.

I think the current noise around it is, to a large extent, of two forms: one, fears for the fundamental rate of economic growth in the country which is too low and needs to be higher; and the second is around more short term political instability, which created an unfriendly market environment in terms of political changes that may occur.

The nature of working on the African continent is that one has to have at least a 5-10 year view. When you look at sub-Saharan Africa in a larger sense, the fundamentals are sound, the demographics are favourable, the consumer base is good and the improvement over time in the regulatory environment and the government structures over time is favourable.

However, there is a lot of short term volatility and quite dynamic changes. One has to be prepared to tolerate them and navigate through them. Our time in Zimbabwe, for example, will in the next five years either be a very good business decision or a very bad business decision – the underlying risks are there, you only have to be prepared to take them on.

Cas Coovadia from the Banking Association asked whether or not South Africa’s financial services sector can strengthen the investment opportunities and address the investor confidence in South Africa – what are your thoughts on this?

Iain Williamson: I think it definitely helps. At the end of the day, the sector is an enabler. However, what it must do that is absolutely fundamental is inspire trust in the system and practise good governance. That is where I do believe that the South African financial services sector does both. As Old Mutual, we do not suffer from the same trust deficit as some of the international players seem to with consumers. Our brand is trusted, which is a strong point. Therefore I believe that the sector can play a huge role.

On the other side of this, there is the massive infrastructure deficit in Africa. I read a report that said the deficit is $50 billion per year. The reality is, however, that the
financial services sector is the sector that is going to mobilise that funding. It does require some enablement around the regulatory environment, such as the electricity area, to allow the private sector to play and to get involved in public private partnerships. With the right enabling environment, it can be a very powerful partner.

**How can South Africa have a world class financial services sector if it continues to perpetuate the divide between the haves and the have-nots?**

Iain Williamson: I do believe that it is a real challenge, and if you were to ask me what the single biggest challenge in South Africa is, I would say that it is to reduce the level of inequality and increase the level of financial inclusion. We have to have inclusive growth.

Old Mutual is actively engaged in that and we have the biggest mass foundation cluster business in the industry and we tend to provide this through face to face interaction through a large distribution agency, which consists of about 7000 people strong across the country. They reach into all the small communities, which provides an access point.

The challenge, which in my opinion is worldwide, is that you have to find a viable financial services offering for very small amounts of money. It is something that makes sense for everybody, no matter your wealth or lack thereof. The approach we have adopted is asking “can you bulk up to provide scale around how you access those customers?” Therefore we have built up quite strong relationships with the trade unions and companies in order to provide and gain access to different levels.

This works well for employed people, however once you try to access the informal sector – which is a huge part of the economy in South Africa – you see that there is a severe lack of access. In this regard, we started the Foundation Market, and we are experimenting with access here as well as in Zimbabwe. We want to see how we can make access to savings vehicles and to life insurance and protection easier. We do believe that this has potential.

Partnerships are vital in implementing programmes developed for financial inclusion and reducing the level of inequality. We can develop products that are targeted at females in the informal sector, but we need partnerships to help implement this and make it work.
In your opinion, what do you see as the true potential of the African continent and what should investors know?

Iain Williamson: The African continent is absolutely core to our corporate strategy and Old Mutual is extremely excited and confident in Africa’s potential. As mentioned, we accept the challenges and take the long term view. I really believe that the pace of infrastructure developments, demographics and the bettering of government structures will come together to create a more attractive business opportunity. Therefore our growth now is very much focused on South Africa, East Africa and West Africa.

East Africa is largely independent of the commodities cycle, much like the rest of Africa, which means fundamental growth drivers are different. From that we get a diversification in our portfolio, and I am always very excited when we go to Nairobi because of the level of activity.

The level of optimism, infrastructure development and energy is just amazing and we are very excited about the potential there.

Is there the option for the banking sector to support the regulatory sectors because the legislation has not been put as out there and, as an investor, does that allow you to have more of a longer term focus on Africa?

Iain Williamson: By and large, in most of the countries we operate in, the financial sector regulation is not archaic – most of them are on Basel 1 already and moving into a steady direction.

I think a lot of the practical issues on the ground are less around the maturity of the legislation and more around the capacity to supervise and manage the legislation in terms of skills and breadth of skills required.

In that sense, I think the industry can help, however always bearing in mind that a regulator is just that and therefore what industry says will be filtered because interests on both sides are different. However, I believe that if it is approached in the spirit of openness, integrity and willingness to help, the conversation is up for discussion.

It is a mistake to generalise Africa as one; there are very definite country and regional nuances. Therefore you do need to have a level of on-the-ground knowledge and we have found that the most productive approach is a partnership one. You need a local partner that really understands the local culture. However, this partnership needs to be one of absolute trust that is built up over a while.
South Africans are perceived in Africa to be arrogant, and are seen as only arriving to tell everyone else how to operate. That is something that takes a few weeks of meetings to break down. Even though it is often not correct, that perception is the first thing you need to break down when you start building relationships.

**Are you concerned that the education situation in South Africa is a ticking time bomb?**

*Iain Williamson:* Yes, I do. One of the root causes of inequality and financial exclusion in South Africa is our poor education outcomes. It is frustrating because our budgets are not inadequate and by international standards we are spending a lot on education. However, the outcomes do not reflect this.

No corporate can make a dent or have the desired impact on the quality of education with money; it is not the answer. Old Mutual focuses on supporting mathematics and science education, mainly due to the fact that we need people who are good at those subjects. We sponsor a good deal of university students studying actuarial sciences and accounting, primarily those students who complete high school with good marks.

We have found that the area of school leadership is the biggest leverage in the quality of the school. Therefore, we have been supporting initiatives that assist school principals with leadership and managerial guidance. We always encourage them to involve the parents more. At the end of the day, a child's education is a three-way contract between the child, the parent and the school.

**What would be your message of confidence to the international community and how would South Africa rate out of 10?**

*Iain Williamson:* I am very confident about South Africa and I would rate us around a 7 or 8 out of 10. However, whether in the short or long term, if we cannot crack the fundamental issues of inclusion and inequality, we will struggle to solve our issues. This country is made up of people from a vast array of diverse backgrounds, and I think we all know that we can work together well, and if we can work together decisively, we can work things out.

One of our very wise board members once said that South Africa is never as bad as it seems. I myself am an optimist and I believe that we can come up with the right solutions together.
About the Company

Old Mutual, one of the most recognised brand names in South Africa, was the country’s first mutual life insurance company, offering financial security in uncertain times. Today, the Group offers investment products, life and disability cover, funeral plans, short term insurance, financial advice and loans. They also offer business-to-business solutions such as asset management and employee benefits.

In 2016 the company’s London parent announced a new strategy for Old Mutual that seeks to unlock and create significant long-term value for shareholders. This will be achieved through the separation of the four underlying businesses – Old Mutual Emerging Markets (OMEM), Nedbank, Old Mutual Asset Management (in the US) and Old Mutual Wealth (in the UK).

This separation will free the constituent parts into four independent businesses, each having a capital structure and dividend policy suitable for its own strategy that will allow it to access its natural shareholder base.

Following the managed separation, the lead regulator for each business will then be the same as the local regulator. Old Mutual will manage the separation of the Group in a manner that aims to enhance value to shareholders over time.

As part of the managed separation strategy, it is envisioned that the OMEM business will become a separately listed, independent business by the end of 2018.

*Old Mutual’s purpose is to help customers thrive by enabling them to achieve their lifetime financial goals, while investing their funds in ways which will create positive future for them, their families their communities and the world at large.*

Old Mutual’s approach to being a responsible business is summarised in its Positive Futures Plan that explains its responsibility to customers, communities and employees; and its commitment to responsible investment and environmental management.

With a specific focus on financial wellbeing and responsible investment, Old Mutual believes it can contribute to positive futures for its customers and others by addressing issues relevant to the sustainability of its business and the markets in which it operate.

To read more, please visit [www.oldmutual.co.za](http://www.oldmutual.co.za)