

28 September 2020

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# RMI INVESTOR CALL

## FY20 RESULTS AND PORTFOLIO UPDATE



**RMI** OPTIMISE  
DIVERSIFY  
MODERNISE

# INTRODUCTORY REMARKS

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- 1 **VALUES**
- 2 **STRONG OPERATIONAL PERFORMANCE**
- 3 **INVESTMENT ACTIVITY**
- 4 **PRUDENCE**
- 5 **PLANNING FOR THE FUTURE**



Across the group we saw our values driven culture and **sense of community** come to the fore in response to the challenging and unprecedented environment

## COMMUNITY



- RMI established a **COVID-19 relief fund** through voluntary contributions from senior management and our board members of **R10.2m**.
- To date the fund has made contributions of c.R2.5m through staff community support, broader community initiatives and support for our various AlphaCode businesses.



- OUTsurance provided **R443 million in COVID-19 related relief** to its customers, suppliers and community, of which OUTsurance **proactively settled R198 million in Business Interruption claims**.
- YOUi was the only insurer in the Australian market to provide premium relief on a proactive basis.



- Wide-scale community support
- Extended benefits across Discovery's health insurance products, virtual consultations and updates to Vitality's benefits and rewards.



- **Instituted premium relief measures** across life and non-life policies.
- Contributed to the Solidarity Fund and various other community initiatives.



- Significant customer actions, including fee waivers and premium reductions.
- Support measures and actions taken **amounting to tens of millions of pounds**.



Our group companies have also **responded innovatively** to meet the needs of customers in this 'new normal'

## INNOVATION



- **Fully digital self-service functions**, including capturing claims related to windscreens and geysers online end-to-end.
- **ONEfee innovation by OUTvest** which fixes investment fees. A South African first.



- **New partnership with Apple**, whereby Discovery Vitality members with a Discovery Bank credit card now get **exclusive access to Apple Watch with cellular**. Discovery has also introduced **a new ECG app in partnership with Apple** allowing Vitality members to better track heart rhythms and detect irregularities
- Discovery **extended access of the DrConnect** (virtual consultation) platform to all South Africans, growing platform usage 19x with a total of 18 308 telemedicine consultations.

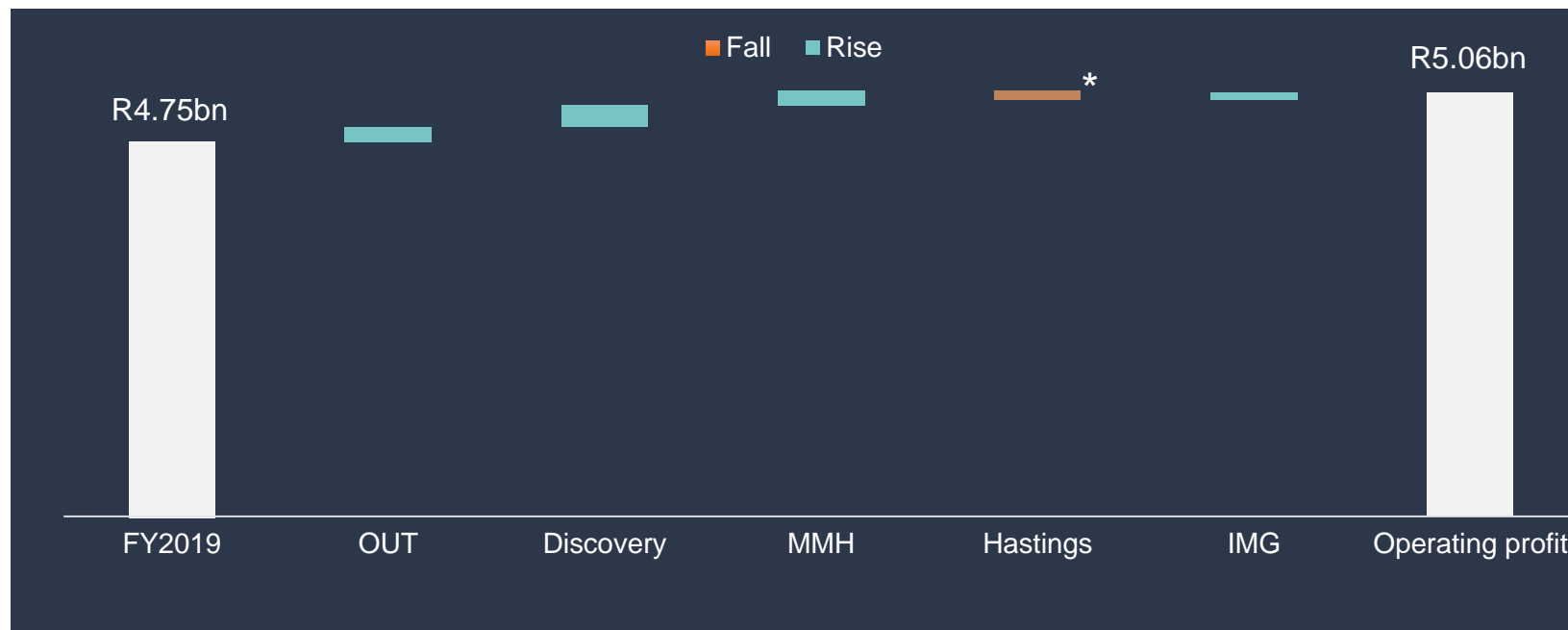


- Provide customer support in their 'moment of need' by delivering accident support in the form of an **integrated 'track my rescue' capability** in the mobile app.
- Embedded a telematics proposition into the app to realise the benefits of Hastings' new proposition for telematics and non-telematics customers to help improve their driving, earn rewards and discounts.

# GROUP COMPANIES HAVE SHOWN STRONG OPERATIONAL PERFORMANCE DESPITE A DIFFICULT ENVIRONMENT



## RMI OPERATIONAL EARNINGS WATERFALL



- Portfolio companies have shown strong operational robustness despite significant investment in new initiatives such as Discovery Bank, OUT commercial tied agents and the YOUi Blue Zebra partnership
- Investment in new initiatives across the group totalled almost R2.9bn and we have started to see positive traction across these initiatives The emerging businesses, **Discovery Insure** and **Vitality Group** including Ping An for example delivered R736m in normalised earnings for the period ended June 2020 and **OUT Commercial** delivered R35m in earnings for the same period despite incurring business interruption losses of R198m related to the pandemic
- RMI's investment management subsidiary, RMI IMG, reported an inaugural net profit for the period

## Hastings SAMPO GROUP

### Sampo, RMI scoop up UK insurer Hastings in \$2.2 billion cash deal

By Anne Kauranen, Muvija M

3 MIN READ



HELSINKI (Reuters) - British motor insurer Hastings [HSTG.L](#) has agreed to be bought by Finland's Sampo [SAMPO.HE](#) and South Africa's Rand Merchant Investment (RMI) [RMIJ.J](#) in a cash deal valuing it at 1.66 billion pounds (\$2.2 billion), the insurers said on Wednesday.

- RMI is excited about this new partnership with Sampo and the expertise and opportunity it provides Hastings to fulfil its long-term growth plans
- RMI has already started working closely with Sampo to map Hastings' strategic framework going forward
- **RMI has the free option to increase its stake by 10% over the next 18 months**

- On 1 September 2020 AlphaCode had its first exit with 100% of Luno being sold to DCG, a large crypto-currency fund
- The exit was **above RMI's ZAR target hurdle rate of 25% - 35%** for our AlphaCode investment portfolio

COMPANIES

### Naspers-backed Luno sold to US investor DCG

Naspers and Rand Merchant Investments have sold their stakes in Luno to Digital Currency Group

09 SEPTEMBER 2020 - 13:03 by MUDIWA GAVAZA



Ventureburn @Ventureburn · 7m  
South African crypto startup **Luno** goes global

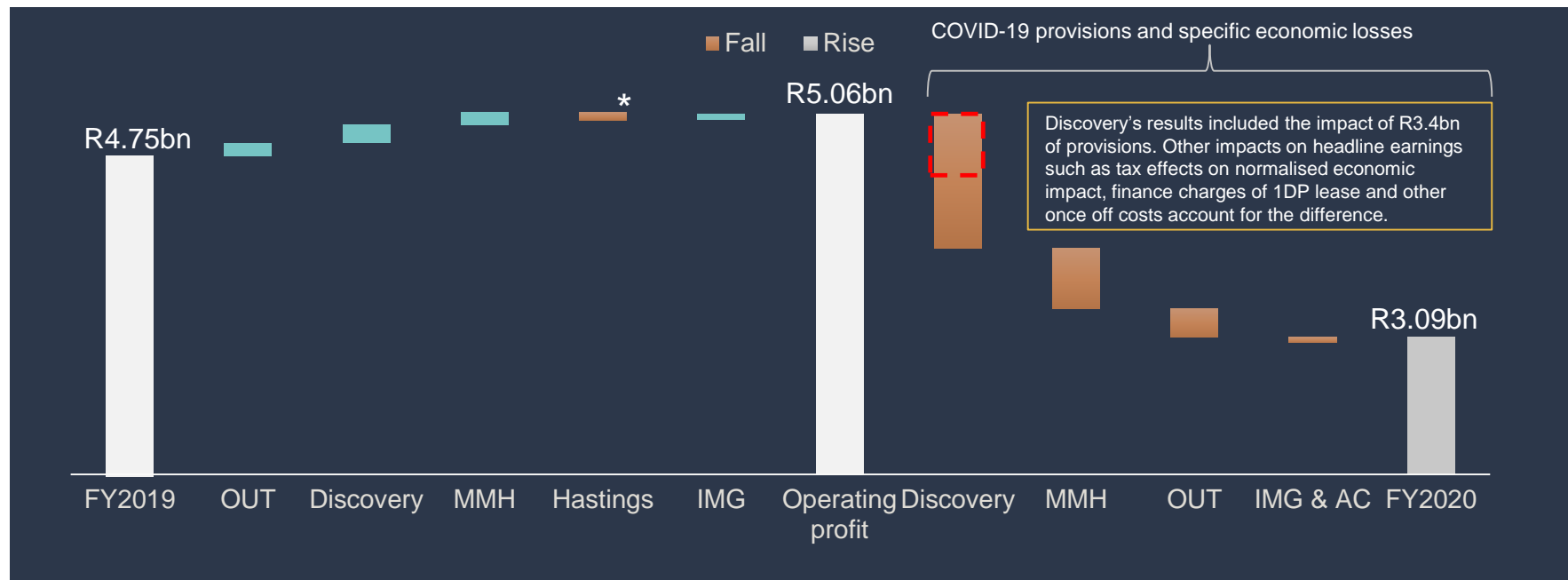


South African crypto startup Luno goes global - Ventureburn  
Luno, a South African founded cryptocurrency exchange has been acquired by the world's largest blockchain investor, Digital Currency ...  
[ventureburn.com](#)





## COVID IMPACT ON RESULTS



- The life companies in RMI's portfolio have taken a prudent approach to provisioning and strengthening EV
  - **Discovery** COVID-19 reserve of R3.4bn for all expected future COVID-19-related impacts on claims and lapses, so the expected impact of COVID-19 to December 2021 is fully recognised and reserved for in the 2020 reporting year. To date only 13% of the life claims provision has been used and only 69% to total expected provisioning to date.
  - The prudent COVID-19 provision has an impact on EV with return on EV down from 10% to 2% for the year (5% excluding economic impacts and forex gains). Discovery's balance sheet remains resilient into future periods under low/stressed COVID-19 scenario models
  - **MMH** COVID-19 reserve of R1.3bn impacted EV which was down 6%, but the group remains well capitalised and in a strong balance sheet position to weather the impact of any potential second wave
  - **OUTsurance Life** strengthened its policyholder liability by R37m to allow for a prudent estimate related to increased mortality, retrenchment claims and adverse lapse experience associated with COVID-19
- In line with this conservative stance, at the RMI level the board has opted to impair certain of the entities within the RMI Investment Managers and AlphaCode portfolios



## FOCUSED ON REMAINING PRUDENT IN UNCERTAIN TIMES

The heightened medium-term economic and insurance-related uncertainty across the jurisdictions and businesses within the RMI portfolio has necessitated a focus on RMI's capital structure and approach to ensure a robust and balanced capital structure that at a minimum:

- has sufficient liquidity;
- sensibly manages financial leverage within covenants;
- ensures the ability to support RMI's portfolio companies where required; and
- recognises shareholders' expectations around dividends

Taking all of the above into account, the RMI board has decided that RMI will not be declaring a final dividend for the year ended 30 June 2020. This position will be dynamically assessed over the coming months.

The total dividend for the financial year of 45cps represents a dividend yield of ca. 1.5%.

## i Risk assessment

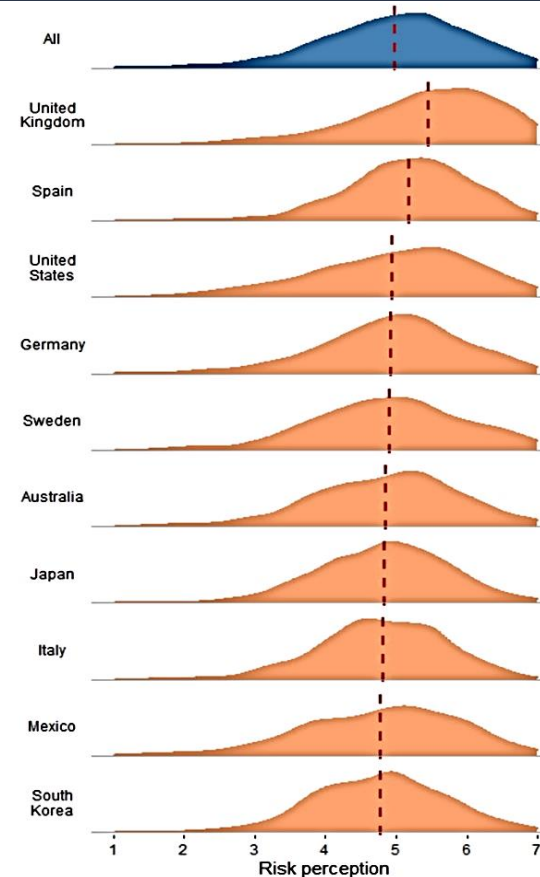
### ➤ Impact on risk assessment and tolerance

- New research argues that **the nature of COVID-19 risk is behavioural**, and that **perceptions of risk will drive health decisions**.
- Analysis has shown that human risk perceptions spike in response to a global risk event such as a pandemic (COVID-19, SARS, Spanish Flu) which in turn **influences decision-making including higher demand to address risk through insurance**.

### ➤ Expected consumer behaviour:

- Value for money
- Increased “shopping”
- Co-ownership of risk
- Sense of trust

### COVID-19 risk perception around the world (May, 2020)



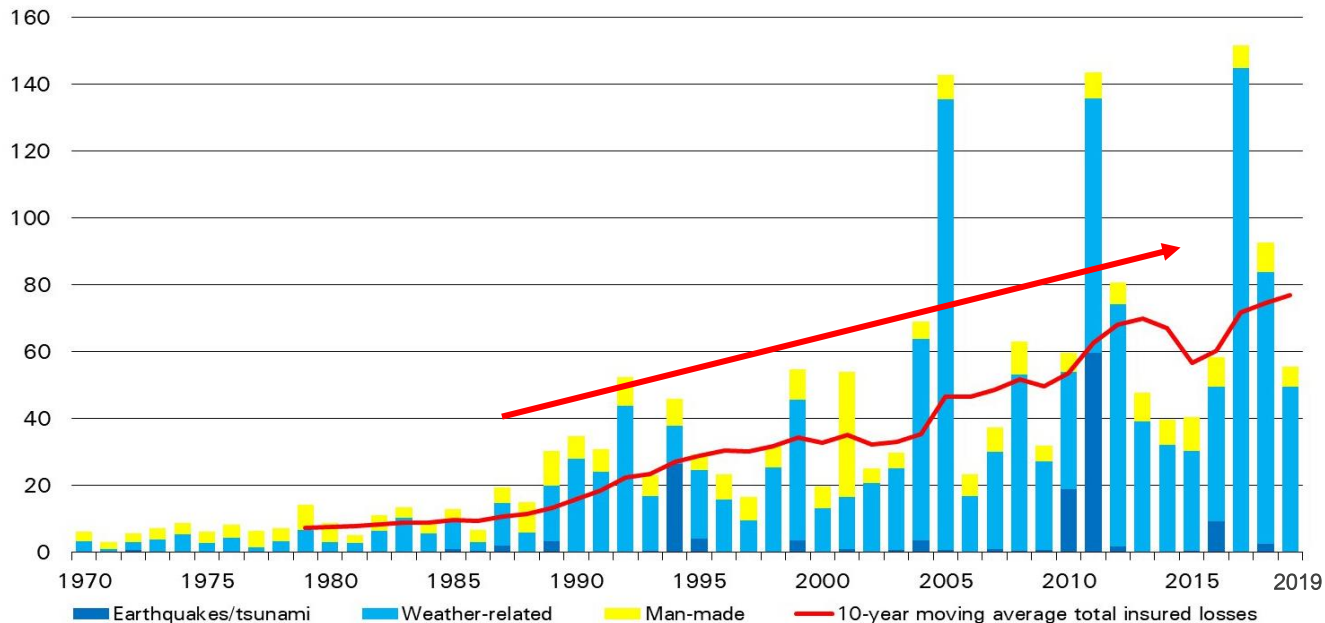
Current mean risk perception score globally of close to 5 on a 7 point scale. Comparative to the pre-COVID norm of 3.5



**Climate change is likely to continue to have a marked impact on P&C insurance, as global insured losses from natural catastrophes continue to increase**

in USD bn,  
at 2019 prices

**Catastrophe-related insured losses (1970-2019)**



The 10 year moving average of total **catastrophe-related insured losses** continues to increase


**Reinsurance market's reaction to the pandemic and natural catastrophes will be critical to certain risk categories**

Reinsurance market for natural catastrophes are hardening as seen in Australia following the bushfires and increased natural perils losses. If this trend continues the cost and capacity of reinsurance will be adversely impacted. A contributing factor to hardening rates in the short-term will be COVID-19 related global losses.

As at 10 September 2020, reported **COVID-19 related losses** and reserves from reinsurers totals \$22.4bn.

Top three:

Reinsurer	COVID-19 loss & reserves estimate (\$m)
Lloyd's	3,905
Swiss Re	2,500
Munich Re	1,776

**Catastrophes set to drive 2020 reinsurance rates higher** - Reuters, 2020

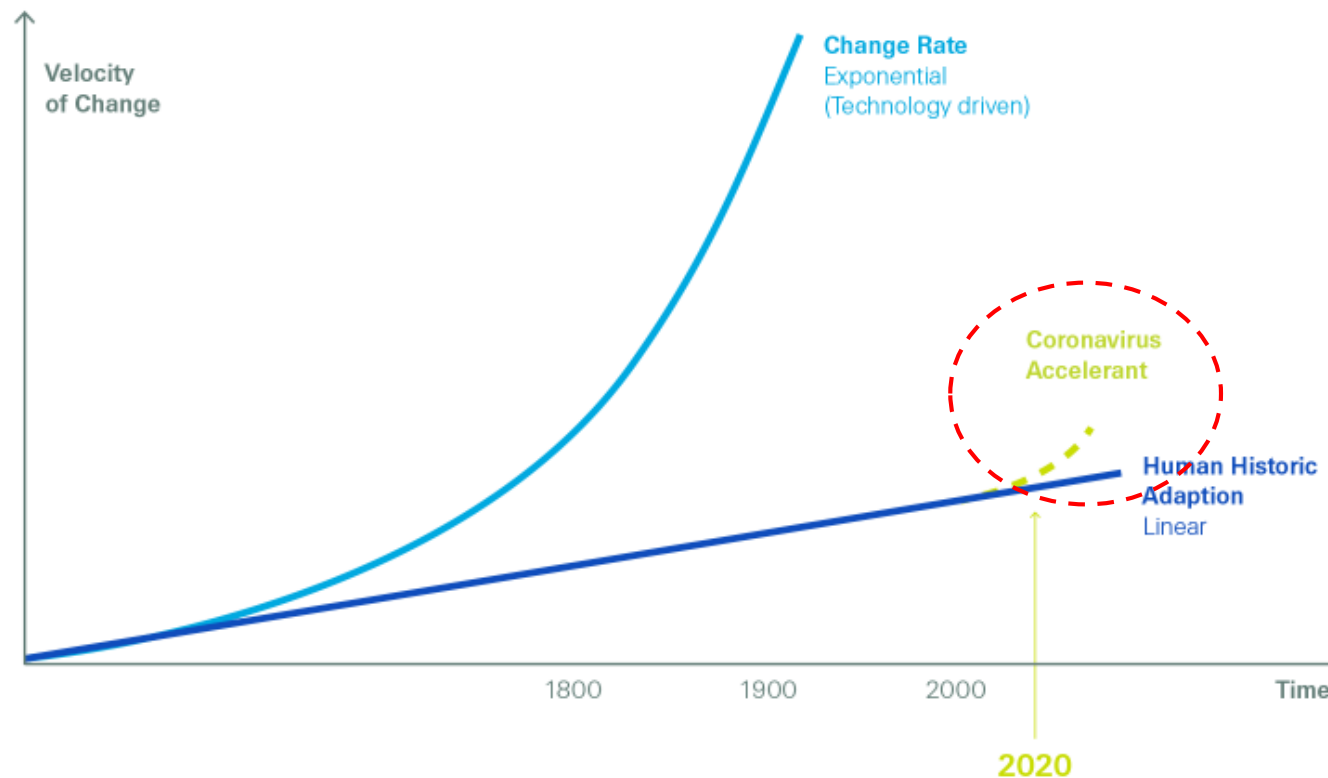
*"Meaningful reinsurance rate increases should be expected into 2021 at the January renewals as overall pricing is inadequate" – Fitch Ratings, September 2020*

*"We expect average reinsurance rates to increase at least 5% at year-end renewals as reinsurers have faced a confluence of impacts on their business, including low interest rates, three years of high catastrophe losses and high liability losses" - Moody's Investor Services, September 2020*

## ii Digital adoption

The pandemic has *exponentially* accelerated adoption of online engagement generally across the globe

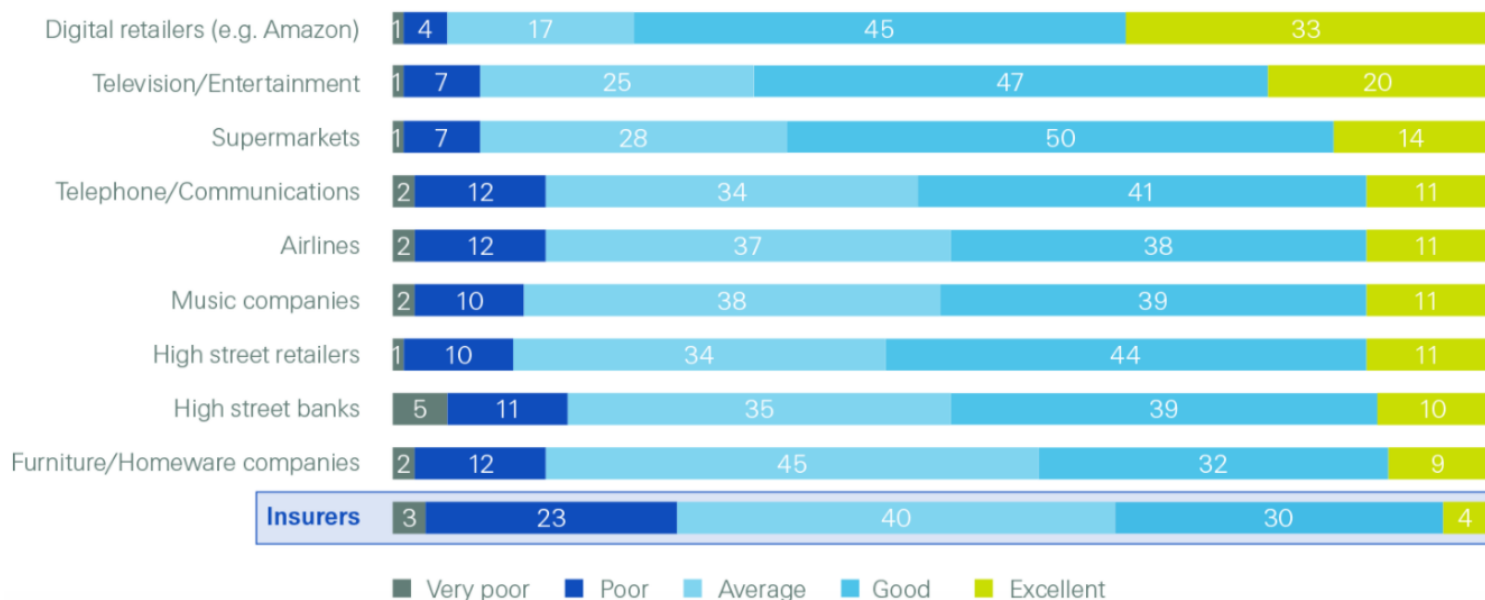
Covid-19 impact on technology vs. human adoption rate



## ii Digital adoption

And historically, on average, the insurance sector has been behind other consumer markets in providing digital services

Customer perception of digital services amount industries, 2020

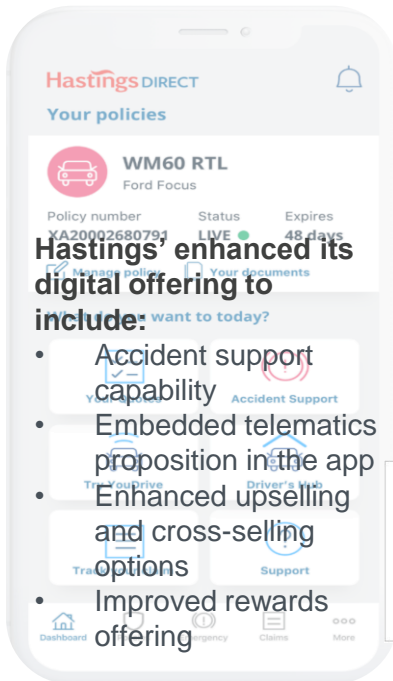


- While in the short term the pandemic has resulted in the sudden loss of face-to-face touchpoints in many markets placed a burden on insurance providers
- The speed at which insurers were able to meet the need for digital engagement, and are able to continue to continue to do so, will **drive efficiencies and competitive advantages going forward**

## ii Digital adoption

RMI's underlying companies have well-defined digital strategies and are focused on continuously improving customer's digital experience

### Hastings



### OUT

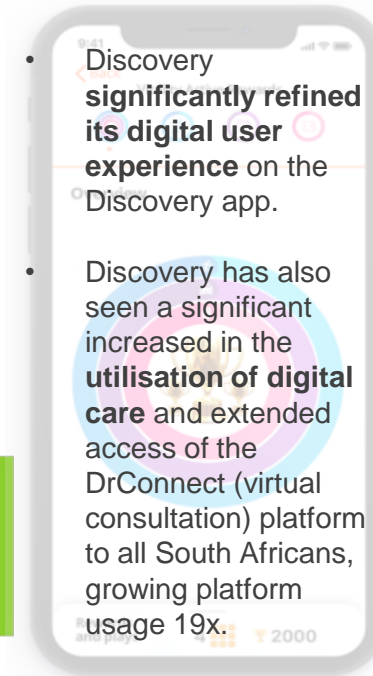
### youi

- Over 100 000 customers downloaded the OUTsurance app or registered via the online portal over the past year.
- 12% of OUTsurance SA claims and 19% of YOUi claims are captured digitally.
- Windscreens and geysers replacements are now **fully digital self-service functions**.

**...and submit and track a claim online or on our app and...**



### Discovery



### Momentum Metropolitan

- MMH **fast-tracked its digital strategy** in response to COVID-19 and has now enabled fully digital sales channels and strengthened digital direct distribution channels



# FOCUSING ON OUTSURANCE

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# OUTSURANCE PERFORMANCE OVERVIEW

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- The OUTsurance Group has delivered a resilient operational and financial performance since the outbreak of the pandemic.
- Operationally, OUTsurance and Youi have adapted well to WFH without impacting negatively on customer service levels. There have been no job losses across the Group and no fatalities related to COVID-19 have been recorded.
- The Group provided significant premium relief in recognition of reduced driving patterns and honoured Business Interruption claims with the Tourist Attraction Loss extension.
- OUTsurance's new business volumes have recovered since the lows experienced in April and May. Youi delivered strong new business performance during this period.
- The Group continues to invest in product and channel expansion. The OUTsurance Business tied-agent expansion is accelerating on the back of continued success. The Shoprite partnership inceptioned in May 2020 and Youi commenced its UMA relationship with Blue Zebra Insurance in March 2020.
- The extent of unrealized losses on the South African equity portfolio materially impacted the Group's normalised earnings outcome.

# GROWTH INITIATIVES

2020 update and looking ahead



## ACHIEVED IN 2020

## LOOKING AHEAD

Expansion of the commercial insurance product offering

### Initiatives launched:

- Shoprite funeral product
- Partnership with We Buy Cars
- OUTvest's ONEfee proposition
- OUTsurance motor warranty
- Pet insurance



- Focus on Home insurance product positioning
- Focus on scale and viability of new products launched in 2020



## ACHIEVED IN 2020

## LOOKING AHEAD

- Underwriting of the Blue Zebra Insurance personal lines product
- Focus on scale and viability of new products launched in 2020



Launch the Blue Zebra Insurance commercial insurance product

Focus on Home insurance product positioning

Explore new product opportunities to enable growth and diversity of Youi's earnings

**OUTSURANCE'S STRATEGY IS FOCUSED ON EXPANDING INSURANCE PRODUCT RANGE AND DISTRIBUTION CHANNELS TO UNLOCK GROWTH AND IMPROVE DIVERSIFICATION**

Expansion of the OUTsurance Business tied-agency force

Establish IFA partnerships for the distribution of OUTlife and OUTvest products



Distribution partnership with Shoprite

Establish a tied-agency force for OUTlife and OUTvest

Underwriting partnership with Blue Zebra Insurance which provides access to the independent broker market to reach wider market segments and establish a commercial product offering

PRODUCT

CHANNEL

# RESULTS SUMMARY



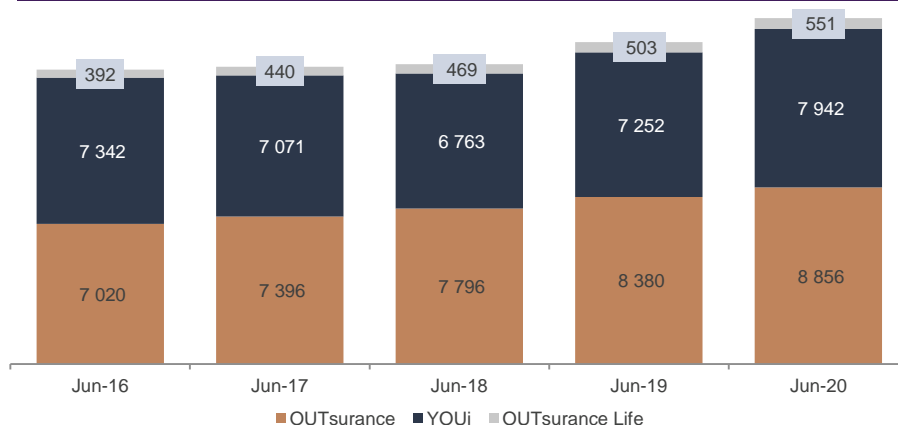
## KEY PERFORMANCE INDICATORS

R'm	Jun-20	Jun-19	% change
Operating earnings	3 234	3 173	2.0%
Normalised earnings	2 411	2 634	(8.5%)
<b>Key performance metrics</b>			
Adjusted gross written premiums (before COVID-19 discounts and Youi New Zealand)	17 512	15 906	10.0%
Claims ratio	51.1%	51.1%	
Cost-to-income ratio	29.4%	28.3%	
Combined ratio	81.6%	80.9%	

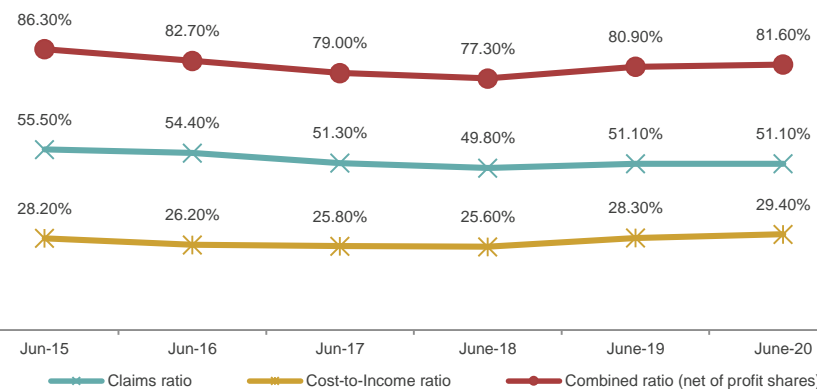
# UNPACKING KEY METRICS



## GROSS WRITTEN PREMIUMS (R'm)

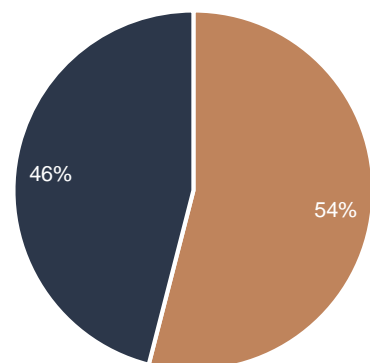


## KEY RATIOS (%)

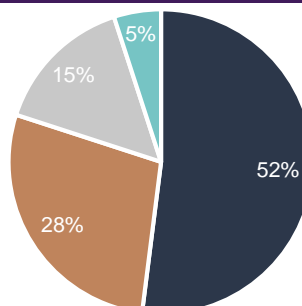


## DIVERSIFICATION OF GWP BY GEOGRAPHY AND PRODUCT

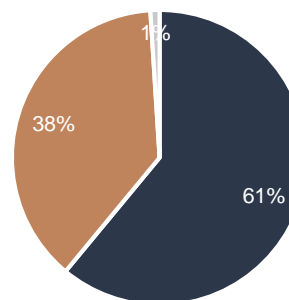
### Gross written premium



(2019 – Southern Africa 55%; Australasia: 45%)



- Personal-motor
- Personal-property
- Commercial
- Life



- Personal-motor
- Personal-property
- Commercial

	2020	2019	%
GWP	7,343	7,055	4.1%
Operating profit	2,296	1,970	16.5%
Claims ratio	46.40%	49.30%	
Cost ratio	21.30%	21.40%	

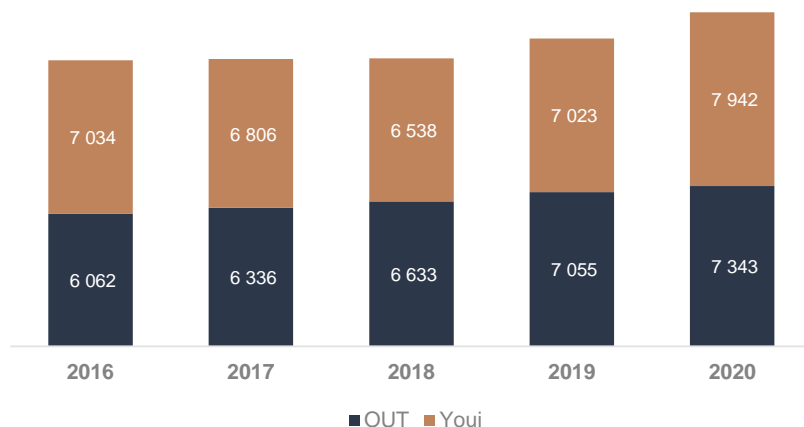
	2020	2019	%
GWP	7,942	7,023	13.1%
Operating profit	949	992	(4.3%)
Claims ratio	53.80%	54.00%	
Cost ratio	33.60%	31.80%	

# UNPACKING GROWTH, COSTS AND CLAIMS

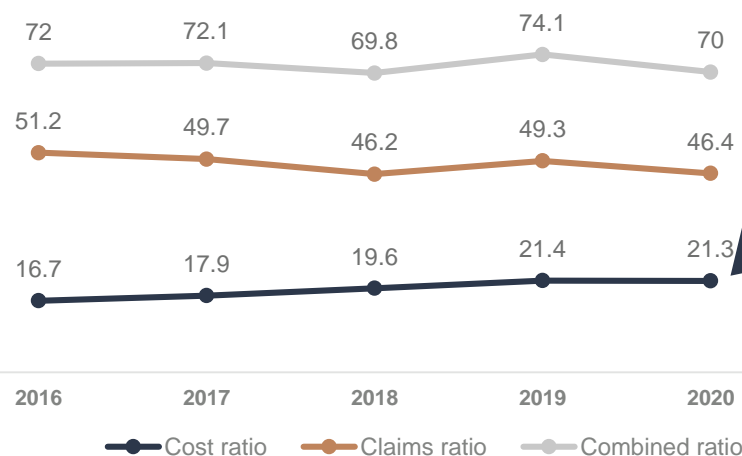
## PERSONAL LINES



### PERSONAL LINES GWP

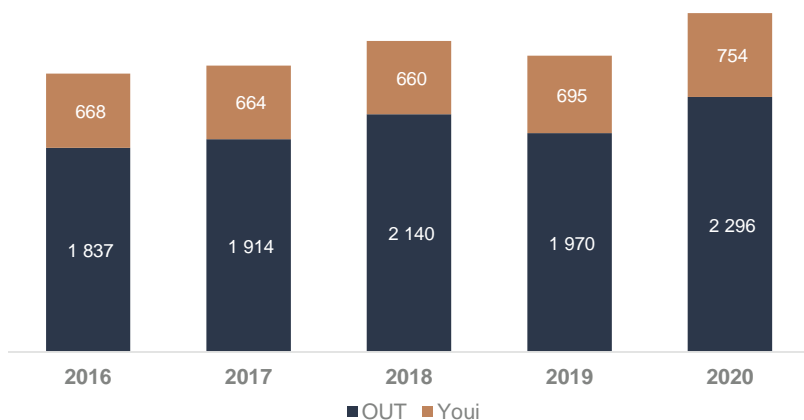


### OUTSURANCE PERSONAL LINES: KEY METRICS



Cost ratio increased from 2017 onwards because of investment in growth and digitalisation. Cost ratio has started to come down in 2020 as benefits of investment is starting to come through.

### PERSONAL LINES OPERATING PROFIT



### YOUI PERSONAL: KEY METRICS



Reinsurance program effectively mitigated severe catastrophe losses including bush fires keeping the net loss ratio in line with previous year. This unfortunately lead to reinsurance premium increases with the July renewal.

1.2% is due to increased expenditure in marketing, risk and compliance and IT infrastructure. The balance of 0.6% is due to CTP and the BZI channel



Thank you