

Group chief executive officer's overview

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Nicolaas Kruger

Group chief executive officer

MMI's purpose is to enhance the lifetime Financial Wellness of people, their communities and their businesses. This Financial Wellness purpose remains relevant in the current tough economic environment. Slow economic growth, shrinking disposable income and rising unemployment characterised the operating environment in 2017, increasing the financial pressure on consumers.

Although MMI had to deal with the challenges of the tough South African operating environment, we remain committed to our client-centric strategy and our Financial Wellness purpose. The MMI management team acted decisively to implement key strategic focus areas, balancing the investment required for a sustainable long-term future with shorter term priorities to ensure MMI's core businesses continue to compete in South Africa. In the process we streamlined MMI's corporate portfolio, reducing our African footprint and increasing the focus on MMI's large existing businesses in South Africa.

We remain mindful of the exponential technology advances of the Fourth Industrial Revolution and continued to invest in the capabilities we need to succeed in the world envisioned by this revolution. Capabilities like data analytics, machine learning, design thinking, digital marketing and robotics will support our client-centric strategy and help us to build superior relationships with clients in a cost-effective manner.

OVERVIEW OF 2017

Environment and industry

2017 has been another challenging year for the financial services industry in South Africa. Political events impacted negatively on an already weak economy, and all key economic indicators in South Africa confirmed a picture of consumers who experienced more pressure on disposable income than in 2016. Business and consumer confidence indices were at historical low levels, fuelled by South Africa's sovereign credit downgrade. The negative environment inevitably had a commensurate impact on MMI.

Strategic focus areas

MMI has three strategic focus areas to realise our vision to be the preferred lifetime Financial Wellness partner, with a reputation for innovation and trustworthiness. We define Financial Wellness to be a continuous process to assist people with planning and managing their money so that they can afford their expenses and reach their goals over their lifetime. All strategic activities throughout MMI are aligned to the focus areas of Client Centricity, Growth and Excellence. During 2017, we made good progress to achieve the strategic objectives in respect of all three strategic focus areas.

Client Centricity

The successful execution of our strategic focus to understand and meet client needs was independently confirmed by the latest South African Customer Satisfaction Index (SACsi), which indicated that South African life insurance clients are the most satisfied with our Metropolitan brand, for the second year in a row. Metropolitan Retail aims to gain a deep understanding of the problems our clients face and then use new technologies to enable relevant solutions for clients, while protecting shareholder interests. For example, interventions that use data analytics shortened Metropolitan's claims turnaround times from 48 hours to as little as 10 minutes.

To create value for MMI clients, our Multiply Wellness and Rewards programme educates, engages, empowers and encourages members for doing everyday things that ensure a physically and financially healthy lifestyle. Multiply continued its growth path during 2017 and now has over 250 000 clients and created value through improved persistency, higher cross-product holdings and a reduction in claims.

During 2017 we further refined the value propositions for all our South African client segments. We again measured the financial wellness of South African citizens through the Momentum Financial Wellness Index (in partnership with UNISA). The adverse impact of South Africa's economic challenges on household finances was clear from the results of the Index and we will take account of these findings to enhance our client value propositions.

Growth

Our Health and Wellness joint venture with Aditya Birla in India was launched during November 2016 and we are very pleased with the progress made in the few months since the launch. Aditya Birla Health already received awards in respect of its product range and digital marketing campaigns, while total insured lives exceeded 200 000 by the end of the financial year. We also launched our micro-insurance JV with MTN in Uganda and Ghana during 2017 and we are gaining valuable insights.

Earlier in this overview I referred to the streamlining of MMI's corporate portfolio outside South Africa. We have decided to significantly scale down our presence in the United Kingdom, and we have announced our plan to exit a number of African countries to improve focus on remaining operations. Our efforts in this regard have enabled more focused investment in our large South African businesses, in the capabilities required for the Fourth Industrial Revolution and in attractive new strategic growth initiatives in South Africa.

One of the attractive opportunities we are pursuing is the joint venture between MMI and African Bank. This partnership includes three business lines, comprising lending, insurance business and transactional banking. The lending venture will make it possible for MMI to offer needs-based credit to our

client base through various distribution channels and the insurance opportunity will enable African Bank to provide MMI insurance products to its client base through African Bank distribution channels. The transactional banking capabilities will further enable the MMI Financial Wellness client value proposition. The different components of the joint venture will be rolled out on a phased basis during the 2018 financial year.

In our existing South African businesses, we increased efforts to grow productive face-to-face channels for our Momentum Retail and Metropolitan Retail businesses, aiming to increase MMI's client base. Good results have been achieved in respect of growth in the membership of the Momentum Health open scheme and growing our Momentum Short-term Insurance client base, where cross-selling and our Multiply Wellness and Rewards programme have been very effective. We also continued to invest in alternative distribution channels to support our omni-channel strategy.

Excellence

A critical initiative within our Excellence strategic focus area is MMI's expense optimisation project. We are pleased that this project achieved its milestones and remains on track to achieve the 2019 target of R750 million in annual cost savings.

An important aspect of MMI's client-centric strategy is to have leading Financial Wellness building blocks. There was a particular focus on turning around Momentum Short-term Insurance, which consistently improved from a new business premium, expense and claims ratio perspective. Momentum Short-term Insurance is closely tracking its business plans and aims to achieve sustainable profitability by 2019.

Strategic enablers

Earlier in this CEO overview I referred to our investment in the critical capabilities that will enable MMI to be successful in the new world of the Fourth Industrial Revolution. During 2017 significant headway has been made in respect of strengthening our strategic enablers, to build IT systems fit-for-purpose for the Fourth Industrial Revolution, improve data analytics skills, vest a client-centric culture and increase innovation.

In line with trends towards mobile client engagement, we released a first version of a Momentum mobile application. Momentum Health and Short-term Insurance applications will be included into one holistic Momentum mobile application during the next year, aligned to our Financial Wellness ambition. We also implemented Webchat functionality on all the Multiply pages on the www.momentum.co.za website. Further systems development to prepare MMI for the Fourth Industrial Revolution is underway.

MMI's client-centric culture, the MMI Way was launched at a country-wide MMI executive (exco) roadshow. Following the MMI exco roadshow, we successfully completed an industrial

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theatre roadshow throughout the country to practically illustrate the MMI Way to all staff and internalise how to change their behaviours to align with the MMI Way. Our staff reacted very positively to the two roadshows and we will implement further initiatives to fully vest the behaviours and values of our culture.

Our innovation partnership with the United Kingdom venture capital firm Anthemis progressed well. We have evaluated a large number of potential Fintech and Insuretech start-ups in the Financial Wellness space and the first investments have been made. In South Africa our partnership with venture capital firm 4Di Capital has also made good progress and investments have been made on a similar basis. We continuously connect relevant start-ups and new technologies to the existing business of MMI, aiming to take advantage of their skills and capabilities to advance our strategy.

We continued to pursue internal innovation on an agile basis during the year, using design thinking and lean start-up methodologies to advance internal opportunities in a focused manner.

Financial performance

The results of MMI for the financial year ended 30 June 2017 were impacted by the tough economic environment and the weak investment markets. Core headline earnings remained flat relative to the prior year. New business sales reduced by 6%, while new business margins reduced from 1.6% to 1.3%. We continued to invest in key strategic initiatives and expense management was very satisfactory. MMI's capital base remains adequate.

For further details on the financial performance, please refer to the group finance director's report on page 52.

Executive team

The MMI executive committee is a diverse and energised team and we are confident of our ability to lead MMI towards our Financial Wellness purpose.

MMI's executive committee membership changed during 2017. The chief executive (CE) Momentum Retail business (Etienne de Waal), MMI's chief operating officer (Danie Botes) and the group executive of brand (Vuyo Lee) resigned during the year. I would like to thank Etienne, Danie and Vuyo for the important contributions they have made to MMI on multiple fronts and wish them all the best.

Three new executives joined the MMI exco team, Linda Mthenjane as group executive of Human Capital, Ashlene van der Colff as head of group operations and Risto Ketola as chief financial officer. Our group finance director, Mary Vilakazi has accepted the responsibility of deputy CEO and Khanyi Nzukuma (previously CE of Metropolitan Retail) has accepted the responsibility to become CE of Momentum Retail.

Transformation

We remain committed to creating sustainable transformation in the South African economy and have maintained our Level 2 Contributor status. The new B-BBEE certificate was issued during May 2017 and I am very pleased with the score of 93.37 (125% B-BBEE recognition level). Transformation remains a critical building block to achieve our objective of enhancing Financial Wellness for all.

Looking ahead

The current challenging environment for both consumers and businesses is likely to prevail for some time, and technology advances will continue to change the business world. MMI's client-centric strategy and investment in capabilities to succeed in the new world will position us to compete in the future. In the short term, MMI and our industry peers will remain subject to a tough and uncertain environment. Our strategic choices to streamline MMI's corporate portfolio and focus on strengthening the large existing businesses in South Africa will help us to successfully navigate through this short-term cycle successfully, while setting MMI up for future success.

Thanks

I would like to thank everyone involved with MMI for their contributions during the year. We appreciate the ongoing strategic guidance provided by the MMI board. We also appreciate the ongoing commitment and resilience of our executive management team and our MMI employees. I would also like to thank our shareholders and clients for their continued support. We look forward to journey with all of you on the way to a new world and Financial Wellness.



NICOLAAS KRUGER
Group chief executive officer