

# Rising to the challenge of the post-crisis world

In this *Informed* interview, we talk to Old Mutual's group finance director **Philip Broadley** about the IR issues faced by a leading insurance and financial group in dealing with international investors.



*Philip Broadley has been group finance director of Old Mutual since November 2008. He was previously group finance director of Prudential plc from May 2000 until March 2008. Prior to joining Prudential, he was a partner in Arthur Andersen from 1993 to 2000. He has been chairman of the 100 Group of Finance Directors, a founding member and trustee of the CFO Forum of European Insurance Company Finance Directors, and a member of the IASB's Insurance Working Group. He is a member of the Code Committee of the Takeover Panel.*

As a highly experienced finance director within the insurance sector, how has the 2007/8 banking crisis impacted your interaction with investors? In particular how has your communication with investors changed since the crisis? Are these changes likely to reverse?

The level of interaction with hedge funds increased dramatically. In my view, the insurance industry's business model performed robustly through the crisis but the focus on 'mark to market' of bond portfolios (in particular) overwhelmed interest in the underlying business. Our industry is one of long term flows, stable liabilities and low liquidity needs. The banking crisis was triggered by excessive leverage in that industry with high exposure to liquidity strain.

We adopted a more granular approach to our disclosure but many shareholder meetings were a poor use of management time with little real interest in long term business performance and too much focus on risk of default in extremis. Nevertheless, with some areas of improved disclosure, such as cash

flow data, we have succeeded in highlighting our core strengths.

We think this additional disclosure will be here to stay; the lasting benefit is that it provides an opportunity to differentiate ourselves.

Old Mutual is listed in London and Johannesburg and has operations in a number of markets, including the Nordics business which is being sold – have investors responded differently according to geography or is response governed by investment style?

Investors in the two major geographies of our register have different peer groups and also investment flexibility. South African investors cannot invest much outside SA and their research tends to be very localised as a result. International investors are much more country-agnostic.

Clearly major changes are underway in the structure of the Old Mutual driven by the crisis. Please run us through corresponding changes in the shareholder base. What are your expectations for future shifts in the structure of the shareholder base?

During the crisis the SA shareholder base proved very resilient and much more fundamental than the international investors. We had previously seen a decline in the SA register ownership but that has reversed with approximately 40% of our base either from South Africa or those who hold the South Africa line of our stock. With the recovery in European markets more recently, there is now an increased international interest in stock.

Increasingly, shareholder bases will become more fluid and cross-border – driven by the relaxation of regulatory

restrictions and more sophisticated client mandates, which will seek to manage concentration risk at a broad portfolio level whilst forcing investment managers to focus on a smaller absolute number of stocks to deliver alpha.

What are the key issues that investors want to talk to you about – again have these changed since 2008?

The key issue is the future direction of the group, now that we are well on our way in the restructuring process. They are excited about the growth of our emerging market operations and can see opportunities for our business model in Europe.

How well have shareholders understood the major challenges in your business over the last few years? What have been the specific communications challenges in this regard?

What is interesting is the lack of familiarity with the complexity of

## POST-CRISIS WORLD

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regulation and how this can constrain our actions and those of competitors, how simplistic analysis can be as a result, and how impractical some of their thinking has been in the past. Often this is a result of a lack of industry specific knowledge. In the current climate, substantial M&A activity is almost impossible in the European insurance industry and yet this is not well understood.

Sensible investors trust managements to execute for the best interests of the company over the long term. We are very focused on earning our shareholders' trust.

What do you see as the key attributes of an investor relations department, in particular in times of volatility, and what do you look for from your IR Director? The key attribute is credibility – both internally and externally. We changed the way we service both the sellside and buy-side to provide better quality engagement. Our use of 'investor-to-corporate' visits, conferences and webcasts has reduced travel time but also has increased investor contact substantially.

I particularly want my IR director and the team to be very straight with the executive management team and the board on what they sense from the market and what our peers are doing well.

With Old Mutual's African heritage how important is corporate responsibility within your business? Have there been any special challenges in this regard?

It is vital that we remain closely connected to our South African heritage. We have a special role in managing the savings and protection of our customers and are very active in housing, infrastructure and agricultural investments as well as more conventional equity bond investments.

The challenge is to balance the sometimes competing pressures of building a fairer society while promoting economic development.

## OLD MUTUAL

Old Mutual is an international long-term savings, protection and investment group.

Originating in South Africa in 1845, the group provides life assurance, asset management, banking and general insurance to more than 15 million customers in Europe, the Americas, Africa and Asia.

Old Mutual is listed on the London and Johannesburg Stock Exchanges, among others, since 1999. In the year ended 31 December 2011, the group reported adjusted operating profit before tax of £1.5bn (on an IFRS basis) and had £267bn of funds under management from core operations.

For further information on Old Mutual plc, please visit the corporate website at [www.oldmutual.com](http://www.oldmutual.com)

The key challenges are skill shortages, unemployment and infrastructure deficiencies. We are playing our role in addressing those challenges. ■



## Study for Success 2012 CIR programme

*The Certificate in Investor Relations (CIR) is designed to provide knowledge of regulatory requirements and the financial and market environment. The full syllabus can be obtained from the IR Society or at [www.irs.org.uk](http://www.irs.org.uk).*

### Dates for 2012:

#### CIR Revision courses

15 May, 8 August, 19 September and 16 November

#### CIR Exam

24 May, 20 August, 4 October and 29 November

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See full IR Society course details on pages 30 & 31 of this magazine