

South African insurer makes Australian play

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ANZ hurt by Asia market crunch

Exclusive

Ruth Liew

South African insurance giant PPS is wading into Australia's \$7.5 billion retail life risk market, wooing professionals such as doctors and engineers onto its books.

PPS Mutual, which will adopt its parent company's members-focused business model, will sell life insurance products such as trauma, death and income protection cover to more than 500,000 Australian workers across 13 professions including medicine, accountancy, law and engineering. The company, which will sell its products through financial advisers, will roll out its services over the next few weeks.

Michael Pillemer, the former chief executive and founder of listed insurer

CentricWealth, is the Australian boss of PPS Mutual.

"We think the timing is perfect because a lot of the vertically integrated organisations (owned by banks) are struggling with having made multiple acquisitions over the last decade," Mr Pillemer told Fairfax Media.

"They have legacy systems, we'll start with a clean slate, and there's a complete lack of innovation in the market," he said.

The company is in talks with more than 50 non-bank aligned financial advisers to sell its products. Mr Pillemer has spoken with bosses of advice groups including Ray Miles, executive chairman of Fortnum Financial Group, Glenn Kerr, director of Complete Risk Analysis, Aaron Zelman, managing director of Medibroker, Ron Geffin, director of Core Private Wealth and James

McFarland, director of insurance at Stanford Brown.

The company's risk will be underwritten by reinsurance behemoth Swiss Re and NobleOak Life, which is regulated by the Australian Prudential Regulation Authority.

The business model will also see the group's profits – over the long term – return to members who stick with the company. Its South African counterpart returned \$2.2 billion back to its members in the past 10 years.

"As long as you retain your membership and one policy with the company, then after a certain period of time, you get access to those profits," Mr Pillemer said.

PPS is entering the market at a turbulent time in the life industry, whose performance in recent years has been hampered by low investment returns, a

surge in white-collar claims and lawyers encouraging clients to sue insurers for payouts.

The industry is battling high lapse rates, when customers opt not to renew their policies as household budgets tighten. It is also adjusting to a barrage of regulatory change, including adviser-remuneration structures from commissions to more fee-for-service models.

Some life company owners, such as National Australia Bank, are selling their life businesses.

Despite the challenges, Mr Pillemer remains optimistic about the insurer's entry into the local market.

"We believe the timing is right for the re-emergence of a well-constructed mutual model within the highly competitive retail life risk insurance sector in Australia," he said.

FlexiGroup bets on NZ, solar batteries for growth

Shaun Drummond

FlexiGroup acting chief executive David Stevens says big revenue falls in the business' leasing arm are being reversed and it expects strong interest in solar batteries to boost the earnings of its biggest business, Certegy.

On Wednesday, the equipment financier and credit card issuer reported a 4 per cent rise in 2016 first-half cash profit to \$44.3 million and confirmed full-year cash earnings guidance of \$92 million to \$94 million.

The company will pay an interim dividend of 7.25¢, down from the year-earlier payout of 8.75¢. However, the company said the drop was temporary, as it was due to about 68 million extra shares on issue after its recent capital

FlexiGroup

Half year	2016	2015
Sales (\$m)	144.1	132.2
Pre-tax (\$m)	57.5	55.3
Net (\$m)	44.3	42.5
EPS	12.9¢	12.2¢
Int div*	7.25¢	8.75¢
Payable*	April 15	
Shares (last)	Close \$2.12	Change -46¢

raising to buy Fisher & Paykel Finance, which diluted the dividend.

Its interest-free credit card business grew sales volumes by almost 40 per cent and cash profit by 11 per cent. Its New Zealand business recorded a 63 per cent rise in profit to \$5.2 million.

FlexiGroup is still suffering from a major decline in its commercial leasing arm, however, following the departure of senior executives and the loss of important relationships. Revenue at its Australian leasing business – its second-biggest – fell 18 per cent to \$30 million, but this is rising now. "SME and enterprise has grown by 3 per cent between the second half of 2015 and the first half of 2016 – we have steadied the ship," Mr Stevens said. "That's not good enough, but it does show fit is improving."

Certegy, which accounts for close to 40 per cent of FlexiGroup's profit, had a 5 per cent rise in cash earnings to \$17.5 million, but sales volumes fell 2 per cent to \$280 million. This is partly explained by the company suspending its NZ Certegy operations

temporarily, as it competes with its new acquisition there, Fisher & Paykel Finance. "The really exciting thing to come out of Certegy is the battery business. Tesla gets all the coverage, but there is another 10 businesses in that market," Mr Stevens said.

FlexiGroup bought Fisher & Paykel Finance from Chinese giant Haier for \$275 million in October. The deal will see NZ jump from 10 per cent to 40 per cent of its income, and interest-free cards will become FlexiGroup's equal-biggest earnings base.

Analysts are worried FlexiGroup's funding costs will rise as it relies on securitisation of its leases for about a third of its funding with the balance from bank debt. But Mr Stevens said it had not seen any hike in funding costs.

higher exposure to institutional lending and Asian economies was an added source of risk for the bank. However, he believed measures of risk were "flashing amber" rather than red at the moment.

"The question really is what comes next? Credit cycles rarely go in one or two quarter lots," he said.

Facing rising bad loan charges and slowing credit growth, Mr Elliott is focused on costs, which grew more slowly than revenue in the half, helping the bottom line result.

A key reason for this has been a decline of about 1200 in ANZ's total staff numbers during the quarter, due in part to a virtual freeze on new hiring.

There have been predictions from some analysts that ANZ may need to cut its dividend this year, and Mr Elliott said the bank needed to maintain revenue growth and keep a focus on costs and be disciplined in how it managed capital.

Key pressures on the dividend include rising bad debts, slow growth, and narrowing profit margins, but bank boards have also proven reluctant to cut payouts to yield-hungry shareholders.

Macquarie analyst Victor German, who predicts ANZ will trim its dividend this year, nonetheless said the stock appeared to be good value, after the recent slide in its share price.

"While we continue to see near-term risk to ANZ's earnings from the economic slowdown in Asia and likely management's steps to reposition its business, we believe ANZ's current valuation discount more than captures this risk," Mr German said.

This week National Australia Bank said earnings had bounced 8 per cent to \$1.7 billion in the December quarter, helped by much lower bad debts, while Commonwealth Bank last week said first-half profits rose 4 per cent to \$4.8 billion. ANZ shares dipped 0.6 per cent to \$23.14.