

MMI's prospects keep getting stronger

When Metropolitan and Momentum merged to form MMI, the merged companies were barred from retrenching staff for the first two years.



The market reacted badly to this ruling having hoped to see some substantial cost savings from the merged businesses.

But in spite of that, for the year to June, the first full year of the combined operation, there was good progress. The group was still able to record R201m in merger savings and core headline earnings were up 12% to R2,95bn.

Group chief executive Nicolaas Kruger says there is a staff turnover of about 10% every year, which has given MMI the option not to replace up to 1,500 people a year. The staff other than sales people has fallen by 50, with the bulk of the cuts in employee benefits, health and group services units. There was an increase of 100 people in the sales force, predominantly Metropolitan's agents, as its recurring-premium income is still growing fast.

Because Momentum operates at the top end of the market and Metropolitan at the bottom, there was little opportunity to cut out competing businesses, with the exception of Metropolitan Odyssey, which was a direct competitor of Momentum Retail.

Kruger says that in spite of poor sales at Momentum Retail, which were down 2% to R3,44bn, this unit was the main source of profit, accounting for R1,06bn, or more than a third of the group's total. The number was flattered by R180m in reserves which the actuaries decided to release as it was no longer needed to meet liabilities. But there was tight expense control stemming from the consolidation of Odyssey.

Metropolitan Retail had a solid 4,9% margin with new recurring-premium income up 12% to R1,03bn. MMI deputy chief executive Wilhelm van Zyl says the core client base is government employees - mainly teachers, nurses and the protection services.

Momentum Employee Benefits was the best performer in trading income terms, with operating profit up 33% to R249m. Its goal this year is to be entrenched as the leading incapacity insurer. It also aims to cross-sell with Metropolitan Health, which had a solid 17% growth in profit to R133m.

Momentum is the top brand in the corporate insurance sector, according to the recent Sunday Times survey, even though advertising and promotions remain low-key. It will get a boost in November when what is now the Momentum 94.7 cycle race takes place, as well as from its sponsorship of one-day cricket.

The most troubled unit, Kruger concedes, is Momentum Investments where operating profit fell 5% to R125m. There was an outflow of third-party funds, but these fell to R1,1bn compared with R15,8bn which was withdrawn last year.

Van Zyl recently took over as chief executive of the investment business after the unexpected departure of his predecessor Morris Mthombeni. Momentum recently set up a new contrarian fund management unit under celebrity fund manager Sam Houlie which it hopes will make inflows turn positive.

MMI's biggest opportunity is that out of 6m customers, just 29,000 are clients of both retail businesses plus the group health or employee benefits businesses. Once the merger is bedded down, cross-selling looks bound to accelerate.

Source: *Financial Mail* via I-Net Bridge

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