

Message from the chief executive officer



Johan Nel

The national events that transpired at the beginning of the year under review, mainly on the political front, resulted in an air of hope. These, and other proposed changes to budget and fiscal policy, averted South Africa from being downgraded to 'junk status' by Moody's in March 2018 and resulted in them improving their view of the country from a 'negative' to a 'stable' outlook.

However, economic growth for 2018 dropped below the initial expectations. The South African economy slipped into recession in the second quarter of 2018 with GDP contracting by 0,7% following a 2,6% contraction during the first quarter. Household consumption contracted by 1,3%, weighed down by a collapse in spending on durable, non-durable and semi-durable goods.

The contraction is partly due to the VAT increase that came in effect in April as well as higher fuel prices and increases in administered costs. The unemployment rate also increased to 27,2% in the second quarter. Consequently, the South African Reserve Bank lowered its growth outlook for 2018 from 1,7% to 1,2% in July.

Economic recovery for the remainder of the year is expected to be weak, especially due to the weaker consumer demand, which is a historical driver of upswings.

FINANCIAL PERFORMANCE AND RESILIENCE

Iemas' growth strategy for 2018 was to focus on good quality business – to not pursue business growth aggressively and to focus on replacing the core information technology systems. During the year under review, the group accomplished gradual growth in its business that consisted of higher quality debtors, aligned to the group's longer term sustainable growth strategy.

The profit for the year amounted to R103,0 (2017: R118,3 million). The stabilisation of its financial position enabled Iemas to create job opportunities and increase the employee compliment from 554 to 602 employees, thereby contributing to sustainable development.

The credit policy, together with its supplementing processes and procedures pertaining to credit risk and debt collection, have been stringently enforced. Solid affordability assessment standards ensured the curtailment of increases in arrear instalments and bad debts written off.

The statement of financial position reflects an increase in total assets from R4 964,5 million to R5 332,6 million (7,4%) for the year ending 31 August 2018. The consumer credit market remains characterised by high consumer debt levels and intense competition for creditworthy consumers. Advances receivable, current and non-current combined, increased from R4 605,2 million to R4 865,3 million which equates to an increase of 5,6% or R260,1 million for the year under review, mainly due to a balanced growth in both secured and unsecured advances to members who have the propensity to repay their debt.

The group's net asset value increased with 6,8% for the year, from R1 519,9 million to R1 623,1 million. Members' funds increased from R786,5 million to R814,1 million. Total borrowings, current and non-current, increased to R2 695,5 million (9,7%), ascribable to additional funding required to finance the increase in total advances.

The new credit life insurance regulations finally came into effect in August 2017 and affected all credit agreements concluded under the National Credit Act after the implementation date. Although Iemas welcomed these additional consumer protection regulations, the cap on maximum premiums resulted in lower premium income. In addition to this, the compulsory retrenchment cover also had a negative effect on the claims ratio. More information regarding the impact of these developments can be found on page 13 of the chief financial officer's report.

PROVIDING VALUABLE PRODUCTS AND SERVICE AS AN INSURANCE BROKER

From 1 April 2017, Iemas Insurance Brokers has been operating as a separate legal entity. During the year under review, its strategy, value proposition, human resources structure and remuneration models were evaluated and strengthened. In essence, the company offers clients the proposition to secure their future, their family, their belongings and their business by accessing various competitive insurance products and services. The company's marketing collateral was also redesigned and successfully rolled out to internal and external stakeholders.

Iemas Insurance Brokers recorded profit before income tax of R37,5 million (2017: R18,9 million) although its projected growth in policy units did not fully materialise. The regulatory cap placed on credit life insurance premiums also impacted negatively on commissions earned on the premiums.

SECURING CLIENTS' BELONGINGS

The intensely competitive short-term insurance industry is characterised by high levels of price-sensitivity. This results in pressure on premiums as market players lower premiums to gain market share at the expense of margin squeeze. Despite this competitive intensity, new market entrants are registered on a regular basis as the development of new insurance solutions and disruptive technological innovations create new opportunities. The number of short-term insurance policies increased by 5,9% (2017: decrease of 3,5%) with total income increasing by 10,2% (2017: 5,9%) to R48,3 million (2017: R43,8 million).

Agreements with large and well-established South African short-term insurance companies enable the brokerage to offer clients multiple quotations based on their individual risk profiles and personal needs. During the year, additional agreements were concluded with insurers to further enhance the short-term insurance value proposition and to satisfy client needs. A diversified portfolio in terms of product- and price options is available to Iemas' clients.

Employee turnover remains a challenge due to the high market demand for skilled, qualified people, especially in the short-term insurance sales environment. Various initiatives to counter this were implemented during the year, for example a youth recruitment programme where Iemas approached grade 11 and 12 learners at schools to educate them about short-term insurance and available job opportunities. This programme will continue into the next year.

The annual report of the ombudsman for short-term insurance was released during the first quarter of 2018. The ombud resolves client complaints about claim settlements and in 2017 some 80% of the cases were found in favour of the insurer. This is a reflection of a well-managed and well regulated industry. For the year under review, Iemas Insurance Brokers had one case registered with the ombud which is now closed.

SECURING CLIENTS' FUTURES AND FAMILIES

During the year, Iemas Insurance Brokers' business plan for the life division was reviewed to ensure alignment with changing operational and market needs.

Additional human resources, revised remuneration models and increased marketing spend yielded results and the total income from the division increased by 24,0% (2017: 11,2%) to R72,2 million (2017: R58,2 million).

During the next year, the division will focus on additional public relations activities, further enhancement of its digital presence, efficiency improvements and the roll-out of its financial wellness initiatives.

REPLACING CORE SYSTEMS

The replacement of Iemas' core technology systems was scheduled to be completed during the year under review. This would be the largest systems conversion in Iemas' history and will significantly shift the manner in which we work. Regrettably, given the scale and complexity of the project, the implementation date had to be postponed into the next financial year.

Systems already implemented include the first phase of a customer relationship management (CRM) system, a short-term insurance system, enterprise resource planning (ERP) system and document management system with the last phase being the implementation of loan approval, loan management, collections and card systems. The new systems will make it easier for the organisation to support its members and will further enhance efficiency, service levels and customer experiences.

The human resources division, in collaboration with corporate marketing, has commenced with the roll-out of an extensive change management programme to prepare employees for the implementation of the new systems. Change management is executed by a team consisting of both internal and external resources who focus on internal communication, optimising a learner management system, implementing blended learning, tracking and assessment to ensure organisational readiness.

Message from the chief executive officer (continued)

CARING ABOUT OUR COMMUNITIES

Iemas recognises that it functions within wider communities and the importance of providing opportunities for employees to partake in corporate social responsibility (CSR) initiatives. Therefore, employees are encouraged to donate to charity and to participate in initiatives for the benefit of local communities.

Iemas' CSR initiatives for the year encompassed a number of causes, which included continuous donations and assistance to an organisation established to assist abused and neglected girls, co-sponsoring a ladies breakfast held to raise funds for special needs children, annual donations of school shoes and school uniforms, support of national campaigns such as Tekkie Tax, CANSA Shavathon, Casual Day and Mandela Day, participation in the South African National Blood Services (SANBS) blood donation drive and an internal HIV/Aids awareness campaign focussed on Iemas employees who are directly or indirectly affected by HIV/Aids.

FINANCIAL LITERACY AND ADVICE

In line with co-operative principles, Iemas believes that financial literacy plays an important role in establishing a culture of financial inclusion. It equips employees of the contracted employers groups to make sound financial decisions and to ultimately achieve holistic financial wellness. As part of its value proposition, Iemas offers free financial wellness workshops at the workplace. Training modules include: how to budget; effective savings tips; escaping the debt spiral, the importance of having a will and a life file and what documentation to include. During the year, 7 028 employees (2017: 6 734 employees) from contracted employers nationally benefited from the workshops.

Through regular articles and tips in its newsletters, on the blog and via weekly e-mail, Iemas' members also received advice and education on savings, money management, budgeting and the repayment of their debt.

LOOKING FORWARD

Since his appointment as president, Mr Cyril Ramaphosa has pledged to reignite growth in the country. Some of his plans include creating more jobs, increased investment, containing debt and spending, and improved management of state-owned institutions.

However, although the future is looking brighter, economic improvement will not happen overnight. The economy is predicted to grow at a slow pace and will take time to reach a point where consumers can expect to start experiencing the benefits associated with an improved growth rate. South Africans need to remain focussed on achieving a healthy level of financial wellness. This includes managing debt responsibly, getting into the habit of budgeting to better manage expenses and saving for retirement or for a rainy day.

Iemas will continue to focus on steady growth in 2019, while being cognisant of the environment in which it operates. The group's products remain relevant with the focus shifting more towards delivery mechanisms and interactions with members to ensure alignment to their needs and expectations. Ensuring not to neglect its traditional market and business sectors, Iemas will continue to focus on the acquisition of members in less vulnerable business sectors and those in the middle to middle-high income categories. This is expected to result in steady growth and further improvement in the quality of the debtor's book.

The implementation and operationalisation of the new core information technology systems is one of the largest projects in our 80-year history and will be the single most important priority for the next year. The new systems will enhance Iemas' competitive position in a fast-changing technological environment. The change management programme is underway to ensure that employees are mobilised to effectively use an entirely new system, whilst maintaining service levels and minimising the impact on members.

Arrears and bad debts are an industry-wide concern and Iemas will persist in implementing the required actions to ensure that its credit management is done effectively to contain bad debts and arrears within acceptable levels. Positive feedback from members and employers confirm that efforts and initiatives to educate members in financial wellness is making a difference, and therefore Iemas will continue to support them in their journeys towards financial wellness. Coupled with these, Iemas will continue to offer affordable products and high levels of service.

THE END OF A CHAPTER

When I joined Iemas almost nine years ago, I was immediately impressed by the dedication and loyalty of the management and employees. Together, we experienced a number of very successful and also a few trying years. The economic and social environment posed many challenges that tested Iemas' resilience. However, our stakeholders, including our board, employees, members, employer groups, business partners and funders have rallied with us to navigate through the difficult times together. I have learnt not to doubt the tenacity of the Iemas spirit and its rich legacy.

The main purpose for Iemas' existence is to serve its members. Again, when joining Iemas from outside the organisation, I was astonished by the dynamics of the co-operative model and its members, as it manifested within the Iemas community. It was touching to experience the total commitment and loyalty of the members as well as the coherent spirit that prevailed among all stakeholders. We were able to capitalise on these values and qualities over the past nine years and have grown Iemas in many respects including employees, contracted employer groups, total assets, reserves and members' funds.

The group is looking forward to reap the rewards of the solid foundation that was laid through effective implementation of its strategy, and the imminent implementation of the new core systems which will position the group to grow in existing as well as new markets.

I have been blessed to end my full-time career at Iemas. I would like to express my deep gratitude to the management team, every Iemas employee and the board for their steady and unstinting support. I hope that the coming years bring good fortune and prosperity to Iemas, its members and everyone associated with Iemas.



Johan Nel

Chief executive officer