Y 2014 Earnings Call

Company Participants

- Adrian Gore, Chief Executive Officer
- Mike Brown, Analyst
- Unidentified Speaker

Other Participants

- Unidentified Participant

Presentation

Mike Brown {BIO 16160535 <GO>}

Ladies and gentlemen, good morning. If we can get the proceedings going. I think, this is on, I seem to be hearing myself in an echo. I'm Mike Brown from the Investment Analyst Society. We're being hosted this morning by Discovery Limited for a presentation on the Annual Results to 30th of June. Discovery, I think as we all know, is listed in 1999, it's now the 30th, I think, biggest company on the JSE and it keeps on climbing just about every year. A company like this is -- has an increasing reach across the different products and services that they deliver and globally. So it's a complex company I'm sure to many, but it's a complex company, I think, also to report on.

And so we are very grateful, Adrian and team, as the Investment Analyst Society for the amount of work that goes into, I think, producing the results just two months after your year-end, but also the effort, I think, that goes in from your whole team, from your accounting and financial people upwards to yourself and doing a presentation of this nature.

So on behalf of the Society, I'd like to thank Discovery for hosting us this morning and for the presentation we'll get from them and also the chance to network with the -- I'll see, Richard and the whole management team is here in the front row afterwards.

So with no further ado, if I can hand over to Adrian Gore, CEO of Discovery. Thank you, Adrian.

Adrian Gore {BIO 3068929 <GO>}

Mike, thank you very much. It's always an absolute honor and a pleasure to present our results for the year end to 30th June 2014. I've chosen a very tall podium. When you're my height, this is problematic. I hope you can see me, right. So I must say upfront it has been a tremendous year, I think. A very complex year, but I think a very good year. And to an extent, I think it's framed by three distinct things that I hope I get across in the presentation. The first is strong financial performance and I think you'll see that throughout the businesses. The second is a extensive and broad focus of the Group across different geographies, across different markets, different industries, insurance versus life insurance, et cetera.

But despite that, which I think you'll see the third framing for me is ironically, the business model is more disciplined and if that -- it collapses down, I'm going to make -- I'm going to try and get a bit of depth from this here. It collapses down into a very focused model that, I think, is highly applicable. And to an extent, I think our focus now is in three phases. A primary market here, a second primary market in the UK, and a partner market that we're trying to globalize. And so to an extent, while we've been relatively broad and extensive and you'll see that, I think the focus is now careful and I think the business model is well established.

So let me start by just talking through the financial performance. Of course, I've seen your pack and I'm not going to go into too much detail, I hope it's there in great detail. But you can see the normalized operating profit has grown strongly by 23% to 5 billion. New business up 15% of a pretty hard base annualized to 12.2 billion. Embedded value reflecting the kind of actuarial progression of the business growing by substantial 21% to 43 billion, just over 43 billion. And I think is very important is illustrating the performance of the Group against expectations, the actual expectations up a substantial 45% with experienced variances, up to just over 1.4 billion. So across the board, I think the performance has been strong.

A few comments, if you look at new business progression, it is strong, up 15%. I made the point earlier, but if you look at it across the kind of the long-run growth rate, it's kind of in line, we've been at about 14% a year over 10 years, slightly higher this year. So I think we're very pleased with the ability to grow of what I think is a very, very high base. Looking at earnings, the operating earnings up 23%, a long-run growth rate. We've managed to grow earnings by 22% a year for the last 10 years. So we're kind of in line with that again, I think, a better year than average and you can see that climbing.

The normalized headline earnings up 24%. Headline earnings themselves up 49% and there's kind of a distortion from the last year. And you may recall that, it created all kinds of confusion, I want to clear that up very quickly, but it's kind of working through the system, but effectively the growth environment we're in is around the 20% to 24% level. On the back of that, we've kept the dividend policy about the same. So we'd be carrying a dividend of 151 cents, up by 21.3%, very much in line with the increase in diluted headline earnings per share. So that's effectively kind of how we've progressed over the year financially.

Just briefly on this distortion, just to clear it up, I hope it is clear. In the 2013 year, we had this restructured reinsurance financing, we revalued the Prudential put option and this created a once-off charge. So what we did in 2013 was to show normalized headline earnings of 2.78 billion as you can see versus what that charge reflected, which is a once-off of 2.062 billion. The effect of that from 2012 to 2013 was, in effect, a decline of 3% in headline earnings and what we showed was an increase of normalized headline earnings by 20%, as I hope you can see.

That now is working its way through the system, so now what really is happening on a normalized basis is the 24% growth year-on-year. But if you look at it versus the once-off reduction, it looks like a 49% growth. So essentially I hope that's clear, which is working its way through the system from the distortion in 2013 and the right way I think to look at the accounts is certainly not a 49% increase, but a 24% increase. And I hope that makes sense.

Let me turn to the embedded value and again this, I think, is very important for us. It reflects the actuarial progression of the business from year to year and effectively you can see that has climbed by a substantial 21% to over 43 billion. I think that is very, very strong. But I think the real issue for us is the experience variances that have climbed by 45%, as you can see, to a substantial 1.4 billion. That really reflects the fact that the business is outperforming the mortality assumptions, the morbidity assumptions, lapse rate, expense rates, et cetera.

And to a large extent, I think the trend has been upward over the years, but I think it has accelerated in the period under review and to a large -- in my mind, to a large extent, the power of the business model is really driving better selection, better performance, better behavior and it is fundamental to a large extent to, I think, everything that we are trying to do.

So what I'd like to do is move off the kind of narrow financials and move on to the themes and on to the strategy that, I think, is critical for the business. Let me say this, I think and we believe very strongly that insurance is going through a profound destructive phase. Most of the industries are facing destruction from technology, but I think in the context of our industries, the destructive force may be slightly different. The first point is, I think that opinions about society on institutions, on insurance and banking has changed and is changing, the financial crisis, rising inequality, intergenerational change, our customers are changing. So the millennials have a very different view, a very high civic mindset. They believe very strongly in social awareness that a company should be a force for social good.

So to an extent, the mindset of Milton Friedman, the business of business is business, that has passed. Businesses have to have what Michael Porter of Harvard called shared value, a business has to be a force for social good. It has to do what's good for it, must be good for its customers, must be good for society. And to a large extent, I would argue that institutions like ours have to make sure that we're in line with that kind of paradigm, else we will not be relevant and attractive to the customers we're trying to serve.

At the same time, I think the second trend or the second fact is that we are highly relevant and that's important to know. The industries we're in are big and substantial financially and socially. So if you look at the profit pools of insurance industries around the world, these are virtually trillions of dollars. From a social perspective, I would argue that health insurance or healthcare is the biggest industry in the world.

Life insurance and long-term savings are fundamental to everything that's important to us at our retirement. Short-term insurance covers all of our possessions. So whether it's financially or socially, these are massive and relevant industries. So when you bring together this idea of -- the importance of shared value and you look at the relevance of what we do, it's pretty clear that there's an impetus for change and we must be aware of that in the life to that. What I think is exciting is that the nature of change may be different, because I think we're seeing across the world industries being disintermediated and changing through the power of technology. I would argue that in the case of insurance, the force for change is the awareness that it is behavior that drives risk. So the nature of risk is changing from pre-existing conditions to behavior, and the understanding that behavior of humans is irrational. And how we build our products and how we build our systems is fundamental to understanding that.

We see that across virtually everything we do and I think you've seen this from us in many different ways, in the context of health and life insurance, we now know that three conditions, three behaviors, smoking, poor nutrition, poor physical activity lead to four conditions that drive 50% of the mortality. In fact, if you add alcohol in there, you get to 60% or even higher of mortality. So this is pretty fundamental. At the same time, people don't change their behavior easily, they need to be incentivized or nudged or regulated to change their behavior and people are overly optimistic about that risk.

So this is an amazing statistic that in our data, if you look at people with one chronic condition, two chronic conditions or five chronic conditions and you quiz them about how good is their health, you can see that the percentage showing their health is good, it's actually quite constant. I'm amazed by the five chronic conditions, more people think their health is good in that group than the people with no chronic conditions, right. And it kind of illustrates to you the bias of how we -- what behavior you call over-optimism.

So a healthy -- a health in our morbidity-mortality is driven by behavior, yet we seem to be unaware of our own state of health and that's a critical issue. In the context of driving, for example, we are more and more immersed, it's fascinating that 90% of accidents are, of course, caused by human behavior. But you get the same paradox that while people -- I've never yet met or personally caused an accident incidentally, right, and you see this in the statistics. When you survey people, 81% of people said they're good drivers, our statistics show the opposite, 30% are good, in fact, that flips around in terms of bad drivers.

So you have the same kind of behavioral paradox and you have the same casualty [ph], it's behavior that drives risk. When you embrace this, you understand that the insurance markets have to understand this deeply. So in the context of life insurance and I need to make this point and it's fundamental to what we're doing, the idea of underwriting someone at a point in time, doing all the medicals and the checks, of course, that's critical, but thereafter charging them the same right throughout their life is completely inconsistent to a world, where more than 60% of the risk is based on behavior during occurrence of the policy. If you don't have a dynamic rating process, you're simply not matching price and risk and that's not sustainable. It's not a great value of money to our customers.

In the context of health insurance, we're seeing more and more that societies are rebelling against risk rating, you're not matching price and risk, quite the opposite. So we have in this environment, our medical schemes have to use a community rate. If you go the US, the Obama Care is exactly the same thing, getting away from pre-existing conditions towards actually posing a much more community system. Yet health systems around the world are embracing behavior and wellness and trying to price them into those models.

So once again, I think there's profound change. And any short-term insurance is quite amazing, how competitive these markets are for margin, for rating factors. If you look at markets like the UK, the driver efficiency, there's every single issue in those rating. If they're trying their best on that efficiency front here to understand behavior, usage-based insurance and getting towards -- they're kind of there with telematics.

So if you look across the entire industry, I would argue that there's profound change taking place. It's enabled by technology, but fundamentally, this the essentially of behavior and prevention rather than just pre-existing conditions. And so the nature of risk is changing.

Our service with -- hope to get some humility, but I do think that in the context of Discovery, we have become global leaders in this particular space. A very simple idea of making people healthier has taken us on the journey of trying to understand how do you make people healthier. How do you change behavior and on that journey, we've learned about mortality, mobility, healthcare costs, driving, how all these things change and in essence, the model is quite a unified one, so the idea of underpinning our businesses with behavioral science.

And I think over the period under review that model has solidified. We've invested considerably in it to this idea of including behavioral science into every single thing that we do. So the businesses, I think, are brilliant. They're built carefully with exceptional people. But at the same time, the entire underwriting models, pricing models, technology is founded in behavioral science and tries to change behavior and price it into the products that we do.

I think getting back to the discipline of Michael Porter, the idea of shared value, I would say to you that the Discovery model is exactly shared value model. Think about it, that's exactly what we're doing. Changing behavior, if a change in behavior throws at actuarial savings, the savings then are used to fund incentives that change behavior or they fund discounts to premiums, and they share it with us in the sense of high embedded values and VNB, et cetera. And so the cycle goes around.

So to an extent, if we get it right, I would argue what we're doing is creating a shared value model, it's better for society, because people are healthy and doing the right things, it's better for our customers and better for us. And to an extent, I think in the period under review, we spent a lot of time trying to make sure we understand the discipline of this model and to an extent what it can do.

I do think that it looks like the Queen Mary from here, I don't know why it's come up that way, but essentially I do think that the business model has evolved quite substantially where the Vitality chassis, which is the proprietary nature what we're doing is being built out substantially, but more and more we understand you, the actuarial clinical links between the behavior and the insurance businesses that we build. And the chassis has become a tremendous, tremendous asset.

If you break it down and we speak a lot around the world about what we're offering, the asset base is substantial. So if you look at all the things that, I think, the customer journey is simple. Get a Vitality Age, get a Personal Pathway, do these activities, earn points and statuses and get rewards, that's pretty simple and colloquial. I think you will get it. We're seeing it all the time, but the clinical and actuarial and behavioral underpinnings are substantial and we keep learning more and more about them and continue to improve them, I think, over time.

On the data side, we have 17 million life years of data. We're understanding more and more, what incentives drive engagement, what engagement drives lower health care costs, mortality costs, sickness costs, driving behavior. And then how that affects stuff in an integrated, composite way and I think that's powerful. We're learning about the pricing engines to do that in the long term, as how to codify mortality, morbidity of our status.

And then we're learning about the valuation models needed to make this stuff sustainable. And I think it's very important, I think, for me kind of in the (inaudible) about our thinking about this is, Vitality and what we're doing there, we are in a world of considerable change and competition. You don't open up a newspaper or go to an Apple launch where there isn't something about the quantified-self. We have the new iWatch that may come up Fitbit, measuring all these issues, the world is going kind of mad about people, they need to grips with how they are managing their wellness and their health. We are not competing in that space. It's important I tell you that. We are a translator of that activity into the insurance markets. And we're not trying to outdo Fitbit and iWatch, (inaudible) chassis. So we're making sure that chassis is compliant and fit for purpose as the world evolves and as these things come about, we will do the layers and devices to make sure we can measure that behavior. We can take that data and we can price it actuarially and clinically into premium rates, into incentives, et cetera.

So we are in a sense the translator, a translator of all these chains into the insurance market. And I think -- this was in the thinking I've had to make sure that our resource allocation, our focus does exactly that. It generates a science necessity [ph] to interpret into a -- in a non-discriminatory possible way into the markets of insurance. And that's really the kind of focus that we're doing. So on the back of that, if you look at the businesses, while they're disparate in many ways, they're across many different industries, in different markets, but all are actually identical built. Whether we're the carrier or we are partner in some way, for example, with an AIA, that's exactly what we're doing and more and more in a disciplined way we're talking that model and injecting it in.

And I think it provides three powerful competitive issues. First is the pricing capabilities, the correlations between all of this in claims and lapses, the integration dynamics, which is the composite of the model. It's best in South Africa, I'll touch on that briefly and then huge amount of data and so it's coming from the data. And that stuff is incredibly rich and powerful, I think good for our members, good for society and I'd like to touch on that briefly. In terms of correlations, I do this in every results, but I do need to tell you again, we're getting fantastic results out of this. So in terms of the reliability of claims and lapses changing by engagement, that is at the core, the kind of the secret sauce of the model. If you can bring claims down through engaging in Vitality, that health insurance, life insurance are driving through Vitality Drive. We can bring the lapse rates down, we can codify that process and translate it into other markets and I think that is critical.

In terms of integration, I think this is interesting that we find that this kind of the power and the composite nature of the model. So without going through the whole slide, if you look at the top right-hand side, if you look at Discovery Life, we find the more products that people have with us, the more sticky they are with us. The low their claims tend to be, it could be just a function selection or behavior, it doesn't matter. But it manifests in other claims and it manifests our lapse rates. And so when you real Discovery (inaudible), you've got five or more products with us, your claims levels and lapse levels are remarkably low and that's a critical thing for us to build on.

So the composite nature of the model, I think, is important. And then finally the data is fascinating. We have data all over the press and I think we're doing very well at analyzing that. But I thought I'd share you a few interesting things that are kind of different cuts of the data. So, for example, we're seeing cross-correlations, people who manage their health tend to drive better, right. We're seeing that all the time. We found that smokers are worst drivers than nonsmokers, right. We find that people manage their health on the right-hand side manage their credit. So there are cross-correlations between these industries. And I think it's kind of (inaudible) if you have discipline in one area, it probably flows into other areas as well.

But the ability to see that statistically in the process, I think is a very powerful thing. At the same time, we kind of -- we're learning about -- (inaudible) but let me mention it. We're learning about things that, I think, are of excellent value for the public good. So this debate about nutrition, which is a massive thing. Do you follow a low-carb, high-fat diet? Do you follow Mediterranean diet? It's a hugely important thing. We have a massive data set and we have partnership with Hoovers and Pick n Pay, for example. We have the data and the standards. So we have all -- we track every single thing. We track every basket of food that our customers buy, what they're buying, we know their demographics, we know their cholesterol readings, their BMI readings, et cetera.

And therefore, we can correlate these diets to the outcomes of BMI and cholesterol. And so we're starting those studies to understand what diets lead to what kind of outcomes and try and get rid of the often anecdotal of small sample sets that are used kind of diet offer a very big sample set. These are complicated issues. I don't pretend that we have any results or answers yet, but the data is incredibly rich and we need to use that not just to further the business, but to make sure we can add to the public discourse on this critical thing. So I think the data set is powerful.

So essentially, if you think about our business that's outlooks. But to an extent, I think in terms of our focus, we see three distinct areas of focus in terms of focus, resource allocation and capital allocation. Our primary market, which is South Africa, I think is doing remarkably well. We've continued to grow, push hard, invest a lot of capital in. We remain optimistic about it, growing into different adjacent industries like Discovery Insure and I'll show you a bit later, I think that's had a tremendous period.

The second primary market is UK and I call that primary market, a market where we ought to insure it effectively. So we're not simply just providing certain capabilities. We are the carrier in the majority. And so to an extent, the UK is a second primary market. I think that is in a way trying to replicate the composite Discovery model in the UK.

And then to an extent, I think we've applied much more discipline to this idea of how do you globalize the capability that we've got. I think we had this almost dilemma within Discovery or I do think we're leading this space. How do you capitalize on this environment in the right way? We simply can't be an insurer in many markets at the same time. We don't have the bandwidth, we don't have the capital. So how do we use this capability to generate value for society and for us in a way? And in a sense, thinking about this is more franchise kind of approach. Can we partner great companies in their markets and get value out of that by, in essence, restructuring their business and doing that in a way that shares value with us. And to an extent, that's a third category of this partner franchise market. I think, AIA to an extent is (inaudible). I think if you look across the growth on the vertical, you can see that, I think, the growth is strong. Our primary market continues to grow strongly by 21%. The safety market in the UK has its strong growth, up 33%. A very short tailwind from the currency, but still I think the growth is strong. The size of earnings is now not insignificant, and then we're investing in these markets. They're fairly capital light. I think the potential upside is substantial, I'll touch on that a bit later in the presentation.

The other point I wanted to make on our strategy is that very few companies and I think very few institutions start businesses all the time. One of the manifestations of our business model is, in effect, we continue to start new businesses in a way that we think is appropriate. So if you look across the portfolio in these different markets, you have a range of established businesses like Discovery Life and Discovery Health, you have emerging businesses like our UK business and then you have really new start businesses that I think offer great growth for the future.

My experience and you may disagree is that it takes five years to get a business doing the financial scale. It takes 5 to 10 to get in the emergence and then 10 on is to get really institutional scale. And that's certainly my experience what I see. You'll know in the first three years whether you're going to succeed or fail. You'll know in five years whether you have something of value. And if you do, it's going to take 5 to 10 years to get that to scale. If you do reach the 10-year mark, you then have a real potential to build institutional power and I think that if you look at this portfolio of our businesses across the spectrum, I would argue that we have a bit of everything there.

And I think it gives us the ability to grow strongly, to grow organically, and to try and keep our growth rate at this 20% level, despite the fact that we're in a very difficult environment. And to large extent, I think the performance this year illustrates how this process keeps rolling on. So this is not an easy thing to do to grow at this rate, but I do think given the kind of crispness and competitive nature of the model, I think we have the ability to do that and we'll see that going forward.

Let me go the businesses themselves and make a number of comments. I can't touch on everything just because of the scale of the Group, but I hope it becomes clearer what we're trying to do. Discovery Health, I think, had a very robust period. The company performs remarkably well. The Discovery Health Medical Scheme continues to perform remarkably, regardless of the difficult environment. New business is up 4% off a very hard base up to 5 billion on an annualized basis, earnings up 10%. Every aspect I think of the Discovery Health Medical Scheme is performing well and new markets are opening up. I'll touch on that.

Discovery Life grew by a fairly modest 6% new business, but a strong focus on quality. The operating profit really I think is the issue for us. The quality of the business and I think the quality of lapses, mortality, really is a pure example of how the model works and I hope I'll get that across to you a bit later.

Discovery Invest had a great period, illustration of getting to scale, it has a slightly different strategy, I think, to competing businesses in this space. But I think the hypothesis that we started out with is working and the products are being well received. So earnings up 50%, strong growth in assets under management, strong new business growth.

Discovery Insure is a relatively new company, two or three years out of the gate. As I said to you, it take five years for a business to scale, this business is doing well. I think it will be profitable in two years, we've invested about 170 million in it that is now turning. And you can see new business is tremendous, up 73% to over 600 million. Every aspect of the business, I think, is checking better than we'd expected and we are very excited, I think, by its potential.

In the UK, I've made the point of scale up, new business up 35% to 2.1 billion, earnings up 33%. We really are building a composite Discovery model in the UK, that's what we're setting out to do. And the year under review really was foundational. We've spent a lot of time in a number of fundamental things to build an institutional, integrated business in the UK and we are excited about what we think it can do.

And then turning to the partner markets, I think we're seeing really exciting potential here. Things like AIA, certain things we're doing in the US offer, I think, great potential. China for Ping An Health has been a tremendous year. We've been very cautious at these results announcements to make clear that while China is massive and growing and all the things that it does. The truth is that we've been careful about, this is complex and health insurance is complex and we've been careful to be cautious about what we can do.

Having said that, I think the caution is still right, but I think we have seen tremendous traction in certain areas in green shoots that, I think, starting to emerge in Ping An Health and I'll touch on that a bit later. So all in all, I think a very strong year across our businesses and I think offer great potential for growth. Let me talk to the actual businesses themselves. Turning to Discovery Insure, new business up, as I said, 73%. The in-force API up over 1 billion now and we've invested about 173 million over the period under review.

The actual model is identical to what we've done elsewhere. So it may look to the customer different. This is about driving and driving DQ points and getting fuel, it's exactly the same intellectual idea, incentivize behavior change, reward people with the right kind of things. It works on the right side of their brain, it gets behavior change. In our view, that's giving significant discounts of the fuels every time they fill up at the garage, they're thinking about how they drive and we're now doing a whole lot of things around enhancing that and then pricing that in a shared value way. I think it's working incredibly well. You can see the receptivity, new business over the year, I think, fired from the start.

The new business has just literally grown exponentially. You can see on the top-left graph that both the broker and DTC channels are firing really well. So I think we're doing well on the DTC side, we invested heavily in advertising focus -- and I think it's paying very nicely. Cars covered by the end of the financial year were about 77,000, that comes to 95,000 now. So we're getting close to the 100,000 mark. The in-force premium has grown by 85% over the period. So the growth, I think, has been quite staggering of Discovery Insure.

All of the correlations, I think, were working well. So we're incentivizing better driving means what we think is better driving. The key issue is at better driving, is what we incentivize, we're needing to lower claims and lower lapse rates. And what you can say there is absolutely. So in term of loss ratios, heavily down-sloping. By driver status, lapse rates heavily down-sloping again by driver status. I think we're getting the right kind of behavior.

And then what I think is very appealing is, in fact, most of any health is that people change behavior quickly while driving. Once they sign up to the program, they get the tools, they get the measurements, which their behavior changes quickly. So you can see on the right-hand side of the chart, following a group of new policyholders through one year, so longitudinal study through one year, you find them and they join us, on our measures, 80% are not driving well, in the orange. But just 10 months later, you can see that shifted to 50%. So the change is quick and I think that's very exciting for where this may go.

At a portfolio level, we're seeing the lapse rates come down nicely, even though the mean duration of the business is actually very young. Given the rate of new business, the mean duration, in fact, is getting shorter, because we just -- people are joining at a rapid rate. In the long run, loss ratios are declining nicely. So this is a new start business. But I think the fundamental measures are doing very, very well.

It is important to say that this is a technology business, because checking driving and the kind of data that you need is complex. Now the industry has gone through a phase of development. We've had the traditional insurers that simply look at static underwriting factors. We now have the insurers in the US like Progressive looking at usage-based models. Almost pay as you drive, where they look at exposure and they price premiums in that basis. I think where we're leading is behavioral-linked insurance. And to a large extent, that is what we do. That's the entire model.

So the Discovery Insure model requires a whole range of measures, measuring g-force, its acceleration rate. All of us seems to understand what is the performance envelop of the car and how is an individual driving inside that. And the ability to incentivize that in the right way is critical. So we've acquired a very complex (inaudible) worked very well, this kind of black box installed.

But we felt about a year to 18 months, strategically with the -- obviously the strength of smartphones and mobile telephony is their way to do this in a way that offers the ability to do it on the phone. Not a simple thing to do, because phones are not stable, they move around in the car, batteries die out. How do you know the person driving the car actually is insured with the car they're driving? It's fraught [ph] with complexity.

Having said that, a number of organizations around the world are forming in this way and they're starting this bit of a land grab, Progressive is linked with Snapshot, we've seen in the UK Direct Line is linked the flow. We're lucky to work with a company called CMT out of MIT, they really are quite remarkable at this. And I think during the period, just a few -- I think a few weeks ago, we announced the transaction, we acquired a small share in CMT and we launched together with them a driving application and I think it was remarkable.

We have made this available across all South Africans as a test run to understand it and now from November, it will be the core part of -- along with the Digicore [ph] offering, people have a choice. But essentially, that it can be the insurance offering where it tracks how you drive it, tells you how you drive and we get the data to do all of the stratifications, incentives, et cetera. It's a remarkably powerful application, because what it does is it allows us to scale quickly. You don't need necessary deep installs that it gives us a really fun, consumer-friendly way of actually doing this and provides tremendous, tremendous power.

But the obstacles of overcoming it are not simple. We have to make sure it doesn't burn people's batteries. We've pioneered a tag facility on the right-hand side that links the phone to your call. So the opportunities, I think, are quite tremendous. I wanted to -- if you hadn't seen it, I thought maybe a quick video to give you a sense of CMT itself to see it being test driven around (inaudible). Have a look at this.

(video playing)

So this is quite amazing, I mean it's a lot of fun, it's a lot of science, I think it opens up a whole range of opportunities for us. On the serious side, one of the things that we're doing and I think really having a powerful effect is this crash alert that when people have an accident, there's a certain g-force that triggers and we know about it before they tell us about it. So we'll know probabilistically, you've had an accident, even though you haven't told us, we pick it up in the g-force. And we save lives in that process with people, we find out and we find out there's been a terrible accident, have an ambulance dispatched.

On a case of my own daughter, who drinking coffee in a car, driving to the corner and fainted there. And she got a call from Discovery Insure. So I said her, what did they say? She said, well, they said don't drink and drive. There's some really serious stuff. On the other side, it's a fun and exciting role I think and we're learning more and more about driving and how to incentivize, how to understand things.

So, for example, we're seeing in the data that whatever you think, women drive better than men and we're seeing that come out in our data. We're seeing certain kinds of drivers by certain kinds of cause. So there is a correlation in certain car makes and how people drive. So these are, of course, expected things, but I think the ability to codify price and understand it, I think, is critical.

We're learning also about speed and some of the issues around how you deal with speed. These are all (inaudible) go down in the future. I really am always by this well-known Solomon curve, you may know this that speeding is not just the only issue, it turns out that accident rates are based on delta to the average. So going 20% faster than the average is as dangerous as going 20% slower than the average, you follow? That's why it's a parabola, right. So no justification for speeding, but simply saying that the idea of speed itself is not the issue, understanding the delta to the mean is something it provides a bit more granularity.

And then we're trying to understand g-forces, it's really g-force per unit of speed that is important. Turns out I can hit a ball as hard as Roger Federer, I just can't keep it in the court, all right. So you could put your foot down like Sebastian Vettel, but you won't make the turn, all right. So it's ability to manage your g-force per given unit of speed, that's why when you watch Formula One, they make straight lines though corners to minimize g-forces. So trying to understand the science of driving is an important pursuit of Discovery Insure and ability to build that into what we're doing is fundamental to making South Africans better drivers.

We're also seeing some amazing stuff on the data side, so given our data, we know when people park at the Cartrain [ph] right, so we've done analysis on people using the Cartrain and of course, you would guess their loss ratios are lower, because they're using the train, they're not driving right. So the exposure is lower. So now we've added to our network Uba [ph] and Cartrain, they're now members of the Vitality drive network. You get 25% to 40% discounts, if you remember of Discovery Insure, Uba or with Cartrain, but pulled in the same Vitality rate, simply to use, easy funding for our customers. But the truth is, it's very much like (inaudible) public transport is to driving it, simply minimizes the risks and brings it down.

And I think that's exciting. So this is a very exciting business in kind of just an evolution that's starting out now and I think the potential for it is substantial. I want to deal with what I think of the new businesses in the evolution first and I'll get to the other business, I want to turn to China, which I think had a very, very interesting year. We've been clear, as I said, that China is complex, cautious, it's going to evolve, no doubt about it.

The question is, can we capitalize on it? In the period under review, new business grew by nearly 120%. Loss rations, I think, were under control, about 70%. That is the key issue. Can you do the scale of business and if you do it, can you control the claims level? These are early days, I'd like to do. We built a lot of capability, I think, into that business with the team. We've invested about 65 million into the business or 25%. I think that's an investment that's low and easy to do, given the scale -- the potential scale of what we're doing in China.

But I do need to say this, there is no doubt that East China really wobbles. Health insurance, private healthcare is going to just really grow. This is a country whose middle class -- emerging middle class is bigger than the US. That's a country that currently spends about $300 billion on healthcare, 50% of that is out of pocket. It's an obvious insurance market. That's likely to grow to $600 billion by 2020.

We're seeing already on the supply side of the market massive amounts of M&A, private hospitals emerging with projections of 20% or more quite quickly of delivery will take place in private hospitals. So this is really a marketing considerable flex and excitement. And there is no doubt that as a health insurance business, the potential is massive. A central question is, can we capitalize on it?

I think that our partner Ping An is the best of the gold standard, they have scale, they have distribution have it all. It's how we work through Ping An to build the business that's important. We see two distinct markets and a number of distribution channels to get to. The first is kind of the group insurance market that companies buying health insurance and our challenge there is to work through Ping An P&C there, property and casualty company and the annuities company. We've been working through their distribution channels to get to that market and I think quite successfully.

In the period under review, we, in fact, both it sounds like directly to the big corporate brokers like Mercedes, Aon et cetera. I think that has been successful. You can see the growth in business strongly in this scope of market, up 37% and we are now by, I think, quite a long shot the number one health insurer in their corporate market. So Cigna, I think, was kind of neck and neck with us over the last 18 months or so, we're growing quite a bit faster than and are now quite a bit bigger.

I think also gratifying is the nature of the business. As you can see, it's across China, great clients, Goldman Sachs, McKinsey, Accenture, PwC, et cetera. And I think what's important as well is, if you look at the pie chart to trying to show you there in the blue, those are companies that have always bought health insurance, but in the orange, a large percentage of companies coming into the market and for the first time buying health insurance. So it's a market where there are a lot of customers are already there, but at the same time, I think the market is likely to grow quite significantly going forward. And I think that offers great, great potential for us. So there's real organic growth, but I think has potential.

The real strategy or the real dilemma has been how do we get to sell health insurance life by life through the individual Ping An life channel. Now Ping An Life has 0.5 million agents across China. It's still a most remarkable asset. And the agents are of considerable quality. We have been trying to work our way through how to actually get them to sell Ping An health insurance to their customers. Not a simple thing, these are first time buyers of health insurance and critically the Ping An health product is not a life product.

So the incentives are on, and they have KPIs and all kinds of targets that have to get in China, that are very fixating. It is not in their KPIs that undo it. So it's a very disciplined structured approach. What I think has happened over the last year, it's taken us 18 months to get that done. It's a process of essentially white labeling the products. You put the Ping An health insurance products on to the Ping An Life balance sheet, right. So effectively these are now Ping An life products. We manage them in the back and take the revenue out the back, but the power of it is substantial.

The most important thing is part of the growth of the broker, agency KPI. So selling it (inaudible) with the other products. From our perspective, the massive capital strain of sending individual business falls on Ping An life all is there, capital-rich country gives Ping An health that access. So it really provides a very powerful capability. This is not a simple thing to do from a regulatory standards, financial, et cetera, but our view we did manage to get it done. And in fact, what we have now is a distribution channel across not all of China, because we'll do it in phases. About 120,000 of agents across that you can see the Eastern Coast where we're trying to -- I think, it's obviously a lot of business.

We have carefully constructed the products to make sure that we are across every price point. So at the top end, (inaudible) different ranges. That really, meeting about 15% of disposable income in those areas. They're very much getting the price points right and starting to change the agents to do that. I think the performance has been remarkable. We're trying to get to about 100 cases a day. You can see over the calendar year now, we've been at about 50 to 100. So we've actually started to get some penetration. These are lot small premiums or not insignificant, so that's a fair amount of business per day. But we launched this new white labeling in May and in June, we did the training. So it's actually post the reporting period. But I wanted to show you, the traction we're starting to get, that we're starting to see now 300 to 500 cases a day, close to RMB1 million a day of new businesses starting to flow in. So these are early signs of growth, but I do think that if we can hold the line here and I do think that if we can continue to meet the needs of the agency force, the ability to use their assets and spread it out and do -- get health insurance to literally hundreds of thousands of Chinese, I think, is a real potential. So this is early days. I'd like to keep cautiously optimistic. But I do think the potential is substantial.

Let me tell into Discovery Invest and move sort of quite quickly. I made the point about the growth in assets, up 39%. New business very strong up on an annualized basis to 1.4 billion. Strong growth in operating profit. Of course, the markets lifted and helped to act in that regard. But in addition, the scale that I think we achieved has been also a good thing. But the key thing about Discovery Invest, it's a different business model. The traditional long-term savings model is of our distribution and asset management. We had the hypothesis of could we add value in the middle. Could we bring our products that would add value in a different way in the value chain?

And to an extent, I think the hypothesis have been proven correct. So things like upfront integrator that gives people, investors a 26% boost on the way and by using tax efficiency in the structures, both inside the integration of the Group. The Discovery Optimizer that really lets people use life cover (inaudible) your time and savings, our classic flexible investment plan that wraps certain kinds of protections around our list [ph] platform have been well received. So all of this, I think, has driven an incredibly good result, not just in terms of quantum, but in terms of value to customers and value to us.

So this is a bit of a complicated slide, but I did want to show you on the left-hand side there, you can see that nearly 50% of assets under management are through these value-added wrappers. And on the top side, you can see that nearly 90% of them are in unique Discovery funds where we have more control, better volume -- better margin. And therefore, in total, when you look on the right-hand side, the contributions to our VNB is very, very high.

So I would argue, offering products that, I think, offer value to customers in a different way that are driving the new business margin and the profitability in a way that, I think, is very, very strong. So we haven't yet -- the asset management is still outsourced, this part of the value chain we are not really participating in. We're in the center of it. But, of course, opportunities going forward remain. I think we're excited about the potential for Discovery Invest.

I want to turn to the existing businesses, they are big and complex, right. And I'll try my best to just give you a bit of a kind of a tree top view of the stuff that we're doing. Discovery Health has performed well, despite the complexity of the environment, there's kind of a paradox in healthcare. No matter how complex it is, it is here to stay. And we have to make sure that we fulfill our social obligation of bringing down the price of healthcare as far as we can, maximizing quality, building the environment. And I think Discovery Health in that regard is doing well.

New business continues to grow. Operating profit has grown off a high base. Large capital moving towards the 3 million level. I mean you can see in terms of growth, the growth continues of large under management in total. So the growth does continue and I think the quality of growth has been substantial in the period under review. So one of the markets that we're starting to get really good traction is not just in traditional Discovery Health medical scheme market, but closed schemes like Anglo-American or finding that if they bring their medical scheme on to the Discovery Health strategy, they get all kinds of benefits, better prices, better quality, all the technology.

So to an extent, for the first time we're pushing hard into this closed scheme market and there's a range of businesses, we think, that are coming our way in that regard. So there is a different channel, I think, of growth going forward in addition to the existing channels. In terms of the Discover Health medical scheme, I did want to show you the performance continues despite the complexity. The lapse rates remain low. The loss ratio inside the Discovery Health medical scheme has been excellent, claims experience continues to perform well and slightly better than previous years.

And then if you look at the surplus buildup, it is remarkable. The surplus in 2013 inside the Discovery Health medical scheme is close to 900 million. We expect that to grow significantly in 2014. When you compare it to the industry on the left-hand side -- on the left-hand graph, you can see the rest of the industry, in fact, is making losses.

So the Discovery Health medical scheme grows while that was tend to shrink and make losses. And I think it is an interesting industry. Someone pointed that the simple fact that the mind share of Discovery Health is remarkable. If you ask people who is second, they generally don't know. We get different answers. It really commands a huge amount of the mind share. And you can see they're playing out in this financial footprint.

So if you look at the reserve buildup in the middle of the graph, you can see that the reserves inside the Discovery Health medical scheme are climbing strongly to that 12 billion. So the scheme is sitting on 12 billion of cash or near cash. When you compare it to the next nine medical schemes, you can see just a slight difference in size. Also from the solvency perspective, we expect the scheme to get to around the 25% level by the end of this calendar year. So the scheme, which is a separate entity, as you know, I think it's performing remarkably well.

Let me just say on Discovery Health, I don't have the time to tell you the scale of what the team is trying to do, but essentially we are building an integrated brilliant healthcare system for our members. It offers a broadest range of benefit options. It has the broadest range of delivery assets. I believe with 90% of doctors locked into our DPA networks, we have -- all the risk management capabilities, I think, are carefully lined up and now we're focusing not just on vitality, but on corporate wellness and making sure the promise to our customers is we can make you healthier.

And if you're not healthy and you're sick, we can offer you access to the best healthcare system. And so the idea is to build up a very rigorous integrated system underpinned by technology. I had the courage at one of the previous presentations to do the health ID [ph], I'm not doing it again today, that aged me like 50 years, right, but underpinning that or mainly applications, health ID that really controlled the data flow, the information and therefore, we're offering our customers I think something very, very special.

At the same time, I think we're dipping into the healthcare system in years we think are critical. So we've built a PBM Med-Xpress that really allows us to get into the supply chain of the pharmaceutical side. So we have a delivery or courier system where we can actually dispense and control drugs through that process. For the first time now we're looking at high-value, lower-volume drugs on the oncology side.

The ability influenced that, to understand quality and cost better, getting drugs directly to doctors. So the intervening years that I think will have a leveraging effect across the system for our members. (inaudible) system for example, home care, there are critical gaps in our healthcare system for people with chronic illness. So building a home care capability to get out to our members and offering them maybe something a Discovery Health is doing. So careful strategic dips into the healthcare system.

We remain of the view that we are not on the delivery side. There is a clear divide between it. We're buying a manager and we manage it for the best of our customers. But in areas where we think there are quality issues or we can create a leveraging effect, that is what we will do. At the other end of the spectrum, we are working hard on this simple idea of bringing wellness formally into the healthcare system. So 360,000 of our members of chronically ill. We know that these 360,000 members actually drive over 40% of the total spend. So what we're trying to do now with the power of Vitality and Health ID, the ability to have GPs at the center of the healthcare system, letting them prescribe effectively (inaudible) people of chronic illness.

So we developed pathways and programs, where depending on chronic illness, you get this pathway given to you by your GP, they can track it, they can use a network of (inaudible) and dieticians to help in that process. Health ID will bring it all together. So the doctor can see not just medical records, but wellness records and can track the two together. And I think critically doctors will be remunerated for doing this. So for the first time, making GPs center of the healthcare system or managing wellness and healthcare in a coordinated way and we expect to have that out in the marketplace going into 2015. I think that has great, great potential.

We're also focusing hard on corporate wellness. It is important to say that Discovery started after the very individual mindset, that is how we think. So using centers through Vitality to get individuals to take accountability for their healthcare, but what we're seeing more and more is, can we do a top down as well through the employed. And we built this healthy company capability where we're offering employers the ability to manage employee health in a very coordinated way. It's a remarkably powerful capability that works from wellness days, we've always done that in companies, but in a much more maximum sophisticated way to offering tools, reports, consultations and make sure we don't just drive healthcare, but we actually make a company's employees healthier.

I wanted to show you, just a wellness day being done, a quick video, because it's a very slick piece of technology that we can move around the country to different companies. This was done (inaudible) a great company and a great customer of ours, but just to show you a wellness day is okay.

(video playing)

So we're moving around the country with a, I think, very sophisticated, a key new technology, deploying it and having hundreds of thousands of people suffering through there. And the ability to suck up the data, inspire them, get their companies to understand where they need to head, I think, is very powerful. And then taking that and integrating that into a healthcare system, I think, offers tremendous potential for Discovery Health and for our members. But essentially, what I think we're doing getting back to the shared value idea is we're building a system that is better for all parties, members get better, cheaper healthcare than they get elsewhere, doctors are paid more for doing the right kind of things and companies offer better productivity in a much more integrated system.

And I think the ability to grow on that, not just in our traditional market, but in to big corporates like an Anglo, et cetera that bring the scheme to us, I think it's a great potential for Discovery Health. So, I think it's robust and has great potential for growth.

Let me turn to Discovery Life. Its performance, I think, has been absolutely tremendous. The real standout issue is the operating profit growing by 23% to 2.6 billion and I think to a large extent, Discovery Life really personifies the power of the vitality model that is scalable and to an extent repeatable, and I think that's what we're focusing on. You can see the earnings growth, over time, it's had very strong earnings growth over the last number of years and in fact this particular year has seen earnings growth at 23%, bit of a step change to previous years were driven really on the quality of the experience.

So if you look at the value in-force, also growing strongly over the period. One thing that I must just clarify and make clear to you is that, we are strong believers in Discovery Life in the return on capital inside Discovery Life. So, whenever we talk about Discovery Life, you need to understand this is a capital heavy business and we invest a lot of cash into it happily because of the return on that capital. But I wanted to show you the kind of capital or the cash, the cash flow, how it plays out.

So, essentially, if you look over the period under review, premium income of 7.3 billion, we paid out 3.3 billion in claims. I should just point out here that the amount we paid in claims despite the growth in this year in rand amounts is lower than the previous year. So, the experience at Discovery Life, just at a kind of at the local level is quite remarkable. We've spent about 1 billion on expenses and therefore cash thrown out was about 2.9 billion of the existing business.

We then spend 1.8 billion on acquisition costs, investing in new business. Now, that is the key issue, an explicit decision we make, we see the return on capital at a risk free plus 12.5%, we think that's remarkable and so we're pushing hard and driving business I think very, very hard. After all the other movements in capital, it still throws out about 100 million of cash where it's obviously very small relative to the scale of the business. So this is a business that is, is of considerable scale but I think of considerable quality.

What is important is looking at the business from a customer perspective. And I want you to just get back to the quality of the shared value model in the context of life insurance. I have shown this in previous presentations, but I do want to say it again that the Discovery Life construct is a very simple interplay for the customer coming at a discount, if you're engaging your health through vitality, you maintain the discount, if you don't, over time, your prices go up, if you really engage, your prices go down.

It really is the simple personification of this idea of dynamic pricing. It provides us with really a dynamic pricing ability rather than just an upfront underwriting tool and really talks to the point I made at the outset that if you understand that the risk is behavioral over currency of the contract, what this model does is it matches price and risk better, provides a better financial result and gives our customers better value for money.

And so we can quantify mortality by vitality status and I think that's critical. In the period under review, we've seen that play out remarkably well. The claims experience, you can see, continues to go down way ahead of expectation, Letra [ph] has continued to come down and the key issue here is the selective lapsation is positive because we're pricing better lives down, we're keeping the better lives and that's a critical issue in making the models sustainable and successful.

It's interesting that from a customer perspective, the shared value works well. We get value from better lapses and better claims, our customers get value from better health, but they get paybacks, they get a lot of premiums, they get all kinds of benefits out of vitality and if you quantify that collectively, you can see in the middle of the chart that shared value in total between us and the customers about 1.1 billion of value that we've thrown out over this year.

You can see how we shared it typically in the past, the sharing has been about 85-15, we've kept 15 to customer through discounts and paybacks has had about 85% of that value. In this, particularly on the right hand side, as shareholders, you've got proportionately more, we're still a long way of what our customers get, but because the claims experience and lapse experience really has done well, you can see the sharing is slightly different.

But I do think that actually when we look at the shared value model, it's working remarkably well. I think that offers the ability to grow Discovery Life in a way that I think is different. I wanted to just tell you as well that the model is complex and we're learning more and more about what it can do. So, kind of the actual idea of shared value is played out in a very simple identity, I hope this is clear.

If the embedded value per status is even, right, it means that we're sharing value equally, is that fairly clear. So in other words, regardless of our people engaged, if the value to us is the same, it means they're getting the benefits of their own behavior. And so one of the identities we're trying to understand is keeping that embedded value per status flat. You can see what's happening in reality is diamond members are doing better out of us, so the (inaudible) slightly less for a diamond member but we see value also China doing that, they are inspiring, they're sticky et cetera. So we tolerated that more like inside of the chart, I don't want to get into this in too much detail, but we're learning about how people move between statuses over time. So these are things as a dominant member, who stays there, and move up and down over the life time. The ability to model that and value that it is critical to making this model sustainable.

So relative doing a lot of work on the idea or shared value and creating sustainability, then important earning for growth we've rolled out in a number of, I think very exciting products going into -- now going into 2015. There's a whole lot of different ideas, one I think it's interesting we've spoken about is making our people drive to the mortality cost and giving incentive to drive better, one of the most powerful things, of course, I said is fuel, if you drive well in Discovery Insure you get 50% of your fuel back, if you manage to drive well in Discovery Life, you'll get other 50% back, and so we're trying to get this simple value proposition. And if you drive well, you can have all of your petrol money back. And I think that's going to change behavior.

So we really are pioneers, we're going a number of very, very exciting fronts, and I think we remain remarkably optimistic about Discovery Life. And you turn to the UK, and talk about PruHealth and PruProtect, running of time I want to move quite quickly. This has been a I think, right year for our UK business, it released foundational, we are trying to build a composite Discovery business in the UK. I've mentioned the growth rates, we cover about 800,000 lives. If you look at the JV, it really is well positioned, the UK is coming out of recession. We've done all hard [ph] during difficult times. UK is a massive life insurance market. So we believe very strongly that the capability, we both, we've got to capitalize on.

And so we got to push very hard into the UK going forward. The business itself in total is impressive, I've made a point months ago, 800,000 lives, we are the third largest (inaudible) new business in total in the UK in the life insurance market. We have 10% of the health insurance market. I think the brand in the Vitality brand is getting recognition in the UK. Our distribution footprint is about 8,000 brokers, we're gaining more, more traction on the direct to consumer sides. And we're building I think the chassis there, that is tremendous, tremendous capability. And therefore, it offers a great potential for growth going forward.

Two things I wanted to mention about the business. So I just to show you graphic, we're having new business is growing. And our operating profit is growing quite strongly over the period not just the year under review. But the two foundational things if you've done, we continue to invest in Vitality in the partners, in the structures, we've restructured for PruProtect to make it simple purpose. I think it's done remarkably well. You can see on the bottom of the slide that we survey our people, they are responding to Vitality, so people said, very quickly the Vitality inspires and to do more exercise make time to relax, lose weight, etcetera. So we're getting the right kind of responsibly, we're getting the right kind of engagement to the Vitality model.

We are also the second, what we're looking a lot at the brand and the Vitality brand we're finding resonates remarkably well in the UK. So you will notice on Sky News, I think in previous presentations I did show that. We are doing a lot of work in different focused areas using the vitality brand and I think that's playing out well. The intellectual leadership level, we work with the Telegraph and Britain's healthiest company survey, I think, remarkably well. We're taking an additional step in this particular year to work with the premiership around being official performance partners of three of the Premier League teams, (inaudible) of three of the teams, and the idea here is to get Vitality well known in a way that is exciting positive and powerful.

So we are the performance partner with these three teams, I want to give you one insert, how this just works. Patrick Vieira is just talking here very briefly.

(video playing).

So, I think ignoring kind of the ego power of what football does, I think, it's direction very powerful for us in terms of our DTC campaign. So we can start using these teams and I adverted out there. So we've done very well with Jessica and his idea about Vitality and best use of advertising for health insurance and life insurance against DTC channel to work, but I think looking it up again positive change of using these, this kind of exposure offers us great, great potential for building the Vitality brand in a simple ideas, same thing health insurance might better life insurance might better, and offering the benefits through that process. I think the potential is quite substantial. So there's a lot of foundational stuff I think we're doing.

On the performance itself, PruHealth, I think is performed well and new business up strongly, operating profit up strongly. If you look at the actual loss ratios and lapse rates are remaining very strong, industry leading in every respect and we continue to focus on the issue of quality. But one point I did want to mention about PruHealth that I think is crucial is that PruHealth's challenge is profitability. We made this point over the last number of years as we acquired the Standard Life healthcare book, we've been -- basically been laboring under three different technology systems. And over the last two years or so, we've invested ZAR0.5 billion in building one combined administrative infrastructure.

So what we see happening on the top of the slide there, it's just going from three different systems. In the middle of 2015, the first change over to two happen, and then ultimately to one. From a financial perspective, that will mean that from April 2015, GBP8 million or thereabout will drop out. And so the critical issue of the PruHealth story is making sure we get those systems in place and getting that profitability. We are confident that PruHealth plus PruProtect in the next year or so will be close to 1 billion of profitability and I think that is exciting.

Talking about PruProtect, I think it had an exceptionally good year and quite a foundational year. New business up, of course, it is a strong tailwind from the currencies I mentioned that both operating profit and new business up, went up 12% of the new business market share in life insurance. The profit itself has grown strongly despite the fact there is a change in the tax basis that brought the margins down. So I think performance year-on-year, I think is notable for that.

Claims experience remains ahead of expectation. Lapse rates have continued to come down, and I think that is important. But I think the most notable thing of the year and this is critical for us in what we're trying to do, was taking the Discovery Life product in a very sophisticated way and getting it deployed into the UK. So towards the end of last year, we rolled out the Vitality Optimizer that does exactly what we've done here, offer discounts, if you engage your prices come down, if you don't engage your prices go up, codify the mortality and offer the shared value model into the UK. I need to tell you the performance has been absolutely tremendous.

On the back of new business what's more important is the right hand graph that if you look at the growth kind a six months by six months, you can see that the last six months, the growth is 55% versus the previous corresponding period. So the receptivity to this has been absolutely tremendous. And I think if you look at the actual penetration, 40% of our policies now have this Vitality link. And from a distribution standpoint, we have like 200 brokers understood Vitality. We now have 800 people actively selling and that will grow up I think over time. So the actual optimizer has done I think remarkably well.

If you look at the actual distribution channel in the UK, it's quite -- this looks like vivid (inaudible) let me explain this. This is really the distribution channel. We're trying to show you there is where we're getting sales in total and in blue with optimizer sales, these Vitality links are taking place, trying to make the point that in fact the distribution channel as across UK everywhere, not just in the Southeast and at the same time we're seeing fantastic sales or the Vitality-linked products across the UK. So I think it offers great, great potential for growth.

It is quite remarkable how PruProtect has taken market share. In 2010, we're like number 10 in the market. You can see by 2014 quarter one, we third behind two of the other very large institutions that I think is important. And then critically that the VNB margin is higher on this business and the previous business. So in effect this Vitality Optimizer has been I think a fundamental change for PruProtect. So collectively, I think the business offers great potential in the UK.

I want to end briefly. Just talking about our partnership model, and this is the embryonic, I don't know where this will take us. We're trying something that I think is exciting, is growth potential, is relatively long-term capital, high intensity on IP and our ability. But effectively it is based on the simple idea that most of the large insurers around the world want to do what we doing in the context of Discovery Life and Discovery Health. And so what we're trying to do is really take the model as it is and build it into these markets. It's not just about Vitality, it's entire insurance product, the pricing, the valuation engines, all of that stuff in both Life and Health Insurance.

And so the idea is simply this, the economic, the business case simply works like this. If you're going to a typical life insurance product, sorry just follow from left to right, the value of new business is that little blue bar right, what's the vitality optimize does? It creates value uplift through better lapses, through offering more new business, through better claims experience, right, so you get a value uplift. But then to the shared value model, we give money back to the policyholder, lower prices, incentives, vitality, et cetera. In total though, the net sum of it is a value (inaudible). Is that fairly clear?

So our value proposition to customers like an AIA is to share the VNB uplift with it, right. So to say this thing, let's put this together in effect the VNB uplift we will share with you (inaudible) way. And to an extent that's what we've set up to do so. AIA really is the first of these if you're doing in a very substantial way. I do think it's going well, we're built in two markets now in both -- in Australia and in Singapore, we've built out the Vitality chassis, we've rebuilt the product and I think the products are going remarkably well. I think from AIA's perspective, it's doing exactly what we've seen here. It's taking them from just being a life insurer to one where I think that actually, part of society debating health issues. I wanted to show you a video from Australia from, I think, a news clip around some of the stuff that AIA are doing in Australia that actually gives a sense of that excitement.

(video playing)

So ignoring the outcome of it, kind of depressing conclusion, right. The point I'm trying to make is that the model changes for a life insurer from kind of a detection execution to product society and I think our ability to do that in many markets is real. So if you look at the penetration levels, in other words, the percentage of policies attaching the Vitality link, if you kind of benchmark against true that I think for us has been one of the most successful things we've done.

In Australia, we're kind of getting there and in the case of Singapore, in fact, the penetration is even higher. So I think the potential is remarkable. The real issue is, can we do this successfully in a number of insurers across the world and I do think that we're built in the capability of what we built, has the ability to build a global Vitality network with a number of insurers sitting on their capability.

I do not know it will play out, but I want to see the insight in what we're doing in a way that captures the leadership position without the capital and the acquisition risk, because I think that offers potential. Let me end up by saying, I think it has been a very, very good year. The entire business is broken up into a primary market, second primary market in the UK and I said a franchise partner market, we've had good performance financially, we're focused on building out our business model. And fundamentally, we're focused on making people healthier in a different way.

Appreciate you listening. Thank you very much. Now, I'm way over time here, I know it. So all of our key executives are here as you heard. Maybe Ricky come up here for a few quick questions, I think. I'm sorry that this has taken longer than we thought. If you have questions, I'll channel them, so that we can answer and if not, we are. Please take the microphone.

Questions And Answers

Q - Unidentified Participant

Thank you, Mr. Gore. Before I raise any questions, may I congratulate you and your team on, as you call it, a strong result. Now, I turn to the review on pages 18 and 19 of the report, which give details of premium income and also the profit realized. Now, under premium income, as we've seen before, Ping An has gone up 119%. On page 19, we do not see the profit/loss of Ping An especially, but elsewhere you've stated that it was a loss of 65 million. However, under development in other segments, there's a loss shown of 466 million. Now, are the other segments, including Ping An and also developments in the United States and if so, could you just split them up, please?

Could I give you my other two questions now or --?

A - Adrian Gore {BIO 3068929 <GO>}

I think two does.

Q - Unidentified Participant

Okay. On page 10, the balance sheet, there's an item 512 million purchase of intangible assets, could you give us some detail on that and then also the balance sheet shows that your cash has now gone up to 3.65 billion. And I'll say this correctly, which is a 74% increase on the previous year and one could easily argue that this amount of money is surplus to any current requirements. So have you even thought to deploying this money in a more profitable way?

A - Adrian Gore {BIO 3068929 <GO>}

Those are three very good questions.

A - Unidentified Speaker

Sure, I'll start.

A - Adrian Gore {BIO 3068929 <GO>}

I think, you should.

A - Unidentified Speaker

Okay. All right. The development other segments is, you're quite correct, Ping An is sitting in there substantially. Also sitting in there, the biggest single part of Discovery Insure and as Adrian said, that's about 173 million. The balance is made up, there is a little bit for the US, there are some expenses for Vitality, some of the costs that we can't recover and there is some evaluate costs relating to new market developments and other ideas of Group story. As I said, the biggest single piece -- the two probably biggest single pieces are Discovery Insure and Ping An.

The purchase of the intangibles, it's not really a purchase, it's actually a money we've spent on software development. Adrian spoke to them in the presentation, we've been building a new system in the UK for PruHealth and that's the software we've developed.

And then your final question is on the surplus cash. Insurance companies always are a little bit deceptive from a cash point of view because of the reserves and the requirements that it has to write new business. Now, the cash looks very strong, but what we really try and do is and we manage our dividend policy is to make sure we've got enough cash for the business or the new business volumes that we'll be writing over the next couple of years.

So as we saw in the slides, we're spending a lot of money, particularly in new business costs and acquisition in broker commissions, et cetera in South Africa. We're also spending money in Discovery Insure and in other businesses. So I can't see that for the moment we are going to change anything in terms of dividend payout or something. And we'll look at new ideas as they come along, but I think the cash is probably about right for the business that we currently want to do.

A - Adrian Gore {BIO 3068929 <GO>}

Thank you. Any other questions? We'll take one down there and then we have to wrap up and take it up outside. Thank you.

Q - Unidentified Participant

Data from the US suggest that every life expectancy is probably going to go somewhere like 90 years now and it could be even a lot more than that in another decade or so. Is it going to be possible for beneficiaries of these services to be able to maintain the cost, bear the cost of what medical costs are going to accelerate by, because if we look at recent acceleration, it's just getting out of sight? Will it, in fact, go out of sight? Will Discovery be able to offer a cost-effective people -- a cost-effective service to an increasingly aging population?

A - Unidentified Speaker

Sure, that's a great question. I mean -- I would -- I think the problem is maybe beyond us. I have the same concern you do, you have like a negative gearing problem. Medical inflation goes up at CPI plus 1% or 2% at least and unfortunately retirement income at best is at CPI. So you've got this negative gap forming. So you'll find that even if people can afford medical schemes in retirement, I think, in a long space of time, that compounding difference becomes really problematic.

Again I mean -- and Johnny [ph] might want to comment, I think the ability to make medical schemes applicable for more low income people, ability to bring price points down through a number of different maybe regulatory dimensions over time may help. But I think this is an issue of accumulating it over a period of time and I think that is an issue. We fundamentally understate the mortality risk of living too long and I agree with you.

Johnny, is there comment for that?

A - Adrian Gore {BIO 3068929 <GO>}

Can I wrap it up? We're way over time. Is there any -- did you want to ask a question. I'll take one more question and then we will shut it down.

Q - Unidentified Participant

Excuse me. Would you like to comment on the National Health Insurance situation and where you see that going?

A - Unidentified Speaker

Of course. I think this is -- Johnny, I think you should make some comments.

I think that most of what we can say is what's in the public domain and to be honest, that's not a huge amount recently since these plans were first announced several years ago. What we do know that is more recent is that the Department of Health did publish a short booklet on its website some weeks ago. And the National Treasury made some comments in its medium term expenditure of both of which address the NHI. And really what they say is that the plans are still on track to establish a fund that can collect government revenues and potentially an additional tax for National Health Insurance. The levels of that tax and the nature of it are not major. We still don't have a white paper that's been published.

And the Minster's most recent pronouncements have been that there's a still a 14 year implementation timetable. So our sense of it is that the vast majority of work around the NHI remains and will remain around reform and improvement of the public healthcare system. And that's far into the future we can see, we envisage a public health care system with the private healthcare system operating alongside it. And hopefully a growing interface between the two and which the public health system can utilize private sector expertise assets and so on to improve healthcare delivery and efficiency. So I think in short, it's still a very long, slow rollout. And we don't see any dramatic impact on the private healthcare system in the foreseeable future.

A - Adrian Gore {BIO 3068929 <GO>}

Johnny, thank you. We'll now wrap it up and just thank you for your time. Sorry, we are a bit late, there is drinks outside. All of our executives are here. So you can prod them outside. Once again thank you and it's a really a pleasure as always to have you and to present our results. Thank you.