Q4 2017 Earnings Call

Company Participants

- Adrian Gore, Group Chief Executive Officer
- Unverified Participant

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Good morning, ladies and gentlemen. Mr. Adrian Gore, members of the board, the executives of Discovery, the Investment Analyst Society and honored guests, we'd like to thank you for once again inviting us to reflect on the results of Discovery for the year ended June 2017.

Discovery is, difficult to say, 25 years old and it says 25 years young. It's been listed on the JSE since – for 18 years. And we know, as investors, the share price or the value of the equity has grown from ZAR 10 a share to close on to ZAR 150 a share in that time. It today has a market capitalization of ZAR 92 billion. But it's a company not only about the wealth for its shareholders. It's a company that focuses through its products and its creativity, focuses on the well-being, not only of those that invest or use its financial services, but in the health of those that are all associated with the group.

So, Mr. Adrian Gore, we thank you once again for inviting us and for Discovery sharing, giving us insights as to the products and gaining further insight into the future. Thank you.

Adrian Gore {BIO 3068929 <GO>}

Good morning, ladies and gentlemen. Peter, (01:44) thank you for that very kind introduction. Upfront, I must say it's been quite a tremendous year, been absolutely tremendous, a very, very busy year. And upfront I just want to thank my colleagues at Discovery, the people at Discovery. They've worked remarkably hard. And it has been, I think, worth the work. So thank you for what you've done.

Let me start up by saying that the year has been a very busy one, a lot of dynamics, a lot of moving parts. I'm going to try my best through the presentation illustrate that to you through a variety of different aspects I would like to show you. But just to start with, new business up 16%, accelerating versus previous years and I'll show you that later. Operating profit – normalized operating profit up 10%, robust, and normalized headline earnings up 8%. But considerable moving parts throughout the group. And I think to an extent I've been reflecting on how to get this across, and I think there are really four themes that underpin what we've done this year.

The first is our business model, this Shared-Value Vitality model has had remarkable receptivity and impact locally and globally, and that is one of the core themes of the year. The second is our existing businesses have performed remarkably well, I think reflecting difficult times and a flight to quality. And throughout, we've kind of gained market share and you will see that.

Third, our new emerging businesses and new initiatives have emerged really strongly. There's a lot in the pipeline. The emerging businesses - I'll take you through them - have really kind of come out, to an extent, bigger, greater growth potential, I think, and I hope you can be the judge of that. You'll be very excited about that.

And then, finally, the fourth theme is Brexit. I've made this point at the previous results announcement. The currency effect was sudden, kind of a 20% drop for us in the comparable period. That had quite a dramatic impact. But then interest rates in the UK having a dramatic impact on our VitalityLife business and, of course, that is still a feature.

So those four themes I'd like to take you through and give you a sense, but right at the start I thought just give you an overview of how the group has done. That's cross-section and nothing really strategic, but give you kind of a cross-section. As I said, new business up 16%, operating profit up 10%. If you look in constant currency terms to see the effect, you take out the effect of the pound declining, you can see the new business growth has been very strong at 22%, operating profit up 12% if you ignore the depreciation of the currency.

Going through the businesses, Discovery Health had a remarkable period, off a very high base, continues to grow; new business up 18%, operating profit up 11%, fantastic performance of the Discovery Health Medical Scheme. Cost containment and the work done by the team in terms of keeping cost under control has been remarkable. Just I think a generally excellent performance.

Discovery Life also off a high base fantastic growth; new business up 17%, profit up 10%. Profit was slightly dulled by a slight blip in claims. I'll touch on them later, but all other aspects of the business have been remarkable. Market shares climbed to nearly 30%, and I'll touch on that in the presentation.

Discovery Invest in a very tough environment. The market, as you know, has drifted sideways over the last few years or so; new business up 3%, operating profit up 12%, assets under management growing around 14%. We're applying the Shared-Value idea to retirement funding, is starting to get fantastic traction in that regard, and I'll show you that a bit later.

VitalityHealth had a remarkable year, a real turnaround, operating profit up close to 90%, 89%. Robust new business growth, a great quality of new business, and you'll see that come through. VitalityLife was really reconfigured over the year too, working the slow interest rate environment. Profit went down by 11%, nothing different, I think, to the first half, but the quality of business has been completely refigured, and I'll deal with in quite a bit of detail later in the presentation.

And then to make the point, the emerging businesses have all turned now in this year to profitability. You can see the rate of growth has been staggering. Discovery Insure, in the South African context, growing by 19% new business. The Vitality Group, which is now really kind of this global network that I'll touch on later, up 24%. And then Ping An, and I think this is in rand terms, new business up 80%; in RMB up over 100% new business, kind of rates of growth that I think as a South African company, we are not used to, but Ping An Health has made just absolutely tremendous growth.

And then a bunch of initiatives in the pipeline, we said generally we would spend 10% or less on new initiatives. During this period we spent about 8% of earnings. There is considerable stuff in there that the intention to enter banking and the whole stream of that, our long-term savings business, Vitality Invest, in the UK, commercial insurance, and then Umbrella Fund. So there's a lot of stuff happening in the pipeline and lot of to be investing in. And so, to an extent, it's kind of a balance between, I think, very strong growth by existing businesses, but at the same time fantastic emergence of our new businesses and a slew of new initiatives that, I think, are entirely complementary to the overall strategy.

Let me deal with the strategy and just make the point that – I made this before, but I will make it again, that Discovery has emerged into a fairly tight structure. I'm happy Peter (06:56) mentioned it that our driving forces about social impact is a simple idea, a simple and profound why we are here, to make people healthier. And that has taken us on this journey that's manifested in a business model that I believe is very different is how, the Shared-Value Insurance, the idea of incentivizing behavior change. That behavior change drives profitability. The profitability we share through incentives, and you kind of get this virtuous cycle. And if you can put on that platform the what, Health, Life, over time banking, long-term savings, et cetera, you get tremendous results.

And so we're learning more and more about this potential and this capability. And I think the power of this model is just remarkable. I must say with deep conviction having been out there, I really believe we have the opportunity to reinvent in many ways these parts of insurance markets, and we've seen that receptivity globally.

So this 2018 ambition we set out, this idea of being best globally by 2018 is now becoming quite urgent for us. We set the goal by the end of 2018. We articulated in two dimensions exactly what that means. So articulated at the base, quality of people, brand, values, the science, and data of the model as a foundation, manifesting in brilliant businesses on the other dimension across the board and brilliant or excellent being articulated in five distinct attributes, insurgency, significant engagement in the model, superior dynamics, meeting customer needs, and importantly, exceptional service. And all of this manifesting in superior terms to shareholders and to society. Earnings growth of CPI plus 10%, a return on capital of risk free plus 10%, and our sense by 2018 is making an impact on 10 million people, that's kind of the impact target.

In addition to all the CSR and all the other stuff that we do to kind of focus on the model, is to make people healthier. We need to be able to demonstrate that. And so to an extent that three dimensional diagram is the manifestation of the 2018 ambition. I will tell you that the ambition has driven us very strongly towards these goals, and whether we get there or not - I think we're making great progress, but whether we get there or not, we're not going a lot further than without it. So it's been a fantastic process for us. But I must say, I think you should evaluate our performance this year against the three-dimensional diagram and see how we've done.

So I'd like to start with the back, the impact first, which is really the financial results and analyze them in a bit more detail, new business, earnings, embedded value, return on capital, cash generation, et cetera, and take you through that and give you a sense. So you've seen it from the top, and I wanted to make a point that I think we spoke about this in the previous results announcement.

Discovery, I think, is quite unique in that we grow entirely organically. We're building businesses from the ground up, and that requires kind of a growth methodology that's different. And so we settled on this methodology. It's a guideline for us and to an extent we're trying to evaluate how we've done against this guideline.

So we start businesses as new businesses kind of really right from the start. They emerge typically over five years. And I experienced that's how long it takes to build an institutional business. And it takes a further three years to being established, where profits are sustainable, predictable, et cetera. And it's a kind of new process.

In our intent, we would like our emerging businesses to grow rapidly, CPI plus 30%. We like the established businesses to grow at CPI plus 5%, and we're going to spend 10% on our new businesses. And if you do the mathematic and you take into account the established earnings should be around 90%, the emerging should be 20%, and the new business should be minus 10% to give you the 100%. What you get from the mathematics is you get CPI plus 10%. Now, if you achieve this methodology, the group should grow at CPI plus 10%. And so, to an extent, this is kind of a yardstick for us to actually see how we're growing and to actually see how these businesses kind of emerge.

So that's the outset of growing new business because that's how our machine works, generating new business from the get-go and you're feeding into these various businesses. As I said, at 16%, it's just under ZAR 17 billion. You can see, in fact, that the rate of new business growth has, in fact, accelerated. So it's been a very, very strong period for new business if you look across the table that I showed you earlier, you can see the growth. I think the established businesses are strong. You can see the UK is affected quite dramatically by the currency, and then a very strong growth in the emerging businesses.

It may be worthwhile looking at it in constant pound terms, so you can get a sense of the dynamics of the businesses. Our Health, Life and Invest growing nicely and strongly; Invest reflecting, I think, a very tough market. You can see VitalityHealth having, I think, a reasonable growth in this tough UK environment; VitalityLife sliding 1% in terms of new business reduction.

But the rate of growth of the emerging businesses that are coming up, from Ping An to the Vitality Group to Discovery Insure, is dramatically higher. And in the chart what you can see in the orange is kind of the percentage of the makeup of the total new business flow coming from the emerging businesses. They're coming on very strong. And if they'll continue to grow - they're at about 25% or more of the new business. Now, if they'll continue to grow, I think they'll make up more and more of the new business slice. And so, to an extent, I think justifying the process we're bringing on in terms of investing in new businesses if we believe it can get considerable scale.

If you look at the operating profit growth, up 10%, if you're looking constant currency terms, up 12%, if you crossed over the chart, it gives you a sense of how they've grown. Once again, I think you can see that the existing Discovery businesses have grown strongly and robust in a fairly difficult time. VitalityHealth in the UK had a tremendous year. VitalityLife really reflecting rate of interest coming down, again, I won't explain it in detail to you, and then a very strong turnaround in the emerging businesses. All this year will be profitable and generating, I think, good profits. And then we spent 8%, less than 10% on new initiatives that I will cover.

I do want to say again that the emerging businesses, to an extent, the three at the bottom, Insure, Vitality Group, the global network, and Ping An Health, have taken us maybe longer to get to the profit than we anticipated initially. But I would argue they've come on much stronger with much greater potential I think we could ever have imagined.

So if you look at the rate of growth of these businesses, Discovery Insure, Ping An Health and Vitality Group, it is absolutely staggering. And to an extent, all of them suffer from a kind of a new business strain. So all of them require duration when you're growing to get to profitability. In the case of motor insurance, it takes time to get your loss ratios to settle down. Also you have acquisition costs. In the case of Ping An Health, when you're growing at 85% or 100% a year, there's just classic kind of new business strain.

In the case of Vitality Group, it is really kind of a fixed cost in the model, a fairly capital-light business, but you need a certain scale to actually pay off that cost and to start generating profitability. And to an extent, all of them have had that journey. You can see we've kind of tried to show how many months it took to get to the first ZAR 1 billion of premium. In the case of Insure, it took 35 months; it took 22 months for the second; 15 months for the third and a similar process at Ping An Health.

So the rate of growth and, I think, the position of these motor insurance, specialist health insurance business in China, and this network, which is pioneering globally, is quite unique and I think we're excited about the potential.

In addition to that, if you look at the 8% of earnings spent on new initiatives, so non-emerging businesses or new initiatives, there's considerable stuff in the pipeline. The intention to enter banking is on track. All the work streams are on track. We hope to launch that fully by Q2 2018. Our long-term savings business will be launched by Q1 2018. Commercial insurance out of Discovery Insure will be launched by Q2 2018, Umbrella Funds also by Q2 2018. And then a lot of work has taken place around taking this global partnership model into a proper platform and network, and that's actively spent over ZAR 0.5 billion on the systems and the network structures to get it to where that should be.

So these are considerable issues. I think you can see the spending pattern has come down, but it reflects a lot of spend in the past of getting these initiatives to scale and they're sitting in the pipeline waiting effectively launch. So we're excited about both existing business and the new business and emerging business that are coming through out of this growth model.

So, to an extent, not to be laborious, but I think it is kind of instructive to go back and see how have we done against the model. You can see the established businesses should grow at CPI plus 5%. We are, in fact, growing at CPI plus 6%. We've weighted it according to the UK, South Africa to compare like-with-like.

The emerging businesses are growing a lot faster, but they're smaller than they should be. So they should be 20% of profits, just turning now. So, to an extent, they're not adding what they should. And we spent less than 10% on new, as I said, 8%. The effective, instead of CPI plus 10%, the earnings are at CPI plus 7%. I'm pretty confident that we'll get to the CPI plus 10%, but you can see how the dynamics kind of are playing out.

Then we go back to the accounts, just to reconcile a few things for you. Normalized profit from operations up 10%, as I've just said. If you then take into account the investment income, finance cost, tax and other adjustments, you'll find the accounting headline earnings are up 21%, as you can see. The difference - I'm not sure what that noise is. Whenever you mention headline earnings, kind of things start to shake.

So the difference between the kind of growth there of operating profit of 10% and headline earnings of 21% is an adjustment we make. It largely reflects the rebranding costs of our JV with Prudential. You may recall that when we bought out the JV with Prudential, we set aside a lot of money to the rebranding going from Prudential to VitalityLife/Health. That was a massive initiative, a massive cost for us.

Over time, those branding costs have come down. So it kind of boosts headline earnings, but we take it out to compare like-with-like and give kind of a normalized view. And so when you get to the bottom and you take the status into account, normalized headline earnings are up 8%.

It's interesting, the difference between operating profit of 10% and the normalized of 8% really reflects the growth model. So if you were to grow by acquisition, you take capital or shares, whatever it might be, issue shares, whatever it might be, and you acquire something, you kind of get earnings with it and it all kind of works out okay.

When you're starting businesses from the ground-up and you're investing considerable capital, you kind of get a double whammy. You raise capital either through debt or through a dilution of equity, and then you incur losses while you're funding the cost of capital. And so why you don't see enough of it at operating profit level, because a lot of it is capitalized over the term of the development that comes through at the bottom end in terms of finance costs or dilution in earnings per share. So that difference is actually not that big and over time it should narrow. And, hopefully, of course, we hope that when things like the bank get on stream, it goes the other way around. But, in fact, we're pretty happy with that kind of core growth at the headline earnings level.

So in terms of the dividend, we kind of took 8% as a target with the carrying of final dividend of up 11% to ZAR 0.98 per share. And you may recall, our interim dividend was fairly flat. So the 11% increase of the final versus the flat interim gives an increased overall of the dividend of around 6%, which we think is pretty responsible against the equity and increase in earnings, especially given the rate of growth that we're doing and we need to make sure that our capital plan is entirely intact. So, on the back of this, we've declared a dividend of ZAR 0.98 per share for the final dividend, taking the total dividend year-on-year to a 6% increase.

Then you talk to capital, just in that context, to make the point that we've, I think, applied a considerable amount of discipline to the thinking, to the managing, to the allocation of capital, to the returns on capital acquired for our businesses, and you may recall that our capital structure is based on three pillars, and this really is based on our need to grow organically, kind of the solvency capital. All of our entities are regulated entities having the right amount of capital to be super strong in their specific markets.

The allocated capital, winding through over five years making sure that all the growth, all the different issues fall together and there's no need for additional capital. And then having a buffer over and above there of ZAR 1 billion to ZAR 2 billion. That's been really the capital plan. It looks simple, that's hugely complicated. Every entity has different regulatory requirements to meet, et cetera, et cetera, but the outcome should be very simple. We should achieve risk free plus 10% within the constraints of the leverage ratio of less than 28% and a cash buffer of ZAR 1 billion to ZAR 2 billion. So that really is the benchmark against which we evaluate the performance.

If you look at the actual results, I think they've been very, very strong. On the left-hand side, within our entities they are remarkably strong, whether you look at the Medical Scheme, the Discovery Health Medical Scheme, it's a separate entity, but it has ZAR 14 billion in reserves, over 26% solvency. If we look at all of the insurance entities, they are highly, highly capitalized and very, very strong.

The rest is working remarkably well. Our return on capital for the period is risk free plus 9.3%, so we're slightly off their target, but very happy with that. The financial leverage ratio is below the 28%, 26.7%, and hopefully over time it will drift down, and we have a about ZAR 1.6 billion cash buffer at the center in addition to the other two pillars of the capital structure. So, from a capital perspective, I think we're very comfortable of the strength of the capital in the entities and the ability to grow and bring those initiatives on-stream without the recourse to additional capital.

Then to talk about cash generation very, very briefly, and just make the point that the group generated about ZAR 7.2 billion of cash during the period. We've spent it in a number of different areas, but three things I did want to mention. Firstly, we spent ZAR 2 billion on emerging businesses and new initiatives. So it's a considerable capital cash investment in new initiatives. I think they're all considerable. They are the new initiatives I mentioned, things like the bank. We bought a health insurer in China, Vitality Invest in the UK. So there's considerable businesses that we're building. But in addition, our emerging businesses, Discovery Insure, the Vitality Group, we've spent a considerable amount on technology. And then Ping An Health, we've invested nearly half – I think ZAR 0.5 billion into the balance sheet of Ping An Health to give it the strength it needs to act as a reinsurer, and I'll touch on that a bit later.

So, considerable investment in new initiatives. We are very comfortable with it. I think the quality and the scale and opportunity these new initiatives will drive Discovery's growth going forward. The two other things worth mentioning, you can see Discovery Life and VitalityLife are long-term insurance businesses. The nature of them is that they're throwing out quite a bit of cash, but we are then chasing new business and investing a lot of it back into new business.

So you see in the case of Discovery Life generate about ZAR 2.9 billion of cash. We spent ZAR 2.6 billion on new business acquisition costs. VitalityLife in a different phase of its evolution and winding its way out of the belly of the Prudential generated about ZAR 1.35 billion of cash, but it's been quite a bit more as you can see coming out of this. So it's really the kind of cash dynamics.

We often end up in a debate about Discovery Life, should it generate more cash or less? We are very comfortable investing cash into new business if we can achieve it. So we are strongly chasing new business, we believe very strongly, that's of great quality. The internal rate of return on the new business written in this period was 21.5%. It exceeds our target of risk free plus 5%. And so we are chasing it as hard as possible. You can see the growth rate of Discovery Life's new business over the – since its birth has been 25.5% compound annual growth rate. In the last year, I showed you growth was 17%.

So when you're growing at that pace, when you take into account life insurance business has a kind of a negative profile for a number of years till it turns around, per policy, you simply can't generate cash and grow new business and throw it out in addition. So it's kind of a tradeoff. We are pretty clear and pretty resolved that if we can do new business on a good basis, we will do it, and hence the growth of 17% in new business.

In the case of VitalityLife, it is maybe a slightly different profile. The UK is different. The acquisition costs are higher (22:13) reflect market lower rate inflation, lower escalation rates. So if you look at the actual cash draw of VitalityLife, it has a different profile. In this year and the next year, we see cash drain. In 2019, actually the business throws out cash, but there's a Part VII transfer. Without getting too technical, we're taking the back book out of the belly of the Prudential onto our own balance sheet and that requires quite a bit of capital. And then thereof, you can see cash flow is emerging quite quickly.

So, in fact, it becomes cash generative from 2020 onwards. And so the cash profile of the two, I think, are very different. But we are pretty comfortable and resolved as to how we should deal with this and where we should head and very comfortable with the cash generation.

Let me take the embedded value. A number of moving parts I would mention. The embedded value itself grew by 8%. Return on EV just over 10%, as you can see. A few things worth mentioning. Firstly, the reduction in the currency. The UK took 3% of the embedded value. The other is that we invested ZAR 1.6 billion in the EV in new initiatives likely on Health, Life, Discovery Insure, and other things.

These businesses are acquiring considerable embedded value. We're just not calculating and publishing it yet. We'll have a debate as to if and when we do that. But the fact is you can see there's a reduction in the EV of 3%, but there's not concomitant embedded value shown there. So, over time, if and when we publish that, that should balance out and, hopefully, that go the other way, that the value growth is dramatically greater that the cost of it.

And then the experience variances you will see that, I think, on balance are slightly positive. They are reflections of a tough economic environment in certain areas in the Life and Invest side, we've had negative variances on policy alterations where people have bought down in certain areas versus expectation, and that's in the detail in your – in the handouts. But very comfortable with the robust performance of the embedded value.

So let me try and bring it together. I hope I haven't been too laborious, but the growth has been very strong, very robust, in rand terms 10% growth in profit, 16% growth in new business. If you take out the currency effect, a very strong growth reflecting, I think, an acceleration of the new business.

In terms of our targets for established businesses and emerging businesses were largely on track. And I think as those emerging businesses get scale, the effect of that acceleration growth should come through. On the capital side, I think we've performed remarkably well, risk free plus 9.3%, very, very close to our guideline, within our leverage with a strong buffer. And then finally, we are investing considerably in new initiatives and proud to be doing so. We think that will really drive the growth of the group going forward.

So let me turn to kind of the next dimension. I made this point to you that there are three dimensions to the ambition, and to an extent you should evaluate us on them. I want to talk a bit about the foundation. I could speak a long time on the work done here. I think the group has done remarkably well. Our teams have done remarkably well in this. But in terms of brand, people, values, I'm very comfortable.

I think we, as a group, are very comfortable with the progress. In that regards, the brand is emerging strongly around Discovery as kind of a corporate brand and a very powerful consumer brand in South Africa. Globally, the Vitality brand is getting quite a bit of play. It's not a dissimilar problem to kind of an Apple iPhone or a Microsoft Windows, or whatever it might be. There are two kind of brands at play. We are pretty resolved about how we manage this very carefully. The Vitality brand is getting considerable exposure attached to AIA Vitality or brand Vitality in China or John Hancock Vitality. So the Vitality brand is getting considerable exposure globally, but I think we're working well to keep the Discovery brand exactly where it should be.

In terms of people, I would say that the Discovery has and is acquiring the best skills. Now, for every job we put out on average, we have 1,500 applications. So, f you ask a different skill set globally, I think we have the ability to attract the best people. And then I think our people are very much aligned to the values and the purpose of organization.

I keep relearning the power of purpose. When we tell people about make people healthier, our people get a sense of pride. They're not excited about earnings per share. Maybe they should be, but they're not. They're excited about profound purpose, and I'm proud of the fact that that is what we're trying to do.

But I did want to spend some time on the foundation point four on the model. We really are on a journey of understanding this concept of Shared-Value Insurance, and to a large extent, I would argue we've created a category globally called Shared-Value Insurance. It's kind of a generic category that many others are following. And during the period during this year, we continued to invest in every aspect of this model. And you will have seen this equation, I think I've showed it at the last presentation. But I do want to kind of just make the point that when you get people to behave differently from a health perspective, you make them healthier, you actually create economic value. You create productivity, throw out healthcare costs, through longer life expectancy, et cetera, and the question really is how you share it.

Now, we are the only industry that really monetizes better health, better behavior. We have opportunity to capture that and share it. And so, we kind of break it down into four components. The value per member can be expressed as incentives to change per member, multiplied by the behavior change for a given incentive, multiplied by the change in the risk curves for the given behavior change, multiplied by sort of – on the bottom there should be risk – risk curves on the bottom, multiplied by the value we have thrown out for the given risk change.

So, to an extent, the first piece is really the incentive strategy; the second piece are the platforms and programs about health; the third piece is the data; and the fourth piece really are the products around how this links into insurance and whatever is we do. We continue to invest across these different generic strategies, understanding them more and more from Vitality Age, to status, to all our rewards partners, understanding generically what we need in the mix. We continue to expand issues or programs from screening, to nutrition, to active rewards. We're now busy with understanding healthy aging, very, very important idea of Vitality for seniors as we move into markets in the developed world, where aging populations are a crucial issue.

The data is fundamental. I'll touch on it now. And then we really are learning about different product structures and actuarial components about dynamic pricing, enhanced yield, where you have a universal kind of structure. So really a science, I would argue, that is emerging very quickly that we're sharing with our partners around the world.

But I think one of the really exciting things that we've done in this period has been to take what I think to an extent was kind of a one-to-one relationship between the model and Discovery or the model and AIA or model of Ping An, and actually create kind of a global platform that is starting to work remarkably well. What we've done there is really harmonized our product, developing at the center and making them available throughout our partnerships. The programs are being done in collaboration with universities like Columbia and New York around aging, have been put into a format that we can use wherever.

And then the partners – you can't see, but per area there are just a slew of partners that we link to. But then more and more there are global partners like Apple, Starbucks, and others that we're working with in different markets and we're learning more about how we can do that.

We've had a considerable investment in the technology. Vitality One will be rolling out over the next year that really harmonize all of the stuff into one chassis. And on the data side we've got the interactive process of a continuous mortality and lapse investigation process of capturing how these things affect mortality/morbidity driving persistency, et cetera, and keep feeding it back into the modeling, kind of a virtuous cycle.

On the right hand side you can see the scale of how the platform is working. It's now active six (sic) [16] countries, over 7 million members. We're getting 150,000 new joiners through our partners per month. And over 40 million life years of data that is actually embedded in the model. So Life has considerable opportunity for growth.

I wanted to mention the data briefly. Just we're trying our best to illustrate how you can cut the data. You can cut it in any way to an extent you like, whether it's mortality data, driving data, financial data, from learning from the Discovery card. The ability to understand its correlations to different factors like Vitality status, where we can actually look at all the risk factors of health, BP in range, cholesterol in range, BMI in range, et cetera, et cetera, and then looking at how these things behave by Vitality status, disease type.

Same thing with driving, how you drive, accelerating, braking, cornering, whatever, accident rates per Vitality status, per gender, per quartile. And I'm amazed at how our team has the access to the data on Friday afternoon while we're busy with the presentation. We've also another cut of data, complicated set on the driving stuff, took a day for our team to generate it for us. So the data is rich and highly, highly accessible. And then learning more about, obviously, important for us, the banking aspect and the correlations around their data.

So, to an extent, we have this incredible ability per silo, whether it's driving, mortality, healthcare costs, or financial data to look at the silo. And we have the ability to mix the silos together to really understand our customers and their behavior and then to moderate or change their behavior over time.

What is interesting is it's giving us the ability to develop products that really are, I think, fit for purpose and meet the needs of the customers. I thought I'd show you an example of something that we – we're more and more trying to understand what's the cause of mortality by kind of age, sector, and make sure that Vitality is appropriate for those different age sectors.

So, if you look at people 15 to 29, you'll find that the causes of death are not necessarily health issues alone. But issues like motor vehicle accidents, reckless behavior, et cetera, as you would know. So making sure that we capture that differently to what's ordinarily be done in a silo approach is really quite powerful. And during this period, in fact last week we launched the idea of Vitality Active. I wanted to give you a demo of it, but it essentially brings together both driving and health management into one product.

You may know Active Rewards has been remarkably successful of rewarding people for being physically active. Every week, every day they get a target. They do it. If they meet certain number of targets a week, they get a reward. We've kind of created gamification. We also learned in the U.S. about streets that if people do it for a period, we give them kind of a roll of the wheel, that they can win lottery kind of benefits. And so the behavior change has been dramatic.

Based on this kind of analysis of mortality, where we're doing now is bringing the two things together. So the ability to map how people are driving with how they're managing their health and creating Active Rewards, which we think particularly at the younger ages is quite crucial.

What I thought I'd do is just show you how simple this is, because I've shown you a very complicated data set and whatever. This is mumbo jumbo to the consumer. At the end of the day, the consumer needs a simple product that works. So I wanted to show you, if I could do this. Every time I do this, while I'm doing it, I think I'm an idiot. This will never work, but just bear with me. Let me show you how this works if you're a member of Vitality.

Okay. So now you are in the Discovery app. You go to Vitality, to Vitality Active, and what you get is now two rings right? And so the first week you have a fitness target of 300. You have a driving target of 100 kilometers of event-free driving. In my particular case, I've done well on the fitness. I've closed the rings, but I haven't done on the driving. So I only achieved one out of three goals. But I do get a reward. As you can see, it's all on the app. It offers me now a whole range of rewards. I've decided to choose KAUAI. I do that. It's all incredibly smart, I hope. I confirm it. So far, so good. But it gives me a QR code that I can then go to the store and redeem my benefit. Everything is simple, our customer journey is simple.

But next, we can actually to do better. Next we kind of now close both rings. I get an SMS. I am going to my app, I've actually closed both of the rings as you can see. And I'll do a lot better in terms of the rewards. And now it's a range of rewards that are slightly richer. In addition, the targets are getting higher. So I get fitness, so it's a dynamic process, but simple to understand. Now I'm offered a data bundle, which I will take, I hope. There's the data bundle, 100 megs of data. I confirm it. It offers me now choice of who it's from. I'll take MTN. And as you see, it happens automatically online, data bundle sent. SMS comes through that my account has been recharged. It's all entirely simple and easy to use.

And then something I really like, I've now achieved kind of a streak of three weeks. For three sessions in a row, three weeks in a row, I've managed to actually close both rings. So that gives me rewards. So what it does is, learning from the U.S., is it actually offers me kind of almost a wheel, a lottery kind of process that I can now spin the wheel, right? And the wheel has a range of number of different awards that I can win. It creates a real gamification anticipation. So I will spin the wheel, right? And luckily, because I have some influence, I won a dream holiday. I have to make sure that they came up right, and in this case, seven nights in Mauritius or a flight on Qantas. I'm going to choose the Mauritian holiday. And again, everything is simple. The customer journey is easy. The data just come through all electronic and I'm set, right?

I'm trying to illustrate the point that the data and the learnings are actually very complex. But to the customer and our policyholder, it's very, very simple. And we're learning our best how to mix worlds like driving and health, how to mix rewards like kind of lottery spinning gamification versus (35:13) So I could tell you the effect on behavior change is quite remarkable. So the foundation continues to grow at a record rate, so I'm very excited about where we can take it.

I want to turn to the businesses themselves and take you through them. I don't have the time to go in great detail through them. I'm not sure I'm doing justice to them. But as I said, I think the performance has been very strong. I'd like to take you through the established businesses and then the three kind of emerging businesses.

But to make the point again that the whole thing holds together in terms of the 2018 ambition. So, if you tip what I've said, we build a foundation of people, values, brand, and the Shared-Value model that is evolving all the time. All of that kind of manifests into the what, life, health, motor, intention to enter banking over time, et cetera, et cetera, and that's how it plays out.

But the fundamental brief here is that these businesses have got to be excellent, and we articulated excellent in five things that are measurable. Each business must be an insurgent. Each business must get significant client engagement in the Shared-Value model. We should see superior actuarial dynamics. We must meet customer needs, and the service should be exceptional. So we actually articulated what a brilliant business is, and we can measure that very, very clearly.

I'm not going to take you through too much detail on this, but the idea of insurgency is, of course, they're disruptive product, but you can measure it. Are you growing faster than the market? Are you in the top three in your business? In engagement, there's a specific measure. Actuarial dynamics are clear to measure. Are you exceeding? Are you under target in terms of loss ratios? Are you getting the right correlations to Vitality?

In the case of meeting customer needs, you can measure that. Is your market share high? Are you retaining customers? Are you engaging people? Is the loss ratio high and not lower? To an extent, meeting people's need means that you're paying claims, not paying claims. And then, finally, you can measure through client service, through client feedback what the service is like. So nothing here is subjective. We're trying our best actually to get an objective set of measures. We check this per business.

I'm not going to take you through this incredibly complicated slide, but there's a huge amount of data there that shows all of our businesses established to emerging, how they do on these objective criteria. Are they in the top three? Are they growing faster than the market? Kind of how they look like they're growing. We're doing, I think, pretty well in that area.

In the case of Vitality engagement, how are they doing in terms of that level of engagement? You can see across the board the engagement levels are good, across the board the correlations to Vitality Status, be it lapse rates or loss ratios, are tracking remarkably well. And then, in terms of service scores, you can see the service scores, I think, are very, very high. There are few different ways of measuring it. China, they use an NPS approach. In Discovery, we use kind of a client feedback approach, but very, very strong.

I would argue that most of our businesses are achieving what we set out to do. Of course, they get everywhere and there's work to be done. And no hubris intended in kind of a reg analysis. But I would say the areas of focus for us must be growth in the UK, growth of Invest in the tough market, and of course, at the bottom our emerging businesses in terms of profitability and earnings, getting them to really scale in terms of their earnings. But other than that, I think the model is working remarkably well.

So, in the context of that, let me make some comments about the different businesses. Starting with Discovery Health, you will know that Discovery Health has built a very sophisticated, integrated healthcare system, upon which the Discovery Health Medical Scheme sits and other close medical scheme sit. The performance has been dramatic in every regard. Despite the high base, new business has grown by 18%, as I said, operating profit up 11%. The performance of the Discovery Health Medical Scheme has been tremendous. It now has 55% market share in the open scheme market. It is remarkably stable.

So, looking at members buying up and buying down; nearly 95% of our members stay where they are, kind of equal amounts, 3% buy up, 3% buy down, but considerable stability in the system. And then the security, the reserve, the solvency level of the scheme has been tremendous, over 26% solvency. ZAR 14 billion in cash or near cash holdings out of the scheme and it generated in a year ZAR 1.3 billion in surplus. So it really has performed remarkably well.

At the same time, we know that our social mandate is to make healthcare affordable. It is a relentless, difficult battle. There is nothing you can ever do and say that you've conquered healthcare costs. It is a dynamic process, where technology drives costs up is constant, revolution, evolution, technology change, it's a great thing. We're learning more and more which we knew more in healthcare, but keeping it under control is a relentless battle. I think the team is doing an incredible job. We saved over ZAR 6.2 billion over the 2016 year.

On the left-hand side just illustrating kind of the return on investment the scheme gets from the risk management and utilization centers that we do. On the right-hand side, something that we are actually for the first time illustrating is the effect of the Vitality process on the scheme. So Vitality does three distinct things. It attracts new business and, hopefully, it attracts the right mix demographic of new business. It gets behavior change when they're with us. And importantly, it helps to gets positive selective - positive lapsation effect. In other words, we keep healthy lives in the scheme and don't lose them, which is a fundamental problem of health insurance.

And what you see in that particular case is kind of the accumulative savings through the Vitality program that we model. By 2016, we expect cumulative savings of close to ZAR 10 billion. It's quite remarkable. Now, if you compare that ZAR 10 billion in savings to the ZAR 14 billion in reserves, that gives you kind of an extent of the effect of Vitality. You could argue simplistically that Vitality has generated 70% of the scheme's reserves, but that's actually too small an impact.

Bear in mind, if that effect had not been there, to achieve the solvency we'd have to have raised rates. When you raise rates, you're attracting less new business. When you raise rates, you're sort of bleeding healthy lives; sick lives never leave, so you get this kind of spiral. So this is like an orchestra. It would be simplistic to say the effect is just ZAR 10 billion. It's dramatically more and that what we see playing out.

So we are very comfortable with that initiatives and we plan to do more. I think at the last announcement or the previous, we illustrated just how complicated hospital rates of inflation were for us with kind of supply-induced demand. The work done by the team in detail on different areas has been tremendous. So we've really kept, I think, costs under control.

In addition, value for money to our customers. The admin fees are now down to the lowest quartile at 7.7%. We've just announced last week a rate increase of 7.9%. Despite of that that we expect inflation to about 9% to 11%, so the team is confident that it can manage through that process. And the cumulative effect of this is that our customers, the members of the Discovery Health Medical Scheme are paying about 15% per unit of benefit less for healthcare through us than elsewhere. And so I think performance has been particularly strong.

If I had time, I'd like to tell you more about the ecosystem. We have blown out Vitality into different segments. We're investing considerably in technology, DrConnect, HealthID. I've done demos of this before. There's been considerable work done on that. The traction has been remarkable amongst our members, amongst our doctors. There's a lot there, but the Discovery Health team and Discovery Health, I think, is remarkably positioned.

Let me turn to Discovery Life and make the point that Discovery Life really is the source code for Shared-Value. I remember well many years ago and the simple idea of saying, if you link life insurance to Vitality, can we flip the premiums around and start actually pricing you dynamically. That simple epiphany kind of 17 years ago took us on this journey of Shared-Value, the idea that you can dynamically price and rate life insurance and get a fantastic effect and reverse out a number of impacts of an old model that works in preexisting exclusions and preexisting conditions. And the performance and the competitiveness and I think the progress of Discovery Life has been on the back of that.

The performance of Discovery Life and the team has been tremendous. New business, in a very tough market, growing 17%, operating profit up 10%. You can see market share - in 2012, our market share was about 24%. I can't tell you the names of these insurers, I guess you know who they are, but you can guess, I guess. It doesn't start with an A, insurer A, and maybe that's a clue. But insurer A, you can see, was actually very close to us in terms of market share.

Four years later, the market share has climbed almost 1% a year to just under 30%. So we're capturing nearly one in three policies in the mass affluent space. And notably, our competitors are dramatically lower, more spread out. So we nearly doubled the size of our closest competitor. So the performance in that regard, and again I will argue kind of the Shared-Value model, the value proposition of the client is different.

Other aspects of the business have progressed well. Lapse has continued to be better than expectation and drifting downwards. VNB growth has been exceptional, up 17%, and the margin has climbed strongly. So the quality I think is exceptional. One area that I mentioned earlier, we've had an escalation in claims during the period. That impact now has come down, so it was kind of temporary and volatile, up about 4% above expected; very interesting when you look at the cause of that kind of blip on the right-hand side.

The area where we saw an escalation was, in fact, in non-natural deaths. There are, say, things like murders, micro light accidents, gunshots, stabbing. We saw a kind of an escalation, which drove the non-natural deaths above expectation. But now they've come down back to expectation. Mortality is once again where it should be, but it was - I think it's important to articulate that. Actually, whenever you articulate these kinds of things, it conjures up all the fears that we have about crime and negativity on the country, et cetera.

And let me just put this into context for you. Firstly, to say, it's reverted back, so we don't see it as a systemic issue. But to make the point, and I find this very interesting, especially because our focus to making people healthy is on natural deaths. We can't really affect those other areas. But non-natural deaths make up about 35% of mortality, whereas the balance is made up of natural deaths. Our team because it's 35% non-natural, 62% natural doesn't add up to 100%. I haven't a clue why. There's something that were - other. I'm not sure if that's kind of a God-given - come and take you away over night. I'm not sure. And it should add up to 100%, I guess. But let me use 65/35 to make the point. But effectively, 35% of the mortality we face is from non-natural causes.

On the right-hand side, I want to show what our data is showing that if you're physically active, say, once a week or twice a week, the reduction in mortality is 35% or to 55%. So I'm not suggesting remove the barbwire and drive with your windows open and whatever. I'm just saying a much better preventive technique to bring your mortality down, maybe in addition to that stuff, is running around the block once a week, right, because we're actually reducing mortality quite substantially.

So, to put into perspective, I think we're comfortable of how the model is playing out from the natural death side. We've had a blip in the non-natural deaths. We don't see there's anything systemic and these are deaths, I think, random and return to back to where it was.

I sure wanted to show you for Discovery Life we rolled out last week a slew of very, very exciting products focusing on education, technology with our Smart Plan, the idea of a Purple card has really given us a lot of ideas about segmenting the markets, our Purple Plan in life insurance. It's a really exciting step. Discovery Life is by a long shot now the leader, and I think the team knows that it needs constant drive and innovation to keep it, but a lot taking place there.

Let me turn to Discovery Invest very briefly. I hope I'm not taking too much time. A very difficult long-term savings market. The markets have drifted sideways for three years. It's literally been, I think, a 3% or so increase in market value over three years. That's critical for Invest to talk to people's propensity to save in these kind of products. It also proves our profitability. It's driven our market growth, the fees and platform fees, et cetera. So, I'll put that into context. New business is up 3%. We'd like it to be higher, but I think, in the context, that's not bad. Operating profit up 12%, really driven by assets under administration climbing 14%, it's under ZAR 70 billion. Bear in mind, we still remain focused on the retail savings end of the market.

We are, I think, breaking new ground. This concept of Shared-Value and Vitality in the concept of savings may have no kind of initial reaction to you. But, bear in mind, if we can get people to save longer and we can make them healthier and live longer, for us, it's more revenue. The money is with us for longer and we can share that money. So we've now started to crystallize this idea, especially in the retirement funding space. On the left-hand side really incentivizing people to engage in Vitality, incentivizing them to start with us earlier, and then incentivizing us not to draw out too much in retirement, to try and keep it going over time. And the effect has been tremendous. We're seeing that people are engaging significantly in Vitality. The incentives are very strong, saving on risk too is earlier and it gives us the opportunity to share that value.

So we're now giving back 50% boost in terms of the retirement income, in terms of the retirement income. Effectively, it adds up to being able to offer people six years more of retirement income, which is quite dramatic. I remain personally very concerned around just the ability to retire in a purely-defined contribution basis. Life expectancies are growing. Healthcare inflation is CPI plus 3%. When you bring these things together, your ability to kind of target exactly what you need is very, very unlikely.

So the ability to share value and build this dynamic product on the back of open architecture, all the sophistication of the asset management markets, I think, is very exciting. It's an idea that we're starting to get traction. You can see at the bottom of the chart, our market share and RA and preservers went up 50%. Our market share in the retirement income space went up and nearly doubled. And our ability to do that clearly in the UK we think is something very exciting.

Let me turn to the UK and just talk about the UK. It's been, I think, a very, very complex year, but I think a very good year for us. Overall, the UK business grew its operating profit in pounds to just over £44 million. New business went up 1% in a pretty tough environment, particularly VitalityLife. And lives covered are now close to 1 million. So it's not an insignificant business in the context of the UK market.

I will tell you that the Vitality chassis that has been built in the UK is absolutely tremendous. The customer journeys are super, super sophisticated. The technology is brilliant. We're getting absolutely tremendous engagement and take up and cut-through through the process. You can see the extensive people engaging per month. The idea of Active Rewards, we are generating 150,000 cups of Starbucks a month, it's quite remarkable, through people's physical activity. We're seeing in our joint venture with Apple that physical activity has gone up 40%, those using the Apple Watch in the UK. We worked with Ocado online to get healthy foods. We're getting tremendous cut throughs of the chassis kind of created for both VitalityLife and VitalityHealth has been tremendous.

VitalityHealth itself has had a tremendous year. There's been a focus on every aspect of the business from service to quality, the focus in new business, you can see that coming through in the operating profit with new business up 4%. Just the operating profit up 89%, the previous year was a low base. We had a tough year, as you recall. But even if you go back few years before that, the growth is strong. So it reflects a strong growth year-on-year, and I believe we keep doing what we're doing, we can continue that growth.

The business is generating about risk free plus 6% or 7%. It's not yet at 33%. I think we can achieve it. Not easy to achieve, we're sitting on £120 million of cash or near cash from a regulatory standpoint. In the UK, it's earning virtually nothing. So that kind of weighs down the business' ability to really generate rates of return or generate return of capital. But despite that, I think the quality of the active business, the value of in-force we think is coming through and that should generate the returns of capital we desire.

What has really done that profit growth is being worked on on the loss ratio. It's been a remarkable performance. The loss ratio has come down 7%. That is absolutely remarkable in terms of claims, and it's a function of three distinct things. Firstly, we formed the lines of Aviva into something we call the HPA, the Health Purchasing Alliance. So collectively with your view, you'll know that the UK PMR market is very much an oligopoly, Bupa and AXA PPP really dominating more than half the market. So, the ability to buy healthcare at a similar level has been difficult for us. So coming together with Aviva, we've formed a purchasing alliance that really buys hospitals and doctors, those kind of services, at a competitive rate.

In addition, we've focused on the individual side of the market. You see on the middle of the chart, 50% of the new business was individual. And of that, I think 70% were new to the private medical insurance markets, really is growing that market I think very strongly. And then we've used considerable sophistication in the rating of our rate. This is a fully risk-rated environment. So all of the data that we spoke about, the Vitality data, traditional underwriting factors we're taking into account.

The team has developed a very complex machine-learning AI capability to really work out where those rates should be set in the D2C space. And you can see the results of it. When you look at the first year loss ratio versus prior year's, they have come down dramatically. So the focus on the loss ratio has generated, I think, quite unique results in bringing that loss ratio down by 7%. And the effect of that is to make the business, I think, quite cash generative. So I made the point, the business sits on about £120 million of cash and near cash. The back book threw out about £43 million in the period. We invested about £37.8 million, or £38 million into new business. So I think the business is really well positioned, the quality, the service. It's generating cash. It's in a very good position. We believe we can continue to grow.

If you turn to VitalityLife, a more complex story. But I must put into context that VitalityLife for us is a very, very big initiative. It's capital-heavy. We're building a life insurer in the UK market. It's a big complicated market. And we must never forget - I never forget the progress made by the VitalityLife business. It is really one of the leading disruptors in the British life insurance space. It's done remarkably well. But in this particular period, this really felt the effect of Brexit, ignoring the currency, that's a translation issue. The effect on interest rates really framed everything. You will know this and I think we've made this point to the previous announcement that long-term rates of interest went down kind of 25% and have dropped to a very low rate. In fact, interest rates at that point were the lowest that had ever been since rates of interest were recorded in the UK, so hundreds of years.

For a life insurer, that is very difficult, as you would know. You assume a certain long-term rate of interest and you assume you could reinvest premiums over that to meet your claims. If those rates of interest go down, your liabilities get bigger. And so you get into difficulty. So we had to really work hard to really figure that out, affect everything, earnings, embedded value, value of new business, et cetera.

What happened - just to give you a bit of a chronology and I spoke about this at the last result presentation - is Brexit happened literally two weeks before the end of our last financial year, right? So when we did the valuations at that point in time, the effective interest rate already had come through. And that kind of gave us two problems to deal with.

The first was the operating profit. In fact, in the previous year, so one before, actually emerged in line with expectation. What happened is that the effective interest rates wiped out our second-tier margins, and I made this point clearly at the previous presentation. So the margins that are there for economic fluctuations actually did their job. They absorbed that interest rate hit, but instead they were taken out.

So the effect this year is, as you can see, the growth of profitability, in fact, was completely aligned with expectations. It's just that the margins should unwind over time. And had those margins been there, it would have given us 25% of our profit. So, to an extent, the business kind of performed largely in line with the expectation, just the lack of second-tier margins unwinding had the effect of reducing profitability by 11%. And that's something over time we have to build up, we have to build up those margins again.

The other issue we inherited was that the value of new business at the previous period was actually negative. When you valued it on low rates of interest, suddenly which were profitable, looked like a loss rate. Now, this doesn't mean it will stay there if rates of interest go up, everything kind of reappears. But at lower rates of interest, it was negative. So we made the point at the interims, we'd have to work very hard to, in fact, get the VNB back up.

I must say I think the team has done an unbelievable job of reconfiguring the business. We've repriced many of the elements of the product range. We've worked very hard on escalating and indexing the products that people have linked to inflation, which provides value and immunizes the business against lower rates of interest.

And then the third point, what we call the Optimiser, the link to Vitality, the Shared-Value model really has been, to many extent, the savior of the business. It really has worked remarkably well with the take-up is escalating. You can see the effect on the right-hand chart that the VNB, while we're negative in the previous year, is now strongly positive. And, in fact, the work done has meant that the value of new business is higher than it was in the higher interest rate environment.

So I think the team has done an incredible job. When you look at the actual dynamics – those are the economic dynamics. You look at the actuarial dynamics and the dynamics of the Shared-Value model is doing exactly what you should do. The mortality continues to be less than expected and, in fact, it's getting better. We're finding that people when they link to Vitality and their premiums come down, they typically buy bigger premiums, so you can see the Optimiser benefits. The Optimiser policies are 60% bigger than non-optimized. And then, people, when they get those discounts, typically buy additional ancillary benefits, severe illness cover, disability, et cetera.

So the dynamics of the business have been absolutely quite remarkable. And to an extent, I would argue the business had been reconfigured for this low interest rate environment. Our view and I think it's a common view, it seems unlikely that rates of interest will stay at this level. You will know that real rates of interests in the UK are strongly negative, which doesn't seem sustainable in the long term.

And then the messages coming out of the Bank of England is that rates are likely to rise. So if they stay where they are, I would argue the business is well configured and should perform according to budget. If they rise, we should see a dramatic increase in all of those measures. And if they fall, we'll feel some pain. We haven't built up a second tier margin yet. We're building it up slowly and we have to see how that plays out.

But I must add, I think, the team has done a great job, is the sense of optimism as to what's going on. I haven't covered here a slew of innovations, underwriting innovations, service innovations that the business is busy with. But I wanted to make it clear to you the complexity of the environment and how we are dealing with it.

Let me turn to the last three businesses. I'm taking a bit too much time. I'm turning to the last few businesses, the emerging business, and give you a bit of insight. I have spoken a bit about them, but I must say I think we're very, very pleased with their progress, Discovery Insure, new business up 19%. You can see the in-force premium. I made the point about how quickly it's growing, up 31%. You can see it's getting scale, a sudden turnaround in operating results, and in fact, the business is now profitable and the quality of the business is remarkable. You will know that, especially motor insurance is very durational. When a group of policyholders take out - when they first come on the books, loss ratios are typically quite high. But over time, they get priced out and priced correctly and loss ratios come down. So the nature of motor insurance tends to be durational.

In the case of the Discovery Insure model of sharing value, it's particularly so. Ignoring the dynamics of the rating, the actual behavioral issue is critical. So you can see on the left-hand side, we're attracting people and properly correlating them to how they drive to the loss ratio. We're getting a positive selection. So the lapsing people are worst drivers than the stayers. And then, critically, we're getting massive and fairly rapid behavior change. So people respond to these incentives, I showed you, and to the kind of the stuff that we're doing and they changed their behavior very, very quickly. And you can see in the middle chart, we're getting 15% improvement in driving quickly in a few months, and then a 27% improvement over time.

So, when you superimpose kind of that behavior change, where initially 60% of our drivers were poor drivers. Now, that's the other way around, 70% are good drivers. That, together with the durational impact of - or the national impact of motor insurance, you get a very durational business. And even though we're growing quickly, so the book is staying quite young, we're kind of starting to see the effect of this quality over time. Net claims have come down dramatically. The loss ratio is down to 61%. Our expenses are coming down very strongly. And then by using an app rather than just a deep install, we're bringing down the cost of telematics quite dramatically by close to 60%.

The combination of all of that, of course, is driving I think the turnaround and the profitability. But I remain convinced the power of the model, the power of it to create real societal change, the power of it to impact on the lives of the people that we serve is dramatic and the quality is kind of embedded in the business. We don't publish an embedded value yet. We need to debate whether we will do that. But to give you a sense of kind of value equation, we've invested ZAR 2 billion in the business, about ZAR 1 billion of retained losses, the balance in solvency capital and free assets. What we have on the right is ZAR 3 billion value in our view, kind of embedded value of ZAR 3 billion. So we've created quite a bit of value, we think.

And then on the bottom of the chart to make the point that the new business internal rate of return is tremendous. We think the quality of business being written is growing rapidly and the quality of business is very, very strong. So we're very excited about the prospects of Discovery Insure.

I wanted to just make the point that the technology embedded in the business is remarkable. You may know that we acquired a 20% stake a number of years ago in CMT out of MIT, really the telematics app that we use. We have an engineering team inside Discovery Insure. It's worked hard with the CMT team, and we don't just use the telematics issue. We wrap around the kind of Vitality behavioral piece around. That's given us absolutely tremendous results. So, some of this you will have seen, the ability to know who's driving the car by just understanding the statistical aspects of the car. We call it driver DNA. Impact alert, when people have an accident, the ability to know their probability to get care to them, so we actually deal with the health issues at the same time.

So, I think as we spoke about, that's really now going through final phasing. This idea of crowd search, it's a remarkable idea. What happens is, as you drive your car, through all the Discovery members around, we can track wherever you are. So it gives us the ability to actually have an SVR, a vehicle recovery capability, without actually putting it in the car. It brings down the cost of SVR, we hope, close to zero if we get that right. That has great, great potential.

And then, something that our actuarial team has done remarkably well is through how the car behaves we can detect where the potholes are on the road. We can put on websites, tell the authorities, warn our members of this considerable ability. In fact, in each of these areas, there's greater strategic advantage that we're going to push out over time.

And then we do some really exciting stuff to take them all into different areas. We have a joint venture with Avis. You will know when people drive a rental, they don't drive particularly well. In fact, my test of values is how you drive a rental car, right? And you can see that in the statistics. There's kind of two-times accident rate for rentals. We've done a – we've taken the Discovery Insure capability really in the cloud, dropped it into Avis in a joint venture with them. So when you rent an Avis car, you can have this kind of Active Rewards miles that if you drive well, you get benefits of driving well, it checks your driving. It has potential, I think, all over the space for that.

We also have developed an entirely new model for young drivers. You pay a much reduced rate and you pay rate per kilometer, where if you drive at night, which is particularly dangerous for young people, you've got very high rates. And we have a JV with Uber, we get a 25% discount. So rather take Uber at night and drive your car during the day. So we're learning more about to share value in different ways, how to create the right kind of incentives, and we're excited about what we can do.

In addition, I would say to you that the Discovery Insure model is kind of being put into the Vitality Group capability, where there are insurers around the world that's part of Vitality we'd like to use it as well. So there's potential going forward.

Maybe talk about the Vitality Group, and just to be very brief here make – and just make the point that the growth has been very, very strong. In the middle of the chart, the amount of integrated premium, in other words, our partner's new business that the model is attached to has grown by 164% over the period to over $219 million.

On the right-hand side, you can see that the – this business is fairly light on capital, going forward it's very light on capital. So that kind of (01:02:10) expenses, and once you get scale, it becomes profitable, that's turning around – it's turned around now in this year and is profitable. And on the left-hand side, we're growing, I think, quickly. We had a number of markets during this year, France, Canada, Vietnam, Sri Lanka with AIA, and more will follow. So there's a lot going on in this process.

I need to tell you, and it comes back to our 2018 ambition. Across the world with our partners, we won awards for the best products, the most innovative products. We were then named as the leading innovator by the World Economic Forum; the most innovative insurer in the U.S. is John Hancock one. In France, Australia, Hong Kong, wherever it goes, the model is remarkable. We have to figure out how to scale it and I think we are doing that. In this period under review, I think we really did well.

If you look across the board, we are gaining tremendous – how can I say it – traction from insurers, penetration in their markets, and then engagement in the model. The AIA model has worked very well, that really was the beta site. We're getting great results in Hong Kong, in Australia, in Singapore, and more starting to follow. In Generali, there is a lot going on in terms of launching more additional channels in Germany. Sumitomo Life in Japan rolled out only in 2018. A lot of work has taken place in that regard.

And then we have a kind of a franchise models together with Hannover Re, where we have now three companies with letters of intent in their markets we're going to add to the list. So, to an extent, for us financial, it's about number of insurers times penetration, times engagement. If we get that right, the flow of revenue is very, very strong, and that's what we're seeing come through.

I wanted to make a point that – I made it earlier and I want to make it again, just introduce a very short video. That, in fact, we've created a category of insurance called Shared-Value Insurance. And importantly we're trying to make sure that our partners understand this. It's not a proprietary mechanism, but a different way of thinking about insurance, and just listen to our partners very briefly.

[Video Presentation] (01:03:51- 01:06:15)

Revenue and the profits starting to flow from it. The other point just to say very quickly, working with partners like AIA and developing the partnership has opened up a whole range of opportunities and I hope, over time, more of them.

So, for example, in Australia, we've had tremendous success with AIA Vitality. It's given AIA the mindset of trying to build the same Discovery model in Life, Health on the back of the Shared-Value model. And so collectively with AIA and GMHBA we've built a health insure called myOwn. We launched it just a few months ago and, hopefully, over time therefore add to the process of what we're trying to achieve in Australia and together with AIA. So this is I think a remarkably scalable model and we see it pushing forward very strongly in this year and excited about the growth.

Let me end up with Ping An Health and just make the point. It's kind of giving us growth numbers that are beyond, I think, what we are used to. New business, I made the point, in RMB has more doubled, over 100%, written premium over 85%. As you heard from Yuansiong Lee, the Head of Insurance at Ping An, just I think their happiness with the rate of growth. And the operating result turning quite quickly, but it's kind of full of new business trend. This is a rapidly growing insurer. And we've taken the view, and I think it's correct, not to push for profitability too soon. We need to see the growth play out and not to curtail it. But having said that, I think we do expect profitability this year and, hopefully, we'll achieve it.

I wanted to give you a sense of the growth. It's hard to show graphically how a company like this grows, but if you look at the early start and we started I think 2010 with Ping An, it was a rudimentary health insurer, selling kind of fund products, TPA service products, and a few group high-end products to multinationals. Over time, we've changed it into proper group insurance, individual insurance, selling through the distribution channels. But to see the growth, it started growing really strongly in 2012, but had to rebase the scale for 2013. So I've taken the last bar in 2012, made it the first one, and I hope you can see that.

You can see how the growth continues, and then it continues and rebase it again. So you would know the compound interest is the most powerful force in the universe. If you're compounding at 80% a year, you get probably ridiculous numbers. I don't believe that that's sustainable, obviously, but to give you a sense of just how big this company has got to in a short space of time, and then critically the quality of the business is stable and good.

So if you look at retention rates, the persistency on the left-hand side or loss ratios on the right-hand side. This is a calendar year look, so it's kind of January to December. You can see in the orange that this year, January to June, very stable, and in fact, in many cases getting better. So the quality of the business at this stage looks remarkably good, and we're pushing ahead very strongly.

I'd say that the four areas of strategic focus, making sure we remain super competitive in the group space, and there is a focus on all aspects of the business. On the individual side, where the growth has really taking place, we've given Ping An Health now the ability to be a reinsurer to Ping An Life. So Ping An Life can sell products directly to its client base and reinsure with us, which I think is a big step forward. In addition, we can sell through our own branches. We've opened up a new branch in Chengdu, as you can see, gives you a sense of the scale. One branch can service 87 million people. So the scale of what we can do I think is remarkable.

And then on the Internet side, we've had just tremendous growth through kind of a combination of the Ping An Life distribution channel and the Internet capability has just driven growth. And then finally, there's an accelerated IP share from Discovery. We're really putting across all of our data, our claims, all the analytics that we've done. I mentioned what we're doing in the UK with premium pricing, taking that as fast possible into Ping An Health. We're really excited about what we think can be achieved.

So let me wrap up and say to you that, I think, 2018 has been a remarkable year for us. I'm framing it in our 2018 ambition. I hope I've done justice to three dimensions, the foundation that should be competitive in enabling brilliant businesses driving an impact that's socially and financially very superior.

To summarize, I will say that the financial performance has been robust, illustrating the growth by existing businesses, and illustrating the dynamics of what we're doing. I think we are slightly off, but close to the targets we set around earnings growth, close to the return of capital that we set. The foundation of the business and foundation of the model becoming a platform is remarkably powerful. We will continue to invest in that.

And then our businesses themselves have performed well. The existing business is really growing market share, and three emerging businesses of considerable scale in their market having great potential. And then new initiatives, watch them come on stream over this financial year. Of course, the banking initiative, the intention to enter banking, savings in the UK, commercial insurance and Umbrella Funds we think will drive the profit going forward. So, in summary, let me thank you and make it clear that we're excited about the year ahead. It is a tough operating environment, but we are confident of our ability to grow.

I'd like to wrap up the presentation. All of our key executives are here. We're not going to take questions here at the podium. We'll all be backstage for you. Our new CFO, Deon Viljoen, is here as well after having the first set of results. But to all of you, thank you for the time and we look forward to seeing you in six months. Thank you.