Y 2012 Earnings Call

Company Participants

- Adrian Gore, BSc (Hons), FFA, ASA, MAAA, FASSA, Founder and Chief Executive Officer
- Peter Cooper, BCom (Hons), HDip Tax, CA (SA), Non-Executive Director
- Richard Farber, BCom (Hons) CA (SA) FCMA

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Other Participants

- Analyst

Presentation

Peter Cooper {BIO 2055767 <GO>}

Well good morning ladies and gentlemen. On behalf of the Investment Analysts Society of Southern Africa, we would like to thank Mr. Adrian Gore, the Board and the Executive of Discovery for once again hosting us in the Presentation for the Results of the Group for the Period Ending 30th of June, 2012.

Discovery is 20 years old and in the two decades it has established itself in South Africa as a leader in healthcare products, in insurance that's life and now more recently in the shorter term and also more importantly in the healthcare awareness through the Vitality programs.

So today we have a group that is capitalized at 34 billion, but it's a much more than that in society because its contribution to societies, the innovation, the creativity and entrepreneurship has created value in our society both in South Africa and also a company that is establishing itself with a global footprint.

This company is a testimony to what can be done through private enterprise and the creativity of individuals for the benefit of society. So Mr. Gore we thank you for this presentation today and we look forward to unpacking not only the results of the past that into the insight as to what we can expect in the future. Thank you.

Adrian Gore {BIO 3068929 <GO>}

Good morning ladies and gentlemen. Peter thank you very much for that really kind introduction, greatly appreciate it. On behalf of Discovery it really is a great pleasure to be presenting results for the year till 30 June, 2012.

We're going to follow a similar formats to what we've done in previous years I am going to give the presentation all of our key executives are here and afterwards I think Ricky

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Farber our CFO will join me up on the platform but our key people are all here to take questions and then afterwards in the break should you want to probe anything please do that I think the Discovery I believe is we have built a very thorough organization that the more we scrutinize hopefully the better we appear. So I do encourage you to do that.

Let me begin by saying that I think it's been an excellent year for us it has been a year of considerable growth it has been a year of frenetic activity and I think importantly there's been a lot of foundations that we have continue to build and I think bode well for future growth.

I think two themes I would highlight, one is that I think in our existing businesses there has been strong progress, strong growth, a lot of work, a lot of investment and in our new businesses we spent a lot of money building and investing and focusing in new businesses, notably Discovery Insure, our new sure to ensure had its first trading year during the period under review.

In China, Ping An Health I think it was a very strong push the U.S. with Humana, a very strong push and then a seminal year for our UK JV with the Prudential, PruHealth and PruProtect.

So there is kind of a mix of themes I think coming out of the under review, kind of a overwriting headline I would say to, that if you look at the dynamics of this is manifesting very strong new business growth up 24% to just over 3 billion, operating profit increasing by 21% to 3.4 billion, the normalized headline earnings per share up 14% reflecting the tax relief on the investment in new businesses like Discovery Insure and you see that dynamic coming through -- growing to 30 billion, just over 30 billion, I will talk on it little bit later.

I thought maybe just to echoing a bit what Peter said that the outset, I don't want to talk a bit about strategy about intention and maybe about ambition for Discovery. We've built an organization on a very simple core purpose, make people healthier and enhance their lives and that really drives whatever we do.

I think that core purpose has given us an ambition, we are intended of building a global organization. An organization that effects society in a different way and frankly an organization that's best degree in its category across anyway you measure it.

To a large extent I believe that we have a very different business model, we are engaging people differently, understanding a lot of the behavior of paradoxes and finding solutions in a way that meets people's needs differently and in a very excellent way.

I think our ability to build and leverage and scale that business model offers us a great opportunity both locally to reach other markets like Discovery Insure or globally to going to other geographic territories like the Pru JV or to China or wherever it is that we may do.

Having said that, we have broken down this ambition in to a number of kind of metrics. The first and I think it is the most important, again getting to Peter's very kind comment at the outset, is the modus operandi of the organization.

We do believe we have a social duty to progress, to innovate, to just drive markets in the positive way. We are only into markets where we believe we can make a difference and actually manifest in a very strong new business, should manifest in the leadership position in the markets we enter and should manifest hopefully over time superior profit margins to the organization. And so the modus operandi I would argue is different, it's difficult to achieve, but it's something that we intend on doing.

That should manifest in the earnings growth and return on capital that is superior. We set an earnings growth target a kind of a hurdle, CPR plus 10%, we like to get it to 20% in a year that's the ambition. Return on capital, our hurdle is risk free plus 10% over the long-term and that's what we have been tracking against.

And then critically and I think more important are numbers, we need to be for social good. We need to have positive impact on the societies in which we operate. And then finally, foundation for us is we need to make sure we track, retain and develop and inspire frankly the best people and that's fundamental to this vision of being best in our category.

Having said this, I would argue that the modus operandi is alive and well. If you go across the Group, I would argue that virtually every one of our business is in the leadership position, is disrupting, is innovating, is pushing very hard.

Discovery health that's of scale, it's a big, it's a very big foundation of a healthcare system, it's pushing hard for positive change Discovery Life also is a leader, or our new starts line Discovery Insure that have come on stream over the year, Ping An Health in China or pushing Vitality into all of them I would argue the cutting-edge of what we should be doing.

We are solutions provider, we are making sure we can meet needs of customers in complex markets like health insurance and life insurance, ways that are different to the more efficient. And many ways of measuring this by market share I think across-the-board we tend to lead all by objectives measures like the Pricewaterhouse Cooper survey a clear review analysis of how we stack up against our competitors, and appears rank us number one across virtually every category, except on the investment space where we rank number two despite the fact we are a relative new comer.

In the UK PruProtect which I think had an absolutely brilliant year, you will see also continues to win awards and is acknowledged as a leader in its category. So ignoring the numbers just making the point I think for us it inspires us is to make societal change.

And across all of our businesses I would argue that we are remarkably well positioned and are pushing ahead and I found that the more you innovate, the more you can innovate because they kind of keep opening up pathways to new things you should be do. So, we are pushing very strongly along these lines.

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Turning to the actual business model, I think it is one that our approach is to build businesses organically, I think if you can achieve that, that is really value creation for society and for shareholders and therefore we've built a very different business model purporting on side of engaging the consumer and then making sure on the back of that we can build excellent health, life and other financial services businesses.

And I think you would appreciate mathematically it is not possible to grow at 20% as you can do just to kind of same store growth, you need to keep incubating and rolling out new businesses else you will kind of drift down to the base line growth rate of the CPR rate.

And therefore, the approach we have taken is to use a capital-light approach to fund incubation businesses and to grow them organically and to spin them up by becoming emerging, by become established and they join the do businesses within the organization that's been the approach that we've taken, we've set a benchmark out of spinning 5% to 7% of capital.

We think we can fairly capital-light because a lot of work we're doing is heavy, we have the ability in markets like the U.S. or the UK, China to partner companies that do provide capital, we provide the know-how and expertise and as we get that right through the ability to run around the circle and spin our businesses if you think add a great value and I do think in the period under review, we seeing how the Prudential businesses coming up stream, I think the Discovery Insure performance illustrates I think the merits of that approach. That's really if I saying though as well as during this particular period we spent a lot on new startup businesses, I think is many well spent.

Talking to the earnings, if you look at the earnings progression on the screen, you can see that it has been strong over the period we have managed about 20% to 25% compound for the last two decades every year as you can see, the growth is robust and in the year under review the growth tends to continue.

I'll make a point about our target or our hurdle being earnings growth exceeding CPI plus 10 on the bottom chart in the blue that is kind of the CPI plus the 10 and I think we are covering it quite comfortably. So in the period under review we continue to grow and I think that is a function of the combination of strong robust growth from the established businesses and then new businesses coming on stream and supplementing and augmenting that from driving the -- and driving the growth.

In terms of return on capital, I made the point that our hurdle is risk free plus 10%, again we've averaged about risk free plus 11% to 17% over the period, it's fluctuated slightly over time, nothing dramatic I think that we are doing well on the capital employed and I think we get -- the startups that we have in place now up and running I think that return on capital can be improved quite significantly going forward.

In terms of allocation of capital, I thought it's worthwhile just explaining that the organization is throwing off a lot of cash and earnings, and how we are redeploying it back into growth and there are some fundamental differences to what we did in 2011 to this 2012 year I would say.

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First you can see the demand, redeploy is slightly less than it was in the previous period, in the previous period we made the acquisition of Standard Life Healthcare in the UK and you can see that bubbling up on the left hand side of the chart.

The second observation I've make is that we are allocating capital to certainty. We believe strongly in Discovery Life and life insurance business, it's an excellent business, it is capital intensive. I made the point think in the previous presentation that we are comfortably investing capital and that process continues to grow the business at the rate that it is growing.

And then the other point is if we're allocating IP to -- less certain, some office in the U.S. we're running Vitality or markets like China, we are partly putting on we are fairly capitalize as you can see.

And I think that expose us to tremendous upside if we get it right, but at the same time take protect us from the down side. So, the capital process I think is prudent and to an extent I think it underpins the value basis of the organization.

We are strong believer in prudence of one hand and innovation on the other and getting them both right I think if we do get them right, provides a kind of alchemy that is very important for the way that we grow. So the allocation of capital I think as we are careful prudent to the right areas, but I think you are getting what we are doing is considerable growth.

I just want to make this point that over the year there has been frenetic activity in our smaller businesses. And I do think because of this embedded in the plan going forward is considerable growth that's there if we get it right and come through.

A few comments on this. The UK businesses I think had a seminal year. The core operating profit of the UK is close to 10% of Discovery's total profitability of the business is now have scaled. It's got a great potential to grow going forward.

The second point of the other extreme Discovery Insure's first year of operation I think had a tremendous year. At the run rate currently, new business is being transacted around 9% market share of the personal lines business and I think we can grow off that base significantly.

The Vitality Group in the U.S. had a fantastic roll out with the Humana, with Humana covering 1,8 million lives, I am not going to say much more about it until we get significant progress there. But I think we are very excited about what potential that holds.

And then finally, Ping An, the Ping An Health joint venture with Ping where we own 20% of the company. I think an excellent year to reach kind of first base I would say we have got the IP embedded there. We started to roll out, we are focusing hard on certain sectors of the market and I think we are making traction.

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And so to an extent, the point I wanted to make is that the capital model I think is prudent and relatively light despite that I think embedded in the plan in the strategy and what we have built is considerable growth potential going forward.

On the UK business just to put a bit of context to it because I do think that the year has been important, PruHealth and PruProtect have come from like, in a sense different directions to an extent we are bringing them closer -- Vitality considerably the business is off scale.

PruHealth through acquiring Standard Life Healthcare gaining scale I think has provided great opportunity, PruProtect -- is just raw excellent performance across virtually every single metric and the two have got fantastic scale.

If you bring them together we are forming a fantastic protection business in the UK and I think the timing is right for that so difficult environment it is the difficult market but there is a very strong push and focus on protection obviously and an innovative exciting different Discovery style business in the UK we think is great potential.

So today as we stand, the combined premium of the JV is close to R5 billion the core operating we reported about 300 million of profit is 100 million duplicate costs that or transitional cost that PruHealth is experiencing and I will touch on that later there is a core operating profit sitting there 400 million a year that close to 12% to 15% of our total Group profit. So, I put that the UK is a very important part for us and I think under review has been I think one of the really great highlights of the performance.

Let me turn to some observations on the actual businesses. I don't have time to go all of them, but I'll try and give you sense of them, we've tried our best in the disclosure to give you a sense of the progress across-the-board.

So starting at the top just Discovery, I made the point that operating profit at 20%, a very strong new business growth up 24% 9,3 billion. It was a strong focus across all of our businesses in terms of that performance.

A few comments on each I think Discovery Health had a very robust I think exceptionally a lot of progress made across-the-board. Operating profit of 10%, -- administration fees we reduced the administration fees 100 million during the year despite that the growth managed to allow us to increase operating profit by 10%. The dynamics of Discovery Health and new Discovery Health Medical Scheme I think it will be quite remarkable over the period that's just raw performance versus the environment I think is notable and there is a strong focus on building the healthcare system.

Discovery Life had an excellent year operating profit up 14%. The difficult environment, we increased market share is a strong growth in our agency force. But I think the notable thing about Discovery Life and I'll talk about it later in the presentation was the focus on quality the -- lapses relaxes mortality and integrated model, I hope you'll see that coming up.

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Discovery Invest to an extent great performance business as usual, it's been a great formula, we continue to roll it up, operating profit up 50% to 150 million, assets under management exceeding 25 billion.

Discovery Vitality and DiscoveryCard, I am not going to share much about, I think the performance is frankly remarkable. The levels of engagement, the signs, the data, the way it's kind of helping us understand the risk and how to manage these quite remarkable, it's foundational to everything we do.

So both them I think have performed remarkably well. DiscoveryCard is a great foundation for future growth and future initiatives. Discovery Insure its first year insure to 239 million of new business, I made the point about very strong growth in terms of market share, but I think more importantly the product concept has been so well received there are so many pathways that are coming out of it, I would like to spend a bit of time later in the presentation giving you some insight into it.

Turning to UK, I've made the point about PruHealth and PruProtect, I think PruHealth has been focus on bidding down the acquisition, the focus on quality, PruProtect has been a focus on growth and PruProtect as you'll see has been excellent the quality business, the scale everything will -- around. PruProtect is really a replica of Discovery Life in the UK and I think the repeatability and therefore the scalability is quite remarkable.

In the U.S. Vitality, the Vitality Group is strong -- HumanaVitality 1,8 million we covered is opening up a whole range of opportunities for us, I am not going to speak much about it, we've just conclude another partnership with ADP, ADP is the largest payroll company I think one of the largest in the world we are going to build Vitality into the offerings.

So, there are many opportunities we are pursuing in the U.S. and then finally I mean China with Ping An Health, we are getting good traction. We focused on and I'll touch on that later. We focus on being number one in the Group high end market. We manage to achieve in the period under review covering over 560,000 lives. So early traction and I think is going to take us time in China, but I think we're very encouraged by what we see.

Then you turn to the observations and firstly it would be financial observations and due with new business upfront at 24%. You can see the growth is a staggering base 7.5 billion in annualized premium income, you can see in the previous period we grew that 24% to 9,3 billion robust growth Discovery Health a 10% of a very high base.

In 2010, two years back, the performance of Discovery Health just kind of took us to a different level to start that you continue to grow. I mean Discovery Health's performance I think is remarkable in a very complex environment. Discovery Life in a difficult environment continue to grow its market share, new business up 8% individual life business up 10%. DiscoveryCard and Vitality have been following the others. I made a point about Discovery Invest robust growth, it's really just pushing ahead in the same way we have been doing over the year.

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PruHealth and PruProtect very different stories. PruProtect's new business up nearly 60%, really reflecting growth. In the case of PruHealth, the new business was slightly less in the previous periods, there has been a strong focus on quality.

We have avoided the corporate segment and I think that's an important option, there a strong focus on only profitable business and you will see that coming through in the presentation. Discover Insure from a base of nothing really has had a great start and you can see the growth of the Vitality Group and Ping An in China.

It's important to note that this is a new business statement across-the-board of course in the case of Ping An Health, about HumanaVitality we are minority shareholders. We are simply showing that to give a sense of the total footprint.

If you look at it graphically, you can see the point I made about 2010. There is an absolutely remarkable health performance there. Despite that -- base, the new business this year I think is a point of inflection if you get those new businesses to really kick in I think their growth can continue.

Let me turn to the profitability, just to break it up I said from the outset that operating profitability was up 21% it's made up of two components, the established business is growing 24% and then a significant investment in new businesses Discovery Insure mostly Ping An in the UK and the stuff we're doing in the U.S. So we've moved our investment from about 200 million to over 330 million that meant that operating profit went from 24% for established businesses up 21% taking that into account.

I think we've cast our eye over the performance, I would argue the performance of Discovery Life and Discovery Health in a very complex environment is robust you can see PruProtec and PruHealth really flipping from a small loss to a substantial profit and I think that's one of the important notable achievements over the period.

If I can continue then just taking the normalized profit from operations which I've said is at 21%, normalized profit before tax up 25% one of the key issues I think you should bear in mind is tax, the tax rate appears artificially high, the investment in Discovery Insure we haven't raised the deferred tax asset so therefore we have a tax relief on that investment in there and if you get this kind of floating at the tax line then that reduces the normalized headline earnings at 14%.

I must stress the fact that we normalized the headline earnings in the previous period we acquired Standard Life Healthcare that created a bit of distortion and therefore we had to kind of normalize it up. So if you look at actual headline earnings they are up 30% year-on-year that's of course in our view not a measure issue you should look at the normalized line up 14% and the operating profit up 21%.

On the back of this we are declaring a dividend of 53,5 cents that's an increase of 15%. We've kept the fairly high dividend coverage ratio bearing in mind that the whole idea behind Discovery is the concept of building organically the business and using internal capital to fund that growth. So we kept the same dividend cover and we have kind of let

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dividend drift out at the same rate as the normalized headline earnings. I think there is appropriate I frankly think it's prudent.

Let me turn to the embedded value. I made the point the embedded value grew by 12% to just over 30 billion. If you express it as an EV per share it's up to R53.78. The two important, I think three important points I would make about the embedded.

There might be more about the business itself and what we're doing. Firstly in the case of Discovery Life. The fundamental premise behind Discovery Life is the idea that the integrated model will get better mortality experience over time and better utilization experience and effecting the period under review that came through very strongly.

So, if you look on the left hand side, the experience variances in Discovery Life in terms of lapses in mortality claim through strongly and then on the right hand side, we've changed the model going forward, the embedded value and methodology is going forward to bake into the much more conservative lapse as soon as you took the opportunity to do that and at the same time to adjust for the mortality that we are experiencing.

So we've actually taken a view that the mortality we are experiencing now continuously get better, we have improved slightly the assumptions going forward and you can see how those offset in the EV methodology going forward.

The other important point is I made the point that we we've been on a glide path around the administration fees in Discovery Health Medical Scheme fees of Discovery Health -- the Discovery Health Medical Scheme over the period under review we accelerated that glide path we've taken a view to get that down to 10% over the next number of years that has a significant effect on the experience variances that we experienced over the year, reduced that fee by 100 million in the period. And I think very important we baked into the EV calculation that glide path going forward. So, you see that again in the methodology and assumption changes the embedded value.

So, embedded value bakes all of these dynamics in. And then maybe one other point I would make, I am very excited about the performance of PruHealth and PruProtec. PruHealth particularly has brought the loss ratio down. It looks robust and stable, we haven't assumed that in the EV, we've taken a very conservative approach to the EV.

We continue to value PruHealth of the previous assumptions and as that settles down we will bake that into the embedded value basis going forward. So just to contextualize the EV excuse me, one sec.

Sure, I don't know I'm talking too fast, let's get slow, but I am going to keep pushing up. So let me talk about Discovery Health. As I said, I don't have time to talk about every single business, we'll give you a sense of each of the businesses and I think it's important.

I did want to talk about Discovery Health of course it's important and beside its important in terms of -- in context what we are talking about here, it is fundamental from a societal

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perspective Discovery Health is in a sense part of the bedrock of the private healthcare system, I would argue of the broader healthcare system.

We understand our responsibilities in that context. We are accountable for healthcare and we're proud to be managing it where we think it is appropriate. We're also aware that these are difficult times, people battle to afford private healthcare. So, we understand our social responsibilities, therefore in that context Discovery Health has to perform and has to perform in a number of different dimensions for all stakeholders in the system.

I think its evaluation must be on the sense of growth in lapses, are we growing and are people staying with us. At the end of the day there is a kind of anopen market test for are we are doing a good job. And I think what underpins the Discovery Health results is growth in our lapses as you can see the growth in new business up 10%.

Lapses are remarkably low. Percentage of people leaving us every year is remarkably low at about 4%. I am not aware of health insurance entity in the world that has that kind of lapse rate and it is nationally responsible by a decree, you don't get the kind of lapse rate. So it's remarkably sticky and I think that's very important.

Operating profit despite the reduction in administration fees of 100 million, up 10% I think reflecting the fact to an extent in line with the growth we are passing on a lot of those efficiencies and then you can see the principal members inside the Discovery Health Medical scheme growing by 6% both new business year-on-year growth, it's a substantial amount.

So a very pleasing performance, I think for a number of areas. I do want to make the point, just getting back to our societal, we have a very difficult role inside Discovery Health and inside the Discovery Health Medical scheme.

While balancing of the number of tradable, classic tradable in healthcare between access cost and quality. We push anyone, the others tend to suffer we're going to get the balance right in terms of what society believes that the right social choice and that's a very difficult thing to achieve.

I think in each of them we've made good progress in terms of cost, our rate increases over the last five years inside the Discovery Health Medical scheme have been lower than the average you can see on the left hand side on average CPI plus 2,9% whereas the rest of the market has been about CPI plus 4,8%.

The compound effect of that has been today when you buy per unit of benefit when you purchase it from the Discovery Health Medical scheme, you pay less than you pay from the market so on the right hand side is an analysis by kind of the major benefit times comprehensive intermediate all the way down to the lower income side, you can see that typically we are 10% to 15% cheaper in the middle of the market on the comprehensive side, 25% or thereabout on the lower side, we're dramatically lower in price.

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And I think at the end of the day that is how you should evaluate our performance I think people answer to healthcare, quality healthcare at a lower pricing I think the answer is yes. There's a lot to do we need to make less expense we need to fight hard on this front but I think in the evaluation, a clear evaluation I think we are making good progress.

At the same time as focusing on cost issue of excess I think is important if you look at the percentage of doctors inside the Discovery payment arrangements, inside the networks that we operate across virtually every province we have 80% to 90% penetration.

So of course we deal with every single doctor and physician specialist in the country but if you look at those linked to our payment arrangements where the price they charge is a fee that the Discovery Health Medical Scheme pays, scope as you can see probably is quite remarkable.

And the effect of this on coverage I think is important so if you look at the low end of the slide I've put up on the screen and you look at the hospital cost what we people claim and what we pay regardless of any doubts systematically you can see that we're covering nearly 100% of the bill.

So in the executive plan, the co-price around 0,39% as go down obviously co-price gets slightly bigger, 5% on the coastal but across the entire range what you will see the weighted average of in-hospital covers around 97% level.

So, I would argue getting in to a point to an extent that the hospital cover is almost free at the point of care and I think that's a very important milestone, but it's a very luxurious healthcare system we're building and I think that together remind me think about an inflation and about cost.

And then importantly in terms of quality at a previous presentation, I took the risk of actually doing my own kind of Steve Jobs impersonation of an iPad demo, I kind of pulled it off, hope you remember of Health Idea. It's a fundamental part of our strategy of driving quality in the healthcare system.

Over last few months, we've been rolling it out, it's a complex process getting doctors on to, getting the technology in place. Many doctors are not technology savvy on this kind of stuff. So it a process that's going to take us some time, we've given fantastic activity.

We have I think close to 500 doctors now actively using it, that's like kind of the 10% for the GP base. It's early days, we're excited about that I do believe if we get the penetration right the effect on quality and on cost will be quite incredible from Health ID.

And so the effect of this I would argue if you get quality across the -- growth and that's what we've seen. I think you've seen this chart every year, the Discovery Health Medical Scheme continues to grow.

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It's a fundamental attribute of the health of the scheme that it can continue to while you can see despite a very high base over the last three years the growth in fact has tended to accelerate. And then the point of lapses, the lapses are low and are very stodgy.

The stickiness of the scheme is quite remarkable. So, the people are joining us in big numbers and that's simply not -- I think that's very, very important. And the point I made in the previous presentation is despite anecdotes about affordability and of course that's important, people can't afford healthcare, we know that, people stay with their benefits.

So if you look from year-to-year inside the Discovery Health Medical Scheme, the percentage of people downgrading the benefits buying and staying where they are its remarkably stable, 94%, close to 94% across-the-board stay the benefits 4% tend to upgrade and 2% into downgrade.

So it's remarkably stable, I think that's a fundamental attribute of success of the scheme. And just to make comparisons to the industry, the comparison I think the performance of Discovery Health versus is our competitors, I think is in those two charts there.

The scale of the Discovery Health Medical Scheme versus its competitors in open scheme market is absolutely clear. It is demonstrably multiples in scale and then amazing statistic about growth and growth -- technology important, attribute of success in health.

Over the last five years the Discovery Health Medical Scheme has grown by nearly 0.5 million lives, while the rest of the industry has shrink by over 800,000 lives, that 800,000 lives joined us, well they've joined the government employee medical scheme it has been kind of a funding in two directions.

And I think that does illustrate the fact that's we to an extent are, there is a lot to do, but I think we are getting it right competitively and doing and doing the right thing. Having said this from a financial perspective, the Discovery Health Medical Scheme continues to grow reserve levels of -- 8 billion and the credit rating is remarkably high.

So when you look forward, just on what we are tending to do I might say despite the complexity of healthcare, we are fairly clear inside Discovery the only antidote is success in this space is excellence we have to be absolutely excellent every single facet of what we do there can be no...

And therefore the Discovery Health has to make sure across single attribute what it does, the success investment brilliance and that's what we're focusing on.

One area we've been focusing on over the last number of years is bringing the administration fee down you can see the glide path in fact on the right hand side around 2005, 2006 the administration fees we were charging the Discovery Health Medical scheme around 13% to 14%, we brought it down over time to currently 11,7% all in.

We have taken a view if we really get that down to 10% we think that's a right level we think it addresses a number of different issues how did we get there well if you look at some of the benchmarks on the left hand side I made the point that we currently are at about 11,7% you can see that in the black bar on the left hand side, if you do a benchmark locally 23rd percentile of local commercial open medical schemes is paying around just over 10% and the 75th percentile is paying around 14%. So the 10% is rather on the low side.

I am not convinced that, that's a great benchmark. Because I don't think that many of our competitors invested in that -- in fact it does more and spend more to get better results in our view. And therefore I think that our benchmarks need to be may be in other markets like the U.S.

The U.S. is the only market where you have commercial health insurers covering everything from running nose to a heart transplant. And therefore you need to understand how those companies tend to function.

Bear in mind as well that it is the most competitive market in the world. So you would assume that in the competitive market fees get better down to their correct economic value I would argue. If you look at the American market, now the Obama healthcare reforms are pretty clear.

Health insurers in time will not be able to spend more than 15% on health expenses. And as it shows you see on the chart, the average is around 12% to 13% and therefore when you think of our target of 10% again I think it's low to appropriate and that's where we are aiming to get.

And so it's a very strong focus on that. If we get that right together with the investments we are making I do think that Discovery Health is covered hopefully every base in a very, very complex market and we can offer our members value-for-money and that's what we have to do.

I do want to use the opportunity to speak about healthcare and particularly private healthcare. These are difficult times and people rightfully, so society is rightfully so, scrutinizes worries, concerns, moans about the price of healthcare and its rate of inflation.

I think that's correct. But it's important to understand what is driving inflation? There seems to be kind of a mystery what could it be? There has been a number of articles over the last number of days about what could it be, is it old sick people using their medical aids more. Is it that the market is failing the tariffs are going up too high. There seems to be kind of a lack of clarity on what's driving costs.

Well the first thing I wanted to just say to you is that I think and I made this point in the previous results presentation, I think the first thing we need to do to understand this very complex question is to understand the healthcare system we built.

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It is a function of a number of social choices we have made as a society and you need to know that. I would say that private healthcare is a very luxurious excellent system. Our doctors are doing a good job as an under supplier and we need to know that.

Our hospitals are competitive worldwide they are doing well in other markets as well. So, we have a great healthcare system. So the important point I want to make to you, firstly please do remind this is an egalitarian system. It's open enrollment, community right that means people can move in and move out but at the same times regardless the state of health it's a remarkably valuable asset to society.

The problem is that it's inflationary, so we have for example all the attributes about the Obama trying to do, we don't have the individual mandate, people don't have to join. So, you get national selection so part of that is its expensive.

I have also said to open access environment, if you cover largely you can get any hospital you like, any doctor you like, you can go to the specialist first, go back to the GP, there are no waiting periods, nowhere in the world do you get that kind of excess.

Try it in the British NHS, the patient pathway is radically different. I made the point about other property expenses, we got to a point where we have for hospital care covers virtually comprehensive. There is no co-payments, no deductibles largely at the point of care it's free.

And so the coverage tends to be very comprehensive. And at the same time I think in terms of access, we have access to the best technology, you are not limiting technology. The latest biological drugs for oncology it's all baked into our healthcare system.

And so when you think about the cost of healthcare and you think about its rate of inflation, it's important to understand these are choices we have made as a society about the kind of healthcare that we expect and want. And therefore that has to be at the base of what drives inflation.

Having said that I thought it's important that we are the repository of all the data. And therefore we can tell you what it is that's driving up inflation and I've drawn some confusions that I have been -- So, what I would like to, it's bit of a complex slide, but please bear with me this is quite important.

What I thought I do is to just illustrate what drives that inflation, what drives cost over CPI. So on the bottom of the slide is the CPI line and the question is, what drives things CPI plus is that fairly clear. So firstly on the tariff side, I would say that to you that there is a power balance in the market between an organization like Discovery, the Discovery Health Medical Scheme and the supply side the hospitals and doctors and therefore we are holding tariffs close to CPI typically CPI plus 1% to 2%, by the time we finish year-on-year, they are around CPI plus 0.5% to 1%.

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So tariffs are not driving up inflation that's a reality. What is driving medical inflation, are things that I think people don't understand, what we call demand side effect and supply side effect. Demand side effect is that the population recoveries aging, so year-by-year they consume more healthcare on the demand side.

Secondly, the price of egalitarian is that you get adverse selection although sick people tend to migrate to much more comprehensive benefit plans and the young and healthy buy down or when they join us, they join on to lower benefit options, you don't get the cost subsidization that you need. And so you get this push of 46%. On the supplier side, for a given health status medical care can do more, technologies driving our cost, the hospital average rate goes up with the same condition, goes up year-on-year the rates chronic sufferers is going up. So you get supply side push at the same time. When you add that together, you get CPI plus 6% to 11%. That's a massive number that is not sustainable.

The question is that it must be managed and I believe it can be managed. So the things that we do to manage it as you can see firstly our risk management interventions, we estimate through studies, bring inflation rate down by 2% per annum. Vitality creates a right kind of stability in the scheme, makes people healthy we're seeing the average rate go down by Vitality status that takes up a further 0,7%.

A point I thought I'd make is often in the debates, the administration fees are at the core of the problem, I am showing you the glide path if you do the math on that, I think you will find the administration fees are deflationary. You can still argue they are too higher but that they are deflation because they are coming down relative to inflation. And then the final point, a critical point the 0,6%, growth is fundamental.

When you grow you bring in healthier lives than average consume healthcare less than the embedded block instead that brings down medic inflation by further 0,6% this might sound like small numbers but if you compound them over time they are dramatic and so therefore I would say it's like ours is an natural inflation rate of CPI plus to 2% to 6% to 7% thereabout if well manage we can do around the CPI plus 2% or 3% if badly managed we can drift up to CPI plus 11%.

A few conclusions from this number one I think the market is working tariffs are not the problem, medic inflation is driven largely by the supply and demand factors that are not economic but demographic. The second conclusion I'd tell is egalitarian is fantastic we need it, it is something we should be proud of as a society but it's expensive if we make the choice it is inflationary.

The third point I would make is that growth is critical we have to keep innovating and growing with that growth, you start to getting to difficulties and then a follow up I guess is obvious with that intervention so that management, the system will spiral out of control, you cannot sustain CPI plus 11%. The adverse selection spiral becomes worse and worse and worse.

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And so the system we manage very, very carefully one just a brief observation I hope I am not getting too technical, but one observation I would make as well is the effects that are driving up inflation under the economic demographic and therefore in a high inflation of environment, CPI plus 2% doesn't sound bad, when CPI is 15%.

When you're at CPI plus -- when CPI is 4% or 5%, CPI plus 3% to 4% is difficult to manage and so these are complicated issues that we as an organization I think as a country have to be aware of and have to manage carefully.

Our conclusion here is that we need to be aware of the quality of health system that we have. We need to be progress I think very carefully we need to understand we have under supply of doctors and therefore I would say it is axiomatic, we have an under supply doctors in the egalitarian system. We will expect inflation to be CPI plus a couple of percentage points.

I think we shouldn't mess with this too much because the system there I think is very, very valuable. It's a national asset. We need to be careful as to how we proceed.

Then moving on to Discovery Life and make the point that I think the performance Discovery Life has been very, very strong. We set higher goals for Discovery Life and I think the business continues to perform.

It's been a very tough new business environment, the market has not grown. Despite the Discovery Life new business has grown 8% its individual business has grown 10% if we continue to grow market share, operating profit up 14% and the value of -- up 17%, I think reflecting the quality of the business. I think the recipe is relatively simple, we continue to innovate, we continue to develop ideas, we think that solves solutions in a different way.

Over the period under review, we continue to learn about the Vitality amount of what we can do, the cover boost that boost individuals policy on the cover and based on how they interact with Vitality, they can retain their cover at a reduced rate and then I think it has been received very well by the marketplace.

But the point I wanted to make in this presentation is I think the core issue of the Discovery Life model is about the -- integration with Vitality, we can make people healthy, offer them a unique value proposition.

But at the same time a business that has improving mortality over time. And our view is that traditional static life insurance models tend to be fairly static and rigid. We have this mortality curve that as you can see unfortunately goes up and what life insurers do, they charge a price for your life cover that's an average price across your age and the price you pay is a function of the -- what you underwritten for them, that what you pay for the rest of your life. The difficulty with that is that it's not entirely flexible, not flexible at all.

So over time people don't exhibit average mortality, you get healthier people and unhealthier people on either side of mortality curve. And the problem is, over time the

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people that lapsed tend to be the healthy, because they are paying essentially more than they should be.

And so the time in traditional life insurance market you get negative adverse selection, bad selective lapse and you don't add value and argue to customers to make them healthier. So the approach we use and it's -- I do want to show to you because I think we are learning more and more about its power, is a concept of flexing premiums based on Vitality status.

A dynamic pricing model effectively that's kind of the core metric as you increase your Vitality status, as you manage your health better, your premium rates go down and what it introduces into life insurance space is a sense of dynamism, dynamic pricing year-by-year and I think as you look pre-shift, when you match risk and price if it's matched properly, you're going to match more stable system, it is better for customers and that they having sense that you get healthier it is certainly better for us in terms of return on capital and the quality of the mortality experience.

If we get it right, what happens is instead of charging the average market price we charge a lower price, we incentivize people to be healthy and if they do what we say they should do their rates tend to go down dynamically, if they don't, their rates tend to go up.

And so you don't have the static averaging process, you get a much more dynamic process that is more in tune with what you think should happen. If you do get that right, you get three things coming out of it. Firstly, by density it's dynamic price should give you an embedded value per status that's equal, so that kind of is the check on what we are doing.

The second is you should get a better lapse experience over time and very critically you should get better selective lapsation that help you last stay in the system and then finally the result of this is you should get a better mortality experience.

The simple check is, is our mortality experience over time getting better and better and I think if you look at the experience of what's happened that's exactly how it's playing out. So on the left hand side, you can see escalated during the financial crisis in December 2008, 2009 they have come down strongly after that you can you see we're quite comfortable below the long-term assumption in the embedded value basis. But importantly we are getting very strong positive selective lapsation.

On the right hand side of the chart are the positive experience variances. In other words, the performance, the mortality performance of the block versus the embedded value expectation and you can see year-in year-out the mortality performance tend to exceed our expectation.

Despite the fact that from certain years we tend to take that into account and lower our expectations for mortality that keeps outperforming. And in fact in the period under review as you can see on the extreme right hand side the experience variance has being

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the highest ever. And so this positive selection I think has been quite remarkable illustrating how powerful the model is.

Now we're trying to apply the science of Vitality to life insurance so one of the key things is how people respond to these incentives, how they move about these symmetric I will show you around Vitality status and health claims.

Now what this tends to show you, I am sorry it's a complicated slide, but what it tends show you is our expectation where people should be that's the green claim at one kind of we would expect them to be and red our lower what sales lower the green we are the higher and what you can see is the expense is bubbling a bit in a high Vitality statuses and in the healthier groups.

So you can see the selection happening where we gain the right kind of people coming in and staying in and in fact they are moving strongly up the statuses in terms of Vitality and -- centers and I think that's excellent. So the model doing all the right kind of things directionally but we need to make sure that the science is correct.

If you look at embedded value per status our latest calculation shows that it's relatively flat because of not exactly equal you never going to quite get that but the identity that if you are getting the dynamic pricing right you should have an EV per status that's equal. So we keep trying to understand and reflect on how these statuses should be built.

You can see in the gold and diamond side the EV slightly lower than the average and the other slightly higher. But on balance it's a pretty good distribution. Some of the work we are doing now. We started last year is in fact to treat Vitality in such a way, that we incentivize not just inputs, not just going to the job, not just going for that Vitality checkup but actually achieving results and by doing that we think we will get a stronger correlation between engagement, health status and mortality.

So last year, we introduced a point that we are achieving certain things in terms of by blood pressure of wellness assessment. We are moving towards workout and fitness assessments. We are not just going for the assessment, get your Vitality points, but in fact how you are doing that assessment relative to your wellness. And so we are moving more, more towards the science of Vitality and understanding making sure that we incentivize better health and better mortality.

And I think if we get that right the ability to continue perpetuate that model are on ensuring the EV is flat and are getting people healthier, I think is quite remarkable. The power that cannot be over stated, I am sorry again for a three dimensional chart, but in the middle of that chart in the red is the embedded value of Discovery Life as it is now around 12 billion and what this analysis shows you is it -- we are bringing lapses up or down.

We improve mortality or get it worse how that EV tends to flex and a simple example on the -- at the back on the right hand side, if you can get the lapse rate down a further 10%, get our mortality down a further 10%, the EV goes from 12 billion to 18 billion.

So the effect is dramatically geared and therefore the importance of this model to customers and to society to make people healthier cannot be overstated. But at the same time I would argue that it's crucial from a return of capital that we -- the model continues to perpetuate and I think the results we're getting give us great comfort and great excitement about the way ahead.

I have spent a lot of time on Discovery Life, discovering best to make the point that I think the business continues to perform. There has been robust growth. We haven't pushed off the guarantee bonds as I said in previous presentations, issuing of guaranteed bonds for us is a capital raising exercise to an extent the way it operates.

So, we have been fairly flat in that respect, recurring business has grown nicely over 20%. Funds under management growing to over 25 billion and operating profit following that at 50%, so it's just over 150 million. Graphically you can see the rate of growth of Discovery Invest this by assets under management, I think is very pleasing and we think there is a lot of excitement and potential in that business.

Let me turn to Discovery Insure, I think this is a fascinating business and something we are remarkably excited about. We've rolled out a business here that really takes a lot of the learnings of Discovery and is baked into a very different market.

And we are trying to build a business, it is not a insurance company, charging at premium and paying out claims. We are trying to build an insurance company that has a kind of the physical experiential effect on the people that we interact with make people better drivers, make our road safer and that's the kind of journey we are on.

The business is pretty clattered on four distinct ideas. The first is that our core purpose make people healthier is central to what we do, it is an obvious application in the most dangerous roads in the world, if you can make people better drivers, they will buy less, they will be injured less, and we'll make our road safer and that's of the core of the business.

The second is amazingly driving follows the same behavior or paradox as healthcare does, people think they are healthier than they are and you driving at the same issue people think that they are better drivers than they are, so our analysis shows you may have seen as 80% of drivers think they are good and the research shows that only 30% are, 70% aren't.

So you get the same kind of behavioral optimism that you get in healthcare and therefore if you can change behavior and you can kind of get kind get rid of some of the ignorance, the ability to effect society is dramatic.

The third point is that the technology is there the telematics, the Vitality all of that stuff kind of exist and it offers a great opportunity and then finally obviously the Discovery capability distribution, actuarial all the stuff that we do is so well kind of suited for this market the correlating of these separate strategic strengths I would argue create a fantastic entry into the market.

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We rolled out at the start of the year a very different product that really gave people incentives for driving better, if you drive better you get up to 40% reduction or cash backs of your fuel spends with our partner BP, it was remarkably well market received.

Over the year though we've changed the product slightly -- become guidelines for us around what came in included in the product what kind of effect to use the opportunity to focus more on the fuel rewards and on getting people to drive better and so towards the end of the year around April, May we rolled out all entirely different product, not entirely different more accentuating some of the powers of making the fuel benefit essential. So instead of up to 40%, you can get up to 50% discount we focus on getting supported business, home owners and content into the same policy.

We focused on young adults that incentivized. People just getting a license to drive better with kind of loss aversion in the behavior economics built in to the product roll that out. And so the process has begun.

I think the results are been staggering frankly, if you look at the new business flow, the kind APR per day million per day of new business we are doing. You can see during the year relatively quiet from a marketing perspective, we got the product right, but towards the end of the year we did re-launch and we started to push out into the market and focus on the distribution channels.

You can see the growth I think now starting to pick up very, very nicely. And at the current run rate of kind of 1,7 million today of new business we are around the 9% recalculate market share. We think we can continue to grow off that as we get elements right.

Now it's important to understand I made the point at the outset that we are trying to build a business here that people experience. It's not a insurance product, it's something that's quite special. And we thought we need someone who would almost be the perfect critical citizen.

And so we chose this idea of using John Robbie working with him and getting him to be a Discovery Insure policyholder and tell his story on 702 every morning as to what's it like and how the product is working and we had some absolutely fantastic feedback from that approach.

I mean he has learned the product. He talks about it he is using the tools online to check how he is driving and I want to play you one clip that's just, speaking how it works and I will show the actual tools that he is using that our policyholders get to see how they are driving. How they can improve and I think it makes the point quite clearly, listen to this so I hope it is clear.

[Audio/Video Presentation].

So the point I am trying to make is that we're trying to build an experience and I think that's an anecdote data point of one, but systemic here we are seeing a difference, we're

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seeing that the incentives work it's quite remarkable, so we have about 25,000 cars, the drivers out there.

On the left hand side, the actual index of how people are earning their DQ points and how they are improving around the time, it's quite remarkable. How quick you people respond to the incentives. And I think it's actually easier than health.

It's far harder to get someone to lose weight and you get the right -- over time to sustain that, then is to change driving habit. And so a lot of that is about ignorance about guiding I think the Discovery Insure capability is quite remarkable in that regard.

You can see on the left hand side, how people are improving their driving and then the right hand side how they are using the incentives, BP has a national market share of 22% inside the Discovery client base, outside the Discovery Insure client base has close to 80%.

So there is a considerable difference in how people are responding I think to these incentives. And then also I think systemically that's important, the quality of the business we're building up I think is remarkable.

It's a fundamental issue and -- new short-term insurance company. Experience shows that often the initial experience is very, very bad but people come in to your price, are price taker, price makers trying to -- they shift around the market, we're trying to do quite the opposite and I we are getting great quality.

So first point to make is, we're measuring an incentivizing the right kind of behavior. If you look on the left hand side, the correlation between how you're driving a loss ratio is quite remarkable. People that drive better claim less, it is as simple as that.

So the correlations that we are pushing for in incentivizing are spot on. Secondly, we're getting fantastic selective lapsation, if you look at on the left on the right hand side you can see that people lapsing at the low end of driving versus those that have advancing is dramatically different. People at getting age to drive better tend to stick and I think that's important.

If you look at other factors in terms of quality, the loss ratio coming in is now declining, so that's just an index of loss ratio in the first half of the year it is coming down I think we'll continue to bring that down and then a fundamental issue, we are not an organization that believes in cross selling, our fundamental view is that we like people to buy the product, integrate them, see the value and see how that fit together, and broker market to an extent find that space.

Having said that, you can see that Discovery Insurers are appealing Discovery disciples to an extent the noble point on the right hand side, the most people that buy Discovery Insure have three products with us already so we're kind of appealing to the classic

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Discovery markets and getting them into this system to integrate the other elements of their Discovery portfolio.

Now one of the opportunities going forward of course is to get our brokerage channels and our agency channels to sell this product in greater numbers to an extent that's largely embryonic, a lot of our broker agents have never sold short-term motor, household insurance so there is a lot of education and training going on. But obviously one of our key opportunities is to get that channel to start sending to the client base and if you get right I think the potential for growth and quality is remarkable.

So there is a lot of an initiatives going on. One of the things I've been wanting to tell is we have a strong commitment to digital technologies I showed you the health ideas the previous presentation, we developed a piece of technology I do want to try and demo here also on Apple as you see iPad capability, but it is really a suite that allows our distribution channel to go to a Discovery customer and sell this product quickly and easily in a very informed way.

So in office, I'm going to do demo if it comes through then certainly I hope this works. But I'll let you look at all the brochures that explain how the product works Vitality drive to the customer et cetera but I what I wanted to do is just show you how simple it is to sell assuming I am a broker here or an agent to an existing Discovery customer, because we have all the data of that customer.

The pricing engine is built-in so there is a very sophisticated premium pricing model sitting behind as we have TransUnion and other data sets that are sitting every news built in it's simple and easy for the distribution channel. So if you text on this, I hope it works.

New quote I am starting a new quote, I haven't a clue what will come up here but I am pretty -- You can see I've done this before I age 10 years in process I hope this works.

Okay. Next, do you have consent yes, this is a very simple process. I hope you are following us on doing a quota I am the broker, have you insurance the answer is no. I hope are you the regular driver, yeah and I think its right. And then it sucks to all the data pulls it out of the database and everything is kind of populated simply there.

I think I will just push on next at any point in time. So at this point it sucks to the cars that I own all the data about that car this is in fact my daughter's car, at any point in time, no humor intended for that. Sorry I'm doing this bad, I wanted to show you that I can in fact pull down the brochure at any point and explain the product. So while I'm going along this journey I can show whatever I went all the data is now set in confirmed details I'm not sure I didn't, but I need to choose the car sorry.

Confirm details, details are in, loads of vehicle, no claim in the last few years I hit next, my address, next I am confirming I think that's right preparing quote, Then quote is done, now the whole pricing engine sucks through all the data everything is done.

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I have done a terrible job at this, I assume my -- is smarter than I am and that could be better at this, but you can see the pricing engine, the car, the quote R583 a month. Just next I can touch on that get rewarded and it takes Vitality drive, I can then choose to show how it works, what my driving expectation is how much I spend on fuel, what the car insurance premium is and then it could tell me what I am likely to save.

I can then go back continue the existing, there is quote sign, I agree to a whole range of things, postal information, I select the postal address. Next I am doing is badly banking details, that's summoning the ordinances account, I won't tell what it is and I think just simply give it all a date, confirm it's okay.

I think, sign in done. Electronically the policy is issued. Now I have done a pretty bad job, I think at it, the truth of it is we are working very hard to use these technologies together and to be able to very quickly illustrate few customers the value proposition. And then importantly to be able to sum it up in an educated and inform I think it offers great potential for Discovery Insure. So, when you are out of the gates, I think the business offers great, great potential.

Let me turn to the UK. I have made the point that I think our performance in the UK and I think progress made has being significant for both PruHealth and PruProtect, to an extent this businesses came from different directions, but I have made the point they are collectively now the business is on scale, I think it offers a great potential going forward.

Let me talk about PruHealth. PruHealth had I think an excellent year, new business was slightly below the previous period, but a very strong focus on quality and I want to just tell you why, operating profit grew by close to 30%, but you can see we're carrying 100 million of transactional costs in the system.

So therefore kind of core operating profit is around close to 200 million, we are still paying standard life transitional services agreement around using some of their technology over time that it will fall off. So the cooperating profit I think is quite substantial.

If you look at the strategy in the context of PruHealth we have taken a very careful approach, number one is to bet down the acquisition, make sure it's robust, make sure all the systems are working, make sure we can offer excellent service to customers.

Number two in a very difficult environment, I made this point for the UK, the economy is difficult, there NHS is an alternative private healthcare, it is complex, you get very bad adverse selection in this current environment.

So focusing on quality, focusing on the lost ratio, making sure the memory experience is excellent and then finally now focusing on new business and making sure that we generate business of exceptional quality. Just talking about this 100 million, this transitional cost that we are carrying we have taken the decision to build entirely our own system take into account the best of what the standard life system did and what the old PruHealth system did, so at this point in time now we're keeping the structures on the standard life healthcare block while we build -- and that will take us we think a year or two.

The time less time to migrate the block from the one system to other I think it's fairly common in such an acquisition but it does create this overhang and therefore I think it's important you contextualize how the business is evolving is this overhang that I think will be there for a few years.

In terms of the loss ratio, new performance is being frankly remarkable it's been one the key issues that we are focused on in the UK, initially our loss ratio was too high, higher than the average you can see our 12 months rolling loss ratio average has come down dramatically we're now low and lower than the industry and I think that is fundamental, that is the core asset of the health insurance business keeping that loss ratio down and that's at a very, very low level.

The other thing I would say to you on the right hand side of the chart is a very strong focus on conserving the business and conserving the right business so there is a strong focus on making sure low loss ratio business is retained and high loss ratio business is price up or priced out and you can see that coming through in that.

So we have reduced the loss ratio of 20% at the same time we've managed to get the right kind of selective lapsation I think that's very important from a profit perspective. We are also more and more bringing into the market place the risk management skills.

We understand here and bringing the best of what we have learned in the UK through the acquisition. So on the left hand side, one of the key value proposition that we say to our customers in the UK is the -- base.

We will work with the doctors and hospitals to get full refund and in the process of doing that building the networks, working with doctors we have brought the price of healthcare down to PruHealth and we make sure that, that promise to customers is kept.

We are on our co-pays appropriate and we work with doctors to do that. And then on the right hand side, a lot of the learnings we have done is South Africa around hospital rating methodologies we are using in the UK and we have taken that technology and we managed to blow out the country wide lists in the UK.

So now if you are country wide member of PruHealth you get access to London clinics that are -- as well the London Clinic itself which is kind of the preeminent private hospital is part of that using that technology more and more to drive the quality of healthcare. That I think get those well for future growth.

On the Insure new business you can see the on the left hand chart and I would like to point that there's been quite a growth in new businesses from 2010 to 2011 -- the loss that hasn't been the focus I think they should be that's we're focusing on building out the distribution channels. But it's been a strong focus on quality.

So on the previous period 23% of the new business was corporate, the margins there are paper thin and we do not believe that is great quality business. We are focusing hard on

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getting business on the individual side that's new side and I think you can see it's paying of dividends where to an extent the corporate business accounts for only 6% of the market share of that business.

And then in terms of membership we expect a sliding down of the membership as we did the acquisition we are kind of very much on track we are slightly below in terms of membership level. I expect that membership now to turn and to grow as the new business starts to kick in during this calendar year.

So, we're very comfortable as to how PruHealth has progressed and comfortable the year ahead should see cooperating profit growth, membership grow and I think the focus on quality will pay off in a very difficult environment.

Let me turn to PruProtect. I think to an extent like Discovery Insure, PruProtec has had an absolutely remarkable year. New business growing by nearly 60%, policies enforced growing by over 60% and nearly 110,000.

The run rate of revenue is close to R1 billion of premium flowing through PruProtect, the new business growing strongly and operating profit flipping from the loss of 86 million strongly to a profit of 209 million. So, the business across virtually every single metric has been quite remarkable.

I need to tell you that the idea behind PruProtect is really to Discovery Life and how operating what it does in the products that we develop could it operate in the UK that is kind of the basic premise that we ask if how the distribution works.

To a large extent the answer is yes and the more of it we do, the better we tend to do I think in the UK. So many of the products ideas that we have rolled out over a decade with Discovery Life, we are rolling out in the UK.

We are targeting them, changing them. But they find their way into the marketplace. So, to payback benefit sitting inside Discovery Life is around the premium side that was rolled out during the period under review. The cover booster now has also found its way into the market.

So, all of the learnings that we have from this market we are tailoring, learning, getting them in to the UK market, and I think our team is doing a remarkable job of translating that and getting traction there.

Having said this, I think the market, I made the point at the outset, market recognizes the PruProtect, I think is now acknowledged from innovation perspective, it just won an award from Protection Review.

And it makes the point that despite the innovation, the team just doesn't stop innovating. So, we have a very big I think, kind of tool chest sitting in Discovery. We need to keep rolling that out. And innovating in the UK and the team there I think is quite brilliant at what they are doing.

In that context, then it's interesting to compare how PruProtec is growing versus Discovery Life. If you look at kind of month and section, you can see in gold line that's the Discovery Life application account per month.

You can see the Discovery Life grew very quickly and it kind of got to a 3,000 to 4,000 level and that's a very high level kind of growing of that base. PruProtect had a learning period where we spent a year or so really learning that market, if you recall, difficult times understanding the market but thereafter the growth has been rapid and in fact the growth rate is now, its application is now in fact exceeded Discovery Life and giving the scale of that market I think can continue to grow.

So it really has been an absolutely fantastic year or fantastic period I mean for the business. In addition to quantum, I think the quality is remarkable. There has been a focus on the franchise channel where the average premiums are bigger, loss ratios are lower, lapse rates are lower you can see the previous period the franchise channel is only 44% of the new businesses it has now gone up to 67% and planning I think remarkably on the right hand side the high net worth cases, the percentage of the business from high net worth cases where you get big premiums £3,000 to £4,000 per month has climbed to around the 12% to 15% level. So there is a strong focus on quality and capturing the top in the market. And then I think in addition to quantum of business, I think the quality of business should be remarkable.

You can see they are coming through claims or below expectation. The loss ratios are coming down very, very nicely and the growth is you can see is just quite staggering in terms of policy count getting to about 110,000 and that turns around the operating loss strongly to a profit and the annualized profit margin climbing from around 11% to around the 14% to 15%.

It's also important to say that if you look at the lead table just go quarter-by-quarter, quarter one 2010 we were of ninth position in the IFA market. By quarter one 2011, we were in the seventh position. By quarter one 2012, we are in the fifth position and we think we can jump one step ahead in the current quarter. So the business is making remarkable progress.

Looking ahead, of course we remain optimistic and excited by what PruProtect can achieve. It's a complicated market. It's a very big market. There are few things I would mention. One which I think is very positive the Retail Distribution Review of the FSA has meant that from 2013, the intermediary forces brokers and agents -- life commission on investment business.

Now commission levels there are higher than they are here, and therefore to supplement income is a very strong expectation that these investment writers will shift to the protection market. So all bets on the potential market in fact growing over time and I think that bodes well.

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The other thing interesting is complicated wrinkle is the EU directive of gender neutrality, life insurance in the UK had an exemption, from that where you can still price life insurance by gender that is now the disappearing from 2013 and if you have to price life insurance the same for males and females and as you would know females live longer.

So we have to attract more females if we can than our competitors, that is one of the key opportunities. Now obviously we have no long legacy it's a brand new company number one and number two Vitality where a whole of lot of issues around women's health can be worked on and we can attract I think a very different mix over time. So it's a complicated market, complicated dynamics I think the opportunities are significant.

Let me end off with China and briefly talk about Ping An. I think the year under review has been a good one. We have made solid progress I think we have been clear in our expectations that I think this market will emerge strongly but it will take time.

Having said I think the team has done a great job on the ground number one, we've put in place of very strong set of Discovery capabilities in China, we have rolled out to lot of the claims system and risk management systems, Vitality into that market.

We set a target this year of being number one in the Group high end space. So the Group high end is multinational companies like at Discovery, we buy health insurance for employees, we are trying to be number one in that space.

The second goal was getting Vitality on the ground during that time and then the real ambition is of course using the Ping An distribution channels 0.5 million Asians to sell health insurance that is the way forward.

On the first goal I think the progress has been swift in 2011, we kind of did 15% of the market of the Group end market, the market itself is growing. You can see the China did the most, companies like AXA, Cigna were kind of similar to where we were, dramatic improvement the team with very good traction during this year and you can see they are coming to the new business growth, where we've got 25% there for our market will grow of course with the real price I think is the individual market.

The other progress we made and we spoke about this few months ago, we introduced Vitality into that market. It was a very complicated evolution, being able to find the right partners developing the concept of Vitality, finding the right kind of attributes of Vitality that appeals to a very different set of expectations is complex. I think the team has done an excellent job.

We have partners like Tesco, we have used relations like -- to take into that market. We give have used interesting ideas around Discovery Insure where you can petrol benefits. We in fact have used the similar structure here where we are getting a discounted -- of petrol as well as part of the Vitality offering.

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We've changed certain aspects of the Vitality program and I think it's remarkably comprehensive and we think very appropriate. It's now going through regulatory process for approval, we think that is imminent and we are hoping that in the next month or two we're going to start rolling Vitality out into that phase. And the sales as you seeing, I think the -- sales continue to grow.

The real price is getting that individual market to get traction. So work has been done by the team around product development, around the distribution channels of Ping An, we remain optimistic and excited. I think this will take time. But certainly I think the progress and the solid progress to an extent has exceeded expectation I think we remain excited and optimistic.

So let me end by saying, it has been a very complex year, I think a very good year for us. Making the point about our ambition of building best-in-class global organization, that's what we are focusing on. The methodology is a disruptive one.

We are far from 8 million unique customers now across different parts of the world, our responsibilities in that regard and we are determined to continue to innovate to meet their needs. Our earnings growth the CPI plus 10%, you can see over time we've managed to achieve and I think we will continue to do that.

Our return on capital risk free plus 10%, we've done that again and I think we'll continue to do so, but critically more important than that is our social obligation. We are all proud believers in our country. We are proud believers in the issue of building the country, building the capability, having a positive effect on society and there are number of initiatives we are doing as an organization we think we are positive in that regard.

And then the last point I need to mention and the most important point is the quality of our people. They build the organization. We on continue to do development them, inspire them and I need to thank them for what they have done 8,000 Discovery people out there.

We need to make sure that our team is the best. We attract the best and are confident that we are and we will.

Thank you very much for listening. What I like to do is open up for questions and invite Ricky Farber our CFO on to the platform. Thank you.

Questions And Answers

A - Richard Farber {BIO 5884718 <GO>}

We have apparently shot over my time. We only have five minutes for questions, some unknown reason. So, I will chair the session, all of our key executives are here so please if you have any questions, please ask them. Yes. Nice to see you.

Q - Analyst

Mr. Gore, allow me to congratulate you and the team, the gentlemen sitting in front of me on yet another outstanding performance. I referred now to the balance sheet and I am specifically interested in the increases in financial assets, equity securities are up approximately 45%, equity linked notes 35%, debt securities 85%, money market is up over 100% although one must also state that cash and cash equivalents in down by 1.3 billion. Now linking that all is it fair to conclude that the increases in the financial assets are in the main from stock exchange movements?

A - Richard Farber {BIO 5884718 <GO>}

All right, thanks. There is some elements of that I mean fundamentally the increase in financial assets has been driven by on balance sheet investment products, return to our Investors as Mr. Adrian said in the presentation has grown very strongly.

So we've had growth across all of those. The money market as you point out is a little bit higher and the cash is down because we've taken some of the share of the cash out of the bank and put it in slightly longer-term in the money market. But other than that, the bulk of the increase is coming from policyholder liabilities for the Discovery Invest business.

Q - Analyst

Right. I would turn now to the cash flow statement there is an item of 2.97 billion being net purchases of financial assets. Do those feature in the previously mentioned items?

A - Richard Farber {BIO 5884718 <GO>}

Yes they do. I mean the bulk of that is as I said a few moments ago, taking cash -- money market.

Q - Analyst

On the liability side why have trade and other payables gone up to the extent of over 50%?

A - Richard Farber {BIO 5884718 <GO>}

Sure. Trade and other payables is the biggest item in there, is the funding that receive from the Prudential. So when we write business in the UK we write from the Prudential's balance sheet and PruProtect and we fund that by matching it with the policyholder liabilities from the Prudential side. So it's effectively a liability to Prudential.

Q - Analyst

And finally please from the cash flow statement the differential between interest received and interest paid is a positive 282 million. Now the income statement shows a negative 265, how do we reconcile that?

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A - Richard Farber {BIO 5884718 <GO>}

Sure and that's affecting in terms of the timing of payments, I mean we have really one big debt item which is settled sort of in areas and so you have accrual basis obviously on accounts and cash basis we haven't paid it, we haven't paid it yet of June.

Q - Analyst

Thank you Mr. Gore.

A - Adrian Gore {BIO 3068929 <GO>}

Can I allow one more question, I am sorry you to be rushing it's my fault, I spent too much time. Thanks. Take this and we will have to wrap it up I am sorry, we are outside if you need.

Q - Analyst

The 53.5 cents dividend that was a bit disappointing because the interim dividend was I think 50 cents already. Now Adrian mentioned that the increase in the annual dividend was in line with the normalized earnings.

At the same time you're making quite a big issue about the tax rate resulting in the normalized earnings not really been reflective of the growth in the business. So if you really believe that the right growth rate is the operating growth of 20 odd percent, why be so stringent on the dividend?

A - Richard Farber {BIO 5884718 <GO>}

Okay. It's a very good question.

A - Adrian Gore {BIO 3068929 <GO>}

We settled on a -- kind of four and a half times based on the view that we are growing and we don't -- we can do better with the capital and it's an obvious point.

We kind of have checked consistent view of looking at normalized headline earnings and adjusting on a certain basis and we've kept that same formula throughout what you see as a dividend. I think we were reluctant to make any kind of policy changes to reflect that 20% growth. We'll keep reevaluating that and I don't know Ricky we fairly comfortable with that.

A - Richard Farber {BIO 5884718 <GO>}

Yeah. I mean bear in mind as well that, although we will get a relief in Discovery Insure time from the tax. We actually lay out 100% of the cash at the moment. So, we do need to fund it. So that does limit our ability to pay dividend.

A - Adrian Gore {BIO 3068929 <GO>}

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Can I wrap it up, I am sorry. You are okay with that, I am being very rude, but we're out of time for some reason. Thank you very much for listening. We are outside and available any time for questions. Once again, appreciate your time.

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