FY 2019 Earnings Call

Company Participants

- Adrian Gore, Founder, Group Chief Executive & Executive Director
- Christopher Gilmour, Analyst

Presentation

Christopher Gilmour {BIO 1510052 <GO>}

Good morning, ladies and gentlemen. My name is Chris Gilmour. I'm a Board member of the Investment Analysts Society of South Africa. And it gives me great pleasure to welcome you today on behalf of IASSA on the occasion of the presentation of Discovery's interim results to end of June.

I've introduced Discovery on a number of occasions. I have to say that Adrian Gore is probably -- no not probably, he is the best presenter on the investment analysts circuit. He takes exquisite care and attention in the preparation of his presentations. And it's thus little wonder that Discovery is a regular winner of IASSA's communications awards.

From an investment perspective, I have noted over the years, the folly of being negative on Discovery when regulatory and other issues come to light. So for example, when the group had an issue with the Registrar of medical aids regarding reserves, about 15 years ago, the market got a bit nervous about it. But the issue was resolved. And everyone moved on. Likewise, today, we have a lot of noise surrounding the possible implementation of NHI. And so the market gets nervous, it's understandable.

Discovery remains one of South Africa's most innovative and dynamic companies and that dynamism is being exported to many other countries in the world. So given the aforementioned comments, I guess, you'll understand that I'm a big fan of Discovery.

And all that remains for me is to ask you to switch off your cell phones or put them onto silent, sit back and let's listen to another virtuoso performance from Adrian Gore.

Adrian Gore {BIO 3068929 <GO>}

So that's a very kind introduction. I can only ruin that expectation of a virtuoso performance. But I greatly appreciate it. And welcome to everyone.

As always, really appreciate the time and the opportunity to present our results to you though for the full year to 30 June, 2019. You will have seen, I think, some of the key numbers. And I hope they are fairly clear. There's a lot of, obviously, complex dynamics I'm going to take you through. But I thought maybe, firstly, just giving a bit of context. These are incredibly complex times and there are kind of issues of micro complexity, I think, that I want to mention, of course. And then the macro environment.

But maybe make the point that, at a market level, I think it's fairly clear, the period under review was framed very much by a decision to invest in about 5 key new initiatives, most notably the bank costing us 21% of earnings. We did this going into the year. There was an expectation that would bring our profitability down. That's a trade-off we felt was worth making to build things like the Discovery Bank out of an operating profit approach.

The unexpected was a spike in mortality claims in the first half of the financial year. I think we made that clear to you or communicated that fairly clear to you at the last presentation. I'm very pleased with how the team has really got on top of that and brought that down in the second half. It has really been largely ameliorated and taken out. So from a micro-perspective, those 2 things do very much kind of frame the financials.

But I would just say from a macro perspective, it is a time of unprecedented complexity, as you would know. And to an extent, I'm seen often as this naive optimist about things. I've written a number of papers on the power of optimism, the importance of being optimistic. And our team, I think all of Discovery is built on a value system of innovation, optimism and, of course, prudence, which I think is important.

And maybe make the point to you, please don't mistake optimism for naivety. I think we have a very deep conviction that I think great businesses are built on the ability to seek positive signals, to seek opportunities in difficult times. But, at the same time, the ability to see real risk and manage it. I mean I think it's a combination of those 2 that I think if you can do well, really creates greatness in an organization.

It also leads, I think, to obvious kind of corrodiary, which we believe very strongly in. And that's: it's important to build in difficult times. It's in difficult times that opportunities are present that others don't see. It's in difficult times that opportunities and assets are underpriced. And so our deep philosophy is about building in difficult times. And that is not easy. It's not easy from a sentiment perspective. But that is our deep conviction. I think period under review will -- hopefully, will strongly illustrate that.

Also, I just want to make the comment, just to thank our Discovery people. The ability to build and do what you've done in this year has taken just a huge amount of work of all of our people. And our team, the Board, our Executive Committee is extremely grateful for the work of 10,000 and more people and what they've achieved.

So let me just make a few comments. I made the comments about the microenvironment. On the macro side, it is unprecedented, the complex, every single thing we thought was normal is going the other way, globalization, interest rates, inverted yield curves, every single issue, the NHI, where we operate, there is complexity. There are specific risks, the NHI and the sentiment it creates is an important development. It creates complexity for us. In the U.K., low rates of interest, I think, are a fundamental issue. Something we have to manage very, very carefully.

But juxtapose against these macro issues is our model, our shared value model that I would argue is getting more and more relevant. And to a large extent, is providing a considerable kind of anchor in these very, very complex times. And I hope that comes through in the rest of the presentation.

So having said that, our translation of all of this is into 4 key kind of chapter headings, 4 key focus areas in what we've tried to do. And I'm using these 4 as kind of an agenda for the presentation this morning.

The first is growth and prudence, pursuing both growth and strength in the balance sheet at the same time. And that's what we set out to do. Again, it's built on the deep belief that we should be building in difficult times and therefore, you need to really do things on both ends of the spectrum, growth and prudence.

The second is I want to make it clear how we are growing. This is an organization that growth seems organically from a start-up after it creates considerable difficulty and complexity. We do that in a way we hope that is very disciplined. And I'd like to take you through a bit of that thinking.

I'll take attention, a bit of what we've done, we continued to invest considerably in the data, the systems, the technology around the shared value Vitality model with a deep belief that it can really transform financial services, illustrate how we're going to this idea of a customer-centric composite model. And I think it really has great power.

Then finally. And this is probably the bulk of the presentation, executing the 4 strengths: South Africa, trying to build this perfect composite; the U.K.; China; and Vitality globally through the Vitality Group and give you a sense of how that plays out.

So let me firstly deal with the first growth and prudence at the same time. And it's probably a good chapter heading to illustrate the numbers to you. I'm going to go through them fairly quickly. They're in -- hopefully, in the handouts on what you will see. We've tried our best as always to give you as much disclosure as possible, that show you kind of some of the main themes. And hopefully, what will come out of that is you'll see a pursuit of growth and prudence at the same time, which I said, I think is fundamental to the period under review.

On the share of new business, it grew, I think, fairly strongly, 13%. Its rate of growth, I think, is in line or higher than in previous periods. You can see the makeup of that growth if you go down the table. We did illustrate these a few days ago in a SENS announcement.

A few call-outs I'd make is that you can see Discovery Health fairly flat in new business. We'd like to do better. But it's a very tough environment. And the reality is a lot of our new business is from growth in existing companies that we cover. So difficult economic times, that so-called type 2 growth tends to slow down. But it's off a very high base. You can see ZAR 6.6 billion or thereabouts.

I'd also mention Discovery Insure went slightly backwards in the personal lines. If you add the new commercial insurance, it was up 3%. We've had a focus on quality there. We'd like to do better there as well. But I'll take you through some of the thinking in that regard. Very strong growth in the U.K., very strong good quality business in Vitality Health in the U.K. Ping An Health continues to just really blaze its growth. And I'll touch on that a little bit later in the presentation. Then across the board, I think fairly robust growth from a new business perspective.

Normalized operating profits, you can see it across the board. There are 2 things that really drive this. That's the 2 points I made in the opening. And it's the same with the 6-month period. We invested 21% of earnings, including finance costs, in new starts, most notably the Discovery Bank. You can see there was an increase of over 100% in that and that has a very, very substantial effect in the operating profit.

The other is Discovery Life, mainly a result of the claims spike. Discovery Life's operating results were down 9%, that's like a 20% or 15% swing on where it should have been. Given the scale of Discovery Life, it's obviously material to the group.

A few comments on the other stuff. Discovery Health, I think, pretty robust. The rest of business, if you cast your eye down the table, I think the growth is strong and robust. You can see the emerging businesses are really, really doing quite well.

Let me just do a few bits that I'm going to touch on very briefly, taking the operating profit of minus 3% and running it down to the reported profit of 16%; 2 things are worth pointing out. One is the gain from the sale of CMT, the company in Boston that we had a share of, or slab of share of, which reduced that down softer and buying into that, you can see that of ZAR 808 million.

The other is a technical accounting issue on the Discovery Card transaction. The first round, we have to bring that gain into the income statement. Those 2 gets you a profit after tax up to 9%. When you take out tax and pref. share dividends, you go up 16%.

The tax rate was low. We start to recognize a deferred tax asset in the U.S. due to the emerging profitability of that business. And that has that impact.

Taking that reported profit down to headline earnings, that's just really reversing out the CMT and the Discovery Card transaction, gives you the headline earnings and then reversing after-tax effect down to normalized headline earnings.

And so just giving you, hopefully that's fairly clear, a few big issues that really take the operating profit to reported earnings all the way down to the normalized headline earnings up -- or down 7%.

We've made a point, I think, a few days ago, yesterday or the day before, was just declaring the dividend. Nothing special here. We continue to focus on our capital plan. We took you through at the half year that given the rate of growth and the investment in new initiatives, we should keep the dividend flat, which is what we've done. So we kept it at, in fact, ZAR 1.14. And that will be the dividend going forward. And we'll see how that plays out as the group grows -- goes forward. We're very happy with the capital plan and how it's kind of staying intact through a very difficult and complex process.

Turning to the group EV, I'll make just a few comments. The EV up 10%, return on EV, 13.5%. You can see the makeup of it. Experience variances in total noneconomic, positive; economic, slightly negative. You can see the effect of the group EV of the new starts. So there's actually a very -- that is actually quite an important point to make that the emerging businesses, Discovery Insure, Ping An Health and the Vitality Group have got considerable scale. They're not in the EV. That's one point to make.

The other is the new initiatives, the new businesses are expensive. Of course, the operating profit, they hit their NAV, their finance costs associated and they're also not -- and you can see the effect of that in the EV. So obviously not accretive to the EV. So I'll just go through the EV. We're fairly comfortable with the 10% growth in it.

Let me just turn to the operating model. And hopefully, this will just give you a sense of how we're trying to grow the organization but, at the same time, managing very carefully the capital plan and the cash generation. If you've followed us, you will have seen this kind of -- we call it the so-called washing machine as you flow through this process, hereby effectively what it shows is growth on the left-hand side and I'll touch on that a bit later.

We start our businesses new organically. They emerge over time. And they become established. I hope you'll see that cycle playing out. Fundamentally, they generate profit and cash. The cash is generated and spent on new business, new businesses and tax and dividends, et cetera. Then you have the capital base at the bottom out of 3 components: the underlying capital base of our operating entities. And there's a philosophy, they have always been strongly capitalized; allocated capital and debt to make sure we can go through the planning cycle without recourse to outside capital; and then importantly, a buffer that we shall hold at ZAR 1 billion to ZAR 2 billion as we go along.

And this kind of washing machine has got us through a cycle of making sure we build businesses in a disciplined way, we manage cash appropriately. And we have a strong capital base. And that's really been the focus of the organization.

I would say to you that during this period, given the complexity and the focus of new starts, we've been very, very careful as to how we cycle through the process.

So first, in terms of managing cash, I think we're quite pleased. The group generated net ZAR 1.7 billion of cash. You can see, if you look at the slide, the makeup of that. On the income side, the operating businesses generated about ZAR 14.6 billion of cash. We spent it on new business, new businesses. You can see the investment considerably in new businesses. But in new business, particularly new business strain of the life businesses elsewhere in the group, giving you a net cash flow of ZAR 1.7 billion. So this has been a fairly well-known process of Discovery as we've kind of evolved. But I wanted to make the point to you that we're focusing quite hard on the discipline around cash. Discovery has not been absolutely fixated on cash generation.

We have to say that our long-term business is the fundamental premise, as we believe very strongly, investing in new business and the long-term potential of that. So a lot of our investment is an explicit decision to take cash and invest into new business strain. And that's kind of what we seek.

But at the same time, we've been very focused on making sure that cash is managed very carefully. So 3 kind of indicators we are now managing carefully: one is kind of cash diversification, making sure that not one business generates more than 50% of the cash of the group; the second is making sure that a certain percentage of cash, over 50% of the profit is cash profit; and then finally, making sure just that there's enough cash always to that finance cost and dividends. In other words, making sure that operating cash flow at the center is always 1.5x bigger than financing costs and dividends.

So to an extent, setting targets for each of those. And you can see we've actually made considerable progress over the last two years or so. And I'd say to you, most of these cases in the next year or so will actually exceed the target. So I think we're covering that quite nicely in terms of making sure that not any one business consumes or generates more than 50% of the cash; the operating cash flow or the operating profit is at least 50% cash; and it's cash at the center to fund what we need to do.

So if you look at how we've actually run the organization, being careful to make sure our leverage is never over 28%, we've been careful on the cash flow. We're trying to manage these in a very tight way to make sure the discipline is here, particularly as we go very carefully.

Turning to the capital base. I think we're trying our best to derisk the balance sheet. We've been very careful in this regard. At the top of the screen, you can see the 3 components of the capital structure, as I mentioned. But first, the capital base of our various regulated and operating entities, you can see across the board, we're very careful in terms of making sure capital coverage or solvency coverage is very, very strong. So that's something that's a bedrock principle for us. We've brought down the leverage quite substantially around 27%, 28% a few years ago. That's now down to 23.3%. We hope we can maintain that through the planning cycle. Then importantly, the cash buffer has grown quite strongly to about ZAR 4.3 billion. So above the ZAR 1 billion to ZAR 2 billion. The group has grown in different ways. It's under a lot more growth focus. And therefore, I think it's probably not inappropriate. So just a sense of, I think, being very careful around how we grow. But at the same time, make sure we're prudent and carefully manage our capital and our cash.

So let me turn to the second focus. And that's on the issue of the other side of the operating model. Sorry, guys. I'll ask my colleague help on this. There's a bit of coffee over there. So now is not the best time for a coffee break. But realities -- thank you. Sorry, for this.

So just turning to the second kind of theme of the strategy -- of the focal areas, pursuing organic growth in a very disciplined way. And it is important. We show this, I think, every time. But it's important to understand that starting a business from the ground up, especially something like a bank, is not an easy thing to do. Nothing is running and nothing is planned. Things don't go according to plan.

But generally, we found there are 3 phases or 3 cycles to a business. It's a new kind of start-up phase, it's emerging phase and it's established phase. And they have very different attributes. And I think we're trying our best to apply discipline to all of them. The established businesses of scale, they're disruptive, they're market leaders, they're robust. The emerging businesses often don't generate cash. But you want them to be uniquely positioned. There should be evidence in that. In fact, they're leading, they're making a difference. And they're scaling fast.

Then importantly, new businesses have to be disruptive. But they need to be according to plan. And I think it's very important, we are spending 21% of operating profit on new starts. We need to make sure there's considerable discipline in terms of the new businesses.

Having said that, we put up this kind of spaghetti diagram at the last presentation, a lot of feedback around it, I mean it is very interesting. If you kind of calibrate all of our businesses, of course, they start in different points of time. But if you flip them back to the start and calibrate them properly, that's kind of what you get. You get this diagram where everything's starting at kind of day 0 and escalating. You can see the Life turndown is at minus 9% in earnings, as you can see. But you've got a whole pocket of different things taking place.

If you look at the established and emerging, which I think is important, it's very, very interesting. The established businesses today, I think, they're of considerable scale. If you look at the U.K. as a composite, you look at Life, Health, Invest, all of them are ZAR 1 billion or higher in their profitability. So the established businesses are all ZAR 1 billion or multibillion in the operating profits. They're all robust. I think they're all very strongly, notwithstanding the Discovery Life claim spike. But very comfortable. They're robust. They're growing well. And I think they're well positioned for growth going forward.

If you look at the emerging businesses, I think they really are coming of age. You can see they have turned at different points in time. Their pace of turning is different through that -- kind of that valley of death. But the -- I think the emergence is very strong. And the rate of growth is very strong. So this is a fairly unique -- I think fairly unique business process of starting businesses organically entirely from the start-up within the institutional setting. And to the extent, managing this cycle is critical to our ability to succeed. And I think we are -- I think we're pleased with how that is performing.

On the emerging businesses, we are often asked, hopefully, it's becoming less and less, a need to evidence this. But are they emerging, are they going to give a return on capital? This is just a sense of if you look at the 3 emerging businesses, I would argue that all of them from a social perspective, are really well placed.

Discovery Insure, I think has really brought into the market this idea of driving safely, driving better. We're getting considerable -- I think considerable traction. But real -- I think real benefit. Ping An Health really is, I think, the leading health insurer in China. And the Vitality Group is -- they're really scaling the model globally with a very unique different value proposition of being the best platform and biggest globally.

But if you look at the stack, I think the rate of growth is very strong. Our profit growth is for the stack like 94%. So the profitability of this group of businesses is approaching ZAR 0.5 billion. You can see the revenue growth is strong. Discovery shows that in the local South African market, it's not going to grow. I don't believe the revenue will grow much faster than 18% to 20% a year. But we're pleased with that.

But you see our Ping An is growing, our Vitality Group is growing. They have greater, I think, just blue sky, given where they are, obviously from a revenue perspective. But we find that it's just to illustrate on the left-hand side of that chart, just capital invested. So try to illustrate the amount that we've invested to date. I see my colleagues have taken out some of the totals. But I think it's about ZAR 5 billion. I hope I'm not violating anything, Deon, in telling you that. So across the step, we've invested about ZAR 5 billion in total in these 3 businesses.

It's hard for us to put a value on them. You can see on the bottom of the chart, each of them on a running rate is achieving a return on equity of risk-free plus-10% or thereabouts. So for the total of the 3, about risk-free plus-11%.

In the case of Discovery Insure, we do an internal-embedded value calculation with our Discovery Insure. But you can see on the right-hand side of the chart that the range of that embedded value, how we see it, considerably exceeds the capital invested.

Then you can see in the other businesses in the fairly undemanding kind of forward P/E, they're dramatically worth more than what we put in. So just directionally, trying to give you a sense of comfort about the rate of growth, the scale of the profitability. And I believe that they can grow very, very quickly into the future. So we're feeling good about their potential and scale. I think we're feeling good about their potential in terms of returns on capital. And so when you think about the established versus in emerging businesses, we're feeling pretty good about how they are positioned.

In the case of the new initiatives, this is a very complicated process. This is core to, I think, that you're investing in new starts. I mean just there's a lot of kind of block and tackle in how we're growing these businesses. Every one of them has a different challenge -- different set of challenges.

As I said before, no startup kind of grows in a linear way. But 2 things to mention, 2 bits of discipline: making sure they're on target around capital invested or they're meeting their plan; and secondly, are there writing the business that they need to write in terms of what the plan says?

These things, as I said, are hard to track in terms of the business plan because things do meander. But simply from the Bank perspective, I think the biggest and the most important in the step, kind of our view is like a 92% and a 90%, where kind of the spend 92% of what we thought. And I'll show you that a bit later; and the new business plan is kind of 90% on track. We're feeling pretty comfortable. There's a lot to do. But I think we're feeling comfortable about how the Bank is playing out.

Vitality Invest, I think, is having a difficult time. We're on target in terms of what we spend. But we're way behind on attracting funds. There's work to be done there. And I think we're not comfortable with that at this point.

Vitality1, I'll touch on that later. It's a critical piece of technology across the group and across the world for us. I think it's exceptionally good. We're slightly over in spend. But I think the rollout is very good.

Discovery Business Insurance, we spend more. It looks like we're slightly behind with new business. But in fact, in the last two months, post the reporting period, the pipeline has been remarkably strong. So we feel pretty good about how that will play out.

Then Umbrella Funds, behind in new business, slightly less in the spend; work to be done.

So giving you a bit of a kind of a diagnostic, not uncomfortable at all, at this stage, it's early days. Feeling I think good about the Bank, Vitality1, feeling good about Discovery Business Insurance, Invest. And Umbrella Funds needs some work. But there's some good traction happening. And we're feeling a sense of confidence. Give us time, these things are not simple to do.

Let me just turn to return on equity. And just to make the point that the established business we're generating like risk-free, plus 14%. You can see that the emerging, for the first time, you can hardly see it on the slide. But are actually starting to contribute at that kind of level. As I've showed you before, it's the new business and the financing costs are bringing that down. This is not unexpected. So it's just kind of the flipside of less in operating profit in new businesses. It's going to retard your return on equity. So our target is risk-free plus 10%, with kind of risk-free plus 7.5%. Over the planning cycle, that should hopefully return as we turn those businesses towards profitability.

So the second point I hope is clear, kind of growing organically in a disciplined way. A couple of established business, I think, very excited about the emerging businesses, work to be done on the startups as you would expect.

Let me just turn briefly to the model itself and just make a few comments about the model. I mean it is important to say we are very, very pleased with the idea of this shared value Vitality model, the kind of translation of it into a tactic of taking an institutional business and kind of playing it onto a behavioral chassis that we've done is getting more traction globally. I think we're learning more and more about how to do it.

But I think what we've done very well is to have done it in different industries, as you can see on the right of the chart and get them to integrate in a very powerful way. But I think the intellectual basis of what we're trying to do, not simple to do. But we're trying to do is based on 2 things. The first is that there are just a few behaviors per industry that drive most of the risk. You've seen this from us in different ways, where there's 4 behaviors in health, smoking, physical inactivity, eating badly and alcohol, that drive 60% of deaths. It's the same in driving. It's the same in banking and the credit risk, just a few behaviors drive that risk. That's the one issue. So if you can somehow address those behaviors per industry, you can really have a dramatic effect on risk.

But the other important point is the correlations. It turns out that people who manage things in one dimension well tend to do the same in the other. So if you consider health versus managing money, you find that people that manage their health well tend to manage their money well as well. So if you go down, if you go across the metrics. So down at the (inaudible), you can see the effect on default risk is quite remarkable. So there's a very strong correlation. And I think the science is starting to back this up, that people can withstand instant gratification in one environment, can do so in the other at the same time.

And so to the extent that if you accept the hypothesis of these 2, if you can bring the 2 together into a composite, in other words, a behavioral chassis that deals with all of these behaviors, how you drive, how you manage your health, how you manage your money, et cetera. And you can put onto the top of these an integrated set of businesses, the ability to build kind of a customer composite is very powerful.

And to an extent, obviously, in South Africa, we have much more control and scale. The ability to do that is much more real than in other markets. But the power of that, I can't -- it can't be understated. I think the architecture of that allows us to stack the rewards and incentives. So if we can get economic value of all of the savings into one set of rewards, you can get an incredibly powerful nudge for behavioral change.

But the value proposition is very different. I think the competitive moat or the ability to compete in the long term is quite remarkable. I mean, critically, in many of our markets the ability to get your customers directly and efficiently is critical. So an omnichannel distribution of a very different kind of call to action.

Then finally, our core purpose, attract the right kind of clients, make them healthier, make them safer, make them manage their money better, is more powerful. So that is really where we're trying to get to with this model and more and more of the work, Vitality1 and the stuff we're doing, is trying to get to this composite.

In different markets, it will take a different form. The weak form is where there's just one dimension, that's health. The strong form is like we're doing here, health, driving, how you manage your money. Then in certain markets, you'll see in the future, where it's more of a tenant-based approach where the chassis sits there, we don't have to own all of the businesses, like we do in South Africa. We could work with a bank or another in different companies so -- in different countries. So to an extent, giving you a sense of the architecture of how we're trying to take that shared value model and make it a composite -- a customer composite through the eyes of the customer, giving us, I think, a very powerful competitive advantage.

And that really leads to the fourth piece of our presentation, kind of executing on the 4 strategic strands of organization. So I've kind of taken you through established, emerging and new. I'm now looking at the businesses through their kind of physical locality, South Africa, the U.K., China and the global Vitality expansion.

To make the point, I think we said this at the half year, there are 4 strands in South Africa. We're tried to build this kind of perfect composite. We see the bank being a very important composite maker in that process. In the U.K., I think we're trying to build a very differentiated insurance organization. We need to get the shared value composite to work. They've been 2 very different businesses. We need to pull them together. And you'll see some of that work. We're trying to build a leading health insurer in China. And we're trying to build the biggest and best behavioral platform, transport and financial services through the Vitality Group. So those are the 4 strands.

What I'd like to do is just take you through the thinking of those through the businesses and in the process, hopefully, give you some insight into how the businesses have actually performed and how they're developing.

I'm okay for time, let me keep going. So firstly, just to cut the businesses by kind of market and what we're trying to do, I'm just restating those numbers I've showed you before, as you can see them. But I thought it may be worthwhile, there's so much to tell you, to try and lift out of the businesses the very strategic issue, we think, is relevant looking at.

So in the case of Discovery Health, you will see, I think, the performance is stronger and robust. Obviously, the strategic question is how will Discovery Health navigate the NHI.

In the case of Discovery Life, absent the claims spike, we're pretty pleased about the performance. The obvious issue is the narrative and the valuation and all of the debate that we have. And I'd like to make some comments on that.

In the case of Discovery Invest, it's how the business scales in quite a volatile weak market and hopefully, give you some very quick insights into that. I don't have the time. But show you that.

In the case of Discovery Insure, it's starting -- its profit's starting to emerge. There's a very strong focus on quality and behavior. It's really understanding how that emerges and how it will scale.

In the case of Discovery Bank, critically, I think the issue is, obviously, are we on budget? Is the functionality working? Are we gaining traction? Will we meet the business plan? Give you some sense of that.

In the case of Vitality Health, in the U.K., I think there are many, many ways, was kind of the star of the show, outstanding performance. The question, obviously, is can we continue to grow that at that quality in a stagnant market. I'm not sure the answer to that. But I think that probably is an important question.

In the case of Vitality Life, I think the most difficult of the environment, given low rates of interest. We're trying to repurpose the business, restructure to make sure it's fit-for-purpose in a very low-interest rate environment, the lowest in history. And I'll make some comments on that.

In the case of Vitality Group, the growth, I think it's been exceptional. The question really is, can we scale it, can we get kind of financial relevance and create real value globally?

In the case of Ping An Health, it's self-evident. The growth is remarkable. But it's a trade-off between growth, quality and profitability. It's kind of this trilemma, you can only have 2 out of the 3, not all 3. You've got to decide which 2 you want. We've chosen, I think, quality and growth at this stage. And you'll see our profit emerges. So I'll take you through a bit of that thinking. So trying to give you a sense, I think be comfortable about the performance. But it's important how we kind of answer these questions as we go forward.

Let me start at Discovery Health and make a few comments. There isn't enough time to give -- to do any of these businesses real justice. And we're all here, our key people are here to answer questions afterwards. Discovery Health, I think the performance is really, really good. The new business is not as good as we'd like; you can see it up 1% of a higher base. Membership now touching over 3.5 million in total, including Discovery Health Medical Scheme and other closed medical schemes; operating profit continues to be robust, growing by 10%.

The Discovery Health Medical Scheme continues to be just kind of a gold standard in every respect in health care financing, 57% market share. You can see growth is strong, fairly strong compared to, certainly, the rest of the market. Second part, every aspect, every measure about the scheme, I think, is quite remarkable.

On the bottom right-hand side of the chart, just to make the point that the lapse rate is 4.7%. It's remarkably low. And that's a point I should have mentioned 1 or 2 slides back is that one thing that's quite incredible, regardless of how difficult the times on the market is out there, virtually all of our businesses had lapse rates very, very sticky and low, really talks to the quality of the model.

So regardless of how difficult the times are, people are joining us, getting more and more engaged. And not leaving us. And I think that's a very important aspect in how the business is playing out.

Making comment about medical inflation, I mean, you make this point every time, our social mandate is try to give people access to health care, the best health care at an affordable cost. It's a very, very complex and tricky thing to do. Medical inflation sits astonishingly, it's like 10% to 12%. It is hard to bring it down. And if you break it down, I wanted to make this comment that if you break it down, it's made up of 3 components: one is the core kind of inflation of tariffs, kind of the price increases of doctors and hospitals and pharmaceuticals; the other is having what we call supply-side inflation, in other words, technology, drugs and all the stuff that health care can do that keeps getting bigger. That's expensive. But that's a good thing. That's we're hoping happens that health care can do more.

And third is, I think, quite wasteful, it's issue of demand-side kind of pool, people getting sicker, particularly, adverse selection. And that's a problem, a lot there is wasteful. If you look at that chart and the things do differ over time. But I would say to you that what you will see is we kind of -- we've managed to keep tariffs almost in line with inflation, I think using scale and negotiating and working with the supply side. We're keeping the supply-side costs about 1% to 2% in inflation. It's the demand side that really is, I think, problematic.

And put it differently, per unit of demand for a given set of demand, we can give people access to the best quality health care, kind of CPI plus-1% to 2%. I think that's not a bad result. I'm not, in any way here, sort of saying it's good enough. Not at all, I'm just saying making the point that I think the system can offer, for a given set of demand, access to the best quality health care at 1 to 2percentage points above price inflation.

If you look on the right-hand side of the chart, just to the bottom, it's just a set of examples of kind of cancer drugs that over the last number of years have come on stream. Health care is just expanding. Technology drives cost up. But we have to fund that stuff. And we're trying to fund that stuff. And we can at kind of a margin of 1% to 2% above inflation.

It's the demand side that is really problematic. It's kind of partly the cost of social solidarity community rating. People join when they are older. They join when they're sicker. They buy less comprehensive plans when they're younger, trying to move up when they're sicker. Those kind of forces are having a dramatic effect on medical inflation. So it's something we have to fight all the time. Next week, we'll be announcing our rate inflation for the Discovery Health Medical Scheme. But this is an ongoing battle. But I assure you that we are working incredibly hard to make sure we can sustain what we do.

Obviously, a central strategic issue is kind of post the reporting period. But this has been an issue for many, many years, is the National Health Insurance Bill. I have to say, to be pretty clear in articulation of our position, we are supportive directionally of what is trying to be done here. I know it invokes all kinds of emotions. And I think it's right in the debate about affordability, can it be done is, of course, going to be something that will last many, many years. And this is critical.

But at the same time, the status quo is not acceptable either. And therefore, we have to work towards change. Discovery and Discovery Health is very committed to being an active partner, engaged in trying to build something that is sustainable. But I think the fundamental issue and the point we've tried to make. And this is not based on self-interest in our business, is that rather the private health care system of medical schemes.

We think it's just fundamentally counterproductive for private health care to be curtailed or medical schemes to be curtailed. And we make that comment, I think, very, very carefully. It's not based on any ideology. It's based on the fact, we think it would be counterproductive.

I mean I think the numbers illustrate just how complex it's going to be to roll out this NHI. And also, the numbers also show just how stark the levels of inequality are and why something is needed to be done.

So let me just take you through this analysis. This is not meant to be kind of totally instructive. It's meant to give you some direction of thinking. On the left-hand side of the chart, just the cost per person. You can see the differences. In the medical scheme environment, we spend about ZAR 1,700 per month per person on health care. In the public sector, we spend about ZAR 372. Now there is endless debates and stereotypes the private sector's overpriced, the public sector's wasteful and mismanaged. These are all the kinds of things that go on. I'm not going to comment on that. But to say, you can see the stark differences. As a benchmark, people often think that the NHI could be the NHS. Just to give you some statistics, the U.K. spends about ZAR 4,000 per person on the NHS. And if you adjust it down, that the WHO does on posting par-parity in the health care system, you get about ZAR 1,700. It's interesting. The spend on the NHS is almost spot-on what we spend in the private sector on health care. I think it's important to know. But you can see the stark differences in spend.

So the question here is how do you see the private sector in a complementary way? That's the fundamental question. And how could that money be used? So in the middle of the chart, this is billions of rand. You can see the public sector spends about ZAR 223 billion on about 49 million people and the private sector spends about ZAR 200 billion on about 8 million or 9 million people. These are an out-of-pocket expenditures you can see there.

So let's just think hypothetically if you were the most draconian. And you said let's put all the money together into one pot. So simply add it together, what you get is ZAR 469 billion, right, in one fund to fund health care for all. That's obviously socially desirable and very egalitarian mindset. But the question is how would you achieve it?

The only way you could do that would be to tell people in medical schemes, don't have medical scheme contribution. We're going up your tax rate. So we've done the work on the right-hand side on those lines to illustrate what tax rates would have to go up by to fund that pot. So simply put, if you wanted 100% in the pot, right, you wanted the ZAR 469 billion, you'd have to up personal tax rates by about 40% to 50%, right? So that's what we'd have to do. There's no magic to that number, that's the complexity here.

On the right-hand side, it tells you what you would get. So if you took the whole pot now and you now spread it across all, we found that the average goes from ZAR 372 in the public sector to ZAR 576. The problem you have, that's obviously a good thing for people that aren't in the private sector. But those who are formally employed would see their health care go from ZAR 1,700 down to ZAR 500. So put differently, without any efficiencies and all kinds of arguments, the complexity show it would be very difficult, I think, to the economy, to up tax rates 40% and cut health care by 2/3. And if you could find the ways to do that, right?

So making the point that at its stark extremes, the stereotype of not doing anything and not building an NHI is not acceptable given the inequalities. The other extreme of just thinking in a draconian way, you put it all together is also very difficult to do. This is a complex process to achieve. There's nothing cynical about this slide, just trying to illustrate the complexities, the need to do this. But to do it in a responsible way.

So we're trying our best to obviously be constructive in every regard. I think Discovery Health, Jonny Broomberg who's here with us, he's been out there making a lot of very clear comments about our desire to be constructive partners in this and to help in every regard. We think it's an important process to go through. This is going to be a multi, multi decade, I think, process. Having said that, I mean, our strategic plans, we've made it clear, are not differing at all. We see our role continuing as it is and all our planning, all of our capital allocation, we'll continue to pursue what we're doing.

Let me turn to Discovery Life and make a few comments about Discovery Life. As I said, of course, the claims spike is pretty fundamental, as you can see, the normalized operating profit going down by 9%, driven primarily by that spike in claims. But the rest of the business I think performing quite well. Core new business, up 6%. Market share has gone up to 31%. So it is now bigger than double the next competitor and that I think is quite important. There are a few comments I'd like to make. Embedded value grown by 9% to ZAR 33 billion.

So some of the qualitative issues. On the mortality side, you can see we're at 123% of expected. I think at the previous results where detail showed a small number of very large claims created that spike, a lot of work was done by the team, reinsurance structures were structured in place. And you can see how that is somewhat ameliorated.

Visibility claims and particularly income protection claims elevate in very bad times. There's a slight elevation. But overall, we're quite comfortable how mortality and the whole kind of the claims experience is playing out.

In the case of the embedded value, a critical issue is experience variances and noneconomic experience variances. It's crucial that we generate positive experience variances. And you can see in the period, we're quite strongly negative over the first half. We kind of cut that down by 90%. So there are still small negative experience variances. But I think they're flipping positively. We're very confident that in the next year, the work done on the business. And we invite I think people here to a technical session in a few days' time to see the work done in the Discovery Life. It's quite remarkable in a whole range of different areas that I'll touch on.

On the actual business, I wanted to kind of make the point that there's considerable narrative about Discovery Life, the valuation, the embedded value. And I have to say to you, we listen to this very, very carefully. We listen, we learn, we value external validation, critique, et cetera. And we are very careful in how we build the business and how it grows. But I would like you to hear our view on a few of these important issues, right?

The first thing to say is that the Discovery Life is a different business. Now I'm not suggesting that, of course, it's different it defies any economic logic, quite the opposite, just making the point that no one has done this. This is a business that is monoline. We do one class of business, long-term whole life insurance with upfront acquisition costs. That's the nature of the business, creates a very different set of economics. That's the first point to make.

The second is the business itself is very, very different. This is the value proposition. We think that kind of the traditional flat premium, not flat by inflation, flat by age and behavior is an old style model. You underwrite a person at a point in time. You charge them the same rate for the next 30 years, whereas, in fact, we know now that 60% or 70% of the risk is behavioral. So the -- kind of the dynamic price shared value model, which companies around the world, I'll touch on a bit later, are adopting, is this idea that, give people a discount in a way and assume they select lives, get them to behave healthily and let their premiums adjust downwards or upwards based on their behavior, creates a very different dynamic.

And there are 4 things that I think are critical that the model should create: Number one, better market share, you're more competitive, you're offering a very different value proposition and you're cheaper. If you do that, you should get increased sales. And that's a good thing.

The second is that the people that are attracted to the model should want to pursue a healthier lifestyle. So your selection on the way, it should be better. You should get better behavior while they're with you, they should be engaged and that should relate to all kinds of spin offs in terms of longevity and health.

Then finally, a critical issue is the lapse rate should be lower. But critically, it should be lower for healthier people. This is a fundamental issue. Because in the traditional life insurance model, the whole -- I hope I don't start getting you bogged down with kind of the actuarial science. But the whole idea of select and ultimate lives is the assumption. And we know this statistically, that people who come in are healthier. But over time, the pool gets worse because healthier people leave and sicker people stay.

In this model here, we expect the opposite to happen because you're pricing in people that are engaged, they should stay. And you're pricing out the people who are not engaged, the people not engaged, they all should leave. So it's a very different set of dynamics. So hypothetically, better sales, better selection, lower mortality and better selective lapse rate, that's what we expect.

What are we seeing out of the data? The data now is two years old. It's not really debatable. The effect has been absolutely tremendous. In terms of market share, I would argue that the sales has been tremendous. From a start 2 decades ago against competitors that are, in many cases, centuries old, we've really dominated the market. I think this year coming up now, we'll be over 33% market share. So 1 in 3 policies sold will go to Discovery Life in this year, we expect.

In terms of selection, you can see the fully 65% of people applying for insurance are either select or lifetime select in our rating. Amazing, the mortality is 20% lower at the blue level and dramatically lower at the engaged level. Then the critical issue, second from the right, is the mortality of stayers is dramatically lower than the mortality of leavers. So we're getting a very, very positive selection cycle. Then finally and critically, this dynamic is important, while they're healthier, their lapse rate goes down. So people who are in a diamond or gold class, lapse at a much lower level.

So if you summarize this. And I think this is important to you. So it's my important point, the duration effect of lapses is what we see happening is that if you follow a cohort, this is actual data, from people joining in 2009 to how they are in 2019, what you see is the percentage of blue goes down, the percentage of gold goes up. And that happens by the very selective lapsation process I'm telling you. People that aren't engaging tend to kind of leave. People that are tend to stay in greater numbers. So distribution of statuses tends to change.

The effect of that is in the middle of the chart because the people in the higher statuses don't leave. Your discounted mean term goes up with status. And therefore, the discounted mean term of the portfolio, instead of being 10 or 11, goes from 12 to 14, we're kind of seeing DMTs of 40% higher than a standard book would be. And this really is a function of this nature of people that are healthier, staying and going up in engagement and lapsing less. That's just what's happening.

So a summary of that is quite an amazing outcome. There's no assumption to it; this is what we see: 31% market share; 20% lower mortality; life expectancy in our book is 81 years old; the lapse differential between healthy and sick is 70%; and our -- kind of our terms are 40% longer. That's what we like to see. We want people with us longer that are highly engaged. That's the idea of the model and that's exactly what we see.

So there's kind of no debate about this. Where I think the debate comes, where I think it's -- the attributes are different. There's 2 important issues of how the model works. So I'd just bear in mind, as I said to you, this is quite a unique model. We don't have a mix of different products. We have a monoline business of setting whole life on this basis. It is 2 unique attributes that both present considerable differences in risk. Risk that we see, risk that we manage, I have to say; and risk we're comfortable with. One is kind of the cash generation, the attributes of how cash emerges. The second is how you value the business. The long term, if you were to manage long-term cash flows like any insurance business. But what value would you put on that.

Let me make a few comments. On issue of the cash, I hope -- this may be an old argument. But I'd like to put it out to you anyway. There's often kind of the narrative Discovery Life eats a lot of cash and it doesn't generate a lot of cash. Just to make it clear to you. If you were theoretically to start a life insurance business with a profit margin, a long-term business with upfront acquisition costs as we have then, you project it out, the fact is you will not see cash for 25 years. So if you've got 10% of your compound or 15% of your compound, it will take 25 years for the business to generate cash, even if you're profitable. That's the mathematic sum, just a function of paying acquisition costs upfront, recovering it over time. Then the next year, you get the next acquisition cost. And that's just mathematically what happens. There's nothing complex about that. That's the reality.

Why we do it then? Well our view is that the asset we're building is hugely valuable. So this is about taking a lot of capital, investing it into superior rates of return. That's the business model. So that's the first point. It's an explicit choice.

In the middle of the chart, there's a lot of work the team has done to let cash emerge over time and something I thought that's important to reveal is that as the shareholders, the group, we're putting ZAR 2.2 billion in total into Discovery Life. We receive that back with an 8% return. So regardless of what goes on inside Discovery Life, as Discovery, we've got our money back with 8%. But in addition to that, we have the embedded value wrapping around that, of course -- sorry, within that is the negative rand reserve. So all in all, we are very happy as an investor into the business as to how it's performed, notwithstanding if the cash generation is a secondary priority for us. That's the first point to make.

The second is on the valuation of the long-term cash flow. This is obviously a very, very complex point. But often we find accounting issues and embedded valuations often get mixed up. Just to make the point the way we see it. And again, this is our view. It's not the absolute definitive issue. We're having a technical session in a few days' time. We listen and learn. But to make a few important points.

The first is that we need to separate out the embedded value from the balance sheet value. They are 2 different issues. So on the balance sheet, you will see there's insurance contracts and insurance asset, which we call the negative rand reserve. That is the value of those future cash flows to pass back to the acquisition costs that we've incurred. That's not a theoretical number, it's an actuarial present value number and it's valued on a very conservative basis. In the balance sheet that sits at ZAR 30 billion, there's a further margin above that's set by Tier 1 and Tier 2 margins, it's a statutory requirement. So this is set in a very conservative way. Just bear in mind, we've spent ZAR 40 billion on acquisition costs. So whilst asset sounds like a lot of money. We spend more than that on acquiring the business. And that's why the asset is very important, right?

But the asset itself is not quite bulletproof. But it's set where the margins can sustain a 1 in 200 year stress. So put simply, those claims that we had in the first six months, I think it was a 23% above expectation, those margins are ZAR 20 billion that are not on the balance sheet could sustain those additional claims forever. So the asset is valued, I think, in a very conservative way and the experience variances on that are always positive because it's valued in a very conservative way. That's on the balance sheet, in line with our accounting standard and should not create any discomfort whatsoever, quite the opposite and we are comfortable with the process of doing it.

It's the second issue that I think is maybe more complex, the embedded value. The embedded value is not a balance sheet item. The embedded value is a valuation that people do, or we do, to put a value of the economic value of the organization. That's done on a best estimate basis. There's nothing about margin in that. We're trying to put a realistic value on the economic process of Discovery Life. And that will vary, experience variance will vary from time to time. I showed you at the outset of the presentation just how the variances were negative. They have been positive in the past, as you can see from that -- from the table that, over time, they add up to about 0. So the embedded value hasn't been dramatically off the assumptions. And in terms of percentages, those assumptions -- those experience variances have been in a corridor of about 2% above and below the embedded value.

But on the actual assumptions, I mean, obviously, the most important assumption, this is a long-term cash flow process, is the lapse rate. What percentage of people are going to stay with us from year to year? That's a fundamental assumption into how conservative you are. Now the embedded value is meant to be done on a best estimate basis. What we're showing on the left-hand side is our lapse rate in blue. So that's the people -- the data actually shows over 17 years. You also have lapse rates of specific ages to understand that. In the embedded value, the dotted line is what we use. So while we're trying to be best estimate, the actual lapse rate in the EV is slightly higher than we're seeing actually. So there is some margin in that. But we are comfortable with that as a basis.

What is important is people often think when you project out, you just project out 20 or 30 years. Bear in mind, that projection is an actuarial projection. We project out what's the probability of people lapsing. So put differently, what we assume, the average policyholder of ours joins us at 45. What those lapse rates assume is by 65, 80% are gone. So the lapse rate, in effect, the translation of the lapse rate into reality is we assume in the embedded value calculation that of people joining at 45, 80% have left us by age 65. We're seeing a lot of less than that leaving. But that's the assumption in the embedded value.

We flex it up and down. So if you flex it up, you are going to see about 85% are gone. That's the process of projecting out those cash flows. So we give ups and downs and we try best to disclose what we can and we then let the investor decide what the embedded value should be. So that's the process we go through. We're hopefully very careful not to confuse kind of the embedded value process with the balance sheet process and the accounting policy.

In terms of management actions, as I said, these 2 attributes, the cash and the projection of long-term cash flows, is something we seek. That's the nature of the business. That's how we do it. We manage it very carefully. We are completely aligned to making sure that the experience variances are positive. A lot of work has taken place in half 2 to get them to where they need to be. But you'll see if you come to the technical session that will be held, there's a huge amount of stuff that we've done. We've changed product design. We're offering from age 65 going next year, certain ability to flatten out your premium rates if you're engaging in Vitality. There's all kind of structural changes to the Vitality statuses to make sure correlations are right. So we continue to do that throughout the duration of Discover, I think that's how the business works. But I think trying to get the point across to you is that it does have unique attributes. We see closures and we seek to manage them. And I hope that is fairly clear.

Let me turn to Discovery Invest. I am running out of time. So I'm going to kind of move quite quickly. Just to make the point, I think in a pretty tough market, the performance was either good new business, up 6%; assets under management, up 12%; profit is actually quite substantial, approaching the ZAR 1 billion level. So up 9%.

I think, amazingly, the shared value formula of giving people this idea of boosting their funds if they behave appropriately. So save earlier, save more, draw down less is having an amazing effect. I mean, we're quite amazed with the effect that the lapse rate went down during this period. We'd expect in very difficult times, people to take their money out. Markets are difficult, inverted yield curves, et cetera, we're seeing a reduction in lapses by 32%. But across the board, we've seen people longer terms to retirement, drawing down less, higher engagement in the program. So I think we're very comfortable with that. Then just to make the point, the kind of the core value proposition is if you engage, you get a boost your funds. And if you kind of translate the boost to your funds to the underlying fund returns, the net effect is that most of our choices get people into the top quartile. So the effect of that behavioral boost is very, very substantial.

So I thought this pie chart is quite interesting there. If you look at our client base, across the board, 71% of our clients, or 81% of our engaged clients, were in the top quartile in terms of the net effect of all of this on their kind of investment performance. So really trying to give a sort of shared value into investments and into the effect of investment returns.

Let me turn to Discovery Insure. As I said, you can see the new business down 1%. We do expect quite strong growth this year. There's a lot that we're going to do there. But there was an explicit focus on quality. I'll take you through very briefly. Total premium originations went up 18% to just over ZAR 3.2 billion. The combined loss ratio -- the combined ratio, sorry, has come down nicely by 3% down to 95% hence, generating the profitability, up 128%. So that's kind of quickly emerging out of smarter plays into an established business.

The actual focus on quality did have an effect on new business. You can see if you look at our different channels, IFA, our agents and the other 3 blocks. We actually had good growth elsewhere. But we actually cut out certain brokers that we felt were poor quality, certain broker call centers we felt were offering poor quality business and accepted kind of a downturn in new business in return for the quality.

We've seen the quality come through. You can see that, in fact, 54% of the book is in our highest plans. So we're actually attracting better and better, more expensive, higher-quality business and a massive increase in people engaging in the behavioral model. So from the get-go now, fully 87% of people engage in the driving better registering, being part of the process.

I wanted to make a point, though, I don't have the time to do it in detail. But the dynamics of the Discovery Insure model is almost exactly the same as the Discovery Life model. People come in, they get engaged, if they get engaged, they get rewarded and that means they engage more and they don't leave. People who don't get engaged or poor drivers tend to kind of blow off and out of the system. So you get this very strong behavioral duration effect. Over time, lapses come down. The combined effect of that behavior and that engagement brings the loss ratio down and so that all of that stuff brings the combined ratio down.

So this is an interesting analysis the team did. You can see how the combined ratio went down from a few years back, we were loss-making, down to the 95%, as you see today. But if you take just the durational effect, the expected growth, the expenses, how they should go down, we see a kind of a confidence band around the blue line, we expect the combined ratio to go down to 91% or thereabout by 2023 with a confidence band, as you can see.

So the business, I think, is quite meticulous in its mathematical kind of rollout of the model, it's giving us confidence about how that could kind of go down. There are all kinds of variations around it, whether this that and the other, how new business plays out. But it's quite strong confidence about how that will go down and how the profitability will emerge and therefore the growth in profit, we think can continue quite strongly going forward.

Let me turn to Discovery Bank. Yes, I am taking a lot of time here, I hope you're following me. Let me turn to Discovery Bank and make a few comments. In terms of the rollout from a time perspective, I have to disclose, it's taken us a bit longer. The key issue is that the plan some years back was we ran our license towards the end of 2017, we launched in November 2018. And intending this to be in the market by March, April 2019, that's a few months ago. The truth is if you look at the 2 plans, the test phase took us a lot longer. So we thought we'd be in the market by kind of March, April. We actually got going I think end of June. And only really have been out there July and August. That's the reality.

The team, I think, has meticulously been focused very much on the customer journey and felt that, that should be really, really good. We think it's a trade-off worth making. And that's what we did.

If you look at the actual spend on the bank, this is not about P&L, capital, profitability. This is simply checks are written, how much money was spent. If you look at the spend on build, test, run and infrastructure, the total is about in line with what we said, that's kind of where we're holding at the moment. The build cost was slightly more, it took us a bit longer. The effect is, I think, a bit more functional than we thought. There's a lot in Discovery Bank, if you actually are a client to the bank. But the other buckets, I think, are largely in line, giving us a total spend that's not far off what we expected. So we're not uncomfortable with the spend. Being a couple of months late kind of shifted the business plan slightly, that will effect internal rates of return unless we can catch that up over time and that's, of course, important.

A few months back, I think, since we spoke, we did kind of a press release on being out in the market, acknowledging we're late. But saying we're trying to get to like 500 clients to 1,000 clients a day. This is not a light bank. We're not looking for hundreds of thousands of accounts that don't use the bank. This is about getting people to actually use the bank, deposit money, borrow money from us, et cetera. So if you look at the last two months, I think we're quite pleased with the rollout. We're getting to our 500 to 1,000 quite comfortably now. 22,000 unique clients; 50,000 accounts; I think we crossed barrier ZAR 200 million today in deposits -- in retail deposits. We've granted ZAR 900 million and I think it's climbing quite quickly.

You can see the spend in the blue below that, about 20%, 25% of the limits granted in spend, not unlike the rest of the Discovery Card. So we're quite pleased about the -- this is 6 weeks really of data. It's early days. But pleased about the early kind of kind of rollout.

The other point to make, just a study that we did. So this is an independent company. But getting that journey right was important to us. I think one of the key things of the bank is when -- kind of when you go -- when you go online and you do the on-boarding, it should be quick and easy and simple. The whole thing should be on the face of a mobile and your card gets delivered to you which you know is doing that and we kind of benchmarked against the other banks. You can see that we are, I think, dramatically quicker than many other banks. It can be a complicated process and we are working hard to make it simple. But it's a very, very impressive piece of technology, getting people on very easily and getting on -- getting to functionality, hopefully is clear.

The one thing I have to say is that I think there's work to be done to getting people to understand what the bank does, how it works, what features there are and that's a lot of work that the marketing team is busy with it. We started the advertising campaign just two days ago, you may have seen it. And we expect that the rollout to kind of accelerate.

On the functionality, I mean, the bank really is loaded with functionality, idea of dynamic discounts, dynamic interest rates. There's a lot that we're doing at the moment that we're rolling out next week in our annual launch. I thought I'd highlight 1 or 2 things to you. The one is kind of a purple category. So importantly, we've had the purple card. That's been a very limited card, just a few hundred people. We're introducing a purple category about black. So for people earning, I think, over ZAR 2.5 million, that's going to be a specific category of the bank. We're rolling out with Apple and iStore, we spoke about this a few months ago. But we'll roll out now a very, very functional way to the -- that the bank should appear on the face of your mobile. You go to the store, you get the Apple -- the new Apple iPhone basically for free and depending on your behavior, that's how you'll pay for it, very much like the iWatch, the watch benefit in Active Rewards.

Then critically, something that the research showed, we've actually created this currency of Discovery Miles. So we made the point, I think, you may have heard it, that we're trying to create this ubiquitous currency called Discovery Miles that really, you can earn through health, through doing healthy things, physical activity, through driving responsibly, or critically if you manage your money well. And the idea here, this is really very much the composite make of the idea, that when you're part of the Discovery community, through all of the behaviors in the group, if you're doing it well, you're earning a currency and the currency itself should be remarkably accessible. So not a kind of a batch currency. But something that's absolutely real time. So you should be able to earn it through money behaviors, through sending responsibly, through Active Rewards. Every time you close your ring,, you have the ability to earn miles and Active Rewards. So it's really a -- should be a fun thing, which you can earn money by doing healthy things. And I think that's actually a very powerful idea.

Then the principle of actually -- the principle of the actual spend of the money should be real time and I actually wanted to show you if I can, this is my own bank account. So I hope I don't -- please don't, let me just clear that. Actually doesn't look as good as I was hoping. I don't know what happened this morning. But just bear with me a moment.

So essentially, this is the face of my bank, of purple and diamond status, which is valuable, as I've said before. And I can kind of thumb my way through the carousel all my different accounts, as you can see. But it's very exciting now, is Discovery Miles is an account, right? It's money. So it's real-time earned. And it's on the bank rails. It's not a kind of a loyalty currency that is where we're getting to, is this will be a real-time currency on kind of the Visa bank rails, right? And what's exciting about is you touch on it and I'll go into it, it's an account, right? It shows me what I've earned those miles on. Again, please don't look at, I don't know what's there. But something should be healthy things, right? So Woolworth's spend. So far so good, okay?

So I earn these miles. But I think what's exciting is the visibility. It's a currency. So there are 3 things I can do with it. I can transfer, I can pay and I can convert on a real time. I can monetize them just by touching a transfer. So if I transfer, I'm going to push that button, I can decide what account it goes to. So I can put it into my credit card. I'll just say how many there are. And I'm effectively monetizing 1,000 miles, right? That goes straight to my credit card and it's gone, it's in a money form. I can pay with it. So I can pay my contacts with miles. I can pay people into their account. I can pay in-store with it by just, in a sense, deciding again I'm going to use 1,000 of my miles, I'm making this up, creates a QR code, it's ready to go. What I think is really quite powerful, is I can convert the miles, right? So if I convert them, I can choose our partners that we work with and I can put into British Airways miles, SAA Voyager, Emirates, just by touching there and deciding how much and you have those miles.

So the whole idea is creating a kind of a completely real-time currency that really sucks in I think both on the earn side and the spend side: on the earn side, the ability to get people through doing healthy things and other things, the ability to earn miles and the liquidity[ph] to access on the face of the mobile as you would any other currency, more functionality will follow. So on the bank side, I think we are quite comfortable.

Let me turn to the U.K., make a few comments. I think that the overall business has grown well. If you add the numbers up together, the new business, up 10%; lives covered, up quite substantially, up 21% to over 1.2 million lives in the U.K.; profitability, up 15%. The combined EV of the U.K. is nearly 1/4 of the group. But I think in the U.K., what you will see, again, in October, hopefully, without a massive Brexit fallout, is we're rolling out this idea of the customer composite. This is something we've spoken about for a number of years, something that's taken a lot of time to do. But we think the opportunity is quite substantial here.

The U.K. market is quite fragmented. So a different distribution channels, insurers are in specific markets, amazing on the bottom left-hand side, the cost of acquisition is so high, 200% to 300% upfront commission, very complex to do. So the cost of selling insurance is high.

Then in the middle, if you look at our Vitality Health clients and Vitality Life clients by the Mosaic segmentation, you find they're quite similar, quite different to the U.K. population in total. But amazingly, only 1.5% of our client base has both Vitality Life and Vitality Health. So the opportunity is substantial.

Only 5% of our brokers have ever sold both. So the ability to bring the 2 together into a composite will create a very different dynamic. So in the process now of launching a very different composite, stacking rewards together, bringing new partners in that will do that. You'll see that roll out in the next month, hopefully during the October month and we'll communicate more to you.

On the businesses themselves on Health, on Vitality Health, the performance has been I think staggering. Everywhere you cut the business, 15% growth in new business; individual business, where the margin really is, a 25% growth rate; lives covered, up 11%; operating profit, up a strong 22%. I don't see that reversing easily. If you look at the loss ratio, it continues to be at a very low level. Lapse rates continue very low. All the dynamics I mentioned about engagement and lapse rates take place inside Vitality Health; cash generation, very strong, threw out GBP 84 million of (inaudible) out of the back book and after investing in new starts and all the different stuff that we did, give about a ZAR 15 million net cash flow generation.

In the case of Vitality Life, I think a much more difficult and kind of tale of 2 cities. Vitality Life, I think the operation is running well, except for lapses, I'll touch on that. But in fact, the real issue is about just rates of interest reducing. It is an incredibly complicated thing to deal with as a long-term insurer. This is about kind of reinvestment rates to premiums. So if your rates will just go down, it really makes things very, very difficult.

If you look at the core metrics, I think it's pretty impressive. New business up. We've been very careful about how new business is priced. So up 5%; lives covered, up 16%; operating profit, up 7% to just under GBP 32 million. The core kind of operating measures are, I think, pretty good value. The VNB margin has been pretty stable; the value in-force is slightly higher; the claims experience, below expectation. The key issue for us though has been the lapse rate. I mean, it's an environment where brokers are going out of business. It's an environment where I think we've been too permissive about allowing brokers to drift from 4-year commission terms down to 2-year commission terms. So we kind of took a pretty harsh view over the last year, particularly the last six months. We took a cost of GBP 6 million of lapses and we cleaned out a whole part of the book, outstanding premiums we made a decision to clean it out once and for all, costing us a substantial GBP 13 million. You can see in the lapsed section of the business. So not something we're happy with at all. I think we have some comfort that the team is getting on top of it. But work to be done.

But I will tell you that, of course, the main issue is rates of interest. We have to watch that very, very carefully. There's a lot of capital plan revenues we're doing at the moment. We feel fairly confident we'll operate within the capital plan as we go forward.

Finally then, we talk about the partner market areas, Ping An Health in China and the Vitality Group globally. I'm going to be very brief here on Ping An, just to make the point that the growth continues. I think the quality continues. You can see new business, up nearly 80%; written premium, up 84%. The business has an internal goal of getting to RMB 10 billion of premium over the calendar year. So that's ending December 2019. I think there's now a considerable amount of confidence that we will achieve that. We can see the profitability growing. The margins are fairly low. You can see profit inside the business and prior to tax after expenses for managing our part of the business growing by like 60% plus thereabout. As I said, we're not chasing profitability. We really are chasing quality.

If you look at the loss ratio, it's been very, very low. There have been some basis changes to certain calculations. But it remains very stable, very low. A lot of work has been done by the team. The retention rates, that's gone dramatically high. And, in fact, above target. But the critical thing is that when you grant 80%, it's kind of physics when you get to like the speed of light, things change to relativity. I mean, you're growing at 80% a year, the new business strain is considerable, right? So these are kind of annual contracts. But just how this works is you pay the commission upfront and you get the premium over the year. So just the strain of that six months of premium from an accounting perspective, when you're growing at 80% a year, dampens the margin.

The other point that I think is valuable to mention is that there is no -- there is kind of no expense spared on technology and infrastructure growing at this rate, the team is pretty clear. And the Ping An Group is clear about investing in AI and technology. So on the right-hand side of the chart, you can see there's been a 10x spend in technology spend. But the spend -- the money spent for the expenses, in fact, has grown faster than the premium. So it has to be said, I think in our deliberations with Ping An, I think we've been fairly comfortable. We've pursuing growth in quality, not profit in the early stages. So this is a long-term evolution of profit. We're fairly comfortable with how it will play out.

There continues to be a focus on distribution/ Ping An Health opened a branch in Chongqing. That's a very important area. We continue to grow the distribution channel. You can see the scale of these cities, each of them is kind of like a nation state. We've had tremendous success of Ping An Health App; in just two years, it has like 13 million or 12 million users. It's attracting great quality lives, buying higher levels of cover from us and they're younger.

Then importantly, I'll leave the slide with you. But we're using for the first time Vitality Active, which they call Hello Run as part of their app, where that's kind of the principal of getting people onto that, to actually interact and to be kind of physically active. So we're kind of very pleased with the performance of Ping An Health and it continues on its growth trajectory.

Let me talk in the end on the Vitality Group. Performance, I think, is really good. The amount of premium that it's attached to across all of our partners has grown by 155% up to ZAR 12 billion, about USD 850 million. Revenue to Vitality Group, up 92%; operating result, you can see that's kind of turned to profitability, up 71%; and that membership has grown very strongly over the period.

The Vitality Group is trying to get value, create value in 3 distinct ways. One is through our kind of call them national champions, companies like Manulife, Sumitomo, AIA, et cetera in their markets, something of scale working in smaller markets. But with great companies and trying to scale it significantly in a much more limited product offering, not bespoke. But repeatable and execute in a fairly quick way. Then adjacencies, Attain with Aetna, Walgreens was just rolled out or in the process of rolling out and others will follow, working closer with Apple on some of those. And I think through these 3 approaches, we think they will create considerable value.

I think in the case of the national champions, it's important to say that our hypothesis is that we should earn money from the core business of what they're doing. But we think that if they do well, additional opportunities tend to emerge. And that's what we're trying to do.

We thought giving a case study of one. We've never really shown the extent of how the engagement has worked. But one of the companies I thought worthwhile showing is a case study that is John Hancock in the U.S. This is probably the most competitive, difficult life insurance market in the world. The statistics here show you how profound the Vitality share value model has been to their business. The buy-in has been tremendous. NPS scores are 8x better than their non-Vitality book but you can see the actual market share. They've had a 10x growth in their new business in the Vitality integrated product to the standard product. So it really is dominating in a sense the growth of their business. So the statistics coming out are quite remarkable out of John Hancock.

I thought it's important just to hear from the CEO and President, Brooks Tingle on this, just to give you a sense.

(presentation)

So not trying to give you a commercial. But trying to give you a sense of within each of our partners, the fit we think is profound and coming out of that, we think opportunity for growth with them is real.

On the other extreme, the franchise are very different. This idea about scaling very quickly. We've worked hard on being able to repeat the Vitality model in smaller markets on a very standardized platform. You can see the time to build and the cost to build is coming down dramatically as we move forward. Key to that is part of the technology Vitality1 that we're investing in. We've now got 3 smaller partners that we're busy with.

There are 27 in total that we're kind of in different parts of the pipeline, as you can see from the chart. The idea there is we think if we can scale that significantly, there is opportunity within many markets. But in isolation, they can add considerable value, of course, to us.

The other point I did want to make is just the spend on Vitality1, I can't underscore enough how important this Vitality1 technology is to us. The ability to have 1 piece of technology across the world, South Africa and the U.K., all of our markets that we're working is remarkable. If we can do that, create 1 different -- 1 product change goes across all markets and other markets themselves to do something on a federal basis based on their needs, that what we're trying to do. So Vitality1 is about creating a scalable platform.

We spent already ZAR 653 million on it. It's growing, I think, very, very nicely. But it's quite a unique piece of technology. I want to give a sense of just what it's trying to do is as it's a very sophisticated capability that is now working in markets like Japan, where I think the expectations are remarkable.

So it's wrapped around the individual, it has all of the different aspects that can be kind of chosen and built into the Vitality program. It allows selling you a core gateway that we built in, it allows all of the health tech to sit on the Vitality chassis. On the other extreme, we have the Vitality data exchange, all of the stuff you do with physical activity, whether it's POLAR, Apple, whatever goes on to that platform, it allows us to offer Active Rewards. We've done a huge amount of work on fraud and understanding behavior on the Vitality Exchange. So if you've got your dog running around with Apple Watch, this is the cloud that will come to get you with handcuffs and maybe some other instruments. But really trying to get the stuff standardized, repeatable, scalable and the back of the actual capability really is what I tell people is like a Netflix stack, is using the best technology we can and critically, all of it kind of has the ability, to have all of the products there. And I think this is a critical thing that when we developed the Apple Watch kind of benefit or Active Rewards 2.0 that has mental well-being, all of that stuff can be sent across the world kind of instantaneously, that's we're trying to achieve.

So scaling globally something as complex as this requires a very different kind of technology. This has taken us a number of years to get to. Credit to the team, I think the reality is kind of getting together.

So maybe summarizing, just make the point that if you arrange the businesses in their 4 strands, I think we're doing a lot of work across the board. I think we're pleased with the progress across the board. There's a lot of work to be done. There's a lot of challenges and risk in all of the stuff that we're doing, the focus in SA on the composite does pivot around the bank. The U.K., you'll see a launch in the next month. Ping An Health continues to grow. Vitality Group is growing very nicely. But a lot of work to do. No hubris at all, there's a lot of challenge there. And I think if you -- we project it out again for you, this chart of how we see investment in new business playing out. You can see it staying quite high because the bank has been delayed. So we see that investment staying fairly high for this year. But over time, coming down. We see the earnings growth potential. We still think we're on track to achieve that. We see leverage coming down.

There are all kinds of risks to the plan. I think the most important one is rates of interest in the U.K., we have to manage very, very carefully. But in summary, what we've tried to achieve, as I said, I hope that's clear, a very tricky environment. We're trying to grow. But be prudent. We're trying to grow in a very disciplined way. We're keeping a very careful eye on the startups. We're focusing hard on the share value model and the 4 strands, I think, are largely intact.

That is our presentation. I thank you very much for being here. As I said, we're having a technical session, when? Friday. So for -- we're happy to take any questions here that you want. All of our team are here. But as I said, on the technical stuff in addition, please come if you can. We'll discuss all of the complex Discovery Life valuation issues. We've worked hard on trying to get every single critique over years and years and years and actually illustrate all of technical stuff for that discussion and debate. We're really trying to learn.