Q1 2011 Earnings Call

Company Participants

- John Pollock, CEO, Risk
- Mark Gregory, CEO, Savings
- Matt Hotson, Director of IR & Strategy
- Nigel Wilson, CFO

Other Participants

- Andrew Crean, Analyst
- Andy Hughes, Analyst
- Duncan Russell, Analyst
- Gordon Aitken, Analyst
- Greig Paterson, Analyst
- Jon Hocking, Analyst
- Nick Holmes, Analyst
- Oliver Steel, Analyst
- Raghu Hariharan, Analyst
- Toby Langley, Analyst
- Trevor Moss, Analyst

Presentation

Operator

Welcome, ladies and gentlemen to your Q1 2011 IMS conference call. Throughout the call, all participants will be on listen-only mode. And followed by a question and answer session.

Today, I am pleased to present your host, Nigel Wilson, Chief Financial Officer of Legal & General. Over to you, Nigel.

Nigel Wilson {BIO 1535703 <GO>}

Thank you. Good morning, everyone, on this delightful morning in London. Thank you for joining the call. On the call with me are my colleagues, John Pollock, the CEO of Risk; Mark Gregory, the CEO of Savings; and Matt Hotson, our Director of IR and Strategy.

I am delighted to share the highlights of another excellent set of results; once again, demonstrating that we're able to grow cash and our businesses at the same time. We did this in 2010, with our best cash and sales figures to date. And we are continuing this in 2011. We are maintaining momentum.

We see cash generation as a key metric for Legal & General. Increasingly, it is seen as important by everyone within our industry. And in part, has probably helped to re-rate the sector in 2011.

Operational cash for the first three months of the year increased by 25% to GBP248 million. Within this figure, the Q1 dividend received from our US business increased by 10%, to $55 million, or GBP35 million; up from $50 million last year. As we said, it is sustainable and growing.

There has been one or two confusing comments in a couple of analysts' notes this morning, on the growth in cash, excluding the US dividend. To clarify, excluding the US dividends, operational cash is up GBP48 million, from GBP165 million to GBP213 million; an increase of 29%.

After taking account of new business strain, net cash increased by 18%, to GBP212 million. This reflects a lower positive new business strain in the Annuity business, from lower annuity new business volume.

Our cash flow numbers have been achieved by writing new business at lower cost and growing assets under management. We've achieved GBP2 billion of net inflows into LGIM. And GBP0.6 billion into savings, year to date.

Worldwide new business APE has grown by 12%, to GBP433 million in the First Quarter. And the stock of assets and premiums, on which operational cash is generated, has continued the trend consistently seen over the last few years.

In 2011, we have grown assets in LGIM, Savings, Annuities. And premiums in Protection and the USA by between 7% and 12% per annum. We are ahead of our target to generate GBP700 million of net cash in 2011.

Looking at our individual businesses. LGIM's strength as a gatherer and manager of assets is unrivalled. It now manages GBP356 billion of assets; up 8% on last year, GBP330 billion in Q1 of '10. LGIM has attracted GBP2 billion in net inflows. And continues to win index Liability Driven Investments, that's LDI, active fixed income and international client mandates.

LDI and International, two big growth markets, increased their proportion of total gross fund flows by 19%. And 22% respectively; up from 15% and 18% in 2010.

Mark Gregory and his team are delivering ahead of plan, as the Savings business had a very strong quarter, with total sales up 20%, at GBP320 million of APE, compared to GBP267 million last year; with sales of ISAs and unit trusts up 8%, sales on Investor

Portfolio Services, that's IPS, our platform, up 63%. And non-profit workplace pension sales up 103%.

The growth in workplace savings has been driven by large schemes which joined in 2010. And new ones in Q1. We expect to see further growth in workplace savings, stimulated by auto enrolment.

The Savings business now has GBP65 billion of assets under administration; up 12% on last year. And had net inflows, as we said earlier, of GBP0.6 billion.

John can provide more color on the Risk business. Clearly, a good quarter for Housing and Protection. And a quiet quarter for Annuities, where we, once again, showed good financial discipline.

In Protection, the housing market remains challenging and mortgage transactions remain below their historic levels. Our strategy of focusing on non-mortgage products, or resilient markets, such as high net worth, business protection. And whole of life for inheritance planning, has resulted in our best quarter of Protection sales since 2008, with growth in APE of 14%, to GBP48 million.

This strong sales performance. And good persistency on the in-force book, led to growth in premiums to GBP300 million in the First Quarter.

In Annuities, sales were down in individual and BPA, driven by the change in retirement age in Q1 of 2010, which gave a one-off boost to individual annuity sales. In April, though, the BPA market recovered. And we've written around GBP20 million of APE since quarter end.

Going forward, as we've said in the past, we believe this market has good long-term growth potential. But it will be lumpy and there will be quarterly volatility in sales.

Turning to International. Sales are up 11%, at GBP41 million of APE, compared to GBP37 million last year; driven by very strong USA numbers. We are continuing our US capital management program, where we returned about GBP150 million of capital to Group in 2010; with plans progressing well for more of the same in 2011.

Turning now to outlook. We see good growth prospects for the Group in 2011 and beyond. In the UK, a combination of state retrenchment, an aging population, increased household savings and continued de-risking activity by pension fund trustees, will drive growth across Protection, Annuities, Savings and LGIM.

So to quickly sum up today's numbers. Worldwide sales are up; operational cash flow is up; and net cash flow is ahead of target. Cash flow is well diversified. And contrary to some market views, cash flow growth is not dependent on positive new business strain in Annuities.

L& G is growing. And is well positioned for further growth, as the economic recovery strengthens. And the themes described above play out.

We'll be delighted to answer any questions.

Questions And Answers

Operator

(Operator Instructions) Jon Hocking

Q - Jon Hocking {BIO 2163183 <GO>}

Two questions, please. Could you comment a little bit on what the pipeline you've got in bulk annuity looks like? Obviously, with market movements, a lot of pension assets must be narrowing.

And secondly, the uptick in Protection we've seen in this quarter, how sustainable is that? Is that a new level, or can you grow from there? Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

I'll ask John Pollock to pick up those questions.

A - John Pollock {BIO 6037447 <GO>}

Morning, Jon. Pipeline in Annuities, we get this question quite a lot. The truth of the matter is we have seen quite an uptick in quotations, which I think reflects a number of factors; trustees and FDs seeing shrinking deficits, although that depends a little bit on how their scheme is invested. And taking the opportunity to see whether the timing is right for trades. We do get an awful lot of, as it were, testing the water.

That said, I think there are a number of schemes that are likely to trade during the first half. But predicting when they actually close is impossible. I would tell you if I knew.

So we've got a number of good positive indicators for the rest of this year. It does depend, as I said, on scheme deficits and individual trustee's appetite. We've indicated that we've closed GBP200 million just after quarter end, which I'm pleased with. But you have to know that this market remains very lumpy and unpredictable. But I think fair to say that quotation activity has been reasonably strong.

As far as Protection is concerned, I think there are a lot of factors that are playing in here. The housing market is remaining pretty static, I don't think that's going to go anywhere during the course of this year. But we are beginning to see a little bit of re-emergence of the remortgage market which give us great opportunities.

But as Nigel said in his opening comments, our focus on diversifying into more resilient areas. And particularly with Government pulling back, I think it's entirely reasonable to expect our dominant position, great technology, to help us continue the trend that we've seen set so far.

Q - Jon Hocking {BIO 2163183 <GO>}

Just to follow up on the bulk, normally you've been, historically you've been stronger in the small scheme market and that tends to be less lumpy than the larger schemes.

A - John Pollock {BIO 6037447 <GO>}

Very true.

Q - Jon Hocking {BIO 2163183 <GO>}

Is this just a bump, or are you moving up the food chain into larger schemes?

A - John Pollock {BIO 6037447 <GO>}

No, our strategy remains pretty clear. We continue to focus on small schemes. And in fact in Q1 we wrote 21 schemes. It just happened, this is just the way it goes, it just so happened that they were very small. 21 scheme closures in Q1 is consistent with the same number, roughly, that we closed in Q4. And it just so happened that they were very, very small.

Our strategy remains absolutely clear. We will concentrate on the small schemes. But if there are bigger schemes that are attractive to us we participate. And nothing has changed there, Jon.

Q - Jon Hocking {BIO 2163183 <GO>}

So there's no issue of the PPF cannibalizing, it's not a structural issue, it's just a one-off.

A - John Pollock {BIO 6037447 <GO>}

Just a one-off, absolutely one-off, yes.

Q - Jon Hocking {BIO 2163183 <GO>}

Thanks John.

A - Nigel Wilson {BIO 1535703 <GO>}

There's certainly enough business around. I think we're still on track to complete a sufficient number of BPA transactions during the course of 2011.

A - John Pollock {BIO 6037447 <GO>}

I think the changes to CPI may actually act as a spur as well. Those changes will give the opportunity for some schemes to determine that deficit gaps, or maybe even surplus for some, who knows, take the opportunity to execute the derisking.

Q - Jon Hocking {BIO 2163183 <GO>}

Thanks, thank you very much.

Operator

Oliver Steel, Deutsche Bank Research.

Q - Oliver Steel {BIO 6068696 <GO>}

Good morning, everyone. Yes. Three questions. First of all can I just follow up on that Protection question? I guess I'm interested in understanding the scale of the non-housing protection market. And what sort of share you have in that.

And again, following up on John's question, you grew individual protection sales by 18%, is that a sustainable number over the year, or was there some special launch that we need to take into account? That's question one.

Question two is on LGIM and I'm just trying to understand. You've split out the net inflows between LGIM and Savings but that GBP356 billion, that is actually the total funds under management across both LGIM and savings? Can you just confirm that?

Then finally, are you prepared to make any comments on the level of new business strain by product?

A - Nigel Wilson {BIO 1535703 <GO>}

I'll answer the third one. We'll break down the new business strain for the half; we're just giving the aggregate number at the moment. John will answer the first question and Matt's put his hand up to answer the second question.

A - John Pollock {BIO 6037447 <GO>}

Hi Oliver, John here. Just on Protection growth, I think there are a number of factors that you should be aware of. First, individual protection. I think we got out of the blocks pretty quickly in January and February, driven a little bit by the weather in December having a bit of an overhang on business that couldn't get written then that got picked up in January.

And a little bit of nervousness around the gender test Ashar case, which I think probably drove a few more sales than we might otherwise have seen, prior to that announcement.

But generally what we have seen, together with Government action on our Group protection side, giving opportunities for us to look at local council business and the potential for increased income protection business on review of statutory sick pay, have all contributed to what I would regard as quite improving conditions for Protection sales in 2011.

The mortgage market, as I said before, will remain flat. I think 18% might, I would love to be able to say yes, 18% is sustainable throughout the whole year. I think that's probably a little at the high end. But I'm still very optimistic that we will see good growth conditions continue.

A - Matt Hotson {BIO 15471425 <GO>}

Finally on the definitional point on assets. So LGIM's net flows number represents its net new business from its external client base. In addition to that there is the Savings net new business, the majority of which is managed by LGIM. But there are some products where clients opt for an open architecture type product where funds may go to external third party managers.

But fair to say that the LGIM total of GBP356 billion reflects all of its external clients, plus the internal money it manages for the Annuity business, Savings business and one or two other small parts of the Group.

Q - Oliver Steel {BIO 6068696 <GO>}

Okay. But the GBP2.6 billion of net flows, is that a total net flows figure, or does that include some money that's then outsourced?

A - Matt Hotson {BIO 15471425 <GO>}

No. The GBP2.6 billion includes -- the GBP0.6 billion for Savings will include both the internal money and the small amount of external flows as well.

Q - Oliver Steel {BIO 6068696 <GO>}

Okay. Thank you.

Operator

Nick Holmes, Nomura International Plc.

Q - Nick Holmes {BIO 3387435 <GO>}

Just a couple of questions please. First one is coming back on the low amount of bulk annuity business you've written in Q1. The question is how much is this because you do actually want to shift away from this business and how much is because the business just isn't there?

Then the second question on LGIM. I just wondered if you could tell us more about the potential that you see outside the UK which has obviously been very important in Q1. Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

John will fill in the first one on the pipelines of BPA, which I think he said in his previous answer is actually pretty robust at the moment. But I'll ask him to confirm that again. And

I'll answer the question on LGIM.

A - John Pollock {BIO 6037447 <GO>}

Yes. It is a fairly robust market. We have very, very, very difficult predictive capabilities in when business will land. I think when the Q1 figures come out for the market, we'll see that there hasn't been a huge amount of business written.

Some of it has ticked over from schemes that actually closed in Q4. So even though you may have closed a scheme it does take some time for that completion to emerge. There is no intention to shift away from this market, Nick. Our franchise remains extremely strong; as I said 21 schemes closed in First Quarter, albeit it very small ones. A couple of hundred million closed immediately after the quarter; we're still very much in this market.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

On LGIM we're increasingly optimistic about our international opportunities. And just breaking it down by geography, clearly the appointment of Mark Zinkula as the new CEO of LGIM reflects our international ambitions and aspirations for the business.

Mark is an American and, although he's moving to the UK, undoubtedly he'll spend a lot of time continuing to build the US business where we're seeing a lot of interest from external clients in the services that we're offering in the United States.

We're very pleased with the progress that we've made in the Middle East. We've also made good progress in Europe. We haven't yet got a Far East distribution capability. But that's something that we're currently working on. Of the net flows in 2010, the GBP6.6 billion, almost GBP5 billion was from International.

Q - Nick Holmes {BIO 3387435 <GO>}

So you feel pretty good about prospects for the rest of this year outside the UK?

A - Nigel Wilson {BIO 1535703 <GO>}

The team at LGIM is feeling good about the prospects outside the UK.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Thank you very much.

Operator

Raghu Hariharan, Citi.

Q - Raghu Hariharan {BIO 15133573 <GO>}

This is Raghu Hariharan from Citi. I just have three questions if I may, please. The first question was on retail investments. Usually you'd find unit trusts and ISAs have a very strong 1Q. I was a bit surprised to see that the growth looks a bit soggy. So if you could give us some sense of what's going on in terms of gross flows and it seems like outflows are higher as well.

The second one was on cash growth. Is this cash growth gross, gross operational cash growth? Is there a skew at all between risk or savings or is it more widespread?

And the last one was on Annuities, basically the retail annuity market. Obviously you're coming up against tough comparators. But it would be great to know if you're seeing anything underlying within the market, either structural or cyclical in terms of growth trends? If you'd have, say, growth in the market for 1Q, for the whole market that would be great. Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

Mark will answer the first question, I'll answer the second and John will answer the third.

A - Mark Gregory {BIO 15486337 <GO>}

Okay Raghu, it's Mark here. Just on the state of the unit trust market and the ISA season in particular, I guess we've always got issue with cut-off in Q1 where the cut-off this quarter depends where it falls with the ISA season days.

The ISA season is not what it once was. But there still nevertheless is a pickup around April 5 cut-off for the tax year-end. So we're entirely comfortable with the state of the ISA season this way round in its entirety. Clearly with the higher allowances this year for tax-free investment and increased allowances post this tax year-end, I think we're entirely positive about the prospects for ISA-based savings going forwards.

And on the unit trust market, more generally, again I think we're positive, we're seeing a lot of interest in our funds. We've got some very successful funds out there which are selling very well. So I wouldn't use the word soggy for where we think the active levels are currently in the retail investments market.

Q - Raghu Hariharan {BIO 15133573 <GO>}

The outflows, if I can just follow up, just the outflows, it seems to be -- it's 17% higher year over year, is that unusual do you think? Or is that just the underlying trend?

A - Mark Gregory {BIO 15486337 <GO>}

A blindingly obvious point just to bear in mind, Raghu, is that with market levels being higher, the amount of -- the value of the outflows when investors do encash is somewhat higher than it would have been historically. So we've always got that slight trend to face into, that as assets go up in value. So the amount -- so the value they encash will go up with it. We're not worried about the volatility of outflows. But the unit value of the outflow will be higher this year than it was last year.

A - Nigel Wilson {BIO 1535703 <GO>}

On the operational cash, it's pleasing to say that operational cash increased in Annuities, Housing Protection, Savings, LGIM, International. And in Group quarter on quarter. So we're very pleased with the diversity of growth that we're getting across the portfolio.

A - John Pollock {BIO 6037447 <GO>}

CPA market, Raghu, I think obviously the comparator from last year, where the 50 to 55 year retirement age change drove substantial volumes, will give a comparator that can't possibly be reached by the market.

I think for this year also we've clearly lost, as a market, all of those 50 to 55 year-olds. Not that that was a big proportion. But we've lost them. That said, this is long term, very high growth, structurally built in to the market with the personal pensions boom of the late '80s and '90s; as those people come to retirement, they will annuitize. So I'm not too concerned about one-off factors creating a degree of volatility.

Legal & General's position has been consistent throughout. We maintain our pricing discipline, it's a market we like. But we're not going to write business at prices we don't. So I'm pretty comfortable with where we are in Q1, I expect the market to continue to drive, over the medium to long term, increased volumes.

Q - Raghu Hariharan {BIO 15133573 <GO>}

Could I just follow up, would your market share have changed significantly over last year?

A - John Pollock {BIO 6037447 <GO>}

Last year our market share went up. It's impossible to tell at this stage in Q1, we haven't seen the rest of the market figures.

Q - Raghu Hariharan {BIO 15133573 <GO>}

Okay. Thank you very much.

Operator

Toby Langley, Barclays.

Q - Toby Langley {BIO 15924432 <GO>}

I've got three questions. The first one is a follow-up to Oliver's question. I'm not wanting a specific breakdown on new business strain by product. But I was wondering if you could confirm whether or not the annuity strain number was positive on the low volume of annuities written in the quarter.

The second question is on the cash generation target. Now you set the GBP700 million target back in March. And it already feels a bit like that number is bordering on being irrelevant/not particularly challenging. We've seen one of your peers release quite aggressive targets for its management team in recent weeks. And actually providing effectively a stretched target as well, a range of expected performance numbers. I'm wondering if it's appropriate really for you to consider something similar.

Then the final question is, oddly, on disclosure. The net cash numbers that you provide now on a quarterly basis are in effect a profit number. And I'm just wondering why you don't really go the whole hog here and report profit on a quarterly basis as well. Or at least why we don't get maybe a bit more granularity on the cash number quarter on quarter; because I think that would be quite helpful particularly when we do have other noisy numbers like the annuity number that we've seen today.

A - Nigel Wilson {BIO 1535703 <GO>}

Gosh, some tough questions there, Toby. You want us to introduce aggressive targets for the management team. We feel as though we've got some of them already. The GBP700 million was a target. I think as we said at the results, we would be pretty disappointed if we didn't exceed that. And certainly the results in Q1 are slightly ahead of where we thought -- where our plans were internally.

We're not going to break down the new business strain quarter by quarter at the moment, it's something we've chosen not to do. I think maybe if we get a lot of feedback saying that would be very helpful then we'll reflect on that. We plan to do it obviously at the half-year.

I think the guidance that Tim, Matt. And myself, gave at the year-end for the trends in new business strain, we haven't really changed our views or thoughts around those for the year. So the indications we gave for Protection, Savings and Annuities are still relevant we think for the year.

The operation cash is slightly ahead of where we thought it would be. And as I answered in terms of one of the other questions, it's the growth -- the GBP50 million is pretty much diversified across all the parts of the business, which we're really pleased about.

We'll think about the disclosure. We tried to give a little bit more disclosure this time. But every time we give a little bit more, you guys ask for a little bit more. So it's a vicious circle that we're constantly fighting. I think as we said at the year-end, we thought our disclosure should improve for the half year. And for the full year, for this year to catch up with one or two others. And we still intend to do that.

Q - Toby Langley {BIO 15924432 <GO>}

Thank you.

Operator

Greig Paterson, KBW.

Q - Greig Paterson

Three questions as usual. The first one is annuity liability is up 9%, net written premium is up 7%. You unusually don't include the delta in the capital requirements. I wonder if you can give us a steer for how large the negative cost there would have been in the First Quarter.

You also don't include development costs. So I wonder if you can give me an idea of what development costs were excluded from your cash flow metric in the quarter.

Then the third is actually -- I don't know if you can answer this. But you used to disclose what you called your gross bid on annuities, yield to maturity on assets minus the terms offered to the clients. I was wondering why you dropped that metric. I wonder why you did that, or could I suggest that you reintroduce it so we can get a feel for how you are pricing in the market?

A - Nigel Wilson {BIO 1535703 <GO>}

We're just trying to remember why we don't disclose what we used to disclose. I think it's just -- part of it's demand for stuff, Greig, it's not deliberate on our part. We try to give useful disclosures. We're not going to disclose things on the call we've not disclosed to the public.

A - Matt Hotson {BIO 15471425 <GO>}

We've consistently given the net margin on the annuity business every six monthly period for the last couple of years I think. In terms of the gross spread --

Q - Greig Paterson

No. The net margin is different from -- the one you're doing recently is a different thing. I'm trying to get a feel, for instance there's been some controversy around the new business strain number, a large positive, well, not controversy. I just want to get an idea of whether that's a pricing effect, or an assumption change effect, or whatever. You stopped disclosing it about 18 months ago, this pricing thing.

A - Matt Hotson {BIO 15471425 <GO>}

Let me pick that up off-line, Greig, I'll have a look at that and I'll get back to you.

Q - Greig Paterson

The other one is trying to figure out the -- if you look at all your competitors, they talk about capital generation where you talk about cash flow. And the two things that are missing is the development costs and the delta in the statutory capital requirements. There are obviously minuses in the First Quarter, because of annuity liabilities up. And net written premium. So I wonder if you could give us a steer for how much we should deduct to get the capital generation.

A - Matt Hotson {BIO 15471425 <GO>}

On GBP23 million of new business, 4% statutory capital is a relatively small number. That's the gross new capital. And the net will be less than that because of some run-off from the back book. So it's a fairly trivial number.

Q - Greig Paterson

And the Protection business and net written premiums that drives the capital requirement?

A - Matt Hotson {BIO 15471425 <GO>}

We give that number at the half-year, we don't -- we've never given it at the quarters. One for us to think about. On development costs, all of our development costs are expensed down to product P&L. So aside from a small amount of development costs that we report separately in the P&L, everything is fully expensed to the product P&Ls. There's no (multiple speakers).

Q - Greig Paterson

I'll wait for the half year and have a look at the number. All right. Thank you.

Operator

Duncan Russell, JPMorgan.

Q - Duncan Russell {BIO 15944951 <GO>}

First question, could you just comment on the LGIM third party flows? The net inflows are quite a bit lower at GBP2 billion in the First Quarter versus GBP3.3 billion in the First Quarter of last year, which imply quite large outflows. Can you just comment on those outflows?

Secondly, you mentioned the US twice in the press release and restructuring the capital base. But so far it's been relatively limited in terms of what we've had. Could you just give an update on when we should expect to see something more material coming out of the US, please? Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

Yes, I think the -- just taking the US one. I think what we said is that we expect five or six transactions to take place about six months apart. And we did one in the second half of last year. So you'd expect, on that basis, one in the first half of this year. And one in the second half of this year. And a couple next year on that. We're on track to do that.

So we'll give an update of those. And they're typically going to be about $100 million to $160 million, $170 million, per tranche of capital returned to the group. We've not changed that view at all on the United States capital program. Everything is going according to plan.

Q - Duncan Russell {BIO 15944951 <GO>}

Does that come through as dividends, or is that just something separately in the balance sheet?

A - Nigel Wilson {BIO 1535703 <GO>}

Yes. It just comes through -- it doesn't come through as dividends at all. We treat that as a capital item. As you'll note last year that that was in fact larger than the solvency [ph] capital usage. So that goes in the line as capital, as a capital item.

A - Matt Hotson {BIO 15471425 <GO>}

The LGIM net flows, we're very happy with the LGIM net flows. I think the -- clearly we had net outflows in the Fourth Quarter of last year. So we're pretty happy with the flows in the First Quarter of this year. The gross numbers were very similar year over year at GBP10 billion, GBP11 billion. And the net inflows at GBP2 billion to GBP3 billion we're pretty happy with.

Q - Duncan Russell {BIO 15944951 <GO>}

Okay. So no extraordinary, extra ordinary, outflows then?

A - Matt Hotson {BIO 15471425 <GO>}

Yes. There was one large lumpy outflow where somebody was changing their portfolio and perhaps a little bit of concentration, which had grown up over a period of years to us. So they decreased their investment. A fairly substantial large one-off in the quarter.

We do have these lumpy outflows because we have a number of very large clients. And we happened to have two in the Fourth Quarter of last year. And one in the First Quarter of this year. It's part of the business.

Q - Duncan Russell {BIO 15944951 <GO>}

Okay. Great. Thank you.

Operator

Andy Hughes, BNP Paribas.

Q - Andy Hughes {BIO 15036395 <GO>}

A couple of quick questions, if I may. The first one is on the individual annuities. I think you mentioned that Q1 last year was very strong due to the 50 to 55. But I'm just looking at Q2 and Q3 and Q4 last year. And they were all higher than this quarter's numbers.

So I'm just trying to work out, are you suggesting that Q1 is somehow seasonal, or is there a pricing trend within the market? Perhaps as credit spreads narrow, your relative competitive position becomes more difficult to other people who use, for example, commercial mortgages to back their annuity portfolios.

And the other question is I'm just looking at the bancassurance line for single premiums. And I guess returning to Raghu's point about the ISA sales, the bancassurance single premiums are pretty flat from Q1 last year to Q1 this year. Is the majority of that ISA sales and unit trusts, or is that also recorded -- is a large component of that in other lines as well? Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

Yes, I think if Mark can pick up the question again on his specialist topic of the day, ISA's. And on the annuities, I think the data point you made, there was some relevance that there is a bit of seasonality in Q2 as well. But not in Q3 and Q4 of last year.

A - Mark Gregory {BIO 15486337 <GO>}

Yes, just on the bancassurance sales, the single investment pot stuff, clearly, it's not just unit trusts and ISAs in there, Andy; we've got other products such as our structured products lines as well. And again, those are big products for us to sell through our bancassurance partners, particularly where the bank itself or building society is a deposit taker underpinning those structured products. And those have been a little bit softer in the First Quarter of this year.

So as I said earlier, I'm very happy where we are with unit trusts and ISA business. If there's been a little bit of softness, it's been on the structured products side. But again, I don't see that -- that's more about just attractiveness of any one product at any one point in time. Again, I don't see that being a structural softness going forward. So that's what's going on in the bancassurance line.

Q - Andy Hughes {BIO 15036395 <GO>}

Great, thank you.

Operator

Gordon Aitken, RBC.

Q - Gordon Aitken {BIO 3846728 <GO>}

Just a couple of things. First of all, you mentioned auto enrolment. I'm wondering what's the opportunity here and the scale of the opportunity.

And second question on LGIM, just following up on Nick's question on the opportunity outside of the UK. The US is -- I suppose it's a massive market. I think it's probably bigger than all the other markets put together. And how easy or difficult is it to win mandates against the large US passive fund managers? Is it down to relationships with the large ABCs? Because presumably, you've got the same relationships with the people you deal with in the UK.

A - Nigel Wilson {BIO 1535703 <GO>}

Mark, do you want to take the first question?

A - Mark Gregory {BIO 15486337 <GO>}

Yes, I'm happy to pick up on the first one, Gordon. I guess just before going on to talk to enrolment in isolation, I would say that we're keen on the workplace savings arena full stop, not just auto enrolment. Clearly, we see the switch from DB to DC gaining pace; the general shift from unbundled DC, where it does exist, into bundled DC is also gaining pace; so there's lots of positive dynamics from a propositioner's point of view.

But clearly, the catalyst in the shortish term is auto enrolment. Clearly, the largest employers will start to have to auto enroll their employees from quarter 4 next year. And that whole rollout runs across the different sizes of employers for the next five years subsequent to that.

And we do see a very significant pickup in the number of employees who will be saving via their workplace into a pension-based arrangement; and just the behavioral change of people having to opt out of a pension arrangement rather than having to opt in we think will make a material difference to the level of pension savings via the workplace going forward.

So we're very positive on that dynamic. And as a result, we are seeing a lot of very large employers thinking about their pension arrangements, how they make sure they comply with the auto enrolment regulations, etc. Again, we're seeing that as a very positive thing because we think we've got a very strong proposition out there to help employers cope with the burden that is making sure that they comply with the auto enrolment regulations.

A - Nigel Wilson {BIO 1535703 <GO>}

Okay. And on LGIM, in the US at the moment, we offer active fixed and LDI. In fact, we don't offer a passive index really at the moment. And we compete very well on those two products where we think of ourselves as being market leading in the UK. And our track record in active fixed in the US is outstanding.

Q - Gordon Aitken {BIO 3846728 <GO>}

And just on that, how much of it is down to the products. And how much of it is it down to the distribution and the relationships?

A - Nigel Wilson {BIO 1535703 <GO>}

Well I think there's both actually. Clearly, it's very important to have the three-year track record which we've now got in the United States. The distribution boils down to two parts. One is the customers we already have in Europe; we have about 3,200 pension customers in Europe, of which about 400 have US parents or US subsidiaries. That's one rich source of business for us.

And the other is just a general source of -- the US is a huge market; we've suddenly found that we're getting on more lists than we probably thought we would at this time. And so we're having to increase our distribution capabilities in the United States to provide a service for inbound calls.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thank you.

Operator

(Operator Instructions) Andrew Crean, Autonomous.

Q - Andrew Crean {BIO 16513202 <GO>}

Yes, one quick question. On auto enrolment, which you were talking about as being very positive, could you talk a little bit about the potential risks of auto enrolling employees on to your scheme who may be very fast rollover in terms of employment time and therefore potential risk that the admin costs will outweigh the fees which you can generate off them?

A - Mark Gregory {BIO 15486337 <GO>}

Yes, I'll pick that up, Andrew. Clearly, we're very consciously aware of the fact that people who are currently not saving via a corporate-based pension scheme suddenly are going to be -- will be auto enrolled going forwards, or will certainly have the option to -- or will have to opt out. And I think we are very conscious of the fact that there might be more turnover amongst that staff, or indeed, people choosing to opt out subsequently before the holding period is up.

Candidly, Andrew, we've had to design our systems to make sure that is untouched by human hand. This has to be an automated payroll straight into our admin system and back again type process. Clearly, if that involved human interaction, then indeed that would be potentially a big operational headache for us going forward.

So we have invested the money to make sure that our systems are scalable in both directions so they can cope with taking on lots of new employees. But also can cope with the efficient returning where either people opt out or we have to return the contributions to the individuals. So we've certainly thought about that one and made sure that our systems are scalable to cope with it.

Q - Andrew Crean {BIO 16513202 <GO>}

And do you have some sense as to what your costs per employee are in order to take something on?

A - Mark Gregory {BIO 15486337 <GO>}

We do have that, Andrew. I think I ought to just talk to my IR colleague before I disclose that information. We'll certainly think about -- he's telling me I shouldn't be disclosing that.

So --. But we do know, just to reassure you.

A - Nigel Wilson {BIO 1535703 <GO>}

Good try.

Q - Andrew Crean {BIO 16513202 <GO>}

Less than the cost of taking a stakeholder on, I trust. Okay. Thank you.

Operator

Greig Paterson, KBW.

Q - Greig Paterson

Just puzzling me a bit; if you are writing annuity business that's producing a negative strain or a positive release on a statutory basis. And a statutory basis includes prudent longevity and default levels well in excess of historic averages, isn't there a case for --? That implies the profitability of this business is very, very high. And isn't there a case for pricing a little bit more aggressively and increasing your volumes and increasing your embedded value?

A - Nigel Wilson {BIO 1535703 <GO>}

I think you work for our sales force as well; sounds like one of our sales people.

Q - Greig Paterson

I'm sure you've seen that written. Are you turning away business that -- I think there's too much of a focus on cash flow at the expense of economic value creation. And that's why -- the evidence is in the strain. On a prudent basis you're producing massively positive strain. So you're pricing extremely conservatively.

A - John Pollock {BIO 6037447 <GO>}

Well a lot of the strain is driven by how much of the liquidity premium we were able to capture historically, Greig. Credit markets normalize that effect; the strain calculation it's --.

Reiterate; we've been in this business 23 years now; we're pretty comfortable with what we're doing. We're pretty comfortable with the margins we're generating; we're pretty comfortable with the appetite that we have for writing this business. There's loads of it to go round; still over a trillion in DB schemes. As companies choose to bring that to market. So we will deploy our pricing and win the business that we want. Our capability to select that has stood us in good stead. So no, we're pretty comfortable with where we are, thanks very much.

Q - Greig Paterson

Right.

Operator

(Operator Instructions) Raghu Hariharan, Citigroup.

Q - Raghu Hariharan {BIO 15133573 <GO>}

Just a quick question on your Corporate Pensions business. I guess you are, along with Standard Life and Pru, you've run a master trust scheme to administer corporate pensions. And there's been some regulatory chatter or comments around the funding or using contributions made by early leavers to offset your costs. Can you tell us how that could affect your administration costs or profitability as auto enrolment kicks in, please?

A - Mark Gregory {BIO 15486337 <GO>}

Yes, just to be clear Raghu, yes, we do offer a master trust capability in the corporate pensions space. But as any recycled contributions go, that essentially benefits the employer in terms of their funding cost going forward; indeed, obviously pays back short-term contributions to any employees who leave as well. There's no benefit in that from the provider, i.e., L&G's point of view.

So yes, we're keen to maintain flexibility around all types of either trust-based or contract-based arrangements in the corporate pension space. But we're fairly indifferent as to the kind of cost of making those types of schemes available. So any benefit from master trust or trust-based arrangement falls to the employee and the employer, not to the provider.

Q - Raghu Hariharan {BIO 15133573 <GO>}

Okay. Thank you.

Operator

Trevor Moss, Berenberg.

Q - Trevor Moss {BIO 1741504 <GO>}

Just a quick question, actually, on the workplace pensions schemes you wrote in the First Quarter. I was just wondering how that looks as a hit rate of schemes won against proposals. And whether you had any other comments you could make on what's going on in that particular part of market; whether you've got new schemes to the market, or whether you've got pitches on incumbent schemes, etc., etc.

A - Mark Gregory {BIO 15486337 <GO>}

Yes, Trevor, there's clearly an awful lot going on and really the catalyst being auto enrollment where obviously a lot of employers have got to comply with the new rules by quarter 4 next year. And clearly, they can't wait until quarter 3 next year to put their mind to it. So the very biggest employers are obviously, as we speak, going through the whole thought process of how to make sure they do comply. So it is fair to say there's a lot of activity out there in the marketplace.

In terms of percentages of wins we do from pitches, again, I wouldn't want to disclose that but to say that clearly that's a key stat for us to make sure that our sales capability and effort is maximized. So we're very conscious of making sure that we give our best endeavors to the schemes that we think we're best placed to win.

But as I say, I think the market is a very buoyant market right now. There are some big schemes out there. And we're pushing hard to make sure that we win our fair share of those large schemes.

Q - Trevor Moss {BIO 1741504 <GO>}

I guess it's quite hard to know whether one considers that picking up 35 new schemes of 10,000 members is a good number or a bad number.

A - Mark Gregory {BIO 15486337 <GO>}

Yes, just in terms though, just be careful; there is a lead time point here, Trevor. And the actual completions in the First Quarter this year sometimes reflect the activity we might have taken quarter 2, quarter 3 last year. There can often be six-month, nine-month, 12-month lead time between schemes that we win. And actually those schemes being completed and the APE or any net funds flow being booked on the back of it. So there is a lead time issue here.

A - Matt Hotson {BIO 15471425 <GO>}

At least one of our competitors has disclosed a similar number. I would encourage you to ask the others to do the same.

Q - Trevor Moss {BIO 1741504 <GO>}

Thank you, Matt.

A - Nigel Wilson {BIO 1535703 <GO>}

Thank you. We appear to have run out of questions. If there are any further questions, I'm sure that either Matt or other colleagues will be delighted to answer those on a one-to-one basis during the course of the next few days.

Thank you, once again for your interest and support for the Group so far. We feel and we believe that we're delivering on everything that we've told the market that we will -- delivering on. Both Mark and John are pretty confident about what the future holds for their respective businesses. And I'm sure if my colleagues from International and LGIM were here with me, they would be the same.

So thank you. Look forward to seeing a number of you in the next few weeks. Bye.

Operator

Thank you, ladies and gentlemen. That concludes your conference call. You may now disconnect. Have a great day further.