Q1 2015 Legal & General Group PLC Interim Management Statement Call

Company Participants

- Duncan Finch, MD, Insurance
- Kerrigan Procter, MD, Legal & General Retirement
- Mark Gregory, Group CFO
- Mark Zinkula, CEO, LGIM
- Mike Berry, MD, Digital Savings
- Paul Stanworth, MD, Legal & General Capital

Other Participants

- Abid Hussain, Analyst
- Alan Devlin, Analyst
- Anasuya Iyer, Analyst
- Andrew Crean, Analyst
- Andy Sinclair, Analyst
- Ashik Musaddi, Analyst
- Fahad Changazi, Analyst
- Gordon Aitken, Analyst
- Greig Paterson, Analyst
- Jon Hocking, Analyst
- Ravi Tanna, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to the Legal & General Quarter One results conference call. My name is Rhiannon. And I'll be the operator for your call today. (Operator Instructions) Journalists may not be dialed into this call; all such individuals should disconnect now.

I would now like to hand over to Mark Gregory, Group Chief Financial Officer, to begin today's presentation. Mark, please go ahead.

Mark Gregory {BIO 15486337 <GO>}

Good morning, everyone. And thanks for joining our Q1 call. With me in the room today are Mark Zinkula, CEO of LGIM; Duncan Finch, MD of Insurance; Jackie Noakes, MD of Mature Savings; and Mike Berry, MD of Digital Savings. And on the line we have Kerrigan Procter, MD of L&G Retirement; and Paul Stanworth, MD of L&G Capital.

The top-line numbers are that operational cash is up 11% year on year at GBP330 million. Net cash is up 8% at GBP326 million.

LGIM's total assets are up 17%, compared to Q1 2014, at GBP737 billion.

Annuity assets are up 19% at GBP45.6 billion.

Savings AUA up 11% at GBP113 billion.

And UK protection premiums are up 5% at GBP372 million.

Our strategy remains to drive growth in our business, based on five global macro long-term trends: namely, aging populations; welfare reform; globalization of asset markets; digital lifestyles; and retrenching banks. All of these trends have played a part in today's numbers.

Turning to our businesses. And starting with L&G retirement, our stock of annuity assets has increased to GBP45.6 billion, with sales in the First Quarter of over GBP750 million, including GBP655 million of bulk annuity transactions.

Individual (annuity sales) remain a key part of our at-retirement proposition. And sales totaled GBP99 million in quarter 1.

Pensions' freedom started on April 6, 2015. And we're offering our customers various propositions in response to these new freedoms. This includes lifetime mortgages, where we've completed the acquisition of Newlife Home Finance and are now active in the market.

Moving to LGIM, which now has total assets of GBP737 billion. External AUM net flows in the First Quarter were a healthy GBP4.3 billion, driven by continued demand for LGIM's pension de-risking capabilities and further expansion of its international operations in the US and Asia.

Total international (assets were GBP126.4 billion).

Workplace pensions, which is now part of LGIM, grew assets under administration to GBP13 billion; up 43% year on year.

Our insurance business had a solid First Quarter with UK retail protection growth written premiums up 6%. And UK group protection up 3%.

Legal & General savings, which now comprises digital and mature savings, increased its assets under administration by 11% to GBP113 billion.

Digital Savings had net inflows of just under GBP1 billion in the First Quarter. And our cofunds platform now has GBP76 billion of assets.

L&G Capital remains focused on increasing the risk-adjusted returns on shareholder funds; a further GBP400 million of new direct investments were completed in the quarter. The Group's total direct investments are now GBP6.3 billion; up 62% year on year.

The price changes introduced last year by Legal & General America resulted in sales of $31 million, compared to $38 million in Q1 2014. Gross premiums, however, increased 5% to $283 million.

Turning to outlook, we've positioned our businesses to grow as the long-term macro trends play out over time. We made a good start to 2015. And the business has momentum, both in the UK. And increasingly so internationally.

In terms of regulatory capital, we've updated you on where we are with the Solvency II process. Discussions with the PRA are ongoing. This is an iterative process. And we will provide updates as clarity emerges. Final clarity is not expected until late in Q4 this year.

In summary, our stock of business is up; cash generation is up; our businesses have momentum. And growth opportunities.

And finally, we remain confident in delivering the 2015 operational cash guidance we gave at the time of the 2014 prelims.

I now open the call to questions.

Questions And Answers

Operator

Andy Sinclair, Bank of America Merrill Lynch.

Q - Andy Sinclair {BIO 17749036 <GO>}

Just three questions, it that's okay. Firstly, can you tell us the level of regular premium flow that you're now seeing coming into workplace pensions on a quarterly basis, if you excluded any transfers. And of existing assets, just to get an idea of the underlying flow per quarter?

Second, you've mentioned that large workplace schemes are being re-broked. I just wondered if you could give us an idea of what the reasons are for these schemes leaving their existing providers. And what L&G is doing that others didn't.

And thirdly, just on Solvency II, just wondered if you could confirm for us that the application for transitional doesn't affect your dividend policy and moving to 1.5 times cover by net cash generation by the end of the year? Thanks.

A - Mark Gregory {BIO 15486337 <GO>}

Andy, thanks for those. I'll pick those up quickly, unless Mark can add a bit of color, if he wants to add, on the workplace.

In terms of the flows, year on year we had GBP0.5 billion of inflows in the First Quarter this year. So similar to where we were last year. A slight difference in terms of the make-up, Andy. I think last year we had more pension transfers come with the scheme, whereas this year I think we're seeing more of the regular payments coming through quarter in, quarter out; in some ways, the compounding effect of the (fly wheel) of regular contributions beginning to have an impact in workplace.

So in absolute terms the cash flow looked similar. But actually the make-up slighting changing. We're now seeing the benefit of having more members on our auto-enrolment platform, obviously, with pay rises, etc., that impact coming through. Similar, I say slightly different color than what we had this time last year.

In terms of the general re-broke in the workplace market, I don't think at this stage many schemes have actually been formally re-broked. We are seeing some interest, potentially, from broker firm themselves in terms of whether to revisit some of their earlier decisions.

Certainly, some of the companies have perhaps used a -- perhaps their final salary-type solution to actually comply with the auto-enrolment rules when it first came in. I think some of those companies now are looking at -- employers are now looking at whether that was the right answer and, therefore, whether a more DC-focused solution might be right. We are seeing quite a lot of activity in that space. But certainly the general interest in workplace remains very, very high.

In terms of the impact of transitional. And any impact on the dividend policy, we said today that we are -- we will be applying for a transitional provision as part of our Solvency II application. We won't know whether that's needed, or the size of that, until the end of this year, because it's based on the end of 2015 balance sheet.

To be absolutely clear, the transitional rules are very clear cut; any transitional relief will come straight off the debt provisions. That boosts own funds. That's a key component of the Solvency II balance sheet. So it will have no impact on the dividend policy. Clearly, our dividend policy remains as we stated at year end, two months ago.

Q - Andy Sinclair {BIO 17749036 <GO>}

Very good. Thank you.

Operator

Andrew Crean, Autonomous.

Q - Andrew Crean {BIO 16513202 <GO>}

Actually, can I follow up on that question on transitional? If you apply transitionals for one subsidiary, would you then be blocked from getting dividends up from that subsidiary to Group in the case where presumably you're trying to build capital in a subsidiary, rather than reduce it through dividends?

A - Mark Gregory {BIO 15486337 <GO>}

So it's just one question, Andrew? Just to be absolutely clear on that point, I'll probably reiterate what I just gave to Andy on the previous questions; transitionals are clear cut in the way they work. They're absolutely clear, they come off technical revisions, i.e., they reduce your debt provisions, therefore, they increase own funds.

And the Solvency II balance sheet surplus will be cut on the overall state of the overall balance sheet. So it's not about component parts, it's the total balance sheet. So we're not foreseeing any issues with any blockage of inflows up the Group.

Q - Andrew Crean {BIO 16513202 <GO>}

So no fungibility issues from your annuity company in terms of getting dividends up?

A - Mark Gregory {BIO 15486337 <GO>}

Correct.

Q - Andrew Crean {BIO 16513202 <GO>}

Okay. Thank you.

Operator

Greig Paterson, KBW.

Q - Greig Paterson

Just three quick questions; one is in terms of new business release box. What sort of outlook, stable, up, down, for the rest of the year? I just want to understand the trend there in that sort of margin?

I noticed on the individual annuities you had a jump in the First Quarter versus the Fourth Quarter last year, which is unusual in the run up to the (A) day. I was wondering why that was. Did you launch a new product? Or there's some kind of phenomena going on there.

Then on third question, in terms of cost cutting, the GBP80 million, I wonder if you could (inaudible) further into the program and give us an idea of how much of that GBP80 million will fall through to the bottom line. And of that, how much is actually coming through within the target to achieve breakeven on the workplace savings business?

A - Mark Gregory {BIO 15486337 <GO>}

Thanks, Greig. Kerrigan, if you're on the line, hope you still are, can you answer the question on bulk trend in individual annuities, what happened in First Quarter? And I'll come back and say a few words on the cost-cutting program.

A - Kerrigan Procter {BIO 15093363 <GO>}

Absolutely. Thanks for the questions, Greig. Yes. In terms of new business release and the trend in margin, really not seeing any change in that trend. We continue to find what we think are attractive assets, attractively priced assets, to allow us to support that -- obviously, we didn't (show) separately the new business margin. But the ongoing trend in (multiple speakers).

Q - Greig Paterson

So it's roughly unchanged?

A - Kerrigan Procter {BIO 15093363 <GO>}

Yes, roughly unchanged at the moment. Of course, we always come back to our point that we have an internal return on capital hurdle metrics. And we've applied that consistently throughout. So you'd probably expect something similar in terms of trend.

Q - Greig Paterson

Then, the individual annuities, why it jumped quarter on quarter.

A - Kerrigan Procter {BIO 15093363 <GO>}

Yes, I think, probably, Q1 -- no new products in Q1; they came in Q2 with freedom of choice on April 6. So no new products in Q1. We just found ourselves a little bit more competitive while retaining our price discipline. So slightly up from where we were in Q4. But I think the Q4/Q1 run rate is broadly what we're expecting, going forwards..

Q - Greig Paterson

You don't have cap drawdown in there do you?

A - Kerrigan Procter {BIO 15093363 <GO>}

No. We don't, no. No. That's just individual annuities.

A - Mark Gregory {BIO 15486337 <GO>}

Okay. And on the cost-cutting point, Greig, as you say, we did highlight we were targeting GBP80 million of absolute cost savings this year. Obviously, did also, at the same time, where we expected to spend roughly GBP40 million of restructuring costs to achieve it.

So before we get too excited about any bottom-line impact, we will have to expense the restructuring costs at the same time.

Broadly, again, we haven't given too much (away). As I said when we announced it at year end, some of this is just to reflect the fact some of our books are more mature in nature and, therefore, will have a declining revenue profile. Therefore, some of this is just housekeeping to make sure that our cost profile reflects some of our revenue profile to some of these more mature books.

As a kind of rough rule of thumb, I'd expect, probably, about half, or just over half, of that net benefit to drop through to the bottom line. Again, that's not a precise number at this stage. But just to give you some steer about what impact you might see from that.

In terms of the impact you asked specifically about workplace savings, every part of the organization is playing its part. I would say we've designed workplace to be a highly automated process in the first place. We have a highly automated on board in process there. So I think in terms of the net-net-net, probably workplace won't be one of the major beneficiaries from the explicit cost-save program.

Q - Greig Paterson

All right. Thank you.

Operator

Fahad Changazi, Nomura.

Q - Fahad Changazi {BIO 15216120 <GO>}

I'm sorry, I might have missed the answer to Greig's question on bulk annuities. Are we expecting bulk annuity premiums in full-year 2015 to be up on full-year 2014?

And just two other questions. One on LGIM, it looks like the index funds are doing better in Q1. I know we had a big one last year with Tesco. But could you give us some guidance on outlook, how we should be thinking about outflows from the index funds this time around? Shall we take Tesco out from last year and then model up increasing upflows from 2014?

The final question is on LGC. Could you just remind us, again, of your ambition for total assets in LGC. And any color on how much of that will be direct investments? Thanks.

A - Mark Gregory {BIO 15486337 <GO>}

Thanks, Fahad. Kerrigan, you just pick up the clarification point on the bulks outlook. Zink, can you pick up on index? And Paul, at the end, pick up the comment on our ambitions for our asset profile within LGC.

A - Kerrigan Procter {BIO 15093363 <GO>}

Great, Fahad, thanks for that. Really, my answer to Greig was more around the new business release and margin.

In terms of premiums, I'd say 2014, at GBP5.9 billion of bulk premiums, was really an outstanding record year. I'd view that as a tough hurdle to beat, shall we say.

I think GBP650 million Q1 was a good result in bulks in Q1. Plenty of pipeline out there. We talked about GBP10 billion pipeline in the markets. And I think that pretty much remains out there. So there's plenty of demand from the clients. And we'll just be selective about which deals make sense for us in terms of our internal hurdle metric. So positive. But it's a lumpy business and we'll be selective.

A - Mark Gregory {BIO 15486337 <GO>}

Mark?

A - Mark Zinkula {BIO 16142450 <GO>}

In regards to our index business, we are seeing more inflows for the first part of the year outside of UK DB channels. So consistent growth in other channels locally.

Won our first couple of (index) mandates in the US, where we'll talk more about this at half year. There'll be more activity over the first half of the year. Then, have won a couple of managed recently in Asia, which are not funded yet. So we're having good progress, much better progress, in growing our index assets in other channels.

In regards to the outflows, last year we did have an unusual number of large one-off events. So in terms of what to model, I think you have to look at this. (We) (inaudible) of outflows of passive equities from UK DB plans as they de-risk. And fortunately, we've seen that more than offset by growth in our solutions business. That trend will continue. But, again, it will be somewhat uneven year to year. And certainly quarter to quarter.

We are doing a much better job, though, in retaining assets that are switching out of passive equities into other products, de-risking products, which shows up in our market and other line item, movement line item. We are doing a better job.

We've expanded our range of old LDI solutions. And our fixed income offerings, as well as into property, as well. We're seeing a lot of switches, a higher level of switches, into those other products, which not just retains assets. But, in most cases, also enhances our revenues.

A - Mark Gregory {BIO 15486337 <GO>}

Thanks, Mark. Paul?

A - Paul Stanworth {BIO 15495409 <GO>}

Thanks, Fahad. LGC is looking after a portfolio of around GBP5 billion. The returns on that overall portfolio were around 4.5%.

Out of the portfolio, around GBP1.5 billion of that was equities. And we've been acquiring direct investments effectively over time to replace equity at around GBP0.5 billion a year. What it allows us to do is contribute to operating businesses and projects, which can help the access to assets for the annuity funds. And also provide co-investment opportunities for LGIM's funds as well.

The ambition, which was your question, is to replace, effectively, the traded assets we have in equities with real assets for superior returns that give us better access to assets for the annuity fund and bring in more clients for LGIM. Overall, there'll be a sort of enhanced return from those other business units as a consequence of the assets that we purchase.

Our focus is on, which Nigel reiterated, I think, in the last results, housing and urban regeneration; and also, we are looking at where there are opportunities in energy space and alternative finance.

Q - Fahad Changazi {BIO 15216120 <GO>}

Okay, that's great. Thank you.

Operator

Ravi Tanna, Goldman Sachs.

Q - Ravi Tanna {BIO 16926941 <GO>}

Just one question, please, on the impact of the pension freedoms on defined benefit pension schemes.

A number of your peers. And also some of the actuarial consulting firms, were referring to an uptick in the number of increase from customers in DB schemes who are looking to transfer into DC schemes so that they can ultimately cash in their pension pot. So just wandering what your experience has been of this. Have you also seen an uptick? And do you expect it to be a material impact at all on your business? Thank you.

A - Mark Gregory {BIO 15486337 <GO>}

Thanks, Ravi. Kerrigan, do you want to comment on that?

A - Kerrigan Procter {BIO 15093363 <GO>}

Yes, sure. It's certainly been a well discussed topic that deferred pensions could be approached to switch their pensions to DC and then cash them in when they get to 55. I think it's been more discussion rather than action.

And even though enquiries have gone in probably for people checking their pension amounts, I don't -- haven't seen a lot of actual action in terms of transfers. I think it's more challenging to actually go ahead and do it, because you need to get an IFA's advice, show the trustees that you've got an IFA advice. And then find a DC provider who will accept the cash. So it's a fairly involved process.

So no impact on our business as yet. Can't really see that being a substantial impact on our business, going forward. In fact, I think if DB schemes tackle that by reducing their deficit by transferring cash for deferred it would actually free up the market to do even more bulk transfers for pensioners. Probably, overall, it might be a positive if it does pick up. But no pick up I've seen yet.

Q - Ravi Tanna {BIO 16926941 <GO>}

Brilliant. That's very clear, thank you.

Operator

Anasuya Iyer, Jefferies.

Q - Anasuya Iyer {BIO 18981555 <GO>}

I just want to ask about -- come back to the US outlook question. When I think about your business in the UK, I think of it across the pension de-risking spectrum. So I think about index LDI plus bulk together. Should I think the same way in the US? Or should I think of it separately there with you focusing on the index mandates, (instead) of the entire spectrum?

My other question was, with US expansion, is there any Solvency II issue there? I know a lot of European players talk a lot about Solvency II equivalents for the US businesses; is there something there that I should think about for you as well? Thanks.

A - Mark Gregory {BIO 15486337 <GO>}

Zink, perhaps you could comment on the more general LDI index stuff in US.

A - Mark Zinkula {BIO 16142450 <GO>}

From a market perspective, you should certainly think about, (thematically,) the US is going through the same transition in its pension landscape as the UK.

The DB plans are de-risking. And there's a shift from DB to DC. This is playing out in -- in the details it's playing out a bit differently in each country. Ironically, the DB market is ahead of the UK -- the UK is ahead of the US in de-risking. But the US is way ahead of the UK in the growth of the DC market. But it's the same general trends that are happening.

From an LGIM perspective, or a L&G perspective, since we -- our history is in the UK market, we established a sizeable market-leading position in the UK DB market, which we were then protecting. And have been growing actually, as that market's gone from a growth phase to maturity phase. And ultimately into annuitization. Also, we had a buy-out, buy-in longevity risk off-loading phase, which that obviously is -- flows into Kerrigan's business.

In the US, since we entered the market already in this maturity phase, we're establishing our business as a market-leading LDI business. So we built our business starting with a LDI business, rather than index business, for those reasons. But we're now adding the index business to it.

Then, obviously, Kerrigan can talk about his plans for expanding into annuity space. But clearly, we see that as a growth market in the US as pension plans continue to mature and those that can afford it. And desire to do so, will ultimately pursue some kind of longevity risk offloading strategy.

A - Mark Gregory {BIO 15486337 <GO>}

And on your second question around any impact of Solvency II on our US expansion, I think it's fair to say that a lot about pension currently is coming through LGIM as non-insurance business that is not impacted by Solvency II in any way.

Just more general, I just want to say, almost certainly, most of our risk capital under Solvency will be deployed in the UK; and, therefore, it would need quite a material change to our model (factoring in) than it would do in the US to make much of a difference to our Solvency II balance sheet. I'm not saying it's completely immaterial. But I'm simply saying it's unlikely to be a big driver of our ambitions in the US.

Q - Anasuya Iyer {BIO 18981555 <GO>}

Okay. Thank you.

Operator

Abid Hussain, Societe Generale.

Q - Abid Hussain {BIO 17127644 <GO>}

Three questions from me, if I may. The first one on bulk annuities, on the surface, it appears you're focusing on the smaller cases, or certainly in Q1. Can you just talk about the competitive landscape at the small end, the mid end. And the large end in terms of bulk annuity transactions?

The second question is on cofunds. Cofund net flows were about half of what they were this time last year. Can you just talk about what's driving that slowdown, as we had expected a ramp up in flows by now?

Finally, my last question is on Solvency II. You mention, in the press release this morning, the use of transitional arrangements, can you just talk about what product that might relate to? I'm assuming it's probably annuities. And can you also just talk about what restrictions, if any, the regulator might apply, should you go down the transitional route? Thanks.

A - Mark Gregory {BIO 15486337 <GO>}

Thanks, Abid. Kerrigan, if you pick up the bulks question; Mike, if you pick up the cofounds flow point; and I'll come back on the Solvency II impact.

A - Kerrigan Procter {BIO 15093363 <GO>}

Great. Thanks, Abid. On bulks, I think what you can say about the bulk market it's anything but it's not homogenous. Even if you look at the GBP650 million, that's 15 contracts. But they weren't all equal size; there's two larger ones in that. So let's say in probably the medium sized, in terms of your description of the market. And then a few smaller deals.

I guess just in terms of competitive nature, the large deals are just very lumpy. We think we have a USP in that space. It's probably only ourselves who do the larger ones, or maybe there's a couple of other firms who get involved.

Medium and -- well, small certainly felt the impact of the changes of freedom and choice in pensions and increased competition there. So we did less in that market in the last year, probably, less overall in Q1. But that's started to come back. That's starting to become slightly more attractive now. I think the kind of initial reactions have worn through and pricing is starting to look a bit more even across the competition there.

And medium's probably somewhere between the small and large. Slightly fewer competitors in the medium space. Again, the medium space is probably where the majority of the GBP650 million came from in Q1. So definitely some attractive deals for us.

A - Mike Berry {BIO 2386667 <GO>}

Perhaps now if I turn to cofunds, you're quite correct, the inflows into cofunds were a little lower in the First Quarter of 2015 than the First Quarter of 2014.

You need to see the cofunds business as being two things; there's institutional flows and there are retail flows. The institutional flows tend to be a little bit more erratic, depending upon the deals with particular customers. The First Quarter of last year, we had particularly strong flows into our institutional business. So the reduction in net flows over the year represents a reduction in institutional inflow.

A - Mark Gregory {BIO 15486337 <GO>}

(inaudible) your question on transitional, what impact it might have on particular products, just taking a step back, the transitionals work on a total balance-sheet basis. So you simply compare your total (technical) provisions under Solvency II compared to where you were the same thing under Solvency I. They're calculated on a different basis. And if your Solvency II technical provisions are higher than Solvency I then you get transitional relief for the difference.

So -- and that is a total balance sheet impact, rather than any particular products themselves being affected by it. Therefore, as I said earlier to the previous question from Andy and Andrew, we're not foreseeing any restrictions being inappropriate on the back of that, the way the balance sheet will work in a Solvency II regime.

Q - Abid Hussain {BIO 17127644 <GO>}

Okay. Thanks. That's very helpful.

Operator

Gordon Aitken, RBC.

Q - Gordon Aitken {BIO 3846728 <GO>}

I've got three questions on bulk annuities, please. First, in the UK, several schemes have bought buy-ins from you on a slice of their liabilities; that's been an increasing trend. I just wonder what proportion of these do you expect to be pretty much repeat buyers. And just give a sense of the size of this repeat business. And also the probability. That's the first question.

The second one is on the US. It's a follow up from a previous question someone asked about how you're pushing on here. I understand your way in was to sell LDI mandates to big pension funds there. So I just wonder how many of, say, the top 100 pension funds in the US, or whatever number you want to give me, are you managing LDI mandates for currently?

And the third question, on the Dutch market. You talked about some intent here. And I'm assuming that you'd only look at post-retirement liabilities. I just wonder, is this quite a small opportunity, or small potential market at the movement, given that lots of the schemes in Holland are still open? Thanks.

A - Mark Gregory {BIO 15486337 <GO>}

Okay. Thanks, Gordon. I think, Kerrigan, most of those are for you. Mark, you might want to just chip in on the LDI point in the US. But Kerrigan, could you just perhaps answer those three?

A - Kerrigan Procter {BIO 15093363 <GO>}

Yes, fantastic. Mark, I will hand over to you for the comments on number of LDI mandates in the US for the top 100. But just in terms of UK buy-ins, I think it's a very, very good point. It's definitely part of our business model. Our bulk annuities new business team is split into two parts; strategic and core.

And strategic is really about setting up relationships with the top 200 pension schemes, very much with the idea that in our ideal situation there'd be a large initial transaction and then further slices of new business. And so, it's developing in far more of a relationship management business. So I would put it as quite high probability that we'll get repeat business from that kind of strategic relationship with the largest clients.

In terms of the US, clearly, an interesting market for us. Mark, did you want to talk -- say something about the --

A - Mark Gregory {BIO 15486337 <GO>}

Yes, I'll be really brief, because the answer is I don't know. Off the top of my head, we have -- at the top -- in terms of your question, the number of top 100 pension funds that are clients, I don't know that exact number. It would be a substantial number, though, for the top, whatever, five or top 10 pension funds are clients.

And just given the inherent nature of our business model, as you can imagine, a significant percentage of our assets would be with the largest plans in the country, because they are going to be the first to implement these kinds of strategies. And, obviously, do them in size.

So for both of those reasons, a substantial percentage of our assets are with the 100 largest plans in the country. And that portion will continue to grow over time as they continue to implement their de-risking strategies, as they hit their various targets. I just don't know the exact number off the top of my head. But we can get back to you with that.

A - Kerrigan Procter {BIO 15093363 <GO>}

Yes. And just finally, on the Dutch market, we are interested in entering as a reinsurer probably as much as a direct writer there.

Definitely, some opportunities for us that we're following up. We have our longevity pricing basis and investment strategy all set so that we're comfortable with that. And there are deals to be done. But you're right to say that it feels like a smaller market than the UK. And the US, certainly. But we'd expect to see some action there. There's certainly some deals in the market pipeline and things that we're interested in.

Q - Gordon Aitken {BIO 3846728 <GO>}

Just on that last point, you would reinsure -- you'd be reinsuring the major Dutch insurance companies, who are writing this business?

A - Kerrigan Procter {BIO 15093363 <GO>}

Well probably, that's the first option to provide capacity to the market in that way, although there are some ways in which you could enter as a reinsurer directly with pension schemes. But that's probably a bit further down the line.

Q - Gordon Aitken {BIO 3846728 <GO>}

Okay. Thanks very much.

Operator

Jon Hocking, Morgan Stanley.

Q - Jon Hocking {BIO 2163183 <GO>}

I've got three questions, please; two on Solvency II. And one on bulks. On the Solvency II point around the transitionals, I think what you're saying seems to be different than the message we had from the Pru at full year. It may be sort of a new odds. But they seem to be talking about taking the transitionals on a discrete basis for the annuity funds, rather than applying it across their entire UK business. I wonder if you could comment on that.

Secondly, I just wondered whether you, or the industry, had any idea yet about how you're going to communicate when you had some final idea about where the Solvency II numbers sat. And whether you were going to talk about when you had model approval. Is this going to be a 2015 event, or a 2016 event?

Then, just finally, on bulks, just on the pipeline, I just wondered whether you're seeing any impact on the pipeline for the sort of funding pressure we've seen on DB schemes in the course of the recent reporting season from the corporates in the UK. Thank you.

A - Mark Gregory {BIO 15486337 <GO>}

Okay, I'll pick up the first two. Then, Jon, just on the transitionals point, I'm obviously not entirely sure what Nick said at the Pru prelims. I'm sure he was technically right in what he said.

But the way that it works, it is done on a regulated entity balance-sheet basis. So it will be done in that (inaudible) entity and at Group level based on the actual -- as I said earlier, the difference between the technical provisions under Solvency I and Solvency II. So that is the way the directive is set out, it's very clear-cut. And that's the way it's going to operate in practice.

Q - Jon Hocking {BIO 2163183 <GO>}

Sorry, just to follow up on that, some of your competitors have talked about a sort of partial internal model basis. And effectively choosing entity by entity whether they use an internal model or a standard formula. I'm just surprised you're saying you're going to apply it to the entire business.

A - Mark Gregory {BIO 15486337 <GO>}

(I intend to) do it on a regulatory entity basis. So we have various regulatory entities within L&G Group. And then it will also apply at Group level. But within that, we will have certain entities which will be done on standard formula, which are less important from our perspective. And some on an internal model basis. So I think we're saying the same thing.

Q - Jon Hocking {BIO 2163183 <GO>}

Okay. So you're not saying you're going to use the transitionals for the entire Group balance sheet; it's going to be the transitionals for discreet entities, where it makes sense?

A - Mark Gregory {BIO 15486337 <GO>}

Correct. But then (multiple speakers) --

Q - Jon Hocking {BIO 2163183 <GO>}

So you're saying exactly the same as the Pru?

A - Mark Gregory {BIO 15486337 <GO>}

Then, it aggregates up Group level. Yes. We're saying the same thing.

Q - Jon Hocking {BIO 2163183 <GO>}

Okay, fine. Thank you.

A - Mark Gregory {BIO 15486337 <GO>}

In terms of communication, I guess we're all slightly in the same camp here; we're all, obviously, in fairly fluid ongoing negotiations and discussions with the regulator.

I would envisage, Jon, we'll only get clarity very late in this year. And I wouldn't be surprised if the PRA don't try and coordinate it to make sure we all get the feedback at pretty much the same time. I think it would make sense to do that, to an extent. But I think in terms of your expectations, I think it could well be very, very late 2015, indeed, could easily be slipping into 2016, before we have the absolute clarity the market would like to have at this point.

Q - Jon Hocking {BIO 2163183 <GO>}

Okay.

A - Mark Gregory {BIO 15486337 <GO>}

And Kerrigan, on bulks?

A - Kerrigan Procter {BIO 15093363 <GO>}

Yes, just the impact on funding pressures. In terms of the -- want to talk about the market pipeline out there. I mentioned the GBP10 billion figure of the kind of people who are looking for quotes to transact. Just to be clear, they might not all transact this year. But I think most of those have probably gone down the de-risking route, or LDI route in some way. So actually, the continuing fall or lower-for-longer interest rates haven't had so much of an impact on them. So no impact of that size.

Clearly, those further away from de-risking, or just embarking on the de-risking route, they'll be the ones probably most impacted by what you've seen in reports and accounts on the size of pension deficits. So, therefore, may have a longer journey to go before they're ready to proceed to actual pension risk transfer.

They'll be looking actively at pension risk management. So they'll be definitely courted by our LGIM business. But (multiple speakers).

Q - Jon Hocking {BIO 2163183 <GO>}

Okay,very clear. Thank you very much.

Operator

Alan Devlin, Barclays.

Q - Alan Devlin {BIO 5936254 <GO>}

Just a couple of questions from me. First of all, your new business strain was quite low in the quarter, even without the benefit of any large books. I wonder if you could tell us what's driving that. And is that sustainable, if you don't have any major books throughout the year?

Then, I guess, secondly, on your retail protection business, I know you've got a large share of the market there. But the premiums were up and sales were down. I wonder if you could give us some color about what's going on in that market and what the outlook is. Thanks.

A - Mark Gregory {BIO 15486337 <GO>}

Okay. Thanks, Alan. I'll pick up the first one on new business strain; and, Duncan, you can comment on the dynamics in the retail protection market right now.

Clearly, at Q1 and Q3, Alan, we don't give the exact breakdown of by component part of OpCash strain and net cash. To give you a little bit of color, though, some of the benefits we get are simply come from greater scale, full stop. Some of the unit costs, etc., some of our overheads, etc., the bigger the books are in total so some of those unit cost benefits come through to new business strain, or surplus as well.

Some of those is just the fact that the organization gets bigger so we spread our fixed costs more generally. And, therefore, the impact on each component, such as new business strain, does reduce. So a bit of that is going on in the dynamic as well.

Clearly, we'll show a bit more color at the half year, when we actually give the detailed breakdown. But clearly, we are very active in managing the amount of capital and strain we incur when writing new business; that's been true for quite a while now at L&G.

Duncan, just to pick up retail protection?

A - Duncan Finch {BIO 18966514 <GO>}

Yes, just on retail protection, First Quarter, yes, we're satisfied with the performance that we had in the First Quarter in retail protection.

Quarter One 2015 did reflect slightly lower volumes of retail protection business compared to the same quarter in 2014; that was a very strong quarter. But underneath that, the underlying business that we have in retail protection continues to perform very strongly. New business, obviously, is only part of the story. As Mark said earlier on, overall GWP for retail protection is up 6% year on year.

In terms of full-year outlook, I'll just direct you to the outlook statement that we've got that talks about where we will be on the full year in terms of new business volumes and margin.

Q - Alan Devlin {BIO 5936254 <GO>}

Thanks.

Operator

Ashik Musaddi, JPMorgan.

Q - Ashik Musaddi {BIO 15847584 <GO>}

A couple of questions. First of all, sorry if you have already answered this. But can you tell us what sort of transition arrangements are you using? Is it mainly on the discount rate? Is it mainly on the asset-risk charges? Some sort of color on that.

Secondly, I guess, you have a big deferred annuity book as well in your annuities, I think it's around GBP4 billion or GBP5 billion, whereas I heard that there is no matching adjustment will be applicable on this particular book as of now. Any thoughts on that? What are you doing with that book? Is there any issues with respect to capital on that particular book, how you'll be using that under Solvency II?

Thirdly, just to cross-check, the lower volumes in bulk annuities, has it to do anything with Solvency II, i.e., are you pulling back on bulk annuities at the moment because of uncertainty on Solvency II? Or is there -- no, it is just a timing thing, rather than anything else? Thank you.

A - Mark Gregory {BIO 15486337 <GO>}

Okay. Thanks, Ashik. I'll probably pick up all those myself. (Don't forget), I feel a bit like a cracked record on the transitional point. I keep going back to transitionals are calculated based on total technical provisions by regulated entity compared Solvency II with Solvency I. That is the way the rules work. So I think people are looking for shadows which don't exist. It's very clear-cut. It's defined in the directive.

We will make an application. We won't actually know where we need them, or what size we're going to need them, until -- it'll be based on the December 31, 2015 balance sheets. So that's the way the rules are going to work, in practice.

In terms of your point around matching adjustment applicability to deferred annuities, I'm afraid, you're just wrong on that. The MA rules are the MA rules. And whether it's deferred or an annuity payment doesn't matter, it's still eligible for matching adjustment treatment.

And your final one about whether we're pulling back on volumes in respect of -- with one eye on Solvency II, I think Kerrigan's already picked up the point.

(Actually,) they're down to the market are that the bulk market remains pretty lumpy; with GBP655 million, was a good First Quarter for bulks. Clearly, we recognize that Solvency is coming down the track. And we're happily writing new business and recognizing the likely landscape with a capital regime post this year. So certainly no impact on Solvency II in terms of the amount of business we're writing in the bulk space.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thanks a lot for your clarity. But just coming back on your bulk deferred annuity point, I thought that matching adjustment is only applicable to businesses where you have fixed cash inflows and fixed cash outflows, i.e., there is no optionality.

But if you think about deferred annuity book, my sense is that there is a huge amount of optionality because of the recent pension freedom. So would matching adjustment still apply on that? Sorry. But I got a bit confused on that. Any color on that would be really great. Thank you.

A - Mark Gregory {BIO 15486337 <GO>}

I stick to my answer I gave earlier, Ashik. We still fully expect the matching adjustment to apply to both deferred and to pensions in payment on our annuity book.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay, that's very clear. Thank you.

A - Mark Gregory {BIO 15486337 <GO>}

Okay, I think that's probably the last of the calls. I thank you all for your interest this morning. And we'll see you again shortly.

Operator

If you had wished to ask any more questions today, the Legal and General investor relations team will be happy to assist outside this call.

Thank you for joining today's call, ladies and gentlemen. You may now disconnect your lines.