S2 2014 Earnings Call

Company Participants

- Adrian Gore, CEO
- Ricky Farber, CFO
- Unidentified Company Representative, Unknown

Other Participants

- Unidentified Participant, Analyst

Presentation

Unidentified Company Representative

Good morning, ladies and gentlemen. Mr. Adrian Gore, Richard Farber and the members of the Board and other executives of Discovery, the Investment Analyst Society. We'd just once again thank you for hosting us today in the presentation of the results of the Discovery Group for the period ended December 2013.

Discovery is still a young company, it's only 22 years old. I think it's been listed for about 15 years but it's already attained a status of being one of the top 50 companies in terms of value market capitalization here in South Africa.

It's also got a global footprint and the very foundation of this company stands on creative innovation for its stakeholders. And the stakeholders are those who participate in its medical assurance and its products life expectancy. Those that are employed by the Discovery Group.

And then for us as stakeholders, as shareholders, talking to just a few of the delegates who were awake [ph] before we came in, just about everybody up there has got a stake in Discovery. So Mr. Gore, thank you very much for hosting us here once again today. And we look forward to gaining further insights into this dynamic group and one of our greatest companies in South Africa today. Thank you.

Adrian Gore {BIO 3068929 <GO>}

Peter thank you for the kind introduction. It's quite a high podium, can you see me? A bit imposing up here. It's an absolute wonderful pleasure to welcome you on behalf of Discovery. We have all of our senior executives here, a lot of Board members here. So welcome to you all and we really appreciate your time.

It always gives me great pleasure to announce and to tell you about our results and this is for the six months to December 31, 2013. I'm going to give the presentation as usual. I'm going to be joined by CFO, Ricky Farber afterwards to take questions. And as usual we are out in the audience with you later for any specific questions you'd like to deal with.

So let me begin by saying that I think it has been a wonderful period for Discovery. It has been a period of frenetic, frenetic activity in a number of different ways. Across all of our businesses I think we're building, we're learning, we're growing. And there's certain themes that I think are quite critical that I'd like to talk about in this presentation.

Firstly just to frame the results in terms of the numbers. Normalized headline earnings up 22% as you can see. Strong new business growth at 19% is just under ZAR6 billion. The quality of earnings I think has been very good.

So we've generated ZAR1.3 billion of cash in the period and you'll see the embedded value grew by 19% to just under ZAR40 billion, with very strong positive variances illustrating the quality of the business over the period.

It's an interesting thing that when you kind of look at the growth over the years you can see that when you look at new business normalized headline earnings, we've managed to grow it at earnings of 20% plus for a decade or longer since the inception of Discovery and we've managed to do that without recourse to much capital. At the same time on the right hand side you can see that our return on capital has exceeded risk free by 10% or more over again a decade or more.

So the performance, I think has been very strong, organic. And I think it raises a pretty central question about competitive advantage and it raises the question about sustainability of that growth. The question really is, what is driving it? And I would say that the answer lies, it may be a paradoxically soft idea. Our core purpose of making people healthier.

At every presentation I kind of make the same claim that is our core purpose, that's why we are here. And I believe it's made Discovery different from a moral intent perspective. But somehow when you juxtapose our core purpose with the hard realities of the financial numbers, the two kind of don't go hand in hand, they seem in a sense contradictory.

I want to show you -- just digressing slightly from some of the research, to show you why that purpose is so important. Why it provides for us kind of a competitive advantage, a motor round what we do that gives us real sustainability of growth. And I want to digress to some work done by Bain and Company -- in fact we've done some work with them, in fact on one of their case studies on this.

But it's interesting that in their research that they've done internationally and I urge you to read it, fascinating stuff. It really looks at the issue of sustainable growth. And what Bain did is they analyzed 2000 public companies greater than $500 million in revenue. So large companies and effectively seek out the answer to what makes companies grow sustainable.

And the idea of sustainable growth was a hurdle of three components as you can see on the chart. Real sales growth of 5.5% in other words growing of sales by CPR plus 5% or more. Can you achieve it? Can a company achieve it? And profit growth real of 5.5% and your total return to shareholders exceeding the cost of capital of the shareholders. If you can achieve all three of those, in their view that is sustainable growth.

And what they did is, they looked at 2000 companies across, I think, 33 countries, developed and developing. And they found amazing results as you can see. There's quite a steep waterfall. In reality only 12% of companies managed to achieve all three. The rest somehow got caught on one or two or three of the hurdles.

So they found that 88% of companies were not really growing sustainably at that rate but 12% were. And of course once you've taken it into account the real question is, what is the common attribute of those 12% of the companies? And what Bain found is the common attribute is a repeatable model.

A repeatable model that is based on a well-defined core, a purpose, a capability, clear non-negotiables and importantly a closed-loop of learning that creates a vicious cycle that lets you repeat in scale. That is the common thread that makes these companies.

Two observations, one is kind of -- it may sound flaky but in reality it's entirely intuitive. If you're growing sustainably you've got to have something that you can repeat or else you're growing opportunistically. You know, you're buying a bottle store then a hospital and a bank then -- you know, unless you actually can start businesses and repeat a purpose, you're not really sustainable. You have to raise capital and make acquisitions to grow.

The other observation that I would say to you is that you either have a purpose or you don't. You can't read the research and say, well new need to get a purpose so we can grow. This is retrospective research, either you have this or you don't. And to an extent I would say to you that Discovery's strength has been exactly that.

Our core purpose of making people healthier has led to a repeat of a model that is repeatable and it's scalable. That core purpose of making people healthier has given us an ability a chassis to build superior insurance systems that meet the needs of our customers better and provide better returns to shareholders.

And I would argue that over this particular period there's been a very strong focus on the discipline of that repeatable model, how we roll it out into different industries, adjacent industries like motor insurance or short term insurance. How we roll it out into adjacent countries like the UK or elsewhere.

And to an extent that core purpose has a number of non-negotiables. The first is it's based on using behavioral science to influence our customers' behavior to achieve better mortality, morbidity and financial outcomes. The second is on the back of that, building brilliant disruptive products and insurance businesses that meet the needs of our customers in unique ways.

The third is, on the back of that chassis, powerful integration between our businesses and products and data being generated to create a kind of a virtual [ph] cycle that we can use. Then finally and critically value for society. Better value to our customers, better value for shareholders and critically a force for social good. And that really is the Discovery repeatable model; the core model that I think underlies what we do.

So if you accept this bit of research then I'd like to take it a bit further and say to you that if you're growing organically and you're repeating and scaling, what you would have at any point in time is a set of businesses at different points in their evolution. You've got businesses that are mature and existing, you'd have emerging business and you should have, kind of, a box full of new opportunities based on the same model.

And if you look at the Discovery portfolio, I'd say to you that's exactly what we've done. In fact, sorry I've jumped one point -- I just want to make this one point while I'm here. Is if you superimpose the Discovery performance on the Bain hurdles, you'll find it clears them quite comfortably.

So our sales growth has been nearly 8% real, our earnings growth has been nearly 18% real and our return on capital has been about 12 or 13percentage points above the weighted average cost of capital. So we're clearing those hurdles I mean quite clearly.

But the point I want to make is getting back to the actual performance. And to an extent I want to restructure our portfolio, our set of businesses. Not based on, kind of, geographic spread but based on how they emerged in terms of time.

So we have the kind of established businesses, Discovery Health, Discovery Life. We have the emerging businesses, the PRU joint venture that's now become a substantial business and opportunity in and of itself.

Discovery Invest that's been out there for a number of years. Then I think a bunch of new businesses that have great opportunity going forward. Discovery Insure that's a few years out of the gate, Ping An Health and then globalizing Vitality that we're attempting to do.

And to an extent, that is a consequence of the repeatable model, which is starting business organically, you're rolling them out and they should emerge over time in the right way. I would say to you that to an extent if you look at how the period of the six months under review has played out, I think the performance is very strong.

Our established businesses are performing way above inflation. I think above a lot of our competitors in terms of growing at 17% as you can see. Despite the fact that Health and Life are number one in their categories in terms of market share. So the ability to grow should be intellectually possible at that rate but we are doing it. And I think that's to an extent the power of the model. I'll take you through that a bit later.

I think very exciting in the emerging businesses in the middle, Discovery Invest and PruHealth growth has been staggering, up 33% to over ZAR0.5 billion for the six month period. So these are businesses that have now are a ZAR1 billion of earnings on an annualized basis and I believe we can grow them a lot stronger going forward.

Again critically I need to underscore and I hope that comes through, especially in the context of PRU. The rollout to the -- of the repeatable model is very strongly in there. Then we're investing about 9% of our operating profit on these new businesses. Discovery Insure is consuming about half of that. So we're spending about ZAR100 million, I'll touch on that a bit later. And the balance we're spending about 4% to 5% on a number of opportunities at (inaudible) are life and capital that have great potential to take the model into a global sense.

So to an extent what I wanted to frame in these results is a very strong focus and discipline on the repeatability and the difference that makes Discovery and try and illustrate that it provides core competitive advantage that's difficult to compete with. And then importantly the ability to scale and repeat it to grow strongly organically. I think that the numbers to me show, I think, very good evidence of this. Of course we can and must do better but I think the growth has been very, very strong.

Let me just in the context of that, just lay out the actual earnings growth by business. You can see normalized profit from operations up 21% to just under ZAR2.4 billion. You can see that's made up by the established, emerging and new. You can see both Discovery Life and Discovery Health have grown, I think, very robustly.

Discovery Life had a particular good period, 21% up period on period. You can see the PRU businesses have grown nicely by 27%. Discovery Invest really getting scaled up nearly 50% and you can see Discovery Insure kind of flattened out, at ZAR100 million, we think it's turning the corner and hopefully moving towards profitability.

And I made the point we spent about the other half of that 9% on a number of opportunities that I'll touch on a bit later. If you look at new business production, quite substantial, up 19% year on year. You saw from the previous graph it's actually substantially bigger growth than we've seen it in the past. We've been typically at about 13% to 15% so this period under review I think has been very, very strong.

Discovery Health had a remarkable period in every respect. I'll touch on that a bit later in the presentation. Off a very high base, up 15%, Discovery Life up 11%. Vitality waxes and wanes a bit, we've actually focused our D2C capability on Insure so that's cost a bit of business in Vitality. I don't think it's a real complex issue.

The PRU business has grown 35% as you can see. Discovery Invest had also a very strong period. Discovery Insure has been in a sense the star of the show, up 40% in the period under review. In the Vitality businesses we're trying to globalize, we had a very big, lumpy (inaudible) come on a few years ago and over the last few years so that will not repeat.

Then the thing I want to touch on a little bit later, is there's been a very strong focus on proper specialized health insurers, very strong growth there in a market that's emerging and I'll give you a bit of insight into that later.

So across the board I think the performance, I think, has been strong. The 19% growth in new business is dramatically more, I think, than it's been in previous years. The embedded value does reflect -- beside its absolute quantum -- the quality of the earnings, you can see the EV has grown by 19% to just under ZAR40 billion.

But the important thing I think is on the right hand side. The growth in the EV -- a lot of it is the value of new business being written which is profitable and that's of course an important thing.

But then the positive experience variances. And to an extent you can see the positive lapse experience and the positive mortality and morbidity experience on the left hand side accounting for about ZAR300 million to ZAR360 million of the ZAR600 million or so of positive experiences. Now that is a critical point because the nature of the model is about making a better customer stick here, staying with us and driving down mortality and morbidity costs.

And therefore if you're doing well, if the model is working, the fundamental test is obviously in positive experience variances around lapses and mortality and morbidity. And I think in the period under review, you can see fairly clearly that that's exactly what we are seeing.

Just to give you a sense of the efficacy of the model, I find this really, really instructive. If you look across what we're trying to do -- behavior change of the chassis, this is our core repeatable model based on the core purpose. Change behavior and on the back of that get better mortality, morbidity and persistency results out of this. No matter how you cut the data the correlations are absolutely definitive.

The more people engaged in Vitality, the lower the claims are. Whether it's health insurance, life insurance, short term insurance if they engage in how they drive and that's a critical issue. We found the same with lapses. The more people engage, the lower the lapses are.

Now we don't know every bit of causality in this but the correlations I think are absolutely and totally clear. We're even seeing it on the right hand side in the banking context with Discovery Card, the more people that are engaged in Vitality, the lower their default rate is.

So to an extent, everything is kind of unidirectional. As long as we can get people engaged and can build up that chassis, the ability to build superior insurance businesses and products on the back of that is real and I think very, very powerful.

And to an extent it is this dynamic that has underscored everything we've done in the period under review. And I think there's been a much tighter discipline on making sure we stick to this in every one of our businesses. So although we've spent a decade or more on building this out, in truth we're just learning to an extent the power of what this can do.

So let me then turn to some of the business specific observations and I can't touch on everything so I'm going to try and give you a bit of a cross section and then go to certain of the businesses and give you a view of them.

Discovery Health, I think, had an unbelievably good performance. It has really done well in every respect off a very high base of a very big footprint, growing its new business 15%, earnings 13%. We're building a healthcare system around our members that I think is robust, big, excellent, comprehensive.

It has no choice but be excellent in every respect Discovery Health. It operates in a very complex environment and the only antidote to that complexity is excellence in every respect, I think it's doing that.

Discovery Life had a great period with our operating profits up 21%, quite remarkable. The real driver of Discovery Life profitability is the quality of business and I would argue on the back of the repeatable model. You'll see that lapses and mortality experience is better than expected that's driving the right kind of behavior change.

And to an extent I think Discovery Life has become the benchmark of what we can do in insurance, life insurance, internationally. So we spent a lot of time in the period under review -- and I'll touch on that -- validating the model and kind of codifying how can you apply these in other markets.

The businesses in the UK the joint venture, we own 75% of PruHealth and PruProtect. I think the performance was exceptionally good. The last performance was also good, on the back of that the combined profits grew 27%.

New business up 35%. I'll show you a bit later that in fact the same discipline has been applied. There's been a very strong focus on integrating with Vitality. The notable thing to me in the period under review has been PruProtect's rollout of the Discovery Life product in the UK and hopefully you will see that quite clearly.

I've made the point about Discovery Invest, the performance is remarkable. Profit growth up nearly 50%, assets under management up 35%. The real driver of that profitability of Discovery Invest is getting scale. So expense efficiencies coming through driving that profitability.

Discovery Insure showed a remarkable performance. I'm going to take you through that later in the presentation [how the] hypotheses we made about the repeatable model in an adjacent industry. Taking this idea of making people healthier into the concept of making people drive better and what that leads to. And I think you'll see the power of what has come out.

We continue to invest in Vitality significantly, a lot of focus on the science of Vitality, on digital applications and mobile telephony. I'm not going to touch on them in this presentation.

A very good period for Ping An Health in China, very good traction in the group market. We are focusing hard on building a really powerful capability in China. The market is emerging relatively quickly but it's still small. I think we have to moderate expectations about what can be achieved in the short term.

We've taken a long term view, we're building a great business in China in every respect. Loss ratios are in check, lapse rates are in check and I think what we're trying to achieve is to an extent a core option on the Chinese health insurance market as it emerges.

Then finally we're focusing on a capability and I think this presents great opportunity. It will take time -- we want to globalize the Vitality capability and provide a chassis upon which other insurers can rest in markets that we don't see ourselves being present in as an insurer.

And to the extent that underscores the strategic rationale to the AIA Vitality initiative, it's early in its evolution. We've spent a lot of time and focus on investing in the core capability of Vitality and again I'll give you a bit of insight into that very, very briefly.

So all in all I think a very, very busy period. What I'd like to do is make some comments on some of the businesses and give you some insight.

It seems very serious in here, things are good, okay. So let me talk about Discovery Health. I think the performance in this particular period has been quite remarkable. I made the point I think Discovery Health has no option but to be excellent in every regard.

The performance is strong. The total lives that Discovery Health manages is touching on 3 million, mainly the Discovery Health Medical Scheme but you can see that there are a lot of corporate schemes that are now coming on to the Discovery Health chassis and that's growing quite nicely.

New business is up 15%, earnings, as I said, up 13%. You can see in line the orders of magnitude of previous periods. But in fact slightly faster [ph] especially new business. So Discovery Health I think is growing nicely.

The performance of the Discovery Health Medical Scheme I think has been remarkable. You understand the Scheme is a separate entity with its own trustees. Its financial year is the calendar year. But I do want to give you a sense of the performance of the Discovery Health Medical Scheme. You can see that the surplus generated over the calendar year 2013 was ZAR1.4 billion, dramatically ahead of previous periods.

And the solvency levels have now breached the 24% level. That's a remarkable result because the solvency calculation is reserves over contributions. You understand the contributions grow at growth plus medical inflation, you have like a very geared situation. So to keep growing that solvency in a growing scheme is very difficult. Despite that I think the Discovery Health Medical Scheme has performed remarkably well.

But I think it's the dynamics inside the Scheme that illustrate the quality, I think, of what Discovery Health is doing. The loss ratio has come down quite significantly. Now understand this is 2.6 million lives, it doesn't move around that quickly. So we've set a target of trying to get to a 98% loss ratio.

You'll see that two years ago the loss ratio was a slight underwriting loss at 101%. It's come down nicely to about 97%. So to an extent it's outperformed, I think, what we expected would happen and what the trustees set out as a goal.

The lapse rates have come down and continued to come down. It is remarkable, I don't believe there's any health insurance system in the world of this scale that has a lapse rate anywhere close to that. But even if you double that I think you'll find it difficult to find that kind of lapse rate. The truth is people are joining us in massive numbers and are not leaving. And that's what's happening inside the Discovery Health Medical Scheme.

Then another indicator that I think is crucial to look at and that's benefit buy ups and buy downs from one year to the next. What actually happens to people who buy up their benefits or buy them down, you see remarkable stability.

So in 2014 only 5% of (inaudible) members bought up or bought down. 95% of people stayed where they were. So there's a certain rigidity I think in the system and that's absolutely critical in the complexity of the South African health insurance system.

The model itself I would argue is working remarkably well. The key issue is about engaging people not just in paying for sickness but in trying to make them healthier and engaging them about actually getting healthier, behaving in a different way.

And critically in an open enrollment community rated environment, Vitality gives the stability to offer value for money to people who are not necessarily claiming. And that creates -- that leaves the risk to a whole and does all of the right stuff. You can see on the right hand side once again the correlations to claims and lapses are incredibly strong

There's an inverse correlation, the more engaged the lower your lapses the lower your claims levels. That is a fundamental stability pin inside the Discovery Health Medical Scheme.

I think we should be clear what we're trying to do here is build a healthcare system for our members, the people that we manage that is bigger and better, more complex, that is secure, that is robust and that is an asset not just for our members but broader society.

The journey that members take [ph] through is, is the healthcare affordable? Is there access to the right kind of doctors? Are the benefit structures appropriate and provide the right kind of coverage? Are the health outcomes of great quality and finally when they (inaudible) us from a service perspective, is that service brilliant? I can tell you that the scale of investment and there's just the raw scale of Discovery Health is remarkable. Their assets and structures are in an integrated way underpinning every single thing we do and at every presentation I've tried by best to highlight those kind of things that I think is important.

In the past I've made it clear that our members pay about 15% less for healthcare than they would [benefit for] benefit with our competitors. We have about 90% of doctors in our networks in a sense our benefit structures and plans are the broadest in the industry.

I've focused in previous presentations on things like health ID where we've offered doctors the ability to have electronic patient records and the ability to actually manage patients in a real time way and then focused on service in previous presentations. So to an extent I think the quality of the entire patient journey is exceptional. I think in the period under review we've tended to accentuate that.

There are a few things I'd like to comment on. The first is medical inflation. This is our biggest enemy and it's a fundamental social responsibility to keep healthcare affordable. We've got a rate increase through from 2013 to 2014 (inaudible) have worked on over this particular period under review of about CPR +3% 8.9% you can see on the left hand side in the gold bar.

I wanted to make it clear what makes that rate increase up. About I think two presentations before I did the same thing. But I'd like you to understand what we're dealing with and what we're managing.

The first is tariffs in other words what tariffs increase by from one year to the next, what you pay doctors in hospitals for a given service. That's about 6.5% up 2014 versus 2013. I think we've done a good job of holding that down at the corporate level.

We've had an explicit strategy of paying doctors above inflation slightly over time and I think that's a good thing frankly. There's a lot of debate about that but that's been our approach and of course the trustees of the medical scheme believe that strongly as well.

The complicated stuff in healthcare is the stuff that you don't see. Inflation is not driven necessarily by costs of goods and services it's driven a lot by utilization. One of the critical things is the demand side. In the middle there 2.4%. The truth is no matter what you do you get adverse selection, you get an ageing of the scheme with open enrollment community rating you get all kinds of patterns that happen and that drives up costs by 2.4%.

Then unlike other industries with healthcare technology drives costs up. In many industries technology leads to efficiency. In healthcare what's happening is per illness type, per units of disease we throw more at people, more technology et cetera and that costs money. I think that's an excellent thing but it -- there's a financial cost to it and we -- that adds about 1.9% so you can see that if you bring it up in total, you're close to 11% or thereabout.

The administration fees of the Discovery Health Medical Scheme continue to go down. That's deflation of about 0.5% and then the performance of the actual reserves and the loss ratios has given us the ability to release about 1.4%. So in total it gives you the 8.9% that's about CPR plus 3%. Interesting if you benchmark that against other countries in the middle of the chart you'll find that in the lower quartile.

The tragedy of healthcare, the complexity of healthcare is no matter what you do inflation rates tend to be above CPI. If you put salary inflation out argue maybe salary inflation is a percentage higher so we probably; salary inflation plus 2% but that really is the challenge.

On the other side I would also make the point that we've managed to keep quite a stable process over two decades. So we've been at CPI to CPR plus 3% for the last 20 years and that continues. That stability is fundamental in a health insurance system. It provides the right kind of expectation and it makes it clear to members what they can expect and we've managed to keep that going.

So I would argue in terms of cost inflation we need to do better but I think we're doing reasonably well and I think we're doing it in a stable way and we have to focus on that very carefully.

The other point I wanted to make is the issue of quality. There's a lot of debate about private healthcare et cetera. I think the key in this debate is just to remember that our doctors and hospitals are doing a good job. The quality of care is good, the access is rich and the quality is good. So if you cut the data in different ways we've taken here acute myocardial infarction, a heart attack.

And looked across 110, 115 hospitals at the mortality rate you can see the average mortality rate is about 7.4%. If you look on the right hand side in the EU across different countries it's about 5.5% to 7.8%. So in fact mortality rates are not dissimilar to advanced countries with very sophisticated healthcare systems.

Our role at Discovery Health is to try and obviously influence that quality up. We're trying to get rid of that variability. You can see in the yellow on the graph the variability is quite substantial. We're trying to minimize the variability but I would say to you that in addition to trying to keep cost inflation stable the quality of healthcare and the quality of outcomes is very, very good.

The other point I wanted to make is quality of service levels from Discovery Health to our members. It's an interesting that every time our members deal with us we have to go through a process called MBR scores, Member Based Research. We survey our members on the service they get. So this is not a one-off survey it's a real time process we go through all the time.

It's remarkable that we're scoring close to 9 out of 10 and if you actually look at the period under review we sent out 400,000 of these surveys but the response rate is pretty high about a third of people respond. You can see on the right hand side the distribution of those responses that the majority 70% -- 80% or more are rating us 9 or 10 out of 10. So the service levels, I would argue, is we're giving them is very tight and very, very good.

The difficulty here is there's no hubris here at all. The difficulty here is that unhappy tale of 9% although it's just 9% is 9% of 400,000 that's a lot of people. That's 36,000 people right that would rate us badly. So it is just giving a scale of what we deal with, the intensity of service interactions. You've got to be absolutely brilliant to keep people happy and we know that.

So there's a very difficult environment here of complex medical inflation, of medical outcomes, of service, all of it is complex. But I would say to you that in summary if you take the member journey I think the journey's a good one. Nearly [ph] a third of all people using private healthcare do so through Discovery Health.

They're joining us in big numbers and they're not leaving. They're paying 15% less for healthcare than they would elsewhere and it's inflating at a predictable CPR plus 3%. They have access to 90% of doctors from an access perspective, they have the broadest benefit choice, 98% of our hospital claims 96% to98% of their claims are in fact covered. The quality of health outcomes is comparable to some of the best economies in the world and the service levels are very good 80% or 90% rating us now on a 10 out of 10.

So if I put it to you that way I would say that we're building a very robust system and I believe a system that is an asset to our members critically, I believe a system that is an asset to the country and hopefully will play its role in an emerging NHI [ph] environment.

I also need to say that in terms of the Competition Commission we think that the more that is revealed about healthcare the better. So Discovery Health is a repository of all the data we look forward to cooperating in every respect in that. I think that the more is known about what drives healthcare costs the better. So the performance of Discovery Health I think has been quite staggering.

Then we move onto Discovery Life. The performance here I think also has been strong. I'd showed you the numbers earlier before. Earnings up 21% ahead of previous periods, new business up 11% again ahead of previous periods. Discovery Life I think is increasing its market share.

You can see the quality of earnings is interesting. I made the point about the embedded value on the left hand side I've just listed out there the experience variances over the period. You can see that both the lapse and mortality experience variances are very, very positive. At the same time that complicated slide to the right is just illustrating the cash flow that came out of Discovery Life in the periods, it's throwing out cash at the same time.

So I think the performance in terms of quality is very, very good. The question is why? I would say to you that this is a very good example of the Discovery model at work. The breakthrough of integrating Vitality and behavioral change into life insurance has been a fundamental thing for us. It happened about a decade ago and we spent a decade understanding it and tailoring it in the right way.

The reality of traditional life insurance is you fill out an underwriting form and you pay a fixed rate for the rest of your life and that's how it is. Despite the fact that half of mortality and morbidity is driven by behavioral choices that are made during the currency of your policy. So what you get is kind of an adverse selection force.

Over time that fixed rate is deemed to be too expensive for healthy people and deemed to be low for sick people. So the force of selection is the wrong way round. Healthy people tend to leave and sick people tend to stay and you get over time worsening mortality.

The Discovery Life model is fundamentally different, you come in at a lower price on the right hand side and then as you engage in Vitality you get this dynamic pricing and the fundamental issue about Vitality is it's not just a clinical tool but it's a rating factor, it's a dynamic rating factor changing rates dynamically over time. If you engage heavily you find that your rates go down.

If you don't engage over time the rates in the blue go up and ultimately they break through the market rate. By doing this you get this dynamic pricing force, you get the right kind of selection because better engaging people are getting better value for money and then they tend to stay not leave. So the entire dynamic is very, very different.

Again just to make the point about the correlations between Vitality claims and lapses you get the theoretical -- sorry in practice you get the correlations that we hope for but I think what's interesting intuitively or intellectually is on the right hand side. Think about this, what happens is a bunch of lives join us, take out their Discovery Life policies, typically we're getting better selection on the way in as well.

So about 70% of them are blue members not engaged in Vitality, already 30% of thereabout are engaged. But the fact that they lapse at different rates so your unengaged lapse at a higher rate, you find that in five or 10 years' time the makeup is completely different. Your stayers are the engaged people and your leavers are the unengaged. So the constitution of that block of business is fundamentally different.

So in five or 10 years' time as you can see from that right hand shot you'll find that 49% or 50% of the group are highly engaged in Vitality and they're exhibiting lower claims and they're exhibiting lower lapse rates. So you have an embedded base that in fact is of greater quality. And that's exactly what we've seen in practice.

So if you go back to the experience in the period you'll find that those lapse rates have continued to come down below the embedded value assumptions and mortality continues to outperform the embedded value assumptions leading to the quality of the business that we've seen.

You can also see that the product design that we've created that has cashback (inaudible) Vitality, cash payouts based on Vitality engagement your prices go down based on Vitality engagement leads to massive levels of engagement.

So if you look over the last 5 or so years you can see that the growth in the silver members in Vitality has more than doubled, you can see the number of gold members has climbed by more than six times in the Discover Life base. And as you can see that the incentives are having an amazing effect on behavior change. So the performance I'd argue is based on the applications of Vitality integrated [ph] system that Discovery Life has built.

It's interesting that if you actually look at the financial value created for society, for shareholders and policyholders it is remarkable. In the last bar, sorry the June to December 2013 you can see that the savings from the effect of Vitality to both policyholders and shareholders from lapses and claims is about ZAR600 million and it's been of that order of magnitude over the last number of years.

I think the real power of this model that makes is so applicable is it creates value for both policyholders, they get lower premiums, they get cashback. And shareholders in terms of what of I've just shown you, you can see on the right hand side that there's a sharing of that value. The sharing currently is about 90% policyholders and about 10% shareholders. But as I said to you, I think the system is working remarkably well.

The work done over the period and this was not simple getting this to a point of absolute clarity, was codifying the model to make sure that we can repeat it in other markets. So understanding all the aspects of the dynamic pricing, how big -- how deep that discount should be, how those different statuses should escalate, the time to break through to getting the right kind of selection levels, the level of gap between the different statuses.

The nudges through the behavioral change through the cashback benefits have all been codified in a way that we understand them now in the context of inflation, policyholder expectations et cetera. Therefore we've got a model that is transportable and replicable.

Then another breakthrough during the period is the differentiated mortality that we're experiencing on the right hand side. Together with our re-insurers we've agreed that that's how we price mortality. So we have the ability to offer other markets differentiated mortality rates together with our insurers based on Vitality status.

To an extent it's that breakthrough that gives us the ability to repeat in other markets because it gives us essentially a transportability of pricing mortality differently based on Vitality status and I think that breakthrough has been a very important thing.

It has given confidence about what we can do in PruProtect. And I'll take you through that right now. Then also confidence in markets like AIA where we essentially can offer that capability in a box ready to go and that really is -- does talk to the repeatability and the scalability of the model.

So the PruProtect roll out in this particular period was based on the work done in Discovery Life too to a large extent. And I think that's a good segway for me to just get to the British businesses. I think the performance in the UK has been strong. I think two points that are worth mentioning in the UK business. One is that of course the exchange rate is on our side but not to the extent that you'd think, because if we actually look on a weighted average basis over the period.

So in these numbers is not the full effect of the exchange rate it's based on month by month depreciation of the rand. The (inaudible) that I think we've done the hard yards in the UK during a very difficult time.

So invested during a time when our currency was strong and I think that's good and at the same time the British economy has been relatively depressed and so we've done hard work in that. I'm hoping that as the British economy lifts up things like PMI and a lot of work done inside PruProtect are going to improve.

So the hard work has been done during that period. Despite that I think the performance of the collective business has been very, very good. New business up 35% just under a ZAR1 billion of recurring premiums. You can see operating profit growing strongly. The business is getting close to ZAR0.5 billion of -- getting close to ZAR600 million, ZAR700 million of profitability on an annualized basis so it is substantial and becoming of scale.

Let me talk about each of the different business separately. PruProtect I think had an absolutely tremendous period, new business up 22%. You can see in the previous period new business was up 58%. If you recall one of the very complicated things that happened a year ago was that the tax base in the UK changed for life insurers.

There was an abolition of the (inaudible) tax basis which meant that rates went up from 2013. At the same time the gender directive from the EU meant that you can't differentiate based on gender from 2013.

So what happened to the comparable period was a massive run on new business. So you can see the growth of 28%. So PruProtect's ability to grow off that base by 22% I think has been remarkable. Earnings have grown nicely up 27% and I think the experience is very, very good.

The real issue and it comes back to the repeatability of the model. The real issue in the period under review has been a very disciplined roll out of a Discovery Life product into the UK. Around the end of the Third Quarter so around about October -- September, October we rolled out the Vitality Optimizer. It really is a replica of the Discovery Life product integrated into Vitality.

We reworked Vitality, we gave deep discounts, we structured everything based on all the learnings inside Discovery Life and I think the value proposition to customers is remarkable. Deep discounts, the right kind of dynamic pricing, cashback to certain points in time to get the right behavioral nudges. The actual Vitality chassis is brilliant in the UK now. So the whole I think has worked incredibly well.

The receptivity has been tremendous. I want you to see how PruProtect has climbed in terms of market share. So if you go back Q3 2009 we were kind of lost in the league table in the broker market.

By 2011 we were about fifth or sixth, by Q3 2013 you can see that we're third in the market and Q4 has been our best quarter ever (inaudible) the distortion of Q4 a year ago. So I expect that it's not going to be easy to catch the first two but in terms of growth of new business and the quality of new business I think PruProtect's growth has been absolutely staggering.

Let me talk about PruHealth. I also think its performance has been strong. New business has grown nicely by 47% and I think the quality of new business is very good, I'll touch on that a bit later. You can see the earnings growth now is coming across quite nicely.

There's been a very strong focus on quality both the lapse rates and the claims levels, the loss ratios I think are amongst the lowest in the market. There's a continued focus on persistency [ph] on retaining the right kind of lives and there's a strong focus on pricing and getting the right type of market segments.

So you can see the loss ratios, that's an index not a 100% it's an index of 100. It's come down further. So I think by -- I think with confidence our loss ratios are the lowest in the market. So the quality of the business I think is quite substantial.

We've also in the period and I'll get to the model have spent a lot of integrating PruHealth with Vitality, the integration is now very deep. So for example we rolled out a joint venture with Lloyds Pharmacy. Lloyds is the second biggest pharmacy chain in the UK after Boots, a fairly comprehensive integration. You get very deep discounts from the pharmacy based on Vitality status.

In addition your clinical profiles [ph] that help us manage through chronic illness. We've rolled out pricing for low claim discounts through Vitality, we rolled out non-smoker benefits through Vitality, that's a very, very deep integration. The results I think have been staggering. The engagement levels in Vitality are very strong.

The left hand chart shows you how people get engaged over time. So from the time they join to the time they actually get engaged you can see a (inaudible) blue after about 26 weeks or half a year about 20% of that cohort are engaged. For this year in 2013 you can see after six months nearly a third are engaged.

So the levels or rates of getting engaged are increasing and that's a good thing. On the right hand side if we look at different activity tasks going to the gym et cetera again year-on-year the rate of engagement is dramatically quicker and deeper. Then like I've showed you throughout just seeing the repeatability of the model we've seen exactly the same correlations.

So claim levels are dramatically lower for people that are engaged. You can see gold and platinum and their lapse rates are very different. It's quite amazing that people who go the gym lapse 38% less than those who don't go the gym. We find amazing results from the cinema take up, you know it's one the benefits of Vitality, it's one of the behavioral measures that it's a relatively inexpensive high frequency benefit it has amazing effects.

The people who are using the cinema benefit and the hundreds of thousands (inaudible) a month being are used lapse at a rate 70% lower. So all of the stuff I think we're doing is embryonic but it's having a very, very powerful effect.

Having said that I need to be frank with you, we want to -- we want PruHealth to be more profitable. The operating profit you can see in the period under review is about ZAR131 million for the whole calendar year is about ZAR174 million. If you express that as a margin on premium of about 3% that is not insignificant. It generates about an 18% return on capital in sterling and that's not bad at all.

Where we'd like to be is at 5% level. If we get to that 5% margin level that would generate about 27%, 28% return on capital in sterling. That's a good thing. So we're focusing hard on that. I think it's imminently doable for two important reasons.

The first is that the business has had a kind of a headwind that it's fighting with. Since the acquisition of Standard Life Healthcare I've made this point at previous presentations. It's been fairly clear we've had a number of technology platforms that have been running concurrently. We've been using the Standard Life chassis that's been hugely expensive. Over the last number of years we've recoded and rebuilt the systems.

We're in the process now of rolling out all of these systems across the entire book and you can see from the chart by the end of 2015 we should be done in the process. So there is a natural drop off we think of about GBP4 million per half year is going to naturally drop out of the system that's one of the benefits.

The other is that we're focusing very hard on quality of business. And so if you look on the left hand side we try to illustrate the profit margin in the different market segments in health insurance in the UK. The reality is that the corporate market has a very, very tight profit margin, virtually non-existent. I think competitors go for it for scale. The individual market you can see has a very nice profit margin and that's where we tended to focus.

Great profitability but expensive to acquire so we've got to advertise above the line high levels of initial commission and that's where you get quite considerable new business strain. So as we've grown the business and we've done quite a bit of business you can see about GBP27 million, there's about GBP18 million of acquisition costs.

The approach that we've taken to alleviate the strain and the process we've taken for efficient use of capital is to use reinsurance financing that gives us funding, gives us (inaudible) but the basis on which we've done the reinsurance is very conservative. So if we look at that right-hand chart, although the acquisition costs are about GBP18 million, we've only relieved or received about GBP8 million of reinsurance structuring or funding for that.

And therefore, there's a residual strain of about GBP8 million or GBP9 million. Now that strain will emerge over time that should be embedded in the profitability of the business. But in year one you're going to feel the pain.

So the point I'm trying to make is that embedded in the quality of the business I think is inherently more profitability that should emerge over time and I think we're optimistic about the potential of PruHealth and PruProtect and I hope it's clear to you that both entities are focusing very hard on the repeatable model of Discovery.

Let me turn to Discovery Insure. I think Discovery Insure has had a fantastic six months. It's been a remarkably busy time for Discovery Insure. But it is a very interesting adjacent, how can I say, move of the Discovery model.

The idea of making people healthier, the simple epiphany was making people drive better because reckless driving and reckless behavior on the roads is one of the causes of disability and of death. And therefore the simple idea of could we get people to drive better is absolutely in line with the Discovery purpose of making people healthier.

It is very, very different to the idea of pay as you drive, where your premium rates flex based on how you drive. So we've morphed the purpose into this idea of creating a nation of better drivers that really is the Discovery Insure battle cry. And in a sense we've morphed the repeatability into a number of hypotheses when we roll out the business and there are four things we've been looking at very carefully.

The first hypothesis, will members be receptive, customers be receptive to the Discovery Insure proposition. It is different, it's about noticing behavior change, it's about rewards, fewer rewards, the premiums don't flex based on how you drive. It's a very different kind of structure, would members be receptive to it?

The second hypothesis and one that is really interesting is called a new business curse in short-term insurance. When you start a new short-term insurer you get the worst risks. The people that break away from the established incumbents that come to you tend to be shopping around because they're claimers.

So when you start out a short-term insurer, most insurers typically in the first year, you get very bad liars. And the hypothesis we had was that we'd buck that trend because of Discovery's footprint, our brand integration, our client base and the question is have we?

The third hypothesis is the critical one, the actual dynamics. Does the model work? Would there be correlations between how people drive and their claim levels and the lapse rates and everything that I've said? Then the final point is would we create real competitive advantage in a sustainable way? Would we have a technology chassis that would open up opportunities for us to differentiate?

And I'm pleased in the (inaudible) review, I think the answers to all these hypotheses is a very strong yes. In the case of receptivity I think the traction of Discovery Insure has been tremendous. You can see the new business flow has grown by 40%, over ZAR0.25 billion for the period under review, the enforced premium is close on about ZAR900 million and we're covering about 60,000 cars or more in a very short space of time. So the growth, I think, has been quite staggering.

It is interesting, when you look at the rate of growth per day, more and more we're focusing on the D2C channel about the line advertising you will have seen it. But you can see the rate of growth we're doing about ZAR800,000 a day of new business in the first year, about ZAR1.1 million and that's now climbed to about ZAR2.2 million a day of new business.

We estimate that we're capturing about 12% market share, in fact we estimate we're probably first or second in terms of new business production. I think that's a very, very strong performance from Discovery Insure.

Despite its relative newness, in brand surveys, for example, The Sunday Times brand survey, Discovery Insure rated second. So it's a new company amongst a number of incumbents. But I think it's demonstrated the applicability of the model and I think the team itself has done an unbelievable job.

Also I think notably we're focusing very hard on direct to consumer. That is not a Discovery heritage, we've been an intermediary-focused company. So invested heavily in understanding the D2C process and how we can get that right.

It is interesting that if you look at our ad spend, we're about seventh or so of our major competitors, who I won't mention. But I think clearly you can see we are doing well in terms of new business production versus ad spend. The actual advertisements are interesting. I thought I'd show you, you've probably seen them. But it's been quite complex for us. We're very, very careful about the Discovery brand.

So we're not interested in a kind of el cheapo reach out for the cheapest insurance. We're trying to get across the idea of quality, a bit of fun, intellectual rigor. But the real fundamental issue is the idea of trying to get people to understand this is about -- this is insurance for good drivers, this is not about cheap insurance, it's about quality. And so you may have seen this ad, it's one of many that you'll see in a very similar kind of genre.

You'll see a play on that going forward, it'll be interesting. I did the driving in that sketch. The second hypothesis, just getting back to this issue of the new business claims [ph], it is interesting that if you look at the quality of members joining us, it is exceptional.

We did some research from some of the data we had at the outset of Discovery Insure and one of the things if you look at it very carefully is of people joining you, what percentage of them had claims in the last 36 months? Because that is what happens to a new insurer, they track typically the worst liars.

You can see against the data we're about 56% of that. So the quality of lives compared to what other insurers have experienced have been quite remarkable, I think to an extent we're attracting the usual Discovery client base who are integrated into the other things and looking for quality, not necessarily price and I think that is very, very important.

But I think to an extent the most important issue is the actual dynamics. Its early days so you need to take these figures clearly understanding it's a number of years of experience. But we have a lot to learn here. The loss ratio itself is coming down nicely. You can see that blip with the hail, the notorious hailstorms late last year. But taking that out you can see the loss ratio has come down very, very nicely and in fact we estimate now that Discovery Insure probably has the second best loss ratio in the market.

So after very short start, I think the quality of the client base is remarkable, the quality of the interventions of the Discovery Insure team, I think, are working very, very well. But amazingly in the middle is quite incredible. You can see the different claim levels of different drivers. It is not clear -- I believe it strongly but it's not clear that good drivers have lower claims. They have dramatically lower claims.

And though the accident was never your fault, it was in some cases, as you can see. So worst drivers typically claim a couple of times more, multiples more than advanced drivers. And I think we're measuring and learning the kind of actual dynamics that we need to measure in each reward.

Then finally, a very important point about duration, not only are we getting the effect by status, by duration the loss ratio goes down. So the book is very, very new but as you follow each cohort through, as people stay with us you find the claim levels tend to go down.

We're seeing exactly the same thing on the lapse rates, we brought the lapse rates down in the period under review and, amazingly, as you'd expect, very strong correlations between driver status and lapse rates. So better drivers tend to lapse a lot less. And you can see the same thing in the durational effect.

So I would put it to you, if you superimpose the two together, improving claims levels, improving lapse rates by duration, the duration effect of the business is remarkable. And so if we can keep that quality coming through over time, just the natural ageing of the block, we'll see the quality of profitability emerge. And I think that's very, very important.

The final thing I wanted to mention to you is just the amazing opportunities that Discovery Insure offers for kind of adding value in different ways and creating real value for our customers and competitive advantage for Discovery Insure. We've done a number of really exciting things, I think we've demonstrated them here. But one is unique driver profiles.

So actuarially we've modeled different people and how they drive so we can tell probabilistically who is driving the car, just from the driving characteristics. And it offers great applicability for knowing if the car has been hijacked or stolen.

We've done a whole range of other things like impact alerts. We know if people have had accidents just by seeing the G force on the car. So whether they call us or not, we can dispatch and ambulance and help them out. And we had a few cases of that that has been incredibly successful.

The other important point is weather. You will have read about the hailstorms. And if you follow the short-term industry, that's one of the really big issues to manage, the weather risk and it creates great problems. What's interesting, the first thing I will tell you that is quite remarkable, maybe unintuitive. If you look at that hailstorm and you look at claim levels by how people drive, you find that it's inversely correlated. Better drivers have less hail damage. Now the question is why.

Now you might think they're, kind of, dodging through these hailstones. That's not the case. It just turns out it's the same force. People who are more cautious and careful with how they drive tend to be more cautious about when the weather's bad, when they get an alert that there's a storm coming and they see the clouds above they go under cover. It's predictable stuff. So the same repeatability of the model has the most unbelievable applications in terms of immunizing risk like weather damage.

But this really exciting stuff at Discovery Insure I think presents because we're checking people continuously. So one of the things we've done in the early part of Discovery Insure was to send out SMSs to our customers in total, you may have got them, warning you that there's a hailstorm coming, the weather's bad, be careful. But that's been part of a blanket SMS. What the technology now allows us to do is to marry where our customers are and where the weather is and we're investing in systems and technology to do that.

So for example if you look at the hailstorm itself, we now know where our drivers are. That heat map tells us at that point in time -- where our cars are in the red you can see the cloud coming across. That's the hail cloud on that particular day.

And nasty, piece of work, as you can see, crossing the band. Now what we're trying to get to in time is the ability to tell drivers in the path of that storm more about the weather. So much more dynamic, focused ability to manage it.

In addition to that, I think the Discovery Insure capability gives us the ability to price risk more accurately. So if you look at a street view and then you superimpose where our cars are, we know where they are in terms of density and we also know where they're claiming a lot. So as you would probably guess, when you divide -- sorry I'm going the wrong way. When you divide claims by exposure you get premium rates. That's how you work out actuarially. Claims over exposure gives you a sense of the risk.

So the ability to know where people are and see where they claim gives us ability to rate much more accurately. So we're developing amazing models about managing factors that don't seem manageable, like the weather and at the same time I think we're developing models about premium rating that I think is more accurate and much more dynamic.

So I would put to you that if you look at Discovery Insure across the four hypotheses of the model, I think our performance has been very, very good.

I want to end off on a few comments about the other global businesses. It's important to say -- sorry I'm digressing a bit -- it's important to say that we've learnt in a market like South Africa we have this footprint, the ability to build the business takes three to five years if you're successful. And I think Discovery Insure will do exactly that.

To build businesses overseas takes longer. In a market that's foreign, that's new and that's a five to 10-year burn in our view, if you're successful. But PRU business I think in certainly my view has got scale and excellence. It's taken us five to 10 years; it takes a long time.

So I want to put these other global businesses into context. So firstly to talk about Ping An Health and I want to moderate expectations here. I think in our guidance we've been pretty clear. The Chinese health insurance market is likely to emerge quickly and it's likely to be vast when it emerges. But at this point in time it's relatively small.

On the left-hand chart you can see the total spend on the mid and high-end health insurance markets, about RMB1 billion. We're capturing about 30% of that market currently. So it's a small market.

You can see on the right-hand side, this is the estimates by various commentators on the growth rates of the Chinese insurance industries over the next years to 2020. You can see that life and P&C are likely to grow 11% to 15%; health insurance, there's Government reform, there's a lot of focus on it, is likely to grow close to 30%. So this is potentially a vast, massive market.

But we've been quite clear that at this point in time it's relatively small. We've been careful about what we set out to do. We've focused on being the number one writer in the Group corporate space. We've done a great job. The team has done a remarkable job in the period under review. You can see on the left-hand side that we are the number one writer. We've kind of edged out Cigna, the big American insurer that's pushing hard into China.

On the right-hand side of the chart we've focused hard on the individual market. This is an entirely new market in China, getting Ping An agents to sell health insurance is a very complex challenge. We were writing about 20 cases a day, about ZAR200,000 a day of new business a few months ago. That's escalated now to about ZAR0.5 million a day of new business. So we're getting some traction early days.

Having said that, there was a huge amount of work in the period on every aspect of the business. I do believe we're building an exceptional Company in China. The product itself has been reworked to roll out an entirely new suite of individual products in the last few months. We've rolled out of all of our systems, it's the first automated claims adjudication system in China that's now in place. Ping An is pushing hard on the brand. We have now the broadest hospital network in China and we're focusing hard on the service level.

So all of the kind of cut and thrust of what we've done at Discovery Health has been built into China. But I do believe it will take time and we need to be realistic about that.

Then a final point. I want to just talk in the context of AIA particularly. The repeatable Vitality model of Discovery Life is remarkable. I think what we've done in the UK. And we've seen the efficacy and effect of it, is tremendous. It has a capability in many markets round the world. Virtually every leading insurer around the world is trying to build behavioral aspects into their life insurance models. It offers us a wonderful opportunity to create, kind of, a global footprint. And AIA is, to an extent, the blueprint of what we're doing.

So the run-up to that has been a process of investing in the core capability of Vitality. We spent a lot of time on focusing on the core in every respect of Vitality, making it a global capability. I do not believe -- I do believe, sorry, that it's possible to hold global Vitality chassis to an extent and having sitting on it a number of insurers in markets in which we don't see ourselves being present.

And I'd say to you from a strategic choice, that we think about at Discovery, there are two ways to expand. Either you expand by being the actual insurer, like we've done in the UK with our PruHealth and PruProtect, or you partner in other markets. And essentially what we like to do is both. So I see us being an insurer in certain markets that we choose. In markets that I don't believe that we have the ability or the appetite for I think we have the ability with this foundation to share embedded value created with major partners like an AIA.

So in the period under review we continued to focus on the core capability of Vitality, on the research agenda, the number of papers published in a number of journals including the Lancet. We're focusing on building an international network of Vitality partners like Emirates, Air Asia, Virgin Active et cetera. We're focusing on clinical interventions in Vitality, making those international. So we're building a very powerful chassis.

It is not inconceivable as an analogy for the Vitality foundation to link to insurers like Oneworld linked to airlines to an extent. And if we can suck out of that the economic benefits I think the possibilities are substantial.

So AIA to an extent is a blueprint of that. We've rolled out pilot tests in Singapore and in Australia we're launching formally in the next few months properly with all the learnings. It's complicated stuff. These are physical businesses that have to be built from a system technology perspective. We've partnered with IBM and Accenture to roll out the capability across Asia. So a lot of work is taking place. It's too early to give you any real feedback of capability and potential but we remain optimistic about what we can do.

As part of investing in the core, one interesting thing that we are doing is trying to build the Vitality brand into an international brand. Now we need to be careful in terms of how we do that and the one idea that our team has had. And I think has got great, great legs, is if you watch Sky News, one of the really successful brand builders has been Qatar

Airways. Have you ever watched Sky News? I think 107 million people watch it every day across the world.

What Qatar Airways has done is they kind of bookend the weather reports and they've got a very simple ownership of that category. And if you watch Sky News you're kind of I know Qatar Airways just from that process.

We've agreed with Sky News to do the same thing around sport which is very consistent with Vitality. So bookending the sport, you may have already seen it, will be Vitality. And to an extent the beauty of it is that in different markets we can kind of highlight different partners. So in the UK the partner is Prudential or PruProtect, PruHealth. In Asia it would be AIA; in other markets its Discovery and AIA. And to an extent I see Vitality having a number of partners sitting under it.

So just showing you a bit of a highlight of one of the ads we're doing. This is for the UK, using Jessica Ennis. But this is the kind of thing we're going to bookmark the sport at Sky News to get the kind of profile that I think we need.

This is one. We'll change those and learn over time but build the Vitality brand hopefully into a global capability.

So let me wrap up and say that I think the period under review I think has been very successful. I've tried my best here to illustrate the discipline of the repeated model and I've, kind of, framed that in academic research about the reality is you need repeatability for scale and growth. I do think the growth of the business has been robust.

I think the relative growth of the businesses in their phases has been very, very strong and I think that we've got baked into our new businesses enough to emerge over time and continue the growth without recourse to additional capital.

Thank you very much for listening. I've taken much too much time. Let me invite Ricky up onto the stage if there are any questions. We'll be outside if you really want to go off deep but Ricky, come and join me.

Questions And Answers

A - Adrian Gore {BIO 3068929 <GO>}

We never hear from you Rudi [ph]. It's nice to see you.

Q - Unidentified Participant

Thanks, Mr. Gore. Mr. Gore, I have a few questions. Cut me whenever you wish but before getting to the questions, I'd just like to make some comments if you will allow on what I glean from your balance sheet. We're obviously speaking about the six-month period from July 1 and I note that financial assets under securities, link notes and debt securities have increased by just over ZAR4 billion.

Money market is up ZAR1.5 billion. Cash and cash equivalents is up over ZAR500 million. Now those numbers don't seem to have much of a feel until I divide all that increase of ZAR7.84 billion of assets by the 184 days, which includes holidays, Saturdays and Sundays. And believe it or believe it not, it's ZAR43.5 million per day. I think that deserves some applause.

A - Adrian Gore {BIO 3068929 <GO>}

We did work on the weekends.

Q - Unidentified Participant

Now against that of course liabilities are up ZAR29 million per day and the difference of course has gone into reserves, that's ZAR14.5 million. I can only say well done.

Now the questions relate to the following. Under segmental information there's an item under acquisition costs under SA Life of ZAR774 million. What is that acquisition referring to, or acquisitions?

A - Adrian Gore {BIO 3068929 <GO>}

I suggest you put all your questions at one time.

Q - Unidentified Participant

Okay. On the same page there's an item other expenses totaling ZAR4.6 billion. Can I assume that that includes salaries or is that not the case?

Next, the table normalized profit from operations. There's an item development in other segments which I'm assuming is Ping An and Singapore where the loss is shown as ZAR235 million, an increase from the ZAR208 million of the previous period. From the table headed value creators is a note to the Ping An Health that the comparator for Ping An has been reduced by ZAR162 million to exclude fund products. Why have fund products been excluded?

And finally, there's a welcome note that Discovery is about to get a new head office. Could you please tell us where it is, if it's not a secret? Thank you.

A - Adrian Gore {BIO 3068929 <GO>}

The last question is we are -- we've kind of run out of space and have had a difficulty with different buildings trying to integrate so we are building a head office on the -- across the way from the American Embassy where the Holiday Inn used to be. So we haven't launched that officially, we will do that quite soon. That is the one campus where everyone is on that campus.

Q - Unidentified Participant

(Inaudible).

A - Adrian Gore {BIO 3068929 <GO>}

I hope so. Do you want (inaudible) the questions Ricky?

A - Ricky Farber {BIO 5884718 <GO>}

Just to go through them, the acquisition cost is substantially broker commission. So acquisition cost is commission in other words. We haven't bought anything in the sense that you're describing. The other expenses, you're quite correct, include salaries. Of all our other expenses about two-thirds are salary costs, as you'll appreciate, rent is another big cost.

Then you quite correctly point out the new business segment which is ZAR235 million from ZAR208 million is exactly what Adrian spoke to. It's the Singapore operations et cetera, about half of that. And the other half is Discovery Insure. And as Adrian said (inaudible) Ping An is also in there, correct, or at least some of the costs there.

The value creators, you're quite correct, we have excluded fund business. You may not be aware, when we bought into Ping An Health two or three years ago now they were selling something called the fund product. It was really a savings account with really no margin; it wasn't insurance by any means.

And together with them we've decided to discontinue that product. So that was discontinued early in this period. And so we've taken it out of these numbers completely. Then I understand that our new building will have about 8000 parking.

A - Adrian Gore {BIO 3068929 <GO>}

Thanks for that. Any other questions?

Q - Unidentified Participant

Hi, it's Karen [ph] from Cover Magazine. Sort of just a more general question. How is POPI affecting your business models across all businesses?

A - Ricky Farber {BIO 5884718 <GO>}

So for those in the audience not familiar, I believe you're talking about the Protection of Personal Information Act.

Q - Unidentified Participant

Yes.

A - Ricky Farber {BIO 5884718 <GO>}

It has a material impact. We're quite fortunate in that we had a bit of a preview. As you are aware, we have a major operation in the UK and they've had the Data Protection Act for quite a long time. And a lot of the Personal Information Act has come from that same legislation. So we've had a bit of a lead time to be able to get ready for it but it is a major impact across all aspects of our business, including items that you wouldn't really expect. So for example, even staff information is covered by Personal Information.

A - Adrian Gore {BIO 3068929 <GO>}

We're running out of time. Can I wrap it up? Are there any urgent questions? One over there.

Q - Unidentified Participant

It's more a statement than a question. You've certainly assured us of the health of the Company going through the numbers that you've shown us. There is another assurance too, that is the health of management. This is the first time I've seen the CEO of a major company walk into analysts' presentation. Congratulations. That's certainly leading by example.

A - Adrian Gore {BIO 3068929 <GO>}

It's 20 meters, the walk. Listen, thank you for the time. It's always really an honor and a pleasure. We're all outside if you have specific questions. Thank you.