Q3 2015 Sales and Revenue Call - Interim Management Statement

Company Participants

- Andy D. Briggs
- Christopher Brian Wei
- David McMillan
- Euan George Munro
- Mark Andrew Wilson
- Maurice Tulloch
- Thomas D. Stoddard

Other Participants

- Abid Hussain
- Alan G. Devlin
- Andrew J. Crean
- Andy Hughes
- Ashik Musaddi
- Blair Stewart
- Fahad U. Changazi
- Farooq Hanif
- Gordon Aitken
- Greig N. Paterson
- James A. Shuck
- Jon M. Hocking
- Oliver G. Steel

MANAGEMENT DISCUSSION SECTION

Operator

Good day and welcome to the Q3 Results Investor Relations Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Mark Wilson. Please go ahead.

Mark Andrew Wilson {BIO 6409810 <GO>}

Thank you, operator. And good morning, everyone. And welcome to our third quarter trading update. I've got with me in the room a number of my senior members of my team, including, of course, Tom Stoddard. And I've got a few of them on the phone as well from different parts of the world.

So we'll cover some of the key themes of today's announcement, and as usual, hopefully I can get time for Q&A. So what do I think about these results? I think they are a continuation of improving performance that we've had over the past, I guess, two or three years now.

If you look specifically at the numbers, value of new business, as you know, our Life growth metric is up 25% to £823 million. And I should point out, this is now our 11th consecutive quarter of growth. UK Life, our biggest business, is up 36%. And the pensions and platforms were again the real drivers of the growth here with VNB was up in this area by 55% to a meaningful £66 million.

We have a systemic, I think, advantage here in the UK with our scale and our systems, and the diversity of our product makes our proposition pretty attractive. And what it means is we have more levers to pull, I think, than most. And we are starting to see the impacts of some positive operating jaws (1:45) with the volume and expenses. And that gives us, I think, a bit of a competitive advantage in terms of expenses as we execute this, too.

Now, the fund platforms is another highlight. The net fund flows there were £2.2 billion in the first nine months, and it was (2:04) pensions net flows, £0.9 billion. Both of these are a good result.

Protection and annuity VNB also grew. And when we report full results at the end of the year, you will notice a far more balanced mix of UK Life business. You will recall this was a deliberate strategy that started before the changes to the annuities market. We've been able to execute – because we had a bit of a head start, we've been able to execute that well, and you've seen that in these results.

Now, excluding Friends Life, UK Life VNB growth was 13%. I think this is actually a bit of a misnomer. The UK Life business is now operating as a single entity, so we have choice about what products to like and where and what system and what entity, so that does get swapped between the two entities part of it.

In Europe, VNB is up 11%, led by Italy, which is 55% higher. I guess what a difference three years makes. I don't think anyone, probably anyone in this room either at the time would have envisaged this sort of result and the growth and the results we're getting out of Italy just three years ago.

Poland grew VNB by 11% to £46 million, which is notable given the £8 million contribution from regulatory change last year. Excluding this, the growth was over 30% in Poland. We are doing some quite (3:35) things there. We've got some good, broad distribution, and we have a fine management team in that business.

Moving further east. I don't mean to (3:44). I mean, I see a bit further east. Asia value of new business grew 21% to £115 million. This shows that, despite what's been some pretty choppy Asian volatility, our market position does give us significant room for growth. And maybe we'll get some better comment on that later from Chris [Christopher Wei].

The General Insurance result continues to be very satisfactory indeed, with overall combined operating ratio of 94%. That's an improvement of nearly 2 percentage points over last year. This has been led by the 92.8% COR in the UK and Ireland, while Canada's result improved 94.2%. And, of course, weather here helped (4:30); it's been pretty benign. But the underlying result remains very solid and we're pretty comfortable with (4:37).

GI and health premiums are 2% higher over that, at a bit over £6 billion, and it's been – we're now showing a couple of quarters or a few quarters of getting the growth back in that business after a long time of decline and cleaning up the box (4:42), so I think that business seems to have really turned a nice corner.

Now today we're also announcing a five-year distribution deal with HomeServe here in the UK. This covers home assistance products, which importantly diversifies our personal lines GI business. Now this is our second major distribution deal this year and this is quite a big deal. And it's nice for this business to be back in the front hub again.

On our UK GI back book, we have entered into a reinsurance agreement on our latent portfolio. And this is particularly important. This is a significant deal and it has some positive impacts on the group. It's effectively a portfolio of transfer of £900 million of our latent exposure and about £800 million of adverse development cover. So that means – and if you really step back and think what it means – it means we're protected from claims volatility on meso, industrial deafness, abuse, et cetera, on approximately £900 million of undiscounted reserves.

So this is significant. It was a long time in the making. We looked at it a few years ago, but it was just too expense then. But with markets the way we are, we're being strategic and extraordinarily opportunistic. So I think the team has (6:11). And what was – if you want to – I guess, we would articulate as effectively offloading a noncore risk business from market prices (6:25). And the impact, I guess, for you to focus on in business is it reduces earnings volatility, which is nice.

In asset management, we continue to reshape the business towards a greater proportion of third-party assets under management. The AIMS Target Return fund has generated 8.4% to 8.7% since inception. That is clearly outperforming peers. Euan and his team have gained some real traction with Employee Benefit Consultants, and I'm confident we will establish distribution agreements, and we already have (7:01) with various business partners across the globe.

That business – it's still in transition phase, and over the quarter we exited some of the shorter turns, so, I think, £4.5 billion of outflows and just a little bit under that in inflows. And a point I'd make there is that the inflows were quite a bit higher margin than the outflows because the outflows were sort of technical short-term stuff, and again I'm sure (7:24) put a bit more color on that later.

On to our balance sheet, IFRS net asset value increased 2% over the quarter to £3.87 per share. Our external leverage ratio is 27% on an S&P basis and comfortably within our (7:42). And just as an aside on that, I note that S&P has revised upwards the financial risk profile of the group, and they see it (7:52) balance sheet, so I think that is significant.

The economic capital position of the group remains robust with a surplus of £10.1 billion, and an economic capital coverage ratio of 172%. Over the quarter, markets were, as you all know, quite volatile. But this ratio proved remarkably resilient and moved, I might add, entirely in line with the sensitivities we gave you at the half year, so that shows our model's working pretty well.

We are getting ever closer to the implementation of Solvency II and expect to get the internal model approval in early December, and we'll publish our 2015 Solvency II position, our target range, and our future roadmaps with our results in March next year. Now, what I will say now is that we account the upgrading within our expected target range, which is pretty much a similar comment to what I gave you at half year.

Now, the other major short-term priority is, of course, the (8:58) and rightly, is, of course, the successful integration of Friends Life. And you know what? I get the skepticism of that, given the history in the UK of integrations, but let's just be clear on results here. Progress on the integration continues ahead of schedule with £91 million of run-rate synergies, well over a third of our target within the first six months. And I think that is a very tangible progress, and maybe it will take us another 12 months to get the skeptics on board on that, but that's going very satisfactorily indeed.

Now finally, with the growth that we have reported today, particularly in our UK Life business, I think we have put to bed the question of whether the Friends Life would be a distraction for the business. Because it's one thing to get the synergies and results and capital benefits and that sort of thing; it's quite another to get the growth. And we've now done that for the last two quarters of integration with some pretty good growth numbers across UK Life. I would characterize the Friends Life transaction as being proof of - proof and more, in fact, of everything we expected it to be.

So, I guess on that note, operator, if I can - I don't want to go on too long in the introductory comments. If we can open it up to Q&A. And with my colleagues and I, we'll do our best to answer the questions.

Q&A

Operator

Thank you. We will now take our first question. Please state your name and company before posting the question. Please go ahead. Your line is open.

Q - Gordon Aitken {BIO 3846728 <GO>}

Good morning. This is Gordon Aitken from RBC. Three questions, please. First, actually, Friends Life deal, with the UK VNB in Q3 discrete was down 14% in the third quarter versus third quarter last year. Just wondering what's driving that?

And secondly, you're selling the commercial mortgages. I'm just wondering what that does for your solvency. I'm assuming the proceeds will be invested in assets which do qualify for matching adjustment. And finally, on AIMS, I understand it's like good progress it's making there. And on the EBC, I'm just wondering off the major consultants, how many buy lists are you now on? Thanks.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. So let's pass it around the team a bit, so do you want to start with VNB?

A - Andy D. Briggs {BIO 4311809 <GO>}

Sure. Very happy to. So if – well, I mean, in the first quarter of the prior year, we had significant – a big bulk annuity that we wrote into the Aviva last year. In the third quarter this year, that was kind of replaced, if you like, by the longevity swap that we wrote back into Friends entity. And it comes back to Mark's point. The business is now integrated. So we're directing the mid to large corporate pensions all into the Friends entity. We have a single combined best of both group protection proposition out in the market and the (12:44) derisking activity, the – in terms of the longevity swap was focused in the Friends entity.

So, I mean, we give you the 13% number so you've got a comparator. But I would focus in on the overall growth, and obviously 36% growth in VNB we're delighted with.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. Tom, you want to take the commercial mortgage?

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Sure. The commercial mortgage transaction is really more focused on the sort of derisking than creating capital benefits, so at this point we're now at basically the end of a program of cleaning up non-core commercial mortgage properties in our UK business here. But there is some solvency, too, and economic capital benefit here. We haven't taken that through our numbers through the first nine months. That will show up for the year-end. It's relatively modest overall, but there is a positive solvency impact of that transaction.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

I mean, if you have enough reach (13:34), I've said before that we thought we were too long in commercial mortgages, and there was also (13:41) quite a few years of messy reserves that we had to (13:46), and it was just really messy. So I think we've taken out – Tom, what, about £3 billion? It's about £3 billion or so that we've cut off the bottom end of that portfolio. And that's taken a lot of time and effort, but we have done a lot of cleaning up, which should give everyone a bit of comfort.

And lastly in EBC, Euan on AIMS, you want to add to that?

A - Euan George Munro {BIO 2307409 <GO>}

Yeah. I'll add some color. And obviously, the big consultancies don't like us saying how great (14:11) it does, but they're all paying attention, and we have no – in some cases, of the major consultants, the highest possible rating both for our investment process and also for our operational platform. So what we're now starting to see, we're at the very beginning of being invited to fund (14:32) the institutional mandates. So the flows that we've seen have tended to come from platforms, and there's retail customers investing through retail and wealth platforms, and that's across Europe, as well as in the UK.

But we haven't seen the big institutional flows, because these guys are the gatekeepers. And four or five of the big guys have given us ratings for the process to have gone through and given us the full (15:03) operational due diligence and are at the point where they're taking us forward to mandates. So exciting stage for my business asset (15:11).

Q - Gordon Aitken {BIO 3846728 <GO>}

Great. Thank you.

Operator

We will now take our next question from Ashik Musaddi from JPMorgan. Please, go ahead. Your line is open.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi. Good morning, Mark. Just a couple of questions. First of all, you remember you gave some targets with respect to moving your customer base – sorry, product base per customer from 1.7 to 3, and in this quarter you have strongly delivered in terms of VNB growth and Life. So how should we think about this concept developing? Is it more towards Life or is it – are you targeting more towards non-life? And any update on where we are in the process. I agree it's too early, but any thoughts on that? That would be the first one.

Secondly, on bulk annuity, clearly, there are some positives that came out in the quarter such as infrastructure capital charge has gone down. I think there is more clarity on matching adjustment and credit spread continue to go down. So what are your thoughts on bulk annuity market at the moment?

And thirdly, in motor pricing and UK motor, any thoughts on whether you are trying to chase volumes or is it still – profitability is still a key focus because your combined ratio looks very strong at 94%. Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. Good morning, Ashik. Okay, three questions. So, we could identify there's now (16:40) an average product holdings, and I think you're going to see – the initial results, I think you'll probably see more of it going into things like GI rather than Life and also things like AIMS.

We're using the base of this cross-sell as our pensions. And as you know, we have one in four pensions in the UK. And at the moment, what we're doing is going through all sorts of (17:06) testing and testing on these small pilots and samples. And I know a few people on the phone have had a look at the garage. In Digital Garage, you can see what we're doing there. And it's quite a (17:17).

You're not going to see any marked change this year, though. And there's going to be – at the full year results, we'll give you some metrics to use to measure it and a bit of strategy to model and, hopefully, we're just working through at the moment what the margins are.

What I can tell you is the margins from our customer (17:33) the strategy and the digital cross-sell are quite substantially higher than (17:38) margins. I'll tell you that much, but we'll show you some of that – some (17:41), I might add, but we'll show you some of that at the full year.

But you won't see anything this year, Mark (17:48), in the figures you won't see anything much you can use for next year. You won't. The first stage is actually giving our, in the UK, our 17 million customers using the platform and we've got all sort of things we're doing there and we'll cover that.

Chris, do you want to add anything on digital, just before going on to other questions? Chris is on the line.

A - Christopher Brian Wei {BIO 17014406 <GO>}

Yeah. Thanks, Mark. Just getting back to the PCC (18:13) point, I think we're beginning to pilot new initiatives in markets like Poland, where it is digital delivery right across life, medical, critical illness, accident liabilities, tenants, mobile device, travel, sort of a fully combined packages, and that's really differentiated in the market. I don't believe anybody else can do what we are doing. Single policy, single premium delivered digitally. So, more of these things will take place in due course. I just thought I'd mention that as a sort of representation of our innovative thinking.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Just quickly (18:46) a couple of questions as well. So, bulk annuities, yeah, we have said for some time that bulk annuities do behave differently under Solvency II. All of the annuities behave differently under Solvency II. I know that you can use the insurance to offset some of those external (19:00) limited market on that. And I personally think rates are going to – for both bulks and individual annuities – are going to change under Solvency II on the first quarter of next year, and I think that's pretty clear. Andy, (19:14) you got a ...

A - Andy D. Briggs {BIO 4311809 <GO>}

Yeah. I mean, Mark, my broad perspective here is there will still be a strong demand from finance directors to get rid of these liabilities. It remains to be seen how disciplined the market is. Because of the flex of our product ranging, UK Life will be very disciplined. We'll participate in the bulk annuity market if we can do so profitably and we won't if we can't. But when you look at the pensions and platforms, business up 49% on the three months – or the first nine months of the year. Protection, up 34%. We've got the diversity of product range that we don't need to play and we will be disciplined.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

And lastly – and Maurice is on the line on motor, and the (19:55) question is – are you going to chase volume? I mean, let's be clear on that. I mean, I'm still skeptical on motor rates. People say the rates are softening, the rates are hardening. The fact is that our motor is still difficult to make money in, and I think under Solvency II, it becomes more of a little playing field because you haven't got the complications with Gibraltar and the tax and the capital advertise you can get out of Gibraltar, so I think that probably helps us.

I think our PCC cross-sell position helps us because when you can add it on to other products, it shows you get more length of the customer (20:31), tells us how long a stay would you have made of it, helps your profitability a bit, which means you can give them a bit of a discount, so it becomes a bit self-fulfilling.

Maurice, you're online. You want to pass a comment on it?

A - Maurice Tulloch {BIO 17683736 <GO>}

Yeah. Sure, Mark. And good morning, Ashik. I mean to build on that, Ashik, we'll never chase growth for the sake of just growth. I mean, I am obviously pleased with the progress in the UK overall with our COR down to 92.8%. We're starting to see some early signs of hardening in the motor market. Towers Watson released recently that the momentum in Q3 was around 5%. It's now 8% year-to-date, but we look at all of our classes (21:08) and we pick and choose our spots based on where we think we can make a reasonable return.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

I might add that no one on the senior team (21:16) at Aviva gets paid £1 or $1 for volume. Volume is not what we chase. I know we're growing again, but that is not what we chase, and it's just a function of business. Okay. Next question, please, operator.

Operator

We will now take our next question from Blair Stewart from Bank of America. Please go ahead. Your line is open.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you and good morning. I've got three questions. The first is of the Asian VNB, how much of that - if you just cite specifically China and Singapore, how much of the Singapore business in particular is at risk from the loss of DBS? It's the first question.

Second question is can you quantify the impact of the weather? I think, in terms of the 2-percentage-point increase - improvement, rather, in your combined ratio, how much of that was weather-related?

And thirdly, the impact from the reinsurance transaction on your economic capital was quite modest. I think £0.1 billion. Would you expect a more sizeable impact as you migrate across to Solvency II? Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Good morning, Blair. So, three questions, the Asia, the VNB from DBS in Singapore. Singapore is about 20%, and I know Chris has objectives to fulfill that. Chris, do you want to add anything on that?

A - Christopher Brian Wei {BIO 17014406 <GO>}

Yeah. Thanks, Mark. I mean, the issue is not new. We've been working on a number of different initiatives, and we are multi-distribution in Singapore. We are a leader in ISA with a particular focus on protection sales, and we're very proud of that outcome. We've got a number of new initiatives to deepen those existing relationships and sign up more.

In addition, of course, we're continuing to focus on A&H. That's a bit of a group focus, but we have all the CPF licenses, including relatively uniquely Eldershield, which is a long-term care program under the government schemes. There's only three licensees. We're the only foreign insurer with that license.

And of course, we signed an agreement to continue developing FinTech and digital regulation in partnership with the UK government and the MAS, so we have a number of different initiatives. And last and certainly not least is as AIMS gets registered in Asia, in particular Singapore, we will put some greater focus on wealth management and asset management.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

And, Ashik, the other point is that this doesn't impact our profit because we keep all the customers and they can't toss (23:53) the customers out into something else, just to be absolutely clear. So it doesn't impact our profitability. As you can see from our results today, getting VNB growth does not appear to be our problem.

Q - Blair Stewart {BIO 4191309 <GO>}

How much of that £115 million is coming from DBS? Is it possible to say?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

It's about 20% – I don't have it exactly, let's just say over 20%.

A - Thomas D. Stoddard {BIO 15071280 <GO>}

I think that's probably slightly over because that £115 million is for the whole region. So we don't – I don't think we've disclosed the split between Singapore. But just to be clear, DBS is 20% of Singapore only. That number was for the region.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

I got you. So it's pretty – and that was a good point on the DBS, too, which (24:36). It was so modest in terms of VNB and profit. That was sort of the point. It was nice in terms of volume, which adds a bit of scale but we can keep that.

Then your second question was on the weather. Tommy, you wanted to just cover that?

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Sure. So we reported an overall combined operating ratio of 94% for the first nine months relative to 95.5% a year before. So it's a 1.5% improvement. About 2.5 points is weather-related. So the underlying COR is off about 1%. There's some large losses that occurred in that. But otherwise, we're pretty comfortable where we are on the underlying. We have benefited from good weather. I hope that continues (25:21).

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yeah, please.

A - Thomas D. Stoddard {BIO 15071280 <GO>}

But the last question is about the adverse development cover on the latents book. This is another risk-reducing transaction and another opportunity for us to free up capital in one of our underperforming cells, and so we've indicated about £100 million benefit on economic capital on a group-wide basis. At the subsidiary, it actually gives us a little bit more benefit within that business. And on a Solvency II basis, relative to that £100 million, there also is a benefit. It's slightly larger than that £100 million, but we're not disclosing Solvency II numbers today.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yeah. So, this business has been problematic for us for quite some time, so we're pretty pleased to get this on the way.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you.

FINAL

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Operator?

Operator

We will now take our next question from Farooq Hanif from Citi. Please go ahead. Your line is open.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. I want to go back to the asset management business. Can you talk a little bit more about when you think the short-term tactical low-margin stuff becomes less of a drag. And when do you think you're going to go to kind of more solid net inflows?

Secondly, in Italy, what is it that's raising the VNB so much? Are you selling kind of the traditional participating contract there or is there really such stronger than (26:52) protection that's driving up margin? And lastly, are there – it's capital optimization like the reassurance deal and the commercial mortgage deal. I mean, is that a big part of what you see is the kind of your objective to improve capital going forward? So, excluding Friends Life, do you think that's going to be a major chunk? Thanks.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay, Farooq, (27:17) is starting you on this.

A - Euan George Munro {BIO 2307409 <GO>}

Yes. Well, I think 2016 we'll see quite a big change. I covered earlier the attitude of the main consultancies, the asset management consultancies that buy the big pension funds. They have a fundamentally different attitude towards my business, and that just can't be shortcut because you need to develop the track records and show them. But the benefit extends just beyond being (27:47) so I think AIMS will certainly drive substantial sales next year.

But in addition to that, we have great capability in areas like infrastructure, real estate debt. And that's of interest to pension funds, and so I've got high hopes that we'll see more of that. And simply, the rehabilitation of Aviva Investors brand is meaning that we have been invited to pitch for institutional mandates in areas like emerging market debt and high yield, which we weren't being asked to do that before.

And so when we talk about tactical mandates or – essentially, what that related to was two years ago or – four to two years ago, when the consultants weren't supporting Aviva Investors because our interim chief executive had uncertainty about his future. The sales team had to target the markets that they took (28:40). And often, they were markets that weren't intermediated by consultants.

And often, they also have higher turnover of assets. And we're very close, I believe, to stopping those outflows. I mean, there always going to be stuff coming off your back book. But the front book, the solutions, the infrastructure, the real estate debt, high-yield, emerging market debt, a range of propositions that I do think are going to be the future. So 2016, I expect to be a positive net flow year.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

So, then, on Italy. Italy has rehabilitated itself from (29:24) to start. We have David with us. Do you want to talk about how the VNB was [indiscernible (29:29)?

A - David McMillan {BIO 17298829 <GO>}

Hi, Farooq. David here. Italy is quite simple. I mean, I think as you know, we've been going through a transformation program in that business the last 24 months, and what we're seeing now is the results starting to earn through. So I'll stick on two elements. Firstly, there's the restructuring of two of our joint venture agreements with UniCredit and UBI Banca in Italy, pushing a much greater focus on protection, and our protection business in Italy is up 31% year-on-year. And indeed we have that trend right across our European businesses where protection has been performing strongly.

The second thing that we did in Italy is (30:13) the market to really take down the guarantees on those profits. So we've moved about 12 months ago to 0% guarantees on those products – sorry, on the profit (30:24) products and we're seeing that earn through to the VNB.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

I think the answer we had made in Italy is the advent of Solvency II has changed the competitive dynamic in Italy and some other countries, frankly. So whereas the competitors were selling high guaranteed products for a long, long time, we've been operating on our economic capital, so we didn't, but then what we did decide (30:50) then they took it down and everyone else has as well, and the market is struggling with coping with that. And we are coping, so not only is our VNB up, but our competitors' position has fundamentally changed. And I've said this for some time, I think our competitive position on Solvency II gets enhanced. That doesn't mean a lot on (31:09) the Solvency II philosophically. But they'll compare through that (31:12) competitively.

And on capital optimization, Tom.

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Sure. So, capital optimization will be a big topic for Aviva in particular as we move into 2016 and 2017 and are trying to realize capital synergies out of the Friends Life combination. I would say, though, that as we think about the two transactions that we've just done around the adverse development cover and the sale of non-core commercial mortgages. Those are more balance sheet clean-up trades. There is an element of capital optimization there.

This has more to do with our risk appetite and, frankly, my ability to sleep at night, so these are good things that put behind us some risks. They also reflect us being a little bit opportunistic in the market. The demand on the other side of these transactions has been quite high, so we think the pricing that we've achieved has been very, very positive, and that's one of the reasons why we've been able to create both economic capital and Solvency II capital benefits from the transaction. They weren't driven by a need to try to raise capital, but they did have strong capital benefit for us because, frankly, the pricing was so attractive in each of the two transactions.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

And we will be opportunistic on that sort of stuff. I mean, we had looked about those things before and the license book we've looked at a couple of years ago and it just didn't make sense. And if you can find something that's compelling, we're going to take it and that's what it's going to be.

The other thing I might add on those two transactions, if we have a cash flow (32:38) in that order, if you want definable, predictable cash flow, then you need to take some volatility out of the earnings, and these you can do without losing earnings and you take the volatility out. And so (32:52) the team. It took a long time to discuss and negotiate and we've had (32:58). It was a good transaction.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you. Thanks very much.

Operator

We will now take our next question from Jon Hocking from Morgan Stanley. Please go ahead. Your line is open.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Good morning, everybody. I have three questions, please. Firstly, on Friends. I wonder whether you could give some color in terms of where we are on the run rate in relation to (33:24) the numbers, but just in terms of the actions that have been taken up. I seem to remember the first half you'd actually – actually, most of the premises you guys have actually touched. I wonder if you could give some color in terms of what future things need to be actioned to get the full run rate. That's the first question.

Second question, on the GI business, as you said you've signed two new distribution deals this year, I wonder if you look going backwards, one of the things that has happened this year, you cleaned up a lot of the distribution deals that weren't particularly profitable that were signed sort of mid-2000s. I wonder if you could talk a little bit about how the philosophy has changed and how you think about pricing, et cetera, and what's different about these deals versus the ones which didn't work out so well in the past.

And then just finally on the Solvency II communication, you said very clearly in the release you're going to give the numbers in March. I just wondered what you were going to do around the pay raise communication and sort of model approvals. Are you going to tell us in December that you've got model approval or are we going to have to wait until March for the full numbers? Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. Morning, Jon. Just to put clarity on the trends (34:30) on the company, I think we heard a couple of people mention that today. All we've done on the company side, we have announced we're exiting. We haven't taken any benefits from that yet.

So another key thing, I guess, on the AI, I haven't actually seen any benefits come through from Aviva Investors either, and I think that was in the original times (34:49) we think it was about £45 million because we've only (34:54) so you're not seeing any of that in Aviva.

But, Andy, do you want to cover some of the things we have done?

A - Andy D. Briggs {BIO 4311809 <GO>}

Yeah. Morning, Jon. I'll give you a bit more color. There's supposed to be five key areas, so one is these (35:07) people head counts and by the end of this year, about 80% of our people would have gone through sort of the lion's share of their integration journey.

The secondary area is site strategy. While we've announced what we're doing, we've only implemented a very small proportion of that, so the majority of that is still to come. The third area is combining up single best of both propositions on single platforms for new business going forward. We've done one of those so far, which is group protection. The others are still to come.

The fourth area is more of a kind of back-end IT and some of the back-end infrastructure. And then finally, as Mark just mentioned, moving assets across to Aviva investors. So although we moved Friends Life investments across, which was just over £20 billion in the second quarter, we didn't actually take a lot of costs out in doing that, because as we bring the (36:03) assets back in next month, which is about £23 billion of assets, effectively, we'll have that revenue stream, which is over 14 basis points of revenue, and we'll be able to do that with minimal increase in cost.

That then means that we would have about £45 billion of assets that we've moved across from the Friends side out of a total potential of about (36:29) and we'll obviously look at the other elements in due course.

So you can see while we've done a lot, there's still a lot still to come and we remain very confident in our ability to hit the – to exceed the 22.5% (36:44). I'm certainly pleased about the fact we're still delivering strong growth at the same time as that.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Thanks now. Maurice is on the line. I'll try to (36:54) paraphrase Jon's question, Maurice. It's you've done deals before and didn't make money. Why are you going to on these two?

A - Maurice Tulloch {BIO 17683736 <GO>}

Yeah. Thanks, Mark, and morning, Jon. I mean, Jon, one of the things when I got in two-and-a-half years ago, this is a business that was contracting at 10%. So, absolutely, one of the things that was clear was to build a pipeline of opportunities.

But to build on what you asked in Mark's opening comments there, we're certainly not going to do deals just to simply chase growth. On every single deal, whether it be a large deal like TSB or the one we've announced today in HomeServe, we have to look at the insurance fundamentals. We look at the pricing algorithms. We look at the underwriting process. We look at how we're going to manage the indemnity side. We look at the cost, and that sort of discipline is really – is the hallmark of how you run a general insurance company. We also model various sensitivities as to what could happen against a whole range of variables.

So that sort of rigor is absolutely now there. We've also won a number of smaller deals like a small deal with Honda, a deal with Market Study. Certainly, we've learned from the past that simply chasing the headline deal wasn't a good way to run a general insurance company.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Okay. Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

I mean, the other thing I've said, the systems in the cost to pricing has changed a lot, and I think you can see that in the numbers and it's just a fundamentally more industrialized system where we control the costing on these sort of deals, and the partners in this environment accept that approach since it is a higher degree of control.

On the Solvency II, Jon, was the third question about the comps, so we will announce when we get the approval, so, in December – December 4, is it? December 5. We will announce that when we have approval. We're not going to do anything more at that time, frankly, because we don't need to. I think we've given you guys enough sense we've been (38:58) – our economic capital numbers are in the ballpark of Solvency II. There's still a few issues outstanding. I can give you a bit of color on those. And one of them (39:14) transitionals. This is a market issue in the UK on the fundamental spread, and we're working on that with particularly the UK government in the (39:20).

And then there's a couple of other issues hanging around but we've – the list has got down to just a few outstanding issues for us now. And we're comfortable with where we sit. So I don't think we need to do anymore communication then, because if we do that without knowing the actual numbers for the full year, it becomes a little bit meaningless, and we haven't got any burning fires we need to put out, so I'm not going to call any analyst meetings to do that. But – so you get a full set of numbers in March.

You'll also get our target ranges. And you will also get the road map for where we're going. So we'll give you a bit more color about when you can expect synergies out of the

Friends Life and what other things we have and how that capital is going to build over the next couple of years as well. So hopefully that just provides a bit of color - color and comfort, we'll call it.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Okay. Great. Thank you.

Operator

We will now take our next question from Andy Hughes from Macquarie. Please go ahead. Your line is open.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi, guys. Three questions, if I could. The first one is on the HomeServe deal and the TSB. I think you described TSB as being a big deal, but HomeServe I think is £300 million of premium income a year. Have you got the renewal rights on that one? And it wasn't just kind of new (40:42) business on these deals. And in terms of the kind of structure of them, are they kind of heavy profit-commission deals? So we should probably expect a relatively high combined ratio to the 92.8%, but relatively stable and very little capital allocated to it?

The second question was on the - I think you hinted at it already, which is the benefit of the ADC (41:07) to the internal loan. I guess the internal loan comes down by more than £100 million. But is that kind of a much more material impact to the internal loan and where are we on that now?

And the final question is generally on the Friends Life capital synergy. So you talked a lot about Friends Life capital synergies being quite material. But in terms of the economic capital number, presuming that's done on a consolidated basis, so is it of benefit to the economic capital number or is it of benefit to something else? Thanks.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. Morning. By the way, I noticed you said HomeServe is three handed (41:40). We actually can't - we actually can't say what it is, but let's say you're in the likes (41:46) of the ballpark. Maurice, do you want to pass a bit more comment to the questions on the HomeServe?

A - Maurice Tulloch {BIO 17683736 <GO>}

Yeah. Will do. Good morning, Andy.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi.

A - Maurice Tulloch {BIO 17683736 <GO>}

We actually do have the renewal rights. As Mark said, we're not disclosing the deal specifics at this point. What I would say, though, building on the question from Jon, we look at all of these and this is not a diluted deal to the company.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Tom?

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Sure. On the impact of the adverse development cover – again, I think we addressed it to some extent here that it is a positive in terms of capital both to the group and at the subsidiary level. Our plans around the internal (42:30) have not changed. We still got £2.2 billion target for the end of the year. We've got a number of actions and trains to make sure we get that delivered, so really no new news there.

And on capital synergies, they benefit both economic capital as we currently compute it and Solvency II capital. Again, most of this is going to arise once we are in the Solvency II environment, so you'll be seeing it more in those terms, and naturally we'll be talking about it more on a Solvency II basis. But again, those capital synergies are very significant.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

I mean, Andy, if you have a look at this on economic capital risks in Solvency II as we see the – they're in the same ballpark. But, yeah, as of next year, economic capital becomes a bit irrelevant, doesn't it, because economic capital is Solvency II, so I can design whatever economic capital model I like, the tip of the Solvency II and give you 500% economic capital cover if I really want to. But it's got no relevance because the one, the regulator we use will be Solvency II, and we may disagree with a few points on it, but that is what it is. So, theoretically, the benefits would include both. I think we'll take in less than £300 million (43:40).

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Right. We talked at the half year that we realized £300 million of capital benefits through group diversification at closing, and again we'll realize more diversification and other capital benefits over time.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

And we sort of had to take that, really, because we had to take it then, so we put that on the numbers there as we had to take it.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. And then what does material mean? Is it around the same level of £300 million or...

A - Mark Andrew Wilson {BIO 6409810 <GO>}

You know, I don't know how many times I've been asked this question but it's more than once. And I can – you can assume, yes, material is a bit more than £300 million. That would be a fair assumption.

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Right. And I think the £300 million was just one action and there is actually multiple actions in train. So there will be multiple benefits here over time.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. Thank you very much.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Thanks.

Operator

We will now take our next question from Andrew Crean from Autonomous. Please go ahead. Your line is open.

Q - Andrew J. Crean {BIO 16513202 <GO>}

Good morning, all. Just three questions if I can. Firstly, could you clarify what you mean about a roadmap for capital? Does that mean in March you will be giving the potential capital synergies from the FLG deal?

Secondly, you gave the weather benefit of 2.5 points on your group combined. Could you also give the benefit from higher prior year development, because I think you just spoke 1.3 points at the half year. And then, thirdly, at the half year, I think your combined ratio in Ireland was about 93.5%. Most other people in Ireland, including people like FBD, AXA and RSA, are suffering some very heavy combineds, sort of 110% and over. Could you explain why you are able to outperform by 17 points?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. Good morning. So, the first one – I'll take the first one and Tom can take the second one. At the road map, we will certainly give you the board timings, when capital is going to connect, we'll give you a ballpark. I'm not going to put out specific targets because I don't like doing that. But we'll give you a ballpark of what it means. We'll give you a list of the key actions that we're doing and the rough time trends for that. So, think of it, I guess we'll give you the sentiments mostly that we gave you in Channel 9 (46:02) just so you can put something in the model.

I'm not going to give you absolute numbers. I think that you guys can build in the numbers you think in your models. And it's part of the way you share (46:11) the market, I guess. Where the – Tom, do you want to?

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Sure. Again, in making a comparison to last year, in terms of margin releases, actually, that hasn't really benefited us relative to last year. We've been basically neutral there, so, really, when you compare last year to this year, it's much more the story about the weather, again, partly offset by some large losses that impact the underlying, at least as we stated.

And then the combined ratio in Ireland, there again, we've just been disciplined. We've had cost reductions, new management teams, and have just been very focused on – to re-underwriting that business, so we've had very strong results there, in the low 90s.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

I mean, let's be clear on Ireland. We said for a few years now that Ireland, we didn't think that market made sense on what was happening in the market. And we didn't understand how some other people were present (47:05). I guess that proved – and we said eventually the market will correct itself, and it has.

We have put through some rating (47:12) there as well. We have exited some segments of that business we didn't like. And our costs were just, frankly, way too high because historically we had put in this massive regional (47:25) structure to Europe and Ireland. And basically, we closed the let down and reduced the cost in the business. And you're seeing the results on that.

So when I say we're don't chase a mark which we don't think is profitable, well, we knew in our position with lots of levers to pull in different markets, we can reallocate capital and we've got different business lines. Well, this is a good way we've done that and now we're seeing the benefits of that.

So it's not particularly difficult. It's just keeping it disciplined. And sometimes you got to be brave and take a bit of flak from you guys for losing market share and stuff and eventually it will come right. And that we did lose a lot of market share to a couple of peers over a period of time. And now just by sticking to what we do well, we'll pick it up again.

Q - Andrew J. Crean {BIO 16513202 <GO>}

Okay. Thank you.

Operator

We'll now take our next question from Abid Hussain from Société Générale. Please go ahead. Your line is open.

Q - Abid Hussain {BIO 17127644 <GO>}

Hi. Morning. Just one question for you. Coming back to capital (48:31). I was just wondering how comfortable you are with a Solvency II ratio, which looks like it's going to land in the 170s (48:40), especially given most of your peers are probably going to be materially higher than that. I was just wondering how do you feel comfortable with a 170 (48:53) sort of ratio?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

I'm surprised you now so much about it, Abid. I'm not sure they do. But I'm not going to comment on peers. What I'd say is, yes, it's uncomfortable that capital ratio we are definitely comfortable with our capital ratio.

I'm not going to comment, obviously, where it's going to come out. What I would say is there's two things to consider, isn't there. There is the capital ratio and then there's the volatility of that capital ratio and the risk associated with it.

One thing I know for certain is that a diversified book is better than a monoline insurer and should have less volatility. And I think you've seen how our book has performed over this volatile period over the last three months, so capital will be a function of all of those things and the risks associated with it and volatility.

The other thing I would say, I think, with a lot of certainty is currently we've been operating on the range we have and we're sitting on the right ballpark. And many others have been operating on what they have seen as a much higher range. And one thing I know with certainty is our relative position to our peers, I believe, is going to be a whole lot better. And so, it's all about relativity and what your appropriate level of capital will be.

Now, we will set our range of capital appropriately as well. I said at half year, I thought, let's say, 200% would be too high for us at the upper end of the range. And if in the future, we get more capital synergies and the (50:25) go the right way and that sort of thing, if we go outside the range, then we'll determine what we do with that capital, but we're all on different ranges.

You will have - you can't - just to be clear, you can't actually compare country-to-country so much either because there's no such thing as Solvency II. It doesn't exist. There's Solvency II in here and Solvency II in France and Solvency II in Germany or Italy or whatever, and they're all actually far more different than you think.

You can pretty much compare across the UK because the UK, for everyone that's based here, we use a pretty similar approach from the PRA. So you can compare much more accurately, and I think we'll step up okay. But you guys will be the judge of that when we release the numbers, won't you?

Q - Abid Hussain {BIO 17127644 <GO>}

I think that's the point. I mean, it's not being implemented equally across Europe. I mean, do you think Europe will force some conversions later on in 2016 or how do you see that playing out?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

No, I don't. I don't. I really don't. Well, I mean, I think what you will see - you have elected (51:31) a review of Solvency II in 2017 in terms of limitation in 2018. Is that right? Limitations (51:37) in 2018.

Andy won't (51:40) answer today but next year he can. There's some things on Solvency II that don't make logical sense or economic sense. And I think we'll get Solvency II in probably a better form as we go forward and you probably will be able to see what that will be in 2017 (51:57) 2018, and I think some of this stuff that doesn't make sense will actually get fixed, and I think there'll be (52:03) pretty much a groundswell even among the regulators, in particularly central bankers to make that happen.

So you might get more uniformity there. You're not going to get it quickly - well, you're just not. But at the same, it's closer than we've got now. We noticed in other places like Italy that there's people now that are using Solvency II. This makes us more competitive.

So I think perhaps I'm happy competitively with where we are, but Solvency II is a regime that still needs some work as we go forward. And I think we can (52:34).

Q - Abid Hussain {BIO 17127644 <GO>}

Understood. Thanks.

Operator

We will now take our next question from Greig Paterson. Please go ahead. Your line is open.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Good morning, gentlemen.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Good morning, Greig.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Probably just three traditional questions. The first one is just in the - I mean, I noticed there's been a bit of news flow from the open in the last month. I was wondering if there's any announcements that you think have had a material change on your Solvency II ratio? That's question one.

The second question is UK Home, there's been increased competitive pressure there. I was wondering sort of what year-on-year rates you're actually achieving in that market?

And the third one, I'd just like your thinking on this, particularly from Tom. There's been some rumors that you might drop your embedded value but the Solvency II basically costs a lot, double up on your accounting, et cetera. I was just wondering what you think or how you think investors are going to be able to track the stock of future cash flow if the value of enforcers drops as an accounting measure.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. Thanks. Three questions and that's (53:44) There's nothing we have announced that really is having a material change. It's still an issue with the industry here in terms of (53:55) fundamental spread. And that might impact our level of transitionals, depending on the outcome it may go (54:05) transitionals may go down, but we're pretty comfortable with whichever way it comes out to deliver the transitionals at about the right level, thankfully, for what I think they are. UK Home, Maurice, do you want to pass a comment on that?

A - Maurice Tulloch {BIO 17683736 <GO>}

Yeah. Sure. Good morning, Greig. I mean, listen, one of the things that we benefit on the home market is a pure multi-distribution play. We have – if you include TSB, we'd deal with (54:28) four of the big five banks. We have a direct proposition and we also deal through in communities. The market is competitive right now. That's somewhat fueled by nearing 20 months of relatively benign weather. But our book is holding up quite well, and we're seeing rate movement in the sort of flat to up 2%.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

And Tom.

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Sure. And the last point on cash flows, stocked (54:50) cash flows. We think that when we're in a Solvency II regime, that you're actually going to have much more disclosure on our cash flows and sources of new business value and what's coming off the existing business. And you'll be able to see the driver to that sources of earnings. So we think you're going to have lots of information and be able to assess value generation here going forward with the abundance of data that you'll have under Solvency II. So, from a disclosure perspective, we're not going to want to have a lot of competing statistics such as the extent that we're really driving our business more off of Solvency II, that will be where more of our disclosure is focused on and we won't have sort of a repetitive disclosure based on the old metrics around MCEV.

Q - Greig N. Paterson {BIO 6587493 <GO>}

So, I mean, you will give us some kind of generational profile, so that we can see if, for instance, a block of business is maturing and suddenly the OCG from that disappears. I mean, that's the challenge that we have if you drop the EV disclosure.

A - Thomas D. Stoddard {BIO 15071280 <GO>}

No, we're trying to move ourselves towards an economic surplus generation disclosure around Solvency II. That's the way we'll manage and compensate ourselves here as a company, and that's the way we're managing all the business. As we transition into Solvency II, we're doing quite a lot of work on our business planning, making sure that we got that thoroughly embedded into all of our businesses and performance metric, so that is the way that we will be communicating to you.

We're not looking to cut back disclosure just for the sake of cutting back disclosure. What we're really doing is try to manage to something that is actually going to be fundamentally more important for the business and the way we manage it going forward.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Yeah, just as a final thought, sorry. One of your competitors, for instance, overlays reinsurance contracts that accelerates future surplus, and the markets, as a, arguably (56:40) to try and pretend that they've got better cash profiles. That's the risk that you run if you don't have some kind of stock measure on future cash. So I just thought – take away that thought.

A - Operator

Yeah, (56:50) is here.

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Yeah, we got that. We appreciate that. Thank you.

Operator

We will now take our next question from Alan Devlin from Barclays. Please go ahead. Your line is open.

Q - Alan G. Devlin {BIO 5936254 <GO>}

Hi. Thanks, guys. A couple of questions, just (57:06) general insurance, you said that the results there, the combined ratio is more than adequate, but it seems to be driven a lot by or rather offset by large losses. I wonder if you could give us a kind of (57:16) going on underneath the products. I mean, what are the large losses, and why do you think the combined ratio underlying it is more than adequate?

And then secondly, just following up on your comments on Solvency II, being the thing that will make sense being (57:33) over the next couple of years. And there's some concern that actually (57:37) the process in Solvency II, (57:40) harsher with the EFR, et cetera? And coming down, I know it doesn't impact you guys but just wondered what your views are. Do you think Solvency II will get more tougher for the industry as a whole over the next few years or as the companies and the regulators understand the rules they can actually get a little bit easier?

And just a final question, the longevity you (57:56) France and is there any reason you actually go to there to France (57:59) France is not going on internal model until 2017. Just wondering why (58:04) France, not Aviva? Thanks.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Oh, my. Thank you. I'm going to take the second one (58:09) first, which is the Solvency II one, and I'm going to give you our perspective. Solvency II and IFRS, to me, don't make a whole lot of sense. And mismatching of your liabilities which you stretch out to 30 or 40 years and your assets which are mark-to-market, just doesn't make sense to me. And I think, many central bankers around the world would agree with that, too. And I think we have the chance to change some of the things in Solvency II in the next round. And frankly, I can say I'm already working on that with a team of people here and with some regulators in government.

And I think IFRS4 gives us another chance to get that right as well, because I think the IF (58:56) did it wrong, if I can just be really clear on that. But we are where we are and we are accounting for our position is and in answer to your question, I think you might find the pendulum swinging back a bit more to where it should be. And it's up to – it's incumbent on us to make that. Now, it may not be risk management team, or other management teams that benefit from that but I think long-term good of the industry we can get in the right place. But I can tell you that is an active discussion. Now, there's a number of things that are not going on the phone that we are looking to discuss.

Once they negotiate because I think we're getting a lot of alignment with governments and central bankers and the political policy makers on some of the issues we've talked about. So, what can you do with infrastructure and how do you invest in the broader profile of investments and how do you cut out the systemic risk that Solvency II inevitably brings to the market, which I don't like, economically.

So I'm looking a bit holistically rather than looking at this just from Aviva perspective. And we have started those discussions already, so I'm talking about some of the things that are already in discussions, so we're getting ahead of ourselves with that.

The other two things, at GI, I think that's a question for Maurice, and then I'll pass on longevity onto Andy.

A - Maurice Tulloch {BIO 17683736 <GO>}

Morning. Morning, Alan. Listen, there's a number of factors that we look at in the General Insurance and certainly, overall, I'm pleased with the progress and the results. But if I look at specifically your question on large losses, and there are pricing models we put in – weather loading we put in a large loss loading, so certainly, when we see large losses pick up slightly as they have, that factors into that the loadings are in port (1:00:43). But I'd also say that for every single large loss, we do our post claims underwriting review to make sure it was the fundamentals of that risk. Did we understand the fundamentals of that risk?

We continue to adapt our pricing models, and that's how we – that's the way we run the General Insurance business. We've had positive impact in terms of motor rates starting to move, weather is being benign. We've had benefits (1:01:06) for core business, and we have had a slight pick-up in large losses.

A - Andy D. Briggs {BIO 4311809 <GO>}

Good morning, Alan. It's Andy here. Just on the longevity swap, the only reason that was (1:01:16) Friends' entity was that we started the dialogue from the Friends side pre the completion of the deal with Aviva. So – and therefore, just carried on with that. I mean, I think I'm ambivalent whether we write things in Aviva or Friends entities, our plan will be to merge them all into one entity at some point in 2017. And so, it happened this was written at Friends entity here. We run it as one business overall, and hence I would focus on the overall business and not be too concerned about the sub elements between the Friends and Aviva side. It's one business now.

Q - Alan G. Devlin {BIO 5936254 <GO>}

Good. Thanks very much, guys.

Operator

We will now take our next question from James Shuck from UBS. Please go ahead. Your line is open.

Q - James A. Shuck {BIO 3680082 <GO>}

Hi. Good morning, everybody. I had three questions for you, if I may. Firstly, just returning to the integration of Friends Life. I think, Andy, you mentioned the term site strategy. I'm just trying to understand what your views are in terms of the regional offices and the potential to sort of close some of those down. In particular, I'm hearing that there was perhaps some confusion around what actually happened with the Dorking office, so perhaps you could just sort of lay out your thoughts there, please. That's my first question.

Secondly, could you just kind of say what your views are on the actual Friends Life customer data. I'm presuming you've had access to this now and I'm just interested to know whether that data is actually what you thought it was and whether you actually noticed any positive or negative trends around that data?

And then my third and final question is actually relating to France. You obviously talk a lot about cash and capital efficiency. I noticed that in France, the IRR in France is 10% and the payback period is nine years, which probably would have come down at the nine months year-to-date probably due to investment markets.

So I'm just interested why you're so kind of seeking growth in that market at those kind of returns. I think sales are up 15% at the nine-month stage, so to me those kind of returns don't stack up. Those are my questions. Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Good morning, James. Andy, you're up.

A - Andy D. Briggs {BIO 4311809 <GO>}

Sure. Yeah. So, I mean, I think we've been very clear with both internally and externally in terms of site strategy. So, we were clear very early on we were coming out of the Friends head office in London, one you changed which we completed on by the end of June, and that was in our half year synergy numbers.

We've been clear that the UK Life business is exiting Manchester, Exeter, and Salisbury. And we are on track to do that, as we said, by the end of next year. And we've been clear that we were going to reduce our presence in Dorking, focusing particularly on the corporate pensions business there. And again, we are on track to do that by the end of next year.

We also have been clear that we're reducing the number of properties that we're in in London, Eastleigh, Bristol, Norwich, and York, and all those moves are on track as well. The overall impact of this is taking 33% out of our UK property footprint, which will be a key driver of synergies. Not much of that is in the synergy numbers to-date, so we've been clear and consistent and will continue to be.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

On the customer data, maybe I can just take that quickly. So there's about 35 million customers from Friends. The majority of those don't have intermediates associated with them and that was particularly strategically attractive. At this stage, what we're doing at the moment, is we're integrating those systems, which isn't just bigger but you got transitional middleware over the top of those systems so the idea is you bring those customers on to MyAviva, and so the first stage of that is given once MyAviva, MyAviva platforms and then we can use the approaches and data and things we're doing. We've also done a favored research.

So, so far, so good. What I said before, the trends still (1:05:40) different than before (1:05:41) it includes the customers and the data, so now the next stage, of course, is bringing them on, and then the next stage after that is increasing the average product holding as you cross-sell GI and those sort of things, and we're working on that now.

And the last question was on France, David.

A - David McMillan {BIO 17298829 <GO>}

Hi, James. David here. Our strategy over the last couple of years in France has been pretty consistent. We've been trying to shift the product mix away from (1:06:06) profits, which is longer payback, lower margin, towards unit length and protection, and we've had a large degree of success in that. So the growth you're actually seeing in France over the last two, three years has all come from unit length and protection. The protection sales year-on-year are up or kept the same in France. As we effect that shift in new business mix, you might be seeing the IRR going up, the VNB margin going up, the overall VNB going up, and the payback period is coming down.

And I should say on unit length, I think we've led the market in France in having that 27% of our savings business is in unit length. I think that's the highest rate or one of the highest rates in the French market.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

So the French business (1:07:04) and I think, though, James, your point on the payback period is well made and that's why you're seeing net new businesses mix change. Yeah, that takes a bit of a while to flow through to the numbers to make it work. But frankly, the payback period on the old products – on some of those old products are unpredictable.

Q - James A. Shuck {BIO 3680082 <GO>}

May I just have a quick follow-up on...

A - Mark Andrew Wilson {BIO 6409810 <GO>}

(1:07:32) sorry.

Q - James A. Shuck {BIO 3680082 <GO>}

Sorry. Sorry to interrupt you. No, I just wanted to follow back, circle back on just on the Friends Life data. Can I just clarify, I mean, you do have full access to that customer data at this stage. You don't need any regulatory approvals that kind of then allow these events in the (1:07:46) any of that customer data. I understand you got everything you need and you're looking at it and progressing as you would have expected?

A - Operator

(1:07:56).

A - Andy D. Briggs {BIO 4311809 <GO>}

Friends Life no longer exists. It is part of the bigger and large Aviva Group there, and we're one big company.

Q - James A. Shuck {BIO 3680082 <GO>}

Okay. Great. Thank you very much.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

One big, happy family.

Operator

We will now take our next question from Oliver Steel from Deutsche Bank. Please go ahead. Your line is open.

Q - Oliver G. Steel {BIO 6068696 <GO>}

Good morning, Mark. Good morning, everyone else. Three quick questions, first on Friends Life and the integration. I mean, from all – from everything you've said so far, should we be assuming that the synergies could come through quicker than previously indicated? So that's question one.

Second question is on the balance sheet actions that you've taken, you've mentioned I think in one case that there's a one-off charge. Is there any longer-term drag on earnings from that? And if so, could you quantify that?

And then thirdly, just more broadly on Europe, whether it's Italy France, Spain, Turkey, Poland, I mean, it's obvious that the margins are pushing up on the back of lower volumes, so the mix change that you're talking about is sort of coming through. Actually, two points. One is you don't actually separate out unit-linked from traditional savings, so it's not pretty easy for us to actually tell the difference, so you might help us a little bit on that in the future. But more specifically, how much further do you need to sort of change the mix before you're happy?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

I'm not sure if I'm happy. I'm not sure anyone on the table is ever happy, but first of all, integration, you can see our numbers. I've said we are ahead of schedule, but I'm not going to give any guidance today about that. I think you guys can make up your own minds on (1:09:48) and stuff like that, but we actually were ahead of schedule.

Balance sheet, Tom, I thought you gave some of the disclosure, didn't you?.

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Yeah. We've talked about, in particular, the adverse development cover that there's a loss of investment income of about £10 million per annum that comes from that transaction. Now, again, we've done this to reduce risk and so we're hoping that this will actually provide a benefit for us, and we look at sort of the bottom line after, after, after. We're getting a lot of volatility in the latents book.

So, overall, this is a positive economic transaction for us. We haven't provided any more detailed disclosure around the set of non-commercial mortgages. Again, because (1:10:27) at the end of the period here, but we may talk about that further at the end of the year.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

(01:10:31) specifically on the drag?

A - Thomas D. Stoddard {BIO 15071280 <GO>}

No. Nothing. Again, it was already asked about. We need to re-invest those assets. We're working though that right now, and that's an ongoing process. But there's nothing to say about any particular drag from that transaction.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Europe?

A - David McMillan {BIO 17298829 <GO>}

Hi, Oliver. Certainly (1:10:52) with regards to margins, if you look across Europe, pretty much all of our business lines now and most of the products are getting an acceptable new business margin, which is not something I could have said two or three years ago. And you can see that flowing through in all the markets. Italy year-on-year, the new business margin is double what it was 12 months ago, so we are pretty happy with the new business margins we're writing, as much as we'll always look to improve those, and we'll always be cautious about which kinds of products and which kind of volume we're actually writing.

Q - Oliver G. Steel {BIO 6068696 <GO>}

If I can just come back on that. I mean, what proportion of your new business across Europe is now still in traditional products with guarantees?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

So, a follow-up.

A - David McMillan {BIO 17298829 <GO>}

So, Oliver, let me follow up with you offline on that. I'll give you some detail on that.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

I'll also take a point, Oliver, that maybe we need to give a bit more detail on that going forward and we'll – let's review that for the full year. Thanks for following up, Oliver.

Q - Oliver G. Steel {BIO 6068696 <GO>}

Thanks.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay.

Operator

We will now take our next question from Fahad Changazi from Nomura. Please go ahead. Your line is open.

Q - Fahad U. Changazi {BIO 15216120 <GO>}

Good morning. It's Fahad from Nomura. Just a very quick follow-up question. Could I just take a chase-up on Oliver's question on Friends Life run rate synergies? We obviously achieved a lot of the low-hanging fruits of £53 million in one half months, £28 million in the next quarter. Just for the next quarter, should we take the Q3 as also a lot of low-hanging fruit or and (1:12:44) expect a big drop in the quarterly run rate for just for Q4? That's one question.

Second question, just chasing up on the motor stuff with Maurice. Sorry if I missed it. Did you actually disclose what rates you booked through yield book, in UK mostly, and claims of (1:13:00) level that you were seeing in the book?

And the final question is on France. Could you just give a bit more background in terms of dynamics. We have a company recently IPO-ing and they're quite bullish on prospects in terms of investment and flows, so if you just give us some color on underlying flow levels that you see in unit length business that you see going forward in France and in terms of competition as well. Thanks.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yeah. Okay, Tom, do you want to take any of this?

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Yes. So, integration again, we've got an extensive team working here. We disclosed now twice the synergies that we secured. We talked today about the fact that we'll be migrating more of the assets under management. (1:13:48) investors, and so by year-end we'll be able to secure more of those synergies, so that should give you a sense as to the pace of what's happening here.

Today's not an earnings call, but as you look forward, a lot of those synergy benefits will be reflected going forward. We're securing them during the course of this year but it will take time for them to actually drop to the bottom line, so you'll see that more going forward in 2016 and 2017. Otherwise, we've said that we're ahead of schedule and that's really all there is to say at this point.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yeah. We're not going to give – we just aren't going to give anymore guidance on that. It's good to say we're comfortable and a bit ahead of schedule, but we can't deliver quarter-after-quarter. So, I'm not going to give any forecast or guidance into this. Okay.

Maurice, on the motor question?

A - Maurice Tulloch {BIO 17683736 <GO>}

Yeah. Morning, Fahad. What I disclosed was the Towers index indicated just shy of 5% in the quarter and 8% year-to-date. I said our experience is in line with that. Just give you some color for your model, the rates that we're currently getting are ahead of the claims inflation we're seeing.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Now, on France, always treat IPO documents with interest because I've never seen a negative one yet, which is quite interesting. But can you add some color there?

A - David McMillan {BIO 17298829 <GO>}

We've seen fairly strong inflows over the last two-and-a-half years, 2012 into 2013 and 2013 into 2014, our French VNB but that is (1:15:17). The biggest driver of that was a flow from (1:15:24) profits into higher margin. I think it's fair to say that those flows have slowed a little bit going into 2016. So as you look at our overall VNB for France, three quarters on three quarters, it's more and more of this 7%. Quarter-on-quarter, it's about 9% overall. So slight slowing in the market but still very positive flows going through that business.

Q - Fahad U. Changazi {BIO 15216120 <GO>}

Okay Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. Thank you, Fahad. I think, ladies and gentlemen, let's close it there. We can fill the questions one-on-one in follow-ups with the IR team after this. So thank you for your participation. As always, we look forward to reading what you say. We do read them all with interest and we'll no doubt follow up in the next few weeks. So thank you.

Operator

That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.