S1 2014 Earnings Call

Company Participants

- David Cooper, Marketing and Distribution Director
- Rodney Cook, Chief Executive Officer
- Simon Thomas, Finance Director
- Unidentified Speaker

Other Participants

- Alan Devlin, Analyst
- Barrie Cornes, Analyst
- Unidentified Participant

Presentation

Rodney Cook {BIO 14008420 <GO>}

All right. Good morning, everybody, and welcome to the Just Retirement Interim Results Analyst Presentation. I believe you've all studied carefully the legal disclaimer. So moving on. I think most of you already know that I'm Rodney Cook, Group Chief Executive of Just Retirement, and for those on the telephone who cannot see the members of my team here with me, I have Simon Thomas, our Chief Financial Officer; Shayne Deighton here, our Group Chief Actuary; and David Cooper, our Distribution and Marketing Director.

Before I get into the detail, I'd like to make clear that I'm delighted to have the opportunity to present our maiden set of results as a new public company following our IPO in November 2013. And I would like to thank our hosts here at Deutsche Bank for the use of their excellent conference facilities. More particularly, can I thank all of you for joining us here today and also those listening on the phone.

So to have agenda for today, it is fairly straightforward. First, I'll walk you through some of the issues and opportunities that we have for our Group and I will briefly touch on the interim results, but I will let Simon, our Chief Financial Officer, go through them in much more detail. I will wrap up at the end with the outlook for our company and some comments on the market. And most importantly, also seek to answer your questions at the end.

You will remember that we have a June financial year-end. So the references in this presentation, except where explicitly noted, will be for the financial year and periods commencing the 1st of July 2013 and we will try and highlight anything that is pertaining to calendar years and I accept that that is a slight challenge because many other companies have calendar year financial years.

So moving on, I would describe our first six months results as a very good solid start, not spectacular, but good, nonetheless, given the challenging overall marketplace that our results are also consistent with our expectations, which we've shared with you in the past.

Also clearly, in our first six months of trading the IPO in November, as I mentioned, was a clear highlight for us. And we are very pleased to have attracted some significant blue chip investors on to our share register. I think it is fair to say that our share price movements did give us some gray hairs in the early days post IPO, but leaving that aside, my team and I are delighted to be here once again as a public company, but also with a much stronger balance sheet, which positions us well for future growth.

In 2013, we spent a fabulous time, I must say, with you and with investors giving our thoughts and views on the impacts of both the retail distribution review and the impact of gender neutral pricing, both of which occurred at the end of 2012. And more particularly, the impact in difficult legacy that that would give to the results of 2013, and of course, we have seen that. Also as of the annuity market they added challenges which resulted from purchase deferral and the rising share market, which tends to cause deferral of annuitization, but also an important one, some of you may not have picked up on, which was the passing peak of 65 year old males, the post baby boomers in 2012, and therefore, in 2013, the number of males reaching 65 was just over a 8.5% lower.

Given all of those factors, we do feel comfortable having delivered growth in sales and also in market share in each of the past three quarters, including this quarter, and that has added up some reasonably robust trading in the first half. What is that the combination of challenges for the annuity market in 2013, we are still confident that our longer-term growth drivers for the individually underwritten annuity market risk we specialized are still in place. Clearly, the number of people reaching retirement age will continue to grow and an increasing proportion of those may be able to become customers of ours in due course.

Our excellent customer service and our franchise with distributors have been bolstered through the receipt of our ninth consecutive 5 Star award for outstanding service to intermediaries, and to customers and that is unique in our industry. Pleasingly, last night at gala dinner, our company was placed once again and that happens for the fifth consecutive year in the Sunday Times Top 100 companies to work for, and that is a significant achievement for an insurance company.

The other important development is we are now starting to benefit from the use of our intellectual property as we expanded our underwriting skills of longevity, interest of small defined benefit scheme de-risking and Simon and I will talk more about that going forward.

I'd also like to later cover our -- the fact that we are heartened by the current level of public annuity debate and then I'll cover some points on prognosis, which is our proprietary intellectual property for underwriting longevity. Of course, if these things that we will cover together do not answer the questions that are upper most in your mind, then we will seek to deal with those in the Q&A.

Moving on to the next set of the charts, starting on the left-hand side, you will observe, of course, our track record of substantial growth in annuity sales over the last five years.

However, given the significant fall in the annuity market I've mentioned in 2013 and the most difficult comparative between 2013 and 2012, we are today reporting total annuity sales for the half that are 14% lower than the corresponding 2012-13 financial year half. On the other hand, you'll see with the gold section, the lifetime mortgages, a pleasing increase of just over 49% in life time mortgage sales, so outside the sales effort by the company just 4% lower half-on-half. Now I accept this isn't a positive number, but it is consistent with the picture we outlined both in September and November of last year.

Moving now to the middle section, which is the IFRS profits, these numbers have also been previously flagged to you. We are reporting an underlying profit number, which is 7% lower than the corresponding half in 2012-13.

On a positive side of the coin, our operating profit is actually 11% higher on a comparative [ph] and Simon will explain clearly the difference and remind ourselves of the difference between underlying and operating profits.

On a more pleasing note, to the right hand side of this chart, where our embedded value has risen 12% on an underlying or pro forma basis over the last six months. So close to a 100 million increase. So taking these three sets of charts together, I hope you'll agree that our financial results represent a respectable performance and a respectable start in our first half year as a new public company. Given the difficult backdrop, which a number of analysts, of course, have already covered in their reports of recent time and Simon will take you through those financials in more detail shortly.

A couple of points on the IPO, as I said, I am delighted to be in a position to welcome our new shareholders and owners, but that's not the whole story. You'll see here in front of you on this page, the capital ratios and our increased financial strength shown here post the IPO will enable us to continue the growth of the company and it also increases our options with respect to how we manage our company's balance sheet. It also allows us to consider alternate asset types, although it isn't our intention like some other companies to be building new accounts, we're not quite that big.

And moving on, we are content to point out that with the current position in terms of our balance sheet. But as we come to decisions on any chance of improving that we will, of course, bring them to your notice. While I am on the subject of our capital structure, could I recall here formally our appreciation of your support, not just in capital, but also in terms of their advice and expertise by being a truly supportive shareholder of the company during this growth phase.

Moving to the next slide, which has got four sets of charts and graphs. As you're aware, and indeed, you can see on the top left chart our last quarter's sales and those three prior quarters already announced to the market in calendar '13. While growing on quarter -- each quarter, which is a positive feature, they are indeed lower than the corresponding quarters in calendar 2012, which are highlighted here. This, of course, is also true moving across to the total market on the right-hand side. It is also true of the individually underwritten annuity market shown here in the blue and also the total annuity market, which is the sum of the (inaudible) and the underwritten section below.

Can I remind you we shared with you our estimate of the pull-through into 2012 of approximately 800 million in the total annuity market, which occurred in 2012, which could reasonably have been expected in 2013. Correspondingly, for the underwritten market, which we participate in, that figure was over 400 million. Without doing damned lies and statistics, I think it is worthwhile to note that when you adjust out that 800 million of pull-through, the total market is actually down 4% year-on-year rather than the public leases of old numbers, which are much higher. And indeed, we adjusted likewise for the IUA market, it is actually 4% higher on a year-by-year basis. So not quite as negative a picture than the broad headlines would indicate.

In the bottom left chart, now specifically, referring to Just Retirement, during the second half of the year, you will see and this is covered by our interim results, our IUA market share has grown in each of those three quarters, obviously, above the minimum number, which was the 22%, which was hit in the first quarter of 2013.

So positive market share growth, I would highlight that this is getting its back up to the 30% to 35% range, which we've traditionally held. But I'd like to point out that we are not managing the business through a specific market share figure. Now, while I'm not promising, given the somewhat volatile markets that every future quarter will be bigger than the quarter that comes before it. This chart does show a positive trend.

Moving across to the right, of course, it shows the somewhat greater resilience of the IUA market vis-a-vis the total annuity market wider market. And that has led to some further market share growth for us and therefore in the total annuity market we're now over 12% market share.

Then moving on to the next set of slides, another four slides for those on -- four charts for those on the phone. This is with respect to the market. We remain confident that our longer-term growth story is in place. Even if the fourth quarter of 2013 was a rather soft quarter, reminding everyone our main growth drivers are that shown on the top left, which is an aging population demographic in the UK. And of course, a growth in defined contribution pension assets. As I said on the top left chart, there are more and more people aged over the retirement age and moving across to the right, these people are bringing increased assets with them when they reach the retirement age.

But also bringing with them defined contribution pensions and with that the responsibility for the individual themselves through retirement choices to decide, where they will invest their money, where in, of course, in the past trustees would have looked after them and they wouldn't have had to make choices of their own. If I can take the total annuity market as a given, then I would like to remind you of the two key factors, which are important to Just Retirement, but firstly, they are the proportion of retirees who access the open market, and then of that proportion are the number who are then underwritten.

And despite the modest setback on the bottom left hand side, you'll see a small setback in the open market over the last year. Over time, we do believe that more and more retirees will take up their rights to shop around, and I think the first thing we need to for them is, of course, take away the jargon because no one actually knows out there what open market option means, and we need to alert them to their rights to shop around.

You'll see the individually underwritten annuity segment will also likely gain in share and the fact that people are realizing by answering a few simple questions that they can potentially get a better deal for themselves. The gold line on the bottom left and the light blue line for those in color track the very significant growth in the penetration of individual underwritten annuities clearly over the past five years on this chart.

You will, of course, see in the financial conduct authorities report, which was released just a fortnight ago, it noted that around a quarter of annuities are underwritten by number and just over 30% by value. Clearly, there is an opportunity, given that industry estimates and we support these industry estimates are at around 60% of individuals given just they're single independent stages would be eligible for some form of enhancements.

Also, I think we've alerted you at some point in time healthy life may also need to be underwritten medically and priced appropriately once cross subsidies come into question. And I think you've heard me say before that individual underwriting may in future be the new standard as opposed to non-standard. So I think the observation on the right hand side is therefore that it is no accident that individually underwritten annuity business has experienced a 20 plus percent growth compound since 2008. And that is ignoring the split in 2012, that is a positive growth history.

So just before I hand over to Simon to take you through the details in the numbers, a few comments on our continuing development of our proprietary intellectual property for underwriting longevity prognosis. Phase 2 of the system, which we've taken you through in some detail prior to now is actually still on track for implementation in the summer. As you've heard us mention before, we have been using actively the outputs from prognosis to deliver some quick wins already for our business in improving the accuracy and granularity of our pricing.

You will also recall that we used the insights from prognosis research to refine and strengthen our reserving prior to the 30th of June, 2013 year-end. Our longevity experience continues to be in line with these insights and we have made no annuity mortality assumption changes. So just to reconfirm our experience from longevity continues to be consistent with the insight we gained already from prognosis and are making no further changes at this time.

We continue to work closely with our insurers gearing up to move to use the prognosis in pricing so that it is progressing satisfactorily. I think I would like to highlight that the work on prognosis will never end. It will never be finished. We will continue to refine our insights from the research, we will be piling on data and analyzing that as you know that dataset is growing as well in advance of 15,000 person use per month and we will continue to use our foresights in examining new drugs and new medical techniques and the likely impact that they will have on longevity. So the current focus for us interestingly is on the examination of healthier lives rather than sick lives and we believe that will yield some promising insights for us.

So now, Simon, can I pass over to you and take the analysts and listeners through our results in detail, and I'll come back later to share the outlook.

Simon Thomas {BIO 15219564 <GO>}

Thank you, Rodney, and good morning. Before I start, I just want to echo Rodney's comments about how pleased we are as we're presenting you today as a public company. Good to be back. So we can go straight into the IFRS results. Like Rodney, I'd view this as a solid start to the year against a difficult market background. We told you that we thought 2013 was likely to be tough from a competitive position and that combined with the supercharged RDR and gender effects in the first half of the prior financial year, remember, this was always going through a difficult comparison.

However, I hope that you believe that we've been realistic in setting expectations. Now just ticking up a few lines, under the circumstances we view a 7% drop in underlying profit as a creditable performance. And on the face of it, more encouragingly, the operating profit increased by about 11% over the period.

Now you can see this was due to a better performance in the operating variances line and where in the prior year we had some significant negative variance mainly relating to a new policy, which I'm pleased to say has not been the case of this year.

If you also see further down the profit and loss account, the profit before tax has fallen by 42%. This fall has been caused by the difference in the line, the investments and economic profits losses where we saw a real benefit in the prior years caused by some substantial spread timing. In fact, I think it went down from something like 273 basis points to 181 basis points in the fall.

So there is huge tightening in the prior year. That spreads tightening has continued in this half year, but nowhere near the pace of the prior period. However, you can see we still captured about 8 million pounds of economic benefit mainly caused by the spread tightening and I'm going to come back to that later when I talk about the in-force profit on the average basis.

The final thing I'd mention here is the finance and other costs incurred by the hold-co [ph] of 18 million pounds this year. Now, this includes the loan interest and the preference share coupons of about 14 million pounds, which cover the period up to the middle of November, which of course is our IPO date. It also -- that 80 million includes about 2 million of costs for the IPO itself. But the key thing here is clearly as part of the IPO both loans and the preference shares were consolidated into equity. So of that 18 million, 16 will no longer recur in the future.

Now, moving onto the KPIs, starting off with total annuity sales, I should say on these charts here, what we've tried to do is review calendar quarters rather than our financial year quarters just to try and make things a little bit clearer. Now there's a number of ways to look at it this.

Our sales in calendar Q4 rose to 351 million from 337 million in Q3, so an increase of about 4%. However, you can see that sales were about 15% lower in Q4, when compared against the all-time record quarterly sales of 412 million achieved in the equivalent quarter a year before, which as we all know was caused by IFAs ensuring that the customers to meet the new gender rules and the RDR factor. That's something we've talked about in the IPO was to look at the sales trends over the longer-term.

And here you can see that our Q4 sales have, in fact, grown at a compound annual growth rate of about 17% over the last five years. And this is similar, in fact, the growth rate within Q3, which was around about 20%. So ignoring those exceptional peaks of the super-charged 2012 figures, we think that our latest quarter continues to suggest that long-term growth trends remain intact.

Now on the next slide, I wanted to look a little bit more at sales in detail. And this slide shows you the split of our total annuity and mortgage sales for the last six months. And we're showing this just to be absolutely clear about the constituents for our annuity sales.

The chart again highlights the fall against the prior year, but it also allows me to break out the new business (inaudible) one scheme in the first quarter of 3 million pounds and the second scheme in the second quarter of about 2 million pounds. Now this is a promising area. While they're using our IP to underwrite small DB schemes to allow them to de-risk. Now this is starting to deliver useful sales and importantly satisfactory margins.

Now, given the recent lower annuity demand, having the flexibility to allocate capital to DB schemes is an important mechanism for optimizing our returns. You may recall, that I gave you prudent stay back in October that we booked our first case of 3 million, and I think I said that we might expect another 3 or 4 for the rest of our financial year and for 30th of June.

Now that original guidance is understating the possibilities and I'd like you now to think about the DB sales to be more in the mid-30 million pound range for the balance of our financial year. But I want to stress, this isn't going to be incremental to our year-end sales target, and obviously, DB does remain a lumpy business. But we thought it was right to give a little more detail on the pleasing progress we're making in this new market.

Now looking at the mortgages in a little bit more detail, I have to say the life-time mortgages and the mortgage picture is unequivocally healthily. Calendar full sales were up 43% compared to the prior year and up about 8% compared to Q3. This meant that sales in the first half of our financial year were up almost 50% compared to a year ago.

Pricing has been sufficiently attractive tactically to relax our cap of 25%, compared to the annuity volumes. We're up to about 30% at the moment, but I think in the next few periods that will start to drift back down. But for the time being, we're very pleased with the volume and the yield of this product and indeed, I have to say the yield has improved over the products in the last three months, that's slowly been picking up month-by-month. The chart shows you the market share. We're about 34% and loan quality remains strong. We still have a loan to value of about 26% and maintained our record of never having and incurring any losses drawn on no negative fee currency [ph].

Now, just turning to IFRS, new business margins. Unsurprisingly, the fall in annuity sales has resulted in lower new business profit with a fall of about 9% compared to the previous period. Now focusing on the bottom right-hand chart here, in October, our flagged margins were under some pressure in the first part of our financial year in competitive marketplace.

Now given the reduction in the size of the market, it's meant that more people are fighting for smaller cake. It's not therefore surprising that we've seen a fall in margins from about 4.7 down to 4.2 for the first half year. That's been helped a little by the stronger life-time mortgage volumes we've been noting, but we've seen it landed around 4.3% for the first half.

Overall, I'd say pricing remains competitive in the market, but there are clearly signs of improving pricing, and that combined with the fact that we're writing more DB and what I would describe as satisfactory margins, and with the lifetime mortgage yield actually starting to drift up, we just need to be a little more positive on margins for the second half of our financial year.

Now turning to in-force profits, in-force margins have been compressed as a result of falling bonds grades. I guided that historically we've seen inflows profits of about 80 to 100 basis points on opening actual liabilities and it will be at the low end of this range. While this is falling slightly further, as a result of the continued tightening of credit spreads in the first half of our year during the period we saw spread tightening fall from about 181 down to about 149 basis points on this slot.

So this has led to a fall in annualized margin down to about 74 basis points per annum. However, as we've noticed before, if we leave an amount here, you don't leave it entirely, because the capitalized value of the spread tightening on the whole backlog comes through in that 8 million of economic variance on the average P&L account.

Looking ahead, my good reaction is, I wouldn't expect this to fall too much low as spreads have not seen significant tightening in January and February and secondly, of course, we expect to run further margin on our surplus due to IPO proceeds, which only obviously contributed about one month of return in the first half of this year during on the date of the IPO.

Turning to final KPI of embedded value, the Group embedded value now stands at close to 900 million pounds. This chart shows the bridge from a performer opening EEV, which have included the IPO proceeds in there of about 800 million pounds and then shows the effect of trading in the last six months.

Even excluding the fresh capital, the embedded value increased by about 100 million pounds over the reporting period. The main contributors to this were the new business contribution of 47 million pounds where margins have fallen slightly from about 7.5% down to about 6.9% on an EEV basis. We expect the return on opening embedded value of about 13 million pounds, some small experience adjustments, but also the non-material benefits in the economic variance line of about 39 million pounds, reflecting further spread tightening and rising property prices.

Now once again this EEV basis allows for best estimates in all aspects, other than, of course, the liquidity premium, where we use CFO Forum approach, which takes the spread to minus 40 basis points by 50%. So this implies to an -- this equates to an implied default allowance of about 93 basis points built into the embedded value. Had we adopted a more realistic default of, say, 50 basis points, this would have led to an increase of the embedded value of about 70 million pounds. So our totally EEV would have been around about 960 million pounds. (inaudible).

Capital, as you can see on the next chart, our two main capital measures remain strong. On the left hand side, we have the Pillar I, the ratio now stands at 222%. We've injected a 125 million into the life company so far and expect to inject a further 50 million in the next six months.

This with half-year -- half year and has increased the ratio back up to around 240%. So close to the pro forma figure we had in June '13. On the right hand side of the chart, you can see our economic capital cover ratio, which has improved up to 188%. This is well in excess of our minimum cover target and is slightly better than the pro forma figure at the end of June.

This reflects the helpful economic changes in the period, partly offset by the dilutive effect of writing new business in the last six months. Finally, on dividends, just to repeat, our guidance was that had we been quoted for the full-year 2012-13, we would have paid about 15 million pounds in pro forma full-year dividends split one-thirds, two-thirds between interim and final. So this would have equated to a dividend of about to 2P for the for the final dividend.

Our first payment will be a final dividend for the 2013-14 and it's going to be paid in Q4.

So I'll now hand back to Rodney to tell you about our outlook and some conclusion. Thank you.

Rodney Cook {BIO 14008420 <GO>}

Thanks, Simon. Before I talk about own prospects, I want to just touch on and make a few comments about the public policy debate, which has gained a great deal of coverage so far this year. And for those on the phone, this is a slide with the Financial Conduct Authority logo on it. Most of you will be familiar with the FCA's review and the report, of course, was issued a fortnight ago today. And having observed of 80% of retirees who stayed with their current pension provider suffered some detriment financially, that wasn't any surprise that they highlighted strongly a real need for such a annuitants to shop around.

So overall, we do welcome those findings and in particular the FCA gave some prominence to enhance, or if you like, individually underwritten annuities, pleasingly. Those findings are consistent with our own analysis of the market and I would like to remind everybody that we at Just Retirement have been champion in this cause for almost 10 years now. And if we remind everyone that the word Just is not only, but it's fair treatment for customers at Just Retirement.

After all, our products do provide good value to retirees and typically they will gain 15% to 25% more than a standard writer would offer them. So we do welcome any initiatives, which ensure that customers are treated fairly. Clearly, also if you can see in here the Daily Mail, a number of the national media have launched their own campaigns, which are continuing. However, we would like to make sure that the baby, meaning the good value from annuities in general does not get thrown out with a bath water and the policy makers can distinguish between those that are pricing competitively in the open market and the others.

Together with other open market participants, you will see us seek to highlight those differences. So that the annuity market itself is not painted. If I could quickly cover a couple of other important points for the FCA, I highlighted, so firstly, most customers do not shop around, so 60% don't. This is estimated financially to be the equivalent of somewhere between 115 million pounds and 200 million pounds of loss pension savings each year. And we believe that, of course, is significantly underestimated, because the FCA did not seek to make an assumption about the proportion of those who fail to shop around, who may have been entitled to some form of enhancement.

The FCA inferred also that those firms selling internal annuities did actually make more profit than those selling external annuities and analysts, I'm sure that's an area that you've already formed judgments on. Federal providers have also established retention teams and sales practices accordingly and this is an area that the FCA specifically covered and identified that they will spend more time investigating during their supervisory activities.

So the regulator has concluded as follows that further work is needed under their competition objectives and duty under the Financial Services and Markets Act. They will now be conducting an in-depth competition market study to examine retirement income as a whole and can I highlight to you having had my one-and-a-half hour interview with the regulator yesterday that they are taking this whole initiative seriously and more particularly, they'll be looking both at the annuity and the draw-down sectors of people moving into retirement.

And lastly, as I said, they will be examining sales practices and strategies for those pension companies selling to existing customers. And we do believe that these processes are likely to be helpful to our part of the market over the medium term.

Turning now to the outlook. First, I would reconfirm that we have not changed our expectations for our full financial year and in the longer term as I've highlighted mentioning the demographics and so on, we believe the market growth drivers remain in place. However, given the significant external factors at play, clearly, from the media, the regulator and government ministers, we do not propose to give specific market forecasts either on a quarterly or annual basis. I do believe each of you have written on this and have your own views, both as to the timing and the likely impact of these changes that are coming to the marketplace and what that will mean for the proportion of retirees that firstly come to the open market and then subsequently become underwritten.

Second, as Simon highlighted, we are pleased that our defined benefit of de-risking skills are starting to make a contribution to our business and we do expect that to continue. As Simon said, we will not chase individually underwritten annuities, if we can get better returns from small defined benefit scheme underwriting. Thirdly, while the margins in the marketplace, as Simon mentioned, remained challenging, we will continue to use that DB underwriting skills and the yield enhanced from our ability to write our own -- and originate our own lifetime mortgages at strong yield enhancements we will use those two factors to optimize our profit outcome in this challenging environment.

So we remain confident that we at Just Retirement have a good set of products. Our brand continues to grow in strength and reputation and unbelievably we feel that we've got a positive regulatory environment coming to the fuller in which to operate. So that does make us optimistic as for our shareholders and for the future of our company.

So I would like to now come to questions and I will take questions, if there are any firstly from the floor. And if you could just wait until one of the Deutsche Bank colleagues brings the microphone around if you can identify yourself and your question. And we're using microphones, of course, so that our friends and colleagues on the telephone may be able to hear the questions and we will after exhausting the question here on the floor pass to those on the telephone. Questions?

Questions And Answers

Q - Unidentified Participant

(Technical Difficulty) (inaudible) from Nomura. You mentioned that you are seeing an easing in annuity pricing earlier in this year, could you perhaps provide bit more color on what's happening in the competitive landscape, if there are any specific reasons you're seeing as surprising and better behavior from customers? That's question one. Question two is I appreciate that quarters can be volatile, but would you say, we are in a steady state now past the disruption we saw from RDR and gender neutral pricing and going forward can we perhaps look at historic quarters to see how the trends have developed? Thanks.

A - Rodney Cook {BIO 14008420 <GO>}

Okay. So the first question is the comment by Simon that the margins may have a chance of improving, Simon?

A - Simon Thomas {BIO 15219564 <GO>}

Yes. Just to flag there, certainly in the last few weeks, I think we've seen a slight improvement in the competitive landscape. Clearly, I can't talk about individual competitors and I'm not going to, but it has improved. However, I would just flag as well, I wouldn't want to carried away by this. Things do change as you well know overnight in this marketplace. But certainly, what we've seen in the last few weeks has been more positive and I would also flag obviously combine that with the fact that we've been writing some of these DB schemes at what I'd probably describe as satisfactory margins, and the fact that our yield and our mortgagees is picking up, it does give me a confidence that our margins will pick up in the second half of the year.

A - Rodney Cook {BIO 14008420 <GO>}

Moving to the second part of question which is, has RDR and gender flushed through the system and are we now in a position to move forward with greater confidence. David Cooper, our Marketing and Distribution Director.

A - David Cooper {BIO 15219576 <GO>}

Thank you. Can you have me. Basically, we've been seeing the end of the -- we're certainly seeing the end of the fact agenda. In fact, we saw those during the course of last year. I think it's fair to say that we've seen the end of the effects of RDR in terms of the disruption it caused. We're still seeing intermediary firms reorganize, regroup with some consolidation to follow (inaudible) stable progress as opposed to a volatile disruption.

A - Rodney Cook {BIO 14008420 <GO>}

If I can just add to that, of course, there were a number of IFAs who didn't continue post RDR, so that hasn't recovered. The share market has continued to be positive and that leads to annuatization deferral and I think the other important factor people may not have identified is that there is no company statutory retirement age anymore. So most of you would have joined companies and be told they expect you to leave at a certain age, the government law on that across the UK means one has a specified retirement age and we're getting increased numbers of people who are working part-time rather than retiring and that will lead to some elements of annuitization deferral, because they're living off their part-time earnings. So a number of factors there.

David, have you got a comment on we did alert the market to cases over 100,000 that certainly differed significantly, are they starting to come back?

A - David Cooper {BIO 15219576 <GO>}

Yeah, we believe so. It's certainly very early days in the New Year, that we do believe that -- we've certainly not seen a reduction in activity from larger cases now.

A - Unidentified Speaker

Right. Next question.

Q - Unidentified Participant

So the question on -- the question was on also (inaudible) quarter should progress or not?

A - Rodney Cook {BIO 14008420 <GO>}

I think if I can repeat my comment, I see that the external authorities or regulatory reviews and government ministers interventions are too significant for me make a call as to the impact and timing of those changes. So I don't wish to be drawn on giving a quarter-by-quarter basis. What I can repeat, of course, is that we're content with the expectations we set in terms of our production and profit through the year 30th of June, 2014.

Q - Alan Devlin {BIO 5936254 <GO>}

Thanks. Alan Devlin from Barclays. A couple of questions. First on the DPA. Could you guys see the opportunity, what part of market can you focus on and use your underwriting skills and how much this could potentially be over time?

And then secondly on draw-downs and use of our 100,000 pounds, if draw down as a rest to your annuity market that can provide annuities in general, more and more people taking draw-downs permanently as opposed to temporary risk.

A - Rodney Cook {BIO 14008420 <GO>}

Two excellent questions and thank you very much.

A - David Cooper {BIO 15219576 <GO>}

Yeah, on PPIs, we said out in the prospectus that we estimated a potential market for small PPAs to be up to 1 billion -- north of 1.1 billion we said of market size and we stand by that. I would stress though that is a new market underwriting individuals in small schemes is a brand new market and five million or so [ph] to date during the modest proportion of a billion, so that is our long-term expectation that help beat the market quickly.

In terms of drawdown, yes, we are seeing more 100,000 pound cases in about drawdown. As we've said in the past, large cases formally relatively small part of Just Retirement's business. Our focus has always been to the lower mid end of the market where we see greater opportunity for enhancement and that continues to be the case. So I think we will have some downward pressure on the size of the annuity market has been company standard, not -- it doesn't have a great impact on us.

A - Simon Thomas {BIO 15219564 <GO>}

If I could point out to people who are involved in our analyst briefings and our distribution math, you will see, of course, (inaudible) major self-invested personal pension provider and drawdown provider is also one of the UK's largest distributors of annuities. So just because the customer goes into drawdown, doesn't mean to say that they decided later date and certainly for any customer over age 70 there are some strong potential benefits to a newer size as opposed to continue to take investment risk on a dwindling capital base.

So we do recognize the larger accounts sometimes going into drawdown. Importantly, we as the company heard the strong message from Martin Weekly that he wasn't satisfied with our industry's response to customers with small pension pots. And so for business going forward, we are reducing our minimum annuity size to 2,000, which is the government trivial pension pot size clearly if they review that which they are looking at then we will follow their lead. So we are going to assist the customers that he believes are not getting a fair deal.

Q - Barrie Cornes {BIO 2389115 <GO>}

Good morning. It's Barrie Cornes from Panmure Gordon. A couple of questions if I may. First of all, Simon, can you give little more clarity on the margins for now, perhaps going forward on the DB, small DB schemes. And secondly, recent review came out with couple of figure cycles with different responses what your views were on the take-up of the open month [ph] reduction, which seems to be quite a bit lower than I thought it was generally meant to be at about 40%.

And the other question is the size of the pension pots, which again, I was told from reports that I read previously that there was sort of mid-20s and above and yet they were talking in the review that's about 17,000 pounds, just wondered what your views were on that?

A - David Cooper {BIO 15219576 <GO>}

Thanks, Barrie. I'm not really going to give you a breakdown of the margins on the DB schemes yet, Barrie, we've only had two complete so far. But certainly, the indications are that the margins we're seeing on this are satisfactory, which kind of gives you an indication that they're likely to be higher than on the IUA in the current competitive market. While we see it going in the future, it's a bit difficult to say obviously, but clearly, when we come back I think we're coming back in early May to talk to you about the next quarter's new business, we'll give you a bit more insight than what we've seen, but it's a bit beyond at the moment [ph].

A - Rodney Cook {BIO 14008420 <GO>}

In terms of the number, it's important to remember the differentiation between numbers of the annuitants and the amount of annuity. So the regulator quite naturally tends to focus on talking about the number of people who buys again or lost. So I think if unmentioned only 20%, 25% of people get an underwritten annuity whereby value itself is 30%, so naturally, the people would pick a pension pots and who were advised by IFAs do get a -- do get better value. David, the size of the pension pot being 17,000 versus 20,000-odd.

A - David Cooper {BIO 15219576 <GO>}

Two points actually (inaudible) Rodney answered on IUA market. It's also important on the open market. All the strategies we see from open market by customer, it shows around 50% of people don't shop around as opposed to the 60 that the FCA have identified. As statistics coming from the ABI, where there can be a modeling of customers in the number of contracts we have individually, so I suspect in this case that the FCA may have a more accurate hands on the actual number of customers who don't shop around what they think is higher. In terms of the average case size, again, I think that's the FCA's granularity data and that being the average of people not shopping around.

A - Unidentified Speaker

The FCA has an authority to demand that you fill out very technically detailed forms and I don't have the ability to send the same request around to my our competitors and ask them respond. So I accept what I think is clear, Barrie, is that, it's majority of people are not shopping around and we are hoping longer term that more will and we'll seek to be competitive in the marketplace and capture some of those people when they choose to do the shopping around. Questions?

Q - Unidentified Participant

Two questions on distribution. FCA criticized some of the sort of exclusive distribution deals that have been signed in the annuity market. And if I'm honest, I get a bit sort of model as to when exclusive deals sort of merge with restricted panels and (inaudible). Now, I know you've said you don't do exclusive deals, but you're on an awful a lot of restricted panels that you can just sort of explain the difference to help me out on that and where you think things go in that respect and what sort of pressure that would be, if there is any change to the rules around that.

Second question I've got again is on distribution. I think one of the criticisms that the current distribution model in annuities is just expensive, particularly, for those will smaller parts, and I believe there are some new sort of distribution routes that are quite a lot cheaper. And so how that's progressing that what is your position on those?

A - Unidentified Speaker

Right. So, David, and just in case, David, you haven't picked up some of the analysts will, of course, have heard from all mutual and announcement that they're acquiring Intrinsic and the old mutuals distribution director's comments that he feels that panels are likely to be restrictive increase in over the next five years. Of course, from our perspective all mutually -- the annuity writer currently so we see that this is a positive step. Intrinsic is a major annuity writer in the UK and having and having a strong supportive parent we see, which also doesn't happen to be a competitive route we see as a positive feature. The SEI size and restricted versus exclusive.

A - Rodney Cook {BIO 14008420 <GO>}

Yeah. The FCA case my belief is that the reference there is predominantly for tied arrangements between insurance companies. So insurance company A decides that it does not want to manufacture annuities, so it ties to insurance company B. And in doing so, may claim that it now offers its customers a chance to shop around or move away. And I believe that the FCA are suggesting that that is not ideal. And mainly the customers believe that they have, in fact, got up best arrangement around, but, in fact, it just moved effectively through a fairly solid pipe to another insurer.

So, I think that was that reference. More generally, our experience in the annuity market because remember, a lot of comments made around the advisory landscape or around broader guys which a lot of is very solid investment. In the annuity space, the huge majority of distributors whether they are restricted or independent of (inaudible) very broad panels, by broad panels I mean they may construct a panel of annuity writers, but those annuity writers collectively may make up 90%, 95% of the market. That is still called a panel. So we have very little exposure to change of direction. That said, I do believe the direction of travel is toward virtually all annuity distribution being close to whole of market or broad panel, I think, they will be very little -- limited tie just because of the potential customer Dutchman and also that reflecting bad on the advisors delivering the advice, okay.

Sorry. Yes, there are a number of models being tested, there was a recent launch of a non-advise annuity distributor who was offering service 100 pounds per case rather than commission related to the premium size. It remains to be seen, which ones we are supporters of all innovation in pioneering in this space because we do believe that the cost of distribution and delivery should be brought down, but clearly it's important that the quality prevails and this scalability exists.

Q - Unidentified Participant

Okay.

A - Unidentified Speaker

In the open market at the current time about 55% of our business flows from an advice structure and 45% from non-advice. But it is true that continues to grow, so evidently in the internal vesting market that is nearly all non-advice. So in terms of our total annuity market, the bulk of people are not taking specific advice to their own personal circumstances, they may be carrying through a guided process, but the regulated calls are non-advise. The comments from the regulator were focused on websites and they are keen to see certain standards applied to websites and we will certainly support the development of knocked [ph] websites, so that the regulator is comfortable with the service that is being offered.

Right. If I can now ask the operator to check whether or not there are any questions on the phone.

Operator

We have some questions. Your first question over the phone comes from the line of Gregg Pattinson. Please ask your question.

Q - Unidentified Participant

Good morning. I'll give you four questions and you can choose which one you want to answer. The first one is, in terms of court level, I wonder if you can talk about how they have progressed in the first quarter versus last -- fourth quarter of last year, how conversion rates have progressed. You also said you're getting into healthier lives, is that not the more competitive lower margin area, I wonder if that's going to have an impact on margins. And third, I wonder if you want to talk about impacts of the resolution launch end of last year and soft launch by Standard Life both in the large [ph] space, I wonder if you have any impact on the market. Thanks.

A - Rodney Cook {BIO 14008420 <GO>}

If I can do the last two, Gregg, so, firstly, my reference to healthier life is for Just Retirement to be ready when the standard annuity providers can no longer cross subsidize their standard rates by taking money from poorer sicker people and giving to richer, healthier people. So that is by definition a notion of standard underwriting on a medical basis. Having also of course regards to the fact that they underwrite by postcode, which we consider to be a closer, a different and somewhat blunder instrument.

So my reference to healthier lives is if the whole market becomes underwritten, we would like to be able to provide a variegation, if you like, of people's healthiness because up until now people have thought of Just Retirement as someone around the office annuities to people who are sick. So we would be able in time to write the entire market on an underwritten basis. So that's the reference to healthy. The court levels and conversion rates, David, I don't believe that that's something we're commenting on until the 12th of May, but do you have a point today?

A - David Cooper {BIO 15219576 <GO>}

No, I think that's exactly right. We would staunchly prefer not to comment on short-term market activity principally because it's very commercially sensitive with regard to some of our competitors only stand by the guidance for the full financial year.

Q - Unidentified Participant

Sorry, can you hear me? And just that when we were touching on the second half of last year in terms of calendar, we're talking about first all the small players having exited -- small FAH having exited the market, now the new age direct propositions were -- who are struggling to get traction, and hence, we've seen courtly halls and conversion rates, I was wondering, I'm trying to get a feel for -- to what extent the sort of new age (inaudible) how the models have progressed and how they're going to fill head gap, have you seen some progress or have you not seen any progress?

A - Rodney Cook {BIO 14008420 <GO>}

Yeah, I can't answer that, Gregg. I don't know if you recall, but in the analyst presentation, pre-IPO, we put a chart up showing how distribution currently broke out between traditional IFA news specialists and partners and price comparison websites. And then we showed where we believe the growth -- where the winners and losers were. Since that time, our actual progress has followed pretty much what that slide suggested, which is we have seen a fall from traditional smaller IFAs as they've left the market, as they've refocused their business on other lines. All of that capacity has been taken up by the news specialists writers, largely comes straight on non-advice, but they are taking material share which is a good thing, obviously, in terms of market capacity.

A - Unidentified Speaker

But the other question, David, was friends, life, launch into lifestyle and if your grandmother still alive--

Q - Unidentified Participant

And standard life as well, both standard life, non-standard, you've done a soft launch and we've done a revisit in end of October and November.

A - Rodney Cook {BIO 14008420 <GO>}

In terms of those two competitors, we believe that they are broadly following a similar strategy which is to attempt to offer their internal customers better terms to try and retain, it obviously also helps with their own -- their external reputation in terms of being able to offer some form of enhancement for owners. We've not seen any effect from friends, any material effect in the open market, even though they have entered that now and clearly, it's too early to tell that they've internally targeted launch at correct time.

Q - Unidentified Participant

Thank you. Sorry, just a question, Simon, we got a mutual expectations for the full year, what do think about profit, what are your expectations for the full year?

A - Simon Thomas {BIO 15219564 <GO>}

If I answer that so we are specific in not using the words sales, so our expectations and the market consensus, both for production in total and also for IFRS profit, we are still sticking to those expectations, Gregg.

Q - Unidentified Participant

So, your expectations and the current consensus conveniently coincide?

A - Simon Thomas {BIO 15219564 <GO>}

Yes.

Q - Unidentified Participant

Excellent.

A - Simon Thomas {BIO 15219564 <GO>}

Any other questions, operator. Thanks.

Operator

I have another question from the line of Sheikh Musadi [ph]. Please ask your question.

Q - Unidentified Participant

Yeah, hi. Thank you and good afternoon everyone. This is Aashiq [ph] from JPMorgan. Couple of questions. Just first of all, if I heard it correctly, you did mention that you're looking to enter the small pot size as well, I don't know if I heard it correctly or not. But in case, you're looking to enter a small pot size for floods and 5000 [ph], how should we think about the margins on those kind of business? That's the second one.

Secondly, also you mentioned that currently it's challenging environment, therefore, you are focusing on DB and lifetime mortgages. Now how long should we expect this to continue and when should we start looking for things to go back to normal any color on that? And thirdly on is there any regulatory pressure with respect to explaining the market what the real margin and annuities, i.e., not just you're booking all the profits upfront, majority of the profits upfront, but giving more color on how does the profitability look like on more market consistent basis. Yeah, so these three questions that I got. Thank you.

A - Rodney Cook {BIO 14008420 <GO>}

Okay, firstly, to the point on small pots except for one specific client, our current minimum is 5,000 pounds. What I was suggesting is that we would make annuities available picking up the criticism from the regulator that people with small pot couldn't even get an annuity. So we expect that to be managed marginally by our business. So we don't expect that to be profit-making and if anything very little in terms of the loss for margins, because as you might gather, we are processing literally thousands of cases that we don't see it as any additional cost in our administration.

If I could just cover off the run on lifetime mortgages and to clarify because there may be some miscommunication there. Lifetime mortgages are our way of enhancing the yield on our total portfolio. So we only offer lifetime mortgages from the proceeds of our annuity sales, but it is a very secure asset back thing -- well, zero coupon bond effectively because it's rolling up off the yield and the yields are more attractive. So that was the reason for allowing it to move north of our normal 25% range. And also if you look in the history of the document there that it does go up and down because an annuity takes a completely different amount of time to complete the mortgage.

The defined benefit business, we would like to hope that that will be a continuing aspect. So we could go over work two years ago we formed a whole new team within discussing the concept of underwriting with actuarial consultants for more than a year and we now have them at a point where they're willing to talk to small clients that there is an interest in the underwriting concept to get a better deal for their clients. And so we would hope that defined benefit underwriting will continue.

And as David indicated in our perspective highlighted the potential market all around a billion inside. These are streams, which have up to a 100 million of liabilities. So I do think it will be quite some time before old trustees treat this as the norm. If I highlighted much quicker than the fact that we launched our business in 2004 and it's taken quite a number of years to convince everyone that the right answer was underwriting for individual annuities. We do hope that the actuarial firms will catch on somewhat quicker.

And Simon, can you talk on the real margins please?

A - Simon Thomas {BIO 15219564 <GO>}

Can you just repeat that part of the question again?

Q - Unidentified Participant

Yeah. Sorry for being a bit confusing on this. In my view there's a perception in the market that annuities currently make a huge amount of margin and that too, it's all upfront because you get the premium upfront. So do you really believe it's a very high margin business and if not, then what would -- is there any pressure in the market to think about a new way of communication, so that market get to see that it's still a relatively good margin, but not exorbitant margins. Thank you.

A - Simon Thomas {BIO 15219564 <GO>}

Okay. Well, let me answer the last part of the question, but certainly in terms of sort of the margins, I think you can see here for this half year we've been booking a margin of 4.2% upfront. Clearly we've then recognized an amount of prudent margin over the remaining period of the contract, which I think in some of the presentations we've been seeing might go up to about another 8% on top of that, which we discussed as part of the IPO.

In terms of how we feel about that clearly we feel this is appropriate in terms the way that we recognize margin and the amount we're charging the client and the product that we're giving to the client. Interestingly, I think if you compare this margin to some of the other players, we possibly aren't operating near the market, you might see some different patterns emerging. Let's put it that way.

A - Rodney Cook {BIO 14008420 <GO>}

So just to pick up on that the regulators formal report actually identified that they thought companies that wrote internal annuities were making much higher margins and I do think both of you who follow those particular companies you see those margins being north of 10%. So on a like-for-like basis, in terms of declaring margin upfront, so we are somewhere around 5% and they would currently be north of 10.

Q - Unidentified Participant

Okay. That's very clear. Thanks a lot for that.

A - Rodney Cook {BIO 14008420 <GO>}

Right. Any -- there's a question from the floor here before we come back to the operator.

Q - Unidentified Participant

(inaudible). Couple of little questions really. One of the observations from the review was clearly one of mass consumer inertia, when something -- just wondering whether you, the industry, or the regulators got any sort of bright ideas perhaps to tackle that, it's clearly, clearly one of the major issues. You can kind of lead a horse to water, but you can't make it drink, I think. One of the conclusions was lot of people were aware of their ability to shop around, but sort of -- I mean, it's interesting I think.

Secondly, one of the other conclusions with the review was that one of the ways it focused was on the uplift, or potential uplift that some customers could get by going to the open market. They didn't appear the except by reference to the internal vesting. Any real review of the profitability return from capital that annuity companies make on the businesses that they write. Do you think that Phase 2 of the regulator here as we've seen already in the savings industry is to focus in on the actual returns on capital, the industries making on (inaudible) to the lowest common denominator as that they can get into savings market or pensions market.

Thirdly, just in terms of your bulk purchase, I was interested in how many whether these schemes are coming to you and you're the only people sort of pricing the market and so forth, or whether there is a real competition in that market, it's two players, it's a three players, what sort of competition we're seeing in terms of people coming there?

A - Unidentified Speaker

Right. Could I just quickly give out the last question first to clarify defined benefit. Clearly as we said small schemes were not getting much attention on customer services. You all know that there are companies that drive huge bulk annuity deals in the billions. So clearly we identified this and also our colleagues at partnership identified miraculously the similar time that this is an area where we could bring customer service and potentially our skill set.

What we're actually doing here is on the, if you like, the 80:20 rule, 20% of the members of the scheme will have more than 80% of the liabilities. So we do medically underwrite the, if you like, 20% and then we underwrite on an occupational observation basis, leave the other members. In the end, we do actually issue individual policies, so this is the fundamental difference, this is not bulk annuities as you think about them in the past where there is a billion pound deal with thousands of members.

So in the end, it is quite likely that all of these customers will become individual customers of Just Retirement. So that's the subtle difference there are about -- there are two active players in our sales and partnership also L&G and Aviva are participants in this area. As I said, we would be delighted if all actuarial firms fully embraced this, but it's nascent and growing market.

Q - Unidentified Participant

Does it come to you by IFAs or --?

A - Unidentified Speaker

No, no, actuarial --

Q - Unidentified Participant

The big ABC's.

A - Unidentified Speaker

ABC's principally. So the one in terms of profit, I understand your question of the risk if the regulator trying to drive margins to lowest common denominator. Obviously, we feel quite comfortable at the moment being a 12.2 [ph] versus numbers of 10. So we see it being a long way, in other words, impacting on other people. Also the real benefit of other players potentially bringing their customers to an underwritten market even if they tend to underwrite themselves. As see the opportunity for us to win some of that share where at the current time, they're keeping 100%. So we haven't got the sense that we will win all of their customers, but it would be the chance of getting some of the their customers.

Q - Unidentified Participant

You shouldn't have got me wrong there, I think, you're beneficiary from that by the way for the reasons you described, but I was wondering whether you've got any indications from the regulator, you mentioned you've just been chatting to the regulator whether that was something that might be Stage II, I don't know if that's true.

A - Unidentified Speaker

Well, obviously discussions between companies and the regulator is strictly confidential, but not the actual concept of what they're looking at and as I indicated they were looking at a number of factors including not just annuities, but drawdown, propositions, they will be issuing in the next week, a comprehensive request for information to all those insurance companies and all of companies will need to respond and of course profit margin and sales practices are all part of their questions.

As you know, and you've got the great expertise in analyzing every company's accounts and profits. As you can see, they're all slightly different and we know some companies say they can declare all the margin upfront and we clearly show the split of our margin between what we declare upfront and what we gain over the future lifetime of the product. And I think we shared that during the IPO. Just to quickly conclude as time is getting late, the consumer detriment and consumer inertia, I think the fundamental difference is that this is a once in a lifetime purchase, you are now only to roll from your general insurance relationships that people are shopping around every year at (inaudible) on their car insurance.

When we have done extensive consumer research for annuities, customers would be delighted to switch provider up to 20 pounds and when you tell them it's 20 pounds every year for the rest of the life they are even keener, but equally other companies have done research that said the customer likes (inaudible) helpful, that they decided to stay. I think what the regulator is about he's switching the responsibility from the consumer to have to do everything onto the providers. So for the avoidance of doubt just telling someone I have an open market option walk in English, does that actually mean to your next or neither or someone who isn't in this space. It means zero.

So we have to change the jargon, we have to put the emphasis on the provider to respond with what they find out from the customer at the moment always doing is prompting the customer to think a bit more and clearly that has filed. So the regulator does have in mind and also the ABI was looking once again at their code to see whether they can improve the outcome, but I think we've got a way to go. Right. One last question from the operator, if there is one.

Operator

We have a further question from the line of Gregg Pattinson. Please ask your question.

Q - Unidentified Participant

It's just a technical question, in terms of the increase in your lifetime mortgages to 32% versus the 25%, are you booking that additional profit in the margin or are you assuming a 25 in the margin and letting the residual come through as a variance?

A - Simon Thomas {BIO 15219564 <GO>}

Gregg, it's Simon. Yeah, I mean, clearly, we have to back the -- we use the lifetime mortgages to back in annuities and so therefore, there have to be the match when you're writing the further annuities, so any significant amounts in excess would be left and so that could be used to back their annuities and so on.

Q - Unidentified Participant

Well, secondly, I don't know if the worry that there's been a boost to the margin in the first half of your financial year. You're just assuming 25 in the margin basically.

A - Simon Thomas {BIO 15219564 <GO>}

Not significantly, yes, but obviously the yield makes the difference.

Q - Unidentified Participant

No, no, certainly. But are you assuming 25% in the margin.

A - Simon Thomas {BIO 15219564 <GO>}

Well, typically, we would assume what we could use, which will be around 25% mark.

Q - Unidentified Participant

All right. Thank you.

A - Simon Thomas {BIO 15219564 <GO>}

Okay. So the time has come to conclude. I'd like to thank you all both on the phone and here in London for your insightful questions and I look forward to presenting an update of our sales on the 12th of May. Well, thank you very much.