Business Update Call

Company Participants

- Jason Windsor, Interim Chief Financial Officer
- Maurice Tulloch, Chief Executive Officer
- Thomas D. Stoddard, Chief Financial Officer

Other Participants

- Andrew Crean, Analyst
- Ashik Musaddi, Analyst
- Blair Stewart, Analyst
- Colm Kelly, Analyst
- Dominic O'Mahony, Analyst
- Gordon Aitken, Analyst
- Greig Paterson, Analyst
- James Shuck, Analyst
- Jonathan Hocking, Analyst
- Ming Zhu, Analyst
- Oliver Steel, Analyst

Presentation

Operator

Ladies and gentlemen, good morning, and welcome to Aviva's Investor Update. Before we kick off, I'd just like to go through the customary slide on forward-looking statements. And now I'd like to invite Maurice Tulloch, our Chief Executive, to commence the presentation.

Maurice Tulloch {BIO 17683736 <GO>}

Good morning, everyone. Some interesting day in history. Now it's not because I got up at 4 AM to watch the end of the Toronto Raptors game. I know no one in this room is likely interested in the outcome of that game, but I will tell you the outcome of that game. They actually beat the Golden State Warriors, another name you've never heard of. So they're now up two-one in the series. If you'd like I could talk about what I thought about Liverpool and their great victory on the weekend.

But in all seriousness, June 6, and I know you're here for the Aviva Capital Markets Day, but it does have some pretty important connotations in history. 75 years ago, we had the D-Day landing. That was comprised of British, US, and Canadian forces, and kind of it was the start of the end of the Second War, and 10,000 allied forces approximately lost their life on that day. And I think what's important for us here to be whereas we've lost 12 members of the Aviva family, that had taking time away from working for our company to go serve. And for that, we'll forever ever hold our thanks with those individuals that who lost their lives.

How time flies. At our results in March, it was day four, day four for me as Aviva's new Chief Executive. It's now day 94, perhaps this is the perfect first 90 days. And the good news, I'm just as excited about our future as I was three months ago. Our organization has proven its resiliency and strength, and there are clear opportunities to drive better performance. That's what today is all about.

Today, I'm going to set out for you some of the changes I am making to drive a leaner, better Aviva. I am going to talk about structure, I'm determined to crack Aviva's complexity, an issue that has held us back on our performance for far too long. I'll cover efficiency.

Reducing Aviva's costs is essential for remaining competitive and that's going to require some tough but necessary decisions. And I'll talk briefly about financials. We recognize the importance of income to our shareholders, and I am reiterating our dividend policy and also our debt reduction target.

Now what I won't be discussing today are the topics on the right-hand side of this slide. However, I can assure you considerable work is already underway. These topics, strategy, execution plans and targets will be discussed in detail in November. So why have I structured this year's timetable and the communications in this way. Well there's three key reasons. Firstly, to allow the time to do the thorough and necessary job on strategy. I had a good idea about my strategic priorities on March 4th when I took this job. I developed my thinking further based on discussions with many of you and travels over the past three months. I will look at all options. There are no sacred cows. This is a comprehensive piece of work and we need to take the time to get this right for the long term.

Secondly, I want to spend the initial period meeting our stakeholders, staff, customers and partners. This is time-consuming, but these groups are the lifeblood of our business and our relationships are critically important for our success.

Thirdly, I have strong views about some of the changes that we need to make to become a more effective organization focused on the fundamentals of insurance. Fundamentals aren't reliant on strategy, and it's important to get these changes underway and this will be the focus of today's presentation. So before we examine the areas for improvement, I think it's important for all of us to have some perspective. Taking a step back, and looking at the big picture here.

Aviva has some pretty solid foundations. We have restored financial strength and sustainability, the capital position is strong at a 204% Solvency II ratio. We have GBP1.6 billion of center cash and our dividend is well funded. We made great progress on streamlining and strengthening our footprint. We pruned the businesses, we couldn't leverage scale, or frankly, did not have a distinct competitive advantage, and we've seen some decent broad-based performance here at Aviva. This is reflected in consistent growth in our operating earnings per share. The point is we are steady and we are strong. But you know what? For me steady and strong, nice, It's not good enough. We need to be lean, have strong lines of management accountability and grow the company profitably. Our franchises have great potential. As I look across our major businesses, we have fundamental capabilities that give us opportunities to capture long-term organic growth. Our distribution is probably our most underappreciated strength. During my first 90 days, I've gone out and met with our top 20 distributors around the world. They are not dinosaurs, they're not. And they know that Aviva is open for business.

So why do I make that comment? Well, over 90% of our revenue comes through intermediaries around the world and we have great distribution relationships. And this plays a critical role in serving customers and helping us earn attractive returns. Our technical skills are some of the best in the industry. We've a proven track record as a disciplined underwriter and risk manager. Part of the fundamentals that I'm pushing is that technical skills are not optional. They are essential to how Aviva will operate around the world. And our people who go above and beyond for our customers when it matters most, and I've been out with them in Montreal during ice storms in the early '90s, I've sat with our life customer teams in Sheffield and more recently in France, I've seen farms that are decimated by hail. And it is times like these when the worst happens and our customers' lives are turned upside down that our people really come into their own.

So when I think about Aviva, there's so much more potential. For instance, in the UK life, we are the market leader, with 17% share. We are number one in the workplace and have developed tools, such as My Pension to capitalize on this channel. The movement of defined benefit assets off company balance sheets provides a long-term source for growth. And I personally think that the savings in retirement journey is one of the biggest challenges facing people today and one of the biggest opportunities for insurers with the brand, the ingredients, the people and the skill set for Aviva to play and win in that opportunity. In general insurance, we have a strong underwriting track record. We've overcome numerous industry challenges to maintain our combined operating ratio at between 94 and 97 since 2012 and we're exploiting growth opportunities now in a hardening commercial market.

Europe is a great example of how focusing on the fundamentals drives better results. Across Europe, we focus on expanding distribution and optimizing. We focus on underwriting and launching innovative products. We've managed our expenses pretty tightly as well. This is translated into higher growth in our European businesses.

At Aviva Investors, we are investing to deliver strong investment management performance, that's critical, enhancing our leading capabilities in real asset origination for Aviva and for third-party clients and also growing our third-party funds, as evidenced by some recent large mandate wins in US credit. Our Asian businesses are performing well and have lots of potential. In Singapore, we have more than replaced the DBS volumes and developed a strong business in the FA channel.

Now I'm the first to admit, we haven't got everything right. In fact, I don't even think we're close to reaching our potential. But when you consider the heavy lifting that's already been done, now is not a bad time to be coming in as the new CEO of Aviva.

So what I think we can do to improve? Well, first of all, let's be clear. Even with that backdrop, I'm not going to sugarcoat anything. Our TSR has been poor. My job -- my only job is to deliver on what I believe is the untapped potential in this organization. So what could we do to improve on these three things that I want to tackle starting today, complexity.

Let's be honest. It's been an issue for Aviva for a long time, a very long time, and I am determined to resolve it, starting today. The management structure is not being clear has not allowed leaders to be held accountable. This may seem small, but this is the essence of any well-run business, which has strong controls, a great focus on customer service and clear lines of accountability. This complexity is both added to the cost base, but also not allowed for speed, pace and delivery of efficient products and services to our customers.

Efficiency; pretty simple, when it complex, it's hard to be efficient. really straightforward. We operate in extremely competitive markets. If we aren't competitive, customers won't choose us and we shouldn't be in that market. This is about efficiency but also relates to CapEx. You know what, it's interesting at Aviva. I thought I knew most parts didn't know everything. The past 12 months, we've spent around GBP600 million to be precise. But when I look at the expected benefits from this spend, I think our management of CapEx, both within business units and at the center could have been better. In all of my years I've never seen a bad business case. Everyone offers a great ROI, but there needs to be more commercial rigor, and that includes knowing when to stop or, frankly, just kill a project.

Financials. It's important to address areas of concern that's been highlighted by investors and by many of you. Leverage. It's a topic debated by many of you in this room. We've made progress in taking leverage down, like I think we've paid down GBP1.4 billion in the last two [ph] years, and this has been recognized by the rating agencies. We are continuing to take action. Capital generation. This is of critical points. We need to move in the right direction and make balanced choices about operating profit and OCG. Growth, this actually comes back again to the fundamentals. Insurance companies with the best fundamentals have stronger margins, earn more attractive returns and deliver organic growth.

So what am I going to do to deliver this improvement? Well, let me start first with my team. I think the first pillar of any successful group is the people that you surround yourself with. They need to bring the right skills and values to the table. I'm incredibly fortunate to have so many talented people here within Aviva. Our bench in Aviva is very strong, so we've been able to promote from within. As an example, you will have seen yesterday's announcement that Jason Windsor will take over from Tom Stoddard on the 1st of July. Tom's been my colleague, my friend for last five years, and he's been one of the most important driving forces behind the balance sheet and cash flow improvements that you've seen. Thank you, Tom.

He'll be handing over the baton to Jason. He knows this business inside and out, having led our M&A team, having led capital and most recently as the CFO of our UK business. I've worked with Jason for almost a decade, and he is a person with incredible capabilities, knowledge of the capital markets and our businesses, and I look forward to working with him closely.

Having previously announced management changes, I do want to draw your attention to some of the additional changes and nuance being announced today on the leadership team. Angela Darlington, supremely experienced in the UK Life business. With a strong technical background having previously been the Group's Chief Risk Officer.

Colm Holmes, someone I hired six years ago, a 25-year industry veteran who has run our two largest General Insurance businesses. I've shifted the composition of my senior leadership team. You will now see representation of people running businesses. This is intentional. The group center will be closer to the BUs, and we have good role alignment. The best general insurance people running GI, the best life people running Life, pretty simple. Makes sense, doesn't it?

The next pillar is structure. The organizational design. When I talk about complexity, this is an important area to focus on. While we have streamlined our operations, we never properly adapted the size of the group center. And unfortunately, this has led to duplication and bureaucracy. We've talked about this for years and years and perhaps years and it's never happened. Well, guess, what? I'm moving to a lean group center and I'm announcing that today. This will result in lower cost, which is useful, but it's just -- just as important, it will empower business unit leaders, encourage them to take accountability, improve controls, allow them to focus on delivering great customer experience and strong financial results.

Our European business is a great case study as to what can be achieved. If you go back 10 years ago, Aviva had 250 people in our European regional head office. Five years ago, we reduced to 50 to 60. Our European business today has five people and a head office function. Now, I'm clearly not aiming at reducing the group center to five people, that would be foolish, as it provides a number of important functions relating to capital allocation, risk management, external stakeholder engagement. But we need to be ruthless in ensuring that we eradicate duplication, allowing responsibility and accountability for performance to reside primarily in our business units.

While on the topic of structure, I think it's also important, I'm announcing some changes in the UK. The Life and General Insurance will be managed under separate leadership and the UK digital direct business will move into our general insurance business. The obvious question is why move back to separate leadership given we only recently combined life and GI under any breaks [ph]. When we put the businesses together, we had two main ambitions. Firstly, to encourage teams, across different product segments to work closely together to serve customers more effectively and enable cross-sell. This worked well particularly with our corporate customers where we've seen some mandate wins across a number of products from existing customers.

The second objective is to capture synergies, rationalizing technical and support functions. As you might expect in a merger, these benefits didn't materialize. The increase in complexity arguably had the opposite effect around service, around controls, around focus, around growth, ended up spreading management too thin. Now I appreciate how it looks reversing moves from two years ago. You know what, it's not really a concern of mine. It's something needs to be changed for the better, so be it, and you should expect that from me in my tenure as CEO of Aviva. I want to make Aviva a better business, and that's why I've made the decision to move back to an independent management structure. I want clear management focus. I want both our Life and GI businesses to be ambitious and focused on how they're going to win, be the best, rather and simply being the largest.

Fundamentally, we shouldn't need the businesses to be managed together to cooperate for our customers. Part of the role of leadership team will be ensuring that we're able to bring the best of Aviva to our customers across different products. The other major change is digital. Let me tell you a bit more about that. So first of all, let me say from the outset, I'm not changing our commitment to digitize Aviva. I'm incredibly proud of what the digital teams have achieved. We have some phenomenal assets, right? And that still remains a key priority, but I'm changing the emphasis. It's now time to focus our attention on harvesting the benefits of those investments. For example, by moving UK digital direct into our general insurance business, I will have a single P&L owner with end-to-end accountability.

Similarly, by taking our digital assets and using them in things such as our workplace business or with intermediaries in our respective businesses, we can improve productivity, customer experience and spur organic growth. The increased focus on implementation and industrialization of our digital propositions does not mean that we're not going to invest in innovation. Of course, we will. But as I said, on March 7th, we have seen the high watermark for this investment and I am demanding commercial rigor on investment spending across Aviva. What we will continue to invest in are initiatives that improves the user experience for customers and distributors and increase the cost-effectiveness across the value chain.

Now the next slide is quite interesting. In the UK, our digital capabilities are recognized as the strongest in the market. Now while the payback from digital has been longer than we expected, that does not detract from the fact that we have assets in propositions that have great support amongst our customers and this positions us incredibly well for the future.

My Aviva, over 5 million active registered customers. Aviva Plus, it's only a recent product launch, but we are getting ahead of the market and offering a differentiated customer proposition both in terms of loyalty and experience. Our digital business has been recognized by customers directly and through numerous industry awards. It is and will continue to be a very important part of our business and I look forward to taking that to all of our customers.

Let me turn now to expenses and move the slide. Thank you. You will see from our results over the past three years, the operating expense ratio has actually increased. It's gone from 50% to 54%. Now some of these expenses and spending were unavoidable, such as mandatory projects like GDPR and IFRS 17, and we placed those costs -- not placed those costs below the operating line.

We've matched higher change spends in areas like IT modernization to longevity releases. This is a choice we made as IT modernization is a high priority that brings long-term benefits to Aviva. We've also invested in building additional capability in Asia and Aviva Investors, planting seeds for long-term growth, but this doesn't alter the fact our OpEx can be managed more tightly. And what am I doing about it? Well, today I'm announcing a cost reduction of GBP300 million by 2022 net of inflation at a constant FX. This means, quite simply as you can see on the slide, our GBP4 billion cost base is expected to fall to GBP3.7 billion by 2022.

How will this be levered? I'm going hard at operational expenses. The head office is being streamlined. Consultancy and contractor spend will be reduced. Overheads are being managed across the group and the BUs will also have to tighten their belt. We're also making significant savings in project expenditure. Some of this will be rapid completion of existing products, but I'll also be demanding more commercial rigor with the right structures in place to measure progress against the planned benefits. My goal is for Aviva to be leaner and develop a culture that is focused on continual improvement and efficiency and productivity.

Let's turn to the financials. I'm going to cover this briefly today as it makes more sense for financials to flow from strategy at our November event, but I do want to outline some thoughts on a couple of important topics. The two most frequent questions I've had from investors have been dividend affordability and leverage. And I know there's other debates like growth perimeter and earnings quality. We have made some commitments here today, a progressive dividend policy and a target to reduce debt by GBP1.5 billion. We stand by these commitments. I have gone over our plans and they are affordable. This slide looks at OCG relative to the dividend. OCG is a good anchor for cash. It's net of center costs and net of interest costs and you can see that it has provided ample dividend capacity. We've grown our dividend consistently. All right? We completed GBP2.3 billion of capital returns. And despite a tough investment market backdrop, we've actually added 24 points to our solvency cover ratio over the past three years. And we expect OCG to sustain our dividend in the future.

Now whilst you can see underlying OCG has fallen in part because we increased investment in the business and expanded our appetite in capital intensive product lines, which will deliver for Aviva in the future, this has continued in the current year, but this investment should give rise to a stronger run rate of 0CG looking forward with cost reduction providing additional benefit. So we're focused on OCG moving in the right direction in the coming years and you should also factor in the continuation of other capital actions albeit at slightly lower levels than we've seen. So overall, capital generated is giving us the capacity to pay dividends and invest in the business.

On cash, let me be even more explicit. Over the past three years, we've streamed GBP7.9 billion of cash. This funded center cost, dividends and provided capacity for capital management. As we look forward over the next three years, our current plans indicate a comparable level of cash inflows to the group center. But I want you to take away from this is that our progressive dividend and debt reduction targets are well funded. We continue to manage cash at the center, ensuring the business has the capital to fund growth. Our strong central liquidity gives us the flexibility and also provides resiliency to short-term fluctuations.

Finally, let me update you about trading and this year's results. Overall, the growth trends that we're seeing in 2018 -- sorry, the growth trends that we saw in 2018 are largely continuing in 2019, I'm very good, my year is right. Underlying growth is tracking at a similar level to '18. There is some variability, likely some one-offs, particularly in the first half of '19. But looking at the businesses, the positive (technical difficulty) trends continue across most of Europe and Asia and the Canadian recovery is showing solid progress. BPA volumes year-to-date are below the record (technical difficulty) levels of H1 2018. However, our pipeline gives us confidence that we will deliver growth for the full year. Challenges are mostly in UK protection, where competition remains intense and our savings businesses, including Aviva Investors, where revenues have been held back marginally by weaker investment markets and where we have continued to make investments in our business. On longevity, the 2018 CMI tables showed continued slowing of the longevity improvement. Work is still ongoing on the tables and should be completed in the second half of the year. That's my comment about H1 versus H2.

In closing, I'm excited about the future. Despite what's been a tough macro backdrop, our organization has been resilient, and we've a solid baseline financially and operationally. This gives us optionality. There are clear opportunities for self-improvement, which can improve competitiveness, helping deliver better growth and better margins. And there's also strategic optionality. We are looking at all these options, and we will come back to you in November. Let me finish by giving you a sense of my priorities. We recognize the importance of our dividend to our shareholders. We are ambitious for the future, but we understand the importance of generating capital and cash to enable us to provide investors with an attractive and dependable income.

We're going to open up things now for Q&A, but I'm going to ask Tom Stoddard to come up and say a few words.

Thomas D. Stoddard {BIO 15071280 <GO>}

Okay. We're going to run Q&A a little bit differently today. Ordinarily, I'd be up side by side here with Morris doing that. But given yesterday's news, I'm a little bit of yesterday's news, and today is about the future, so we're going to hear a little bit more from Jason Windsor today. So -- but I want to be clear about this. I still in the Group, Chief Financial Officer as of today and through the end of the year, and -- excuse me, through the end of the month, I'll be on garden leave then for the rest of the year. So if you've got questions for me directly, feel free to ask those. And if I think these guys need help I reserve the right to come running back up on stage and amend their answers. So -- but look, Jason is perfectly positioned to be my successor. He is the CFO currently of our UK insurance business, which is our biggest business by far and our most complex business. Before that he's been our Group Chief Capital and Investments Officer and before that, he ran M&A and Strategy and had Financial Planning and Analysis reporting into him.

So Maurice is right. There's nobody that knows the group better than him. And I think he's going to do a great job here. So, Jason, let me offer you my personal congratulations and welcome to the stage.

Jason Windsor {BIO 17967688 <GO>}

Thank you. Thanks very much, Tom.

Questions And Answers

Q - Jonathan Hocking

Thanks very much. Okay. Jon Hocking from Morgan Stanley. Well, two questions. Maurice, when you're talking about technical skills, you decoupled the technical skills, the fundamentals you talked about from the strategy. And I think you characterized the technical skills because group has been good. Can you talk a little bit about the areas where you see a sort of gap to lead? Which bits have you looked at and thought actually there is not quite the edge I'd like to see on that front?

And then secondly, on the distribution comments. It was interesting you said that 90% of the business is intermediated. I guess that criticism to the previous digital strategy was a focus on the 10% rather than 90%. If you look at the digital strategy going forward, does it need to be more B2B? Or is it B2B to C? What's the sort of approach with digitizing an intermediary business. Thank you.

A - Maurice Tulloch {BIO 17683736 <GO>}

Great. Thanks, Jon. I'll take them -- I'll take the second one first. You could take either one. Let's say, I think in our digital business we've done some amazing things. I mean, My Aviva got us into the game. Initially, we were a bit laggards. And I think now with how we sort of present all of the offerings of Aviva we're actually leaders. The other thing that's happened in that area is certainly we have a function called Quantum, which is really 600 sort of data scientists. And that starts to move beyond kind of risk and the sort of behavioral and sentiment analysis.

In a perfect world, I would love all 33 million [ph] customers to deal directly with Aviva. That's not the reality. I'm a manufacturer. I'm kind of agnostic. Customers decide if they want to come through a bank, through an IFA, through a broker, through an agent. So for me, the untapped potential is actually taking what we've built and that's why I use the term harvesting. So I will definitely slow down the amount of innovation spend, because actually reskinning something from a D2C to a B2B to C, frankly, isn't GBP100 in GBP 1, it's significantly less. And actually saying to those other partners, hey we care, we want to deliver simple solutions that are convenient through different mediums to you. I think it's perfect. The other thing is we kind of made them feel like they were second class citizens. That was my kind of dinosaur point. It's 90% today, five years is it going to be 85%. I don't know, it's still going to be the biggest part of our channel. So that's -- that is the hardest thing and I think that, the one thing that Aviva is great at in all of our markets is distribution management. So I'm excited by that. And I know, in talking to Chris, he's excited about that.

I think your first question on the technical skills. This is a game of inches insurance, all right? And those game of inches may go down to a game of millimeter soon, and we've got competition coming from everywhere from new entrants. And quite frankly, if we're not finding out the best pricing algorithms if we're not using AI to our advantage, if we're not understanding our exposure management, if we're not figure out how with customers we can get faster, efficient claims settlements then we lose. And if I look at all of our markets or even all of our sales, I can tell you, I know the ones that are green and the ones that are red. So it's taking those fundamentals and saying you know what binds Aviva together? What binds Aviva together is we're going to be great in insurance, we're not going to be embarrassed for that, and we'll also be great at customer experiences. So I think for that there's an opportunity to increase lifetime value, actually probably lower lapses, to get growth, to increase margin. And I'm focused on taking that. I mean, probably our star is probably our UK general insurance business at the fundamentals. But even just taking that to our health business or taking that out to some of our savings and protection businesses is incremental. And the world we're in it's a game of inches and we've got to win. And I think we've got the capabilities to win. So thanks.

Operator

Colm Kelly, please?

Q - Colm Kelly {BIO 19140684 <GO>}

Colm Kelly, UBS. Thanks for taking my questions. I'll focus on financials given the nature of the content today. In terms of the debt reduction target of GBP1.5 billion, obviously, you've a lot of confidence in delivering that. Can you just give a little bit more detail on the funding of that? I think previously, it was special dividends from subsidiaries. I know there is a capital to cash strategy ongoing to unlock some surplus in subsidiaries, but maybe you can give more detail on where exactly that's coming from, is that longevity releases or otherwise?

And secondly, the operational capital generations is being performed as a key metric here for the dividend, also in terms of generating cash flow for the holding company. Previously, I think it was growing that was a mix of increasing the return on capital within business units, but also reallocating capital to the highest returning areas. In terms of the list provided today, it seems very focused on enhancing returns within the business units is not implying that capital reallocation across the Group is a lower lever or less impactful lever within the targets?

And then lastly, on the operational capital generation, you always have a clear commitment to grow this. What we've seen from companies thus far is those focused on capital intensive businesses have found it very difficult to simultaneously grow operational capital generation be it in the short-term or over a longer term. Those that have been successful in doing so are those that have focused on increasingly shifting towards capital-light business. So, do you believe that you have an ability to both grow OCG and also invest in capital intensive businesses? Or is this more with a view of capital-light in mind? Thank you.

A - Maurice Tulloch {BIO 17683736 <GO>}

All right. Thanks. I'll take the first question. In the nature of that answering that, I'll end up stumbling a bit into the second question, but I'll say that Jason, you can probably pick up what I missed in the second and certainly take the last question. So I think the first of all, I should say take the comments that I made today at kind of face value. So we had GBP7.9 billion of cash over the last three years. I've looked at the plans, and they suggest that it'll be a similar number. I think it's also worth noting we have a strong liquidity buffer, it was GBP1.6 billion for the full year. And I believe, that operates as a shock absorber.

OCG last year was about GBP1.5 billion, remember that that's net of center costs and finance and interest costs. So clearly covers the dividend which is currently at 1.1 [ph]. Your specific question is why are we confident and what are some of the attributes that says, we're still going to have specials which ultimately if you like will fund the other capital actions such as the GBP1.5 billion. And I did say the specials will be lower going forward, but the next three years we still have the benefit from previous M&A actions. That's about GBP500 million to come through. We are holding excess capital in our major business units and we do have flows coming from a business that was previously written.

If you look at the last three years, effectively the specials covered what was GBP2.3 billion in capital actions. That was GBP900 million in share buyback and GBP1.4 billion in debt. And the forecast that we've looked at, and looked at, and looked at gives us confidence to reiterate our commitment on the GBP1.5 billion in debt reduction over the next three, and I'd given you a couple of those items. Do you want to talk about, I guess, growing OCG over time? And I guess the another one was sort of the capital intensity of our products?

A - Jason Windsor {BIO 17967688 <GO>}

Yeah, sure. Thanks. So the capital generation and capital management is a key focus for us as a business. As you look at the growth in OCG, general insurance business and asset management business pretty much goes straight through. And we're seeking to grow those. We've got significant existing business, which is contributing significantly to the OCG and we can improve that with, as you say, with cost reduction and other margin management.

As it relates to new business, and we really talk about in a couple of areas. We don't spend an enormous amount on new business compared to sort of 10 years ago. When I first came in, we've got about GBP200 million [ph] of new business budget, that won't change dramatically. We continue to grow the bulk annuity business across the period about 20% last year and we're indicating today will continue to grow at. But we're not going to be transformative in terms of the volumes in that business or in other lines that do require a little bit of capital, mainly in Europe. So we're going to continue to manage within a sensible budget to make sure that the plans that we've set out today are funded.

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. Three questions. First, can you just update us on the FPI sale? Second, it looks that the larger part of costs from the, admittedly not the scale chart, are coming from the operational divisions, as it were. Looking at the way you show your central -- your group costs, the GBP4 billion, there's quite a lot that is sort of unexplained either by life or non-life. So can we -- can you talk specifically about the sort of cost savings you're looking for within the life and the non-life divisions?

And then the third question is, just going back to that management slide, is Colm Head of OGI internationally or just UK and if he's only UK what's happening elsewhere?

A - Maurice Tulloch {BIO 17683736 <GO>}

Okay. Great. Thanks, Oliver. The conversations on FPIL are ongoing and constructive. And the second, those are nearing completion, we'll certainly advise the markets. I think on respect to the costs, let me outline the process I went through. We're not giving specific clarity on functions, major product lines. The first I went through was not -- here is a 12% allocation and prying a lot about every business and every functional leader around the world.

I looked at it and started from the perspective of our customers. And at end of the day, those costs have to flow through into how we price our products. And I need to recognize that to win in a game of inches in a retail consumer world we need it to be competitive. So that was the basis of the process that we undertook. I think the one saving exception was I also wanted to tackle a cultural issue, the cultural issue of bureaucracy. So the Lean group center probably had less to do with a specific target obviously that is an overhead. But for me that was a cultural barrier to enabling Aviva to flourish and for me to be able to have leaders that I could hold to account to deliver exceptional customer service and value for our shareholders .

I've also looked specifically at the use of contractors and consultants. Those levels were far too high. So there will be -- as I reduce those there will be some people that obviously that I hire, albeit at a lower rate and people that wear the team yellow shirt every day and don't come in and take our secrets and take them elsewhere. Clearly I'm looking for greater rigor around CapEx. I mean, the GBP600 million is a daunting number, right? And the associated benefits with it we've been more daunting, but I can tell you they haven't been materialized as the GBP600 million wasn't managed that well.

I'm not against making big investments, but they need to be well governed. I need to see the benefits come through for our business. And obviously then there's no operational efficiencies in various businesses around the world. I think what you should expect is progress. We said, GBP4 billion to GBP3.7 billion. Not planning on missing that. That's kind of credibility up here when you put those targets out. So we'll be updating on that every time we see.

And your last question was on the role of Colm Holmes. It's very similar if not almost identical, to the role that I had when I was running the UK general insurance business. Colm is our CEO for general insurance business around the world. We will have a new Canadian CEO, that's actually been determined. I'm not going to announce it today, because I kind of want my -- Colm's Canadian -- well, I guess mine, too, Canadian employees to hear about that. So we'll announce that tomorrow morning and give our chance for our staff to digest that. That individual will report directly into Colm, he will stay on the Canadian board. I think that's important for the continuity because we've got a rebound that's building and he will set guidance and principles around the best way to run a GI business for our European businesses. Obviously, the legal line of authority is that with Patrick who runs Europe. So that's the way I think about that role.

Operator

James Shuck, please?

Q - James Shuck {BIO 3680082 <GO>}

Thank you. James Shuck from Citi. Two questions for me please. Firstly, just on around the cash remittances, the GBP7.9 billion number that you've seen in the last three years, you also expect of meet over '19 to '21. That's a bigger number than I would have thought of it. I can understand your reluctance to actually separate out the surplus capital that's being upstream from the underlying units. But if you could give any indication about the special elements of that, that would be helpful. But more importantly, I mean, the restriction for you guys actually doing things with your capital has really been cash flow up to now, because you're in a surplus capital situation. What is the timeline for decision around deploying that cash? I know we have an update coming in November, but at that time, will you be able to look ahead with confidence, because you've taken a step back from M&A for example, and actually make a decision around whether such share buybacks are something that you should be executing on now?

Second question was just around the CapEx spend, the GBP600 million. It's obviously a big number. Could you just clarify for me how that is expensed through the P&L account? Is it included in its entirety in the GBP4 billion? And if you're able to categorize that into what that has been spent on so far, at least over the last 12 month period, I'd be interested to hear, and the sorts of areas that has gone to? Thank you.

A - Maurice Tulloch {BIO 17683736 <GO>}

Okay. Thanks, James. Why don't we start with the first question, cash and the special remittance elements. Jason, I don't know if you can provide more color?

A - Jason Windsor {BIO 17967688 <GO>}

Yeah, sure. So there's no magic between some of the cash flows that we receive. But the fundamental set up of the group is that we think we've got enough operational capital generation and cash flow to pay the dividends, to pay the head office costs and interest costs. So that's the basis, and then I wouldn't hypothecate this directly, but you can think about it somewhat that the deleveraging can come from specials as we look at that. So there's a world of optionality around timing that we don't have debt, I think, as you know, to pay off today. So we'll be facing it around the choices that we have across the board. But that probably understates it slightly, but there is opportunity around that in terms of timing when we actually remit the cash up the group.

A - Maurice Tulloch {BIO 17683736 <GO>}

Your second question on the CapEx. I don't have specifics. I'm going to have to give you some flavor to it. So it doesn't all fall through, some of it certainly sits on the balance sheet. I mean one side of it is all the use of cash, whether it's gone through as accounting or not, some of it will go through and be amortized over time. I mean, some of the bigger items are certainly investments -- necessary investments that we've had to make in IT modernization. We've had to make investments in certainly cyber, as many companies have. We've had to make investments to comply with GDPR.

But we've also had an awful lot of investments which are management decisions, such as product development, such as optimization of contact centers. We've made an awful lot into propositions. We've made an awful lot and we alluded to it at the half year into digital and clearly now I'm signaling that's a high watermark and I want to see that harvests. We've made investments into leadership programs. And on the surface, none of them were originally bad decisions, I mean, they had great business cases but they amounted to about 200 different projects. Very tough to be focused on running your business better when you've got 200 projects. And also if I look at the benefits that they all derived there was a significant gap from the original business case as to what was derived.

So what I'm saying is, it won't be that high going forward. That's probably about -- if I go back four or five years without giving a specific number -- well, I guess, I'm going to give you a pretty specific number. It's probably in the range of 70% higher than it used to be. And I've got a business that really hasn't grown that much in the four years. So the ones that were mandatory that we had to do fine until to get that. But I can't run a business that a scarce commodity like cash or capital is used and I don't have the rigor around the returns so. I don't know if you are say more about the accounting treatment specific.

A - Jason Windsor {BIO 17967688 <GO>}

That number is a cash number that we spent. So there is some capitalization. We don't do very much capitalization across the -- we tend to put it through as you would expect. We can probably give you a bit more color on that in November.

Operator

Ashik, please?

Q - Ashik Musaddi {BIO 15847584 <GO>}

Ashik Musaddi from JP Morgan. Just a couple of questions. First of all, in terms of your GBP7.9 billion which you're expecting again more or less, does it include any disposals as well? Now PRA is raising some issues with respect to model drift. So how do you think about this risk of model drift for UK Life names, especially Aviva, and at the same time, your expectation about special remittances? Would you do not worry about that risk or how should we think about that?

Last one is with respect to cost. I mean, it looks like the cost base has gone up mainly in past two years, it was GBP3.6 billion in 2016, now it's GBP4 billion. So would you say that the GBP300 million reduction that you're planning is a bit more back end loaded, front end loaded, because these costs have just come like in past two years. So why would it take so much time to just get rid of that? I remember that the full year results as well it was mentioned that the spend that you're doing investment spend is a bit more discretion as well. So why would it take like 2022 to realize these GBP300 million cost saving, that would be a bit of help? Thank you.

A - Maurice Tulloch {BIO 17683736 <GO>}

Okay. Great. Thank you, Ashik. I'll think I'll take question one, question three, and certainly, model drift.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you very much.

A - Maurice Tulloch {BIO 17683736 <GO>}

I think I will leave to you Jason. So -- no, in the target for cash, it doesn't include any planned M&A. What is in there is previous M&A that we've done that still needs to be realized. So that's that.

On question three, so the GBP300 million is what I've looked at and the target that I've put forth. It did have a very -- it started -- the work actually started in November. So I inherited that and on March 4th and looked at that. Well -- we're signaling we'll probably spend about GBP300 million to realize those savings. We're expecting both the costs that we incur and the savings that we achieve to be linear. So don't expect a hockey stick, that this is all coming in 2022. You should not expect the cost base for 2019 to go up. So the GBP4 billion is we're not going to front-end load all the cost and back-end load all the benefits. And think of this as a culture that we're starting, I expect efficiency to be a key part of where we go forward from here.

I can certainly tell you that that's how we ran Europe, that's how I ran Canada previously and that's how I previously ran UK GI. It's not optional, it's part of being great at insurance you've got to be efficient. Do you want to talk about model drift?

A - Jason Windsor {BIO 17967688 <GO>}

Sure. So that the first thing I would say is that we fundamentally believe in economic capital as the way to run the business. The economic capital therefore requires a model and some degree of subjectivity that goes into it. But, if you do believe in economic capital, you are going to continue to try and optimize your business. You're trying to make judgments every day shorter and longer term to improve the economic capital position of the business, improve your return, you improve your cash flow therefore. So model drift is the narrow way of thinking, you're sort of tweaking it slowly over time. I think what I would argue strongly is that we've been trying to optimize the position, we've been taking logical steps and we rely heavily on our governance processes. We have a very strong second line process for reviewing the model, we've a very strong governance process for making sure that that all goes through proper checks and balances. And we, as first line and the regulator will rely on that. And we think we're in a very good place.

Q - Ashik Musaddi {BIO 15847584 <GO>}

(technical difficulty)

A - Jason Windsor {BIO 17967688 <GO>}

No not at all. We don't see that right now as a risk that we need to take extra caution of. We're obviously -- there are regulatory reviews that are ongoing, and some of which are public, some of which are not, that we are factoring into our plans and that we hope that actually and we can work those through, but they are actually factored in.

A - Maurice Tulloch {BIO 17683736 <GO>}

(inaudible) A little bit here as well. We've seen the regulator has been very active. So last year there was consultation around equity release mortgages, et cetera. And I think you'll continue to see that as a trend, but that's again, that's one of the things that we have to manage in business. So, is regulatory impacts on capital a risk, certainly, but it's one of the things that we need to manage on a day to day basis.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks very much. It's Blair Stewart from Bank of America Merrill Lynch. Three quick ones. Just come back to the cash target, does that include an assumption for future longevity releases, you don't need to tell me how much, but does it?

Secondly, what's your view on target liquidity at the center? I think previous messaging was that there was maybe GBP1 billion or so that was available now and ready to go. Has that message changed? Has your view on target liquidity changed?

And thirdly, just coming back to the distribution point, I think your acquisition cost number overall running through the P&L was about as high as your operating costs, so big number in the billions. What's the view there in terms of efficiencies coming back to digital, selling direct? Is there a chance to get that number down? Thank you.

A - Maurice Tulloch {BIO 17683736 <GO>}

Great. Thanks, Blair. I think Jason, you should take question one. We can probably both take two, but why don't you (multiple speakers)

A - Jason Windsor {BIO 17967688 <GO>}

Such that they would be, yes, it would take into account any longevity assumption changes. On the liquidity -- I don't think we're saying anything new today at the group. I think what we've said before, Tom, correct if I'm wrong is we would like to be between GBP1 billion and GBP2 billion. GBP2 billion is a little bit high and GBP1 billion is a level, we could dip below that, but in a normal course we want to be in that range. And that's sort of the way that we manage the group. And that allows us today sort of ebbs and flows of dividends coming in, going out and debt reductions across different periods.

A - Maurice Tulloch {BIO 17683736 <GO>}

And Blair, on distribution, I think it's a great point. We probably have another GBP2 billion, GBP2 billion plus on acquisition cost, billion, across Aviva. Obviously, the biggest line item there is it's commissions. But you'd also have marketing expenses and we'd also have agency expenses. One of the principles when I talk about fundamentals is that of common pricing. So if someone wants to come buy something direct from Aviva, that should be absolutely our cheapest price. And if they come through our most expensive channel, let's say that's a bank insurance channel then the costs of that acquisition actually have to go into the product price. I mean our expected loss ratio doesn't change based on the nature and way a customer buys the product. So that acquisition cost should be fully passed on in our pricing. I suspect when we start going through and really ratcheting up the fundamentals, we'll find areas that that costs we're not passing on.

I think that's important, because then consumers determine value. They will determine the value of intermediation in terms of advice, in terms of claims counseling, in terms of a lifetime journey if you're thinking about savings. But we need to ensure that the acquisition costs are properly reflected in that price to consumers. So I think it is an opportunity, but the angle I take is in common pricing not necessarily reduction, albeit where we pay commissions higher than the market or be it that we shouldn't have to do that.

Operator

So Greig, and then Andrew, please?

Q - Greig Paterson

Good morning. Greig Paterson, KBW. I'll say three questions, which the second one has got two parts.

A - Maurice Tulloch {BIO 17683736 <GO>}

So there is four questions right, isn't it?

Q - Greig Paterson

So just UK domestic motor, which is a sizeable line, three finance Liverpool Victoria about 12 months ago, and has now just ramped up its exposure -- financial exposure to the UK. I believe in April we started to see them as being aggressive. I just wonder if you can give us a feeling for what the competitive environment in UK domestic market has been in May. And how Aviva Plus fits into that paradigm? As I've also heard comments that you've started being more aggressive as well in your pricing.

The second question is a two part one. I see you've shift the emphasis from IFRS to OCG. Now IFRS 1, in my view is not fit for purpose and we're going to get completely replaced by IFRS 17 in a few years' time. So I mean in the sense that shareholders are ultimately interested in economic value generation, what are you going to use to measure that? What are you going to link what are the investors in their minds, too? And then the second part is well then what is management remuneration middle and senior management going to be linked to? And then the final one is you spoke about tightening up the criteria for investment in CapEx. I was wondering is that going to be an IRR type paradigm. And what is the IRR moving from, what was it before your hurdle rates and what is it moving to now? Thank you.

A - Maurice Tulloch {BIO 17683736 <GO>}

Okay. Great. Thanks, Greig. I will hand the second question to Jason. I will take parts of the first. There was definitely a few parts there, and I'll talk a bit about sort of the CapEx. So let me start with the first. I actually wish in one sense, this was a result stage either full year interim, because I could follow you referred to you an awful lot of detail numbers, but this is Investor Day and as such probably can't give you specifics. But let me just give you some color.

The UK motor markets right now is competitive, but actually the positive light is starting to show some signs of some rate hardening. And we've seen that and certainly you're seeing interest from others. The advantage that we have in that market is really our route to market and we play across every single channel. We arguably have the most efficient point to market with Quote Me Happy, which lives in the aggregate space. We have strong partnerships and we have strong brokers. And I think the Aviva Plus comment that was as much about a growth -- potential growth vehicle as it was to tackle the problem of the sort of new business and centralization which goes kind of contrary to most markets in the world where actually loyalty matters. It's early days. We're on plan to slightly ahead of plan currently in take up and it's certainly something that we want to offer to all of our customers.

So, and then the other point was, what do I think about Allianz, I think, was the third parter in the first question. It's a competitive market. We're the number one player. If I look at our top line in UK GI, it's done okay, but it hasn't grown to my satisfaction. And when you have our brand and our technical skills and our distribution I would be expecting to gain market share year-on-year. I guess the exception if the market surrenders and margins are eroding then obviously you put the brakes on, but in most markets I think the capabilities and data skills and customer skills we have should lead to that.

Do you want to comment on the second questions?

A - Jason Windsor {BIO 17967688 <GO>}

As it relates to having measure value, we are -- in the insurance business, we're looking at return on capital. I was talking earlier about economic capital that makes it somewhat challenging to cascade that then through all of the businesses, but our fundamental approach is we call it economic value added and we sit on top of the capital base and we allocate that to making all our key decisions. So whether that's pricing or projects or performance management, each one of those we try and allocate an amount of capital over the lifetime of the product or the projects and we say how much return are we going to get out of that and when we continue to try and drive that thinking into the business. And that turns it into capital generation and cash over time. That's.

Q - Greig Paterson

(technical difficulty)

A - Jason Windsor {BIO 17967688 <GO>}

It's the capital generation adjusted for the amount of capital required for that particular product or project. And that forms part of your second part of your question, part of the incentivization, which we've got a balanced approach to that. We have a balanced score card. We've got financial, we've got custom and we've got risk indicators so we make sure that we look at the whole and the way that anybody gets rewarded, you have to balance the way that you achieve that. Of the financial ones, capital generation and cash remittances are very much on everybody's mind. IFRS is only part of it.

A - Maurice Tulloch {BIO 17683736 <GO>}

Greig, when we look at project spend. So first of all, it's a scarce resource, right? It's ultimately the shareholder money. We looked across a number of dimensions. So does it improve our proposition for customers. And this doesn't simplify our relationship with customers, which ultimately leads to increased long-term value. Does it enable us to enter a new segment and grow our business? Does it allow us to increase our margins or is it mandatory? And some of them are mandatory. So specifically you want to know about IRR. I'm not going to give you a specific target, but I am going to give you some pretty decent guidance.

If you look at Aviva over the last few years our return on capital has kind of ranged between sort of 11% and 13%. So strip out the mandatory projects. Now for me to allocate capital it's certainly better be a creative to what we're currently looking at in terms of our cost or previous returns. I think the more important point I was trying to make that kind of gets you to gate one, gets you into the game, the more important point is then how we manage it and the rigor around that, because actually what I'm saying is if I look at the GBP600 million, they're all wonderful business cases but hindsight it's a beautiful thing. Not nearly enough delivered on those business cases.

Operator

Andrew Crean, please?

Q - Andrew Crean {BIO 16513202 <GO>}

Good morning. I had two points of clarification and one question. On clarification, you say year-to-date trading is broadly consistent with 2018. Is that a euphemism for flat. Second point of clarification. There's a lot of questions around the 2019 to '21 cash remittances relative to other with you saying that management action is coming down. M&A proceeds are roughly similar. So could you give us a bit more clarity either now or at another time in how much you're expecting to come out from France, including the proceeds of Antarius, and the benefits you're baking in from the longevity releases? And then the question, of your GBP300 million cost savings. I notice your project spend was GBP80 million last year, which is GBP50 million above any other year it's been in the last seven. So I just wondering whether one could describe -- you could describe GBP50 million to GBP300 million cost savings just to bring that back in line with long term averages.

A - Maurice Tulloch {BIO 17683736 <GO>}

Okay. Let me take the first question. I'll hand you the second to you, probably to look at the detail on the third one. Listen, Andrew -- I mean, thank you for the first one, because clearly I probably didn't say an adjective that I should have said or I meant to say, if I didn't say correctly, is growth in 2019 is broadly consistent with growth in 2018. Now we've got lots of pluses and minuses. Europe is trading well, the Canadian recovery is strengthening, Asia is trading well, our UK businesses are doing quite well, obviously protection is challenging market conditions. The other point that I made is the longevity release. So last year we actually released some in H1. We are not planning on releasing anything in H1 this year. So there is a bit of a timing difference, but certainly our full year outlook is pretty consistent in the works underway with the 2018 tables which pointed to continued slowing.

Q - Andrew Crean {BIO 16513202 <GO>}

And was that the EPS or (inaudible)

A - Maurice Tulloch {BIO 17683736 <GO>}

Yes, yes. EPS. Do you want to tackle the --

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

(multiple speaker) Just a comment. I mean, it's -- I don't want anybody to read that too specifically as saying that EPS this year is going to be exactly the same as what it was last year in terms of a growth rate. I think what you're trying to give more general guidance that rates of growth are comparable to what we saw last year. But it's still early in the year.

A - Maurice Tulloch {BIO 17683736 <GO>}

Correct.

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

At the full year we gave guidance that, because of Brexit and other macroeconomic uncertainty there were risks to earnings this year. We've seen some of that materialize just in terms of lower investment markets generally. But we've got other things that are offsetting that. Meanwhile, Brexit has been postponed later in the year, so there still is uncertainty. So I just wouldn't want anybody to pencil in earnings EPS growth for 2019 to be identical to what it was last year.

A - Maurice Tulloch {BIO 17683736 <GO>}

Yeah. Thanks, Tom. It's good point.

A - Jason Windsor {BIO 17967688 <GO>}

Yeah. So on the project spend. The number you picked up, I think, Andrew, just had a glance of that report, is it just in the group not in the -- group-wide. I think you said group-based and something to mean in the head office, so that's -- that was GBP80 million. That's right. There is approximately GBP500 million also within the business units. And that's the GBP600 million in total that we are referring to. And that's obviously going to contribute to the cost reduction over time.

A - Maurice Tulloch {BIO 17683736 <GO>}

Remind us again, Andrew on the third one -- France.

Q - Andrew Crean {BIO 16513202 <GO>}

(inaudible).

A - Maurice Tulloch {BIO 17683736 <GO>}

Okay. So historically, remind me from -- I'm sorry, it was closed in 2017. I think that was part of the French business. It didn't actually get remitted to group and was part of the capitalization. So we haven't highlighted it and unlike the Spanish business which was owned by group and was sold by group. France has got some excess capital and is taking steps in the last couple of years to improve its capital position and that's factored in to the forecast. There's no actual other disposal proceeds or anything further coming out of France. As I said earlier to Blair, I think, any longevity that we would seek to adjust for is factored into the cash forecasts that we have.

Operator

Gordon Aitken, please?

Q - Gordon Aitken {BIO 3846728 <GO>}

Yeah, thanks. Gordon Aitken from RBC. A couple of questions and an observation. First, we've had the largest ever bulk annuity announced today. Why was that not announced by you? And be able to talk a bit about case size, price and ability to source the assets. And second on costs and you see the GBP300 million per annum cost saves, you said the cost to achieve those would be roughly GBP300 million. Now you've held back GBP1.5 billion of mortality gains in '17 and '18 cumulative and you said you use that for IT. How are you going to put to work the residual if we call it GBP1.2 billion, which still sits in your expense reserve? And the observation through it just on cash. I mean, actually the cash targets are inclusive of any mortality gains. Just running the numbers on your sensitivities when you move to the '18 tables and what you do simply this year out of GBP1.5 billion release certainly that we expect doesn't that meet your cash target altogether easier?

A - Maurice Tulloch {BIO 17683736 <GO>}

Okay. Thanks, Gordon. I'll really take the first one. We also are going to talk about the mortality we've held back and the costs. You may have to remind me on the exact nuance on the costs of the question unless you've got it Jason.

A - Jason Windsor {BIO 17967688 <GO>}

(inaudible)

A - Maurice Tulloch {BIO 17683736 <GO>}

Okay. Listen, it's tough for us to comment on a (technical difficulty) competitor and a recent win. I think what we did say on BPAs was quite frankly, the volume was slightly below our at present the record half year we had last year, but we remain committed to our full year target and we expect them -- we might see some growth. I think the caveat there, what we've always said on bulks is we've got pretty specific guardrails. So we'll look at the financial terms and conditions and take that against the backdrop. If we have excess capital as we do and we think we can get suitable adequate returns then it makes sense. But I can't comment specifically on -- I think it was Rolls Royce whether Aviva was in a process or not. Did you want to take the second question? I think I might have to hear the nuance around cost again.

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

I think, I'm not quite sure the expense reserve point, but as it relates to longevity, I mean, what we've released we've released. We haven't kept that in any particular reserve. That's come through both to capital and to profit in 2018. So there's nothing in it separately reserved. As we look forward and it's CMI '18, I don't think we'll be anything like the magnitude you've just put down. I won't say what it is. But we've done some preliminary work. We do expect to release, but it's not at that level. And we will see how that plays out. We're obviously thoughtful about that around mapping that to our own book, mapping it to socioeconomic trends, mapping it to sort of future and looking at experience as well. So that, that work as Maurice said is underway. We go through that once a year, typically in Q3, and we would update as part of the results next year on that, and that's an annual process. I think Jason make a comment on the BPA a lot of -- and we've been very pleased with how our BPA business has developed over the last three years. We've gone from a very low position I think as you aware many smaller BPAs and values in the GBP500 million a year type, and we found the team, the asset processes and the reinsurance to allow us to write bigger deals and that's allowed us to write GBP2.6 billion last year. But we've long thought that BPA should be part of UK Life business, but not so that our UK Life business shouldn't be slowly focused on it. So we manage the volume in that context.

A - Maurice Tulloch {BIO 17683736 <GO>}

Gordon, was there another question that we may have both missed.

Q - Gordon Aitken {BIO 3846728 <GO>}

No, it was just my recollection was from the full-year results earlier this year that you'd said that mortality gain and as per last year be used for IT?

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

Okay. It would have been -- we've looked at the longevity that we've seen coming out of the business and we've been expecting to come out of the business as additional profit that has effectively allowed us to finance strategic investments in IT modernization. So the amount of longevity is a larger number, but it's provided us just a little bit more affordability for some of the modernization spending that we've been doing.

Q - Dominic O'Mahony

Hi. Dom O'Mahony from Exane BNP Paribas. It sounds like you're going to be pretty busy over the next few years. I have a lot of questions, but I thought I might start with a few on the cost saving, if that's all right.

A - Maurice Tulloch {BIO 17683736 <GO>}

Sure.

Q - Dominic O'Mahony

If you have now a fair bit of inflation, your GBP300 million is more like GBP600 million to GBP700 million order of magnitude in terms of saving. So that's about 15%, so it's a big target. You're only looking to reduce the roles by about 1,800? So clearly most of that spend is not personnel cost or own employee personnel costs. If you exclude personnel costs from the cost base then a sort of 15% cost reduction is much bigger guessing 25% plus of that non-personnel cost, which is big. And I'm just curious as to understand what that is and indeed how you are going to do that without having a knock-on effect in terms of ability to support growth.

Second question. The operating -- expense numbers are all operating numbers which makes sense. I'm just curious about why cost might land outside of that. So we'll look at the group amortization for instance over the last few years that has grown. Is there going to be an amortization surge if for example, there is a digitalization part of the cost-reduction program? And if that is capitalized, Jason, I realize you -- as you said, you don't capitalize too much, but if there is capitalization going forward, it would be helpful to understand the profile.

And third, this major -- expose maintenance on the accounting. But as I understand it, under both IFRS and solvency, you capitalized a lot of expense for Life in particular. So given that the GBP4 billion is not quite -- as I understand not quite on the like-for-like basis. Does that mean that actually some of the cost reduction will have a sort of a one-off lumpy effect?And is that actually fueling some of the special cash that we're likely to see. Thank you.

A - Maurice Tulloch {BIO 17683736 <GO>}

Great. Thank you. Let me start with one part of two and then certainly I'll give the number three and you can add to our accounting policies around amortization. I think here's the way I look at it. So sometimes history is your best guide. So it's only 3.5 years or 4 years ago that our cost base was GBP3.4 billion and it's now GBP4 billion. And if you look at our growth, you'd probably remind me pretty quickly we haven't grown that much. So we manage to be the quite finally at a number actually less than the target I've set.

I think we've footnoted the inflation assumption 1.8%. So the gross is probably closer to GBP500 million and we have sort of said at constant effects. So that's just sort of the math. Then I have to look at my game of inches. My competitive and my winning. So if I look at my cost income ratio and I look at against my peer groups is actually one of you up there that did the work and have to read your little release about a day after I started. Our cost information has grown 54%. Our peer group said 47%. So we weren't competitive.

Now, where is it coming from and you're working ahead on the rolls. Well I didn't give you specifics on how many contractors I have. It's pretty sizable. I think give us specifics and how much they spend on consultants. It's pretty sizable. If you look at the project spend, roughly a cash outlay of GBP600 million. And I did actually say that's about 70% higher than what it was just four years ago and I also said it didn't deliver nearly the value. So that's a big nut to go after before. And I recognize there's some people tied to that, but there isn't -- it doesn't have the direct effect.

I think you should also take away from things like me saying I'm going to a lean group center that if you were to look at roles and see where they come from in the organization, there will be a biased to management roles, which are obviously more costly and deliver more benefit. So we've done the work. We're really comfortable. It's the start. We will deliver. And it's not going to be a hockey stick and probably every time that we see you, we'll be giving an update an update on it.

Now in terms of the amortization, maybe I won't answer that one.

A - Jason Windsor {BIO 17967688 <GO>}

Let me have to go.

A - Maurice Tulloch {BIO 17683736 <GO>}

I'm an accountant, but it's been a lot of years. So why don't you jump in?

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

Okay. So the first part, I'll answer is the last point that you made around life maintenance expenses. And so what we do, because we've got the contracts on the books. We make an assumption as to what is the cost of running that contract until it's maturity and that feeds through in its sort of value of the liabilities. And obviously, if we had lower expenses, which would be a natural corollary of a cost-reduction exercise, you would expect that the liability to go down and hence your profit to come up. And you've seen that at various times when we've moved our expense assumptions and we test those like all of our assumptions every year. Only a relatively small part of the GBP300 million will be life maintenance expenses. You've got non-life, as management, head office, projects and the Life. So it's a part of it, yes, you're absolutely right.

The other part of it is the amortization project spend. Some of that overlaps a little bit with what I just said. But we're not expecting a big write-off of existing projects or the like. So we'd expect that to sort of continue but get smaller over time, the cost of that as we look forward.

Q - Ming Zhu {BIO 17001429 <GO>}

Ming Zhu from Panmure Gordon. Three questions, please. Your cost saving target is over three years. At what point on the timeline that if things does not go as the way you decide and you might have to take more radical changes such as dispose certain units of the business? And my second question is your cost saving GBP300 million per annum and the GBP300 million to deliver that. How much of that exactly translate to OCG level and cash remittance. And my third question is your asset management. Could you please share your plans and in terms of what you would, is any plans to make that contribution more -- was about 5% of your operating earnings in 2018, is that our target there. You might want to increase that proportion.

A - Maurice Tulloch {BIO 17683736 <GO>}

Okay. Thanks, Ming Zhu. I'll take the first question. Jason, how it translates into OCG and is it -- how does it come over time and we can probably both tackle the asset management and also get you in here. Should we want to say a bit more. And obviously we'll give an awful lot more detail on the various component parts of Aviva at our interim results. So I think the first thing is in the cost savings have nothing to do with dividend affordability, dividend as well covered by our current OCG and Jason talked about how we're looking to improve the OCG. It's obviously a nice benefit as it flows through. Cost savings have to be about being competitive. It has to be about being able to win in our chosen markets, so ultimately the product that we charge our consumers is a factor. A big huge swath of what we do is retail financial services. Let me comment on this while I'm sort of our communal Asset Management. You may want to add some color and then you can kind of go to how does this -- how does this just flow through.

A - Jason Windsor {BIO 17967688 <GO>}

So sort of a bit of a build on my previous answer. So costs in head office asset management non-life insurance as they fall through the P&L pretty much get our OCG and for life new business is pretty much one for one than the life maintenance expenses is the answer I just gave to Dom that fits through. And then as we spend obviously the money to achieve those savings which we know -- which will be spread out over the next 2.5 years or so, that will be a a cost certainly to the cash flow. So most of the cash flow benefits will be post 2021 there'll be some in a building up over '20 and 2021, but as we're looking at the clean air from 2022 onwards.

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

Our asset management business is integral to Aviva, manages GBP330 billion of AUM . They really have sort of three key priorities. One is clearly investment performance for our policyholder funds and also our shareholder funds. They're also critical to our UK life business. So what they do in terms of what the skills and the town that we've built and real asset origination is critical particularly when we're talking about the BPA market. And that's just not for you. That's also for third parties. And it's also critical that we take those skills and capabilities and attract more of third party funds. And certainly we started with AIMS when Ewen came here. But now we have a great US credit business and we've recently won a couple of large mandates into the billions and we can't comment specific on them today. We will in terms of the more details when we are able to make public statements. But it's part of Aviva, certainly I'd like to see it prosper and flourish just like I'd like to see whole parts of Aviva.

Operator

We'll complete the Q&A there. Maurice, would you like to close the presentation please.

A - Maurice Tulloch {BIO 17683736 <GO>}

Yeah, I would just like to say to everyone, thank you for taking the time. This is the start of the journey. I took this job to effectively get Aviva to where I think it should be. After 26 years I've seen basically every single component part of this organization and there is some tremendous people, some tremendous capabilities and some tremendous opportunities.

What I said to you on March 4th is I'd come to you and talk about a few things. I would talk about efficiency. I would talk about people and structure, I would talk about bureaucracy. I would give confidence to things that mattered most to you around dividend and honoring our previous commitments. I know there's a bit of a long legacy with new CEOs and changing targets and I didn't want to get off on that foot. But I think also importantly I said to that I'm going to take the time to come back and look at our strategy and look at our targets. And I'd hope you'll judge me by what myself and a team have done in the first 94 days. I know there's a little bit of impatience for November, but it'll come soon enough, and I think you should expect the same sort of kind of clear talk and specifics. I think you'll also see that what I've set out today between now and the interim and certainly through now in November I will delivered that process of living will be underway and what we've said today. So thank you very much.