S1 2021 Earnings Call

Company Participants

- Andy Briggs, Group Chief Executive Officer
- Rakesh Thakrar, Group Chief Financial Officer
- Victoria Hayes, Investor Relations Finance Manager

Other Participants

- Andrew Baker, Analyst
- Andrew Crean, Analyst
- Andrew Sinclair, Analyst
- Farooq Hanif, Analyst
- Gordon Aitken, Analyst
- Larissa Van Deventer, Analyst
- Louise S. Miles, Analyst
- Ming Zhu, Analyst
- Oliver Steel, Analyst
- Steven Haywood, Analyst
- Trevor Moss, Analyst

Presentation

Andy Briggs {BIO 4311809 <GO>}

Good morning, everybody. Welcome to Phoenix Group's Half Year Results. Phoenix has made great progress against our strategic priorities in the first half. We've reported strong cash generation and maintained our resilient balance sheet. Key highlights include the sale of Ark Life, the Harmonised Internal Model application submission, and the Fitch ratings upgrade. We've delivered increased new business long-term cash generation and taken ownership of the Standard Life brand. We also continue to remain focused on delivering for our customers and our people. And we are making good progress with our sustainability strategy on our path to becoming net zero carbon and fulfilling our purpose of helping people secure a life of possibilities. I will talk in detail about our progress against each of these strategic priorities shortly, but first I will cover the financial highlights.

We have once again delivered on our key attributes of cash, resilience, and growth during the first half of 2021. Rakesh will cover this in more detail shortly, but in terms of the headlines. We delivered strong growth in cash generation with GBP872 million in the first six months. Our balance sheet continues to be strong with a Solvency II surplus at GBP5.1 billion following a planned GBP200 million debt repayment in March. And our shareholder capital coverage ratio of 166% is comfortably within our 140% to 180% target range.

Finally, we've reported GBP412 million of new business long-term cash generation, a 15% increase on the prior year. GBP206 million was delivered in the first half across our Open businesses with a lower first half contribution from external BPAs owing to a slow first half for all market participants. However, our BPA team worked hard to accelerate the second tranche of our Pearl Pension Scheme buy-in on the pre-existing agreement.

This completed in July and delivers a further GBP206 million of long-term cash. Delivering cash and resilience are central to our investor proposition. It is our ability to deliver value accretive management actions from both BAU activity and our integration programs that are critical to this. In the first half we have continued to demonstrate this with nearly GBP300 million of management actions delivered, 75% of which were from BAU actions such as illiquid asset origination and asset risk management. Our ability to deliver value accretive M&A is also clearly demonstrated in the ReAssure transaction where we've already recouped half of the GBP3.2 billion consideration paid in less than 12 months. And in terms of resilience, our unique hedging approach continues to deliver resilience to market events regardless of the growth in the size of our Company or periods of sustained market volatility as seen over the past few years. Minimal variances throughout.

In November last year, we announced that we had received unsolicited expressions of interest for our European operations and that the Board was therefore assessing a range of strategic options to maximize value for shareholders. That process continued throughout the first half of 2021 and included entering into advanced discussions about the potential sale of our entire European operations. However, the Board concluded that this would not maximize shareholder value and instead have agreed that value will be maximized by treating the two parts of the European operations separately. As a result, we've agreed to sell the Ark Life business to Irish Life for an attractive price of GBP197 million or 91% of Solvency II Own funds. We expect this capital to be reinvested into higher return growth opportunities. And we have chosen to retain Standard Life International. This is a complex business including with profit products that is being run on old legacy systems.

As the market leader in transforming businesses and delivering cost and capital synergies, we believe we will maximize shareholder value by retaining it and progressing a clear set of management actions. These include moving the business on to a Partial Internal Model and migrating the customers on to the modern Diligenta BANCs platform. These are the right actions to create value in the short term, but also over the longer term these actions will create a platform that offers us strategic optionality to consider the European M&A consolidation market. I'm really pleased with the progress we've made in our Open business during the first half of 2021 as our investment begins to deliver tangible success. The enhanced capability we are building in our Bulk Purchase Annuity business will enable us to significantly increase the proportion of transactions in the market we can quote on from around 35% last year to around 90% by volume.

We've also made significant progress in reducing the capital strain on this business, which was 6% in the first half, using our new Harmonised Internal Model. I'm delighted that the investment we've made in our workplace business is beginning to show with new scheme wins evidencing the momentum we are building and the recent award for Master Trust Offering of the Year, a testament to the work our team are doing to develop a truly market-leading proposition. The acquisition of the Standard Life brand is already proving to be a significant catalyst for our Open business growth strategy. It is a trusted and well-known consumer brand that we will invest in including a refresh of the brand, an acceleration in our proposition innovation, and the roll-out of enhanced technology to customers and intermediaries. All of which will drive future growth and help meet our aspiration of proving the wedge.

Critical to our success is our focus on our customers. I'm delighted that we have continued to exceed our customer satisfaction targets in the first half. And we continue to invest in our customer proposition with some great initiatives delivered this year. For instance, we have now made our market-leading ESG default fund available to our DC Master Trust members and continue to work with our asset management partners to expand the range of self-selection responsible investment funds we offer. We have also widened access to in-scheme drawdown to a further 1.5 million members this year. Our investment in digital is also resonating with customers with a 34% year-on-year increase in mobile app log-ins. And we continue to migrate our customers to modern platforms to improve the customer experience.

Phoenix is committed to addressing the challenges of climate change, which have been laid bare this week in the IPCC report, and we have laid solid foundations in first half to help us deliver on our ambition of being a leader in this space. We are committed to making our investment portfolio net zero carbon by 2050 and becoming public signatories to the UN convened Net Zero Asset Owners Alliance and Race to Zero campaign evidences this. As one of the industry's largest asset owners, it is imperative that we take a lead role in driving change and our recent Open Letter sets out the expectations we have of our asset management partners. We are excited to be working with our partners to find the solutions that will deliver portfolio decarbonization and look forward to sharing these solutions in the run-up to COP26. We will also be setting our own ambitious 2025 and 2030 decarbonization targets for our investment portfolio over the coming months.

We have made strong progress towards our target of being net zero carbon from our own operations by 2025. We are on track to reduce Scope 1 and 2 emissions by 20% this year and expect to have all of our occupied premises using 100% renewable electricity by the end of this year. One great example of this in action is that we are installing an innovative photo voltaic glazing roof at our Wythall office, which will reduce our carbon footprint and generate our own energy, and it will be the largest of its type in the UK. Finally, in line with our ambition to make Phoenix the best place our colleagues have ever worked, we continue to invest in our people. We are developing the excellent talent we already have whilst strengthening our current team with high calibre new appointments to bring new expertise and thinking to the Group.

We remain committed to making Phoenix a diverse and inclusive company where people can bring their whole self to work. So, we have created an innovative new app Who We Are to capture powerful data and insights to support us in delivering on our commitment and it is great to see that this has been completed by around 75% of our colleagues since launch. Women now account for 29% of our Top 100 leaders and whilst we won't be happy until this represents broader society, it is strong progress up from 21% just six months ago. We also have 13% of our Top 100 leaders who are ethnically diverse, which is already broadly in line with the wider UK population. And the overall investment we are making is once again reflected in our strong colleague engagement score of 79% in the first half.

And with that, I will hand over to Rakesh.

Rakesh Thakrar {BIO 20549114 <GO>}

Thank you, Andy, and good morning. As Andy said, Phoenix delivered a strong financial performance in the first half of 2021, which reflects the scale of the new Group. We have delivered cash generation of GBP872 million in the period and long-term cash generation from new business of GBP412 million is up 15% year-on-year including the second tranche of the Pearl Scheme buy-in completed in July. We've also delivered increased operating profit of GBP527 million. And in line with our stable and sustainable dividend policy, we have declared an interim dividend of 24.1p per share. With our focus on delivering resilience, our financial position remains strong. Our Solvency II surplus is GBP5.1 billion with a solvency ratio of 166% that remains comfortably within our target range and leverage is stable at 28%. The reduction in assets under administration in the first half largely reflects the announced sales of the Wrap SIPP, Onshore Bond and TIP products to Abrdn, and Ark Life.

Turning first to cash. With strong cash generation of GBP872 million delivered in the first half, we now expect at the top end of our target range of GBP1.5 billion to GBP1.6 billion for the full year. I also wanted to briefly remind you of the guidance we announced back in March with our existing three-year cash generation target of GBP4.4 billion and guidance over the life of the business of GBP17.7 billion. It is important to remember that Phoenix's cash generation guidance is based on in-force business only. It excludes the impact of any new business to be written in the future and also excludes management actions from 2024 onwards. Looking over the period from 2021 to 2023, this slide sets out the Holdco uses of cash generation and illustrates how secure our current dividend is. It also highlights the significant amount of cash that will be generated over this period with around GBP2 billion expected to be available for growth through BPA and M&A.

Group long-term free cash was GBP13.4 billion at the end of 2020, which incorporates the impact of selling the platform businesses to Abrdn and the future corporation tax change while the recently announced sale of Ark Life is expected to be broadly neutral. After the servicing of debt until maturity, this leaves GBP11.8 billion of cash available to shareholders. With our current dividend cost of around GBP480 million per annum, this level of Group cash supports our stable and sustainable dividend for the long term. Our Solvency II surplus remains resilient and the small decrease during the first six months of the year reflects the planned repayment of a GBP200 million Tier 2 bond in March. We had a strong start to the year for Solvency II management actions with nearly GBP300 million delivered in the period and I would expect broadly the same amount in the second half with the Internal Model harmonisation benefit on top of that.

We continue to see the benefits of our hedging policy with only a small economic variance in the period despite market volatility. Phoenix has a unique approach to managing risk.

We have a particularly low appetite to equity, interest rate, inflation, and currency risks; which we see as unrewarded and therefore hedge to protect our Solvency II surplus. This translates into the low sensitivities presented here. We do see credit risk as rewarded and so actively manage our portfolios to ensure they remain high quality and diversified. The key sensitivity we focus on here is the 20% of the portfolio having a full letter downgrade, which is GBP0.4 billion in the context of our GBP5.1 billion Solvency II surplus. It is worth noting that the credit sensitivities we disclose here are prudent as they assume no management actions are taken to rebalance our portfolio, which is different to how many of our peers disclose.

Finally, we manage our longevity risk through reinsurance retaining around half of the risk across our current in-force book and reinsuring most of this risk on new business. As a consequence of this hedging approach, we are far more resilient to major market risks than most of our UK and European peers as this slide clearly demonstrates. We see this as a core part of the Phoenix story and a key differentiator to others. In order to manage our credit risk, Phoenix maintains a diversified GBP33 billion shareholder debt portfolio. Our proactive management has enabled us to uphold the high credit quality of our portfolio and has minimized our downgrade experience with 99.9% of cash flows paid on our bonds. Integral to this is ensuring we keep our BBB exposure below 20% and we always seek to minimize our exposure to triple BBB-, which remains at only 2%. Our ability to deliver value accretive management actions is a key differentiator for Phoenix.

During the first half, the delivery of management actions contributed GBP276 million to our Solvency II surplus. The majority of these have been value accretive actions that increase Own Funds with 75% delivered from business as usual activity, including illiquid asset origination and asset risk management actions. We often hear that Phoenix is overly reliant on integration synergies. However, since the onset of Solvency II, around 60% of the GBP4.4 billion of Solvency management actions we have delivered have been business as usual demonstrating our capability here. We continue to make good progress across both integration programs. We are well on the way to integrating the ReAssure Group functions and are on track to complete this workstream in early 2022. This will free up more capacity for future M&A. In our finance and actuarial workstreams, we completed the Standard Life integration in June and have begun the ReAssure Phase II integration with cost synergies expected from 2022.

We also have several Internal Model applications plans, which in turn support our plans for future Part VIIs including combining our legacy Phoenix and Standard Life entities into a single life company in Phoenix Life, which we hope to complete in 2023. With this progress, we have now delivered over 90% of the Standard Life synergy target and 70% of the ReAssure target. We are on track to deliver the balance and that is before recognizing the benefit from harmonising our internal models. With a decision on our Internal Model harmonisation application due from the PRA next month, I wanted to explain in more detail the expected impact. As you can see, there are three immediate impacts that deliver a total solvency benefit of around GBP400 million and a future cash benefit of approximately GBP100 million. Firstly, having a single Harmonised Internal Mode allows us to realize diversification benefits between our legacy Standard Life and Phoenix Life companies at a Group level.

This will generate significant solvency benefit, but does not increase cash surplus at the life entity level which remains unchanged. Secondly, by improving the modeling of our credit risk and how we diversify risk within the life companies, we can release some of the prudence we have in place today which provides both a solvency benefit and a future cash benefit. It is worth noting that I would not expect this cash benefit to emerge in 2021 as we will want to confirm the Internal Model is performing as expected over a period of time first. Finally, we are holding a temporary solvency capital strain of around GBP100 million in relation to Group currency hedges we put in place this year, which unwinds upon implementation of the new model. The Harmonised Internal Model also unlocks a wider pipeline of future management actions, including future Part VIIs and the scope to improve our credit risk modeling further as well as being supportive to our BPA pricing and future M&A.

The final management action I wanted to touch on is our illiquid asset origination. Long dated or illiquid assets provide excellent cash flow matching for our GBP38 billion annuity book and are a key enabler of reducing the capital strain on our BPA business too. Our illiquid asset portfolio comprises 28% of annuity backing assets and we continue to target increasing our allocation of illiquid assets to around 40% over time. Reflecting the ongoing investment in our capability and team during the first six months of the year, we have increased our illiquid asset origination by 67% to GBP1.3 billion with an average credit rating of A. Within that, we have increased our investment in ESG assets by 132% to GBP788 million. And you can see on this slide several great examples of the meaningful impact our targeted ESG investment can make as we seek to deliver on our sustainability strategy and support the government in building Britain back better.

Moving now to growth. We have reported a 15% increase in new business long-term cash generation to GBP412 million. Like most market participants, we saw a slow first half market for BPA transactions and therefore decided to accelerate the second tranche of the Pearl Scheme to July. Elsewhere it was pleasing to see the other asset based open businesses all deliver increased cash generation year-on-year. With GBP431 million of external BPA transactions completed in the first half, we have maintained our market share at around 7% in what has been a slow market. Importantly, we have been able to reduce that capital strain from 8% in 2020 to 6% this year primarily due to our new business pricing now reflecting our Harmonised Internal Model. We continue to target a future BPA capital strain of around 5% with illiquid asset origination and improved reinsurance, the drivers of further improvement from here.

In terms of the second half outlook, we are currently quoting on an improved pipeline of deals. However, we will remain disciplined in our approach and as ever we'll be focused on value over volume. We were delighted to reach an agreement with the trustees of the Pearl Pension Scheme to execute a buy-in for a further GBP998 million of premiums, which completed in July. Similar to our external deals, the capital strain on this second tranche has reduced substantially down from 12% in 2020 to 6% this year reflecting the expected Harmonised Internal Model efficiencies and improved reinsurance structuring. Turning to our asset-based businesses in the Open division where we are beginning to see the benefit of our investment in this business with increased long-term cash generation despite the increase in tax rates and improved growth inflows from all business areas.

In Workplace, we are pleased with the momentum we are building here with new scheme wins in the first half providing a platform for future growth and higher gross inflows a function of improved pricing and proposition. However, we are reinvigorating a business that had been under-invested in historically and during the first half we saw several scheme losses that led to net outflows in the period. These scheme losses have been deferred by a couple of years and reflect decisions taken on our legacy proposition, which has improved significantly since then. In customer savings and investments, we are very much in the early stages of our building a retail offering for the long term, but saw an improved performance in the period due to proposition enhancements. In Europe, gross inflows increased due to stronger sales while the 47% increase in long-term cash generation from Sun Life is due to higher volumes and profitability.

Turning to our IFRS results. We delivered operating profit of GBP527 million in the first six months of 2021, 46% higher than the prior year reflecting the scale of the new enlarged Group. Operating profit in our Open business has reduced year-on-year due to the lower contribution from external BPA deals in the first half accounting for around GBP70 million of the movement. Group costs and service company movements reflect increased costs owing to the enlarged Group and the build-out of additional Group capabilities. The sizable swing in investment return variances and economic assumption changes reflects the impact of our hedging strategy from rising rates and equities. We hedge the solvency position to deliver dependable cash and dividend resilience and accept that this will cause volatility in our IFRS balance sheet. Phoenix is known for the resilience and sustainability of its dividend, which the Board and I see as our priority to maintain.

With our Open business delivering growth, we have the opportunity to consider whether organic growth can support a dividend increase in addition to the periodic increases we already consider following value accretive M&A. I must stress that the Board will only consider an organic increase in the dividend if the business has grown. Any increase must also maintain our dividend sustainability over the long term. An increased dividend would then establish our new stable and sustainable dividend level going forward with further increases dependent on delivering further business growth. The Board has a clear framework for assessing whether organic growth has the potential to support a dividend increase with two key conditions that trigger an assessment. Firstly, we must prove the wedge and see the cash generated from new business more than offset the run-off of our in-force business of circa GBP800 million per annum. The second is that our recurring sources of cash exceed our recurring uses.

If the conditions are met, the Board would consider whether it is appropriate to increase the dividend, but will only do so at the Group's dividend sustainability is maintained over the long term. To conclude. Phoenix has a clear financial framework, which supports our strategy and delivers cash, resilience, and growth. In the first half we delivered strong cash generation, our balance sheet remained resilient, and we delivered growth with increased new business. And I was delighted with the recent credit rating upgrade from Fitch, which is a clear validation of our business model. Looking forward, we now expect to deliver cash generation for the year at the top end of our GBP1.5 billion to GBP1.6 billion target range and will continue operating within our target ranges for both solvency and leverage. And finally, we will continue executing on our growth strategy as we look to deliver incremental new business cash generation in order to prove the wedge and we will of course prioritize value over volume in the BPA market.

I will now hand you back to Andy.

Andy Briggs {BIO 4311809 <GO>}

Thanks, Rakesh. Phoenix has a clear strategy that is focused on three key priorities and leverages the industry drivers of change. Our priorities are to optimize the in-force business to deliver resilient cash generation, to deepen our customer relationships as we help people consolidate their pensions and journey to and through retirement, and to acquire new customers both organically through our workplace and BPA businesses and inorganically through value accretive M&A. Our business model therefore flows from this where we are the market leaders in both heritage and M&A and our Open business has unique advantages to succeed and win too. And the successful execution of this strategy will ensure we continue to deliver against our financial framework of cash, resilience, and growth. Our business model some unique advantages to Phoenix by having our Heritage and Open businesses operating alongside one another with our differentiated M&A and integration capabilities supporting them.

Those unique advantages include our approach to risk management that differentiates us from our peers and delivering resilience to our in-force business, which in turn underpins the delivery of high levels of long-term dependable cash generation that both supports our stable and sustainable dividend for many years and generates excess cash that we can invest in a range of high return growth opportunities aligned to the industry drivers of change. And at Phoenix, the whole is therefore greater than the sum of the parts, which enables us to deliver market-leading cost efficiency across both Heritage and Open, significant ongoing capital diversification again benefiting both Heritage and Open, and an unmatched scale as the UK's largest long-term savings and retirement business. At Phoenix, we also recognize that we have a clear role to play in society. That's why our purpose is helping people secure a life of possibilities.

This means providing the right guidance and products at the right time to support the right choices. As I've said before, I passionately believe that businesses with the best people focused on their purpose and their role in society deliver better customer outcomes and in turn stronger returns for shareholders. The virtuous circle you see on this slide. And in support of that, I'm delighted to announce that we are launching a new think tank later this year called Phoenix Insights. Life expectancy in the UK has risen dramatically over the past century. These longer lives are the gift of advances in public health, living standards, nutrition, and medical science; but we are not yet structuring our society and our lives in ways that help us to make the most of that gift. Phoenix Insights will be dedicated to capitalizing the change and innovation needed across society to enable us all to live better longer lives and to make that a national conversation.

I'm therefore honored to be chairing an expert advisory committee that brings together some of the most distinguished experts in this field. And I'm confident that Phoenix Insights is going to deliver some truly impactful research, inform the public debate, and of course enable us at Phoenix to develop the propositions that will help our customers enjoy their better longer lives. Our purpose in action, helping people secure a life of possibilities. So, let me conclude with our priorities for the second half of 2021. We will continue to deliver dependable cash and resilience through the disciplined management of our balance sheet by executing on our pipeline of management actions and integration programs. We will also deliver on our growth ambitions by investing in our Open business and the Standard Life brand. And we will continue to actively assess value accretive M&A opportunities.

As we've outlined previously; M&A is a core part of our strategy, we see a huge market opportunity over time, and we have the bandwidth at a Group level and the financial firepower to do M&A today. But we will remain disciplined in our approach and given the substantial value still to be delivered from our current management actions pipeline, we have plenty to keep us busy. As a purpose-led organization, everything we do is underpinned by ensuring we deliver better outcomes and improved propositions for our customers, delivering on our sustainability commitments and setting ambitious near term targets towards decarbonizing our investment portfolio, and continuing to invest in our people and culture.

And with that, we will move to questions. So, can I please therefore ask the analysts if you could now log in to the Zoom call with the details you've been sent by the IR team. In terms of the format for the sell-side analysts who are joining the Zoom call, please ask your question using the raise hand function and once you've accepted the invitation which will come up on your screen, the operator will bring you into our presentation live on the video. For anyone watching the webcast, please use the Q&A facility and we will come to your questions after we've been to those on the Zoom call. While we give the analysts a moment or two to log in on the Zoom call, we probably can take a pre-submitted question. Vicky, is there a first question we could take, please.

Questions And Answers

A - Victoria Hayes {BIO 21889343 <GO>}

Hi Andy. Yes. While we're waiting for our analysts to join, I've had a question submitted via the webcast so I'll just read that one first. So, Swiss Re have recently sold half of their strategic stake ahead of the lockup expiry. Do you expect them to sell down more and what are the intentions of your remaining strategic shareholders?

A - Andy Briggs {BIO 4311809 <GO>}

Okay. Thanks, Vicky. So, I mean obviously we're delighted to have Swiss Re as a shareholder and the position was that Swiss Re will have quite a large portfolio of equities as part of our capital base. When they held 13.3% of Phoenix, that was an outlier compared to the other holdings in their equity portfolio. Now they are down at 6.6%, that's much more in line with other holdings they have elsewhere in their portfolio. It's no longer an outlier. So, it is very much a decision for Swiss Re as to what they do going forward. What I would also add a couple of points. Firstly that I've had a lot of feedback from investors that they like the fact that the free float in Phoenix is greater, the liquidity in Phoenix shares is greater.

And also in terms of other strategic shareholders. So back in February where we did the deal to buy the Standard Life brand, Stephen Bird at Aberdeen reconfirmed at the time their commitment to the strategic partnership and their strategic investment. And then also back in June, MS&AD also reaffirmed their commitment to their strategic partnership and strategic investment in Phoenix Group. MS&AD have a conscious strategy of diversifying their earnings away from Japan by taking strategic stakes in overseas companies and they're very happy with the 7% dividend yield they get from the Phoenix stock. Do we have our first analyst question now, Vicky?

A - Victoria Hayes {BIO 21889343 <GO>}

Yes, Andy. We can now move over to questions from our equity analysts. The first question is from Steven Haywood of HSBC. Steven, could you unmute yourself and go ahead and ask your question, please.

Q - Steven Haywood {BIO 15743259 <GO>}

Good morning. I hope you can hear me. Thank you.

A - Andy Briggs {BIO 4311809 <GO>}

Good morning, Steven. Yes, we can hear you loud and clear.

Q - Steven Haywood {BIO 15743259 <GO>}

Three questions from me if you don't mind. Your Internal Model Harmonisation, I noticed that one of the bullets on the unlocking management actions pipeline suggests that it will support future M&A. Can you give us an indication of how this will support future M&A? And then two other questions on BPA. Can you discuss the outlook for the BPA market for the rest of this year and beyond and Phoenix's pipeline? And secondly, in terms of your BPA capabilities now, you mentioned in the slides that you can now quote on 90% of all deals coming to the market. I wonder if you can give some more details around your capabilities now, what they were previously, and also what you think this 90% quotability can lead to for your pipeline and future years new business? Thank you.

A - Andy Briggs {BIO 4311809 <GO>}

Thanks, Steven. So, I'll take the second and third and then I'll ask Rakesh to take the first one. So, I mean the broader outlook for BPA that there is GBP1.5 trillion of assets in DB schemes in the UK and as I've said before, I'm yet to meet the Finance Director that's pleased to have this big financial services company called a Pension Scheme attached to the side of his manufacturing business. And I'd say we're getting to a place where probably two-thirds of that GBP1.5 trillion is on -- well-advanced on a journey to be variable to move to de-risking and a buy-in in due course. And so in line with other commentators, we would expect over the next GBP30 billion to GBP40 billion a year market for BPA. What we've seen is the first half of this year has been quieter. We will estimate the external BPA has been around GBP6 billion in the first half of this year and I think that's quite simply just down to the fact that the pandemic happened last year and finance directors had other priorities.

We'd expect the market to be more normalized in the second half of this year. So, what does all that mean? Basically what I would say is that if I take a medium-term view, I am really confident that we will be able to exceed the GBP800 million of long-term new business cash and we'll improve the wedge. If you ask me specifically about 2021, then -- if you're asking me about cash generation and management actions, they are all things we can control internally ourselves. They are our internal projects. When it comes to predicting future new business, we're in a competitive market out there and the reality is the majority -- vast majority of our competitors are mono-lines and they have probably sat there thinking if we don't write volume BPA this year, we've had a bad year. At Phoenix, we won't think that. We have a multi-dimensional business, we play in lots of areas, and we will maintain discipline over what we do.

And therefore, there is a chance in the second half of this year -- we've got attractive pipeline of business, but there is a chance that the mono-lines that were starved in the first half are super hungry in the second half. We will maintain our discipline and only allocate capital where we can get attractive returns. In terms of the capability, I mean probably the best anecdote to summarize this is that I was chatting to Matt, one of the guys in our BPA team who has been in the BPA team for quite a while, in our London office the other day. And he was saying to me that 16 months ago as we went into lockdown, the BPA team was 6 and as we've come back from lockdown, it's now 25. So, that gives you an indication of the capability we're building. The fact that we can now quote on 90% of the market, we used to be able to quote on only 35%, so we've developed the ability to look at deferreds. For example, we've developed the ability to do buyouts as well as buy-ins.

We just have more capacity in the teams to be able to quote on a broader range of business. And what you should expect from us is we've allocated GBP150 million to GBP200 million of capital a year for external BPA and we're targeting a 5% strain. Delighted that we've moved down from 8% to 6% on the external business and the Pearl Scheme went from 12% down to 6%. I mean that's a real testament to what we're doing here. So, we're targeting a 5% strain. That then means GBP3 billion to GBP4 billion a year of external BPA. I mean I wouldn't rule out potentially allocating more capital in due course, but let's get ourselves to successfully allocate GBP150 million to GBP200 million at a 5% strain as a first step on that journey. Rakesh, do you want to pick up on the Internal Model Harmonisation?

A - Rakesh Thakrar {BIO 20549114 <GO>}

Yes. Thank you. And thank you, Steven. I think the question was about unlocking future management actions and the potential for helping on M&A. So first thing, the benefit of the Internal Model, which is still a decision for the PRA in end of September, will allow us to then combine the life companies within a single entity. At the moment if they're on separate internal models, you can't do that Part VII. And by having Standard Life and Phoenix Life all in a single Harmonised Internal Model will unlock that Part VII and allow us to then complete it which is expected in 2023. But in addition to that, it then sets us up to bring ReAssure on to that Internal Model over time.

And then finally, when it comes to M&A pricing, we will be able to give a more accurate reflection of the risks involved in bringing a target on our Harmonised Internal Model. And just to finish off, Steven, in terms of other management actions. What it allows us to do is it gives us an option to further go into more granular detail on our credit risk calculations because at the moment when we calculate our credit risk, it's at -- we use the same capital across a letter so a BBB. It will make no difference whether it's BBB+ or BBB or BBB-, the same capital cost will go into to the next level of detail by having different capital charges for BBB+ versus BBB. So, it will give us a better reflection of our risks.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you.

A - Andy Briggs {BIO 4311809 <GO>}

Thanks, Steven. Vicky, next question please.

A - Victoria Hayes {BIO 21889343 <GO>}

Yes. Next question is from Andy Sinclair from Bank of America. Andy, please go ahead.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thank you and good morning, everyone. Three for me as usual, if that's okay. Hopefully you haven't covered anything in this Q&A. It was -- it's been a busy morning this morning. Firstly was on the remaining European operations. I just really wanted to understand the timeframe for your new plans. Just wanted to make sure I'm reading Slide 22 correctly that that should be largely complete in (technical difficulty) and just when would we see the admin outsourced. I think in the past you didn't have European outsourcing agreements in place so just to understand a bit more there. Second question is just on bulk annuities and Pearl transfers. What's the timeframe for the transactions? Could we potentially see more in 2021 depending on how the annuity market goes in H2 and what those mono-line peers are doing or is that just further out? And third question was just on the UK savings -- UK open savings business. I was probably a little bit surprised to see net outflows in H1 given a pretty strong year for UK asset gatherers. I just really wondered if you could give a little bit more color here and what you'd be expecting in terms of the return to net inflows going forward? Thanks.

A - Andy Briggs {BIO 4311809 <GO>}

Thanks, Andy. Yes, none of those were ones that you missed having done on the results earlier on. So, that's all good. I'll get Rakesh to pick-up the third in terms of the savings flows. In terms of Europe so basically there are kind of three, four areas of focus there from Standard Life International. One is the move on to the Partial Internal Model. We are pretty close to being able to submit the application to the CBI, but the CBI would typically take a year or potentially longer in order to work through and approve an application like that so to give you a sort of sense of timeframes there. In terms of the administration of migrating to more modern technology, we'll basically do that in tandem with the program to move the UK business off the old Standard Life mainframe across to the Diligenta, TCS BaNCS platform. So, that's something that will happen over the next couple of years broadly from here. And then the third action just ongoing is now we've taken ownership of the Standard Life brand, which is very exciting for us.

We can really start to push that Standard Life International brand from the new business perspective both in Ireland and Germany domestic markets and then the offshore bond business back into the UK. So, taking ownership of that Standard Life brand has resonated really positively with employee benefit consultants and intermediaries because they can see we're really committed to those markets. In terms of on the BPA side on the Pearl Scheme. So, that's basically a dialog we have with the board of trustees of that pension scheme, but they are keen to go the whole way and to buy the whole business out. We are committed to do that by the end of 2023. And so if we want, we can have a significant influence but not totally control that timing. And obviously we went to them when we saw the BPA market was quieter in the first half. They were happy to accelerate the next GBP1 billion, which is what we completed in July. So we can influence the timing of that, but we need to agree things with the trustees. Rakesh, do you want to pick up the flows position?

A - Rakesh Thakrar {BIO 20549114 <GO>}

Yes. So the flows in the first half, Andy, as mentioned in my script was primarily due to people deferring their decision that they took a couple of years ago that is actually coming through now and that was based on our legacy proposition that was -- as we know, was under invested in previously. We are doing a lot of work now on trying to reverse those net flows and it will take time, but what's really pleasing is that you can see the fruits of that coming through now. The fact that our gross inflows are actually going up year-on-year, you can see the benefit of having that Heritage and Open business together to get that cost efficiency, capital efficiency, and scale to actually improve our pricing on that basis. We've got the brand now and investment in brand will allow us to also further enhance that proposition and we are continuing to improve our proposition in this space anyway as you've recently seen the launch of the ESG default fund within our Master Trust. So a number of areas, a number of initiatives. We're investing in this proposition and it will take time, but we are seeing the fruits of it because we've had more scheme wins this year.

Q - Andrew Sinclair {BIO 17749036 <GO>}

And as far as the one-off deference outflows that came through in the first half of this year, roughly how much was that that's kind of one-off in terms of the outflows this year?

A - Rakesh Thakrar {BIO 20549114 <GO>}

So, I think roughly that was about half of it.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Perfect. Thank you very much.

A - Andy Briggs {BIO 4311809 <GO>}

I think the key point is some of those decisions those corporates made a couple of years ago before the investment we made. Since we won 17 new mandates in the first half of this year, we won one last year. I'll give you a sense of the momentum we're building in our proposition now. But we're at the early stages and there's a long way to go and we'll not get ahead of ourselves with life. But we are very confident that in the medium term we will be able to build very much a leading business here. Vicky, next question, please?

A - Victoria Hayes {BIO 21889343 <GO>}

Hi Andy. Next question is from Larissa Van Deventer from Barclays. Larissa please go ahead when you're ready.

Q - Larissa Van Deventer {BIO 21570130 <GO>}

Good morning, everybody. Three from my side as well. The first one, now that you've decided not to sell the European businesses, could you give us a sense of your strategy for Europe and also if you see more near-term opportunities in the UK or in Europe? Second question relates to the hurdles, Rakesh, that you mentioned on the dividend. You seem to be on track to meeting both of them. So, the question is how often and how aggressively will the Board review those? Is that a six monthly focus or do you take a longer-term view with respect to the change for M&A? And then on potential M&A, could you give us a sense of what you consider your deployable capital to be for potential M&A transactions, please?

A - Andy Briggs {BIO 4311809 <GO>}

Sorry, Larissa. I missed the very last bit there on M&A. Could you say that last question again?

Q - Larissa Van Deventer {BIO 21570130 <GO>}

What do you consider your deployable excess capital to be?

A - Andy Briggs {BIO 4311809 <GO>}

Right, okay. So, I will take the first and third of those and then ask Rakesh to cover the dividend side. So, basically the strategy for Europe in the shorter term is the transformation of that business. So move it from a Standard formula to a Partial Internal Model, migrate to much more modern technology, and then invest in the Standard Life brand and the propositions. And that's sort of a two, three year program of work, which are the right things to do for the business on a kind of standalone basis. But that also would then turn it into a business that would be a platform to consider potential consolidation in Europe. So, don't expect us to be doing any European M&A in the next couple of years. That's not on the agenda. We've got a lot of work to do with that European business organically if you like.

And so our focus of our M&A activity is on the UK and let me just give a bit more color around that. So, M&A remains a core part of our strategy. We are confident that's a significant driver of value. We say in the disclosures today that currently our firepower for M&A is GBP1.4 billion without raising equity and that's before you take the Ark Life proceeds of about GBP200 million. So with that, you're looking more at GBP1.6 billion. But I guess we're in a very fortunate position that there's a huge amount of value that we can create through the transition of the Standard Life business and the integration of the ReAssure business. And let me just say the GBP400 million of surplus gain from the Harmonised Internal Model, that's just one of the integration actions in practice.

And so if we were to do an M&A imminently, we would have the bandwidth at Group level to oversight the business. We would have the financial firepower to do it so we could do a deal. But we would need to leave -- the phase one integration, we'd need to leave it on the side from a phase two or phase three integration perspective. So, what I'd say is we're not desperately pounding the streets and desperately looking for the next M&A deal. If we didn't do another deal in the next year or so, I wouldn't be at all perturbed because we're in a very fortunate position that we've got lots of value we can still generate through the integration of the businesses that we have. Rakesh, do you want to pick up on the dividend side?

A - Rakesh Thakrar {BIO 20549114 <GO>}

Thank you, Andy. So Larissa, your question was around the dividend and often review of the dividend. So as you know, Larissa, we have a stable and sustainable dividend and maintaining that is the key priority for the Board and the resilience is that is paramount. And we're only going to increase the dividend if we can see and demonstrate that the business has grown and this is in addition to M&A periodic. So to the extent we do an M&A, that will be separate. This is just looking at organic growth only. And any level that we then establish as that new level will be the new stable and sustainable level going forward. There are those two conditions like I mentioned in my presentation. One was around getting long-term cash generation to greater than GBP800 million effectively proving the wedge. And secondly, the recurring sources being greater than the recurring uses. So, they are two conditions. If those two conditions are met, the Board will then consider whether it's appropriate to increase the dividend and they'll have a decision and judgment to make in that regard. And I would expect this to be an annual process depending on how we've done in that financial year.

Q - Larissa Van Deventer {BIO 21570130 <GO>}

Thank you.

A - Andy Briggs {BIO 4311809 <GO>}

Thanks, Larissa. Vicky, next question please.

A - Victoria Hayes {BIO 21889343 <GO>}

Yes. Next question comes from Farooq Hanif from Credit Suisse. Farooq, over to you. Could you please unmute yourself?

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. Hope you can hear me?

A - Andy Briggs {BIO 4311809 <GO>}

Hi Farooq. Thank you. Yes, very good.

Q - Farooq Hanif {BIO 4780978 <GO>}

Yes, great. Can you just talk a little bit more about your plans for Standard Life brand? So, is this now going to be the face of your Open business everywhere and so you'll basically migrate people from -- to use Standard Life proposition? And then on the technology, are you basically looking to replace the platform that you've basically given back to Standard Life with your own proposition? Secondly on BPAs, you're talking about quoting for 90% of the market. What about the really big deals? Would you consider kind of major reinsurance partnership to try and facilitate doing those really larger deals? And then lastly just a quick one on banks versus alpha. Looking right now unit costs now that you've got these two platform and you've been using them, which is for you the most efficient? Thank you.

A - Andy Briggs {BIO 4311809 <GO>}

Thanks, Farooq, and good to see you. So, we're actually delighted to take ownership of the Standard Life brand. And obviously the deal we did in the first half basically means that we now own all of the life and pensions business of Standard Life including the brand, the transferring across the marketing and distribution teams. So, that's fantastic. Just to reiterate, we basically do three things at Phoenix. We're the market leader in Heritage business, we're the market leader in M&A, and we're building a thriving and growing Open business. So yes, we would see over time basically that the Standard Life brand is the brand we would use in that Open business. It's a fantastic brand, it has very high awareness, very high levels of trust, a strong consumer brand, very deep heritage. So, it is exciting for us to have that. But the key for us is focusing on developing our propositions, developing the technology and therefore the service and offering for customers and for intermediaries, and building our people capability.

So, we have fantastic people already and we're bringing some fantastic hires into our Open business as well creating in my view the strongest team in the market. So, you raised specifically the advisor platform. So, our focus at the moment is on Workplace business. That's where basically there's about GBP40 billion of new money coming into the market every year. We're a Top 3 player in workplace pensions, customer savings and investments. So, view that as the individual pensions market as people look to consolidate and journey to and through retirement. And I think it's unlikely that we will try and create an advisor platform in the way that Aberdeen have. I think that's unlikely. I do think we will look to play in that market and we're currently working through and thinking through different strategies and options around how we might do that. And then obviously we've got the BPA side and Sun Life and Europe as the other parts of that Open business.

To your second question on the BPA market. The way to think about this is that we are happy to allocate GBP150 million to GBP200 million of capital and as -- I wouldn't rule out potentially doing more in due course, but right now we're happy at GBP150 million to GBP200 million of capital and we're targeting a strain of 5%. So, obviously could we end up doing a scheme at GBP2 billion? Quite possibly because that would only use GBP100 million of our GBP150 million to GBP200 million. And equally, Farooq, some ground and Sood and the team that we have in place, some of the very best people in the market in my view. They will look at things like asset reinsurance and other ways of structuring. So, I wouldn't rule out potentially doing something larger if we had some form of asset reinsurance in place. That's some of the things we're starting to think about. But early days for us and we will take a very disciplined and considered approach to BPA. We will not try and run before we can walk. We will make sure we only deploy capital at attractive returns.

Finally, in terms of banks and alpha. So first of all, we've got a huge agenda on the go. You just got to look at the slide Rakesh had of the transformation and integration activities. So, any consideration of banks and alpha is not for the next few years. We got far more value accretive things that we could do. And our view is the outlook for M&A in the UK is attractive, but there's a global theme here of insurers focusing down on core businesses; you can see it with AIG, with Prudential Group, with Aviva; you can see it everywhere. That for me is good news for us, it means there will be M&A opportunities. And the longest lead time in our M&I is the phase three of integration, which is the customer operations and IT side. So, having two strong platforms in banks and alpha is Plan A for us to accelerate the pace at which we can do M&A. If the M&A isn't forthcoming, there would be fairly material benefits in bringing those two platforms together. So, that's an option to think about. But Plan A would be to accelerate the pace at which we can do M&A by having the two platform side-by-side.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you very much. Thank you.

A - Andy Briggs {BIO 4311809 <GO>}

Thanks, Farooq. Vicky, next question please?

A - Victoria Hayes {BIO 21889343 <GO>}

Hi Andy. So, our next question is from Oliver Steel from Deutsche Bank. Oliver, could you unmute yourself and go ahead when you're ready?

Q - Oliver Steel {BIO 6068696 <GO>}

Hello. Andy Sinclair nicked most of my questions, but if I can just add a little bit of extra detail or ask for extra detail. The first is on Standard Life International, lot of the savings that you actually expect in terms of both cash savings benefit to Solvency II, and also the cost of achieving that. How does it change your long-term free cash buildup in other words? And then secondly, can you just remind us what's left of your own pension scheme in terms of liabilities?

A - Andy Briggs {BIO 4311809 <GO>}

Yes. So, I'll take the second and then ask Rakesh to pick up the first. In terms of the own pension scheme, it's a GBP3 billion scheme and we've basically done 60% of it now. So, there's 40% to go so GBP1.2 billion roughly of that pension scheme still to look at in due course. Rakesh, do you want to pickup in terms of -- because it all interlinks with the UK synergy targets as well, doesn't it?

A - Rakesh Thakrar {BIO 20549114 <GO>}

Yes. So Standard Life International, I think those two parts, Oliver, to your question about synergies, reduction, and impact on long-term free cash. So, let me just talk about the capital bit first on the partial move. So, this is really what we're doing is moving two of the modules to become Internal Model because we don't believe standard formulas are appropriate for that and those two modules will then allow us to better manage those risks going forward. There will be a modest benefit to long-term free cash in doing that because we will be able to reflect a more accurate picture of the SCR which then has a small knock-on impact to the risk margin. So, we should see an increase in that coming through into the long-term free cash. In terms of the cost synergies, I think what we want to do is make sure that once you've got it on to the platform as Andy discussed earlier, that will allow us to have a more manageable cost level. And again given it's still open to new business, I wouldn't see this as a material benefit going forward. But what it will do is allow us to ensure that our proposition in Europe is appropriately priced and can be efficiently sold.

A - Andy Briggs {BIO 4311809 <GO>}

Does that cover it, Oliver, for you?

Q - Oliver Steel {BIO 6068696 <GO>}

Is there a cost to achieving this?

A - Rakesh Thakrar {BIO 20549114 <GO>}

Certainly there will be a small cost in for the Internal Model because that we'll need to get through the process and going from a standard formula to a Partial Internal Model, you need to make sure you have all the governance et cetera in place to do that within Ireland. But again it's -- it will be pretty low compared to our -- the big Harmonised Internal Model.

Q - Oliver Steel {BIO 6068696 <GO>}

Thank you.

A - Andy Briggs {BIO 4311809 <GO>}

Thanks, Oliver, Good to see you. Vicky, next question please?

A - Victoria Hayes {BIO 21889343 <GO>}

So, our next question is from Trevor Moss from Agency Partners. Trevor, would you like to unmute yourself and go ahead?

Q - Trevor Moss {BIO 1741504 <GO>}

Good morning. Andy. Good morning, Rakesh.

A - Andy Briggs {BIO 4311809 <GO>}

Good morning, Trevor. How are you?

Q - Trevor Moss {BIO 1741504 <GO>}

Yes. Very good. Thank you. Now just a few questions and without wishing to do the M&A theme to death because you had a couple of questions on that already, Andy. I guess I would say that the financial resolves of Phoenix to do M&A have probably never been better. And I thought last year both at your interims and at the CMD, you were talking quite optimistically about the prospects of deals. I sense from your commentary today that you're a little less optimistic about anything happening although you see the long-term effects of various things; market volatility, companies deconsolidating, et cetera; it doesn't sound like there's anything imminent. I wonder if that's because you were looking -- you've been looking at some deals and some deals have gone away or that there is a change in the marketplace in the way that people thinking about deals and there's a lot of deferral going on of that thinking. So, a little bit more about M&A? Second thing, I noticed that you've dropped about GBP1 billion shareholders' equity this half year, which I know -- I realize obviously that you hedge the economics, you don't hedge the IFRS balance sheet necessarily, I get that; but that's quite a lot of equity that's gone. Now that's also had an effect on your fixed leverage ratios, which would have been quite a lot better had you -- had that not happened. So, I wonder if you might talk about that a little bit? Those are the two. Thank you.

A - Andy Briggs {BIO 4311809 <GO>}

Okay. I'll get some Rakesh to handle the second. And in terms of the first. So, the first thing I'd say is my intention is no change in tone or messaging around M&A from what I said before. So if you're reading something different there, please don't. That's not the intention. We remain very positive about the outlook for M&A over the medium term and there's two drivers of that. The fact that insurance groups are generally focusing in on core businesses and I think the pandemic has accelerated people thinking about where capital is deployed and how to optimize returns on capital in different parts of their businesses. So, we would be optimistic about that. In the medium term, I think we are extremely well placed and I think your point is very well made with GBP1.4 billion of firepower. Every deal we've done in the past, we've needed to raise equity so a big slug of the value criteria goes to service that equity.

If we're able -- that GBP1.4 billion firepower we have at the moment is kind of early next to nothing on our balance sheet at the moment and therefore if we deploy that to M&A, the ability for more of that shareholders equity in the form of increased dividends is clearly much greater. So, I think that's all exciting. The bit I sort of temper is that we've got two or three years of serious heavy lifting hard work to get all the benefits out of the Standard Life transition and the ReAssure integration. And as I said earlier, just looking at the GBP400 million from the Harmonised Internal Model, these are big numbers of value creation. And therefore if we did another M&A deal, we would need to leave -- as far as the phase two finance and actuarial side is concerned and the phase three customer operations and IT, we would need to leave those set on the side for a period of time. So, we have the bandwidth at Group level. The Group level where we've integrated Phoenix and ReAssure and Standard Life together. We could oversight another subsidiary.

We have the financial firepower, but we don't feel a desperate need to pound the streets and find the next deal because if it was there, we could do it. But we need to leave it on the side for a decent period of time before we can start realizing those synergies. So, that's the nuance. The other piece I'd add, Trevor, is that I see some commentary that only big deals would move the needle. I don't see that at all. If we did a smaller deal and you can kind of do the math yourself and you think what the cash generation. If we deployed GBP0.5 billion into smaller deal, that's going to generate GBP50 million a year of incremental cash where you can take a chunk of that and divert it to more BPA. You could take the majority of it and say well, that's additional cash generation for shareholders that we can feed through in the dividend because what you're foregoing in terms of return is very low indeed on that GBP0.5 billion of cash on the Group HoldCo balance sheet. So, I think smaller deals or larger deals would be equally attractive from our perspective. Do you want to pick up on the leverage and IFRS equity side?

A - Rakesh Thakrar {BIO 20549114 <GO>}

No, absolutely. So thanks for your question, Trevor, and your question related to the fall in the shareholders' equity and really just putting some context here, Trevor. So as you know, our focus is on the cash and resilience element side. The cash generation -- dependable cash generation and that's driven from the Solvency II balance sheet. So, all our hedging strategy is there to protect that solvency position and together with the management actions that we delivered nearly GBP300 million just in the first six months of this year, that will ensure that that solvency position is protected. That will give us dividend resilience and gives us dividend resilience already of the long term, but ensures that we maintain that resilience.

And impact of that is the hedging strategy then has a potential adverse impact on our IFRS balance sheet through the rising of rates and equities as you've seen this year. But given that we can focus on the balance sheet and to ensure that our capital position remains robust and we can deliver dependable cash, the dividend is safe for all investors and we'll have surplus cash to repay debt as and when it comes due so we can ensure we can manage that leverage ratio. For example, we've just repaid in July GBP100 million of our senior debt that was coming to maturity and our Tier 3 bond is due for maturity in July of next year. So, we have a number of maturities coming up. By ensuring we protect that balance sheet, we maintain that dividend resilience and we have the cash to repay debt as it falls due to manage that leverage ratio.

A - Andy Briggs {BIO 4311809 <GO>}

Thanks, Rakesh. Thanks, Trevor. Vicky, next question?

A - Victoria Hayes {BIO 21889343 <GO>}

Yes. So next we've got Andrew Crean from Autonomous. Andrew, would you like to go ahead?

Q - Andrew Crean {BIO 16513202 <GO>}

Good morning, all.

A - Andy Briggs {BIO 4311809 <GO>}

Good morning, Andrew. How are you?

Q - Andrew Crean {BIO 16513202 <GO>}

Good morning. I'm doing good. A couple of questions like Oliver where obviously most things have been asked. But a couple of things. Down the line, the Internal Model Harmonisation of ReAssure, should we broadly -- I'm not certain but should we broadly plug in the same benefits that you have for the Standard Life harmonization so GBP0.4 billion of capital and the GBP0.1 billion of cash? And then secondly, you were talking about your Workplace business and the fact that you are seeing a number of outflows. Is there a pipeline of outflows which people have -- firms have told you about, which are likely to go into the second half and into next year, which will keep you in net outflows?

A - Andy Briggs {BIO 4311809 <GO>}

Okay. So, I'll take the second of those and get Rakesh to take the first. So, I would say we kind of -- these were schemes notified, as Rakesh said earlier, a couple of years ago and it takes a while for the money to go anyway and the pandemic delayed things. So, we're kind of through the worst of that storm if you like. And so far this year, existing schemes get reviewed on a regular basis and the team have been doing a great job this year of ensuring we retain those existing schemes as well as a big step-up in the schemes won. I mean again just to position that carefully. So, we won 17 new schemes in the first half of this year compared to one in the whole of last year. But what happens is the employee benefit consultants, the intermediaries, corporate advisers; they will tend to give you their smaller clients initially to kind of test you out. So, don't expect this to be a kind of wall of value coming from those schemes. They are generally smaller ones, but that's how it works. You win the smaller ones, you do a good job of them, and then they'll trust you with their bigger more price clients in due course. So, really pleased with the progress and the momentum that where we're building in that part of the business. Rakesh, do you want to pick up on the ReAssure Internal Model?

A - Rakesh Thakrar {BIO 20549114 <GO>}

Yes. So Andrew, to answer your question, I think the simple answer is no. And the reason for that is the fact that when we did the -- our current Harmonised Internal Model between Phoenix Life and Standard Life, it's actually bringing together a heritage business and an open business and we can diversify those risks together. They were two different businesses that helped us then in that diversification. When we bring ReAssure, the risks are very similar to what we already have with Phoenix. So, those numbers will be nowhere near than what we've seen in the expected impact for the current harmonising of the Internal Model.

Q - Andrew Crean {BIO 16513202 <GO>}

Thanks, Rakesh.

A - Andy Briggs {BIO 4311809 <GO>}

Thanks, Andrew. Good to see you. Vicky, next question please?

A - Victoria Hayes {BIO 21889343 <GO>}

Thanks, Andy. Next question is from Andrew Baker from Citi. Andrew, please go ahead.

A - Andy Briggs {BIO 4311809 <GO>}

Good morning, Andrew.

Q - Andrew Baker {BIO 20402705 <GO>}

Good morning. Hi guys. Thanks for taking my questions. So, just two from me. The first one is really a clarification on the dividend. The GBP800 million, should we look at that as sort of the hard number or is there some flexibility there? So, let's say you're close to this year being a really good line of sight into strong pipeline. Could you still increase your dividend this year or if you don't hit your GBP800 million, there's no dividend increase?

And just on the Pearl scheme, I've seen a number of insurers now transact with their own plans. Just curious as to what the sort of requirements for third-party of -- let me try that again. For the -- what am I trying to say, what the arms' length transaction is on those and the independents? Thanks.

A - Andy Briggs {BIO 4311809 <GO>}

Yes. So, again I'll take the second and first and then I'll ask Rakesh to clarify on the dividend. So, basically you kind of have an employer with a view, you have a board of trustees -- independent board of trustees with a view, and you have the insurer ourselves in this case. And all of them will take independent experts external advice and then there's a negotiation and a discussion around it. And ultimately the trustees won't agree to a transfer if they're not getting a good deal compared to what they could get in the broader market. But they recognize that the pension scheme is full of ex employees of the Phoenix Group that would probably rather have their bulk annuity and their ongoing individual annuity with the Phoenix Group because that's who they worked for. So, there is strong checks and balances within it.

I mean what actually happened in terms of the Pearl scheme is it wasn't sort of quite funded fully up to the level to do a buyout, which is why the economics of the Pearl scheme transaction last year looked less attractive than the economics of the open market BPA business. But as I said the same going for us because we would have to put the extra money in ourselves as employer anyway. But what the team have done, which is where we're building the capability of the team. So Simon True and the team got a fantastic reinsurance arrangement as they brought this extra GBP1 billion across and that's what brought the strain down from the 12% to the 6%. And that just shows the kind of capability that we're building in the BPA business and why we're optimistic about our prospects for the medium term there. Do you want to pick up on the dividend side, Rakesh?

A - Rakesh Thakrar {BIO 20549114 <GO>}

Yes. Hi, Andrew. So, I mean just to reiterate again that our policy is stable and sustainable and resilience is key. Clearly what we're trying to do is if there is organic growth and we can demonstrate that growth, then the Board will then have a decision to make on whether it's appropriate to increase the dividend. To inform that decision, we've got these two conditions. So, one is as you mentioned the GBP800 million long-term cash generation and that is effectively showing that we've proved the wedge and got the growth in the Open business to offset the run-off of the heritage. That's the line in the sand. It's not a target, it's a minimum. Clearly we want to go above that, but that's the minimum we would need. And second is whether we -- the recurring source is greater than recurring uses. So to answer your specific questions, I think we'd have to potentially look at both conditions to be met before we would consider looking to increase the dividend.

A - Andy Briggs {BIO 4311809 <GO>}

Yes. Just to add to that. I mean ultimately GBP800 million is the point at which we've replaced the run-off so we haven't grown the franchise at that point, we've replaced the run-off. So if we're not at GBP800 million, I wouldn't envisage a dividend increase because I mean ultimately we need to be above GBP800 million to have grown the franchise and therefore the increased level of dividend to be sustainable into the longer term. So, we're very confident we'll get there in time. We will be disciplined and sensible about this and in the meantime generate large amounts of resilient reliable cash generation with a very resilient balance sheet underpinning it. Vicky, next question please?

A - Victoria Hayes {BIO 21889343 <GO>}

Yes, (Operator Instructions) So, we'll now move to Gordon Aitken from RBC. Gordon, could you please go ahead and ask your question?

A - Andy Briggs {BIO 4311809 <GO>}

Good morning. Gordon. You're looking very tan there, Gordon. Have you -- is that the Scottish sun or you've been away?

Q - Gordon Aitken {BIO 3846728 <GO>}

Just been away, Andy. I would recommend it. I had a really nice time.

A - Andy Briggs {BIO 4311809 <GO>}

Very good.

Q - Gordon Aitken {BIO 3846728 <GO>}

Good to see you. Just a couple of questions for me please. Firstly, when you use reinsurance, I'm talking about any risk here that you're offloading, on average what proportion of the future expected cash flows do you keep? And secondly, really in response to Andy's question on flows when he was asking earlier, Rakesh said that the savings business was under-invested and that you've inherited. When David initially came to see you in 2010 in Standard Life, you spent a fair bit of money GBP200 million on -- you announced on these propositions, most of which now end up being yours. Is it that that investment you just need to continuously invest in these types of businesses? Thanks.

A - Andy Briggs {BIO 4311809 <GO>}

Yes. So, I'll get Rakesh to do the reinsurance one in a moment. On the Standard Life side. So for the last several years, the vast majority of the investment that Standard Life

Aberdeen made was in the Wrap platform, which they have retained as part of the deal. What we picked up is the Workplace business and the retail pensions business, they kept the Wrap platform. So, the Workplace and retail pensions business had been under-invested in over a number of years and that's what we're now well advanced in rectifying that and that's why we've got the strong pipeline of new scheme wins and we'll building the momentum in the market that we are. Just to reiterate what I said before. Buying the Standard Life brand is critical to that because the employee benefit consultants, the corporates.

First of all in a brand license agreement, you spend all your time going back and forth trying to agree things and Stephen Bird and I were very keen to just simplify that whole relationship down to who does what and it's now a strategic asset management partnership that we have rather than lots of other interactions going on at the same time. But also the employee benefit consultants, the corporate advisers, the intermediaries, the corporates; they see -- actually this Company Phoenix that they might have seen as a back book consolidator before, they are clearly deadly serious about this open business as well. And it doesn't make it any less serious about M&A or heritage, they're still critical parts of the strategy. But that's also been helpful in building momentum for us. On the reinsurance side, Rakesh?

A - Rakesh Thakrar {BIO 20549114 <GO>}

Yes. Thank you, Gordon. So, really reinsurance the pricing will depend on what exactly you're reinsuring and the type of risk. But what would normally happen say for example on BPA, any new business that we write on BPA, we're pretty much reinsuring 95%, 100% of that risk and therefore there'll be a fee charged by the reinsurer of doing that and that would effectively reduce our expected cash flows. But that's all included in our new business strain and our long-term cash generation numbers. But that just shows the importance of the work that Tom and Kunal are doing to make sure that the reinsurance structuring and the way we do the BPA deals is so important that we get the best value and help us reduce that stream and get the best returns.

Q - Gordon Aitken {BIO 3846728 <GO>}

If I could just come back from that. It's actually the question was really in relation to when you buy a business so big acquisition and what you tend to do is you announce these very large expense management actions and a lot of that is because of using additional reinsurance. And just in these situations so when you've inherited business, what proportion because clearly you have to give some of the future cash flows away to the reinsurer otherwise they wouldn't do the deal. So what proportion do you keep and what proportion do you give away?

A - Rakesh Thakrar {BIO 20549114 <GO>}

In the context of an M&A, Gordon, is that your question?

Q - Gordon Aitken {BIO 3846728 <GO>}

Yes. Just historically say on any of the big deals you've done, I mean is it 50-50, is it -- I know that you release the capital as well, which is a big positive?

A - Rakesh Thakrar {BIO 20549114 <GO>}

Yes. As an example, Gordon with the ReAssure transaction just do a live case, they were previously reinsuring before we acquired them about 30% to 40% of the longevity risk. Phoenix reinsures about 50%. So, we would then look to get ReAssure up to that 50%. The enlarged group remains at 50%. So, it just depends on where they are. But in taking longevity risk, which is our biggest reinsurance that we do, we would look to get 50% of -- we keep 30% of the risk and reinsure 50% out on that whatever we've acquired.

Q - Gordon Aitken {BIO 3846728 <GO>}

Okay. I mean the questions about future expected cash flows and what you give away?

A - Rakesh Thakrar {BIO 20549114 <GO>}

Maybe we can -- I can take that offline with you, Gordon.

Q - Gordon Aitken {BIO 3846728 <GO>}

Sure. Thank you.

A - Andy Briggs {BIO 4311809 <GO>}

The basic framework is one of by taking that action we released capital upfront. We need to be confident we can redeploy that capital to get a higher return than it was being deployed in covering that longevity risk and we wouldn't do it if we didn't. So, we're always taking a very objective financial lens to these things.

So Vicky, I'm conscious of time. Much as we love our end customers, we also love our analyst friends and they've got I think three different sets of results to get through today. So, maybe we'll take one or perhaps two final questions before we wind up.

A - Victoria Hayes {BIO 21889343 <GO>}

Yes. We've got two analyst left. And so we will go to Louise Miles from Morgan Stanley and then we will follow up with Ming. So Louise, if you could go ahead first with your question, please.

A - Andy Briggs {BIO 4311809 <GO>}

Good morning, Louise.

Q - Louise S. Miles {BIO 20765435 <GO>}

Hi. Good morning, Andy, Good morning, Rakesh. Thanks for taking my questions. Just three quick ones from me. So, you talked a little bit about the ReAssure and Part VIIs. Are these allowed for? I know they're not until 2022, 2023; but are these allowed for in your lifetime cash generation targets? And what exactly -- can you give us any idea of the magnitude of these impacts as well? That would be really helpful. You mentioned that you've done some hedging, I'm curious how much of the equity release book has been hedged and would you do any more hedging on the book as well going forwards? And then finally, just a quick question on the outlook for longevity released in the second half. Other UK life players have said they're going to be more conservative because of the uncertainties around COVID and around delayed hospital treatments and things like that. Just if we could get a bit of color on your longevity in the second half, that would be very helpful. Thanks.

A - Andy Briggs {BIO 4311809 <GO>}

All three for you, Rakesh.

A - Rakesh Thakrar {BIO 20549114 <GO>}

Okay. So, let me just talk about longevity first, Louise. So, I absolutely agree with what number of my peers have said and I think we are in a similar position. I mean we've got -- when we set our assumptions, we look at the last five years. We normally do that review and we'll continue to do the review in the second half of this year, but we will pretty much exclude what we've seen in 2020. That is not -- that devastating impact is not a true reflection and then therefore it rightly should be excluded. And similarly on the CMI 20 tables, we're going to exclude the 2020 results from that. So, we will be a conservative view. But clearly we'll look at other areas on methodologies et cetera, but not the experience that we've seen in 2020. On the ERM hedging, we've hedged about 6% roughly of our portfolio -- 6%, 7%. And really whether we do any more depends on the pricing. So if it's a good risk return and it meets our hurdle rate, then we'll absolutely do that. If not, then clearly we will keep that. But it's really good to get one done at a really efficient pricing. So, we're pleased with that and we are looking potentially to do more. In terms of the Part VII, you're talking about the Phoenix and Standard Life in there. There is some benefit already in those cash flows that we've announced and it's circa GBP100 million.

Q - Louise S. Miles {BIO 20765435 <GO>}

Thanks.

A - Andy Briggs {BIO 4311809 <GO>}

Thanks, Louise. And then Ming, last but by no means least.

Q - Ming Zhu {BIO 17001429 <GO>}

Thank you and thank you for taking my question. Just two questions. One on -- actually three questions if I may. First, dividend. Could I just have some clarification on the two conditions because it looks like to me you are on track of meeting both of them this year? So, does that mean we should be expecting a dividend increase at the full year? And second, I think Rakesh mentioned basis -- yield on annual basis. So let's say if we meet this year as I asked before in the two in dividend increase and for whatever reason if say next year you missed it, so does that mean -- what does that for dividend? Or in a year you actually both conditions as well as an M&A, what does that mean for the dividend? And my second question is on the M&A. Could you some give some color in terms of have you seen any changes in the pricing and the competition landscape with outlook where we are in terms of interest rate and inflation? And my third question is on the Standard Life. Now you've got the brand, how does this new relationship or partnership work with you and Standard Life? What stops you moving away your asset management side from Standard Life to go somewhere cheaper?

A - Andy Briggs {BIO 4311809 <GO>}

Okay. So, I'll take the second and third of those and then get Rakesh to cover the first. So on M&A, we haven't seen any particular changes in pricing or outlook. I think the biggest change is that if there were back books available in the UK, you would have had two established players Phoenix and ReAssure and now there's one because we have combined together. So, I think that's the biggest change that we've seen from that perspective. In terms of the Standard Life Brand, I mean just to be clear. Basically we own all of the life and pensions business of Standard Life now and what's left is the asset management side and it's no longer branded Standard Life. I mean there's a couple of bits that are still coming off, but they will get to a point where Standard or Standard Life won't be used by Aberdeen. We own that brand entirely. So, what we then have is our Phoenix Group and Standard Life part of the Phoenix Group having a strategic partnership with Aberdeen and they are our core strategic asset management partner.

But we are completely free to use any asset manager we choose in any asset class in any geography and I think that's a real differentiated advantage we have. I mean I spent many years in other -- over 30 years in the insurance sector across four different companies and all the others basically there was always this drive, you must give it to your in-house asset manager. We don't have that. We will choose where we think asset management partners will best deliver for our customers and for our shareholders. But having said that, Aberdeen are great and we have a fantastic strategic partnership and we do -- some of the work we're doing together on sustainability, the whole is greater than the sum of the parts. So the strategic partnership is excellent, but we're not compelled to do it. We can choose where we used to work with different asset managers. I'll get Rakesh to comment on the dividend in a moment.

I just want to reiterate something I said a little while ago though in terms of the outlook for the second half and hitting the GBP800 million of long-term new business cash. The asset-based businesses that what I call kind of flywheel businesses. So you work to get the flywheel going faster and when it goes faster, it keeps going faster and faster but it's pretty predictable. So, we could predict now quite clearly what we expect to come in in terms of long-term new business cash on the asset businesses this year. BPA is the swing factor. We would need to deploy the lion's share of the GBP150 million to GBP200 million of external capital in order to break the GBP800 million target. And in the first half we deployed GBP25 million capital externally and we are up against a bunch of competitors who are mono-lines who have been starved in the first half and are going to be hungry in the second half.

So if I take a medium-term view. I'm really confident we can break through the GBP800 million. But I do want to be really clear with everyone that we will be disciplined about this. GBP800 million isn't a target for us, it's an aspiration. Yes, the GBP1.5 billion to GBP1.6 billion in cash generation, that's a target and that's something we will take very seriously and ensure we do achieve that target. The GBP800 million is an aspiration and we will be disciplined around the allocation of capital. And if we can get there, that's fantastic and we will seek to do so. We will not deploy capital at poor returns in order to seek to try and get there. We will be disciplined about that. I'm conscious there were other aspects about the conditions over time in M&A and next year and so on. Do you want to just pick those up?

A - Rakesh Thakrar {BIO 20549114 <GO>}

Thanks, Andy. And it's a good segue because I think you answered the first part about what the potential is this year and the fact we're focusing on value over volume. But clearly we've got the two conditions mainly and if in that scenario, we were -- as a scenario that we were and we were higher than GBP800 million for the rest of the year and we saw recurring sources greater than recurring uses and the Board then made a judgment that is appropriate to increase the dividend. Then that would be a new established stable and sustainable dividend level so -- and the reason they would have done that because they would be confident that this dividend is sustainable over the long term. The new established level is sustainable over the long term. So if in the next year we weren't close to that GBP800 million, we will still remain at that new established level. And then just briefly on M&A, I think that will be dependent on M&A when it happens and I think that's a separate decision as I've already said.

A - Andy Briggs {BIO 4311809 <GO>}

Okay. Thanks so much indeed, Ming. And thank you, everyone, for your time joining us this morning. I'm conscious it's a busy result season for everybody so I appreciate you taking the time to join us. Needless to say that Andrew and Claire and the team are all available both for sell-side and buy-side, although we might get a little bit of holiday over the next couple of weeks, but available to follow-up with anyone who would like to. But for now, thank you very much indeed and we'll catch up soon. Thank you