Q1 2011 Earnings Call

Company Participants

- Andrew Moss, Group CEO
- Igal Mayer, CEO, Aviva Europe
- Mark Hodges, CEO Aviva UK
- Pat Regan, Group CFO

Other Participants

- Andrew Crean, Analyst
- Andy Hughes, Analyst
- Barrie Cornes, Analyst
- Blair Stewart, Merrill Lynch
- Duncan Russell, Analyst
- Gordon Aitken, Analyst
- Greig Paterson, Analyst
- James Pearce, Analyst
- James Shuck, Analyst
- Kevin Ryan, Analyst
- Marcus Barnard, Analyst
- Nick Holmes, Analyst
- Raghu Hariharan, Analyst
- Toby Langley, Analyst
- Tony Silverman, Analyst

Presentation

Operator

Good morning, ladies and gentlemen and welcome to the Aviva Q1 interim management statement analyst call. (Operator Instructions) I would now like to hand over to your chairperson, Chief Executive Andrew Moss. Please begin your meeting and I'll be standing by.

Andrew Moss {BIO 3628034 <GO>}

Thank you very much. Good morning, everybody. And thanks for joining us today. With me today are Pat Regan, Group CFO; Mark Hodges, Chief Executive of the UK business; and Igal Mayer, Chief Executive of the European business.

So today we've announced a good start to the year, with choices that we've taken to focus on profitability coming through clearly in this morning's numbers. In both Life and General Insurance we've made strong progress and we're on track to meet our shorter-term targets on operating capital generation, profitability and costs. And we've also seen an increase in both our IFRS and MCEV net asset values, with the MCEV now moving up to 576p.

Our General Insurance performance is the real highlight. We are seeing this business go from strength to strength and performing very well. Net written premiums are up 9% in the First Quarter to GBP2.7b. And importantly, we've achieved this growth while achieving a combined operating ratio of 97% compared to 102% in the same quarter last year.

And sales growth was particularly strong in the UK, with an increase for a fifth consecutive quarter, up 20% to GBP1.1 billion compared to Q1 last year. And we've increased motor policyholder count by 580,000 since the start of 2010, principally through direct and the RAC panel.

We are seeing continuing strong rate increases in personal motor in the UK. But also there are some early signs that the commercial rating environment is beginning to turn. We're starting to see early rate increases in commercial property following previous signs of increases in commercial and motor.

In Europe, General Insurance sales grew by 3%, with a greatly improved combined operating ratio of 95%. That's due to management action on pricing but also combined with better weather conditions in Ireland and France in the quarter.

The Canadian book saw 7% growth across both personal and commercial lines, with a 1% reduction in the combined operating ratio.

So overall, there's real momentum continuing to build across our General Insurance business and we're clearly seeing the results of the action that we've taken on pricing and all of the cost savings that we've achieved over the last three years. So with the market beginning to turn, the outlook for profitability appears encouraging.

And on top of that, I'm very pleased to announce today that we've strengthened our relationship with HSBC with our appointment as a preferred strategic partner in the UK and in Europe, an appointment that will offer significant opportunities across its Life and General Insurance business. And alongside that, we can announce that our five-year exclusive UK insurance distribution deal, the home, travel and creditor business, has been extended for a further five years through to 2016.

Now, turning to the Life business, we're seeing there the benefits of the decisions we've made to focus on more profitable business. First-quarter sales, whilst down against the same period last year, are broadly at the run rate in the second half of 2010. And we've delivered a very healthy Life new business internal rate of return, excluding Delta Lloyd, of 13.7%, well ahead of our target of 12%. And we've grown internal rates of return across all regions.

Sales in the UK, excluding the more lumpy bulk purchase annuities, were up 7%, with pension sales rising 19%, individual annuities rising 21% and protection rising 8%. Meanwhile, the bulk purchase annuity rating environment was less favorable and we therefore wrote GBP200 million or so less than in the First Quarter of last year.

The really good news, I think, is that we're writing new business in the UK now at a very healthy 16% IRR. We have implemented significant and permanent operational changes in our UK Life business and those actions are helping to generate sustainable and growing profits. And with regards to the retail distribution review, our multi-distribution approach, combined with the fact that 85% of our new business profit is unaffected by the changes, makes us confident that we're well prepared for the introduction of RDR next year.

Turning to Europe, where we've increased IRRs by 2% to 13%, the story is essentially one of a shifting mix towards more profitable products and taking some tough action to reduce sales of less profitable products.

Starting with France, there we saw a fall in sales due to a combination of general market contraction and action to increase profitability of the with-profit products. More profitable unit-linked sales through the Credit du Nord partnership increased by more than 100%.

Then let's move to Italy which, this quarter, accounts for just over 50% of the fall in sales. The decrease there is driven by the management team taking decisive action to reduce sales of the lower-margin with-profit product. And that's all been compensated to some degree by an increase in sales of the more profitable protection and unit-linked products.

Meanwhile, Ireland, Turkey and Russia all saw increased sales. And Polish pension sales fell, compensated to some degree by a healthy increase in protection and unit-linked sales in that market.

A comment on Spain. We all know that it's going through a period of transition at the moment with the consolidation and strengthening of the Cajas. Now our bancassurance contracts with the Cajas are strong and should serve us well during this period of transition. But it is having some effect on the market. Sales in the region were down 11%. But margins do continue to be strong.

We expect life sales in Europe for the first half of the year to remain relatively subdued, primarily due to the actions that we're taking on profitability. But we firmly believe that there are significant growth opportunities across our markets in the medium to long term.

And profitability in bancassurance remains strong. In our European business, for example, we achieved a life new business internal rate of return of 18% in that channel. And with over 100 existing partnerships around the world, it remains an area of opportunity for us.

In the US, we continue to focus on achieving higher profits. IRRs on new business are now 14%. And whilst index annuity sales were down, life sales were up 12% as we continue to diversify our US product mix.

And in Asia Pacific we saw an 11% growth in total life and investment sales. And IRRs continued to increase to 13%.

In summary then, I believe we made a good start to 2011 in terms of sales and profitability across all our businesses and we continue to drive excellence in General Insurance and excellence in Life Insurance. And we continue to progress our strategy to increase focus and depth in our chosen markets.

The disposal of a further 15% in Delta Lloyd generated cash proceeds of GBP381m. This is an important further step for us. It means that we can now deconsolidate Delta Lloyd, which will further simplify our disclosures and further de-risk our business.

So looking forward, I'm optimistic that Aviva will continue to make progress, both operationally and strategically this year, whilst continuing to deliver against our short-term targets.

Okay. Thank you very much for listening. We'd now be delighted to take any questions that you may have.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from the line of Gordon Aitken from Royal Bank of Canada. Please go ahead with your question.

Q - Gordon Aitken {BIO 3846728 <GO>}

Morning.

A - Andrew Moss {BIO 3628034 <GO>}

Gordon.

Q - Gordon Aitken {BIO 3846728 <GO>}

Just a question on Poland. Sales are down 26% and you mentioned this is due to pensions. I'm just wondering what particularly is driving this and how much of it is due to the changes that have been announced to the second pillar there. And also what's the outlook.

A - Andrew Moss {BIO 3628034 <GO>}

Yes. A really good question, Gordon. It's an important market for us. It's been a great success for us. And you're absolutely right, there are structural changes in the market. I'll ask Igal to comment in a little bit more detail. But essentially what we have done is really point the direct sales force really away from the pensions market where we are already very strong and more into the protection and unit-linked market. But let Igal give a little bit more detail.

A - Igal Mayer {BIO 15440055 <GO>}

Morning, Gordon. Yes. This is the, as Andrew said, the pension reforms that have happened. The key to that market, if you look at our history there, was to build scale. We did that very early on. We're the second largest pension provider in Poland with about GBP11 billion of assets under management. We made very good returns on that.

Now the focus for us, if you actually look at our historical numbers, started in early 2010, where we began to deemphasize going after new pension sales and really, as Andrew said, switched the direct sales force onto protection and unit-linked sales. And the progress has been very good. We're very pleased. The way I look at it, that franchise was originally built on driving pension sales. We took early action to essentially shift the focus towards life and protection sales. And we now have a very, very good and growing franchise in that area and you're seeing those numbers come through in the First Quarter of '11.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thank you.

A - Andrew Moss {BIO 3628034 <GO>}

Thanks, Gordon.

Operator

Our next question comes from the line of Tony Silverman from Standard & Poor's. Please go ahead with your question.

Q - Tony Silverman {BIO 2162363 <GO>}

Thank you. That's Standard & Poor's Equity Research. I just had a couple of questions, please. In UK motor insurance, you mentioned a summer initiative coming up in distributing through aggregators. And I was wondering if you could talk a bit more about that. Is that the result of any sort of -- what do you expect to happen there? Has there been any sort of successful pilot scheme -- pilot experiment or what?

The second question was we've heard from -- I suppose been a theme from a couple of competitors in Europe of European banks looking after funding ratios and such like, particularly in France and Spain. And I was wondering if you feel that may moderate at all later in the year or what the outlook might be.

And finally, the deconsolidation of Delta Lloyd, does that impact IGD surplus in any way or not? And if so, how? Thank you very much.

A - Andrew Moss {BIO 3628034 <GO>}

Thanks, Tony. Good morning. Yes, look, on the UK motor aggregator, I'll ask Mark to comment on that. Obviously we've stressed just how successful we've been with our brand strategy, gaining nearly 600,000 new customers under the Aviva brand and the RAC panel. But our ambitions don't stop there, Mark, I think it's fair to say.

A - Mark Hodges {BIO 15503226 <GO>}

Absolutely. Morning, Tony. This is all about routes to market. So you know we withdrew the Aviva brand from the aggregated sites a couple of years ago. That was around getting the economics to work for us. You know that we've introduced new pricing methodologies; we've talked about that. You know that we've got a very, very successful brand campaign running with the Aviva brand, which is helping to drive the increase in customer numbers that we're talking about today.

So really the idea of having an on-aggregator Internet-only, that, I think, is something to stress, separately branded play is all about being able to deploy the pricing expertise we have through a different route to market. And if you think about the people we're competing with in the motor market, they are multi-branders. And frankly this should just be seen as a natural extension for us as we move through to grow our business overall. I talked about growing personal life last year through brokers, through direct. This really is just a natural extension of that ambition.

A - Andrew Moss {BIO 3628034 <GO>}

Thanks, Mark. The question about liquidity and funding in the European banking market, my perception of that, Tony, is it really just depends on what banks you're dealing with. The simple fact is that some banks have more liquidity pressures than others. And look, on the whole, we work with some very, very strong banks. And I would say that if you go through the crisis period going back from late 2007 through until now, the real crunch period actually was in early 2008. And that is certainly a time when banks were putting funding their own balance sheet right at the top of their priorities. And at that point it affected insurance sales.

I think, in fairness, as we move forward, clearly there are some new liquidity pressures coming from new rules on the banks. But in general. And I think we feel relatively comfortable that it's not going to have a major impact on our sales outlook.

A - Igal Mayer {BIO 15440055 <GO>}

Yes. No specific comments on liquidity impacting the sales. Look, if I give you the two countries that you spoke about, in terms of France, the relationship with Credit du Nord is very strong. There has been some very active campaigns, you'll notice, in the press release. We've highlighted that unit-linked sales are up 123%. Overall sales from the Credit du Nord relationship are up over 25% year on year. So we're quite pleased. And our plans are for that to continue in the remainder of the year.

Spain, while sales are down from our bancassurance relationship, that is not driven by any kind of internal need by the bank. It's more a result, as you would expect, with market sales down and the economy down, that's reading through, although I am very pleased with how our partners in Spain really are able to play to their strengths and drive standalone sales, which we're seeing good and steady results from.

A - Andrew Moss {BIO 3628034 <GO>}

On the last question, Tony, I'll ask Pat to comment on the IGD and perhaps a little bit more color even on the economic capital position.

A - Pat Regan {BIO 15131018 <GO>}

Yes. Thank you, Andrew. Morning, Tony.

Q - Tony Silverman {BIO 2162363 <GO>}

Morning.

A - Pat Regan {BIO 15131018 <GO>}

The impact of the deconsolidation of the sale of 15% stake in Delta Lloyd is to improve IGD by a further approximately GBP100m. As Andrew kind of alluded to in the start, also the shape of our asset profile changes quite considerably with the deconsolidation of Delta Lloyd. We hold less, if you like, risk-seeking assets now in the rest of our Group, which we touched upon in the January presentation. So from an economic capital perspective, that means we have less risk charges. So the benefit from there is bigger even than the IGD benefit.

Q - Tony Silverman {BIO 2162363 <GO>}

But the actual deconsolidation, does that mean any surplus in Delta Lloyd is in your IGD surplus, just as a proportion of that rather than consolidating?

A - Pat Regan {BIO 15131018 <GO>}

Yes. Yes.

Q - Tony Silverman {BIO 2162363 <GO>}

Okay. That's fine. I'll come -- perhaps take it offline. Thanks.

Operator

Our next question comes from the line of James Shuck from Jefferies. Please go ahead with your question.

Q - James Shuck {BIO 3680082 <GO>}

Good morning. Thank you very much. I had a few questions, please. The first one just on the economic capital position, you very kindly gave an update in 2009 for the capital position there. But I was just wondering what the 2010 position is, please. And if you could update for Q1, then great as well.

Secondly, I'd just like to talk about your operating cash flow, because you're guiding towards operating cash flow of GBP1.5 billion for 2011. I'm just wondering, given where we are so far in the year, are you more or less confident in reaching that, given you made GBP1.7 billion in 2010?

And my final question is just on the outlook for UK commercial non-life pricing, because you make some brief comments that the property pricing is improving. Thank you.

A - Andrew Moss {BIO 3628034 <GO>}

Okay. Thanks, James. Look, I'll ask Pat to comment on the economic capital position first.

A - Pat Regan {BIO 15131018 <GO>}

Thank you, Andrew. Hi, James. We didn't plan on updating each quarter on the economic capital position. So there's no specific update on that. The only thing I would point you to is obviously part of that equation is the available capital, which you largely start with your MCEV base. So as we noted in here, we grew MCEV net asset value by 30p. So that obviously is kind of directionally helpful. But no specific update, if you like, on the economic capital position.

A - Andrew Moss {BIO 3628034 <GO>}

On the operating cash flow, James, I think we said back in March at the time of the prelims that it was too early to give further guidance. I still think that's the case. You're right, we've had a strong start to the year. That's good. But I think it'll be at the half year when we would feel comfortable to give a more material update in terms of our outlook on that front.

On the UK commercial side, you're absolutely right, we are signaling that after actually still quite a quiet First Quarter, just in recent weeks we have started to see something a little bit more meaningful. But let Mark comment in a bit more detail on that.

A - Mark Hodges {BIO 15503226 <GO>}

Yes. Morning, James. I think classically we see the personal motor market harden. We're seeing the commercial motor market harden and now, as you see in the numbers, in terms of 10% increases year on year, as Andrew said, in quarter one it was low single digit. In terms of commercial property and liability, there are certain specialist lines where we're starting to see some more rate moving. And literally, it is literally over the past month or so, we're starting to see a little more coming through on the core property and liability book.

Now we've got a very high-quality book, as you know. We went through a process of cleansing that book through 2009. Our retention rates are very high. Overall the profitability is okay. But we're just starting to see, we think, the very first signs of rates hardening a little more. We frankly think the market needs that. We're taking a very disciplined approach to underwriting, as we always do. And I'm encouraged by that position.

Q - James Shuck {BIO 3680082 <GO>}

Okay. Can I just return quickly to the economic capital position? I appreciate you're not going to update that quarterly. But 2009 is a long time away -- sorry, a long time ago. And the guidance you give on the MCEV is helpful. But when would you actually be in a position to give us a more up-to-date economic view, particularly in the wake of the deconsolidation of Delta Lloyd? Is H1 reasonable to expect that?

A - Andrew Moss {BIO 3628034 <GO>}

Yes.

Q - James Shuck {BIO 3680082 <GO>}

Thank you.

A - Andrew Moss {BIO 3628034 <GO>}

Okay, James. Pleasure.

Operator

Our next question comes from the line of Andrew Crean from Autonomous. Please go ahead with your question.

Q - Andrew Crean {BIO 16513202 <GO>}

Good morning, all. A couple of questions. One, I just wanted to explore a bit more on the improvement in the combined ratio from 102 to 97 in the First Quarter. I think there were GBP71 million of weather losses in the first half of last. I just wonder -- I assume those are all largely First Quarter. I wonder whether you could give us the weather impact in this quarter.

And I suppose related to that question, you were 97 at the half year last year, which implies that the Second Quarter was about 92. And that is with -- and the improvement this year you're saying is with lower reserve releases. Is that the sort of pattern you tend to get between First Quarter and Second Quarter, a 10-point difference between First Quarter and Second Quarter? That's one question.

Second question is really just looking at some of your key bancassurance deals in both Spain and Italy, as to whether some of these are coming up for renewal. The ones which were written 10 years ago, were they done on a 10-year platform and whether they need renegotiation.

A - Andrew Moss {BIO 3628034 <GO>}

Okay, Andrew. Thank you very much. Yes, look, on the general insurance side, you're quite right. In the First Quarter of last year, particularly in Europe, we saw some significant weather losses, primarily in France and in Ireland. So it's obviously, as you can see, a 16-

point improvement in the European combined operating ratio Q1 2010 versus Q1 2011. So it's good to see that real profit flowing through.

In essence I think we believe that the First Quarter, both in Europe and in the UK was probably a little bit more benign than we would have expected. So that helps. That's a great start for the year in the business.

In terms of the run rate, Pat, coming through into the Second Quarter, would we regard Q2 2010 as normal?

A - Pat Regan {BIO 15131018 <GO>}

I think broadly there's nothing out of the ordinary in that quarter. So the answer's probably yes, Andrew. So if that helps you in terms of what your expectations might be, I don't think we'd be misleading if we gave that message.

Q - Andrew Crean {BIO 16513202 <GO>}

Just on that. So what were the weather losses in the First Quarter this year?

A - Andrew Moss {BIO 3628034 <GO>}

Minimal. Minimal.

Q - Andrew Crean {BIO 16513202 <GO>}

So naught?

A - Andrew Moss {BIO 3628034 <GO>}

It's not a number that we would point out. Mark, do you want to comment on the UK?

A - Mark Hodges {BIO 15503226 <GO>}

No. Andrew, morning. It's -- there is always weather. It's, in the UK context, it's January, February and March. But it's much, much, much more in line with our normal expectations, maybe a little below. But much closer to what you would see is a long-term average over the years, as opposed to last year, as you know, when in the UK context it was somewhat worse.

Q - Andrew Crean {BIO 16513202 <GO>}

It was GBP20 million in weather in the First Quarter, first half.

A - Mark Hodges {BIO 15503226 <GO>}

Yes. That was the half-year number. So there's always potentially a little bit of -- some of this comes down to what we allow for in terms of our pricing and in terms of our view a long-term average. But the GBP20 million number was a half-year number for the UK.

A - Andrew Moss {BIO 3628034 <GO>}

Igal, do you want to comment on Europe?

A - Igal Mayer {BIO 15440055 <GO>}

Yes, Andrew, in Europe, just in the First Quarter results you're seeing about 10 to 12percentage points improvement from the weather, which is the two events, France and Ireland. So you can assume somewhere around 4 to 5percentage points is the pure improvement in year-on-year underwriting due to both actions on rates and portfolio.

Q - Andrew Crean {BIO 16513202 <GO>}

Great. Thanks.

A - Andrew Moss {BIO 3628034 <GO>}

On the bancassurance deals, there again I'll let Igal comment in more detail on that.

A - Igal Mayer {BIO 15440055 <GO>}

Yes. I think -- let's take the two pensions that you spoke about. In Spain, those are essentially perpetual agreements. Now, as you know, Andrew. And you've commented on in your notes, with the Caja recapitalization process that are taking place right now, we are staying very close to our partners. I don't have any new information to disclose today. But obviously what happens in Spain will be contingent on the restructuring efforts and the various mergers. We're very confident that our agreements give us very good protection. And our goal is to, broadly speaking, end up with the same kind of distribution we have today.

Italy, it is deal by deal. There is nothing imminent coming up for renewal. We did renew a major agreement over the last nine months and that's really the only comment I have about Italy.

Q - Andrew Crean {BIO 16513202 <GO>}

Great. Thanks very much.

A - Andrew Moss {BIO 3628034 <GO>}

Thanks, Andrew.

Operator

Our next question comes from the line of Andy Hughes from Exane BNP. Please go ahead with your question.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi, guys. A couple of questions, if I could. First one, could you update on the disposal program, because I can't find any mention of how things are going or whether actually we should expect anything imminently in regard to the non-core operations.

Second question was on the UK motor growth and the direct pricing, is anyone else doing that direct pricing or has anyone else followed you since?

And the growth that's happened in the UK motor stuff, this is all post the Experian system being pulled, just to double check that. Thank you.

A - Andrew Moss {BIO 3628034 <GO>}

Thanks, Andy. No. There is no new news on disposals today. Obviously the feature of the First Quarter on that was the 15% reduction in the Delta Lloyd holding. So that, in strategic terms, I think that was the key event during the quarter. We remain focused on executing the strategy that we talked about in November of last year. And we'll update just as soon as we can if and when we have meaningful things to say.

On the UK motor growth and direct pricing, I'll let Mark come in on that one.

A - Mark Hodges {BIO 15503226 <GO>}

Yes. Morning, Andy. You remember I talked about this a little bit last November, when I said that we were taking the Aviva risk index, which was our pricing methodology we'd been using in the direct book, into the personal life broker market. You'll see that we're very pleased with the growth. There's been a 60% increase year on year as we've rolled that our increasingly to personal life brokers. It shows that there are personal life customers who still want to work with a broker. And I think there is a bit more room for growth through that channel to come.

And in terms of what others are doing, I can't really comment, to be honest. It's obviously our focus is on our capability, developing our pricing methodologies and making sure that we are selecting the risks that we think are the most appropriate to write. So we're happy we're doing that. And you can see that coming through in the combined ratio performance, not just in the First Quarter but through the back half of last year. And the overall performance of the business, I think that's a good market for us to continue to grow into.

Q - Andy Hughes {BIO 15036395 <GO>}

And on the Experian system, was that pulled, well, before -- because obviously your direct pricing allows you to review things faster possibly than some of the competition. All this growth has happened after that system. There's no possible exposure there to any RFT investigation?

A - Mark Hodges {BIO 15503226 <GO>}

Andy, I'm afraid I'll have to take that one offline. I don't know what -- when you're referring to the Experian system, what --?

Q - Andy Hughes {BIO 15036395 <GO>}

The IT system, the one that gave you the -- what was it called? First Look or something or First -- I can't remember what it was called. But the system that gave you the algorithms behind the motor rates before they came live.

A - Mark Hodges {BIO 15503226 <GO>}

Why don't we take that one offline and have a detailed conversation?

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. Thanks.

A - Andrew Moss {BIO 3628034 <GO>}

Thanks, Andy.

Q - Andy Hughes {BIO 15036395 <GO>}

Thanks.

Operator

Our next question comes from the line of Greig Paterson from KBW. Please go ahead with your question.

Q - Greig Paterson

Hi. Good morning. Had the name changed. Three questions. Igal, one's for Igal. I got some sort of feedback from the market that when you arrived you put all product development on hold in the European business. That's not a surprising action and we can see the impacts on the sales. But I was wondering where you are within that process. And does -- will we see -- initial thoughts, any change in strategy versus what the previous CEO was focusing on? That's question one.

The second one is that I see your UK annuities on the individual side are up 20-odd %. When you look at the entire peer group, they went down. Your strategy on focusing on higher margin. And you book these annuities as lower margin in your Group margin, I was wondering, it seems a little bit inconsistent, was actually pushing a low-margin product quite aggressively with pricing. I was wondering how that fitted into the strategy.

Then the third thing, I see there's no mention, you usually don't mention it. But with the net flows and/or surrenders on covered business, I'm wondering if you can give us an idea whether flows are positive and how surrender experience is tying in with -- assumed in your embedded value basis.

A - Andrew Moss {BIO 3628034 <GO>}

Okay. Look, thanks for those, Greig. And the first one obviously is pointed at Igal. So I'll let him come in. But what would you like to say on that?

A - Igal Mayer {BIO 15440055 <GO>}

Yes. Greig, just that you do know me. You know this is an area that I absolutely focus on in terms of insurance excellence. So absolutely we're looking at our product area. And I'm looking at beefing up the capability there. That's the bottom line.

Q - Greig Paterson

Have you got any idea when you'll start -- restart the product development process?

A - Igal Mayer {BIO 15440055 <GO>}

It never stopped. So let's be clear on it never stopped. What I'm trying to do is actually get some more -- there's a couple of areas that I'm not pleased with that I think we can strengthen when we do our assessment across markets. You wouldn't be surprised by it. If you look at the big markets, take our business in France, very, very strong product capability there, nothing to worry about or touch.

But as I kind of go through the portfolio, if I, by contrast, take a country like Turkey, I think there's a great opportunity for us, through the resources that we have in our larger markets, whether it's the UK, France or the US, that we can grab some of the very capable people that we have and infuse them into a smaller country like Turkey and see some real meaningful leaps. So that's the kind of stuff that's going on.

Q - Greig Paterson

So there's no change in -- you know you did a quite a unique remuneration structure that was rolled out in -- a sales remuneration structure was rolled out in Europe. It's business as usual. But --.

A - Igal Mayer {BIO 15440055 <GO>}

It's business as usual. And it's yielding the kind of results that we want. Again, if you kind of look at the shift in mix that we've seen. And we can go into some of the detailed examples, if you like. But there's no doubt that in terms of our direct sales force and even some of our banking relationships that we have changed incentives to really get the sales force moving business in the kind of mix direction that we want to see.

A - Andrew Moss {BIO 3628034 <GO>}

Yes. I think, Greig, on the whole, Igal, as always, has hit the ground running in terms of taking over the region. And certainly I've been looking for cleaner, clearer execution. And I'm really pleased with progress that we've made in the First Quarter.

But I think we will take some time at the half year to give a little more of an update when, I think, Igal's thoughts around other things that we can do, update on things like the

Quantum Leap program. That will be the right time for us to do that. So please watch out for that one.

On UK annuities, yes, you're right. I think we have performed well against the competition. On the margin point, Pat, do you want to comment on that, or Mark?

A - Pat Regan {BIO 15131018 <GO>}

Yes. I'm happy to pick that up. Morning, Greig. The 21% increase in individual annuities compares I think well to the market. The point you made around margins and IRR, this is a higher than the average in the book margin in IRR product. So we've been driving, as you know, for some time, I think, better pricing, better segmentation. We're able to process this new business whilst reducing our costs overall in the business. So we're becoming more efficient, which helps.

And if you look at the average margin on the annuity product and the IRR, it's certainly, even when I disclosed the numbers last November, they are better than the portfolio average. So we're growing into a business that's giving us very good returns. And I think that's something we're confident we can continue because we are competitive.

Q - Greig Paterson

So just to confirm, are you saying that the MCEV margin on annuities is higher than the 2.7%?

A - Pat Regan {BIO 15131018 <GO>}

The 3.7% UK average margin annuity business is performing better than that. I think last November I'm sure I reported something around 6% in terms of MCEV margin on that.

Q - Greig Paterson

I'll have to read, because I can't read them so I'm just looking at the history. I know you don't -- I'll take that offline. I need to chat to you about that then.

A - Andrew Moss {BIO 3628034 <GO>}

Okay. Thanks, Greig. Net flows, Pat?

A - Pat Regan {BIO 15131018 <GO>}

Yes. What we'll do is obviously we published for the first time the -- at the year end the full net flows picture across each of the business units. We'll repeat that at the half year as we've got all the update on that. No particularly new news on that, Greig. We said. And Mark talked about it, in the UK we'll see a little bit of an outflow in the with-profits business from those old endowment policies. So we'll see a little bit of that. Then generally good news on the non-profit business and no new news particularly on that lapse rates.

Q - Greig Paterson

All right thank you.

A - Andrew Moss {BIO 3628034 <GO>}

Thank you, Greig.

Operator

Our next question comes from the line of Barrie Cornes from Panmure. Please go ahead with your question.

Q - Barrie Cornes {BIO 2389115 <GO>}

Morning, everybody. I've just got three questions if I may. First of all in respect of the UK rate increases in Motor, I just wonder what impact it's having on propensity to acquire motor insurance and also impact on frequency and quantum of claims. That's the first question.

Second one, in respect of insurance brokers, they seem to be putting pressure on insurers to increase commission. I just wonder whether or not you're seeing that, particularly in Commercial.

And the last question, I think going back to Andy Hughes's question about the disposal program, just wondered if you could give us some more color on that. And in particular whether or not there's any movement in respect to the RAC in the UK please.

A - Andrew Moss {BIO 3628034 <GO>}

Okay, Barrie, thanks. UK Motor we are going into what we think is a strong market. Mark. So --

A - Mark Hodges {BIO 15503226 <GO>}

Yes. I mean there's not much more to say at this stage, Barrie. There's no new news on things like claims frequencies or severity. Again I gave an update in November about the work we've been doing to pick up trends, specifically the bodily injury trends. You know that had an impact on volumes in 2009. We were out of the starting gate early in terms of rate increases in 2009. Followed that up in '10. And '11, obviously, those are earning through now, those rate increases which will help the combined ratio as we go into this year. But there's no new news on the claims front to mention.

And to pick up the second question on Commercial commission increases, well again, you'll remember in 2009 we took some very tough action around unprofitable schemes, around business where the commission rates in our view were too high. We are holding the line around that. We're not paying. There are always commercial arrangements we'll enter into with people if it's high quality business. But across the board we're not seeing big upward pressure on commission rates. Certainly if there were, we would resist it anyway.

Q - Barrie Cornes {BIO 2389115 <GO>}

Okay. Thanks.

A - Andrew Moss {BIO 3628034 <GO>}

I think the macro point there as well, Barrie, is if you look at the cyclical movements over the last few years, we are actually pretty happy with the way that we've approached it. Inasmuch as back in '08, '09 it did contract at a time when markets, particularly in Commercial, were difficult before the Motor had started to move. And we have, I think very successfully, I think the team's done a fantastic job of growing the book back into the strength in the market. And I think our timing has been good, I have to say. And I really want to see that momentum continuing. And the policy counts on the Motor side are up nearly 600,000 in 15 months, I think that's a fantastic performance for us in the UK market. So I think we've been doing that at the right time, at the right price. So I'm really pleased with that. And what I want to see, obviously, is the same thing happening in Commercial now. And that's where I think the teams have to focus.

On the other question, on disposals you mentioned the RAC. There has been a lot of press speculation over the course of the last few weeks on the RAC. We have not commented on that. We don't believe it's in the interests of our shareholders for us to comment on it. So I'm really not going to add to anything on that today.

Q - Barrie Cornes {BIO 2389115 <GO>}

Okay. Thanks.

Operator

The next question comes from the line of Blair Stewart from Merrill Lynch. Please go ahead with your question.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. Good morning.

A - Andrew Moss {BIO 3628034 <GO>}

Hi, Blair.

Q - Blair Stewart {BIO 4191309 <GO>}

A couple of points there to pick up after all the other ones you've had already. Just on Non-Life, your expectations there for premium growth there stretching into the full year, I think, in the UK in particular, the Q1 comparison was very weak. So what should we be expecting by way of underlying run rate there?

The second question is rather dull. But just looking at the IGD, it was down against the net asset values, which were flat to up, adjusting for dividend. So the question is what is hitting the IGD that's not hitting the NAVs, both on an IFRS and EV basis.

And thirdly, maybe just give you a chance to talk about the HSBC deal today and how significant do you think that is. Thank you.

A - Andrew Moss {BIO 3628034 <GO>}

Thanks, Blair. Non-Life premium growth, Mark? Okay?

A - Mark Hodges {BIO 15503226 <GO>}

Yes. I think, Blair, we've grown in the UK book five quarters running now. We talked already this morning about a number of the reasons for that in terms of the direct motor pricing and advertising, in terms of the RAC panel, in terms of the rollout of the pricing to brokers. I expect those to continue to deliver profitable volume growth.

We talked a little bit about Commercial rating. Any hardening there will improve our position. Also. And it says in here, our position in the broker market it's actually a core strength of ours, working with brokers in the UK market. And we are very, very active and energetic in generating profitable new business in that line too.

Mentioned the low-cost model around and into their only [ph] offering. That will give us, not huge numbers this year. But as we go through this year, next year some ability to grow.

We haven't talked this morning about corporate risk solutions. That's a business we consistently said we'll grow slowly and profitably as we build up the capability. And last year in Q1 we wrote around GBP10 million of business. This Q1 we've written around GBP20m. So it's still steady, progressive -- steady growth in the book.

So all of these things I think we point to and say that yes, we can maintain that momentum and keep growing the book as we go through the rest of this year, with the proviso that, of course, we've very disciplined, as you know. And we are very focused on growing the bottom line as well as the top line.

A - Andrew Moss {BIO 3628034 <GO>}

Thanks, Mark. IGD, don't apologize for that. It's not boring. Pat?

A - Pat Regan {BIO 15131018 <GO>}

I knew it was going to be my question when you said it was dull. In terms of the movement versus MCEV, let me start there, the movement versus IFRS now isn't too big. On MCEV, we obviously had some value of new business positively that helped drive that forward and also some positive market movements, particularly in places like the US, where there was some positive increase in net asset value which flows into MCEV but doesn't flow through to the IGD calculation. Then probably the only other thing worth mentioning is, it's almost in the rounding, is on pension contributions that impact IGD that don't impact IFRS. But they're really your main items.

A - Andrew Moss {BIO 3628034 <GO>}

Lastly there on HSBC, thank you for asking that question. This is an important development for us. First of all the renewal of the UK general insurance deal to 2016 is just fundamentally good news. And it continues, I think, our very, very strong position in bancassurance here in the UK.

But the preferred partner status is broader than that. The way HSBC have been approaching it. And I know this is not top of the list in terms of their strategy. But they do make a lot of money from insurance. And their distribution power across their many, many branches across the world is clearly very, very strong. What this does is give us the opportunity to look at further businesses in their European operations, whether that be France, or whether that be Turkey. But we still have to compete hard to win that business. But it gives us the opportunity to do that. So I'm very, very optimistic about that, very, very pleased to have gone through what was a very rigorous process to reach that preferred partner status. And it gives us opportunities, Mark, that we haven't seen for awhile?

A - Mark Hodges {BIO 15503226 <GO>}

Yes, I think anything like that -- thanks, Andy. The only thing I'd add, Blair is -- this is both across Life and Non-Life. So although in the UK we've just renewed the Non-Life deal, it means we can talk to HSBC about Life opportunities as well. As I've stressed before and we've stressed before, bancassurance distribution is very, very important to us and something we're very good at.

Q - Blair Stewart {BIO 4191309 <GO>}

Can I just follow up and ask what proportion of sales is HSBC accounting for at the moment?

A - Andrew Moss {BIO 3628034 <GO>}

Mark, do you want to comment on that?

A - Mark Hodges {BIO 15503226 <GO>}

We haven't disclosed the separate sales line for HSBC in terms of premium. I mean it's a significant deal in terms of home. But frankly, in terms of the detail, that's something probably best between us and them.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you.

A - Mark Hodges {BIO 15503226 <GO>}

Thanks, Blair.

A - Andrew Moss {BIO 3628034 <GO>}

Thank you, Blair.

Operator

The next question comes from the line of Kevin Ryan from Investec. Please go ahead with your question.

Q - Kevin Ryan {BIO 1814771 <GO>}

Morning. I was just wondering, you sound very confident on the build-up of the Non-Life business, particularly in the UK. And I was wondering when we can expect a revision of the combined operating ratio target.

A - Andrew Moss {BIO 3628034 <GO>}

Good question, Kevin. The reality is we had revised it a few months ago down to 97%. So obviously that was progress. So right now I don't think we have any plans to change the target. But what the team is really focused on is to outperforming against the target. And I think we've had a great start to the year in that respect. So all of our efforts will continue to go into that through this year.

Q - Kevin Ryan {BIO 1814771 <GO>}

All right. Thanks.

Operator

The next question comes from the line of Nick Holmes from Nomura. Please go ahead with your question.

Q - Nick Holmes {BIO 3387435 <GO>}

Good morning, just a couple of questions. First one is on the US, just wondered if you could give us a bit more color on the US strategy, in particular, what's your appetite for indexed annuity sales.

Then secondly, on Solvency II, what are your thoughts about the Commission's latest thinking on the illiquidity premium. I think there's been some new stuff out there and it will be very interesting if you've had a look at it. Thank you.

A - Andrew Moss {BIO 3628034 <GO>}

Thank you, Nick. Morning. On the US, particularly on the annuity side in your question, yes, we continue to price for profit. And so -- the market's down a bit on that side anyway. It's got a little bit more competitive in the First Quarter, that's had a little bit of an effect on the sales numbers as well. But the profitability of the business, with IRRs at 14%, the new business is still very good. So we expect profits to improve further in the first half of this year. The existing book is seeing very good persistency. And of course that's re-priced too over the course of the last year.

So I think the outlook for profitability in the business is still encouraging. And we'll continue to react tactically to changes in the market as we go through this year, with a view to making sure that we get what we regard as a decent share of new business in that market. But still with an eye to profitability, right in line with the strategic statement that we made back in November last year.

On Solvency II, you're right, there is some further thinking in the course of the last few weeks and months around illiquidity premium or matching premium, which is sort of an alternative idea which is being considered at the moment. Pat, do you want to comment on that?

A - Pat Regan {BIO 15131018 <GO>}

Yes. Thank you, Andrew. Hi, Nick. We're certainly in an interesting phase of Solvency II. The industry has, as you all know, put forward quite a strong, I think, provocation to the Commission a few weeks ago to say there were a number of these key issues that needed to be dealt with. I think the positive element is we have seen some response from the Commission, both in terms of specific working parties. But also the matching premium concept they've come up with which, depending on how the final details are ironed out, should be good, certainly for the UK industry.

I think a part of the key to that though is not instead of illiquidity premium, it's as well as a illiquidity premium. And I think the conversation around that is developing okay. But there is still quite a bit of detail to work out, both on how a matching premium exactly works and for what assets. But also alongside illiquidity premium as well.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. So just to clarify, you actually think it would probably be positive for the UK? I'm interested in that just because some Continental European insurers have expressed concern about it.

A - Pat Regan {BIO 15131018 <GO>}

Yes. That's why they've expressed concern about it. But yes, it a concept that works well for a UK annuity-style book.

Q - Nick Holmes {BIO 3387435 <GO>}

Yes.

A - Andrew Moss {BIO 3628034 <GO>}

I think the issue there though, Nick, as well is that's why maintaining both a liquidity premia and the matching premium concept is important because whilst it might work well for UK annuities, the fact is that whilst UK annuities as part of our sales, well, it's, I don't know, between 5% and 10%, absolutely maximum of our total sales, for some of our UK competitors clearly it's very much more than that. So it becomes almost an all-consuming interest as regards Solvency II. We have a much more pan-European interest.

And therefore, I think, seeing both the matching premium and the illiquidity premium, as it was previously set out, giving companies choices as to which way they'd like to go is, what we like to see. That will work for our business, it will work for the industry more broadly in Europe. And we think that will be a constructive outcome.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Thank you very much.

A - Andrew Moss {BIO 3628034 <GO>}

Thank you.

A - Pat Regan {BIO 15131018 <GO>}

Thank you.

Operator

Our next question comes from the line of Raghu Hariharan from Citi. Please go ahead with your question.

Q - Raghu Hariharan {BIO 15133573 <GO>}

Hello. Morning, everyone.

A - Andrew Moss {BIO 3628034 <GO>}

Hi. Raghu.

Q - Raghu Hariharan {BIO 15133573 <GO>}

Raghu from Citi. I just had three questions if I may please. The first one was just on the accounting impact of consolidation of Delta Lloyd, because in your press release you were saying there is a 9p impact because of the change in the constituents of the ECB AAA Curve. So that's in addition, I guess, to the 7% impact which you had quantified at the time of the Delta Lloyd share sale on the balance sheet. I was just wondering in terms of the P&L, if you look at net income, I remember there being a significant contribution from movements in the ECB AAA curve in a net income loss there. I was wondering at a half-year stage would you be restating your last year's numbers because this would be de-consolidated. So just some guidance on that would be appreciated.

The second one was on this deleveraging point where you're saying you're still committed to reducing your debt. I see your IGD has gone down a bit I guess because of the dividend. I was just wondering where is your thinking about how you'd fund the IGD, or the maturity of the debt I guess. Is your idea still that it would come from retained earnings? I think it's about GBP430 million every year.

The last one was on your appetite for AXXX in the US. I see some commentary around FSA recalibrating how it impacts your IGD. I was wondering if that changes your appetite for AXXX and how that affects your capital generation target in the US. And around sales and around new business strain. Thank you.

A - Andrew Moss {BIO 3628034 <GO>}

Thanks very much, Raghu. I think those really fall squarely on Mr. Regan.

A - Pat Regan {BIO 15131018 <GO>}

Hello, Raghu. In terms of Delta Lloyd, you're right in all of your assertions in the sense that we did have a positive impact on investment variances from the movements in the Delta Lloyd sale last year. What that did is increase the net assets of Delta Lloyd; that subsequently fell post March 31. As that decreased its net assets, that then correspondingly reduces the loss on sale. So the loss on sale was struck as of net assets at December 31. So any decrease in that obviously has a corresponding reduction in the loss on sale. So therefore it's not doubled up. It just comes out of one pocket into another.

In terms of what we'll do at the half year, I think we'll just report as it is really. So up until the date of sale, any movement in the DL curve will fall as investment variance -- as a negative this year. Then that will correspondingly, as I say, reduce the loss on sale.

There's no new news in terms of the debt maturity. Our plans are very much as we talked about before. So we feel confident, as we've stated here, around our operating capital generation. We feel confident, obviously, about the underlying profitability of the business. And therefore in the core plan in terms of the -- refinancing half the maturities and then repaying half the maturities over that three year period out of organic cash and profit generation, is as we stated before.

Q - Raghu Hariharan {BIO 15133573 <GO>}

Okay.

A - Andrew Moss {BIO 3628034 <GO>}

In terms of the AXXX structure, you're quite right. The FSA came out with new rules this year. As we noted in the release, what we've done is adjust the structure of our existing AXXX such that they now comply with new FSA rules. And now accounts again within our IGD balance. So we can still do it. There is still a couple of ways that you can adjust them to adjust within the new FSA rules. So they still form an important part of our capital structure, both in the US and at the Group level.

Q - Raghu Hariharan {BIO 15133573 <GO>}

But going forward it should not affect new business strain in the US, because I know that helped your new business strain, especially in Life sales.

A - Pat Regan {BIO 15131018 <GO>}

You have to structure things in a different way. But no, it doesn't affect our core Life operations in the US.

Q - Raghu Hariharan {BIO 15133573 <GO>}

Okay. Thank you very much.

A - Pat Regan {BIO 15131018 <GO>}

Thank you.

Operator

Our next question comes from the line of James Pearce from UBS. Please go ahead with your question.

Q - James Pearce {BIO 16758460 <GO>}

Morning, a couple of things. First of all, Mark could you talk about whether you expect the Jackson review to be implemented and what difference that would make to your business.

Second are we now at a new level of BPA sales or can we expect a snap back in Q2?

And third can you explain why you did so well in Ireland. And was the investment bond business offshore or onshore behind that?

A - Andrew Moss {BIO 3628034 <GO>}

Okay. Thanks, James. Jackson and the outlook there, Mark.

A - Mark Hodges {BIO 15503226 <GO>}

Yes, James. Good morning. I think in terms of Jackson and whether it will be implemented or not, hard one to call. I think that generally the issue of the cost of motor insurance is -- in people's minds more. There's more noise in the media around it, I think much more focused on it from a political perspective. So you would assume that something would happen.

In terms of their proposals as they were set out, it's pretty neutral. There are some savings for us in terms of after-the-event costs. But they're all potentially some small increases due to changes in general damages. It kind of nets off in the round for us. So not a big financial event as currently planned.

In terms of BPA sales, yes, it's interesting. If you look at the number of schemes we wrote in quarter one 2011, we wrote 13 schemes, which totaled GBP140 million of premium. Last year it was 10 schemes which totaled GBP344m. So there was a big differential in size of scheme year on year. I think -- I don't know whether I would say it would snap back. But the pipeline is strong. We have over 50 schemes in the pipeline that we're currently working on. We've maintained our discipline in terms of pricing. That's the key driver. If you look through 2010 it was very different quarter by quarter, the level of sales that we saw. So I'm confident that the market's there. But I'm equally, I guess, keen to assure you that we will only write business that we think is profitable.

A - Andrew Moss {BIO 3628034 <GO>}

Igal, the question on Ireland?

A - Igal Mayer {BIO 15440055 <GO>}

Yes. Two parts. Those were onshore. And as we highlighted in the press release, we did benefit from a tranche of sales. Hard to predict right now whether the market still has appetite for further tranches. So that's why we highlighted that.

If I look at the other lines of business in Ireland, despite the economy being under pressure, we are seeing -- obviously the economy's seen some modest GDP growth. And in our other lines of business we're seeing good progression, single-digit growth rates in products such as protection and unit-linked which I'm pleased with.

Q - James Pearce {BIO 16758460 <GO>}

Okay. Thanks very much.

A - Andrew Moss {BIO 3628034 <GO>}

Thanks, James.

Operator

Our next question comes from the line of Toby Langley from Barclays Capital. Please go ahead with your question.

Q - Toby Langley {BIO 15924432 <GO>}

Good morning, everybody. It's Toby Langley from Barclays Capital. I've got two questions on the GI business and one on the platform business.

The first one GI is around capital consumption. Given the growth in premiums that we've seen in the First Quarter, how should we be thinking about capital usage there? And if possible can you let us know whether it's the case that there has been net capital consumption or not or whether we're still seeing some release of capital there.

Secondly on GI, I'm wondering if you can talk around the proposed Dear CEO letter from the FSA with regard to reserving adequacy on the Non-Life side of the industry. And to perhaps comment on your sense as to whether or not you feel your reserving is sufficient to really meet FSA and your own expectations.

Then finally on platform assets, there appears to be quite a material change in the way that you account for the assets that are included as Platform assets, with the number rising from I think around GBP1 billion last year to GBP56 billion in the numbers today. Could you please talk about how you classify what does and does not go on to that platform total and how you see those assets evolving going forward?

A - Andrew Moss {BIO 3628034 <GO>}

Okay, Toby. Thank you very much for those questions. Good morning. On capital consumption, yes, I guess we are beginning to put a little bit more capital to work at what we believe are very good returns. Pat?

A - Pat Regan {BIO 15131018 <GO>}

Yes. Thanks, Toby. If you remember this time last year we talked about the fact that we've benefited by about GBP200 million on OCG from a reduction in CRR from the GI business. But we set an expectation that that this year would essentially flatten. And that's broadly what we're seeing now. Probably there's a small capital usage. But it's in the small bucket. It's broadly -- we don't get the benefit any more that we got last year, as expected.

A - Andrew Moss {BIO 3628034 <GO>}

Dear CEO letter, Mark.

A - Mark Hodges {BIO 15503226 <GO>}

Yes. In terms of reserve adequacy and reserving processes, we have said a number of times and we are very happy to re-emphasize that we're very strong on our reserving discipline. Very consistent in terms of our approach to reserving in the General Insurance book. And there's nothing in the Dear CEO letter, from our perspective, really to make us want to or need to change any of our processes. So we're very happy that we are compliant with the requirements. And that we have a very, very strong discipline from the front office in terms of claims management, through to the reserving process and then actually, as importantly, through to our pricing disciplines as well, because that's an important thing, from my perspective, in terms of generating value.

A - Andrew Moss {BIO 3628034 <GO>}

And in terms of the platform assets, I think this is some -- sort of partly to do with definition. We are making all of the back book of the UK Life business available to advisers to be able to work on it by the way of our Aviva for Advisers portal, which I think has been described as a platform. So that basically people can be writing new wrap [ph] business. But also dealing with all of the old back book in terms of pension contracts, looking at protection contracts, annuity contracts. And dealing with us once. So effectively the value, the larger, the GBP56 billion you were quoting is the value of the back book that's now available to advisors to manage online. That's key from an efficiency perspective, both for the advisors and obviously from our perspective as well.

Q - Toby Langley {BIO 15924432 <GO>}

Okay. Just coming back on the Dear CEO letter, are you sensing that it's having any impact at all -- not on yourselves clearly given your comments. But on the broader market?

A - Andrew Moss {BIO 3628034 <GO>}

To be honest, that's not something I can really comment on. As usual, very focused on our business. We have we think, as I said, a really, really top-class reserving process. It may or may not have an impact on others.

Q - Toby Langley {BIO 15924432 <GO>}

Thank you.

A - Andrew Moss {BIO 3628034 <GO>}

Thanks, Toby.

Operator

The next question comes from the line of Duncan Russell from JP Morgan. Please go ahead with your question.

Q - Duncan Russell {BIO 15944951 <GO>}

Thank you. Just one question. Could you -- you were quite specific on your comments on Commercial Property pricing increasing in recent weeks or over the last month. And could you just go into a bit more detail about why specifically that's happened so recently and what it would take for you -- for those prices to become more -- price increases to become more sustained. Thank you.

A - Andrew Moss {BIO 3628034 <GO>}

Yes. Thanks, Duncan, good question. In the UK, Mark, I'll ask you to comment.

A - Mark Hodges {BIO 15503226 <GO>}

Yes. Duncan, thanks. There's not much more actually I could say at this stage. It's a sentiment thing. We've started to see a little more coming through. That gives us reasons to be optimistic given the volume of business that we have in that market, the position that we have in that market, the strength that we have in that market.

It's too early to be absolutely certain that that won't -- that that's the start of a trend or the pace of that trend. But we're optimistic. I think most commentators in the market believe that we need to see rating increases in Commercial. We certainly believe that and we're taking a very disciplined approach to our underwriting. But at this stage there's not much more we can give in terms of specifics.

Q - Duncan Russell {BIO 15944951 <GO>}

Okay. Thank you.

A - Andrew Moss {BIO 3628034 <GO>}

Duncan, the only thing I'd add is something more of a macro comment. We make a comment in my review, that we've got no exposure to cat events in Australia, in Japan, in New Zealand in the First Quarter. My discussions with other CEOs in the industry over the course of the last six or so weeks indicate to me that even more than earnings events [ph], that's beginning to hit capital in the broader, largely global market. And we all know that over time these things can have a knock-on effect into the UK market.

So but it's early days, I think, to see whether that's going to really happen. There's some, I think, evidence of reinsurance rates starting to move through renewals coming through, in July and in the latter parts of the year. And inexorably that tends to work through into the primary market. So I think it will be an interesting three months coming up I think. But we certainly feel that having frankly, sat here for two years saying this needs to come, it's going to come, the first real evidence of it coming is now with us. But next three months will be fascinating.

Q - Duncan Russell {BIO 15944951 <GO>}

Okay. Thank you.

Operator

The next question comes from the line of Marcus Barnard from Oriel. Please go ahead with your question.

Q - Marcus Barnard {BIO 2103471 <GO>}

Yes, morning. I've got two very quick questions. Firstly on the MCEV per share you gave, could you give us some idea of what impact the change in the tax rate had on that? I'm assuming it's about 4p or 5p.

And secondly on the differential between MCEV per share and EEV per share, this was 79p at the end of the year. Can you confirm that this is about the same or if it's changed? I'm not sure why MCEV -- if there's any one-off changes to the underlying assumptions or asset values? Anyway, thanks.

A - Andrew Moss {BIO 3628034 <GO>}

Okay, Marcus. Thank you. Good morning. Pat, do you want to comment on those two?

A - Pat Regan {BIO 15131018 <GO>}

Sure. Thanks, Marcus. In terms of tax rate, it wouldn't have made much difference to MCEV at all. No underlying changes (technical difficulty) to any of the underlying assumptions. So the growth in MCEV was profits-driven, new business profits driven, the market movements, because (technical difficulty) has corrected [ph] particularly in places like the US. So it shouldn't be a great change in the differential to the EEV.

Q - Marcus Barnard {BIO 2103471 <GO>}

Okay, yes.

A - Pat Regan {BIO 15131018 <GO>}

Thank you.

A - Andrew Moss {BIO 3628034 <GO>}

Thank you.

Q - Marcus Barnard {BIO 2103471 <GO>}

And the differential between the MCEV and the EEV?

A - Pat Regan {BIO 15131018 <GO>}

We haven't published that today, Marcus. But it shouldn't be a great change in that differential.

Q - Marcus Barnard {BIO 2103471 <GO>}

Okay. Brilliant, thanks.

Operator

Our next question comes from the line of Andy Hughes from Exane BNP. Please go ahead with your question.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi, guys. Just a quick follow up question on HSBC preferred partner disclosure. Just wondering on the UK, what is the kind of preferred structure at the moment, if you were to do something on the Life side, given that you changed the RBS scheme to be 100% protection owned and not investment?

When you say preferred insurance partner does that distinguish it away from savings, or should we look at something more on the protection side if you were to do anything? Thank you.

A - Andrew Moss {BIO 3628034 <GO>}

I think in terms of structure we're not looking at a JV arrangement. It would be more a commission-based arrangement, it simply means that they have given us a preferential status in terms of opening up discussions with them. Mark?

A - Mark Hodges {BIO 15503226 <GO>}

Yes. Absolutely. So too early talk about what the new -- any new model would look like. But I think distribution as opposed to JV is a good assumption. In terms of products, it just means it opens up the whole of the UK for us. And obviously talks about Europe as well, to conversations with HSBC, which is very exciting. And I think just shows again the strength of the composite model here in the UK.

A - Andrew Moss {BIO 3628034 <GO>}

We have to work hard, Andy, to win that business. But the point is we have our foot in the door in a way which is better than our competition. It's just as simple as that. But they are -- having worked with them for a long time myself, I know that they are a demanding counterparty. And we look forward to making our credentials really clear to them in a number of different geographies.

Q - Andy Hughes {BIO 15036395 <GO>}

Yes. And there will be no competition issues with having Santander, RBS and HSBC in some markets in the UK?

A - Andrew Moss {BIO 3628034 <GO>}

No. We don't think there are. And we're very pleased with the footprint that we've got now in the bancassurance space in the UK. And we intend to continue to build it.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. Thanks very much.

A - Andrew Moss {BIO 3628034 <GO>}

Okay. Well thanks very much for listening in. We're always available and Charles is always available to answer any more questions that you've got. I think we'll bring things to a conclusion there. Thank you very much for making time. We do feel very positive about the start to the year that we've made. And we look forward to driving forward the profitability on the Life side, continuing the good progress in terms of top-line growth and profitability on the General Insurance side as well. So we look forward to talking to you again in the near future. Thank you very much, everybody.