Aviva PLC Q3 2013 Interim Management Statement Conference Call

Company Participants

- David Barral, CEO, Aviva UK & Ireland Life
- David McMillan, CEO Aviva Europe
- Jason Windsor, Chief Strategy & Development Officer
- Mark Wilson, Group CEO
- Maurice Tulloch, CEO, Aviva UK & Ireland General Insurance
- Nick Amin, Group Transformation Director
- Patrick Regan, CFO
- Unidentified Speaker, Company Representative

Other Participants

- Abid Hussain, Analyst
- Alan Devlin, Analyst
- Andrew Crean, Analyst
- Andy Hughes, Analyst
- Ashik Musaddi, Analyst
- Blair Stewart, Analyst
- Fahad Changazi, Analyst
- Gordon Aitken, Analyst
- Greig Paterson, Analyst
- Jon Hocking, Analyst

Presentation

Operator

Good day. Welcome to the Q3 results investor relations conference call. Today's conference is being recorded. There will be a question-and-answer session at the end. (Operator Instructions) At this time, I would like to turn the conference over to Mr. Mark Wilson. Please go ahead, sir.

Mark Wilson {BIO 7102576 <GO>}

Yes. Well. Good morning, everyone. Welcome and thanks for joining us on our Third Quarter call. I have a number of my senior team joining me today, of course including Pat Regan, our CFO as always. And the heads of our major business units.

So now I want to take you through the salient points of today's market update before opening up to the questions. Now over the last three quarters we have clearly made some progress. However, I am acutely aware that three satisfactory quarters do not yet constitute a trend. And I for one will judge our performance over the -- a number of years and certainly not by three quarters. Now, as a reminder, our investment thesis, which we launched in the early years, cash flow plus growth.

Now firstly on cash, we will give you a full update on remittances at the end of the year. So it's a little bit hard seeing all the movements in cash year to date. But what I can say is we've maintained the operating capital generation at GBP1.3 billion and we remain on track to deliver the GBP1.8 billion of OCG by the year end. We've also grown -- on the growth side, we've also grown value of new business, our key measure of sales year to date by 0.14%

Now expense reductions are of course another key part of our transformation and we've got very public targets on this and the performance here is in line with targets we have communicated to you. Operating expenses are 7% lower year on year and in fact these are 14% below the 2011 base line used to set this cost reduction target. Again you had the details of that at the half year.

We are on track to deliver a full GBP400 million of expense savings in 2014. So we will achieve our run-rate expense savings by the end of this year and the benefit of this will flow to shareholders even after inflation. So of course the capital a little bit deeper than that.

In addition, we are tackling integration and restructuring costs which have been unacceptably high at Aviva over the last 10 years and this will go some way towards increasing our remittance ratios. Our previous indications though of restructuring costs for the full year remained consistent. We will be within that GBP300 million to GBP400 million range.

Now turning to our business performance, you'll remember that, when I think of the businesses, I group them into three buckets. First our cash generators of the UK, France and Canada; second, our growth markets of Turkey, Poland, China and South East Asia and our turnaround businesses of Italy, Ireland, Spain and our investment arm Aviva Investors.

And now life cash generators of UK and France, value of new business, which of course is our key metric of sales, is up 5% and 33% respectively. I want to reiterate that in my view, anyone can grow sales volumes in life, insurance or general insurance for that matter. But in life insurance we are focused on the value of new business which I see as a good proxy for future cash growth. In the UK we have made some very deliberate choices. For example, we've bought out of a large scheme bulk purchase annuities and this contributed to a 5% increase in VNB despite a fall in volume.

In France, in France we did grow volume as well although that wasn't the objective. But we grew volume by 27%. The objective here was improving our margin which grew by higher percentage and the increase in France VNB was by 33%.

Now, you will continue to see us take action on our portfolio at a cell level. As you know, we're just under 50 cells, we break our business into 50 cells and we're just below that. And I see capital allocation as one of my major responsibilities and we will continue to make conscious decisions to pull capital away from some lines of business and add capital to others. I make no apologies whatsoever either (inaudible) for sales volume reductions in our unprofitable cells. Equally, we are demanding far more from our profitable cells.

Now in our growth markets, turning to that in Poland, the value of new business was up 48%, Turkey increased 40% and Asia increased 43%. Now collectively this group of businesses grew VNB by 44% and contributed 22% of Group VNB. This is up from 18% last year. Now in the discrete quarter, their contribution was actually 27%, although I wouldn't read too much into that, because there is a lot of seasonality in some of our businesses.

Now I am very conscious that once we have finished ticking off and fixing all of the balance sheet issues and turnaround issues in the business, we need to demonstrate growth. However, we will not wait until then to ensure we have appropriate avenues of growth and I think these results demonstrate satisfactory progress in this regard.

Now our final group of businesses are those in turnaround which represent only 5% of our total VNB. You will see that VNB in Spain, Italy and Ireland has reduced significantly and this continues the trend from the first half of the year. Now as I've said before, some of this is market related particularly in Spain with the bank consolidation housing market issues have affected our business. But frankly there remains a lot we can do irrespective of the microenvironment and some of our issues have nothing to do with the macro environment. And I certainly wouldn't want to use economics as an excuse.

Italy remains probably I think the most complex business and we are addressing issues of business mix, there's product suitability, there's distribution issues, there's structural issues in that business. We are adjusting those and I am very comfortable with what the team is doing.

The Irish turnaround is slightly more advanced stage but there remains much room for improvement and on the life side in that business, VNB is a paltry GBP2 million in the first nine months. We have new management in there, again I am comfortable that they're taking the right actions and next year we would expect a substantial improved result.

In GI, as I look specifically at GI, the story is one of stability. And I think we've got the stability as a result of our geographic diversification. We announced the impact of the two Canadian floods at the half year and despite these two one-in-100-year events, our Group COR is stable at 97% or just under 97% for the nine months.

Within the UK it is clear that personal lines have been under some rate pressure but this is being offset somewhat by harder commercial lines. Now we are also in the early stages of exporting some of our market-leading capabilities and predictive analytics in Canada to the rest of the Group and the recent appointments of Maurice Tulloch as CEO of the UK and Ireland GI business should help accelerate this.

We're also exploring quite substantial opportunities to digital and direct and we had some -- have some quite encouraging results in these areas and we -- obviously one of our key objectives here is also to continuously become more efficient through automation. This will be a multiyear project and we'll measure this in terms of our cost ratios.

Now turning to balance sheet, our economic capital surplus now stands at GBP8b. This is over double the level reported at start of 2012. This is despite a more conservative calibration of the pension scheme. However, the IFRS book value has declined to 273p, despite a gain on the sale of the US and some pretty decent operating profits. This decline is down to two things I suspect that you already know, ForEx, which took 8p off the NAV as the sterling appreciated against most countries and secondly, the pension fund movement have caused an 11p decline in book value as the AA spreads narrowed.

Now as you know, this movement is due to, what do I call it, the vagaries of IFRS accounting. Our pension scheme remains adequately funded and the recent movements in IFRS pension liabilities therefore have no impact on our cash flow or capital which, of course, are our key areas of growth.

Now for those of you who use MCV, now our MCV per share was pretty stable, it now stands at 437p and as you know, this gives us little credit for our GI or asset management businesses.

Now turning to the internal loan. As you know, in the first nine months, we've made more progress than we had originally anticipated assuming at the start of this year. However, I still understand it is an overhang on our stock and I want to resolve it as quickly as we can. Frankly, I want to get to the stage where we don't get any further questions on our meetings with you when we go out and meet with you.

We have completed our modeling. So that's progress and we are now going through our plans with the regulator. We are still discussing our plans. But what I can say is that we believe we have substantial non-cash means to reduce this loan. Also bear in mind, that the proceeds from the US sale have increased Group liquidity to around GBP2b.

So in summary, I'll just summarize all this and then we can turn to questions. The turnaround of Aviva is still in my view in its infancy. We have had a satisfactory few quarters. But there is certainly no room for complacency. But I think there is probably also a bit of room for some optimism. Over time, Aviva is certainly capable of delivering a great deal more and we -- in my view we still have a considerable distance to go.

And with that, I shall open up to the Q&A and I have most of our major business unit heads sitting with me and Pat and some of the team. So operator, if we can open it up to Q&A please.

Questions And Answers

Operator

(Operator Instructions) Jon Hocking, Morgan Stanley.

Q - Jon Hocking {BIO 2163183 <GO>}

Good morning, everybody. I've got two questions please. On the life side, wonder if you can comment on are there still product areas where you are not happy with the returns and you are in the process of changing the product mix where you sign the products, that's the first question.

And secondly on the internal line, can you talk about or remind us where you are happy with the group liquidity buffer. So I seem to remember the two liquidity buffers, one in AGH, one in AIL. Can you remind us what you previously said on the liquidity buffer? Thank you.

A - Mark Wilson {BIO 7102576 <GO>}

Okay, John. We can break those down to two. So last part I do, are we happy? No, frankly in terms of VNB we are only at the start of the journey, this organization has never really focused on value of new business as a key metric. Historically, we chased I think top line more than value wrong way.

And okay, we've made some progress. But there is a lot of areas that we're still a long way off. For example in Italy, we're doing some good things but clearly Italy has been a drag on VNB this year. I don't know, David, would you want to comment on it?

A - David McMillan {BIO 17298829 <GO>}

Yes. Good morning, Jin. I think if you look at both Italy and France I think the priority there is to -- we actually got reasonably good distribution in both of these markets. The priority strategically is to get both businesses selling the right product. In France, we've increased protection sales and VNB by 35% and in unit linked we've more than doubled the VNB. Italy needs to go on the same journey.

Q - Jon Hocking {BIO 2163183 <GO>}

So can I -- sorry, have you got the products in place that you want or is this something which can be rolled out over the course of the next 12, 13 months?

A - David McMillan {BIO 17298829 <GO>}

We've got the products in place. It's a question of getting our distribution to sell the right products.

Q - Jon Hocking {BIO 2163183 <GO>}

Okay.

A - Mark Wilson {BIO 7102576 <GO>}

Okay, liquidity buffer, I'm not sure what we've disclosed before, you want to comment?

A - David McMillan {BIO 17298829 <GO>}

Yes, I think you can -- well, assume, Jon, it definitely will be north of GBP1 billion that we will keep at AGH and probably a bit less than GBP1.5 billion on a kind of normalized basis. So somewhere between the two of those.

Q - Jon Hocking {BIO 2163183 <GO>}

Okay, brilliant. Thank you.

Operator

Fahad Changazi, Nomura.

Q - Fahad Changazi {BIO 15216120 <GO>}

Hello. Good morning. Two questions, one on annuities and one on the internal loan please. You're maintaining pricing discipline and we did see annuity sales down 51% in Q3. Could you just talk about the general competitive environment in annuities at the moment? And going forward, do you expect normality to resume in Q1 2014 in terms of annuity sales?

And on the internal loan, could I just confirm that GBP5.1b, you have already highlighted that is going to decrease by GBP300 million in the next three years and this additional loan cash that is over and above that and I suppose I have to ask what substantial non-cash measures actually mean. Thanks.

A - Mark Wilson {BIO 7102576 <GO>}

Sure, let's take those in turn. So on annuities, the important point to know that annuities is, we exited just about all of our bulk purchase annuity, the reason being they are just fine margin, too much capital fine margins and we couldn't get the return on equity on those. So just to be very clear, we have had a very good performance from annuities year to date which is in individual annuities we had a very strong performance and we are quite comfortable where we are.

We do monitor annuities very closely and we come in and out of the market a bit week by week in fact and go into very detailed pricing and (inaudible) come in at times and pull out of it at others but year to date I am very comfortable where annuities are. But BPI, that was a very conscious decision. We're not going to put large amounts of capital to incredibly fine margins just to get topline. My CEOs hear me talk about it a lot; I think any idiot can get topline growth. We can turn the tap on and off whatever you want. But our job is not to destroy shareholder value in our cells, our job is to make it. So that's we are on annuities.

On the internal loans, just giving a bit of color on the -- and I said before, we can do substantial non-cash. I'll give you some examples. So the most obvious example was the one we announced at half year and that was just taking the guarantees off the commercial paper. Now the whole theory here is quite simple. You have a subsidiary in AIL, if you reduce the liabilities in AIL, you reduce the capital, then you can forgive the loan. But it's not like an external loan, it's just like borrowing money from your parents. We have, at this time[ph] we have about two dozen projects going on, on this. We have progressed quite a number of these projects. It's probably fair to say that some have made a bit of more progress year to date than what we've -- what we started out at the beginning of the year on.

We've actually got, for example got some more CP we can do. We've got some things we can do with structuring with our Irish business that reduces liabilities. There's things we can do on the product liabilities. I haven't given any more disclosure on that because frankly we've got a pretty good idea of the number we can reduce it down by and -- but I am not going to be specific and so we took off each one which probably isn't as helpful as you want to be.

Q - Fahad Changazi {BIO 15216120 <GO>}

Okay. Thank you. Just on the Q1 2014 annuity outlook, any comments?

A - Mark Wilson {BIO 7102576 <GO>}

I'll pass it over to David Barral, sitting with me, what's your outlook.

A - David Barral {BIO 17035123 <GO>}

(multiple speakers) just say Q3 was particularly competitive on pricing so we maintained our pricing discipline. Those applications are already picking up again in Q4. So we -- the focus here is on maintaining the maximum value we can within the capital we're prepared to deploy at any one time. As Mark said, we can come in and out of that market as conditions allow.

A - Mark Wilson {BIO 7102576 <GO>}

Yes. We are a market leader in this market and, yes, we have a fair bit of pricing power being shown and -- but we will -- we are going to be (technical on this certainly).

Q - Fahad Changazi {BIO 15216120 <GO>}

Okay. Thank you very much.

Operator

Blair Stewart, BofA Merrill Lynch.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks very much and very good morning to you all. A few questions, just picking up on a few of the questions that have been asked actually. But firstly, could you talk a little about the VNB reduction in the UK in Q3 discrete? Just what's going on there?

In terms of the restructuring in Italy, I just wonder if you can just revisit that a little and talk about a little bit about your timing of the changes and whether in fact you think you can get the distributors to sell the type of products that you want to.

On the -- and finally on the internal loan, just again a bit of clarity around the timing and when do you expect to get agreement if that's what you need to get from the regulator and at that stage would you be prepared to put further color on the extent of the substantial reduction you expect? Thank you.

A - Mark Wilson {BIO 7102576 <GO>}

Good morning, Blair. Let`s take you to those three. So the VNB in the UK, when we signaled it pretty clearly at half year we did expect the rate of growth in the VNB in the UK to decline in the second half. This is for a number of reasons. There was some changes in the protection market where the banks withdrew on a lot of stuff but they're now coming back into it. It was pretty strong due to the European Union changes on rating. They had a pretty strong last half of the year on that. Frankly though, although our individual life protection business in the UK is fair, I think it's a pretty disappointing result. And we are doing a few changes in there to adjust it but I think that would be the protection side being fair was one of our disappointing news.

The other VNB stuff, it is a bit seasonal as well. So I won't read too much into a quarter by quarter. There is a seasonal decline that we have predicted in some but we came in in others. Any more comment on that David?

A - David McMillan {BIO 17298829 <GO>}

I think -- so annuities is a (inaudible) player protection market, as you all know if we're down actually it's a very strong quarter for Group (inaudible). So from a mix point, you know that was a little mountain[ph] so that also added to the lower VNB but as mark said our focus is on value not topline.

A - Mark Wilson {BIO 7102576 <GO>}

Now your second question, Blair, on Italy, by the way, Italy I see as is our most complex business. You've got JVs that own other JVs with other partners, you've got sometimes we have management control and being (inaudible) some places we don't. We've got some very good distribution and I am pretty pleased with the team we've got in there. Of course, David McMillan heads up all of Europe, then you have Patrick Dixneuf and his team in Italy.

We've taken some pretty tough actions this year and a lot of it is structural and a lot of it we need to do structurally to make a difference. In Italy, a number of the products are value destroying. So the actual VNB in pounds was a ridiculously low GBP7 million for this year and a lot of that is structural. You've got a lot of value destroying products in there that have taken us some time to get out which is somewhat irritating. And you know that I wouldn't say this unless I had a fairly high degree of confidence. But I think you will see some reasonably substantial results improvement in that next year. I think we are also seeing some pretty good results in terms of what we can do on cash flow.

Now will we get a dividend out of it this year? I doubt it. Will we get one next year? I think that's a pretty likely outcome. David, any more color?

A - David McMillan {BIO 17298829 <GO>}

Yes, I think as Mark said, Blair, we've had particularly a number of our smaller distribution partners who have been a significant drag on our VNB result. We're in the process of addressing that. We've good progress with our bigger partners, particularly UniCredit, in terms of reshaping some of the guaranteed products reducing the guarantees. So I think there is a lot of improvement that we've made in the first and second half of this year that I am looking for those to enter into results next year.

A - Mark Wilson {BIO 7102576 <GO>}

Okay and, Blair, the last part of your point was in time and timing on the internal loan and give more clarity. As I said before, although we've made progress, I want to resolve this quickly as I can. What does quickly mean, well, it took us a lot of months to build the models and as you know how complex the modeling is in this thing. It's going to take us another, a reasonable period of time discussing it with the regulator and working out of these non-cash items. I wouldn't expect any imminent update in the next few months. So I wouldn't expect anything like that but we will update you as we make progress.

I am comfortable we're making lot of progress but we are not -- not enough actually to give you any figures on what it (technical difficulty) to be. But we will as soon as we can.

Q - Blair Stewart {BIO 4191309 <GO>}

And is that just the UK regulator we're talking about here or do you have to go to the various European country regulators as well?

A - Mark Wilson {BIO 7102576 <GO>}

No. It's primarily the UK regulator. There might be some minor actions in that list a couple of dozen things that might need some other regulator stuff as well. But I wouldn't -- that's not really the issue. A lot of these internal actions frankly are under our own control. Some of them require regulatory approval and that sort of effect. And some of them are incredibly complex and take some time to execute.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you very much.

A - Mark Wilson {BIO 7102576 <GO>}

Thank you.

Operator

Andy Hughes, BNP.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi, thank you very much. It's Andy Hughes from Exane BNP Paribas. Three questions if I could, first two on the GI side. So obviously on the UK GI we had quite a few people leave the business over the past couple of months or so. The Q3 numbers look pretty resilient, just wondering if you would expect the various changes to have some sort of an impact on the topline there.

And the second question is on the Irish motor reserves, obviously one of your peers said they were reviewing their Irish motor reserves. I am just wondering what the situation is for you on that one.

And the final one is, I guess on the UK personal pensions, what's the average fee on the back book please? Thank you very much.

A - Mark Wilson {BIO 7102576 <GO>}

Okay, Andy, thanks. So three questions. So the UK GI, the (technical difficulty) this morning we had quite a few comments from people saying that they expected worse results on the UK GI because a few people have left and because I changed the CEO and that often indicates bad results. Obviously that wasn't the case. When you have a very large business like the UK business, it's one of our cores, it's one of our strategic businesses, you need your best people on the pitch. And I wasn't convinced that the team we had would drive that business forward to reach its potential in the timeframe that I would find as suitable.

Our number one GI business clearly is the Canadian business and despite the floods in Canada, it still performed exceptionally well and a big part of that was Maurice Tulloch, which is why I brought Maurice here. One of the things Maurice has done in Canada is built I think outstanding determined[ph] teams. So we appointed from within and I don't think they missed a beat. So that's what we got.

You want to pass some comments on that Maurice? Maurice is sitting at the table with me today.

A - Maurice Tulloch {BIO 17683736 <GO>}

Yes. Thanks, Mark. Good morning, Andy. I actually arrived in UK full time about two weeks ago. So, yes, obviously somewhat surprising we've lost four senior people. Coming from the Canadian market, I hadn't lost anyone on my senior team in the past five years but the way I look at this, Andy, it also creates opportunity and the one thing about the Aviva brand, as I've gone out to look for new talent, I've been incredibly impressed, our brand has attracted the creme de la creme of talent in the market. So I think you can expect from me probably in the next couple of weeks, to make a couple of pretty important announcements.

In terms of the follow-on question about impact, I don't see any impact on our business. I am putting the right team in place. I am getting around and meeting with our 8,000 employees and I am actually setting a simple strategy for this business going forward.

Yes. And your other question on Ireland. And obviously that's quite important right now. I meet quarterly with our reserving actuaries; I did meet with them since I've come here. Following that, I had a further chance to review that which is done quarterly. We also review those reserves annually. Periodically we have a peer review. Having reviewed it in detail now myself I have no concerns on our reserve position in Ireland.

A - Mark Wilson {BIO 7102576 <GO>}

The other point with reserves just in Ireland of course, the core as you know in Ireland is poor at -- although it's improved, it's still poor. We have been pretty robust in our reserving, it's fair to say. So we are pretty comfortable with reserves.

Your point on volume, Andy, just a point on that, the interesting thing in the market particularly the UK GI, things like motor are very commodity -- commoditized products. We can turn the tap on and off whenever you like and it makes a difference on the day literally because that is the nature of the market and its nature -- particularly the drip[ph] market. And we've made some conscious choices as we saw the rates softening on the personal motor lines that we didn't want to play as it went down. We will play a bit more as it goes forward. But we play and the market softens, it works and again I make no excuses for that because that's how we allocate capital between our business lines. Where we see something we can get a quicker payback or higher returns, we do it.

Now as my CEOs around Aviva know now, because I quote it to them all the time, capital allocation is a competitive sport and it's a pretty tough competitive sport and I think at the full year we'll let you go through our new capital allocation process and I think you can judge that as you wish.

So your last question, Andy, was --

Q - Andy Hughes {BIO 15036395 <GO>}

PPP charges.

A - Mark Wilson {BIO 7102576 <GO>}

PPP charges, yes, David.

A - David McMillan {BIO 17298829 <GO>}

Good morning, Andy.

Q - Andy Hughes {BIO 15036395 <GO>}

Good morning.

A - David McMillan {BIO 17298829 <GO>}

I can't give you the precise average rate on the back book but it's less than 1%. We go in our own price cap as long as what was 2001 which was a maximum charge of 1%. So you go to the opposite it's going to go less than that. And in terms of impact, just anticipating your follow-up, if the charge comes in at 0.75 that back about GBP4 billion of assets, it's GBP4 billion with tuck-in points -- seven good pension assets and some GBP128 billion out of the total life assets. So it's relatively small proportion of our assets in the context of life business in the Group.

A - Mark Wilson {BIO 7102576 <GO>}

The whole debate and that is a big debate on caps, people are complaining about it in the market. I don't think it's an unhealthy debate. It is -- the charges have come down over time a lot and we're pretty competitive in that space as well. The order in moment stuff as well which is the other important point of it which is probably more likely where I think the political debate is going to focus on. Our average on that just on the auto-enroll pension scheme is 0.5. So 50bps so just to be clear, that's where all the focus is -- our average is 50bps. Will the cap come up 50bps or 75bps or something, who knows. But just to be clear our average is actually 50bps on that already.

Q - Andy Hughes {BIO 15036395 <GO>}

Thank you.

Operator

Gordon Aitken, RBC.

Q - Gordon Aitken {BIO 3846728 <GO>}

Good morning, thank you, three questions, please. First on pensions, you mentioned that Group personal pensions have been strong and the growth is 11% for pensions. To what extent does that reflect commission deals which were signed or which were agreed pre-RDR?

Second. So, annuity sales are down 51% quarter on quarter through last year. You mentioned that you've written some bulks in the Third Quarter last year. What was the quarter-on-quarter growth rate in retail annuities, please?

And the final question is, can you just update us on net inflows and outflows as you did at the half year, please. Thanks.

A - Mark Wilson {BIO 7102576 <GO>}

So pensions commission, David?

A - David McMillan {BIO 17298829 <GO>}

Well as the last of the key RDR pensions coming through, that's why you saw space in Q3, that's the answer to that one. Sorry, what was your second question?

Q - Gordon Aitken {BIO 3846728 <GO>}

Second question was on the bulks in a little bit of retail annuities.

A - David McMillan {BIO 17298829 <GO>}

The bulks, individual was up 21% against previous quarter. So against last year. And individuals was actually very strong.

A - Mark Wilson {BIO 7102576 <GO>}

So you assume from that that the key issue there is the bulks. So as I've said before our individuals have been very strong. Perhaps that's an area where we have maybe outperformed our expectations a little bit. And the third one, Pat.

A - Patrick Regan {BIO 15131018 <GO>}

Net flows, as you know, Gordon, we don't give net flows each quarter. What I would say is that the trends that we saw at the half year are the same trends that we're seeing at this point of the year.

A - Mark Wilson {BIO 7102576 <GO>}

What's been an interesting outcome, just as an aside. So RDR had a number of impacts. It's everyone and it's not just us frankly. Everyone is starting to see some trends of less outflows because as brokers don't get commission on it so there's less twisting in the back books. I don't know, I've got a hypothesis that says that maybe that's going to be helpful long term. Now we need to see if that comes through in the data or not. But that's certainly what appears to be happening in the market at the moment. We'll see. Time will tell.

Q - Gordon Aitken {BIO 3846728 <GO>}

Okay. Thank you.

Operator

Abid Hussain, Societe Generale.

Q - Abid Hussain {BIO 17127644 <GO>}

Hi, morning, all. Just three questions if I can please. First on cost saves, your run rate indicates that you can achieve the GBP400 million cost save by the end of this year, i.e. a year earlier. Or if you put it another way, it looks like you will significantly exceed the GBP400 million target. And I was just wondering if you could elaborate on what exactly you might be looking to reinvest the cost savings over and above the GBP400 million target. So that's the first question.

Then the second question on the remittance ratios. Are you able to share how these are trending? I think at the H1 stage there was a ratio, implied ratio of around 60%. I realize you can't extrapolate that out for the full year but just wondering about the general direction of that trend.

And finally, I might be getting a little bit ahead of myself, the potential excess capital. Can you give us an idea of what you might look to do with the excess capital which is likely to build up as you continue to generate decent cash flow and continue to dispose businesses? And assuming that the remittance ratio does hit the 80% down -- further down the line. Thanks.

A - Mark Wilson {BIO 7102576 <GO>}

Okay. Thanks. So a few questions. So the cost saves, I also have Nick Amin now, our cost enforcer amongst other titles that he has, with me today.

With regard to the costs, okay -- we're tracking okay. And it's fair to say that all businesses are now on track and (technical difficulty). I wouldn't say we would have GBP400 million savings by the end of the year. I don't know we're saying that. The run rate would certainly be down by that so we know that GBP400 million will be coming to the shareholders next year. So I don't want to overplay or overplay the expectations here. We are tracking where we should be.

And in terms of next year we are reallocating a further GBP200m. So we've got some pretty big initiatives. It would be pretty easy for us to say to Nick, why not make this another GBP200 million on our bottom line next year and frankly we can do that. But then what becomes my question.

So what we've decided to do as a Group, we're going to put in excess of GBP100 million reallocated costs -- this is in addition to the GBP400m, reallocated costs towards automation. Now automation is on processes, claims processes. And what the objective here is I want to see -- and we're going to have in everyone's personal targets. I want to see every business in the Group improve their cost/income ratios every year. So this isn't a one year journey or two year journey. I mean every year. So we're going to reallocate primarily from IT over GBP100 million of costs into automation and fixing up legacy system and automate processes to bring our cost/income ratio down.

For example in the UK our cost/income ratio on the GI business is about 10.1. Now that compares with Canada which is about 8. And so frankly it's too high and we've got a long way to go.

Nick, anything else on costs that you want to --

A - Nick Amin {BIO 16639598 <GO>}

We're pretty much on track where we expected to be and we'll certainly hit the number in 2014.

A - Mark Wilson {BIO 7102576 <GO>}

And secondly, the remittance ratios. As you know last year it was 48. It's a bit hard to model for this, you guys to model where it's going to be. Our modeling is pretty good on this now and we know the actions they've taken country by country. I'm not going to give you any guidance. What I will say is you can expect the remittance ratio to be higher this year than last year and you can expect higher next year than this year because we already know the actions we have in place frankly. I've said before that I want to get it up into the 80s. That's a multi-year journey so 48 into the 80s and this is a key part of our thesis.

What are we doing with the cash? In the end that's a Board decision. I've been clear we've got a lot of flexibility but we still have to deliver the business. Our external leverage on an S&P basis is 33. That's still too high. We might use some proceeds for some of that.

There's a whole lot of things we can do with that cash. But I don't want us to get ahead of ourselves here and we certainly aren't. We're focused on fixing the things we have and okay, we've made some adequate progress. But I wouldn't want to overplay it. We still have a lot to do. Were there four questions? I think that's probably answered all your questions.

Q - Abid Hussain {BIO 17127644 <GO>}

Okay, hanks.

Operator

Greig Paterson, KBW.

Q - Greig Paterson

Morning gentlemen. I was just wondering if you can give us the percentage of your annuities that came from enhanced annuities in the Third Quarter versus the half year. Question one.

The second one is I was a little confused on the operating capital run rate. My understanding is you said that the underlying run rate was 1.8 and if you do the math at sort 0.45 quarter, you minus Toronto and you get 0.4 per quarter. But you're running at 0.3. So to me there's been some kind of deterioration in the capital generation in the Third Quarter. I wonder if you could speak to that.

And the third thing is I wonder if you could just update us on your plans for Indonesia acquiring distribution there or joining a partner?

A - Mark Wilson {BIO 7102576 <GO>}

Okay. Thanks Greig. So one question about enhanced annuities. It's about the same as it was at the half year, it's a bit above a quarter. So that's pretty stable. That's a -- it's a nice part of our business and it's pretty stable. So it's a bit above a quarter.

On the run rate, I'm not going to share with you our modeling. But Pat, do you want to comment?

A - Patrick Regan {BIO 15131018 <GO>}

Yes. We were -- I don't know if you remember, Greig. But we were just over 900 at the half and we're around 1.3 now. So we are basically at the numbers you just said of about 400 for the quarter which is a tad lower, a little bit for the quarter, a little bit seasonally for the Third Quarter. But pretty (multiple speakers) Toronto. So the run rate is in line with what we saw both last year and in the first half of this year.

A - Mark Wilson {BIO 7102576 <GO>}

I think -- what can I say. I think it would be accurate to use 1.8 in your modeling.

Q - Greig Paterson

My understanding of the 1.8 is that it is the underlying run rate executing (multiple speakers).

A - Patrick Regan {BIO 15131018 <GO>}

We've said last year we had a little over GBP100 million in one-offs particularly in the UK life business. We're flat against the position last year without that so you can see the UK life stay at GBP100 million because of that item. So yes, we haven't had anything really notable in terms of one-offs in this year's OCG.

Q - Greig Paterson

Right.

A - Mark Wilson {BIO 7102576 <GO>}

Indonesia is the third one, your third question. Now obviously I don't comment on speculation about it and I know there's been some speculation in the market on certain distribution arrangements in Indonesia. But you can see that our growth markets in Asia and Poland and Turkey are certainly gaining momentum and the other I guess important thing is they're becoming pretty material to the Group. 22% of our VNB so far this year.

What can I say? I can say I do like Indonesia as a market. I like markets where you have low capital and high margins. I like markets where you have a population of quarter of a billion people. I like markets that have an emerging middle class. And frankly I also like markets where we have a lot of contacts and Group contacts. Certainly I mean that's pretty helpful.

So I'm not going to say anything more on that except to say we are interested in expanding our current business there as we do have a business there. And we're certainly interested in expanding it and there are some interesting distribution arrangements in that market for sure. Other than that, we'll all have to wait.

Q - Greig Paterson

Okay. I can take it that you are speaking to some people would be my take from that.

A - Mark Wilson {BIO 7102576 <GO>}

I couldn't possibly speak on that.

Q - Greig Paterson

Thank you.

Operator

Andrew Crean, Autonomous.

Q - Andrew Crean {BIO 16513202 <GO>}

Good morning, everyone. Two questions actually. The first one is on your operating cash generation, the GBP1.8 billion target. To what extent is this benefiting from operational variances or the acceleration of cash forward from future years so surplus relief reinsurance deals? I think there's about GBP178 million benefit in the first half.

Then the second question on the internal loan. I think you've been fairly clear that that's going to come down materially through non-cash means. Actually it's a more general question. What does that really mean as it happens for shareholders? How does it affect embedded value? How does it affect capital? How does it affect your view of dividend?

A - Mark Wilson {BIO 7102576 <GO>}

Okay (inaudible) will take this.

A - Unidentified Speaker

In the First Quarter there's nothing of note, Andrew, on the experience variances or anything else in that bucket.

Q - Andrew Crean {BIO 16513202 <GO>}

But in terms of -- I think it was about just under GBP200 million in the first half. When you're looking at the GBP1.8 billion are you looking to do further surplus relief for insurance deals to advance cash recognition.

A - Unidentified Speaker

What we've said as we've talked about before is that GBP178 million isn't an acceleration of reinsurance deals. It's a variety of things. It's some positive variances which hopefully will be expected to flow through over time. It's some back book actions that we'll do each year. We do a little bit of that in France that frees up a little bit of capital. I'd expect to see all of that -- an amount of that, a modest amount of that flow through each year. So it's certainly bespoke kind of things. But having said that there was very little of any of that in the Third Quarter.

Q - Andrew Crean {BIO 16513202 <GO>}

And there's no relationship then between the free surplus positive variances of the GBP178 million and this negative variance of GBP196m?

A - Unidentified Speaker

No. They're not opposite sides of the coin. They're different items.

Q - Andrew Crean {BIO 16513202 <GO>}

Okay. Thank you.

A - Mark Wilson {BIO 7102576 <GO>}

Okay and on the internal loan, Andrew, frankly the actions we're talking about make absolutely no difference to embedded value. At a Group level it doesn't make a difference to capital. Obviously you want to reduce the capital on net subsidiary by reducing the liabilities. But at a Group level, it nets off so it actually doesn't make any difference.

The way to think about this loan is an investment from that subsidiary to another part of the Group. That's the way to think about it so as you can see it nets off, if you -- I guess the ultimate thing and we wouldn't do this but if you collect the structure together what happens to the loan. Think of it that way.

In terms of cash flow, it can be good and bad. If you reduce the loan obviously at the Group level we're paying 4.1% on that loan as well you increase surplus if you reduce the loan. The question is how do you reduce it. And as I said we can do a substantial amount by non-cash means and we're working through our plans. We're working through what that means.

And we'll come back to you. And my objective is to take it off the table so you never ask me another question in analyst calls. And that's what we're aiming to do.

Q - Andrew Crean {BIO 16513202 <GO>}

Will it have any impact on your dividend policy do you think?

A - Mark Wilson {BIO 7102576 <GO>}

I don't think it'll have any impact on the dividend policy no.

Q - Andrew Crean {BIO 16513202 <GO>}

Thank you.

Operator

Ashik Musaddi, JPMorgan.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi, thanks a lot and good morning, everyone. Just one quick question. Just this morning in one of the other conference call we heard the comment that Solvency II has never looked better in terms of it being implemented in 2016. So can you give us your thoughts on that?

And just linked to that, what's the impact of Solvency II, if it comes, will be on your annuities business? And how does it compare to the return of your bulk purchase and individual annuities, i.e. you've actively decided not to do bulk purchase? So what's the real difference in terms of returns? Can you give us some thoughts on that? Thanks.

A - Mark Wilson {BIO 7102576 <GO>}

Ashik. Good morning. I must confess I've never heard that that Solvency II has never looked better. It's (inaudible) -- it's fair to say we have been intimately involved in these debates both at a EU and a government level here. And it's fair to say at the beginning of the year, things just didn't make financial sense or weren't financially logical.

Clearly there has been some progress made. And as you know I've oscillated on this issue month by month. One month I think it will come and the next month I think it won't. As it currently stands I think there's now a very, very high chance it will come in. I think it will probably come in, in 2016. And there's still a lot of work to do to realize what it means.

But a company like us we have probably more than most and maybe we've probably been -- bluntly I think we've probably been penalized for it over a few years. But more than most we have already embraced a risk based approach to capital management. And we've taken a large number of steps as you know to de-risk our balance sheet and really I guess optimize it and make it better for this sort of environment.

No one knows the final detail yet. But I think it's heading in the right direction. I guess from a competitive standpoint, that would put us on a far more equal footing with others. And I think that's helpful because it's much closer to the basis we're already using.

Now on specifically your point on the annuities and some of that, can you speak on that.

A - Unidentified Speaker

Sure. Hi, Ashik. To Mark's point, we've been the Group as we've shown in our disclosures on economic capital for a while. So that's been a key part of the pricing of individual annuities. We've tried to run what we think the environment will be in terms of our current UK annuity pricing. Now as that's firmed up, that's come broadly in line I think with what we'd expect. So getting more clarity on matching adjustments and stuff like that is good in that respect.

In terms of what that means for returns, it doesn't mean a lot in terms of the differential return between individual annuities and bulks. (inaudible) our NPV margin on individual annuities is almost double what it was last year. So the returns on that are good for us now. And I think in the current economic capital environment perspective Solvency II environment, returns on things like that will be stronger than in the pension space (multiple speakers) and will remain so.

A - Mark Wilson {BIO 7102576 <GO>}

And one other things actually I could probably add is what appears to be clear is that there will be quite a long-term transition for the back book of all companies. And that makes I think a lot of sense and that helps I think everyone in the business to come to a reasonable, acceptable outcome. But we'll see. It's still got to -- just to be clear, it's still got to go through several rounds of discussion at the EU side and we will be actively involved in it. But the only change from me on it really is I now do think it is highly likely to come in and it's highly likely to come in I think 2016.

Q - Ashik Musaddi {BIO 15847584 <GO>}

All good, thank you.

A - Mark Wilson {BIO 7102576 <GO>}

Thanks.

Operator

Andy Hughes, BNP.

Q - Andy Hughes {BIO 15036395 <GO>}

It's Andy from Exane BNP again. A couple of quick questions if I could. One was a follow up on the UK GI business. I think you said that enhanced -- you made a comment about UK motor and the fact that volumes could increase quite dramatically. And if I'm thinking about enhanced analytics and where that's really going to make a difference, is it fair to say that's more personal lines than it would be on the commercial book?

And so I guess the question is do you wait to reduce the cost ratio on UK GI to start growing the business again or does it help the analytics identify areas within personal lines that you can grow in much earlier than that? And should we be thinking about the UK GI business growing sometime soon? How long does it take to implement the kind of enhanced analytics approach?

And the second question was just a comment that Legal & General made about the run-off of their high fee products and also the with-profit stuff in the UK over the coming few years, the sharp run off of the investment bonds. Do you see the same impact on the business and what does that mean for the kind of UK life earnings?

A - Mark Wilson {BIO 7102576 <GO>}

Okay, Andy. Can I take the second one first if I may and then I'll hand over the other to Maurice? The run-off on the with-profits book -- what can I say? At the half year we gave some, I think some pretty full and detailed disclosure about the cash that gets thrown off from our life back books which obliviously is a lot of our profits and stuff in that. If you look at that you'll see it's very stable and very resilient.

The run offs that you see, we certainly haven't seen an increase in terms of run-offs. You see it's stable. I guess we're in -- I think there'd be a lot of companies that look at us and say they'd love to wake up in the morning after a New Year's Eve and see that you have a GBP1 billion in capital surplus coming off your back book each year and that's what we have. But as we go through -- if you have a look at those disclosures, we can send them out to you again if you wish, have a look at those disclosures you can see that that has -- GBP1 billion or circa GBP1 billion for the next 10 years. So it's very resilient in terms of the cash or the capital surplus generation, which is the most important factor. It's the only important factor.

Now in UK GI, it's a bit unfair to Maurice. He's only been in the business a few weeks but I am going to put you on the spot here. Just before you answer, I remind you that we're not going to chase volume if it's not profitable in any market where we sell. But have you respond, Mark.

A - Maurice Tulloch {BIO 17683736 <GO>}

And I've never chased volume but thanks, Mark. Andy, a couple of points. Certainly this market is very soft right now. A lot of our competitors in my opinion have probably been a bit aggressive on this, the Jackson (inaudible) and we've seen that in their rates. We made a deliberate choice to look at our mix. Actually our customer count hasn't really fallen much. We're down just about 2% over the last year.

You know, as Mark mentioned, it is a couple of weeks for me but I'll give you some observations and perhaps tackle your sort of second underlying point. I find this market very sophisticated with distribution, marketing, the use of aggregators. But I don't find this market as sophisticated in the core areas of insurance around tightened underwriting and particularly the use of predictive analytics. Certainly that was the hallmark in successful companies in North America. But also a hallmark in our Aviva Canada business and certainly something that I am bringing over to the UK.

And in terms of length of time estimates you're probably looking at 12 to 18 months. And I think what that allows us to do is it allows us to accelerate our business. But not at the cost of choosing volume over value.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) Alan Devlin, Barclays.

Q - Alan Devlin {BIO 5936254 <GO>}

Hi, thanks guys. Just a follow up to Andrew's question. What's a major concern to you and to your regulators? Is it the internal leverage or the external leverage?

Then a quick question on yield on investments. The investment yields are the weakest since Q1 2012. Is that business -- are these investments in a bit of a limbo until your new CEO starts or are you taking actions there or what's going on the business? Thanks.

A - Mark Wilson {BIO 7102576 <GO>}

Morning Alan. Certainly to the regulators its internal leverage additionally. Just to be clear on my comments on external leverage, we've said we want to reduce it by a[ph] ratio over the medium term and we'll do that as we get some progress. And I said we'll bring it down by maybe 500. But I don't want to overstate that one.

If you have a look and I think we haven't helped ourselves a lot. We've used an internal measure that seems to be far more restrictive than I think anyone in the market looking at S&P basis. Now whilst that's still too high we also have (inaudible) risk, with part more than the others with lower risk. We don't have any high risk products. We don't have any US business, etc. So we can carry bit more debt than most. I'm just saying that the reason I want to reduce the risk is to give us a bit more financial flexibility is the way I'd call it. Please don't assume that this is the regulator pushing for this at all.

Now on the internal leverage, it would be fair to say the regulator and us, we both agree on that. I've said that before. We're working hard on it. But the question is what does it come down to frankly and the method to get there. And I haven't got all the answers for you today.

What I can say is we've made substantial progress. We know we can reduce a lot with non-cash flow means. There is the question of course that will you use any cash to do it and the answer frankly is don't know yet. What I do know is we've got a lot of non-cash means we can put in it and that's substantial.

So we're working through that. And I'm never satisfied with anything but I think we've made satisfactory progress on it. And frankly it's a bit more than we would have said at the beginning of the year.

AI is the other one and that's taken a -- AI has taken a lot of our time. And I have Jason Windsor, who's Head of Strategy and the M&A and he's the guy who's been doing the disposals. So doing the US and other things he's been pretty busy. Do you want pass a comment on this?

A - Jason Windsor {BIO 17967688 <GO>}

On AI, obviously it's a business in transition. Euan will start in January and we expect him to be able to unlock significant potential. Within the performance this year we've seen sales remain roughly flat, slightly up 3% at the gross level over last year. And team down there are doing a good job continuing to put in strong investment performance externally and for our internal funds.

A - Mark Wilson {BIO 7102576 <GO>}

If you have a business like that, let's be really clear. If you have a business like with GBP250b, GBP260b[ph] and you only make GBP36 million in profit out of it, you and I are going to say that's totally unacceptable. We've got some great PMs; we've got some good performance. So at a Group level it's adding value that way. But frankly as a business I'm quite unhappy with it. And I don't think that's probably news to anyone and that's certainly not news to that team.

Euan is a class act. And I got given a stat last week by one of the sales guys who said we've had more inbound calls from asset management consultants since Euan's announcement than we've had in the last three years which is quite a telling stat. I mean he's a good operator.

But I also want to manage your expectations here. I seem to do that a lot. But I want to manage your expectations. I do see the turnaround in Aviva Investors taking longer than the turnaround in some of the other insurance businesses partly because we started it earlier, partly because it takes time.

We're doing a lot of stuff on cost/income ratios. We need to do a lot on our offering. We're very clear on what our strategy is and we recruited Euan to align to the strategy right than the other way around. But I'm going to let Euan talk about that when he comes and he'll be able to announce that to you and the market. So it is very disappointing from a shareholder perspective and that one will take some time.

Q - Alan Devlin {BIO 5936254 <GO>}

Thanks.

A - Mark Wilson {BIO 7102576 <GO>}

And I think we've got the last question now online.

Operator

Greig Paterson, KBW.

Q - Greig Paterson

Not unusually, I am confused not by you guys certainly I'm always confused. But if I'm not mistaken, about two years ago we were all holding to Aviva and we -- on the GI side and we had a detailed presentation on it. I think it was called the Aviva Motor Pricing Index and all the work that had been done, etc., etc. And it sounded pretty much like the Canadian predictive analytics which you're going to bring in. So either the black box didn't have anything before and someone was playing with the truth or there's some difference between the two.

I wonder if you could just explain the difference between the Aviva Motor product index which you just spent so much money building and this predictive analytics. What's the difference?

A - Mark Wilson {BIO 7102576 <GO>}

I must confess, Greig, I don't know what the presentation you're referring is as I wasn't here. But I've got someone who will know because he was in Canada and is now here and that's Maurice.

A - Maurice Tulloch {BIO 17683736 <GO>}

Yes and thanks for the question. I think what was -- and I can't specifically recall the presentation. But certainly what we did in UK Motor four years ago was we brought over credit scoring. And it actually came over from the Canadian business and the term we used here was (inaudible). And it's actually served the UK business tremendously well. You can see that our motor results were at 97 in a very competitive market. So we're actually outperforming the market.

I think when I talk about -- the world moved on and certainly the world and Canada moved on from the use of credit. We went into the multi-variant analysis. We went into behavioral predictions. We went into voice[ph]. We went into predictive analytics around fraud.

So whilst the UK is leading this market, as to my earlier point this market is incredibly sophisticated as it can be in that space. I think there's far more to come and that's one of things I'm looking forward to doing. That sort of turnaround won't be immediate. It's about data; it's about people; it's about pounds[ph]. But that's certainly what we're going to look to build.

A - Mark Wilson {BIO 7102576 <GO>}

For example, on the fraud, I was in Canada about a month ago and we saw a presentation on fraud modeling. And the systems we use are the same sort of systems Interpol uses in some of the data, just an aside. And we can predict frauds by groups. We're using Facebook and we're using social media and basically you create webs of the people and you can get webs of the fraudsters.

And fraud, just by using that one thing, we think fraud accounts in excess of 10% of our total claims. Personally I think that's outrageous and I think it's a major problem in global general insurance. And so we're putting in a lot of money into using -- the old way of using fraud would be to have gumshoes investigators trying to find out people who're doing wrong. Now it's about big data there as well.

And some of the stuff we've done first in Canada and again we're learning and frankly the whole industry is learning on this. And no one has really done it that effectively. But I've got to say the initial results from Canada are somewhat surprising. I mean that positively not negatively.

So this is a journey. It's all part of our predictive analytics journey. The thing I should say is (technical difficulty) this does not stand still. This predictive analytics and big data keeps on moving. It moves with us every month. We've got 80 people sitting in a room in Canada. All they do with their whole life is try and find correlations between data and risk and then build algorithms. Now that may not sound the most exciting thing to you or I necessarily but it's pretty interesting in terms of results.

Q - Greig Paterson

Do you have -- sorry, I just on a technical point. Do you have -- I know you were talking about technical pricing. Do you have what I call (inaudible) pricing or market pricing technology where you can fine tune your pricing on the price comparison websites or is that also an area of development going forward?

A - Mark Wilson {BIO 7102576 <GO>}

Yes we do. Maurice you want to --

A - Maurice Tulloch {BIO 17683736 <GO>}

Yes. We actually lead in that space both here in the UK and in Canada. The actual benefit with getting into predictive analytics is that's only relevant to know where the market's at because you'll actually -- if the markets a straight line on a 45, you'll find your line is a wavy line, the weak point using economic capital is achieving your return. But you still need to have the basis and, yes, we do have it.

A - Mark Wilson {BIO 7102576 <GO>}

Some of that is real time on the online systems and stuff. Again this isn't a point in time thing. It changes pretty much each week as we move. We also have a lot of this data on the life side by the way in a different way in the annuities. Why do we do well on annuities? One reason is we've got more data than everyone else because we've been in that longer than everyone else.

And equally because we're just not going to chase volume and we price different points on different ages and different risks, enhanced annuity differently because we have all this longevity data. Longevity risk is a science and to have a science like that it is all about data. It really is.

Q - Greig Paterson

(inaudible) your enhanced data is only four years old. I mean your competitors' are 10 and 20. Doesn't that leave you at a competitive disadvantage?

A - Mark Wilson {BIO 7102576 <GO>}

I don't know which industry competitors said that on the market. But that would be (multiple speakers).

A - Unidentified Speaker

We've been writing more of them in the last four or five years. But our databases go out beyond that.

A - Mark Wilson {BIO 7102576 <GO>}

Our data on annuities. So you keep a lot of data on people when you -- on annuities on life insurance that sort of thing as well obviously. What we have seen on that is we have seen a large increase in it as it's become let's say a fashion in the market. It's become a fashion in the market. So we're major player on that.

And just to be very clear I mean enhanced annuities is a key part of our business. But frankly there's a lot of hype around it and it's a beautiful marketing tool frankly. It is real. We have got some good benefits for customers. But from an investors perspective I don't think you should care too much whether it's enhanced or not enhanced annuities. Frankly it doesn't make a whole lot of difference to an investor. But it's a nice marketing angle and we are participating on that. And (inaudible) I definitely wouldn't want to overstate it.

So on that note, everyone, thank you for joining us. We remain having much to do. There's, as I've said before, there's zero complacency, zero arrogance but a whole lot of focus. And we've got lots more quarters where we need to get results before we even start to think about us making progress. Okay, well, thanks for the call and we'll talk later.

Operator

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