Y 2016 Earnings Call

Company Participants

- Adrian Gore, Group Chief Executive Officer, Executive Director
- Chris Gilmour, Investment Analyst

Presentation

Chris Gilmour {BIO 1510052 <GO>}

Good morning, ladies and gentlemen. Good morning. My name is Chris Gilmour from the Investment Analyst Society. And it gives me great pleasure to welcome Adrian Gore and his management team we have from Discovery at today's presentation of the group results to June 2016.

I don't have to tell you this, but Discovery is one the most outstanding success stories of homegrown innovation in the past 20 years, innovation that is exported very successfully to many parts of the world. And Discovery has always taken its communication with the investment community very, very seriously, which is why the company is a regular recipient of our IAS Awards for company reporting.

The risk of embarrassing Adrian, I have it on good authority that Adrian Gore takes exquisite care and attention in preparing his presentation to the IAS. One former colleague told me he practices the presentation over 40 times before he is happy with it. So please now put your cell phones on silent, sit back and enjoy what is likely to be another virtuoso performance.

Adrian Gore {BIO 3068929 <GO>}

Okay. For the 41st time, but that's not true, I do take the presentation seriously, but we've never practiced enough. We spend too much time preparing slides. So I'm not going to be nearly as polished as I think Chris hopes, but thank you for the introduction. Greatly appreciate the opportunity as always, and it's always a wonderful pleasure for us to present our results. This is for the full year, to 30 June 2016.

I would say to you that it has been a complex year, I think a very important year, but a very successful year. And what I'd like to show you is really a set of results that are framed, I think by three distinct things. The first is a very strong performance from our existing businesses. I hope you will see that and very much in that kind of a tale of two cities, half one versus half two and half two is I think dramatically better. So we're getting more traction in a number of areas and hopefully that will become clear.

The second theme is a substantial spend on new initiatives at 73%. We're driving four very important initiatives, and I think it's worthwhile very much. So we're building I think substantial businesses, but then you need to see that and be comfortable with what we're doing.

And then finally, something you know, a very complex political and economic climate, and particularly, in the two primary markets in which we operate, the UK and South Africa. Brexit right at the end of the period and of course our own political and economic fluctuations that have taken place in the South African market.

So those really are the themes. In the context of that, I think the numbers tell exactly that same story. New business at 22%; very strong growth in new business. Our existing businesses performed well at 15%. We spent an additional -- 73% growth in spend on new initiatives, off of 800 million, and obviously that dulls earnings overall, bringing operating profit up 11% versus the 7% at the half year.

The co-operation of the Group sits, as you see it, I'm going to try my best to give a sense of what we're doing, which really is our Primary Market in South Africa, our Primary Market in the UK, and then what we call partner markets where we partner insurers in other markets. And we've remained with that, I think, in a very disciplined way, although there's been considerable innovation in growth and drive across all of the chassis.

The main thing I'd like to leave you with and hopefully that becomes clear in the presentation is that while we're doing a lot of things in a lot of different areas, the reality is that it's the same stuff, it's the same DNA, it's the same what we call Vitality Shared-Value Insurance model that we're kind of doing all over in adjacent markets, in adjacent countries, but really the same DNA. So often -- in the discussions and debates we have around Discovery is often the kind of narrative about are you doing too much, are you all over. The truth is it's a very focused strategy. Hopefully that lays out over the presentation.

I'm going to make my comments in four sections and maybe start after just summarizing the entire group. So this really is kind of the how we've done and hopefully makes it clear. I've just made the point about our financial performance. I'll dig a bit deeper. New business up 22%; operating profit up 11%.

I want to talk about the evolution of the Discovery business model. It's very important. It underscores everything we do. It really is the reason why we're performing well. I believe it talks to where we're going forward in terms of launches and I'll make that point very clearly. And then it gives us confidence and deep conviction about our ability to get our 2018 ambition of being best globally because I think the model is really, really relevant in terms of really changing insurance and making us competitive, not just here, but in other markets.

I'll take you through the existing businesses. I made the point, operating profit up 15%; the new businesses -- or the existing businesses grew; the new business by 20%. We've had I think a very, very strong period.

Discovery Health continues to perform well. Operating profit up 12%; new business up 22%. Excluding the Bank Med take-on, which distorted the previous year's figures, the performance is strong. Strong growth, low losses [ph], excellent financial performance inside the Discovery Health Medical Scheme. We've been remarkably successful with other closed medical schemes and we won eight out nine tenders and I'll take you through that a bit later.

Discovery Life continues to perform well; operating profit up 14%; low lapse rates; very good revenue growth; new business up 5%, and I'll show you how really again the half one, half two play out. The Discovery Life I think has had an increasing traction of the premiums really growing strongly now.

Discovery Invest also, a very strong period; new business up 22% -- sorry, profit up 22%; new business up 17%. And then the UK had a very fundamental year. I made the point at the half year, we had a very difficult first six months in Vitality Health. You can see the operating profit is down off the previous year. It's really a function of the first six months, but we've turned that around, I think, very well. New business has grown tremendously, 43% in rand terms.

Vitality Life had a very solid performance; continues to do what it's done, grow strongly, implement the Shared Value model and it continues to do that. The really fundamental seminal [ph] thing in the UK has been the drop in the interest rates post-Brexit. I think that's very important. I'll take you through the effect of that on Vitality Life.

And then finally, the new initiatives. We spent dramatically more and we're building four, I think, fundamental companies in the Group. We're building a state-of-the-art property and casualty insurer in Discovery Insure. We're building I think the preeminent and leading health insurer in China with Ping An and Ping An Health. Part of the markets initiatives started out as an idea as a joint venture of AIA in Asia Pacific. It has become a proper global Vitality network and I'll give you a sense of that.

And then of course, we've -- a lot has been said, we've begun work on our banking initiative. We've got a strong team that's building the bank, that's building the infrastructure capability and importantly in the regulatory process. I'm not going to say much more about the banking initiative. It's going through a very complex regulatory process. There is little to say here in the public domain. We'll disclose it as the banking initiative starts to mature. But I hope I get across the point that the new initiatives do take time, but they're worthwhile. And I think over the year, I hope you'll see, you're really starting to cross the line and I think these businesses in the next year will make a real impact in what we're doing.

Let me deal with the financial performance, and maybe at the outset, just kind of contextualize the economic environment that we're in. Of course, there's all kinds of economic indicators, but the two areas I want to focus on obviously is the UK and South Africa. In South Africa, we've had all kinds of volatilities. Well, it's manifested in very volatile currency, rising interest rates, sluggish GDP growth, and if that (inaudible) grows, if you look at our beta, in fact that's one of the things we have change. Our beta in our day-to-day calculation, our own share price of beta has moved up as has the rest of the sector. So quite volatile times in the context of South Africa.

In the UK, of course, the main issue is Brexit. The vote happened literally, I think, a week before the end of our financial year. Interest rates have been coming down in the UK, as you can see from the chart on the right hand side. So long-term rates have been coming down, but they had already dropped post the Brexit vote to the lowest level they've been I think since the Bank of England was formed a couple of hundred years ago, so really it's quite a unique environment.

At the same time, we've had considerable currency volatility, appreciation of the currency during the year and then the depreciation post Brexit. So this has been a very, very complex time. I need to make it clear, Discovery does not believe in hiding behind the economy that that's why we're having difficulties et cetera. I think a great management team has to navigate these things and that's what we do, but there are a few things that I think are worthwhile mentioning.

In the South African context, in fact in the whole group context, rising interest rates and a higher beta means we're discounting our embedded value and VNB calculations at a high rate of interest, which means they come down quite dramatically and you'll see the effect of that. And hopefully I'll show you like-for-like, so you can get a sense of the development. And then critically in the UK, beside the effect on EV, lower interest rates has a tactical effect for us. So our policies become more expensive. We have to up-rate and there is complexity there. So we have to navigate this very, very carefully.

Despite that, we must make progress and I'm very pleased with how the group has performed. The new business growth, I've made the point, is up 22%. You can see if you look graphically the rate of new business growth really is, if anything, is accelerating. And therefore we've seen a period of considerable growth. If you course your eye down the table, I think the growth across most of the businesses was very good.

The two that you can see on single digits, Discovery Life and Discovery Invest, both of them in fact really is a tale of two halves. If you look at Discovery Life half two on half two, it accelerated quite dramatically at 10%. And the Discovery Insure, the first half was fairly flat. We did some rating adjustments, but they've started to get rolling in the second half, up 14% year-on-year. So while those businesses on single-digits, I think the rate of traction has tended to increase significantly. Overall -- the overall, as you can see, the overall new business growth is very strong.

Turning to the operating profit. I made the point that operating profit is up 11%. If you look at it graphically, it's slower than previous years, but the reason for that is on the table. You can see the increase in spend on new initiatives at the bottom at 73%. If you take that out, the existing business has grown by 15% to just over 7.2 billion, as you can see. When you take off the new initiatives of 800 million, you get the effect on the operating profit of 11%.

If you course your eye down the existing businesses, I think we're very happy with all of them. The most difficult of all during the year was Vitality Health. That was we reported that in the first year, we had an overrun on claims and expenses due to some system changes from the acquisition. We've quarterized that delta that it's non-recurring, but of course it affects the overall year. Despite that, I think we're very comfortable, given the growth of the organization.

Now it's important for us to reconcile kind of earnings growth and capital management. Discovery grows organically. That's our approach. So we grow really through the income statement. We take earnings, we invest that in new initiatives, and that's how we grow. That's the nature of growing. If you don't do that, you'll over time just grow at the rate of your underlying businesses, and of course, that may be good, but it's not, I don't believe, sustainable in terms of really requiring great growth.

And then certainly, we have a deep conviction about the power of the model that we have and the ability to grow into adjacencies and other markets. So we are growing and we're investing heavily. But you can see the reconciliation of how we balance for that. So new businesses up 22%, as I said; existing business profit up 15%. We spent significantly more on new initiatives, up over 800 million, giving a normalized operating profit up 11%.

The issue though is that we funding new initiatives in part by an increasing debt, that cost 4% in terms of funding that debt without concomitant revenue because we're funding new initiatives, and of course, as you know, we had a rights issue that materialized nine months into this year that had a dilution effect of 6%.

So when you bring it down, the operating -- the normalized operating profit up 11%; normalized headline earnings up 7%, less by 4%, and then normalized earnings per share, affected by the dilution, up 1%. So trying to balance out growth of earnings on one hand of the existing businesses, but the ability at the same time to invest in new businesses.

We're declaring a dividend of ZAR0.90 a share, really following the earnings growth per share. We have a fairly high dividend cover and I think it's about 4.5 times on average. We're retaining that. So we need to ensure that our capital is intact to continue to grow and therefore the dividend policy is following very much the earnings growth per share.

Just to make the point that the year really is a year of two halves. I think we had a really complicated first half. You can see the Group grew its profits by 7%, a lot of which was doled down by Vitality Health. You can see that's reversed around a bit. So the year-on-year growth, the operating profit growth now is up 14%, half year-on-half year, and you can see the existing businesses up great 20%, nearly 20%, half year-on-half year. So the growth, I think, is very strong.

Vitality Health itself -- sorry, one step back, what I think is gratifying is our big businesses; Discovery Health, Discovery Life, both came very strongly in the second half. You can see particularly Discovery Life accelerating its growth half year two on half year two, up 18%. And then Vitality Health, I think had a very good second half, new business growing strongly in the first half, but just 4% up in pounds. In the second half, 37% up in pounds and we -- the fact that we quarterized that GBP5 million overrun meant that the second half growth was very, very strong.

So really the second half of the Group's year I think is dramatically better. In addition to the Vitality Health work we've done, I think the major businesses are already getting additional traction and are starting to grow quick and I think you'll see that in the presentation.

Turning to embedded value, this is complicated. I wanted to show you the buildup of the EV without the economic effect because economic effects really drown out the growth in the EV because we are now discounting at a rate 1.5% higher, function of both rising long-term interest rates and the beta that we've raised somewhat.

So what you see is that the EV starting at about 52 billion. You can see really [ph] unwind of the discount rate, you can see quite significant value of new business added. The new initiatives, both new and the existing businesses, bringing the EV down, slightly positive experienced variances of economic nature, but then on the right -- sorry, on the left hand side, you can see the sum total, adding about 6 billion to the embedded value.

And then on the right hand side, you can see the effect of the economic factors, particularly the higher discount rate, bringing down the value of new business, bringing down the value of in-force. And therefore EV overall for the year, on two different basis and two different discount rates, is fairly flat. Hopefully, over time that will unwind in some way depending on how interest rates really play out, but I think we need to focus obviously on the left-hand side and how we as a team can manage the value drivers and the value creators in the embedded value.

So let me move from the financial performance and talk more about the businesses and their strategy, and I'd like to spend a bit of time on the evolution of the Discovery model because it really underscores virtually everything we do and understanding kind of where it comes from, where it's going to is critical.

And as I said before, the model underpins everything we do. That's exactly the same way how we think about making people drive better, how we think about making them healthier, safer, manage their finances better. It's the same mindset around incentives, sharing value, and to an extent, I think our conviction is based around the idea that the trends that we're seeing, and I've said this at many presentations, are global and universal and highly relevant. The fact is most of the risk that we face in our markets, whether it's default risk from credit, health risk, mortality risk, driving risk, it's behavioral. So nature of insurance in all form of focusing at underwriting and preexisting conditions is not entirely relevant.

Secondly, the power of technology is giving us the ability to track, to educate, to guide, to excite people about what they're doing, you know, after watching all these kinds of things, as you know, which is kind of enabling those kinds of things.

And then the third point is something that I think is critical, and that's really I think the opportunity is that, society expects some institutions to be a force for social good. The exciting thing is that we are the only actor in addition to government that really monetizes better health. So when people are in better health, and we change their behavior, we create economic value, we save money, and that money can be used to fund incentives to get behavior change and you get this virtual cycle.

And so these trends have kind of emerged over the last decade or two decades, but I'm proud of the fact that they are completely consistent with the why of Discovery, why are we here, our core purpose, and that's to make people healthier. So it started out as kind of a profound -- I think a profound idea of our team and a very strong conviction is we're kind of guiding life in terms of how this model can apply, both locally and internationally, and it drives everything we do.

And then the question of course is how we do it is through shared value. And I've said this before. It's actually a very simple conceptual idea. As I've said, incentivize people to make the right choices about their health, about their safety, about their finances. By doing that, they make us more profitable. By making us more profitable, we can use some of that surplus to share with them via incentives to make them healthy again, and you get this kind of virtuous cycle. And we're kind of learning more and more about how that works and applying it more and more in different ways.

But I wanted to deconstruct it for you a bit, just to tell you how it works, because this kind of cycle on the left hand side is fairly conceptual. What we're trying to do here is create economic value. That's the key issue of shared value. We're trying to get value per member. That's what we're trying to optimize.

If you break that equation down, and I hope this is clear, what that boils down to is, incentives per member. So by trying to maximize value from them, first we provide incentives per member; then we get behavior change for their given incentive. Then we get improved mortality, what we call (inaudible) bringing the mortality curve down, we get improved mortality for that given behavior change and then it throws up value for that low mortality. That's really the equation.

So if you break it down, I assume you know this, I mean, you can kind of cross-multiply, took me long to understand this as well, but just make the point, so we're just trying to optimize value per member, trying to make the point that it kind of breaks down to these four components.

Now why these four components are critical is they are all very separate endeavors. In the case of incentives per member, that really is the Vitality chassis. That's how Vitality works. It provides people a vitality age, gives them points for activities, gives them the status and awards, and really is the incentive structure and chassis and it has a number of behavioral triggers, and we continue to invest in the Vitality chassis to make sure that it's relevant, it's consistent, the points correlate with the activities et cetera, et cetera.

The second piece, behavior change for a given incentive, is getting people to do the things they should be doing, around all the silos of wellness, prevention, screening, exercise, nutrition, smoking cessation. That really is engagement.

The third piece then is, bending the mortality curves for the given behavior, that's our core purpose, that's making people healthier. If you can change mortality, morbidity, how people drive to make them safer, that is what Discovery is about. So the third component really is making people healthier. And at every presentation, we try to illustrate kind of the correlations between the Vitality status, as you see, and the claims levels and they include the correlators.

So at the bottom of the chart, I think you can see the amount of data that we have. We have 35 million life years of health data, we have 5 million life years of life data, we have 2 billion or so, 4 billion kilometers of driving data to understand correlations between behavior and those curves of mortality, mobility and driving and defaults on the Discovery core. That is the crucial issue. So the third piece really is at the core of the shared value. It goes with making people healthier.

And then finally the critical issue is that throws up economic value, but the crucial thing here is how we share it, right, because the value comes out, how do you give it back. And this is where the product design really comes in, in terms of Discovery Life using a dynamic pricing methodology and I'll show you a bit of that later. But the intention is a considerable investment across all of those to make sure the correlations are in place, to make sure that the product designs and how we share value gets the right kind of behavior.

I think the exciting thing is that we are learning a number of generic lessons and all of these are critical, not only to this year, but particularly through, we're going in the next financial -- sorry, this current financial year that's going forward now. So essentially on the left hand side, you can see those bents through axis, those mortality curves with its health life driving. They all are highly correlated. So when people engage, the risk factors tend to go down. And that's what we're seeing. It is a fact of selection, it's a fact of behavior, and that's what we see happening.

Generically what we do then is we construct in the middle differentiated mortality curves, by gender, by sex, trying to really get to the bottom of kind of understanding mortality tables, in an actuarial sense, based on that engagement.

And then the crucial issue then is product design, how you then manifest that advantage in what customers buy. In the case of our life insurance Discovery Life has started doing overseas, this is the idea of dynamic pricing. So effectively you have a premium rate that's lower than the market and then it flexes, as you can see on the top there, based on how you engage.

In the case of Discovery Insure, we call it the wedge, effectively the wedge, the difference between lower loss ratios and what the premium is, we give back to in fuel rewards, in discounts on your fuel to keep that incentive going.

In the case of the (inaudible) Asia with universal life policies where people are investing in addition to life insurance, we're using those bent curves to enhance the yield that people get on their investment. It's a fantastic and simple proposition. If you manage your health, your investments tend to climb at a faster rate.

So the point I'm trying to make is that these bending QXs have manifested in very different product designs. And what I think is important is we're learning how to interchange. So more and more we are trying to understand how we can use dynamic price in the context of Discovery Insure, and that's important, we try to learn how to take dynamic pricing in the context of Discovery Life and apply to the underwriting approach upfront. And all of these ideas will manifest in our launches coming up in the next few weeks. So there is considerable focus on this.

So one thing I'd say is, we've also had very good success around understanding how we can provide a cross-section of intervention across all of these things. So the Active Rewards initiative, the collaboration done with Apple, really strings across that entire equation. So the idea of getting your Apple Watch basically for free, getting paid a Starbucks drink or whatever it would likely be in this country every time you meet your goals. That's kind of the incentive structure. It's very powerful and in the loss trend that if you don't reach, you lose the watch, and that's important.

The behavior change has been dramatic. So we've seen I think a 24% increase in physical activity across the Group that does it, and people with the Apple Watches, it's kind of like an 80% difference in physical activity. We're seeing considerable correlations, not just the Vitality status, but to people who are physically active and the curves are bending down, and we're finding ways to apply it in different ways. So it's applied here in South Africa. Of course, we do more of it. We've applied it in different markets in different ways.

And we just rolled out now last week probably the largest rollout we've ever done, probably the largest rollout of anything of this nature in the world with Ping An Life. As you know, Ping An -- the Ping An Group is probably the preeminent insurer in Asia. What they've done is they've taken the Active Rewards structure. We've worked with Apple, we've worked with Starbucks, we've worked with Hannah Berry [ph], all the data has gone into it really to structure a concept that Ping An Life now has Active Rewards with Apple Watch embedded in its life policy. It was launched last week to its 1 million Asians across 2,000 cities. It's by a long shot the biggest thing we've done, and of course, we hope that it builds up very, very powerful chassis for Ping An Health.

But it's basically trying to illustrate that the shared value idea, while it's conceptual in many ways, actually we had to phase in a few key steps and areas that we're investing very, very carefully. And therefore the model that we've used takes a concept of shared value and really gets it across the group in a way that I'm very proud of the fact that Discovery really is about Vitality Shared-Value and that's really what we're globalizing.

And I mean, our insight and our experience is that most countries around the world are trying to do similar things. So we're pioneering and I think we're a leader and it's worth the investment in the data, in the technology, in the capability to allow us to continue to grow obviously, but therefore to also open up other initiatives. That underscores, I think, to an extent, everything we're doing.

Let me turn then to the third comment I'd like to make on the existing businesses. I've made the point about how they've grown, just highlighting their -- the existing businesses, Discovery Health, Discovery Life, Discovery Invest, the UK businesses. I'd like to show you just some of the performance.

Starting with Discovery Health, so to make the point as well, these are so complicated I could spend hours to talk about the complexities in each one. What we've done, our team has just tried and listed out of the top three, the kind of comments that we think are necessary. So there's a lot here, dig deep. Our key guys are here if you want to drill down, but I'll try my best just to illustrate some comments I'd like to make.

Discovery Health has had, I think, a fantastic year, operating profit growing 12%; a combination of growth, efficiency, focus on technology, quality. The new business has been staggering at 22%. So the Discovery Health Medical Scheme continues to grow, the closed scheme environment that we've been successful and continues to do well and this we see in continued growth.

If you look at the Discovery Health Medical Scheme, its performance I think is staggering, frankly. It now accounts for 54% of the open scheme market, 2.7 million lives. At the bottom there, 360,000 lives joined the scheme. That's more than 1,000 every single day. So the rate of growth is I think quite staggering. The financial strength and solidity of the scheme, nearly 26% solvency level, 13 billion in cash or near cash underpinning the scheme and its reserves, highest credit rating in the market. So Discovery Health and certainly the Discovery Health Medical Scheme, I think have performed remarkably well.

If you look at the growth of Discovery Health and in total how the (inaudible) through the Discovery Health Medical Scheme and closed scheme, you can see that it's always grown quickly. It kind of slowed down a bit, but the growth has continued, and one of the areas of growth you can see on the right hand side has been the closed or restricted schemes.

Our team is very proud of the fact of the last nine tenders we participated in, we won eight out of those nine. And while it's been a relatively small endeavor compared to the Discovery Health Medical Scheme, it's now massing into a sizable initiative; nearly 600,000 members, 27% of the closed scheme market and overall 3.3 million members making up nearly 40% of the total private healthcare system. So Discovery Health's evolution I think has been remarkable in the year, particularly on review, I think it's been a very, very successful one.

The point I wanted to make is this. Considerable debate in the environment about administrators, our role, how we compete, are we doing enough in healthcare et cetera et cetera. I want to make the case very crisply for the complexity of what Discovery Health is doing. We don't see ourselves as just administrator. It's an integrated complex healthcare system that we've built, aligned with the people that we serve to be healthier through integration of Vitality.

We now seek to enter the health care system through better benefit design, broader benefit plans, through lowest cost per unit of premium, highly sophisticated technology both at the doctor level and at the client level and then a great service environment and then critically at a lower cost. So this is a very integrated system. We could list around every single initiative. It's remarkable the scale of how Discovery Health really straddles the healthcare system.

And why make that point is because I think we keep underwriting the challenges of making healthcare affordable, that is our social mandate, that is what we have to do. People are struggling to afford our products. We know that and it's a very, very complex environment, and particularly now, and you will have probably read about this, there are high levels of medical inflation, high levels of possible utilization increases and therefore how we're going on top of this is very, very difficult.

So our kind of starting point in this is that you've got to invest more, not less, you've got to have companies like ours that are already on to the teeth with the ability to work with their healthcare system to deliver better quality at low price and that's exactly what we're doing. But the complexity here is we're facing a kind of a pernicious enemy in medical inflation. It's not what you think. It's much harder to control. There is no one to blame necessarily. It's just that in healthcare and health insurance generically, nothing is what it seems, right. It's full of myths. And I thought I'd just raise five of them to make the point clear.

The first one is that there is a lot of debate about tariffs and tariffs going up. The fact is medical inflation is not really about tariffs. It's more about utilization. So no matter what you do in terms of bidding down tariffs or what we pay doctors and hospitals, that's not where the action really is. In fact, in the case of Discovery Health and Discovery Health Medical Scheme, the team has done a remarkable job keeping tariffs under control. So given our data, given our scale, I think we have created a counterbalance to tariffs running away and we are trying to show them. On the left hand side, it's over 2008 to 2015, our CPR has been at 6.3%. Our tariffs which we paid on average have grown by just 0.5% more.

So we've kept tariffs in the healthcare system largely in line with price inflation. The issue really is on the right hand side in the orange, the utilization levels. So the rate of using services, supply side driven and demand driven, have gone up 4% even more on average, as you can see, and in fact has increased now to 5% to 6% a year. So the rate of utilization of services is really driving medical inflation. No matter what you do in terms of getting on top of tariffs, it's really the rate of using services, the price per services control, it's just more of it happening. So it's not just about tariffs; it's more about utilization.

The step that I think is actually quite scary is that if we kept utilization the same, healthcare would be 30%, nearly 30% lower today, I mean, just in 2008. That's a remarkable scary statistic on one hand, but it talks to the opportunities on the other.

The second myth is that health inflation is not just about the sick. It's actually about the healthy and the reason for that is because we live in a community rated environment right and that's a good thing from a social solidarity perspective, but it's very difficult in the context of healthcare. So while we have to manage the sick, a critical feature is we have to keep healthy in the system.

Few statistics there if I could clear. We lost the top 5% of the healthiest members that would drive up our cost ZAR2.9 billion. If you lost the five top Vitality engagement, so people that may be sick, but we're managing the health that to drive that cost by another 1.1 billion and it's the scheme age by on average, that cost nearly 1 billion.

So there are some overlapping factors, but crudely if you added those up, if you didn't do a good job in keeping the scheme with healthy people, you lose 5 billion or so, as you're having there, but it's thereabout, about ZAR5 billion. That's about 10% of the scheme's total revenue. So you have to up rates by 10%, you compensate. 10% would drive the scheme into a dead sparrow. So trying to make the point, we have to grow [ph] Vitality through our direct-to-consumer initiatives, through the smart plan, although we did make sure that we keep the new business growing, we keep feeding the scheme with healthy people. That is the only way ironically to protect the sick.

The third point, and this is the fundamental thing driving healthcare costs this year. You will have heard that hospital costs are just really escalating out of control. And this really is an important thing to understand, that it's not about the demand for healthcare. It's more about the supply-induced demand. It's kind of a unique aspect of healthcare that when doctors in hospitals go, demand is created. There's nothing malicious about it. That's just the nature of how people respond. So in the healthcare services, people use them.

And we've seen this all over, and we're seeing this through, I think, not just us, but our competitors as well. This is an amazing phenomenon. This is an analysis of Umhlanga area right. In 2010, same population, same disease burden, the admission rate, the admit rate of hospitals was about 14%. In other words on average, the public going to hospital was 14% in a given year. 2011, another hospital gets launched. The admit rate goes from 14% to 20%. 2014, another hospital is launched, the admit rate goes from 20% to 30%; same people, same disease profile, just more hospitals. It's a remarkable thing.

Now, no one is really that happy with this because the hospital groups are -- actually also not profiting. The new hospital groups, the occupancies kind of all stayed the same, there is just more of them, right? We're certainly not happy we're finding a 30% admit rate. So this is a very complex and kind of wicked problem of how you solve this particular issue to clients' data, to clients' networks and to clients' efficiency understanding, which I think we have and we have to work through it. But trying to make the point that demand is not the only issue in healthcare. Supply-induced demand is critical.

And then a point I made before is that unlike other industries, technology drives costs up, not down. In most industries, technology lets us do more, it brings the price of doing business down. Healthcare is the opposite. We see that in what we call ultra-high cost payments, people are claiming these very complex, expensive biological drugs, particularly for cancer and oncology. It's quite remarkable. In 2000, there were 13 of these people. Now we have nearly 90, conceiving like 100 million, those 90 people. We have done the numbers that you need (inaudible) claimers in the scheme. You need maybe

3,500 people to fund one of these people. So the skewness of that distribution is quite remarkable.

And on the right hand side, you can see kind of the cost of drugs I think a year ago [ph] for melanoma, these things are fantastic. We have to fund the stuff. That's what healthcare is doing. It's making people survive, but you can see the complexities of how this drives up costs and we have to get on top of it.

And then the first point, and one that I must mention is that a lot is said about non-healthcare expenses, administration fees and that's our accountability. We have to keep bringing those down and focusing on it, but that's not driving up inflation. In fact, our fees have come down in real terms and we're I think now the 17th lowest of the 23 open schemes, which you can see if you actually look at what's driving up inflation index, our 2008 non-healthcare expenses stayed kind of in line, in fact have dropped in real terms. So it's driving up cost, is the cost of healthcare for the four points that I raised about.

And so there is no solution -- there is no kind of a quick solution. My view maybe controversially is administrators are investing too little in building their capabilities, not too much. You've got to spend more in capabilities to work with doctors and hospitals to keep people earning what they believe they should do, but make sure their healthcare is efficient. It's a very, very difficult problem.

And as I said before, I think we're really on Discovery Health to the teeth in terms of doing this, and using chassis that's been built, that is why we are winning eight out of nine tenders because it really is relevant, powerful and I think successful. So I think we are really excited about the prospects of Discovery Health to continue to deliver, but we understand our social mandate is about making it affordable for the members of the Discovery Health Medical Scheme and the other schemes that we service.

Let me turn to Discovery Life. I made the point, new business up 5%, operating profit up 14%. It really is about two halves. The company really is doing better and better. We are learning a lot about certain aspects, the one that's allowing us to accelerate our business. You can see that new business up 10% over the second half. Operating profit up 18% half two versus half two. So the rate of traction, I think, is escalating and there are some important things that we are doing.

In the case of the shared value model, I need not go into detail. Discovery Life really is kind of the, how can I say, the epicenter of how the model developed is performing remarkably well. If you look at lapse rates and mortality, the correlations to engagement in Vitality is remarkable. So people highly engaged in Vitality exhibit 50% or half lapse rate potential. People engaged in Vitality at the high level have mortality rates 70% lower than we are seeing (inaudible) unengaged levels. So the correlations are remarkable. Lapse rates in the middle of the graph, as you can see, are coming down and are very much below expectation. Claims experienced is volatile from year two, but very much in line with expectation.

I said to you that, I think the traction we're getting is we offering a fantastic set of products to customers Well, of course it's about life insurance and about protection. It's also about getting healthier and about a living benefit. So on the left hand side, illustrating the rate of engagement in Vitality has just been remarkable.

If you benchmark it I think 2008, so you kind of index, sorry, in blue, it's a bit of a confusing graph, but if you kind of set the engagement levels at 100 across the statuses, you can see that over the last seven years or so, the rate of engagement has been tremendous. And the levels of engagement at the highest status is about 8 times what they were a few years ago. So we're really getting customers to engage and to become healthier.

The other aspect is part of the Discovery Life construct is that kind of part of the dynamic pricing is that if you engage in Vitality and manage your health, you get cash back through this payback system. You can see the quantum of paybacks, how that climbed. So in this financial year, we paid back over 20% in value of what the claims were. So we are starting to pay back more than we did in previous years, and in fact, the quantum in payback is not the similar over time for people earning out the death claims. So trying to transfer the kind of the nature the product from just one that talks about death and disability to actually giving people cash back for managing their health, and I think that's very important, that's driving up I think the traction.

What it's also doing, I think doing very, very well is the distribution channels we started out. There is a broker focused organization. We continue to do that. I think we're very well embedded in the IFA market. But on the left hand side, you can see the size of the tied agency force is growing strongly. The quality is remarkable. So we've got 17% of the tied agency in the market that drove 37% of the business.

So bring all of these factors together, I think the quality of the product, the quality of distribution, what you're seeing on the bottom right is really market share climbing. So the market share in the latest statistics has been just under 29%. We're dramatically bigger in market share than our nearest competitor, I think is about 19%. So probably 50% market share bigger than our nearest competitor in this life insurance space. So we're seeing increasing traction.

At the same time, what I think is very important is if you're understanding the variables of the model, if you look at the value of new business and you compare it year-on-year, I am adjusting out for the change in beta and the interest rate. As I said before, if you discount the high level that comes down, but if you compare it like-for-like, the VNB has grown by 21%, and then again importantly, in half two, we've actually widened our margins. So despite the rate of business, I think the increasing the value of business and the scale of margins, I think, is increasing, so we understand more and more how to optimize the model between engagement, paybacks, pricing et cetera of the dynamic model.

And then maybe just to make the point about cash flow generation, the Discovery Life generated about 7.2 billion of premiums. We spent about 4.5 billion on claims, further 1 billion on expenses, OpEx et cetera throughout about 2.1 billion of net cash. We've invested nearly all of it in new business, right.

And our conviction remains the internal rates between on that business is over 20%, over 21%. Our kind of target is risk-free plus 10, and in fact, we see cash back over nine years and earn that return of -- that internal rate of return over 12 to 15 years. So in our view, it's an excellent investment, and therefore we continue to drive new business quality and investing scale, if we can achieve it.

I think going forward, something that we are very excited about and something we'll be rolling out in a couple of weeks' time, just to make the point, if you really are understanding risk classification of the model, in other words how people's engagement affects the probability of death or morbidity, but we're starting to understand that in the different categories, cardiovascular disease, cancer, even accident rates, how that is correlated with engagement in Vitality.

An exciting opportunity here is to move that away from just a dynamic pricing actually towards the underwriting process at the outset. So if you follow life insurance, underwriting is quite remarkable. Over 90% of underwriting decisions are standard rates, right. The balance of the 6% to 10% are usually extra mortality in there loaded.

The opportunity obviously is to take that 90% and blow it out into sub-categories because we understand how these people are likely to behave. We can then follow them through their lives and use dynamic pricing. So the ability to apply the Vitality model, not just to the pricing, but to underwriting is very, very real, and that's in fact where we're heading.

So better value for healthy people, we think better value for sick people, and you'll see in the rollout in a couple of weeks, the ability to offer sicker people the ability to get healthier and you see that in their life insurance. So we're going to be shifting the capability from just the pricing towards the underwriting. I think it will make us I think increasingly competitive and will also considerable value to our customers.

Let me turn to Discovery Invest, going to be repetitive; very strong performance in new business and operating profit. You can see on the right-hand side of the chart, assets under management growing over 20% to over 60 billion. So the growth is very strong. It's not a massive number compared to our competitors, but very modest. This is in the retail long-term savings, especially the margins are high. So we remain focused on that space and very happy with the growth.

Now, it's interesting. The concept of shared-value kind of may not -- may be counterintuitive in the concept of long-term savings. Long-term savings is about minimum fees, it's about open architecture. But it is quite amazing. If you take that shared value equation, it's interesting that this excellent alignment of incentives are between us and the people that stay with us.

The simple point is this. If people live longer, we make more fees, because we had asset management platform fees for a longer period of time. If people live longer, they need more income because they're living longer. So if we can align those by scooping up the value created and sharing it through the customers, to our customers, it creates a perfect shared value model. And that's exactly what we've done over this period through our retirement products, through our linked annuities effectively through really having a bit of a complicated table.

But having a product that offers the best retirement income, and in fact it does that, by offering a boost to income based on how do you gauge in Vitality and your level of how you're drawing down. So if you're leaving your money with us longer and you are managing your health, we'll boost your income. And effectively that's funded through the shared value mechanism.

The results of that I think have been staggering. As you can see, the business in this category for us has grown by over 70%. Nearly 90% of the people are saving through this process while choosing our Discovery funds, which we think is good for them, but it's certainly good for us. The levels of Vitality engagement are climbing dramatically. And finally, the VNB margin has gone up 10% on this business, really illustrating I think kind of a perfect shared value process of creating economic value in sharing it between us and the people we save with. We hope to do more of that going forward.

Let me turn to the UK, Vitality Health and Life, a very complicated year given the nature what the UK went though. I thought I'd just make the point upfront that we've gone over the last number of years to acquiring the JV from the Prudential. It's better down the life insurance license is now our own. So it's a kind of a closed business in the model of Discovery.

Just to give a sense of its scale, it's not a small business any more. It covers over 900,000 people in both life and health, it has over 12 billion of premium revenue and it generates over 850 million of profitability. So the UK business for us, of course, is very, very important and of considerable scale.

And the architecture is following exactly what we do. And what I think is very exciting is that the UK is extremely receptive to shared value through Vitality. We're getting fantastic results. So on the left hand side, you can see that, again, silver, gold, platinum what they're called in the UK, levels of engagement tend to claim. We've seen an amazing increase in physical activities through active roles, an 8-fold increase.

And then just by way of numbers, in the UK, Starbucks is our partner. So people get a free Starbucks every time they achieve their goals and we bought over 1 million cups of coffee. I think 80% is our team when we go for Board meeting but be that as it may, over 1 million cups of coffee bought through Starbucks, illustrating kind of the frenetic activity that we're getting through the process.

So we have built a chassis that I think is remarkably powerful and that's where we are driving off, and we've built a brand there. As I understand, Vitality Life Health was awarded the best brand in the UK through the work that they've done and that's a great thing.

Vitality Life itself had a very complicated period. The business continues to grow, continues to perform as we'd expect, but the fundamental issue, and I wanted to make the point here, is the dramatic drop in interest rates. As I think you'd understand, life insurance is about getting premiums, investing them over a long period of time and then paying out claims.

Obviously, if rates of interest go down, long-term rates of interest go down, your risk returns are lower, you are either going to charge more premiums or you incur losses. So what happens with existing book, your existing block starts getting strained, you're going to raise rates for new business and therefore it is a complicated environment.

The drop in interest rates actually have been literally weak before our year-end, but are baked into the valuations. So we did embedded value calculations, profit calculations. All of those issues, those lower activities are baked in. They are the lowest they've been, I think for 200 or 300 years, so hopefully this is an outline hopefully over time, they will climb up to where they should be.

There is also some artificiality behind them, as you know. The Bank of England is buying up bonds and trying to bring that yield curve down across all durations. So there is a focus on that, but we have to understand that and we are prepared for what that might mean.

On the other side, I think I made this point clearly, so one step back. So it affects pricing. Rates have to go up for new business, it affects profitability, it took off a couple of million pounds of our profit, and importantly, it lights up part of the EV. We took a knock [ph] of GBP26 million, just [ph] half a billion in embedded value because of that drop in interest rates.

But there is a compensating effect and I think I made this point at the six-month term that while environments are complex, and in any economy, at some point of time, you got volatility, the Discovery model is fairly immunized. We tried our best at the last presentation to illustrate, as things move around, there is some robustness. And therefore, we had some compensation. While that happened in the UK, the currency strengthened over the period. It subsequently weakened and is starting to strengthen, but in effect, we had some compensating factors.

So if you look at Vitality Life's results, despite the difficultly in pounds, it continues to grow. Operating profit up 5%; new business up 4%, despite having to increase rates. But in rands, the currency compensated. So strong tailwinds from the currency appreciation of the pound, and if in rands, up 25% profit, up 23% of new business. So it really does compensate. But going forward, there are real headwinds. Should interest rates stay low and the currency weaken, that's really problematic. Should interest rates climb and the pound strengthens, that's hugely profitable for us. So we've to go to navigate this very, very carefully.

Having said that, the business continues to really grow. I keep showing these statistics and I hope to make it clear, the model is kind of omnipresent in whatever we do and is working well. 60% of the business really is on the Vitality Optimizer, the shared value chassis. Claims levels on that about 40% lower than the standard, which is remarkable and lapse rates continue to be I think very much under control.

The way we want to navigate this environment, and I alluded to this six months ago, but it takes time to get this embedded into the market, is really restructuring parts of our product. And this really is based on, I think, two important things. Firstly, the cost of life insurance is a function of two inputs; one is mortality, obviously, and the second is interest rates, that if you can earn higher rate of interest, you can charge less obviously.

The second point is kind at a moral level, it's a bit like buying a -- taking out a mortgage when interest rate is incredibly high for 30 years. Kind of this mindset of saying to people, why would you buy a 30-year contract when rates are so low and it's costing you too much. So we've applied the idea of the Vitality shared-value into this metrics. It's now not just about Vitality, but about interest rate changes, so offering the people the ability to buy the whole life insurance at a rate that's lower and flexing that over time based on, not only how they manage their health in one dimension, but how interest rates play out.

The potential of it, I think, is quite substantial. Standard whole life for a, say, a male 35 Gold Vitality status used to cost about GBP85 a month. With interest rates coming down, that's now gone up to, say, GBP102 a month. On this structure now, we can offer a dramatically lower cost product. If (inaudible) continues to manage the health and rates goes up, they'll retain that. If rates don't go up and go down, the rate will climb over time by those increases in the metrics.

So really applying the Optimizer mindset, the shared-value mindset to not only optimizing health, but optimizing interest rate fluctuations. And I think this offers us a great ability to immunize Vitality Health from interest rates, but at the same time to offer our customers the ability not to lock into expensive rates that probably are temporary in terms of interest rate. So we're looking hard to get this embedded in the market. It is a difficult process. This is not a simple concept, but if we can achieve it, I think it offers Vitality Life great potential.

Let me turn to Vitality Health. I've made the point about the difficultly in the first six months of the year. You see that coming through in the operating profits, much worse in pounds than in rands. I think for us, the story is getting on top of that in the last six months, and particularly the quality and scale of new business, which has been saving, even in pounds, up 20%, up 43% in rands, so dramatically higher than the previous periods, repeating the growth that the second half is really, really much better than the first. But the businesses' fundamentals are very good. The loss ratios continue to be under control, and in fact, down-sloping; lapse rates continue to be down-sloping; correlations of Vitality continue to be excellent.

But the real issue for us is new business, quality of new business and the ability to ameliorate the new business strain coming out of it, because individual new business is expensive to write. But to make the point here on the left hand side, looking at profitability on a premium basis between corporates, SME and individuals, you can see that individual health insurance is much, much more profitable and our ability to write more of it is good for the business, but it's expensive in the short-term.

You can see how we are achieving that. If you look at 2015 to 2016, new business grew by 20% in pounds, but you can see the share that's individual has grown from 39 or just under 40% to just over 47%. So we're getting a lot from individual businesses. And then I think very exciting on the right-hand side, fully 85% of the business we're writing has never bought private medical insurance before. So we're appealing to a new healthier market, a younger market that is looking at those products through the DTC channels. So I think that bodes very well.

And if you look at the makeup of the profit, you can see kind of what's at stake here. So if you look at the profit of Vitality Health, it's not sufficient. We have to grow the profit base quite substantially. But I wanted to breakdown what makes up the profit. The existing book throws out about GBP37 million of profit cash, highly profitable existing book. We have to finance our financial insurance and then restructure against it. There is the 5 million overrun that you see coming off it. And then there is substantial new business strain writing the individual that brings you down to a GBP9 million profit. So this really is a business about very, very narrow margins.

And if you can write quality new business and ameliorate more of that strain, the ability to grow profit, I think, is substantial. So the focus really on the team is on acquisition, on acquisition costs, on quality of the new business and of course maintaining the quality of the existing block that throws out that GBP36 million of profitability. And of course, if we can do that, I think the ability to grow the book is very strong.

So UK itself, I would say to you that environmentally Vitality Life really has to navigate the economic environment. Vitality Health, I think, challenges are more internal. Both of them I think are well placed going forward depending on how the environment plays out.

Let me turn to the -- I am going at quite a pace. I hope you are following me. I haven't a clue what's going on myself. I'm going to just keep going. So let me go to the new initiatives. And just maybe make the point, I think we all are very comfortable and happy with how the existing businesses have performed. The new initiatives are, I've tried to highlight them along the grid, of course, Discovery Insure, Discovery Bank and then our partner markets, Ping An Health and the kind of the franchise metric structures created with other companies.

I want to take you through this because I think the notable thing about this set of results is we've spent 73% more on these, and we're funding them through our income. So that's a critical thing of the way Discovery grows. You can go through acquisition, which I think very seldom really creates value. We're trying to build the business based on organic growth and critically building it along our model across these different adjacencies and markets.

And I'd say too you need to understand is that building an institutional business does not happen overnight. It takes five years to get to profitability in our experience. If you look at Discovery Invest or you look at Vitality Life, they take time, and you get to real estate, it takes five to 10 years. So if we talk about new initiatives, and I keep talking about Discovery Insure, it is a new initiative. We've built it from the ground up from the first days, from the first policyholder, these things take time.

But I'd say too that the year under review has been very similar in this regard. I think we're building four exceptional capabilities and that a different phase of the evolution, they're exciting, they're reaching profitability. So Discovery Insure, I think, is a state-of-the-art property and casualty company, loaded with technology, data capability. It is now basically profitable. We expect profit in this year. Going forward it will be fairly capitalized. It's about statutory capital.

In the case Ping An Health, it is I think the leading health insurer in China. It's remarkably well positioned, the market that's going to grow. It's essentially at the profit level. Its profitability and its capital requirements will be dependent very much on how Ping An wants to grow it. If there is a drive to grow it really rapidly, that will take capital. We have to see how we support that, but I think the opportunity is massive, but it really has come a long way.

And then the Discovery Partner Markets, which started out just two or three years ago is a simple idea. It's kind of in its third year. It really is starting to move, and I think this year, and this year that we are looking at, has been quite remarkable in that regard. It's fairly capitalized going forward. It doesn't require much capital. I think this is 300 million to 500 million over time of very little capital, if you can achieve it.

And then the banking, as I said, well, I'm not going to say much, it really is nascent at this stage, but of course, if we get that right, that will add dramatically to the group. But the point I'm trying to make is we're building four big initiatives, all of them on exactly the same chassis, same DNA and I think will add considerably to our growth potential.

Let me just talk about Discovery Insure. First point to make, you can see on the left hand side is the combined ratio, illustrating how the company has kind of glided down to profitability. So combined ratio, claims, expenses, everything about it, premiums is now at 102% level, moving into profitability. We expect profit from Discovery Insure in the next year. And new business, I made the point, is really a tale of two halves. You can see the second half growing very strongly. The first half, we actually tightened up our rating, so our rating in the premium bases and underwriting.

I've shown this to you many, many times, but I have to keep just repeating, the success of the model has been remarkable. People drive a lot better when they're engaged in the program. So all the tools we are using, all incentives is working with, people follow them. Our loss ratio goes down dramatically.

And then the second from the left, we're losing people that are bad drivers and retaining people that are good drivers. The effect of this is it has a durational impact. People come in and they learn to drive better and the bad ones leave and the good ones stay. Over time your book gets better and you can see the loss ratio effect by duration is very marked. The lapse ratio by duration is very marked, and therefore as the business gets older, it should show a considerable value.

The question of course is given its scale, why is it taking four or five years to get to that profitability, which is very interesting because first point to make on the extreme left hand side is, if you look at the history of startup short-term insurers, Discovery Insure by quite a margin is the fastest growing of all. That's happening in the last number of decades. So it is growing really quickly.

Second point to make is the scale is now, if you look at the motor insurance side, nearly 150,000 cars that are covered through the growth has been staggering, but the real issue here is that while the new business is growing at kind of 7% to 10% and grow faster, it's big slices of new business. So the revenue growth in the last year has been 36%. So this business is growing at a rapid rate.

Now the problem with that is that if you grow at a rapid rate, your mean duration doesn't grow. I hope that's pretty clear. If you grow infinitely, your business is zero years old. I hope that's clear, right. So while you get this duration effect, as I said in the last slide, the fact is mathematically we see that the rate of growth of Discovery Insure, every year that we age, the book only ages about 3.8 months. So if you're four years old, the business is only ready a year and a bit old. That's the problem. So while Discovery Insure is four years old, the book from a duration perspective, its mean duration, is a year and a bit.

And if you have not yet seen the value of this, keep going back, this duration impact coming through, we're now starting to see it. So the combination of scale, the combination of quality and then the combination of duration is now starting to come through in terms of the profitability. And we have high hopes for going into this year, this current year and of course going forward.

I think at the same time, I wanted to mention two things about the Discovery Insure model that is remarkable. The one is, I think this is notable across most of the motor insurers, is the fact that with the currency depreciating, with the dollar getting stronger, claims cost for a lot of the parts are denominated in dollars and that makes it difficult.

Our statistics show, for every 10% depreciation in the rand, we get a 5% increase in cost of claims. That's effectively what we see. So we've seen over the last period, on the left hand side, that's had an impact to the cost of claims. But amazing, on the right hand side, has been the effects of the model. By getting people to drive better, the severity of accidents has gone down. So we're seeing less accidents. So the combination of the two has allowed us in this financial year really to immunize the effect of the currency. So one occupation of course of the model.

The other I just wanted to show you was, I found this quite fascinating, but the data and statistics and the ability of the team to understand this is remarkable. So we've been crunching data, I made the point, I think we have 4 billion kilometers driven that we've tracked in different ways. We have the ability now to, at the point of people taking out the product based on age, gender, what car they drive, we can predict what kind of accidents they are likely to have et cetera, and I think that's important.

But the amazing thing is on the right hand side. We learned that (inaudible) impact alert. What we're doing very carefully is, when someone has an accident, we can probabilistically know the time of the accident without even telling us, which we can see the G-force and what's coming from the data.

But what the team has done with the data, I think is quite remarkable, is that now based on when an accident happens, they can predict what the damage is, what panels need to be replaced, what the severity is just by looking at the data, and they have managed to build models that really correlate the nature of the accident with how much the repair should cost. So the power of that in reserving and pricing is incredible, but the power of that in fraud detection is remarkable. So we know what the cost should cost probabilistically versus what the penalty to actually charge is, and you can get a sense of what's really going on. So it really is a powerful use of data that's helping us price the product better.

Going forward, and I think the opportunity for us, of course, is to make the pricing more acute. I made the point at the outset that the learnings from Discovery Life are going to be applied to Discovery Insure. In two weeks' time, we are going to roll out a different pricing model that I think will bring a lot of that shared value into the (inaudible) from perspective. So we have great hopes for Discovery Insure.

Let me turn to the, what we call the Partner Markets. I do want to say to you that this has been a tremendous year, which started out as kind of a JV with AIA across Asia Pacific. It became like a franchise model with us doing a few of these with different companies around the world, and as it became clear we could do it, we were approached by many companies. So it's become kind of the global Vitality network, signing up key partners in different countries, basing it on common chassis, common brand of this idea of globally Vitality shared value insurance, building global partners like Apple, using Starbucks in most of our markets, the same common data and technology, and combining the data at the center to understand how we can keep building this.

I'd say too, the year under review has been remarkable in the activity. But the AIA rolled out in Hong Kong, in Philippines, in Thailand, in Malaysia. Each of these require a massive buildup capability. Generali, we rolled out in Germany just two months ago. We'll be launching into France. Manulife, a lot of work is being prepared of rolling out. They announced the launch a few months ago on the rolling out.

This year we rolled out Active Rewards with Apple in the US market. Ping An, I mentioned doing the Active Rewards rollout, and then finally, we announced the partnership with Sumitomo Life and SoftBank in Japan to bring that model into which is a very, very sophisticated large life insurance model. So it really has been an incredible period.

I wanted to show you, I hope it comes out now, a video, to just give you a sense of how -- sorry, one more point that I thought is important. I think with this model as a faster [ph] network, we are learning more and more about how to do this. So in the case of Generali, we rolled that out two months ago, the results they've achieved have been staggering.

What that shows you on the right hand side is simply their new business, prior to the Vitality link, and then in blue, the Vitality sales and the effect overall has been to more than double their new business in that market. So if done right and done well, the ability on our partner insurance is absolutely tremendous.

At the same time, we're learning more and more about how to find partners. In the case of Sumitomo in Japan, we've actually done a tender in the Japanese market and we chose Sumitomo. So the model really has got much more commonality around economic framework, structure, partners, the effect on our partners.

I want to just give you a sense of the activity. Please bear with this, a fairly short video, but give you a sense of (inaudible) of scale, but we're kind of changing the world if we get this right, and I think we are very excited by it. (Video Presentation) So I think the opportunity is vast. It really is a global network. Give us some time with it, but I think the potential is quite remarkable.

I am going to end up with Ping An, Ping An Health, which has had a tremendous year. Every year, we come here to show you the growth of Ping An Health that has been staggering. I think the year under review has been really quite special. I think it's much more disciplined. There is a new management team in place. The growth is strong.

But I think we need to be careful to be overly optimistic about it. China is complex. But it seems to be essentially, I think, at this stage a vulnerability [ph] about the growth of health insurance. You can see the rapid growth of new business of actually a fairly high base, but the growth is staggering and there is a feeling that we're just really kind of touching the surface.

The reality is that the focus on healthcare in China is remarkable. The 13th Five-Year Plan of government focuses on powering [ph] insurance, focus on powering health insurance. You can see the middle of the slide, the number private hospitals has grown from 3,000 to 13,000. So the focus on private healthcare is growing strongly.

And then I think a very notable point is Ping An itself as a group is investing heavily in healthcare. So they have a very strong conviction about building X doctor capabilities, a whole wrap around healthcare in addition to Ping An Health. So the team's direction is strategically kind of a no-brainer in a way.

Ping An Health itself today is the leading specialist health insurer in China. It's growing faster than major competitors like Cigna and other companies. The major breakthrough for us over the last two years has been really the individual health insurance space, using the Ping An Life distribution channel. As you know, there are 1 million agents there. We are not using all of them yet, but you can see the staggering rate of growth. We rolled out this year a number of Internet-based products. They are also getting traction.

And at the same time, I think it's important to say that the quality of the business is really good. Lapse rates, loss ratios of the block, is in fact quite a bit lower than what we used to. So the company really has great potential. I think you have to leave it with us. There is still some way to go. It is really approaching profitability, but it depends on how we invest for growth going forward.

So the point I wanted to make about the new initiatives is really building three businesses, Ping An Health, Partner Markets and Discovery Insure. All of them I think are material, have got potential, all of them all are close to a profitability phase, don't require that much capital going forward, but offer us considerable potential going forward and we're excited about that. The bank remains at a nascent phase and we'll tell you more as it rolls out.

Let me wrap up by saying the three themes I hope all completely sort of evident now that you see in the presentation, a very strong existing business performance, a very strong focus on new initiatives, a complex environment that we carefully navigate, and we'll not hide behind, confident that we can manage it and continue our growth. We are all very excited about the prospects ahead. We've been very careful in our capital planning, our dividend path to make sure we meet all of these needs in a balanced way. So in short, a very good year from our side, an important year, a complex year, but excited about the future.

Appreciate you listening. I hope it hasn't been too much of a mouthful. It's hard to get our group into kind of a condensable form. I've tried my best. What we are going do this year though is not take questions from the floor. We found that people like to speak with key executives one-on-one. So all are here except our two UK CEOs who aren't here, but they're here for your questions that you may have and I'm going to wrap up this session.

Appreciate the time and thank you for listening. Thank you to the Society.