Y 2011 Earnings Call

Company Participants

- Adrian Gore, Group Chief Executive Officer
- Anton Ossip, Chief Executive Officer, Discovery Insure
- Corporate Participant

Other Participants

- Analyst

Presentation

Corporate Participant

Looks like, it's only standing room only, but it's great, it's wonderful. Mr. Adrian Gore, Members of the Board and the Executives of Discovery, once again the Investment Analyst Society would like to thank you for inviting us this morning to come and share the results for the year ended 30 of June 2011. Discovery is in its 20th year. It was formed and established in the early 90s and was listed in 1999 with the market capitalisation of less than 2 billion. Today, it is one of the top 50 companies in the South Africa with market capitalisation approaching 23 billion.

It's a company that is built on the foundation of creativity of product, innovation, and the result is, as we can all see, and what we're going to showing today is the sustainability of value and return for all its stakeholders. So, Mr. Adrian Gore, thank you so much once again for this opportunity to gain insight into the year that has passed. And no doubt you'll give us even greater insight as to what we can expect in the year that lies ahead. Thank you very much.

Adrian Gore {BIO 3068929 <GO>}

Peter, thanks for that kind introduction. You did such a good job, I actually don't want to stop you. You do better than I do I guess and thanks for the introduction. And ladies and gentlemen, thank you very much for the time. It has been a, for us a very, very complex year, quite a tremendous year. It's been a year of great, great, as I think you know well volatility and challenge. European sovereign crisis, the U.S. downgrade and the NHI policy debates. Just massive amounts of political, economic, and in every sense volatility. Having said that though, for Discovery, it has been quite a remarkable year. To the large extent, I think certainly to my mind, it's been seminal year in every respect.

And what I would like to say is four distinct kind of things we be focused on; growth, critical innovation, our focus on quality throughout the businesses, and then importantly on our business model particularly our focus on discipline. Now, I am going to say a lot here, our because is getting bigger and bigger with all different pieces that you can see. But I thought, at the outset what I would like to do is talk about five distinct themes or five distinct achievements that hopefully you will see through the presentation of... The first I think is simple financial. A very strong financial performance. We strengthened our capital base and we are in a position now going forward to continue to grow to exploit opportunities without recourse to additional capital.

The second, it's a year of tremendous, tremendous corporate activity. We acquired Standard Life Healthcare in the UK. We injected that into our JV, opting our shareholding from 50% to 75%. We took delivery of Ping An Health, shareholding of Ping An Health from China. We did a JV with Humana through HumanaVitality in the U.S and we rolled out Discovery Insure in the South African market. So, a year of great, great activity. If you look at our genogram, that's how we looked essentially at the start of the year. During the year, we added Discovery Insure. We changed the JV from 50 to 75%. Vitality Group grew with the addition of HumanaVitality in the U.S. And with Ping An Health was there and in fact we took delivery of, really starting to operate the business with the management.

So, from a corporate activity prospect, it was a very, very complex year, very active year and I think a very successful one. Now, what you all see throughout this presentation, kind of our presence, is into three key components, Discovery's businesses, Discovery Health, Discovery Life Vitality and DiscoveryCard. Our emerging businesses that are I think really care PruHealth, PruProtect, Discovery Invest and there are new businesses Ping An Health, Discovery Insure and the Vitality Group in the U.S. And I'd like to talk about kind of essence throughout in that kind of category. So, the third thing or the third piece, I'd like to say to you is established businesses performed remarkably well. Very strong performance, very robust performance. And I think great focus on quality that has come through the embedded value and positive experience variances and in the margins, you can see that quite clearly.

The emerging businesses to me have been the star of the show for the year PruHealth, PruProtect and Discovery Invest, all are now profitable, strongly profitable and strongly in the markets. And I think offer fantastic opportunity to drive new business to grow profitability throughout different parts of the world and different parts of our organization. And then the fourth point, the developing businesses Ping An Health, HumanaVitality, and Discovery Insure affirmative and embryonic, but the performances has been remarkable. Very good section in China 300,000 covered in the U.S. that is 700,000 members that we've done with HumanaVitality and Discovery Insure had remarkable literally 12 weeks since the business really started to operate. We do already about the 1 million or 1.2 million, I think per day at new business.

So, the kind of traction of the developing business has been very, very strong. So, throughout the presentation, I hope it becomes clear that these are the five kind of things that portraying the results certainly into my mind. Let me touch on one other issue, before I dive into the actual observations and start talking about the businesses. The focus of Discovery has been around is very simple, but we all convinced they are making people healthier. And the manifestation of that has been a business model that providence getting people engaged in health and wellness in the foundation of what we do. And then on the back of that building, health insurance, life insurance, financial service and other kind of things that fit into that model. Of course Discovery Insure I touch on later, fits very nicely and you will see that.

But I think over the period under review, there has been a much more disciplined focus on understanding how that business model works? How to scale it? How to repeat it? How to export it? And we built essentially that business model with Vitality as the base into the health insurance kind of construct in the left. And on the right hand side, the Discovery Life along with taking Vitality, plugging it as a base to Discovery Life. And they are doing the same thing very much in the UK. And to a large extent, I think we're understanding more and more the science of this business model. In the health insurance context that brings unhealthy costs and improves the persistency which is critical and fundamental in health insurance fund.

On the life insurance side, the effect is dramatic, it allows to dynamically price risk, it allows us far better vitality experience and critically as well. On the lapsation side, you can see that coming through far better persistency and like conduct persistency. So, during the period, there was already a disciplined focus on creating in the sense a repeatable model that we could roll out. And I think you'll see throughout all the businesses I talk to, it's really, this construct that is kind of being repeated all the time, replicated and the results coming out of it I think are particularly compelling and successful. So, let me talk about the businesses starting at the top of Discovery overall, let me go down with each of it.

Firstly, Discovery itself, a very strong period, operating, earnings up 32%. Strong new business and you'll see that throughout the entire Group, I think that is very, very strong and diverse new business. Embedded value reflecting I think growth and quality up 19%, and very strong positive experience variances reflecting the quality of the business, the margin of the business, in fact outperforming the assumptions made.

The established businesses Discovery Health, Discovery Life, Vitality and DiscoveryCard, I think all performed remarkably well and you'll see that throughout the presentation. I am not going to talk about Vitality much or DiscoveryCard, there is isn't sufficient time. But health itself, Discovery Health had a very, very good performance, operating profit of 14%, a very strong growth in the membership base. In total, a focus on investing into the healthcare system, I am going to take you through some of those ideas later in the presentation. Discovery Life had a tremendous period, operating profit of 16%, very strong new business. But the protection market itself, as you may now from the latest statistics and in fact by shrunk by 11% due to the difficult climate.

In reality our core risk business has grown by 10%, but I think what's important is we have been focused on quality or lapses of mortality experience on new business margin et cetera and throughout all of that I think we've done remarkably well. As I said I am not going to talk much about Viability in isolation, all the DiscoveryCard, the performance has been very, very strong, Vitality really as I've just shown you is a foundation of a lot of what we do. And I think we are understanding and investing more in the technology, in the science of vitality and getting great results out of that. The DiscoveryCard had a tremendous, tremendous performance. It's now close to 9% of the entire credit card market.

The book exceeds about 2 billion and the performance from a credit perspective is excellent. The profitability emerging out of that between us and JV has been quite exceptional. So, it really has been the very successful roll-out. Having said that the DiscoveryCard is kind of the foundation for what we do. We're using Discovery Insure. In a sense, Discovery's payment system in a way. So, there is a lot of opportunity embedded in the DiscoveryCard. So, Discovery within I think are very, very strong. The emerging businesses as I said I think if all performed well PruHealth seminal year in the UK for both PruHealth and PruProtect.

Operating profit up 61 million from a loss of 300 million in the previous period. So, lot of work is going there, and then I will take you through what we focused on in the context of PruHealth. I think a very successful acquisition Standard Life Healthcare performing better than we expected. And I'm very pleased with how that business books. PruProtect to a large extent I think is start of the show. We are building a great life insure in the UK that's captured about 8% we estimate of the pure life insurance market in the UK. It is now profitable. And across every single dimension of the business, there has been a great, great success, strong new business, quality new business, high average premiums, lapses better than expected, mortality better. So, you can see that coming through.

And then Discovery Invest, also I think testing period. Profit up to over 100 million, basically breakeven in the previous period. Assets under management growing dramatically to over 17 billion and great traction throughout the business. And again, I think the critical thing is the actual dynamics of the business have exceeded on our expectation. And then I think we're building really great exciting powerful businesses in the context of our new embryonic business, I will call developing businesses. Ping An Health early traction has been good. HumanaVitality is a very existing initiative in the U.S. There is lot capital, our peers are fantastic, - translation of taking that repeatable model and kind of bearing it into the U.S.

And then Discovery Insure, the point I made, fantastic roll-out, great launch. I think hope we get across to you. I think the intellectual concept behind Discovery Insure really is a manifestation of the Discovery business model in a different way you will see that come through.

So, let me start with the performance. Operating profits up 32%, just two things really - I've touched on it. Discovery have the robust performance of 14%, just under 1.4 billion. Discovery Life up 16%, you can see that coming through just under 1.6 billion. Vitality had a strong growth, but I keeping making point the Vitality will wax in vain that's not something that we actually focused on in terms of driving its earnings. It's about a foundational piece of Discovery. Discovery Invest itself has grown dramatically, really a breakeven in the previous period. And then a strong growth in this period and I think it's going to grow dramatically going forward.

Now, before I get to the prudential businesses in the UK, at the interim stage, we did make the comment that there is a lot of complexity in the transaction from accounting standpoint with Standard Life Healthcare, effectively what we did is we disposed about 50% in the JV, we then acquired Standard Life Healthcare, step two. And then we took Standard Life Healthcare and put it into the JV for 75% of equity, that was really the accounting steps. That creates all kinds of accounting complexities, you go to mark-to-market, the value of the business, when you dispose it and then it is comparing 50% to 75% in this period. So, what we've done in the accounts with the interim period is focus on normalized earnings, you compare life with life, you can see that flow through.

But - and I go through the presentation. So, PruHealth up to 61 million, operating profit that's 50% in the previous period, so close to 300 million of the business, our share was 148 million. PruProtect in fact is profitable in the second half of year, we have seen operating loss there, but it was in fact part of PruProtect's model, utilise its tax efficiency inside the prudential. So, the tax value only comes right at the bottom of the income statement, but effectively profitable, I'll take you through that a bit later. Just going back to bring that altogether, what you see is operating profit up 32%. I think what is exciting for us is if you add together the emerging business as you can see, that we pull them around quite significantly over that period.

The profitability, I think in this year has been strong, but it is really, really embryonic. Our expectation of those emerging business going forward is they are likely to grow very, very strongly into the future. And then finally right at the bottom, we spent typically about 7 to 10% on developing new businesses, new markets. We spent the similar amount this year in fact slightly less than in the previous years down 5%, or up 5% from a positive perspective to 206 million, a bulk of that was around Ping An Health and the development and launch of Discovery Insure. So, adding it all up, you get operating profit right at the top, up by 32% to just under 2,84 billion.

Now, I'm not going to go through the technical details of this, I will go right the way down the income statement. I will do at the interim phase time to explain the complexity of Standard Life Healthcare acquisition in fact it hasn't make kinds of, all kinds of swings.... But starting with operating profit right at the top of 32%, if you take these distortions into account, you get your profit before tax, third from the bottom up 38%, that is a bloated number, it's not compared like-with-like. And therefore, we normalised that, it get normalised headline earnings at 31% to just down the 2 billion. So, there is a lot in there. And question you want to ask, hopefully it should went through those and explained the rational.

Headline earnings per share, up 31%, and graphically you can see that I think the growth is very, very strong. In fact I think the growth is the strongest that's been for the last five years. And what is gratifying is that the growth now is coming from a wider range of different businesses and I think that bodes well for the future. I am pleased to say that we have declared a final dividend of R0.48 a share and we added to the interim dividend, we have a R0.90 a share in total up 30% year-on-year. So, I think a strong financial performance. Let me go to new business, I made the point that I think new business growth is strong, you can see it's slightly down at 2%, but that's 2% down from the 5 billion, but the bulk of it, and in fact entirely all of that is due to Discovery Health. Discovery

Health had a massive previous year, that's lumpy corporate business, I will share that in the moment, the Discovery Health went down 13%.

That's interesting, if you look at Discovery Health, it's a massive business offer very, very big base and to grow that base is of course very difficult. Despite that, over the years we've managed to grow up by strongly 5, 6, 11%, but last year it was a massive growth. There were three large corporate schemes Remedi, Altron, Life Healthcare they joined Discovery Health. So, you have this huge jump of close to 50%. Now, obviously that is not repeatable, big corporates are lumpy that come on with three locked in one kind of, altogether I don't think that we're going to repeat it that easily. But what you will see is the production although down, in fact if you look at the trend line is strongly up. And one of the features I think of Discovery Health, you'll see in the Discovery Health Medical Scheme is the growth of membership is actually, if anything is accelerating, despite the very large basic we have.

So, this is very gratifying and I think very important going forward. Certainly Discovery Life, new business up 5% to 3.6 billion, but that includes Automatic Contribution Increases, which are the automotive premiums that reflect inflation, inflation is really flat. If you look at the core risk business, it was up 10%. So, that's we think a very strong growth, specially in the market that to an extent as we understand shrunk by 10 or 11%. So, we're very pleased with that. Discovery Vitality will reflect kind of the health growth to large extent. So, that again will wax in vain. And if you look at the emerging businesses, Discovery Invest, a very strong performance, up 12%, but in fact Discovery Invest, those right at the bottom, I hope you can see that, guaranteed bonds if that we kind of, depending on what capacity we have in the year under review. We spoke that down a bit from 1,7 billion to 1 billion, it's part of our capital funding plan.

So, we slowed that down quite a bit, if you look at the actual production inside Discovery Invest, the single premium production the recurrent premium production up 30% and 25% respectively. So, very, very strong performance inside Discovery Invest. PruProtect up nearly 30% new business and PruHealth had a fantastic period, up nearly 50%. Now, we give you the Standard Life Health acquisition, well in fact the bulk of that business was sitting inside PruHealth. So, very strong new business production in the UK. Well, I think it's important to go back and just emphasize, when you add that together you get the top new business line certainly up to R7.5 billion. Again, I don't want to talk to the emerging businesses, I would just like to point about the diverse, I think it has been a year of focusing on new businesses and focus on getting real scale. What is exciting is Discovery Life is of course for us a very pivotal important and that's kind of an example we'd like to keep replicating and emulating. So, if you look at the Discovery Life new business and you treat that as a horizontal line of 100% is exciting. If you look at, all the business is coming on-stream.

All are doing significant new business and the embryonic they are growing very, very quickly. But if you add them up together on streamlining side, you'll find that some of it is now like 150 to 160% of the Discovery Life business. So, the quantum of business being done, I think substantial, the quality is substantial. And I think diversity, which is very important, because the opportunity keep out strongly into the future. Turning to embedded value, I think this is a very important measurement, illustration from actuarial perspective the kind of the progress of the organization from one peer to the next. And re-reflect issues of new business margin, issues of quality in the business. We had a very strong growth in the embedded value, up 19%, you can see to 26.8 billion. On embedded value per share basis up to R47.86.

What is interesting, if you breakdown kind of the growth in the embedded value from previous period, all the way to this period about 19% growth. What you'll find, it is made up of certain controllable events and others are not controllable. The economy change in the tax basis et cetera. What is gratifying is that most of the growth, by virtue all of it, is on the controllable side. We've been very successful in terms of new business. You can see we added 1.5 billion of new business value to the embedded value. Over 600 million of positive experience variances reflecting that the organization is outperforming an effect on the actuarial assumptions made inside. So, when you bring these big numbers together, you will find that the growth is largely on the back of controllable events.

Let me talk a bit about the experience variances, I think they're very important, they reflect how the organization is performing against expectation. I made the point on the left hand side, that there is over 600 million of positive experience variances, made up of a whole range of different causes as you can see. On extreme right hand side, very important is our lapse performance, as you see rates retention significantly. So, the performance has been good both in Discovery Health and in Discovery Life. The business is more persistent, it's come down inline with expectation, in fact better than expectation.

Third from the right, mortality and mobility has outperformed the expectation. And in fact across the board it's interesting that the second six months of the year, - in the first. So, we kind of, we are doing well and doing better as we go along. So, if you look at for example policy alterations, servicing people buying additional parts to an existing policy. You can see we are slightly below expectation in the first six months of the year, if you explode that out into the second six months, in fact we are better than expected. Premium income in terms of automatic premium increase, as you can see was better in second six months of the year.

And then importantly on left side, a very strong positive performance. You can see on the second six months of the year an excellent performance, both are positive, but getting better over the time. So, the embedded value has been, I think very strong and reflects how the organization has tend to perform from one period to the other. So, let me go down and start drilling into the actual businesses. I keep making the point that I am not going to talk much about Discovery Vitality or Discovery Code, I will established businesses, Discovery Health and the Discovery Life. Discovery Health I think had a fantastic performance. I have shown you some of the numbers, operating profit up 14%. The number of members has grown, of a very big base of over a million families at the previous period climbing by 8%.

We are doing a lot of new business and in fact the lapse rate is remarkably low, focus, and in fact drifting sides ways and downwards to 4.07%. You see that I hope clearly on the chart. I don't know if any health insure or medical scheme that has lapse rates at that level, most to be 10 to 20%. So, sitting at 4% and growing the new business has kind of added to the fact, when you see the total membership growing very, very strongly. The focus in

Discovery Health, I think it's been a relatively very complex business, it deals with complex, clinical, actuarial, technological regulatory change, that's kind of the nature of the health and funding healthcare. The strategy in fact was quite focused and clear. The first issue is an issue of size, importance of growth, importance of scale, the importance of sophistication that is fundamental in healthcare system. We continue to focus on that.

The second is making sure that our members get value from money, the option that the Discovery Health Medical scheme offers per unit of premium, per unit of contribution is cheaper, more appropriate than our competitors. We focused toward quality of risk management, clinical management capabilities. And then fundamentally, we are working more and more, investing more into the medical, into the healthcare system to make sure that experience our members get and doctors provide is definitely more appropriate, more efficient. So, there is a very multifaceted focus in the context of Discovery Health.

In terms of growth, you can see it's interesting that Discovery Health and the medical scheme and the other stuff that we do, is growing quicker than before, despite the very deep base. You can see graphically, has accelerated over the last two years. The resurgence side, the Discovery Health Medical Scheme have grown strongly, it's over 7 billion now. From an actuarial perspective, from the risk base capital perspective, the Discovery Health Medical Scheme is significantly over capitalised and very, very strong. The law is require to sit at 25%, we are fluctuating between 24 and 25. So, if we keep investing in the solvency resource through contribution. So, that process will continue, which you can see tremendous growth in both the scheme and in terms of the total.

Now, it's worthwhile saying and I thought I will chase the examples of, it's a complexity of managing healthcare cannot be overstated. It's complex and you need scale and for a number of clinical and actuarial and selection issues, we have this massive disease growth that we have to keep managing. Across the board incidence of cancers is up, if you look at, this is an example chronic rheumatoid arthritis, if you look at the actual increase in incidence claims per 1000 lives is up like 15 to 20%. The cost per claim, it is up 30 to 40%, in may of these conditions, particularly cancer. The new biological drugs that are hugely effective, but prohibitively expensive. So, when you cross multiply, incidence going up, by the cost going up, you get the total cost per life, per month going up at 50% or more. So, these little kind of forces that having to deal with.

Amazingly, we have also seen the path of false selection, I mean the comprehensive claims, where you typically found sick people for migrating. It's interesting that in 2000, the number of people, number of claims per 10,000 that we cover, clearly more that 0.5 million in year is about 12, that's gone to 36. So, pretty more actual turn, that was kind of one, kind of two per mole, that's now three from six per mole. So, the actual, the kind of skewing of distribution of people claiming more is more and more complex as we go along. So, there is complexity there and how we are able to deal with this is in terms of scale and sophistication.

This is a fascinating analysis just to give us a sense of importance of scale. If you take Discovery Health Medical Scheme's top 1,000 claiming family, right and you impose them on all of that comparisons, which you can do there right. What you will find is, expect the larger, what I'm showing you in the chart is the percentage of reduction in their reserves, due to the claims of these top 1,000 families, right. What you will see is, out of about 30 of them, only three will survive the claims of that top 1,000 families, the rest will be wiped out completely. The reserve completely depleted. In fact the second large, as you can see the first on the left, - results taking out by about I think 40%, as you can see from the chart. So, healthcare is very skewed, distributions are very skewed and the very heavy claims come in huge amount. And the antidote to this of course is scale and sophistication, we spent a lot of time and doing is building, the infrastructure to make sure we can manage that. We segmented and stratified the population that become very from a healthy through to the very sick.

And we make sure that we understand this skewness, so you can see at the top of the permit, about 5% of our members of sick is claiming nearly 20% of the spend, it's quiet remarkable. But as you add the top two, you get 2% of the members claim half the entire... makes life very complex, it means if you cannot in anyway in terms of investment, in terms of managing care, I think we built a very complex, integrated care model, that's strange from vitality at the bottom. All that due to a very intrusive integrated care model right at the top of that the integrations are appropriate and we keep the entire risk base carefully managed. I think Discovery Health is doing a good job, if you look at core medical inflation, this is a fantastic analysis, looking at the actual cost of goods and services in healthcare system. So, if you take very common basket in the sense of interventions from a - release, tonsillectomy, cataracts, all the way down to GP consult.

And you check the cost of that over time, what you will find in the middle in the Discovery Health Medical Scheme that's going up about just over 8%, our competitors is going up to 11 to 12%. So, we're managing to keep medical inflation under control. If you look at the cumulative effect of that over time, you can see as the gap gets bigger, so over a four year accumulative period, the difference in cost between us and our competitors on the goods and services and effect that we buy is about 30 or 40%. That provides a very powerful ability to offer differentiated value to our customers. I would say to you that the Discovery Health Medical Scheme is keeping the core inflation of goods and services, it buys in healthcare system to see CPR plus whereas the industry is about CPR plus...

This is purely the goods and services that doesn't deal with demographics, it doesn't deal with selection, it doesn't deal with utilisation. So, there is a lot of complexity in this. But I think our team is doing a good job on the core aspects of the medical inflation. And in the manifestation of that, through all of managing, is the fact that if you look across all the options that we offer from recoveries all the way through to our executives plans and you compare us in the dark blue to the industry in the light blue, you'll find that across virtually every option, the units of benefit you are less expensive. And we keep saying and I said this many times is the ability to offer a premium product at a discount. And I think that is why, one of the fundamental reasons, why the Discovery Health Medical Scheme and the other schemes we administer are growing indeed very successful. And that gap is getting bigger, bigger over time, if we can continue to sustain a low rate of medical inflation than our competitors can.

So, the performance I think has been really, really good. I want to touch on briefly, just the investment made in the healthcare system and in the tools and services around what we do. I have on the previous occasion showed you the Discovery Health integrated model that's working remarkably well. It's a huge investment in doctor networks, DPI as a part of arrangements and a whole range of things. And it's a very, very pervasive capability across the entire healthcare system. The last few columns are I think very important, the last year, this year under review, we spent a huge amount of time and effort building infrastructure tools for our members, tool called massive guides and industry doctors are part of our DPI arrangements. For the first time, electronic health patient vehicles are available online for our members and that's a critical development.

And then on the services side, we developed some amazingly powerful services. Discovery medical - is something that we've been targeting from about six months or so. It's been remarkably successful. There is a Discovery Member and in fact what you can you do is once you have the prescription from the doctor, you simply phone Discovery gets the script across, fax it across and through a network of pharmacies, we get it deliver to you for acute conditions within six hours, for chronic in 72 hours. So, we are building kind of capability across the country that you simply do it by phone, and it's a little bit through working with the various community pharmacies around the country.

The growth has been staggering on the right hand side, just showing you name of those research that people find it particularly appealing, compelling, and they like it. So, in the process they are may be ubiquitous and rolling it out in a very big sense. Now one of the things that we have done and I wanted to demo for you today that, I hope I get this right, but this is very important. One of the big initiatives, we're busy with on the complete lunatic, we are trying to demo this plan, I am going to do this. One of the big things that we're doing, that we develop, it's taken about two years of work, a massive amount of the work over last year, has been trying to get technology out into an environment that really makes the deliberate healthcare build up for our members and for the doctors that treat them. You may know that wholly growing healthcare is the idea of electronic patient records. The idea that the doctor at the point of service has the entire record in a sense of the patient they are seeing, the moment they don't and coordinated that notes in the file, they haven't spoken to specialists, they have no access to tests. It's a very uncoordinated system. If you can bring that to the doctors desktop in the sense, you can bring down costs, you can drive up efficiency and obviously drive up quality.

So giving that scope, it's a very big trust, as part of your Obama healthcare reform. We could not scale in South Africa. We have a much stronger ability to kind of bang that in quicker, to do it move in a much more ubiquitous way and importantly add functionality to it. So we developed the tool called PracticeXpress, there is a very powerful piece of technology that's been piloted now with about 100 doctors and specialist over last number of months. The reviews have been absolutely staggering. What it really does it brings together the entire healthcare system, doctors and specialists it bring together pharmacies, it brings together archived database on to the doctors desktop.

And therefore what I will do is actually earmark for you. Now this is a -- as I said it's a stupid thing to do. Okay, every doctor gets this [Technical Difficulty].

Not this one. Okay, this is targeted. Okay, and on this -- that's a good start. And I will just show you here. So here you go. So you can see in the top left hand corner, we are going to the software and then again -- I hope this works. I'm a doctor in this particular, this particular example. I am waiting for indication. I mean that is a real life, as you can see, this is a real life case. The data is in fact live and real. But always for confidentiality reasons the names are different.

So I am a doctor treating John Doe. He is one of Discovery patients in that I'm -- membership numbers. I'm tackling John Doe and that given the whole range of functionality on the left hand side. I can see benefit details of this particular member. I can shift -- I can see the entire health record. I can apply the -- almost benefits entirely online. I can look at the pathology, radiology, I can refer to specialist, all of it online.

So forget his first health record, what you see is I have the whole range of things, I can remember as a doctor, kind of health measurables, PMI, the various things that I think are clear, are clinical chronic indication. I am just touching there, you see that, in the right hand side I have the day-to-day medication. I can look at doctor visits that this individual previously had. Let's say 27th of August he saw a general practitioner I can touch the net, go down, I can see the diagnosis, the code, all the various issues. I can see the entire record and manage it from there.

What I'll do in this case though just for the sake of time is I'll actually go -- I'm seeing this patient and he or she is sitting across the desk for me. And I'm going actually do a medicine script to that. Now I'll just explain to you our medicine express way in effect may be expressed way, that's entirely through the system. Now watch this, sitting with the patient, I hope, I get this right. I'm going to prescribe some medication. I've wanted to do this. I'm going to prescribe --, sure. Okay. Here you go.

So now what I do is I've a whole range of medication means individual, I think in fact I should have shown you actually suffers from hypertension. And I prescribe Lipitor, gives me potential alternatives and -- codes. I go in and I actually go through the process of diagnosis, hypertension can you see there? I look at repeating twice, okay, the two that means. The quantity I'm going to give two tablets. This actually -- this is good fun. Frequency, say twice a day. Now I am working just through the menu there, as you can see, -- application. Okay. And now I think I am done, right? I have done with -- and now what I am going to do is simply send it all, right.

So what I do, this email express comes up, that's our system, I hope may be express. I sign it and I sign the script, right? There is a script as you can see, at the bottom left hand corner is my signature. And I send it, boom. The -- promise just in six hours in the house, it's quite remarkable. So that is one of the functions of the PracticeXpress but in reality what it's going to do we believe is give the doctor at the point of care the ability to raise at the whole healthcare system of a real powerful functionality, maybe even improve quality to our members.

So I think that, if you look, I think Discovery Health is very well positioned in number of different areas to continue to grow. The other thing I think is obviously quite important is the National Health Insurance, Green Paper that was issued a few weeks ago. This is a fundamental piece of potential registration and the massive development in healthcare system. I need to say to you that from the outset we've been quite clear that we are supportive of healthcare reform, the current structure of two tier system with the public system is not really functioning, it's not really sustainable.

And with the healthcare reform in the right ways something that -- reach the support very, very strongly. Having said that I do need to show that this Green Paper to us is a very responsible that's reforming the healthcare system. And we look forward to engage in constructive in order to help in order to executive on this. Let's just -- in terms of this time frame of a long space of time and in terms of recognizing the role of the private system and the public system, recognizing importantly the role of medical schemes that people will have the ability to opt out or stay in the medical scheme. The focus in a lot of things, that human resource development, including the public system, private system into that.

But is now very vague, the funding, the taxation medical schemes. There is a long way to go on this thing but we are very positive about the impact. I guess the quiz question for us from the Discovery Health perspective is what will this do to our business?

I think at our core membership base I do not believe that people opt out of medical schemes in the main. We are -- the margin and we're getting the low income side, the NHI is a success and I hope it is, will crowd out some of that market. So I think that will have that kind of impact. On the other hand I think it's going to whole range of opportunities and change of, I think Discovery Health is driven very clearly and of course the ability to advantage of that miracle and add value to our members in society. So this is a very, very important development. It does take a long time to we are excited and positive about what we can do within these contracts.

Then we move onto Discovery Life. I really hope you survive through that demo. Let me just tell you Discovery Life. It's been a remarkable year for Discovery Life. I'll show you some of the numbers. The core new business up 10%, gross revenue up nearly 20% which is over 5.2 billion. Operating profit at 16%. This is very important to understand and I think I've made this point in previous presentations that how we are managing carefully inside the Group has negative results from inside Discovery Life. Part of then utilizes in asset to back Discovery Invest, in terms of guaranteed capital bonds.

So in effect from the accounting perspective Discovery Life keeps taking part of the new reserves and transferring it out of the business. The extent is getting a bit smaller. So if you compare Life with Life you need to reverse that back in. If you look at the actual core profits, are up profits have gone up 16%. That doesn't really take into account that fact that we keep chipping away at it in the sense.

So to compare Life with Life, you look at the core operating profits, in fact up 20% to nearly 1.8 billion, as you can see. So very, very strong performance. And I think the quality of Discovery Life, you see coming through in the growth in the value of the imports up 25% to nearly 11.8 billion, a very, very strong performance. So I must say a robust performance from Discovery Life.

If you look at the strategies, I think they were fairly simple but difficult to achieve. We focused a lot on quality, unless it's focusing a lot on mortality, mobility, making sure we keep up with new expectation, distribution efficiency and then very -- continue focus innovation.

It's a fundamental thing to add value to our customers and our clients, but important to maintain margin and create differentiation to keep the process of innovation, because we have very, very strong focus across the Board. This -- has been a fundamental one, I think in the last number of presentations and across the entire industry. One of the big issue has been during this financial crisis, has been the elevation of -- way above the expectation and the embedded value assumptions, how we respond to that is I think we told you in a previous presentation.

In the blue line we expected kind of a short lapse experience in our embedded value a negative result calculation. We are trying to short lapse assumptions. Climbing up in 2009, in the blue strongly coming down into 2011 and dropping further down in 2012. What actually happened you can see the five-year assumption, prior to 2008, we will try and bring those -- down and you can see in fact we've undercut those short lapse assumptions in our substantially, inline with the long-term lapse assumption going to 2012.

So I think we've worked down our lapses in very successful and brought lapse rates down. It is very interesting though we have done a lot of analysis and statistical work in trying to understand what it is that drives up lapse rates. And as we generalize the new modeling, -- the ability to predict what type of policy is likely to lapse. So if you look at that model, use the ability and now what factors are kind of really causing lapses we done the analysis across the whole range of things from duration to gender to rating factor to province to every single issue. What is amazing you can see quite clearly is the one fundamental predictor is credit scope, affordability. If people are thing to pay off debt you can rest assured they are having difficulty financially and their lapse probability is very, very high.

So that of course for us is a very, very important issue. Having said that though, all of the analysis did show, and you look at our integrated policies, you look at the ones that use Vitality along the model that I showed you, is that only antidote to that is in fact the integration of Vitality in the rest of the Discovery world.

So if you look at the effective Vitality, healthy foods, wellness benefits, those kind of things on the GLM model we found that in fact it's positive impact more than offsets the effective credit score. So that has kind of given us, what can I say impetus and focus on making sure we get people integrated driving in returns through the Vitality world, through the statuses, make sure they understand the value for money embedded in that. And I think it's part of the reason why we managed to bring the lapse rates down.

If you look at the lapse rates by status, I think you have seen they are dramatically down stopping some people, as people moved up in Vitality status the probability of lapsing goes down quite dramatically. And you can see on the right hand side the number of people in each state is in fact moving to the right. So the bronze status, number of people in bronze have grown by like 30, 40%. The number of people in gold and diamond has grown by more than double. So we are, I think been very successful in getting across the value of Vitality, getting the integration in place and making sure that people are in fact moving across in statuses in getting much more stickiness a fundamental issue.

So that I think is one of the core strategies in bringing lapses down. The other important focus in terms of quality has been on the issue of mortality, across the morbidity. It's a fundamental issue from the onset of Discovery Life. I think the performance in mortality side has been actually quite phenomenal. But the models of this is I think quite special. Normal life insurance works in a very simple basis. You fill out the underwriting and fall in it for the next 50 years, you have the same rate.

In the context of Discovery Life, how the model works is dynamic pricing. If you engage your vitality, your prices tend to come down. If you don't, the prices over time tend to go up. So what you'll expect intellectually is if you are engaging, the prices come down, you get healthier people the people you are engaging becoming more sticky and the people you aren't engaging in effect prices are going up and becoming more loose and maybe less sick.

So what you expect other time is a positive selection process. We would normally -- expect quite the opposite. People are paying the same rate, healthy people potentially. So our model show on the left side that our expectation of time to mortality would come down versus a expectation in the blue line, versus a static tradition model where in fact mortality goes up.

On the right hand side you can in fact see what's really happening. We're getting a very similar curve to what we expect. We are experiencing very strong positive selection, positive lapsation and the mortality experience is getting, in a sense it doesn't move down quickly, but it's very stable and continuous to outperform expectations in both -- reverse and the embedded value calculations. So both lapses and mortality I think have performed remarkably well.

We pushed harder on the product development side. We are an organization that believes very strongly innovation and I think before this thing largely went down during the under review, all of that I think was very, very exciting. I thought I would just talk about excess kind of very briefly. It's a fascinating idea and one that has been very, very well received by the market. The inspiration behind this was in fact the access bond in the banking space. During the old you had this kind of static bond. We paid interest and capital to the bank in a monthly repayment there was no flexibility. You do what you were told and that was it. With our access to additional credit there is a -- of credit et cetera.

Our kind of inspiration is could you take this in the sense and do this to life insurance? Could you make life insurance more flexible or tangible. And it was really the idea behind AccessCover. Concept is a very simple one. We have life cover. You typically have severe, almost coverage capital visibility with it. If you have one of those life changing events in the old sense you get paid out of proportion of your life cover.

What Access kind of does is it allows you to in fact -- additional life cover for cash. So assuming you got a 1 million of cover and you get a -- of 0.5 million, you can take that 0.5

million, but in fact you can take more if you want trading life cover for cash. And that conversion fact is anything from R0.20 cents to R0.70 cents depending on the severity of the event. So it changes to a large extent the dynamic of life insurance from a very static contractual one to the point of claim depending on the customers needs you can find the people life cover is tangible. And this is embedded in all of Discovery Life plans. It really does change, I think the focus of life insurance. And again offers a whole pathway for more development.

So bringing this all together I will try to make the point, is to talk, about, try to kind of go in the -- degree, trying to give you the sense of the focus on quality. The effect on the right hand side of the chart is new business margins have gone up quite significantly by about 10% from 9 percentage points to about 10 percentage points. And then the combination of the volume of new business and the new business margins you can see on the left hand side, the value of new business is quite significantly by 21%. In fact the highest growth rate over the last numbers of years to maybe just over 1 billion. So a significant performance I think from Discovery Life.

So coming to our established businesses all together. I think they have done remarkably well. The new business combined is about 5.7 billion, operating profit just under 3 billion and unique members of our unique customers up about 3 billion. So very strong performance.

Turning now to the emerging businesses. And as I said to you at the presentation our emerging businesses to a large extend at the start of the show are Discovery Invest, PruHealth and PruProtect. This really was a pretty seminal year.

Starting with Discovery Invest, I think the metrics are very strong, gross inflows up 28%. You can see the core new business I -- earlier 30% to 25% respectively. Funds under management, assets under management, rising by 75% to over 70 billion. And the operating profit really reflecting the growth efficiency. And I think the quality of the business from a kind of breakeven in the previous period to a very strong over a 100 million. And we expect that to grow strongly going forward.

If you look graphically at the assets under management the growth has been quite staggering. So really I think the new traction, I think the value proposition of the offering is being well received by intermediaries and investors. And a very important purposes behind the formation of Discovery Invest was could we get that entire focus of Discovery Investors, could we offered daily open architecture investment environment.

People can come on our platforms and buy any plan from anywhere but the fundamental thing we try to achieve was to offer value add and make sure that people buy essentially in the majority, Discovery Funds. And what you see in the right hand side in fact is exactly what's happening. Only 12% you can see the -- in the green, only 12% of investors in fact are choosing investment destinations outside of the Discovery offering. That's important in terms of the value proposition. It's very important in terms of product margin.

In fact if anything it's going in a sense that -- what you would expect unless you hope . If you actually look at it graphically overtime people are choosing more and more of our funds. We would expect the opposite. As we get bigger we would expect people to go outside of the Discovery choices.

On the left hand side, if you look at the percentage of Discovery funds it was about 60 or so this Invest platform to close to 90%. If you look at the amount of non money market funds it was about 60% two years ago it's now close to 90% as well. And the margin coming out of these substantial new business margins have improved from 2.8% up 3.1%.

And I think importantly we do offer value proposition in Discovery Invest around the simple idea that we offer you access to the markets through an open architecture environment. But we record out of value the plans to protect you against poor investment performance, volatile markets and bad investment choices.

And since Discovery Invest started, that is 2007 it's been incredibly volatile investment markets. It's a fantastic counter test, is the our focus is really coming through. So this is a very simple test and I am not talking about investment performance. I'm simply taking these all of the Discovery funds we've rated them by the -- allocations of what people choose in investments. We've chosen an appropriate benchmark in gold. Our -- tended to outperform, as you can see in the green I mean let's show then effect, and drive at the top the protectors and various integrations added a further 5% to turnover in that period. So if you compare how the cumulative affect of this Discovery Invest versus the benchmark, we are at kind of 12% over that period.

Now that of course just as an example, to make the point that I think we are comfortable, that we are purposes and value proposition declines, in effect is coming through and that is driving the growth of Discovery Invest.

We continue to innovate in the organization, rolled out two I think fantastic products. The Guaranteed Escalator Annuity, that really uses equity linked annuities, that provides you guarantee underpin and protects people against longevity, living too long. And that's been remarkably well received. We all have the classic tricks with investment plan and just a few months ago but larger on a list platform to chose anything you like. It give you a whole range of protection against poor investment performance, against efficiency from asset management charges et cetera.

And the recent activity I think has been a strong, if you look at the new business on the right hand side they are being very, very well received with just a couple of months in to really driving enough. But I think it bodes very well for the future. And a point I think I must make is that brokers more and more investing with the clients, with Discovery Invest, will run the -- shift for the best long-term recurring savings business. And you can see the broker, kind of support climbing very, very strongly. So the total number of brokers now supporting Discovery Invest has now climbed to over 4,000.

Cumulatively and obviously you can very clearly is a turnaround in the start-up losses to profit last year. And than a very strong growth this year that I showed you before. So we are very pleased with the performance of the Discovery Invest.

Let me take to the other two emerging businesses. And they all are very strong and I think in the UK for us this last year has been absolutely decisive and to a large extent absolutely seminal. It really has created for us a very powerful beachhead in the UK.

It's important to say that I think that we have done well. Over this year there has been a focus on discipline, making sure that the business model of the Discovery's injected into this business carefully and we are following a very discipline way the repeatable scalable model of what we have at Discovery. So in the case of PruHealth, Vitality at the base, so that being kind of as a foundation with our peer market products of PruHealth, racking along the NHS. In the case of PruProtect, a very, very clear focus on making sure what we did at Discovery Life is repeated.

Vitality at the base, dynamic pricing and efficient capital model and then on the right hand side, a franchise distribution channel where you get the right color, variable costs that you get the right kind of behavior in the distribution channel. We're focused very hard on making sure we repeat that. I think the results have been very strong. Dealing with PruHealth firstly, that's important to say that the UK is going through very difficult economic times. You know that very well. But what you may not know is the effect on private medical insurances is quite devastating.

As you'll appreciate the UK has a very comprehensive National Health Service. And when times get tough, people tend to drop their private medical insurance. So why don't you purchase around the NHS. But of course the people who drop it tend to be healthy, sick people don't drop health insurance.

So once you get in difficult times, you get a reduction in the market. You see -- you can see the marketing practice come down by 10% in total terms. And lost ratios claims levels have tended to escalate. They are coming down a bit, but they are way elevated to where there were before. So this is the market in very difficult times. Having said that we've always taken a view that in a difficult times, that's the time to build your business, because when things don't ease up you're in a very, very strong position to capitalize in the sense of virtue both and I think PruHealth has done well.

I've shown you the figures the new business up 30%. The membership, reflecting the acquisition very strongly. But the operating profit now turning strongly to profit from a large loss, and I think the business is very well positioned going forward. And also the team has done a great job. We're focusing on a few things and doing them well. Number one, manage PruHealth to profitability, focus hard on the loss ratio, the expense levels and bring those into acceptable levels.

Secondly, bed down the Standard Life acquisition and make sure that our performance better than expected, that we expect from the due diligence. Thirdly -- the very sophisticated products that reflects the best of both of these organizations. And then finally make sure we integrate Vitality in to virtually every single part, every single part of the membership including the Standard Life base.

So four very clear focal points, and I think all of them are successful. In the case of PruHealth, the core PruHealth business just look at this graph on the left, we have brought the loss ratio, the claims levels down by 10% over the period. So we've been brutal and focus. You can see how we've done that on the right hand side a very strong growth in premiums and on the bottom of it we've kept claim very much under control. So resulting gap between premiums and claims obviously drives the loss ratio down.

On the Standard Life side I'm pleased to tell you that virtually every aspect of the business is outperforming what we assumed in the acquisition, from the loss ratio to the scale, to the lapse rates, everything to the profitability of the business, has been better than we thought. When you bring the two together I think you get very good results.

On the expense base and the PruHealth standalone business that we focus on we have got expenses down by -- I am not seeing a graph there, I'm not sure why. In the PruHealth Standard Life business we've brought expenses down by close to 50% as a percentage of premium. And then you lump it all together we've managed to bring expenses down for the compound business by 11% and expect further 6% next year. I think the combination of all of them together provides a very, very profitable base for growth going forward.

It's very important to look at this and I hope this is clear. If you go back to 2009 we've just to show these loss ratio, vis-à-vis the claims levels, we had a business in 2009 of 235,000 lives in the blue on the left hand side with a loss ratio that was about 11% higher than the industry.

So to a large extent we had a structural disadvantage with small scale. That's difficult to kind of trade out of. You don't have the ability to negotiate hospital discounts, vitality networks et cetera. What's happened now, that work that's been done is quite the opposite. We have over 635,000 lives, about 10%, 8 to 10% of the market. But our loss ratio is dramatically lower than the rest of industry. So today we've the structural advantage with scale. And I think that provides great opportunity for the business going forward.

We've rolled out a very sophisticated product range, that really brings the best of both the kind of the Vitality and of PruHealth, to the flexibility of the Standard Life range. It's been well received, very well taken up. On the right hand side I wanted to show you the modularity of the product that people can buy our, cancer cover, -- cover, all kinds of things they can buy if they want. And you can see in the main the take up levels are very, very high.

So I think we've been very successfully getting the product out that reflects the best of both. So I think modularity that people can choose from, I think that's been very successful. And again if you look at the performance, in terms of profit I've made the point many times, I believe we have turned it around very strongly and I'm very expectant of strong growth going forward.

And then coming to PruProtect, I hope you are following me because I'm going at a quite a rate, I am also confused, can you slow down a bit. Turning to PruProtect, PruProtect had an absolutely marvelous period. I really as a -- asset of holding a very special Life Insurance Company in the U.K., the metrics are all incredibly positive, strong new business growth, policies in force nearly doubling out from -- to 70,000. And I made the point about the tax efficiency of PruProtect. You can see that return to profit, just a small profit in the second half of the year. It's not the quantum that is important, it's the fact that it's now profitable and that's likely to evolve very strongly going forward.

There's been a very strong focus on AVS but I keep making the point of the Discovery Life business model getting the Vitality chassis bedded down, like we should have done in the passing, our focus on innovative risks benefits, of people buying more than one benefit from us, that adds value to them and adds value to us. Clearly our franchise distribution channel and then very importantly using the prudential life -- creates a very capital efficient model. And we are focusing very hard in these kind of four dynamics we ought to have very, very strong business.

If you look at the growth in policy accounts, you can see it's quite exceptional. So very, very rapid rate of growth. In turning that I think we're proud of it. If you look at the application count per day, the comparative Discovery Life, that's on the right hand side, we put Discovery Life we are doing about 280 to 300 cases a day in Discovery Life. The -- at the top you look at case count of PruProtect, you can see its quite quickly catching Discovery Life. And as most parents want to see, we hope the child outperforms the parent and are waiting for the time when PruProtect then crosses the Discovery Life in terms of applications.

In terms of distribution, I think the distribution strategy is correct. We focus hard on the franchise model. We have it now around the UK. It's doing remarkably well. And it's amazing the difference a year makes to the distribution. A year ago we had 12 franchises across the UK. You can see that only three of them, in fact were exceeding the target production. A year later you can see that has changed quite dramatically. We have 12 franchises, it's been a lot of change in investment but effectively nine out of the 12 are comfortably meeting their target and three of them are now in the embryonic phase. We're going roll out more of them.

So in a year the kind of the distribution scale, the penetration has changed quite dramatically. Of course the quality of that is driving the quality of PruProtect. From an actual perspective the claim levels tend to be lower than expected. So mortality is outperforming the expectation. You can see there on the left hand side, cumulative claims paid out were dramatically lower than we would expect. And then on the right hand side on the per policy expenses are coming down nicely, as the business gets scale bringing it down and as we focus on efficiencies we're getting great results. Of course the combination of the two drives up profitability.

And then one other point I thought I would mention to you that very important in the context of the Discovery Life model is making sure that people link their policies to inflation. That provides value to the customer. They have a real benefit over time but to us it means if we are looking to a revenue stream that increases over time. You will see again the difference a year makes a year ago only 6% of the policies were linked to inflation index linked. So that is close to 20%, in fact greater then 20%. We will continue to drive that up over time adding value both to customers and to ourselves.

And also just as well that PruProtect is focusing strongly on the innovation. The UK market is highly commoditized, very low levels of margin. If you want to -- out you can use the sale. So I believe -- our fundamental belief Discovery Life as well as PruProtect is about developing different products that have good range and that offer value. So we continue to innovate and roll out a slew products on a continuous basis. There was a fantastic launch in March of a suite of new products. The recent activity has been absolutely tremendous.

You can see on the -- in the middle chart of the new business a large proportion of new business are using these new products and the company continues to launch the best protection asset, the best companies almost et cetera, et cetera. So it really has done remarkably well and therefore you get this very strong change from operating losses due to operating profits in the second half of the year. And again I would make the point to you that adds -- to very strongly.

Going forward you can see the return on capital in new business is about 41%, reflecting the efficiencies of the capital model and the value of new business for the 12 months, which is close to R150 million. So the business has done remarkably well. I think one of the stars of the show.

So emerging businesses, to summarize again, all of them are profitable. Our new business there is a nearly a third of the total new business of Discovery. Unique customers in those emerging business is 750,000, fantastic foundation again for future growth.

Let me now turn then now for the developing business, that are largely embryonic, that are very exciting and getting very, very good traction; the Vitality Group of Humana, Ping An Health in China and in Discovery Insure.

Turning firstly to the Vitality group. I headlight the point of previous presentations. We've got a kind of embryonic company in the U.S., called the Vitality group. The idea behind it being, could we take the Vitality capability in that repeatable model and add it to big employer health plans, work with health insurers like we've done with Discovery Health, and build very powerful capability.

We built in the U.S. I think a very very strong capability, probably more sophisticated of the Vitality chassis in a way. And to an extent what you've done now is worked out how to plug it under employer sponsored health plan that's what the Vitality group is doing. And the -- of Humana was about Humana Vitality taking vitality in the right hand side underneath Humana as the insurer.

So essentially following the same kind of the business model, one in the employers space, the other in the health insurance space. But -- if you follow this, Humana is the fourth largest health insurer in the U.S., covers about 80 million lives, remarkably strong company. A company that is focusing very much on shifting to the Discovery models, that of focusing on that kind of long term well be. And so we're trying to build this Vitality chassis in everything they do. The drill is very simple. We sold 25% of Vitality due to them and we required 20% of HumanaVitality from them. So two different businesses, one focused in the pure kind of we call it the space. The other focused in insurance market. All of it is with Humana capital. We're providing the systems and structures and have divested -- cross stock about $70 million.

So we have built a very, very powerful, very powerful chassis. And also one of the things that is important is we have developed Vitality into a repeatable model. So from the get go I think it was January, this is the time when -- at HumanaVitality really bought the business, got it in place, launched it within six months. So at 1 July, 2011 that's just at the end of this financial year, we rolled out HumanaVitality into the marketplace. The results have been in fact staggering as you can see. We have kind of been drifting along in the U.S. with a lot of business that are owned through the Vitality Group, I think I've mentioned this to about a 100,000 lives by January six months ago. You can see how quickly the HumanaVitality business is growing.

We really have about 700,000 lives committed together with the Vitality Group and HumanaVitality. And I think what's most gratifying for us is just we're starting to take, I think a very strong leadership position in terms of the weights surround wellness in the U.S.

We have remarkable data in South Africa. We published a number of papers in U.S. journals but I can tell you now that Q2 it's very difficult to get American companies to take South African data seriously. So one of the big steps, one of the very exciting things that happened this year is one of our clients, Alcon Labs which is a very prestigious pharmaceutical company, about 7,000 employees has done remarkably well with Vitality, brilliant, brilliant engagement, that was fantastic effect on health. In fact together with them we've just won the Koop award, which is a prestigious --Everett Koop himself was the Sergeant General of the U.S. and it's a prestigious award.

You can see at the bottom of the chart, previous winners, Johnson & Johnson, PepsiCo, Pfizer. Vitality has won that with Alcon Labs, provided a fantastic foundation for us now to illustrate the power of Vitality to other potential clients. So Alcon Labs itself is a remarkable sign of what can be done. On the left hand side you can see the engagement levels, 11 activities and more than 30 activities on order, staff of Alcon Labs are heavily engaged and Vitality on the right hand side, that you can see the effect of population growth bringing it down across the whole number of different measures, Vitality has been remarkably successful.

This is an extract of the paper that was submitted for the Koop award. And so I think it's a very important of us, appropriate to illustrate the power of Vitality in the U.S. So most of you are excited about business. We know that capital risk, the potential to grow is substantially seen -- really come through.

Turning to China, Ping An Health remarkably exciting environment. We were very clear that this is a market that is obviously growing to grow very, very quickly as China becomes more prosperous and people go more to private healthcare the opportunities are dramatic. In a sense, had our team on the ground about a year ago. We began working really hard on the business, about six to seven months ago. So we have at the start of this calendar year. And the loyalty state of our own mind, China was like a complex, vial of complexity. We know the market intellectually will grow, but how do you, how do you -- and how do you deal with it.

I think that the team that's on the road is just focused on block and tackle. We exactly know how to do. So we are building a health insurer together with Ping An. We do all of the basic steps, three distinct things, building the product, getting that right. There were products inside Ping An Health. We reworked those product into a few different markets, focusing on the Group, what I call the Group high end, focusing on the individual side. We rolled at few products in that just basically starting to build the Vitality chassis that we hope to be really by Q1, Q2 2012.

On the distribution side, Ping An has a massive distribution capability. We both have very strong network to try and call on that distribution to branch out Ping An Heath and is focused on that. And we are together focusing on getting our system in Ping An Health, getting an IP transfer, getting the capability transfer. So really block and tackle stuff. I think it's been remarkably successful. It really is early days but really the products are starting to manifest and get out in to the market.

And importantly we have some of the branches, Beijing, Shanghai and Guangdong. They are not new branches out there, four new branches, Guangzhou, Shenzhen, -- and Xiamen, you can see them right cross the country. And there are three more kind of waiting for approvals. So we are focusing hard on getting the distribution to efficiency and to effect.

And than on the RT side and the system side in a very short space of time we're transferring 74 systems and processes into Ping An Health very quickly. We expect that to be done by Q2, 2012. So hopefully by about middle of next year this business is strong, sophisticated has vitality, has all of the stuff worth -- despite that the traction is very strong as you can see.

So if you have a look you can see on the left hand side the new business revenues are coming in very strongly. And on the right hand side just in the last six months the life cover has grown from a 190,000 to about 300,000. So the growth is very, very strong. If we go into the -- I have lost all, okay.

Let me then turn to the last thing I would like to mention, which is obviously the work. So remarkably the stuff you think won't work, the demo worked beautifully. And PowerPoint which -- doesn't work, okay. So ending up then with Discovery Insure, which is really to me one of the really great highlights of the year. It's been a fantastic business. I believe we wrote. Short-term insurance has been on the radar screen of Discovery for probably a decade. We have been thinking about how best to tackle it.

Discovery is not trying to build a broad-based financial services group -- market. We believe we can make a difference. We are going to market where we believe we can really add value to society in some special way. And to a large extend we're trying our models over many years, to how can we take this model of ours, where you kind of change people's behavior and apply that to short-term insurance, particular to motor insurance.

And over the last year or so it became clearly opportunities for us, that really became the emphasis behind Discovery Insure. Let me say too, four distinct strategic things that drive our launch in terms formation of the company. This is not working. I am having some difficulties. This was the really exciting part of the presentation, I was hoping to show you. So let me show you four distinct things that we focused on, that really gave us a sense of potential for the business. The first was I'm going to talk anyway.

The first was the fact that we felt there is a passing -- opportunity, while the market has moved quickly to kind of the DTC model, it hasn't moved like the UK, where prices have come down. In fact quite the opposite. We've seen, if you look at the DTC, the cost of marketing are almost equal to the cost of marketing through our broker channel. In fact the wording of policies in the DTC market is very one sided and very difficult for the client. So step number one on the -- side, we believe very strongly, we had the opportunity to offer a product that fairer, more better, so work with our distribution channel.

The second important point, I think we are starting to point is the behavioral issue. We have learned in the health side and the loss side, -- you can always in how intense to people health. People are irrational about their healthcare. They have both -- problems with over optimism. I believe they'll always wait, they will stop smoking, but then don't? And hence what Vitality does, it changes the incentives. The breakthrough Discovery show which we found the -- pickability to driving, people have the same issue when it come to driving, they are overly optimistic.

Most people believe they are good drivers. And somewhere in those slides that are floating around, just follow me, I'll just go through it verbally. 80% of people believe they are good drivers. Research shows only 30% in fact are. So people have the same over optimism about driving as they do about health. And the same with health, that driving badly is deadly. In fact, I think we showed 60% of accidents occurred through bad driving. That can be avoided.

So our answer to this, could you take the Vitality science and apply to driving, could we incentivize people to become better drivers. And I answer, yes we think we can. The third piece of that puzzle which I've now lost completely, the third piece of that puzzle, which is very, very important is the fact that in South Africa this is this telematics madness, tracking vehicles because the project et cetera, this technology uptick that can be used and therefore our view is if you could use our technology we would really grow this Vitality platform.

And then finally the cost of fuel and the volatility of the fuel price. So that's an obvious target of how do incentivize people. So you put those four factors together, we've quite quickly realized we could mold in a sense, Discovery show on a very similar business model to what we've done on the health side.

Instead of Vitality in the base, Vitality drive and incentivizing people to better drivers. And that's really the impetus behind Discovery Insure. What we have done is in effect created a piece of technology called DQ Track. Every single car we cover has it put into it. And in effect you get a DQ score. So instead of vitality points you get a DQ score that checks how you drive, your awareness, your vehicle safety and DQ is kind of drive quotient, but IQ is intelligent quotient.

We trying to get people from bad drivers to become good drivers. And the fundamental incentive is you get 40% discount of fuel in our partnership with BP. So the real idea behind this is to get you to drive and more fuel discounted for us. And we believe that very strong kind of reaffirming process is going to change behavior. And I think it will. If you look at the actual product, that we have rolled out it's pretty extensive, around obtaining about the collar of the business, we've rolled out a very broad personalized insurance business. It covers households. householders, homeowners et cetera in addition to motor insurance and the risk activity has been absolutely superb.

But you will see if we get that is the -- has been tremendous over the first 12 weeks, you can see the rate of new businesses has grown dramatic and the left hand side is about 1.2 million with the new business per day. In effect I think it's very gratifying on the right hand side that people buying our products, are people who like Discovery products.

So the percentage of people who have Discovery Health, Discovery Life et cetera, kind of piling up and that provides a very persistent quality client base. So to a large extent I think in every respect Discovery Insure has kind of outperformed what we assumed. And when I call out to another which looks almost impossible to work, when I call out to it to just give you a sense of how this looks the technology of how it's operating, just to get a sense of -- how many cars are out there and they're driving around. And we're checking them very carefully.

Now I've also said this to you before you -- there we go. So we're now in looking at kind of peak out of FY10, those are Discovery Insure clients moving around, some doing good things some doing bad things. But it's important to maybe make the point and this is a critical figure. I think we've actually done quite well. This is not about checking people. It's about incentivizing better behavior like in the health side. It's not big brother trying to stop you doing things. We're simply saying if you do the right thing you're going to get more and more incentives.

What we did do, I think is on the -- is we got one of our staff to agree that we just check him through a journey that he did. And he did pretty badly. You can see him moving around. And all of the stuff is feeding, every single vehicle is feeding to us, acceleration braking force, every singly piece of telematics is coming. So we consider those points. He's going too fast. He's braking too hard, he's accelerating too much. So the DQ score is sort of telematics is telling us in every single vehicle, what is going on. And this individual had a good DQ score prior to yesterday. And his -- for the sake of this presentation he sacrificed that we should appreciate.

But -- being that we built a very powerful capability that I think is complex from our perspective but very, very intuitive to our clients. We're looking at one of the Chief Engineers from Ferrari, from the Formula 1 team, a South African who is helping us work through the telematics of understanding actually how you interpret these driving telematics into better driving. So this really is for us, it's a start of a fantastic journey but the -- I think is, has quite remained the same.

Let me end up then with the developing business as you see, a very strong new business. I think early the traction is very, very strong. So I am wrapping up by saying that it has been a great year. Our service business as you can see has grown in a very strong, rather emerging businesses all profitable well-positioned for the future. And I am very [Technical Difficulty] business. It's great potential there [Technical Difficulty]. And I think that has set us up for strong growth and the exciting growth rate.

Thank you for listening. I have long winded. Thank you. Thank you.

So I will ask Ricky Farber, our CFO to come up and our executive team is here to take questions. So will everyone ask please all kind of questions?

Questions And Answers

Q - Analyst

Thank you, Mr. Gore. Mr. Gore, I am looking at the annexures, two tables in particular, at the top respectively on page 14 and 15. The first one is new business annualized premium income. And on page 15, profit from operations. Now I understand, they are not directly linked, but there are also interesting analysis from the two of these tables.

I'm referring now to Discovery Health. We see that there is a 14% decrease in annualized premium income. Therefore, all of that there was a 14% increase in group profits. This therefore, suggests that each year as you do down in premium income, you'll make more profits?

Secondly, -- yeah now. But there must be reason for it.

A - Adrian Gore {BIO 3068929 <GO>}

Yes.

Q - Analyst

Secondly the last division is PruProtect. We see that premium income went up 28% from the previous year, that group profit -- forgive me group loss, group loss increased 24%. So the question there is why was then increased loss with a substantial 28% premium increase. I have another question afterward please.

A - Adrian Gore {BIO 3068929 <GO>}

Sure, sure. Hi, this is Johnny, CEO of Discovery Health. He can just deal with the first one.

A - Corporate Participant

[Inaudible].

The PruProtect components of it is also comparing different percentage ownership. As Adrian said the previous year we owned 50% of the company. Now we own 25 -- 75% of the company. So it's not comparing 100% like with like. The other component that Adrian went through explaining is that the asset, we got a deferred tax asset which is shown below the line. So adding the two together showed quite a good improvement in PruProtect profits.

Q - Analyst

Thank you. And Mr. Gore I will now turn to your balance sheet, or what used to be called the balance sheet. On the page seven under assets, the heading the line financial assets I've taken the total of the four items immediately below that, equity securities, equity linked notes securities inflation and securities and total them up. Immediately beneath that is the amount you've got in money market. I expressed one the money market as a percentage of the total of the other four. And I noticed that for the last year the percentage was 22.3 and it is now 27.1, suggesting that your investment team seems to have some concern about putting more money into equities and other investments. Is this a fair assessment of that -- of the increase in your money market valuation?

A - Corporate Participant

I'll answer that. Your analysis is one partially correct. The confusion is thus created for the wrong reason. But because the numbers you are comparing include -- the numbers are including policyholder and shareholder assets. So the policyholders make their own selection and the numbers Adrian showed in the presentation were the policyholders. The policyholders have over the period selected and it's not our investment to assume that's the policyholders that's the policy have selected more and more equity as is shown on the slide.

From a shareholder point of view the opposite is the case. You are quite correct as it ultimately my team's decision and we have reduced the equity exposure over the year and gone more in to money markets. Some of it's deliberate, the majority is a consequence of acquisitions of Standard Life HealthCare.

And as we announced in the interim results six months ago, we sold off some of our equities, about 800 million of them. And we took that money and used it in part to pay for Standard Life Healthcare. In Standard Life Healthcare the reserves of that business are sitting in cash. As with many insurers and particularly in the UK that's sitting in the money market bracket. So that's the consequence.

Q - Analyst

Thank you. Just to clarify one thing, Johnny on these issues. I think it's was quite health business, I think, the general reason check is -- you mentioned growth by 8% plus inflation from the financial prospective. So the sum of the two, is to check you guys profit growth. I hope it's clear.

I've lost these, Mr. Gore. Turning to page 18, there are two little tables. One headed post acquisition revenue and profit, for the full year and also for the period during which you had full ownership. The conclusion is that since you took over the profit has increased under UK health from 60 to 84 million and the UK Life the loss has decreased from 32 to 21. Can I conclude that, that is a consequence of measures you brought in to right the situation?

A - Adrian Gore {BIO 3068929 <GO>}

Yes, you can. I'll be very grateful if you do it. That is correct. To be fair I think that our entire -- I cannot say entire focus, I hope you know this over last 18 months on righting PruHealth, and getting it right has been intense. So to my understanding I can say. yes.

Q - Analyst

Thank you.

A - Adrian Gore {BIO 3068929 <GO>}

Thank you. Any other?

Q - Analyst

Hi, It's Mike Astetis from UBS. Just two questions if I can. Firstly, you deliberately didn't mention sort of policy rate take up in Discovery Insure. Can you give us an indication of what sort of monthly take-up rate or may be just the number of policies you got on the books at the moment? Firstly.

And then the second one, in your commentary you mentioned sort of strict expense controls in the life business and how that's had an impact on your margins and the unit cost rate. In the EV, I don't see any significant assumption changes or particular expense there and this is coming through yet. Can you just sort of clarify what you mean by that expense at the moment?

A - Adrian Gore {BIO 3068929 <GO>}

Sure. I think Anton Ossip, our CEO of Insure. Maybe he can give a sense of the new business and this scale that you are achieving.

A - Anton Ossip {BIO 6995541 <GO>}

So in the first 12 weeks we have taken on just over 2,500 of the new policies. And we're significantly ahead of our business plan, instead of growing of our daily run rate every single day.

The initial expense... now as Adrian mentioned, the expense, particularly the renewal expense assumption has been favorable. But we haven't taken that through into assumptions in to the EV. So hopefully it will transpire into the future.

Q - Analyst

Okay. Thank you.

Hi. Adrian, it's Richard Hirsch from Standard Bank. Now you seem to be -- about the UK protection business and the accounting profits are good. But I see with the current acquisition cost and admin cost, as sort of running at about three times the premiums you collect every year. And that gap of about R$0.5 billion is funded by negative reserves from prudential. Can you actually get that paid in cash to you so you can fund commissions next year? Or do you have to continuously put money in that subsidiary?

A - Adrian Gore {BIO 3068929 <GO>}

No. We do get cash from Prudential in that process in this following model. I'll get Ricky to elaborate on that. I think it's very important.

A - Corporate Participant

I mean that commission as a matter of interest in the UK is pretty high. It's about two times the premium. So that's why obviously that amount that you mention is about three times the premium acquisition cost.

But that amount of acquisition cost is funded by Prudential. It's funded by some of the positive reserves which match the negative reserves generated from selling those protection policies. So there is no cash that we have to put in for that.

Q - Analyst

And have they put in these limitations on how much you can write new business?

A - Corporate Participant

No, they haven't. Because, I mean essentially we matching it against their annuity portfolio which is an extremely large portfolio. So hopefully we do hit that cap.

Q - Analyst

Just following up on that, the South African write-offs, what's the current level cash profitability across those two businesses?

A - Adrian Gore {BIO 3068929 <GO>}

You mean the generation of cash in Discovery Life?

Q - Analyst

Yeah. And annuity based.

A - Adrian Gore {BIO 3068929 <GO>}

Together with the capital bonds which are a central part of it, it's almost -- without referring to almost cash breakeven. And we are kind of raising sufficient to not require significant capital to be injected into those two.

And I was going to come back and tell you about the about the UK business, it's a very strong world. I think we're excited that we have got through very quickly. I think there is a lot of work to be done to get expenses levels down and to really get to maturity and scale. And I think its performance has been quite remarkable. I think the quality we see is remarkable. So I think we're excited about it.

I think in the case of -- I think you sound if you're still slightly negative that we are -- I think the capital bond raising which we might accelerate should take care of that. Let me remind as well that the capital impairment we spend a lot of time on that, ultimately manifested in the -- item in the correction shares. The collective view of that is that we recognized capital outlay where we can kind of grow rapidly, to see all these opportunities, without recourse to other to outside capital. So were going to both of those the capital bonds and the raising of that to continue to fund the business.

Any other? I'm going to show that -- I think we're dragging out the time for everybody. One more question we feel comfortable. Is there any?

Okay. I think we are done. We are all here for questions and all at any time. Let me just once again just thank you very much for the time. I am sorry for the very long presentation. We greatly appreciate. Thank you.