Y 2021 Earnings Call

Company Participants

- Adrian Gore, Founder and Group Chief Executive Officer
- Andrew Rayner, Group Chief Risk Officer and Chief Actuary
- Barry Swartzberg, Chief Executive Officer: Vitality Group
- Deon Viljoen, Group Chief Financial Officer
- Neville Koopowitz, Chief Executive Officer: Vitality UK
- Ryan Noach, Chief Executive Officer - Discovery Health
- Unidentified Speaker

Other Participants

- Unidentified Participant

Presentation

Operator

Good morning, everyone. Thank you very much for the time this morning. We are presenting Discovery's Full Year Results to the -- for the period to June 30, 2021. And you will have seen from our announcements, I assume our numbers from the SENS announcement we put out a couple of days back. I hope that's really clear and we'll be working through them over the hour and hope to give you some insight into them.

It's important to say at the outset that this has been a complex period as you will appreciate. Every period in our experience is complex, but I believe the COVID overlay, the tragedy, the profoundness of its is a defining moment for our generation I would guess. So this has been a very, very difficult time. The year under review has been virtually from the start of the pandemic, just after the first lockdown, through the process of the first and second waves, we've seen nearly 15 million deaths worldwide. We've seen 220,000 deaths, we estimate in South Africa. So this has been a particularly difficult period, I would guess.

And to the extent our role, make people healthier, enhance in particular their lives, has never ever been more relevant. And I think that that purpose has held us to a much higher standard during this period. So you will see a lot of financial numbers and performance as you see on the screen. But I'm actually more proud of the impact our group has made. And I think we're remarkably part of our people. Whatever we managed to achieve during this time, the solid operating performance, intervention, focusing on making people healthier, focusing and helping societies in which we operate and focusing on helping our country through a very, very difficult time. So it has been a very defining period for us.

And then I would say, just gratitude to I think public-private relationships. So I think if anything during this period, we have seen the power of how business and government can work together. And I think the vaccine rollout as it gains some momentum illustrates the power of the ability to do so. Hopefully that bodes well as we go forward.

So let me start off the presentation. So I'm joined in our Boardroom here with for Deon Viljoen, our CFO and our entire executive team is on the call available for questions after that we'll take and I'll take you through the presentation. As always, I have to give you some real insight into the various dynamics of the group and how we've performed. But I must again just stress my gratitude to our people. Remarkably, they have worked tirelessly in every respect to get Discovery to where it needs to be more critically to help our country.

So let me start by saying, you see the numbers on the screen, you will have seen them. I'm going to walk through them and give you a sense of how they were made up. I do think maybe more importantly that the period under review is really characterized by I think four important attributes. The first is obviously navigating COVID kind of beside the financial issues, the social issues, the complexity of trying to protect people and society. The second is a resilient [ph] operating performance, I think robust and you'll see that come through. And then a critical point that we made at the previous announcement was a focus on capital strength, liquidity and solvency of fundamental issue through the pandemic and I'm very pleased with how the group has performed.

And then finally, and I hope I get this across. There really is a pivot to growth and to an extent I think what the group has done well has been a focus on prudence during the pandemic, but at the same time pivoting to growth. The reality is that our shared value model is entirely applicable and more so as the trends kind of manifest through COVID. And so the pivot to growth on three dimension, I'll take you through them. The issue of organic growth, geographic growth and fundamental building the Vitality platform globally has offered us the ability to pivot to growth and I think offers us fantastic foundations for growth as we go forward.

So let me go on these -- let me proceed on these four distinct attributes of the period and hopefully, give you an insight into what we've done. Firstly, on COVID, you will know and I think you followed us at the previous announcement, we've made it clear that we kind of illustrated our COVID strategy around this rubric, foundational financial strength and resilience and then a focus on making -- ensuring our people are safe, ensuring that our customers are safe and our products are appropriate. And then third, an explicit focus on supporting communities that we operate in and obviously as a South African company, our focus on building and helping in the response to COVID.

The huge amount has taken place obviously over this entire year and if you look at this very simple diagram on the screen, you will see that I think it covers kind of everything. I'll touch on later the fundamental issue financially over ZAR2.4 billion additional affect on IFRS, a negative hit on IFRS around provisions for distinct Discovery Life mortality claims in South Africa, and that is a defining issue I think around the COVID, around our learnings from COVID. But I think more critically is the social issues. The organization has focused very much on playing a central role in the response, the entire focus on the vaccine over probably November-December, understanding funding issues, pricing issues, procuring issues and helping in the stated process around the vaccine rollout. You will know this, we now have nine vaccination sites. We have built quite a substantial organizational structure of 1,000 people that are managing and focusing on the vaccine. We expect the cost of this to be ZAR200 million to the group. Over time, we've spent, I think just over ZAR40 million during this period. So it's a massive rollout of the vaccine. And again, I think we as a Board and as a company are remarkably proud. And frankly, feel honor that we can make a difference in this profound way.

The second point, maybe just a focus on all of our products. You will have seen a lot of our products were reconfigured during the period. Really good work has been done now in understanding mortality effects based on vaccine and pricing that into life insurance, a world first. So there has been a massive focus on the structure of our products and making sure that they kind of COVID and post-COVID fit for purpose.

But then a critical issue of focus on our staff. And this is a very, very important step. And I want to make the point quite clearly, we are focused very much in keeping our staff safe. Our people have worked from home in the main and around the world. And I think our team and our leadership team has done well in this regard. But our Board and our ExCo has debated over a number of weeks, and in fact months around the idea of an employee mandates around the vaccine.

And we have announced yesterday to our leadership team, we're rolling it out today and in the next number of weeks, the intention to have an employee mandate from 1 January, 2022 around the vaccine. It is a big step. I hope it's a step that others take note of. I think it's in our view and -- in the context of COVID. It's based on our view a very strong position around our purpose, our social responsibility. So from a position of leadership, I think it's a moral position to take and I think it's a legal position to take. So we have taken the view that we have an intention to rollout employee vaccine mandate for our employees in our premises from 1 January, 2022. Obviously through to that period, we're going to work hard to get our people vaccinated. There's nothing better than people voluntarily doing that, but the organization will be mandated from the start of the 2022 year.

Let me provide some context to this. As I made the point at the outset, the assumptions made coming into this year were based on just modeling around what COVID might do. There was very little understanding obviously of what a pandemic might do. And there was numbers of areas of issues. The one issue is obviously economic concerns and concerns about high lapse rates. In other words, people dropping their coverage and dropping their cover and us losing clients. That never happened. So, in fact, quite the opposite. What you'll see one of the themes is that our products if anything are more sticky, let's say, to a lower persistency, so higher people value, health and life cover and all kinds of coverage during the period. And I think that's an excellent thing. Beside the financial issue, I think it talks to responsible behavior.

But the second issue is just trying to understand the modeling of mortality. In truth, we did not get it right. The assumption of the high levels of death during the period were based on a lot of modeling around the first wave. And you can see on the chart there, an assumption about death rates. We actually got the first wave fairly accurate. We assumed about 87,000 deaths -- sorry just to make the point, I talk here numbers, these are individual people. So if I sound careless I don't mean that all, these are people, but the numbers are quite staggering. We assumed 87,000 deaths in the first wave. In fact, our estimation of death we take excess deaths into account is about 76,000. But thereafter when we said at the end of the previous periods coming into this year, our assumption is in the blue line. In other words, how the second wave would play out as you can see and how it could taper off.

We had no understanding of variants of Beta, Delta variants, their transmissibility and how they may play out. And you can see to an extent we've got it completely wrong. The wave was earlier, the Beta wave was particularly nasty and high as you can see and then the third wave, the Delta wave that came in was quite remarkable and continues now. The tail end is coming off. So to an extent, what happened is, I think we made provisions around lapses that were needed which is obviously a good thing. We made provisions around mortality that were largely insufficient because as you can see from the blue chart versus the purple chart, our assumption of the waves and how they would manifest was grossly to any extent understated.

The part of it is really a tale of South African mortality. If you look at what happened during this period, and particularly the third wave, it hit the UK and it had all kinds of effects obviously. But the fact that the UK was vaccinated largely, you can see in the right hand side in the blue the wave of the infection rate, but in the purple, the death rate is very, very low. So the UK kind of hit -- the third wave hit the UK at a time where vaccinations were already fairly deeply embedded. Yet in South Africa, as you can see, it's a tale of two cities. In South Africa, on the left hand side, you can see the blue wave, the third wave coming up and you see the death rate following it. So just a matter of timing that our vaccine programs started late despite all of the efforts I think both public and private, it is what it is, but the third wave hit us with Delta in a situation with people largely unvaccinated. The extent of death as we know has been substantial.

So get to the point before, total deaths we estimated to be around 220,000 when you look at excess deaths. And we estimate over 70% of the population in total has had some form of COVID infection. So when you bring this all together, the assumptions about lapses about mortality, I would say to the -- the one thing that has really been a fundamental difference to expectation in the period under review has been South African mortality affecting Discovery Life. And so, setting up a provision for that, because going forward, obviously, we remain concerned about the tail off of the third wave firstly, and secondly, potential no doubt of a fourth wave coming up and we're trying our best understand all of those issues.

What is very, very interesting is, when you actually model and our team and others do a lot of work on this issue of trying to model these waves and kind of understand where they come from, where they are going, it's a function of three things. One is immunity, the second is a probability of contact of infection, and the third is resilience, how risky the individual is. This is kind of modeling the mortality effects. What I think is really intriguing is the data is becoming quite clear on many of the issues. The power of resilience on the risk side is fundamental. So people engaging in Vitality, people doing healthy things are much more protected from death.

In terms of contact, we are learning about the power, obviously, of social appropriate behavior, distancing, mask wearing, et cetera and that must continue. But I think one of the key things about immunity, as we have learned is a power of the vaccine. It's the one lever that is just kind of dominantly in every respect. When your people are vaccinated, the effect of the wave, the effect on death rates is absolutely fundamental. So we're learning about reinfection rates and in fact, a lot of immunity waves over time. One, I think very, very important aspect from a South African perspective is it turns out that when you have hybrid immunity, if someone has a COVID and they are vaccinated, their immunity is very, very strong. And to an extent, while it's tragic, our levels of infection are very, very high, the flip side of that is, we get people vaccinated. A lot of our population will have hybrid immunity and that will be an excellent thing.

There continue to be new variants that we had to model in. People worry about the C1.2. The best advice we have is not to panic about these things, just to focus clearly on the end game, which is work towards getting people vaccinated and just I think the overwhelming data coming out of the vaccine data. I wanted to share with you some of our data. Our team obviously monitors very carefully and models the effect of the vaccine. It's unequivocal that it's just the power of the vaccine is the fundamental lever in fight against this. I would say too, our policy position is get people vaccinated in the short term and in the medium to long term, get people resilient on healthy behaviors. To get both of those done that is our best defense against the pandemic and that's what we need to do.

You can see from this chart on the right hand side, it kind of shows the difference between vaccinated and unvaccinated in terms of risk of infection, risk of admission, risk of being admitted to ICU and obviously risk of death. You can see the differences are dramatic. So the chance of death, the differences are like a 5% chance of someone being -- of someone dying from COVID if they're infected once they are vaccinated are even less, it's a 98% chance of survival.

I found the graph on the right or left hand side of the chart. When you bring all these factors together, you can see that if people are vaccinated, the actual chance of death is lower than from getting the flu. That's a remarkable statistic or outcome from the data that we've seen. So there is no doubt that the vaccination, its efficacy and its importance cannot be overstated as we go forward.

The other point to make is, there is no real excuse for us not getting people vaccinated. Besides hesitancy, we have to work hard to get people educated. I think the rollout of the vaccine are again credit to the business sector, the government who have led the process. Now it's largely world-class. You can see on the left hand side that the country can -- vaccinated about 300,000 a day or more if need be. We are not getting there because people aren't presenting for vaccinations. But we have the capability to vaccinate probably 400,000 people a day.

In the middle chart, you can see the stock profile. While there was difficulty procuring vaccine initially, the stock remains very, very high. So in the projection period, I think the expectation is that the country will have 10 to 12 million vaccines in hand at any point in time. So there is no shortage. So the issue here is demand, getting people vaccinated. That really is the fundamental issue we need to get to.

In the second from the right chart is really the country rollout. As you can see by age group, 60 years and older in the blue, younger in the white, down to the 18s and above. And what you see is that there has been a pretty quick take up, we've got to 55% of those 60-year-olds who will probably know these statistics. But it kind of asymptotes. And you can see in that kind of asymptote of the graph, the danger of hesitancy and just getting there. There's all kinds of reasons for it, a lot of people in low-income areas just don't have the social capital to get vaccinated, get mobilized. We have to work on it. So there is much to do here, and I think that all of us, all businesses, all of society, needs to make sure we can help people all over the country get vaccinated.

On the extreme right hand side, you can see that in the case of the Discovery client base, the actual vaccination rate is very, very strong. We worked hard to achieve this. It doesn't come naturally, it's hard, hard work. You can see at the bottom of the chart, we've made about 100,000 phone calls to our clients to motivate, to educate around the vaccine. We sent out nearly 20 million emails continuously trying to get people to vaccinate. But the net result is that I think the take-up in the Discovery base is high.

So when you bring all these factors together and you set kind of on the start of this financial year that we were in, the issues I have to understand for us that what the pandemic will mean going forward, what provisions we need financially and then critically what social interventions we need to do to make sure that people are safe and what we can do to help, both at a employee level and at a customer level and then critically obviously at a societal country level. What you see on the chart there is our expectation on the way forward. The tailing off of the third wave that's happening at the moment, it's taken time and it is tricky. And then how that wave, the fourth wave might emerge.

And you can see on the chart on the right hand side, the fourth wave we expected around November, December, January to be in play. Its size is fundamentally a function of vaccination rates. So you can see the kind of excess deaths we expect in total after the fourth wave over this period to be on the low side 235,000, on the high side 265,000 in total from the start of the pandemic. So simply put, if we vaccinate people and get people vaccinated at scale, we can save 30,000 lives and that is what's at stake for us as a country. And therefore the issue of vaccinating is fundamental.

You'll see on the right hand side, the Discovery base going into this financial year was actually very, very strong and you will see on the -- in total, total lives vaccinated, these positive vaccinated are health base over 50%, our life base 62%, and our group life base over 50%. And if you look at individual life for members over 60, in fact, across the board nearly 80%. So for people over 60, we really have -- I think got very, very deep penetrations and we're working hard to make sure high risk people -- people of higher ages are in fact vaccinated and I think we're doing well. We're trying to get to 80%. Obviously, we're not that far off on the over 60. So kind of -- as a kind of a sense of resilience and robustness of our organization, I think a vaccine rate is a fundamental barometer of a KPI success. We need to get that to 80% across the board. We have work to do, but I believe we will do that.

In terms of the vaccine mandate, just in summary, I made the point before I think our position is fairly clear. It's been a very lengthy debate at our Board around implementing a vaccine mandate. The Discovery approach has always been about nudging, about incentivizing, about encouraging. That's critical. But I think the legal, moral, and leadership argument about an employee mandatory vaccine policy is clear. The six points on the screen, I think my data is showing you that, I mean, the first is, obviously, we've got to stop people dying. It's as simple as that. We've got to adopt the policy of not one more death. We have to do that. It is an unprecedented health strategy with 30,000 lives at risk. You can see and we know that the fourth wave poses a risk. We have to stop that happening. So misinformation about the vaccine, et cetera, ends up killing people.

The second point is vaccine, as I said, is remarkably safe. It's safe. It's effective. The effectiveness, you've seen at 95% to 100% chance of cutting deaths from the -- from people that are infected and the side effects, the probability of side effects are so low when you compare them to the actual risk of death. It seems an absolute no-brainer to actually get vaccinated, if you think about yourself purely in self interest.

But the point about -- the third point about public health imperative is when people are unvaccinated are much more -- they transmit the virus at a considerably higher rate. There is a 50% to 80% difference in that. So whether you have a public self interest or not, you have an obligation to get vaccinated. So you don't transmit the virus to other people. And when people are sick, obviously, society pays for healthcare, either through medical scheme or through the public health care system. It's -- the cost of sickness from COVID are borne by society.

And then the point I made, there is no issue about access. The vaccine -- credit to the government, the policy is free at the point of care and is now available at scale. So there is no barriers to getting it. And then our sense of morality is that we must protect our people. And if you look at the occupational health and safety act is an obligation to do so. So we've done a lot of work on the moral issues, the ethical issues, and of course, the legal issues. And it is unequivocal to us. So we are in the process now of rolling out this vaccine mandate that has been rolled out to our leadership team and to our people earlier today and the process will continue. It will be done with -- in a very careful way of mutual understanding and respect as we listen to people's issues. But by 1 January, it will be in place fully. And that we think is an important step in substance and I think an important step symbolically. And I hope that other companies follow our lead on this, because I think it is crucial that we get -- if businesses does stand together, we can make a significant difference on the vaccine rate.

Let me talk to the finances. There's a lot of complexity about provisions, and Deon and I and our team have been hard at work, trying to explain these different provisions. Let me put it to you simply and there's a lot of disclosure that you can work through it and to understand the provision. But simply put, the effect on our P&L or the IFRS effect is about just over to ZAR2.4 billion. The total balance sheet effect or the total balance sheet provisions for -- this is for life claims in South Africa. As I said to you before, all of this, the assumptions and everything we've spoken about, it's a critical point, ultimately manifests in mortality issues in Discovery Life, to an extent and that remains our concern.

In the UK, I think it's a fantastic thing. High levels of vaccination meant that death rates and chance of death is very, very low. So our concerns and our provisions and our focus is about mortality. Of course in South Africa what you see is kind of a buildup of that -- of the progression on the left hand side. You will see that we actually had sufficient provision for all of the mortality, the individual life mortality in South Africa despite the waves, because we had additional provisions for lapses that were needed. On the group life side, which is a year-by-year contract, we couldn't make a provision. So that brought us into the negative territory.

Then you can see a quite a substantial setup of provisions that we set up now expecting the tail off of the third wave. And in addition, we've set up some own risk contract provisions around group life, given the experience in the year under review, taking the total ZAR32.448 billion. As you can see, that compares with the IFRS effect of the previous year of just over ZAR1 billion after taking into account margins that were there and ignoring all the other effects. So simply put, the IFRS effect of the expectation of higher levels of mortality in South Africa and Discovery Life, which is the primary I think residual issue of COVID for us from a financial perspective is just under ZAR2.5 billion as you can see.

In the case of the UK Vitality Life, we've largely released those provisions. We've used and I'll take you through it later, we've used largely those provisions to strengthen basis underpinning Vitality Life. In the case of Vitality Health, the dynamic is entirely the opposite. In the UK and the health -- private health insurance market, what has happened is people have delayed claims. There has been no access to private healthcare as the NHS has taken over private hospitals during the pandemic and therefore what we had is the opposite, people not getting care.

But obviously in our modeling people are delaying care for post the pandemic. So while there was a considerable surplus in regard of that, we've used that to model and carefully restructure our reinsurance. So when these claims do reoccur to an extent, we are fully ready to pay them and they fit in the operating profit. After taking them into account, it's largely negligible. So the operating profit you see coming up, I think reflects what we think is a reasonable performance over that period.

So, to come back to the point, I think for the rest of the presentation, our focus of the COVID effect is largely mortality impact in South Africa manifesting in Discovery Life. Obviously, the residual effects and economic effects, et cetera, but I wanted you to just understand that pivotal point is I think a lot of comments I make on the context of that.

Let me continue then with talking to performance. And I made the point about residual operating performance. I do think the performance of the group has been robust. This is really kind of a just a cross section of our businesses, as you will have seen before. I'm looking at operating profit of 7%. New business up I think a pretty robust 11% in an environment of considerable difficulty with face to face distribution and all kinds of barriers as you would appreciate. But I think you can see quite clearly, Discovery Health had an excellent performance. Besides its effect in terms of COVID, robust operating performance, robust new business performance, excellent throughout.

Discovery Life is really the epicenter of the fate of excess mortality. You can see to the massive hit and profit down nearly 60% and 55% new business up. Not a -- I think a fairly good performance of minus 1% in a very difficult environment. If you strip out the COVID effect, what you will see is a very robust performance, very strong positive experience, variances, and organization is very resilient going forward. And I'll take you through that.

Discovery Invest, strong operating profits and one-off effects, but still very strong performance. Excellent investment performance, very low levels of lapses, a fantastic performance, I think, over the year. And I think bodes well for the work we're doing around this idea of shared value working with partners like Goldman Sachs, like BlackRock, and obviously at 91, wave a fantastic partnership with the network very well.

Discovery Insure had an excellent period. You can see the profits fairly flat for the period and I'll take you through the reasons for that. But importantly, new business continues to grow 18%. So I think it's very strong and the top line grew very strongly. And importantly, you'll see the dynamics of the model of trying to incentivize people to drive better comes through very strongly.

Discovery Bank, I think had an excellent particularly six-months, very strong growth, a very strong focus on quality issues. I'll take you through it and I think we're very comfortable with the performance of the bank. You can see the spend on the bank came down 7% in the period under review. And I think that will drop off quite a bit faster going forward.

Vitality Health, a very, very robust period. As you can see with operating profit at 15%, very strong performance throughout the business. It is resilient, strong cash generative and excellent performance in a very, very difficult environment.

I think Vitality Life is one of the businesses I would call out, because I think as you all know, we had a very difficult number of users. Rates of interest went down. We implemented a 10 point plan that has worked very well. So a complete turnaround from a loss-making situation into I think very strong profit. I think, very well positioned for the years going forward.

Vitality Group and Ping An having very strong operating performance growth, up 35%, substantial profitability in both of them. Ping An Health continues to grow. You can see the new business has grown slower than previous periods, but off the hard base. I'll take you through that. But the key thing in Vitality Group is about kind of deepening our relationships with our big partners, broadening the platform and moving into adjacencies such as motor insurance and obviously health ecosystems, I will touch on that later. A lot of work is being done in Vitality Group. Ping An Health I think had an excellent period, a very strong focus on profitability and quality coming through. But a critical issue is, as we grow Ping An Health, there is a capital requirement to grow the business further of RMB2.6 billion. Our share is about RMB1.5 billion. We're evaluating ways of how we will fund that and I'll touch on it later in the presentation.

And then finally, there is a slew of new businesses that we stay at 7% less on in the period under review. Very strong traction in terms of new business, very pleased with the performance of those. So kind of cross-section of the group, I think you will see that I think the operating profit is -- the performance is resilient. A shot out on obviously Discovery Life as you can see what epicenter of the effect on mortality is. A few points about resilience that I thought -- we thought worth making. If you look at operating profit and you add back, I will do this a lot in the presentation. I just want to just make it clear. Just to show the effect of, if you took the excess mortality out of Discovery Life, it's not an attempt to illustrate higher profits, please understand that it's an attempt to show kind of how the dynamics are playing out.

So if you look at the operating profit, you can see the economy has been reasonably robust and came down obviously in the two periods of COVID. But if you add back the COVID effect in both periods, you can see that in fact the overall profitability of the group will have grown by 25% and quite substantially ahead of previous periods. I would say to you that the kind of dynamics of the group, how it's playing out, if you ignore the excess mortality in South Africa that affected Discovery Life, the operating profit I think is remarkably robust.

We look at new business, the 11% growth despite a very difficult COVID period, I think is robust. But I think it's interesting to see the makeup of that new business growth. You can see on the right hand side, the fully 38% of it is now from emerging in new businesses. And I think that illustrates the strength of the -- the ability of normalization to repeat and scale and grow, and our organic growth model of that, the ability to start and scale new businesses. If you don't do that, you will see and I think many companies have seen that, in a difficult period, you get flat or declining new business. You can see the growth of those coming through.

So trying to give you kind of a cross-section of the quality of growth and the quality of operating profit and making the point, I think that it does illustrate resilience. We did this in the previous results announcement just illustrating the actuarial factors of lapses and claims across the businesses. Again I think very, very resilient. As I made the point, in terms of lapses or persistency, the business has proven to be very, very sticky. So people during these times have tend to stick with the health cover, life cover, health insurance, et cetera. Not all of it is intuitive. In the case of Vitality Health in the UK, for example, people couldn't claim. So there is obviously a fear that people will drop their policies and rebuy potentially later down the line, then in fact didn't happen. The organization Vitality Health did a very strong job on the retention side. So excellent work done throughout on lapses. You can see our claims as well, despite concerns about all kinds of things, if you strip out the COVID effect against the provisions, you find that I think the actual was expected to be very, very solid.

To end with on the section, I wanted to just reconcile what I'm telling you with the face of the income statement. It is complex and we are always sorry for that. It's hard to make it simple. There are lot of moving parts, but I wanted to kind of reconcile and, Deon, our CFO can obviously take questions on this. But I think it is quite instructive to understand the numbers we think are important.

I have made the point about the operating profit of up 7%. As you can see on the top of the slide, there's a number of moving parts. It gets to a profit before tax up over 700%, obviously that's a non-sense number. It doesn't really illustrate the kind of dynamics of the group. You can see there are distinct things that drive that delta. The one is the -- in the previous period, there was a rapid increase in South Africa of long-term rate of interest and decrease in the UK that created considerable decline in value. It didn't affect solvency or capital or anything, but affected the face of the income statement. That hasn't recurred. So you see a swing there of close to ZAR4.3 billion.

Secondly, we hold a lot of instruments and money in different currencies to make sure we matched for funding requirements. We take a very, very careful approach to not taking positions on currency. So a lot of our instruments are holding different currencies to make sure that if funding is needed by other businesses, it's available without risk. The rand strengthened over the period. And so you see a swing there, a negative swing of ZAR1.5 billion in 0.2. [ph]

And then CMT, our investment in CMT, which is the long morning here, sorry, the app that helps us with Discovery Insure in terms of actually tracking and merging how people drive, this has been a phenomenal success. The company has grown to a world leader, acquired in the period through motion, this major competitors in the US. It has actually grown quite substantially, but that acquisition with equity diluted our share and the base of dilution and the valuation has really gone up. So you can see over ZAR0.5 billion valuation and ZAR554 million coming through the face of the income statement. So that really kind of reconciles the 7% of over 700%.

I think what really is meaningful is you go down to the -- the headline earnings is affected certainly by some of these swings. But if you go down to normalized headline earnings, that takes out a number of these factors. As you can see, it takes out the insulated effective tax, a part of the forex effect, down 9%. But I think the number worth looking at is normalized headline earnings, but excluding the forex effect and that shows a plus 12%. So trying to show a number of numbers that you might consider. We felt that looking at normalized operating profit of 7%, normalized headline earnings down 9%, effective just a -- the strengthening of the rand, if you exclude that, up 12%. So hopefully it gives you a sense of the profitability and reconciles, and Deon and our team can obviously give you details to it.

The point, obviously given COVID and the uncertainty, we will continue in our policy of not paying a dividend at this stage and we'll review that from period to period, as we understand how the environment plays out.

So let me move on, if I can, to capital strength and liquidity. I've made the point many times that we are focused very much on the idea of capital strength and liquidity, critical points in a pandemic. It manifests in a multitude of how we manage the capital plan. The first important point is obviously making sure that all of our operating entities are highly capitalized. You can see on the left hand side of the chart, all of our entities are strongly capitalized in terms of the SCR coverage that is required.

Our gearing remains well within our limits and we expect that gearing to come down gradually over time. The group is highly liquid. Throughout the group we have about

ZAR13.5 billion of cash on hand. And then at the center, which is really the buffer, as the group grows, we have about ZAR2 billion on hand which is very much in line with what we've had in our guidance throughout. So the group, I think, is well capitalized and strong. There has been a very strong focus on making sure we are liquid to deal with the vagaries of COVID and particularly the excess mortality that comes through.

From a cash generation perspective, this really is a story of I think the duality of managing COVID and the COVID claims, but at the same time growing the business. As you can see, the group generated about ZAR13 billion of cash during the period. You can see the COVID claims of ZAR3 billion, some funding coming through from reinsurance and death, small amounts of that and then you see in the ATCO side tax and finance cost, but predominantly the spend on new business and new businesses of ZAR1.8 billion, giving us a deficit in the period of ZAR1.3 billion.

So put differently, of the ZAR13 billion of cash generated fully around probably 20% of that or slightly less and that's through gross COVID claims, as you can see, assisted by reinsurance obviously and then spending over close to ZAR10 billion of the ZAR13 billion on new business and new businesses, which I think is really key to the Discovery Bank et cetera and other things. So really it's a duality of COVID on one hand and the investment in new businesses on the other.

The embedded value you will see in the financial statements is a complex and I think very, very instructive analysis. The return on EV was 4.6% over the period. If you remove the effect of COVID, the COVID claims and lapses is about 11% over the period. The EV grew by about, I think, just over 5% -- 5.5% over the period. And you can see the makeup of the EV. I think it's pretty intuitive. You can see the qualitative figures of value of new business coming through, positive experience variances coming through, the unwind of the risk discount rate. And then clearly in the red, the effect of COVID on one hand, the effect of forex on the other.

An important point to make is that as the Group grows into a number of other businesses, especially our emerging businesses, Ping An Health, Discovery Insure, Vitality Group, there is no better value that we calculate for them. So now fully percent -- so now fully 25% of group revenue is actually accounted for by these new businesses that are not in the EV. So more and more, I'd say to the EV is a very instructive tool around many of our regulated businesses, our insurance businesses, but I do not believe it tells the whole story of the embedded value that I think is building up and over time, as we understand that more, we may bring that into account as we move forward.

Then you move to the next section, if I can. I hope I'm being clear here. I wanted to talk about our views on our dimensions of growth. There is kind of a pivot to growth and we believe strongly, we said this over a number of reporting periods that the shared value model has considerable applicability globally. It is the ability to repeat and scale, but in the case of COVID, in the post-COVID world, its relevance of making people healthier and incentivizing resilient behavior is obviously magnified. And I would say to you that we've used this evidence of the three distinct trends kind of the changing -- understanding of risk that is largely behavioral or pre-existing, the power of technology and importance of corporate purpose of cooperation, not just being transactional, but in fact, focusing on corporate purpose and in our case, make people healthier. Those trends have accelerated during COVID.

But I think there is a very important observation to be made and I think I hope you will appreciate it, is that, as soon as you take the view that risk is not pre-existing but behavioral, the changes in entire nature of your strategic outlook, because if risk is pre-existing, then the institutional business, we had a lot of health insurer, multi-insurer, simply price is risk as a static issue. Charges, premiums, and pays claims, it's a transactional business. As soon as you accept that risk is largely behavioral and we've seen over the COVID period, we've seen that more and more in our competitors and in the broad landscape, that risk is largely behavioral. Then you have to transform into a business that engages customers and use the power of technology to do that.

And so what you see - and this is some work done by McKinsey. What you see is, two very big trends that are emerging in this COVID period, and I think that's pretty transformational. First is a massive rise in fintech and insuretech that really is trying to harness behavior and engagement from the power of technology. And then secondly, at the bottom of the chart, a focus of major institutions around the concept of an ecosystem. So if you're a life insurer and a health insurer, the differences start to blow when you think about engagement, when you think about risk, because if you're a life insurer, there really is value in making people healthier. You move off of this kind of pre-existing static approach. And what you see on the right hand side, I hope it is clear, is kind of this graph that kind of shows what is happening to many of the major insurers, many of them are partners. Ping An, Generali, but many of the big players, be it Aviva, be it Axa, be it Allianz, be it Progressive in the US, those focus on ecosystems. Buying up and building platforms, buying up a building startups, buying health insurance and health capabilities, merging them into their business.

So there really is I think a fundamental change in the dynamics around a post COVID world in two distinct issues. A focus on the insure techs and fintechs are really a lot on capital, can scale globally without capital, but focus on engaging people and bringing them into, building, changing behavior and providing access. And then a focus on the institutional business that are around ecosystems that manage risk better in a more dynamic way that takes into account the fact that risk is very much behavioral.

I would put it to you that the Discovery shared value model based on the Vitality platform is remarkably powerful tool in this regard and I think places us in a leadership role. The concept of shared value, where there is no dissonance between us and our clients is well accepted. And I think the point that improving behavior for our clients is good for them and good for us that their complete alignment of incentives makes the model so appealing.

And then the architecture has taken us into very, very flexible way. The concept of behavioral Vitality platform in orange and the institutional business sitting on top of it, getting both right and we're seeing this now, offers the opportunity to build a platform of considerable scale, while at the same time creating an institutional business or life insurer or health insurer, whatever it might be, motor insurer, that gets better return on capital. So when that's light on capital, that can scale kind of horizontally the other capital-heavy regulated by getting the best of both.

And in our own kind of lexicon, the concept of us is doing that at scale, creating the composite in market as you can see and bringing the whole thing together into an ecosystem. So I would say to you, when you look at the trends, there is fundamental and transformational forces working through financial services around ecosystems, around the power of fintech and insurtech and technology. I think our model puts us at the front end of this. And I guess the challenge is not to kind of let the opportunity slip. We must capitalize on these growth opportunities. I do believe, in the period under review and then last probably 18 months has been a considerable focus on aligning ourselves for that growth. Not all of it is evident and it will come through over time, but I think the work done by the teams has been quite remarkable in that regard.

And I'll put you that the structure of the model and architecture of the model and I think the assets we have built have given us the ability to grow in three dimensions. And I wanted to kind of illustrate those two. The first is, organic growth. Our ability through the model to start businesses that are competitive and get scale, become emerging businesses that have considerable scale, good return on capital. And ultimately, those become big established businesses, that ability creates considerable value if we can achieve. And I think that the strategic question there is, can we slide our business successfully, do that scale, do that offer an acceptable return on capital.

In the case of geographic growth, more and more, we see ourselves as Discovery in South Africa and Vitality globally. So if you look at the organization now, it's kind of two different footprints, South African local footprint and a global footprint. You actually see that we have the ability to grow geographically. Some of it is capital heavy like in the UK where we are building insurance businesses. But the - I think the fantastic thing about the Vitality shared value model, the partnership ability, lets us globalize, really globalize at scale without recourse to considerable amount of capital and that offers an opportunity to get geographic growth, I think of great value.

And then the third point is to think about the platform. So to kind of been the line horizontally and separate the two. I think there are two different kind of businesses in our belly. [ph] One is a global platform, a platform led growth, think about the Vitality capability as a global platform and in and of itself, it's a powerful insurtech capability of scale, that in and of itself can become a revenue generator -- a profit generator in and of itself. And then the institutional business partnerships sitting about. And then of course the strategic question there is, are the institutions sitting on it getting real value, are they competitive and critically, can you scale the platform.

I think if you look at these analyses, all three dimensions I think offer considerable opportunity. The organic growth model, you will have seen this many, many times, we've always shown this as part of our thinking was that is actually how we grow. I think in the period under review, I think the traction has been excellent. You can see that our established businesses again, I'm isolating out the COVID effects and all of these analyses with -- COVID is in the brackets. I wanted to show you, if you take out the excess mortality in Discovery Live, just to see the dynamics what happens, the established businesses had strong growth in the period. But the emerging business has grown by nearly 50%, quite considerable scale.

And then in our belly, we spent about ZAR2 billion in new businesses. It's a high number, we've made this point many times. We have many different debates. There is a strong pressure to bring that spend down. The opposite pressure around an emerging post-COVID environment is to spend more and to scale organization. It is coming down and I think we'll be very disciplined about how we manage the new businesses in the belly of that ZAR2 billion is obviously Discovery Bank, but a number of things in the UK Vitality Invest, Vitality Car, a slew of innovations in Vitality Group.

So really the organic growth model is tested by, can you bring those new businesses to scale and are the emerging businesses getting scale and return on capital. What you will see is the emerging businesses I think in the last few periods have illustrated considerable success by getting real scale. As you can see, in the case of profit growth, Discovery Insure jumping up in profit, fairly flat I'll take you through that later. Ping An Health again I'll also take through later, strong profit growth as is Vitality Group. So, you've got a kind of a group of businesses here now over ZAR1 billion in profit growing strong at about a 14.5% running yield in the year under review.

So, if we can keep growing that, the value creation can be substantial. In the case of the new businesses Discovery Bank, Vitality Invest, the ability to repeat Vitality on the platform, as we said, is part of our new business spend, Discovery business insurance and umbrella funds. The traction on new business under this period particularly has been exceptionally strong as you can see. So we're getting traction in the new businesses. We're getting value and scale, I think in the emerging businesses, and therefore, I would argue that the organic growth model is working very, very well. The onus on us of course is to get a return out of that spend on new business and new businesses as you saw on the cash flow analysis.

On geographic growth, if you think about the Group as Discovery in South Africa and Vitality globally, you can see actually the kind of dynamics playing out. Discovery in SA has got a large kind of profit, a large profit footprint. It's been fairly flat as you can see even. If you obviously take COVID into account, it comes down substantially given the Discovery Life effect. But if you isolate out the effect of the mortality claims, you will see that Discovery in SA has a fairly looks like a fairly static profit stream. But bear in mind, out of that profit, we are funding a bank. So that is the strength of the model. As the banks spend goes down, hopefully it comes to profitability. You have to get a good effect on the growth potential.

In the case of our international businesses, they have considerable scale. Now they are nearly ZAR2 billion in profitability and you can see considerable growth. The reduction in 2020 was the effect to Vitality Life. As we have turned that around, you can see we reverted back to that. I think very, very strong growth profile. And I think if you look underneath at the bottom of the slide, what it shows you in both Discovery and Vitality globally, what you see is a slow businesses in the new and emerging, which bode well I think for future growth. In the case of South Africa Discovery Bank and the other start-ups, in the case of our global stuff, Vitality Invest, Vitality Car and a number of very powerful initiatives happening in the Vitality Group around health and other that we will roll out over time.

So the geographic growth potential allows the group to be seen in two different dimensions. I think both of them have different dynamics, but offer considerable growth potential. And then the platform-led growth is quite interesting. The Vitality platform really has taken considerable shape over the number of periods. And we've made this point clearly. It is really a function of a number of layers. I think it is probably the -- one of the largest insurtech capabilities globally. And I think its sophistication is remarkable. The tech, the product layer, the data layer, the behavioral layer and the incentive layer that underpin the platform, all of them can be globalized. And if you cross your mind into the actual, if you cross your eye into the actual slide, the detail, all of them have had considerable investment. Vitality1 on the basis, giving us the ability to repeat and scale very, very substantially.

Globally, there is a very significant product layer that allows us to link behavior to the pricing of insurance, ABC pricing, dynamic pricing, device-led pricing, wedge pricing. We have a number of different actuarial formulations of how behavior is priced into insurance. Critical on the data layer, you can see we have over 50 million life years of data, correlating and understanding of causality and now nearly 13 billion of kilometers driven, one of the most accurate datasets in the world and we are more and more investing in data science, working with a company, we formed with Quantium, Quantium Health, giving us the ability to deploy the data in different markets in a very sophisticated way.

And then fantastic work done around the behavioral stuff, understanding personal pathways, the concept of mix based activity, the ability to use things like Vitality H3.0 and fundamentally, the ability to predict the onset of illness and intervene, that has considerable value for life and health Insurance. All of these are wrapped up in -- I think considerable ability to deploy them globally.

I think it's important that ignoring all of that stuff, the scale of the platform is interesting. If you look at the revenue flow to the platform, it's about ZAR4 billion of fees. Vitality premiums, all kinds of fees paid by partners, the platform itself is not an insignificant business in and of itself. The growth is about 8%, but that's because the South African piece is fairly static. As you can see, the growth internationally in the orange is very strong. You can see the considerable levels of activity, 40 million lives impacted by the platform, 12 billion steps a day that we monitor. The activity levels and engagement, there was -- are quite remarkable. And then the critical issue is shared value. If you look at all that engagement, I mean, the data that we show is that our -- the people we cover are getting healthier, that's the key value we provide to them.

But you can see on the right hand side of the chart, all the correlations are kind of impacted. Better selection, better lapsation, better behavior. So all of those correlations are in hand with this life insurance health, motor insurance, et cetera. And then the sharing of value in terms of premium discounts at paybacks et cetera in the period under review was over ZAR4.5 billion. So the kind of platform scale offers a fantastic opportunity. Can we scale it more? Can we scale it into its own business in some way offers considerable, considerable opportunity.

So the point I wanted to make, I hope I haven't been too laborious was to give you a sense of the power of the modern health fits into a post COVID world. I want to show the manifestation and then make some comments on the business. I hope I'm not too long-winded on this, but just to give you a sense, all of this has manifested, as you know, in South African composite, a UK composite, Ping An Health composite, in the sense, it fits into the Ping An ecosystem and then our partner model Vitality Group sitting on the behavioral platform. That is a manifestation of all of this in full strategic strengths.

I'll do South Africa first and give you some insight into the business. I think composite has performed, I think, very, very well. Going to Discovery Bank firstly, I think the six months under review, you will have seen our performance of the previous period. The bank now is in full swing, I think this is probably the first six months where migrations have been done. We focused -- there has been a massive focus on a number of things. The growth I think has been strong. The growth is above our business plan to just over 360,000 clients, 650,000 accounts, very strong deposit gathering, over ZAR8 billion. The advance book staying fairly flat. I'll tell you why in a moment, because of our concern about COVID. But I'll show you the quality of that. And then you can see the usage of the bank, the spend really ratcheting up.

I think just to understand, the strategy here is important. We really are pretty convicted about that they have a full-service bank. We are not -- I believe in a very thin skinny neo bank. This is a replacement play. It's about people buying all of their services over time from Discovery Bank, a full-service bank based on shared value obviously and the links then to the idea of a composite, the face of Discovery that people have used the banking rails to do all kinds of things. And I guess the five and I think we said this before, but the five real test of the progress of the bank: are we getting high quality client growth, is the quality coming through in terms of usage, proper accounts; secondly, are we attracting deposits; thirdly, are we growing the advances book; fourthly, are we creating a proper shared value dynamic; and fifthly, is the functionality market leading.

I would say of the five, four of them are very strong. Green, around the quality of the -- around the size of the advances. I'll show you now is an area we must address and are debating very, very carefully. Let me show you the -- firstly, the growth. Strong growth, we are averaging now about 500 cases, new clients a day, probably double or 80% or double that in terms of total accounts coming through. You can see in the left hand side of the chart, a very strong growth in terms of new business. 500 accounts a day of value is considerable value. You can see in the middle of the chart, fully 92% of those accounts are primary accounts. And I think a very, very important analysis at the bottom of the middle panel is, if you look at the NII per clients, in fact, higher than the average of the big four banks. So the kind of the revenue gathering here is a full service bank and that's what we're focused on.

The potential to grow the bank have been significant. You can see on the top right hand side, fully 60% of our clients have Discovery products, the other 40% don't. So, we're growing in kind of both markets. But obviously, the value to Vitality members of the bank, all of it fits together behaviorally is remarkable. And you can see on the bottom of the chart that our penetration inside the Vitality status is still very, very small. So our potential to grow both into the non-Discovery client base, the Discovery client base without Vitality, but importantly into the Vitality complex is incredibly appealing. And if you look at the value that a Vitality member should and will get from Discovery Bank, it doesn't make sense not to join the bank.

In the case of deposits, you can see a strong gathering of deposits on the right hand side. As you can see that we've got good durational spread, which is important. So the deposits are sticky. And there is no real concentration, so they are really spread across a very wide range of obviously of depositors. The issue of the advances book is an important one. As you can see, it's a fundamental issue. We must grow that advances book. We've taken -- we took a decision to be very, very prudent in terms of growing the advances book. We believe it to be the right decision in an unknown COVID period. Economic factors were unknown largely. It may be too cautious at this stage, there is a cost to doing this. But I think it's the right thing to do. You can see in the middle of the chart that we are actually getting considerable numbers of applications. We turned out about 80% of credit applications at the moment.

So, we are keeping the book fairly stable. You can see the credit loss ratio has come down dramatically. The quality of the book is incredibly strong. On the bottom right hand side, you can see the existing client base. I think over close to 60% of the client base is prime or super prime. So it really is an incredible quality credit book. There are a number of important ways we will grow the book. So, the team is working quite clearly and I think you will see the advances book growing. But I do think during its first year of kind of real focus in a COVID period, I think this kind of conservative -- being conservative during this time is probably the right thing to do. It's an area that needs considerable focus.

In terms of shared value, the fundamentals look I think remarkably good. All the correlations are in place. If you look on the left hand side of the chart, in terms of Vitality Money status, you see that people engage, levels of arrears are really, really low. You can see spend deposit gathering is positive, correlate to engagement in Vitality Money. And then we're building this currency of Discovery Miles. And I have to say to you that we are trying our best to try and create economic value that really reflects shared value. So getting away from these kinds of bank points and miles in those kinds of things that are rewards currency and to setting it as a proper shared value currency of value.

You earn it through different ways, going for run, driving, well, besides just spending and the ability to get a considerable amount of miles because of the shared value is real. This is gaining considerable scale as we go along. You can see on the right hand side of the chart, nearly 5 billion lives were earned during the period, 3 billion of them spent. We've had some amazing success with things like the DDay where people get double discounts that they get on other days. And I think we're getting a bigger, bigger kind of tapestry with the discounts and the power of the model is much more powerful than just normal cash. So it's an important point of focus for us. I think as we go forward, you will see considerable growth in that regard.

And then the final point I'd make is a very strong focus and just rolling out continual functionality into the bank. I think the first half year was clunky for the bank. It's exceptionally smooth now. I think the bank function that is remarkably smoother service, there was a -- we've introduced things like live assist where to the extent you get a private banker who can follow you on the bank and there is a slew of innovations coming out now that I think are quite fundamental. In a couple of weeks time, our forex capability will come out very much simple stuff. It is just kind of slot through and open up a forex account, you can transfer money within minutes, links together too, understand your allowances, they are really super forex functionality. I'm very excited about the bank's ability to actually use the data in things like analyzing people's finances using AI, machine learning. Financial analyzer will be coming out soon.

And then a critical piece about the composite is that there are a number of payment systems at the bottom of the functionality that are critical. We have Discovery Pay, where you can pay different members in the Discovery community. We rolled out Apple Pay as other banks did, but two very big payment systems are coming up. One is Health Pay that will link the bank to the healthcare system with a number of bits of functionality and the other is Vitality Pay, that will allow people through the bank to really access Vitality partners in a very, very different way. So, the bank really is gathering functionality and I think this period under review -- this period now -- sorry, post the post reporting day is very, very important as the bank rolls out.

Let me move to Discovery Health. I would say to you that the performance of Discovery Health has been remarkable. It has been at the epicenter of our response to COVID. So beside the financial numbers you see, I think we are grateful to the team for what they've done in regard -- regarding COVID. You can see, I think the numbers are very, very robust. Operating profit up 7% at scale. New business up 6%. A very strong focus on operational efficiency and you can see on the right hand side that while Discovery Health Medical Scheme is massive, hard to grow that base. It is growing somewhat, but this non-Discovery Health Medical Scheme growth is coming through gap cover, primary care and other products are just making up at the membership.

The Discovery Health Medical Scheme itself is remarkably strong. We always show this analysis and long may have lost. As you see the scale of the Discovery Health Medical Scheme that is built from the ground up. It's now just under 2.8 million lives, 57% market share as you can see. The lapse rate has come down, as I said, and the value that clients get is quite remarkable in many different ways. We've used a very, very careful technique of making sure that our rates are always in line with the underlying actual cost of healthcare. You can never let that get out of kilter. But what we've done is delay the rate increases by six months each year to give people a break during COVID. So the effective increase over the period was 2.95%, quite a bit lower than the rest of the market. And then you can see on the right hand side, just the gathering of reserves over this COVID period. Solvency levels are now close to 37% and about ZAR28 billion of cash or near cash sitting in reserves inside the Discovery Health Medical Scheme.

Let me turn to utilization. It's very, very interesting. Beside the interest I think for Discovery Health, one of the critical things to understand is how healthcare expenses will play out going forward. What you see here is just us trying to get a handle on what the utilization has been through COVID and critically, what effect that will have. It's both instructive and I think very, very interesting. You can see the admission rates in the three waves as you see them, but you can see that in hospital care dip down. It's not unintuitive during the hearts of the waves non-COVID care came down. You can see out of hospital care coming down significantly during the first cycle of COVID, probably around 50% utilization. Coming up somewhat in different ways, but still way below. And we speak to doctors and other people in healthcare system and they will tell you that things are a lot quieter than they were.

The question is, do they recover? What are the trends? I think there are some fascinating trends that we're seeing coming out of COVID. As you see on the in-hospital care side, you can see, when you look at discretionary medical admissions, they are down substantially. So when you think about cardiac catheterization, endoscopies, all these kinds of things, tonsillectomy is down 60%, it's remarkable. And the question is, they certainly will recover, but over what kind of period and our people are modelling it very carefully. There's fascinating insights in things like decline in maternity related utilization, amazing that babies born under 38 weeks has gone down 14%. There's a number of theories about that. Probably C sections that were performed now not done at this stage during COVID. So their number -- really fascinating numbers coming out.

On the extreme right hand side of the chart, very concerning is a drop in preventive screening as you can see. Depression registration is down 20%, breast cancer screening is down nearly 60%. These are very, very problematic. So, our team is doing its best to try and understand the recovery of these -- of demand as you see it coming through what things are permanent, what aren't. And fundamentally, I think quite worrying is the potential effect on wellness and that's not coming through usual sickness down the line as people delay screenings and understanding of that stuff.

And then a fundamental trend that I think COVID has brought in is the power of technology. I can't do justice to this particular chart. But to make the point, we have seen this technology is reinvented. Everything has gone online. And one of the last bastions of physicality really is healthcare. It creates this what's well known as the Baumol effect, where technology drives up cost in the healthcare ways. In most industries, technology tends to create efficiency. There may be an opportunity for the first time that health ecosystems and tech actually comes into healthcare in a very, very profound way. You can see on the left hand side of the chart that around the world, the use of online health, online virtual consultations has really rocketed. Our own data, as you can see in the middle of the chart has shown a massive use of our doctor connect and all of our tools had a massive rate.

And then our ability to have more and more actually after care in the home, hospital at home, understanding about what quality of care using AI and data to understand what people need in the home setting is really, really real. So, we built a considerable ecosystem as you will know around tech and really something that will be used here in South Africa. But also that's sitting more on the Vitality platform to be used in other markets as well. So there really is a massive play around the power of technology. For the first time, it's possible that healthcare will become more efficient from technology just not more powerful, hopefully, both of those which is critical.

Let me move on. I'm running I hope on time here. Let's slow. I hope it's fairly clear. So let me talk to Discovery Life, the epicenter of the COVID effect. I think these numbers should be fairly clear to you, given the effect of COVID claims. Operating profit down 55%. You can see that if you add back the effect of claims, it is still down on previous periods. The reality is that, Discovery Life is smaller. It's delivered a lot of cash to the center in addition to COVID claims, so it is smaller than it was and hopefully it will grow strongly. But even if you add back to the COVID claims, it's 6% down on the previous period. It is still an obviously a massive profit stream for the Group and a lot of fantastic group as we've done in -- I think the Discovery Life is in a very strong position.

New business API, not unexpected, down 1%. I think you can see the strength of solvency. Despite the COVID and the massive claims, our solvency coverage stays about 180%, and the considerable liquidity sitting inside of the belly of Discovery Life and has not required any other liquidity whatsoever and the liquidity sitting inside is 7 times the net cash flow from the period under review. So even with the COVID claims, the liquidity buffer sitting inside Discovery Life on its own or 7 times what we experienced in the previous year. So it's strong from a capital perspective, it's strong from a liquidity perspective.

We've thought this slide is very interesting. If we forget about reporting periods and provisions, just look at the actual quantum of claims being paid over the waves. What you will see is, if 2020, '21 and '22 if you cross the screen, group life costs, individual life costs, you can see that the total expected payout of death claims up to the end of this year under review now -- sorry, this a -- actually we're now to 2022, it's about ZAR6.2 billion. So the actual expected claims paid out for mortality is over ZAR6 billion we will see through wave one, two, three and four. And again, wave four is very much a function of vaccination rate.

In terms of the performance of Discovery Life, I mean it's been pretty, pretty exceptional in the sense of positive experience variances. On the left hand side, as you can see, the embedded value grew by 10%. New business margin came off somewhat due to COVID. You would expect that the claims inside the new business book obviously and their provisions of the new business book.

And then an analysis on the cash flow, I think, again, not unintuitive. You can see the -- about ZAR15 billion of premiums and revenue coming in. You can see the extent of COVID claims and the claims in the white topic. And then you bring it down, net cash flow by ZAR2.2 billion after all of that. We spent more than that on new business strain. So Discovery Life at a negative ZAR633 million cash flow generation. If you compare that to the COVID claims, obviously would have been very positive without COVID. But I think in a very strong position.

I think important to say, going forward, we've been very careful about making sure Discovery Life is resilient as we go into this post third wave period. It's well capitalized and highly liquid. You can see that from that. Secondly, the resilience of our client base is something that we've worked on. So nearly 40% of the entire client base is on high levels of Vitality status. So these are people engaging in healthy activities, which is a fundamental issue in the fight against COVID. And then on the right hand side of that chart, you can see the extent of people that are vaccinated now. For people over 60, nearly 80% of sum assured by value are vaccinated. So it's a very, very resilient on the financial structures in Discovery Life. The actual resilience of the client base in terms of resilience vaccination is very strong. And then finally, we've done a lot of work around adjusting our product and I think we're the first in the world to actually price premiums based on vaccination or not. So a lot of work done. I think Vitality Life's role obviously in protecting people during this period has been quite exceptional.

A few comments on Discovery Invest. A great period under review, very strong growth in operating profit, up 31%. There are few one-offs from COVID. One is the release of the lapse provision, but the actual core operating profit up 15% or 16%, so a strong growth anyway. New business up 3%. Assets under administration up 80%, so strong growth. Lapse rate is coming down, so the business becoming stickier which is counterintuitive to what we expected.

You can see on the next chart, the quality of some of the aspects being done. We've worked remarkably well since '91 with Goldman, BlackRock. These relations that we value and I think actual kind of the structure of the shared value platform is playing out very well. What is interesting in the new business is on the bottom of the chart, in the previous period, 57% of it was linked. The other 43% was guaranteed business. You see now that has changed. The guaranteed sales were not as high given rates coming down, but it was full up significantly by really strong take-up in our core products and nearly 70% of the business being linked.

And then every asset manager will show you great investment performance. I have to say that the performance in this period under review, credit to our partners and working with them has been exceptional. So, I'm showing you probably 70% of the asset base by portfolio are with its one year, three year, five years in the top two quartile. So the asset -- the performance, while the markets have done well, our relative performance has been exceptional.

And then the right hand side, the actual share that incentives of getting people to save more, save earlier, drawdown, this is working really well. You can see average investment term has grown. People are putting in extra contributions. So the entire focus of this current Invest I think is working well. There's a number of pretty powerful strategies we have in play. I hope you will see the team roll that out quite soon.

On Discovery Insure, a few comments to be made. You can see new business up 18%, so strong growth, strong growth in the top line at 15% to ZAR4.2 billion. So the business has got considerable scale. Our market share is about 7% and the operating margin is sitting in around 6%. You can see that the operating profit as well, I'm one slide out. Sorry, you have to -- hope you can see that. Just to show the numbers I've just spoken to. Now I have the screen. New business is up 18%. The top line at 15% and the operating margin up 6% as you can see.

Just a few points to make. Just to reconcile, the operating profit on the right hand side, what you can see on the left hand side is, as the COVID waves came through, people drove less, so especially in the first wave, which is in the previous period, a dramatic drop down in the amount of driving that people that do, but then recovering somewhat. Never quite to pre-COVID levels. The second wave coming down again and then you can see a gradual decline. So various kinds of exposure coming through in the case of Discovery Insure.

What you see on the right hand side is the ZAR250 million total profit versus the ZAR246 million in the previous period. It does look fairly flat. But if you break it down, you can actually see the effect of what happened. The real driver here is lower interest rates on the float in effect. So you can see investment income lower than the previous period and therefore the operating profit, the core operating profit without investment income ZAR163 million. It is substantially higher than ZAR119 million in the previous period.

The business should enroll both considerable profitability. Every single presentation, we've kind of waxed and waned about the power of incentivizing people to drive better and how well people respond to the incentives. We've seen just considerable success in this regard. So you can see on the left hand, claims levels by Vitality drive engagement is dramatically down sloping. So people have 34% less claims, it's highly engaged. And the better driving policyholders tend to stay with us more, because they're getting value. So you get this kind of multiplicative effect over time, over duration of people moving through the status, it is driving better, staying longer and kind of losing lives that are not in fact engaged in the model. And you see the effect of that now. Before we spoke about that theoretically, it's important to actually see how it's played out. You can see the state of shift over the last five years has been dramatic, much less blue members in the client base, much more gold, much more silver and all of that, of course, bodes well for the loss ratio.

I mean, given the growth of the business in terms of new business people coming in, which they -- coming at a much lower status, that does somewhat only affect. But over time, with duration, it gets better and better. And you can see on the right hand side, we wanted to show you this analysis, the motor loss ratio has come down significantly from about 56%, which is in and of itself I think very competitive down to about 47%. The slight kink in the pre -- in the COVID and the hard lockdown as you can see in the previous period and the total loss ratio coming down to about 52%. So the motor loss ratio coming down close to 20% in and of itself very much due to the fundamentals of the behavioral model and how that plays out. So there is a lot that we will do over time with Discovery Insure and Vitality Drive, both here and in terms of the platform globally. And I think that's exciting.

Let me turn to the UK, I will move quickly. The UK has had a tremendous period. I think it's a very complex environment. Having said that, I think the work done by the team has been remarkable. The UK composite as a group you can see has grown strongly. Operating profit just under 70 million despite a considerable spending Vitality Invest and in Vitality Car, earned premiums are up 5% to just over GBP800 million. Large cover has grown to ZAR1.4 million and new business growing quite robustly, about 7% to just GBP157 million.

Vitality Health I think has kind of a (inaudible) force, as you can see if you just go across the total operating profit at 9%. New business up 5% in a very, very difficult time and lives covered up 6% to just under 725,000 lives. The quality of the business remains indisputable. It is a business of just considerable ability in every regard. It's managed of data, of its incredible people and you can see that coming through. The lapse rate continues to go down. As I said at the outset, quite counterintuitive given COVID and people not being able to claim. You can see in the second from the left chart what happened to the loss ratio, the effect of people delaying covered. So the actual loss ratio coming down quite substantially initially and over the period under review still staying way below 100%. In our modeling, we expect that to continue.

The effect of that in all the factors in Vitality Life is very strong cash generation and in the period over 120 -- just under 130 million of cash. We used that opportunity to actually restructure our reinsurance as I mentioned with 40 million in effect getting our reinsurance really for claims as they come through. So the effect of that is GBP40 million and the resulting profitability from that reflects really the core operating performance of the company.

Let me turn to Vitality Life and make the point that I think the work done by the team has been remarkable. You can see in the previous period, the company made a substantial operating loss. It really had difficulty as rates of interest went down, quality of business went down. With it, a whole lot of knock-on effects. There was a 10 point plan that was applied to the company and the leadership team really focused hard on achieving a turnaround. You can see that coming through, earned premiums up and lives covered up and new business down. COVID has done that. But also focus on quality. The difference between the 9% and the face plate and the 14% here is, this is in pounds. It doesn't affect the strengthening of the rand.

I think the chart that really shows the development of Vitality Life over the period is this one, on the left hand side, the 10 point plan that I think we took you through in previous announcements, all of the stuff has done well. So every single issue, the focus on hedging out interest rate and just the focus on capital, on assumptions, on lapses, particularly all of the aspects has worked well. So we started out expecting a ZAR30 million profit.

As you can see, we had very strong experience variances of nearly ZAR17 million. We had the COVID provision we did need, so we released that. And then we set up, used all of that margin, GBP26 million to strengthen all of the bases of the company, bringing the operating profit that you saw, down to expected level. So I would say to you, what I think Vitality Life has done, it has strengthened itself considerably in every regard and really turned it out. Most of the factors, I think we are handling with stability. So we expect very good growth going forward in terms of profitability and very strong focus of course on quality.

Let me turn to the third piece to Ping An Health. A very good period under review for Ping An Health. In our view, there's been a very strong focus on profit, quality and on scaling. At the same time, I made the point about new business growing 10%. You can see the actual face plate of the slide, give us 10%, just under ZAR16 billion. You can see the scale of the top line grown by 36%, to just over ZAR40 billion. Fantastic turnaround in profitability. As you can see growing 57% to just under ZAR3 billion and our share of it, growing by 126% after tax to just over ZAR400 billion. It is substantial. You get a good effect. In our case, we have a number of fixed cost here that are supporting Ping An Health. And therefore if you get this growth in profitability and you deduct our fixed costs after tax, you get this good effect and the growth has been actually quite staggering.

In terms of the quality of the book, you can see the progression. So I'm having some difficulty here. I will try again. Sorry for this. There we go. If you look at the actual quality of the book and how the profits have improved, I think it's a function of a number of things. You'll see that the revenue growth actually surged in the first part of the calendar year 2020. Recall that the coronavirus hit China first rather than the start of the calendar in 2020. That prompted a massive purchasing of health insurance as you can see. But the progression thereafter has grown I think quite strongly. There has been a strong focus on retention and that retention rates have come up, lapses have gone down. And then you can see in the middle piece of the bottom the kind of -- the operating margin has come down by 7%. Sorry, the operating, the combined ratio has come down by 7%. So very strong growth in the operating margin.

On the right hand side, you will see the profit margin of Ping An Health is probably not a typical of what a health insurer should be around 5%. You see 5% from [ph] 4%, but quite a bit higher than competitors in the market. So there has been a focus in the period under review, both on quality and on growth. There really is a strong focus on kind of digitizing the company in the sense that a lot of the distribution channels are till now having some difficulty. Sorry, if you excuse me, these are important points. Maybe I'll use this clicker.

If you look at the actual focus of the Group, it's about getting our products online. It's about using alternative distribution channels. In the past we've relied predominantly on the Ping An life sales channel, which remains incredibly powerful as you will know, but you can see from the new business makeup, 37% of the new business flown now is different kind of products, very much online product. In the right hand, the products have been reconfigured, the work done on getting Ping An health into the ecosystem inside the Ping An group has I think been very successful. So, now Ping An Health appears on the Good Doctor app as one of the key services. And of course that's the power of the model. People are using Ping An Good Doctor and they are buying health insurance with Ping An Health that offers a very, very powerful distribution channel.

And additionally, Le Jian Kang which is our kind of Vitality manifestation in Ping An Health now sits in a WeChat capability. So all of the functionality and capability sits in an ecosystem available in a digital space. So, these are fundamental developments in Ping An Health. We made the point clear to you about Ping An's kind of absolute focus on building a substantial health ecosystem and therefore Ping An Health needs to play its role in that. I think it offers great potential. I do not believe we figured out all the ways that that distribution can play out. So there's a lot of learnings and how that plays out. Some will be slower than expected, some hopefully faster than expected. But I think all of it have been directionally correct.

It has to be said that we remain very committed to the ability to grow Ping An Health. As you will know, there's obviously a lot of questions about policy changes in China and focus on certain industries. Our view is pretty clear, private health insurance is playing a fundamental role in giving people, not high end, but in fact middle class Chinese access to public health on a sustainable basis, on affordable basis. Most of these products are about filling up co-payments et cetera. So it's about actually giving access to broad sways of people in China. It's not about an elitist product whatsoever. I mean, the policy moves, as you will know, are based on the concept of common prosperity coming out of the premium. There has been a very strong focus on areas that the Chinese government believe are distortions, education that is really creating havoc in families and affecting demographics. The focus on the tech companies have sort of seem to be abusing their rights.

And then a focus on unregulated industries, our view remains convicted about the power of what healthcare spend is going to do in China and the fact that part of the five-year plan is about building the strong private health insurance market. So, while these are complicated times in China, we remain pretty convinced about our ability to grow Ping An Health into something of considerable scale and considerable impact in the market.

I made the point and I wanted to mention this clearly to you that there is a capital call for Ping An Health as ZAR2.6 billion of capital that is required to grow the organization. You will see that the solvency levels of the company are around 230%. Ping An has an internal flow of 200%. So we are keeping the solvency levels very high inside Ping An Health, but as the company has grown into longer-term health insurance and there is a strong focus on 20-year products, (inaudible) moving from a one-year kind of product to 20-year product. Better for us, more flexible, more profitable, but more capital intensive. It does require more capital. So RMB2.6 billion, our share of it a quarter of it, amounts about ZAR1.5 billion is a capital call. 70% of it is really the capital requirement of growth, 30% the regulatory effect of the C-ROSS regulations around 20-year health insurance.

We are focusing now on exactly how we will follow our rights. We will follow those rights, just determine how best to do it. We have seen in the past given the capital plan that we've had been very, very disciplined. In the case of the Discovery Card, we raised specific capital for that purpose. So we're looking whether to be funded within our debt structures or different ways, but I do believe we'll do an equity raise based on exactly the amount required for the purpose of this amount. So we are determined to build Ping An Health and remain convinced about the scale and ability of the company.

Let me move to Vitality Group. And just like the point that, I think it's had an exceptionally good period. It really offers real blue sky potential and a lot of things are opening up for us in a post-COVID world. You can see on the face plate, our partners have grown their premium income by 26% to nearly ZAR20 billion linked to Vitality. Revenue has grown by 14%. You'll see that the core revenue has grown very strongly. A lot of that is US-driven. It's fairly flat. The operating result up 38%. Again, a gear effect on how the company has played out. And then the partnership members. It's really broadening substantially to nearly 2.5 million customers.

I wanted to make the point that in the case of Vitality Group, our sense of the platform is kind of grow its depth within our partners, grow the breadth to more insurers and grow the adjacencies to more industries. And that's exactly what we're doing. So if you look in our major markets, we've shown data in different ways. The data gets stronger and stronger, shows different major markets. As you can see, levels of engagement on the platform are remarkable amongst the client base. Lets us claims and upsells. All of them are correlated as they should be to the Vitality engagement. And then there is massive latent value, latent being mass amounts of products -- ranges inside our partners that are not yet connected to Vitality, but could be. So we really can deepen those relationships and partnerships. And I would say to you that, as these effects get strong and stronger with some of our key partners, opportunities for other things start to come back.

At the same time, we are broadening the base of partners. In the period under review, we rolled out four partners. One being prudential in Latin America, creating a fantastic (inaudible) Prudential Group out of the US. But I think the instructive piece about this has been the ability to actually scale quite quickly. So even in the COVID period, where no physicality was possible, I think the power of Vitality1 of -- active rewards, all of the stuff that now really is in a repeatable blackbox can be rolled out quite quickly and manifest as you see on the face of the mobile simply based on the power of the technology we've created. So the ability to really scale the Vitality Group I think is there. We have to broaden it and deepen it and make sure we create value. I think that you will see that coming through.

And then the final point about adjacencies. A lot is being done around the platform. We've built, as I said, Vitality Health International. We had a very advanced stage of taking that capability entirely into the platform and working with our partners on that. And then we've had a few I think very exciting rollout of Vitality Drive into the platform. Tawuniya in Pakistan has been an early part and that's used it very successfully. It's in its embryo. We've done a lot of work with Covea and rolled out Vitality Car as a joint venture with the French insurer Covea in the UK market. Early days, but I think very, very good receptivity.

So the point I'm making is I think what you will see with Vitality Group is depth within our partners. You will see a broadening and hope you see adjacencies come through and the platform being built obviously provides just considerable, considerable opportunity going forward. There is a lot of activity planning and hope over the next number of months, you will see those coming through.

So, I've taken a lot of your time. Let me end where I started by saying it's been a very complex year, tragic year, but a year where we focused very much on four themes. Navigating COVID, both financially and in terms of our social response. Second, ensuring capital strength. Thirdly, critically, is growing different dimensions that the model, I think, is applicable in a post-COVID world, both in terms of organic growth, geographic growth, and thirdly in terms of platform growth. And then finally, I hope that illustrated through our businesses the positioning of our -- all of our businesses in full strength, South Africa, the UK Vitality Group platform and of course in China.

So, let me end by thanking you. I have been a bit too long. Deon I hope, but give you insight into what I think is a very exciting time for us about growth. And maybe at this point just say thank you in end of the presentation. Open it to questions which we see coming up. I'll forward them to variety of people who are now online. Thank you very much.

Should we -- I see this -- should we go from the top?

Deon Viljoen {BIO 15316870 <GO>}

And we will go -- some of them are quite technical, but will we will address those, maybe if you just read out.

Questions And Answers

A - Adrian Gore {BIO 3068929 <GO>}

The first question is from Rameez Omarji. [ph] It's an excellent question. I think it talks to the Health. Ryan, I think you should deal with this. Does the COVID-19 pandemic present some opportunity to reshape our medical service around in SA, more collaboration with business and government, how does Discovery think the pandemic will play out the lessons learned? Will it impact the NHI? Ryan, if you're online, can you deal with that?

A - Ryan Noach {BIO 21384750 <GO>}

Thanks very much, Rameez, and thanks, Adrian. It's been a period of unique collaboration between the public and the private sector and we think this bodes extremely well for collaboration going forward. The government is committed to the NHI model and we are committed to support that and we think that the private sector has an important role to play. And this unique collaboration for the administration of vaccines just demonstrates how effectively private and public can work together when the need arises. So we are optimistic about this and believe it does bode well.

A - Adrian Gore {BIO 3068929 <GO>}

It's hard to do this just online everyone. So if we just sound like (inaudible), should I do this Vincent? (Multiple Speakers) (inaudible) I'm not doing a great job. Keith from [ph] Integral Asset Management. How worried are you regarding any potential regulatory ownership rules changes out of China with regards to Ping An Health business? Johnny Bloomberg, [ph] do you want to deal with this question? I hope you heard it.

Q - Unidentified Participant

I did hear it, Adrian. Thank you. Good morning. Our impression generally is that the recent regulatory interventions, which everyone on the call will be aware of, are extremely unlikely to be extended to private healthcare and private health insurance in China. The regulatory interventions from all of our research were aimed really at two major objectives of the Chinese government. The first is anti-trust. They are very concerned about the growing monopoly positions, particularly of some of the tech companies and have moved to try and deal with that. Bear in mind that these tech companies historically have been very lightly regulated, if regulated at all.

The second major objective has been to do with the government's demographic objectives. It wants to encourage families to have more than one child and the education intervention, these private tutoring services were posing a huge cost burden to middle class families, resulting in the government's intervention to try and limit the impact of that sector. Private health insurance and private healthcare are already very intensively regulated. The regulators are mature institution. It's been regulated for many years.

And from what we can see, as Adrian mentioned in the success of five-year plans, government specifically wants private health insurance to expand and grow to plug the gap in coverage between the social health insurance that all citizens have and the current cost of care. So when a family doesn't have private health insurance, they are often left with large out of pocket payments. So this is actually a strong, the proactive government policy and our current view is that there's very little, if any risk, that these moves that have been made will be extended to private health insurance.

Adrian, I hope that answers the question.

A - Adrian Gore {BIO 3068929 <GO>}

I hope that's clear. That's a complicated issue. Well, thanks Johnny for that.

Next question, (inaudible) Capital asks, you talk about the group now in two dimensions, the South African business and the global Vitality business. Is it not time to separate these entities via a separate offshore listing? Do you think the Vitality platform growth could be greatly valued and how has been the South African listed life insurer?

I may be able answer that. Maybe, so I don't know the answer to that, frankly. I think we're evaluating what that all means. But it has to be said, we don't require huge amounts of capital. As I mentioned, the capital calls if they come off, specific growth capital like Ping An Health, which is pretty manageable and should be done and raised specifically. At the same time, we have considerable IP between all the different groups having separate companies in that regard is also complex. We don't want minorities necessarily in the structure. So, these are all complicated issues that I think we are dealing with.

I do think there is a legitimate argument for the value of the global business really emerging and we need to think about what that means. And I think the purpose of us trying to show you different dimensions tells you that there is optionality to think about the Group as offshore versus SA as platform business, institutional and all of those I think offer opportunity. I don't think it makes sense to do anything dramatic unless huge amounts of capital is needed to grow. One is -- anyway we kind of not -- we're not operationally optimizing our structure, so that is the case now.

I do think the group has had presentation because I think the operating structure and model is very much more coordinating around Vitality as a platform across everything and the rest of institutional businesses. So, I think very good work is being done around your very questions. It's not just cutting the numbers differently, but we will continue to evaluate us. I think the optionality around how the Group looks over time is certainly on the table.

Let me -- Deon?

A - Deon Viljoen {BIO 15316870 <GO>}

Yeah. Maybe just before we move on to the next one, which is quite technical, just wanted to make the point in respect to the question from (inaudible) The question is, the IFRS book value for Vitality Life is 60% higher than the EV, which seems imprudent. Fixing this imprudent would require ZAR1.7 billion loss to flow through the P&L. Given all of the challenges, how do we justify that carrying value?

Just very importantly to make the point that, in the comparison of EV and the IFRS carrying value, there are some very fundamental differences that should be borne in mind. The most important one is that in the embedded value, you obviously make provision for the cost of capital. That impacts approximately ZAR2.7 billion which is not an IFRS concept. So important to bear that in mind. Also in the IFRS, you've got the compulsory margins that you would carry and you also in the embedded value, you use a discount rate as opposed to a risk-free rate in IFRS. And then lastly, from a tax perspective, EV would be net of tax, whereas the carrying value on the balance sheet would not be in the current year, also because of the signaled increase in tax rate in the UK, we provided for the tax from 19% to 25% in the determination of the EV. So quite a few fundamental differences there and therefore shouldn't necessarily just be compared without bearing those in mind.

And then there is a question from Vincent. Quite a technical one again around the life value in force. Maybe, Ryan, if you wanted to kick off the question. It's got quite a few components to it. But the first question is expected transfers, cash realized from the Life is only ZAR165 million against new business trend. This is concerning. Maybe if you can perhaps address that one?

A - Ryan Noach {BIO 21384750 <GO>}

Sure. Thank you, Deon. I think the first questions really touch on the impact of the projected COVID claims in the current period. So in your projected cash unwind in a period, you would project your expectations of claims payment and that would have included the COVID or consistent with the COVID provision that we've established at the start of the period. So post COVID, you'd expect that cash generation to bounce back to normal levels. So it's really a short-term function of projecting COVID claims.

I think for the next question around the liquidity and cash flow, if I can hand over to Andy.

A - Andrew Rayner {BIO 15120002 <GO>}

Thanks, Ryan. Yeah, happy to take that. So I think the same comments we've made in the past apply, which is we have a very robust planning cycle where we look at all the funding needs of the group and how we source those, whether that's through taking external debt or using financial reinsurance, using internal resources and we are very comfortable that all the planned initiatives that we have and then we have control over are comfortably within that plan throughout the next five years without recourse to external equity capital.

The Ping An Health one, as Adrian has described, is slightly different. It's not something that was within our control and it's a very specific use of capital as we had for the final buyout of the bank car book as well. So that might be treated differently. But we're comfortable. We do extensive stress testing on the capital plan. We've got extensive liquidity in each entity as Adrian has said, as well as at the center where we retained further buffers and we are confident with that. COVID uncertainty, Ryan, and I think you've demonstrated that there is ample liquidity in life. I think we've got some provisions which are reasonably full. We could be surprised again, but I think even if we are, we've stress tested the liquidity in the life company and we're still comfortable that we could deal with that without recourse to external finance.

A - Adrian Gore {BIO 3068929 <GO>}

Andy, thanks for that. Just -- sorry, a correction I saw on my note. I made a terrible mistake. Tawuniya, who is a very, very important partner of ours in Saudi Arabia, not in Pakistan. Pakistan is IGI, which is also very important. So I see Barry on the screen really upset with me, sorry. To our friends in Tawuniya, who has been a remarkable partner. Just to make that point.

Deon, where should we go. Sorry, I think you should maybe drive us.

A - Deon Viljoen {BIO 15316870 <GO>}

Yeah, I think there is a question about whether we have -- considering the synergies with Vitality, do you have an ambition to expand the Discovery banking platform internationally? Similar sort of question below as well. Do you build banks in other countries in the long term, maybe in the UK to integrate into life business?

A - Adrian Gore {BIO 3068929 <GO>}

Can I maybe just deal with that the -- and maybe Neville, you might want to say something. Just to make the point, I think Discovery Bank is a very powerful piece of technology. It is a insurtech capability that can scale and Hylton you might want to talk to that. I think strategically, though, I think the bank has a specific application in the SA space. It may have partnership potentials down the line in other markets, but I think that it's probably -- of all the issues on the platform from (inaudible) to drive is probably lost in line, I would guess. We will have our work cut out here in terms of what we can do with it, but if it works and the data is compelling, that's repeatable I think it could be done.

The UK, we have worked -- we have flirted with credit card stuff with MX et cetera, Neville. But a full scale bank, I think we'd have to think very carefully. But, I think we have a focus here on getting Discovery Bank to scale. I can't see anything else at this point.

Unless Neville or Hylton want to add, I mean, I guess that would be kind of the group view.

A - Neville Koopowitz {BIO 2115433 <GO>}

Nothing to add.

A - Adrian Gore {BIO 3068929 <GO>}

Thanks, Neville. There is also a question from (inaudible) Vitality Group revenue increased 14%, while integrated premiums increased 26%. Please provide some color on this? There are some different dynamics there in that our revenue would be largely driven by new product sales that are Vitality-integrated product while, when we talk about the integrated premiums, obviously that's got a component of compounding into that. Not sure if you want to add that, Barry?

A - Barry Swartzberg {BIO 3296824 <GO>}

Yeah, just also it includes -- that 14% includes our US revenue and rewards. And growth in the US has been a bit muted over the last year through COVID and rewards redemption, specifically in the US, with everyone being at home has been a bit muted over the last year. So that's dampened the overall revenue individually.

A - Adrian Gore {BIO 3068929 <GO>}

Do you want to -- Vincent, a whole lot of quite complex questions at all? All of them are really good and probing. How do we deal with them. Maybe (inaudible) do you want to keep going?

A - Unidentified Speaker

Sure.

A - Adrian Gore {BIO 3068929 <GO>}

Or we just pass over.

A - Unidentified Speaker

We've got time.

A - Adrian Gore {BIO 3068929 <GO>}

Yeah.

A - Unidentified Speaker

Yeah, sure. So, Vincent, thanks for your questions on COVID. You're asking basically why has the experience most underwritten lives in South Africa so severe.

So just a few things. I'm not sure if you're referring to the report that was released by CC yesterday showing hundreds of thousands of death claims. I think the first thing just to bear in mind is that that's -- we are trying to get clarity from CC, but it seems that that relates to policies that kind as opposed to lives. So that's why the number appears to be high because many people have more than one policy, but it is true that the experience in South African underwritten lives is particularly high compared to, for instance, against the UK.

Just to give context, we estimate that in South Africa between 70% and 80% of the people have had COVID. That percentage for the UK is 18%, based on zero prevalence studies and also based on the fatality rate if you do the same calculation. So you can see that the probability of a South African policyholder getting COVID is much higher. And then the other thing to bear in mind is that underwritten lives are on average much older than the national population just because it includes people who take our policies. So for all of those reasons you do see pretty severe experience in underwritten lives especially. But what we can see in the data relating to your last question is very definitely people who exercise and people who lead a healthy lifestyle have much lower risk.

So to give you a sense of that, as a rule of thumb, the way to think about it is that from a COVID risk perspective, you basically cut off 20 years of your age if you exercise regularly relative to people who don't. So it means that your risk is significantly lower. We also see in the data that people with diabetes and with hypertension particularly have higher risk. So again exercise even more important. And all those results are -- we have presented. So hope that answers the question.

A - Adrian Gore {BIO 3068929 <GO>}

Thanks, (inaudible) If there is anything else to add? Sumesh Chetty [ph] asked how do you think about balancing the equity capital raise to fund Ping An Health against the depressed share price relative to the valuation?

And maybe just to clarify again, what we said is that we obviously when we look at our capital plan, particularly during these times, we run a very, very disciplined approach. We mentioned that this is very similar to previously when we bought out the first and last take on the credit card book and we would look at it very similarly in the capital plan. However, we do point out that we are still considering the most efficient way to fund that within that capital plan. We do have some flexibility there. And therefore, when we look at this, we will make sure that we optimize that position. But as we indicated, we would certainly want to follow our rights in that regard.

It will also -- if it is an equity raise, we will be very specifically ring-fenced to that investment at the moment. And in the biggest scheme of things, it's not a very significant capital raise in the context of the long-term capital plan. Thanks, Deon. I'm losing track. There was a question that maybe I think Ryan and Neville can -- just how do you think about decline in new business for Discovery Life and Vitality Life over the period. I don't know, Ryan or Neville if you -- will you talk to that, Ryan. I hope you see that, why the decline in Discovery Life business over this period?

A - Ryan Noach {BIO 21384750 <GO>}

Thanks, Adrian. So I think Discovery Life maintained market share in the period. So, it's largely a function of what we also see in the market. The various aspects that have led to relative comparison of new business compared to the previous year, we're comparing essentially a period that was completely impacted through lockdowns and COVID to a normal period in the prior year. And we've also seen significantly less lapses and churn in the life industry. So although you've got slightly less new business in the industry, as a total, you see better persistency and the gains from that coming through the period. So we're quite confident in the post-lockdown period you would start seeing new business bounce back strongly across the industry and for Discovery Life.

A - Neville Koopowitz {BIO 2115433 <GO>}

I think on -- from Vitality loss perspective, I think it's a combination of two issues. The first is the market the lack of face-to-face consultation has had a dramatic impact and we've actually -- the industry has seen a shift to telephonic sales which are much more commodity-based. We are expecting with the UK now coming out of its lockdowns, getting back to normal, that face-to-face consultations will start coming back in a big way and we are already starting to see the benefits of that taking place.

We also, as part of our 10 point plan, have developed a broker quality management tool and has allowed us to actually focus much more on the quality of the brokers that we are dealing with. And as such, during this period under review, we took some action against poor performing brokers who were giving us business in the past. So we believe that the combination of getting back to face-to-face consultation as well as dealing with a better quality of distribution will bring the sales back to pre-COVID levels.

A - Deon Viljoen {BIO 15316870 <GO>}

Warren Reilly asked, please could you provide some guidance on the expected new development spend? In the past, you guided development spend reducing rapidly post 2023. Does this still remain the case?

I think the long-term guidance we gave previously revolved around getting to that 10% spend on new initiatives, new business, as a percentage of operating profit. That still remains the long-term guidance, but we also indicated in the past that given where the bank is in its development and the number of new initiatives that are happening elsewhere, Vitality Invest, commercial insurance, et cetera, Umbrella Fund, that for a temporary period, it will be well above that long-term guidance.

Most of those new initiatives would now be more a function of revenue traction. A lot of the spend has been done. Obviously, you need to take those businesses through the J-curve to breakeven and into positive cash flow generation. But for most of it, particularly the bank, you saw the update earlier, it's now a question of really getting revenue traction and we still project that the spend on new business, as a percentage of our total operating profit will come down quite rapidly. All of those new businesses really proving their strategic value, and even more so during the period that we went through.

A - Adrian Gore {BIO 3068929 <GO>}

Deon, do you -- that's -- Michael had a question around the return on -- I mean, Michael's question is what hurdle rate will you expect to achieve in the Chinese capital injection? And how can we measure success or failure of this going forward?

I mean maybe Andy just on the capital hurdles, I mean, we have said that the -- we achieved 21% return on Ping An Health as it is now. So actually it's very strong. But maybe talk to the capital hurdles and how we think about this?

A - Andrew Rayner {BIO 15120002 <GO>}

Yeah. Thanks. Adrian. I mean, we've often flagged that we have a approach, which has broadly translated into looking at a return of risk free-plus 10% on any particular investment that we make and that's certainly still the case. We've looked at recalibrating that in the past year to be more specific to industry and to geography and so on. But it essentially takes down to something pretty close to that. And certainly, based on the local risk free we would look to be earning a risk-free plus 10%, if not more.

A - Adrian Gore {BIO 3068929 <GO>}

I think we -- Deon, I think it looks like we've got -- we've taken nearly two hours of your time, everybody. Once again, thank you. Thank you for attending and sorry for the nearly two hour stretch. I hope we've given insight into the questions. As always, we are completely available to you. So, whatever questions you have, Deon, David and (inaudible) as our Executive. So thank you very much for the time for Discovery people, again. Thank you for what you've done, remarkably and remarkably well. Thank you. Thanks for listening.