# Q1 2021 Sales and Revenue Call

## Company Participants

- Amanda Blanc, Group CEO & Director
- Andrew Crean, Equity Research Analyst
- Ashik Musaddi, Executive Director and Co-Head of European Insurance Equity Research
- Gordon Aitken, Analyst
- Jason Windsor, CFO & Executive Director

## Other Participants

- Blair Stewart, Head of the UK and European Insurance
- Dominic O'Mahony, Research Analyst
- Greig Paterson, MD, Senior VP & United Kingdom Analyst
- Jonathan Hocking, MD
- Larissa Van Deventer, Equity Research Analyst
- Ming Zhu, Analyst
- Oliver Steel, MD
- Steven Haywood, Analyst

## Presentation

### Operator

Welcome to Aviva Plc's Q1 2021 Trading Update.

Please let me hand you over to Amanda Blanc, Group Chief Executive Officer.

### Amanda Blanc {BIO 19138679 <GO>}

Good morning, everyone. I hope you are all well. Welcome to Aviva's Q1 2021 Trading Update.

I'm going to start with a brief overview of our first quarter performance, and then I'll hand over to Jason, who will go through more of the detail.

I'm pleased to report, we made good progress in the first quarter across each of our strategic priorities, and this is building our confidence in Aviva's ability to deliver improved performance and stronger returns for our shareholders.

First, we said we would focus the portfolio, and we have. We've been decisive and moved the pace to simplify Aviva, selling 8 noncore businesses, which will generate total cash proceeds of GBP 7.5 billion on favorable computed. And this will be the conclusion of the divestment part of the strategy that I announced in August last year.

More specifically, we have completed the disposals of Aviva Vita in April and AvivaSA in Turkey earlier this month. And in fact, we have completed the necessary presale consultation processes and have now signed the formal sale and purchase agreement.

This paves the way for regulatory approval and completion, hopefully later this year. Second, we have significantly strengthened our balance sheet and financial position. We're delivering on our debt reduction plan, reducing it by GBP 1.9 billion in the first half of 2021, which is actually ahead of our original expectation. The key capital metrics we are disclosing today, solvency, debt ratio and liquidity are all robust and healthy.

Third, we are building momentum in our core businesses as we focus on the crucial task of transforming performance. In that regard, you'll have seen my announcement yesterday of new leadership for our U.K. and Ireland general insurance business in Adam Winslow, who will help accelerate the delivery. Our first quarter numbers show our ability to grow, where we have strong capabilities and leading position. The standout this quarter was savings and retirement, where we have delivered record quarterly net flows, driven by strong performances across both workplace and platform.

In general insurance, we've delivered our highest Q1 sales in a decade on the back of a strong commercial lines performance and resilience in personal lines. We're also continuing to exercise tight control over our costs and progressing well towards delivering our 2022 target. So from my perspective, overall, a good first quarter. We have reshaped the portfolio, significantly strengthened our financial position, and our trading performance gives us increasing confidence that we have what it takes to capitalize on our market leadership.

All these notwithstanding, I am very clear that this is just one quarter, and we have much more work to do to achieve the level of sustained, dependable performance that we're looking for, the shareholders have the right to expect and which I know the business is capable of.

Before I hand over to Jason, let me turn briefly to the topic, which I know will be fresh of mind for almost all of you today, capital returns. In March, at our full year results, I said that once we complete the disposal program, our intention is to make a substantial return of capital to our shareholders. Nothing has changed, and that remains our intent. But this is a trading update and just too early to be specific on our plans to return excess capital at this point in time, not least because we still have to complete the largest of the disposal collect the proceeds and obtain regulatory approval for the distribution.

I promise that we will return to the topic at the appropriate time. You should be in no doubt in the meantime that a substantial return of capital is right at the top of our agenda, both as a management team and the Board. Thank you for listening. And with that, I'll hand over to Jason.

## Jason Windsor {BIO 17967688 <GO>}

Thank you, Amanda, and good morning, everybody. The first quarter showed excellent progress on strategic delivery. Our businesses are showing positive momentum, allowing us to look forward with growing confidence. So let me take just a few minutes, before we get to your questions, to highlight what I see as the key numbers in this trading update. But first, let me start with our capital position and center liquidity, which remained strong at 209% and GBP 2.9 billion, respectively.

As you know, we will have completed our planned GBP 1.9 billion debt reduction by the end of June. I want to quickly walk through the impact of this and the other movements on our reported solvency and liquidity as there is a little to unpick.

In Q1, the solvency ratio increased to 7%, benefited from capital generation and the positive impact of higher interest rates. This was partly offset by the full year dividend and the GBP 1.1 billion reduction of subordinated debt. The debt reduction includes our successful tender, GBP 0.7 billion of which related to subordinated debt, as well as GBP 0.4 billion related to 2 bonds maturing in Q2, which lost their regulatory capital status as of March 31.

Our pro forma Solvency II ratio, which allows for the completion of the divestments and a further GBP 450 million debt to be redeemed in June, is estimated at 253%, with leverage reducing to approximately 26%.

Looking at center liquidity. This stood at GBP 2.9 billion at the end of April after the debt tender. But unlike the capital position, this does not include the final dividend and the debt redemptions in May and June, which together totaled GBP 1.4 billion. And as Amanda just said, we expect to make a substantial return of capital to shareholders following regulatory approval and the completion of divestments. And of course, we will maintain leverage below 30%.

Turning now to our trading performance. We're pleased with the growth in the key areas as we capitalize on our leading market positions. Net flows in savings and retirement increased by 31% to GBP 3 billion, a record quarter. This included GBP 1.5 billion in workplace as we benefited from a successful tax year-end campaign and recent scheme wins. Our adviser platform also had a strong start to the year, attracting net inflows of over GBP 1.4 billion, delivering the highest rate of growth amongst the large adviser platforms.

Aviva Investors delivered improved inflows, including positive, albeit small net inflows from external clients. And it was good to see investment performance improving, with 81% of assets above benchmark over 1 year. Volumes of bulk purchase annuities in the quarter were subdued. And what we know can be a lumpy business, combined with a very strong start in 2020, total sales across annuity and equity release were 52% lower in the quarter.

And while we continue to win a fair share of business in the market, we maintained our focus on returns despite lower spreads, and higher allocation to gilts, which affected VNB.

Encouragingly, we made a good start to the second quarter. We've written around GBP 1.6 billion of BPA volume year-to-date. And in terms of 2021 outlook, we expect BPA volumes to be weighted toward the second half. Our general insurance business performed strongly, both in the U.K. and in Canada, recording the highest Q1 for premiums in the last 10 years. This was driven by commercial lines, where premiums grew by 11%, a combination of hardening rates but also new business wins, helped by our strength and reputation with our broker partners.

Personal line premiums were 1% lower. Nevertheless, this was a strong result, given the soft rate environment in motor, and the continued impact of COVID on travel and some of our distributors in the U.K. Our retail direct business in the U.K. grew premiums by 4%, helped by the successful launch of the Aviva brand, motor and home offerings on the major price comparison websites. Our share of business on PCWs has doubled since the first quarter of last year, a clear demonstration of the strength and untapped potential of our brand.

General insurance combined ratio improved sharply to 90.6%, owing to better underwriting performance, benign weather, a reduction in COVID-related claims and frequency benefits in motor. However, the significant decline in motor rates seen in the last 12 months is expected to offset the Q1 frequency benefit as lockdown restrictions are lifted. As such, we expect the combined ratio for the year to increase, but to be below 95%. Controllable costs, excluding implementation and IFRS 17, are down 1% to GBP 720 million.

For the full year, we expect those costs to reduce by 1% to 2%. I'll stress that improving efficiency remains a key focus, and we remain on track to meet our $300 million cost saving target in 2022. So in summary, trading in the first 3 months highlights our ability to grow profitably, underpinning our confidence in the targets we announced earlier in March, but with no doubt that we have more to do to deliver a better proposition to our customers and to deliver stronger returns to our shareholders.

I'll leave it there and hand back to the operator for Q&A.

## Questions And Answers

### Operator

(Operator Instructions) Your first question today comes from the line of Oliver Steel of Deutsche Bank.

### Q - Oliver Steel {BIO 6068696 <GO>}

Three questions. Look, I'm going to sort of try one question on capital, and then I'll move on to the operational side. So on the capital front, I'm just wondering, given that your solvency ratio has benefited from lower interest rates this year -- sorry, higher interest rates this year. To what extent is the 180% threshold, still the main sort of guidance for us in terms of judging how much capital you can return, or is it practice liquidity, the constraint instead? So that's question one.

Second question is on bulk annuity sales. I mean you said the first quarter is exceptionally low. You've had a better second quarter. Can you give us some sort of idea of the pipeline over the course of the year or an expected range of bulk annuity sales over the course of the year?

And then final question is on well, on the GI side. I wonder if you could give us a little bit more of an indication about what the frequency saving was in the first quarter and the weather saving?

## A - Amanda Blanc {BIO 19138679 <GO>}

Okay. Thanks, Oliver, for that question. I mean, just on the capital, I'm sure, as you say, this will be a question that we'll be asked a number of times today. And as I mentioned in my introduction, we're not going to give too many details today. What we are doing is sort of confirming our commitment to the substantial return and returning excess capital above 180% to shareholders. That guidance, that has not changed.

We're also saying that we are clear on the priorities for the deployment of the capital, which is the debt reduction, as Jason said in his opening, to a leverage below 30%, some investment in the business to accelerate growth and, of course, the substantial return to shareholders. So I think normal, what you really say. I think the point on liquidity, maybe Jason can share.

## A - Jason Windsor {BIO 17967688 <GO>}

Yes, Oliver. It doesn't change over the medium term. I mean, clearly, from quarter-to-quarter if the ratio about -- is around their actual cash. But the balance of the restructure actually brings capital and liquidity more into line, given the more simple group. So I don't see those being out of line as we do our more detailed work.

## A - Amanda Blanc {BIO 19138679 <GO>}

Jason, do you want to take the BPA question?

## A - Jason Windsor {BIO 17967688 <GO>}

Yes. On BPA, we wrote GBP 0.65 billion in the first quarter, we've written about GBP 0.9 billion so far in Q2. So moving along nicely, we wrote GBP 6 billion last year. So that's a sort of aiming point, if you like, for us to want to sort of say that the business is continuing to develop. I mean we said that, we wrote for the year before that. So that was a huge amount of growth. So that lumpiness that we'll continue to talk about, we'll see GBP 6 billion with an excellent performance.

So what I did say in my comments is we're working toward a strong pipeline, to answer your question. And that has actually built quite sharply in the last couple of months. But we still expect sales to be weighted into the second half.

## A - Amanda Blanc {BIO 19138679 <GO>}

And on the GI frequency?

## A - Jason Windsor {BIO 17967688 <GO>}

Yes. On the GI, look, we haven't given any specifics today to unpack the figure. Clearly, frequency benefits are starting to kind of get clouded between the rate reductions and the frequency -- frequency is off, and I will say that. But the actual calculation of a benefit certain to rates is a bit subjective. So we're not going to give a specific on that. I mean the weather did contribute -- it's one quarter and all that doesn't make a summer or indeed the spring, but there was quite a few cats in the quarter.

## Operator

Your next question today comes from the line of Jon Hocking of Morgan Stanley.

## Q - Jonathan Hocking

I've got two questions, please. Firstly, just to come back to the capital return piece. All right, you don't want to be specific. But is it possible that you can actually do more than one capital return if certain disposals complete before the year-end? And have your thoughts crystallized in terms of the form that capital return might take? And then secondly, just on the workplace business, have you seen any impact from COVID in terms of either sort of lower salary increments or unemployment in that book?

## A - Amanda Blanc {BIO 19138679 <GO>}

Thanks, Jon. I'll let Jason pick up the workplace question. Just on the -- the sort of, I guess, the form of the capital return, look, we're looking at all of the options for that, and we've started to see cues from our shareholders on that, and we'll give you an update in due course.

On your question around whether there will be more than one as the disposals complete, as I said, I'm just going to get very boring on sort of repeating that we'll come back when the disposals have completed and when we're in a position to say more on that, as Jason was really clear about in his opening and in mine. So sorry, we don't have any more on that today, but we will, as we said, over the course of the year, as we make progress, come back to you on that. Jason, on the...

## A - Jason Windsor {BIO 17967688 <GO>}

Yes. On the workplace, I think I've said this before, it's been surprisingly positive. I would -- I'm not even saying resilient, positive actually. It's been growing across the period, we're seeing strong growth in the -- obviously, we've got some scheme wins in there. But we are seeing significant savings going in through the workplace. It's the primary source of long term savings within the U.K. So the signs are positive. There's probably a little bit too much allocation to cash would be anything, I would say, we're looking to try and make sure people don't stay in cash and they move into longer term investments. That's it for now.

## Operator

Your next question today comes from the line of Greig Paterson of KBW.

## Q - Greig Paterson

Three quick questions. One is you disclosed gross written premiums on the GI side, where previously in the quarter, you had been disclosing net written premiums. I was wondering if there was any change in the reinsurance programs i.e., can we assume the same year-on-year trends for gross written premiums and net written premiums in the quarter? That's question one.

The second one is just in terms of fintech, I mean there's been a proliferation of fintech launches in GI personal lines, U.K. protection. I was wondering if that these have been material enough or you see them being material in the future to move the down, i.e. material threat to top line?

And the third question is, in terms of the cash at the center of the group, now and previously, you've made some comments about investing in the business. I was wondering what the sort of magnitude, the budget you have there. Is that GBP 1 billion you can invest in the business? Or are we talking just some small bolt-ons?

## A - Amanda Blanc {BIO 19138679 <GO>}

Okay. Thanks, Greig. I'll pick up the last two. And Jason, I'll pick up the GWP.

## A - Jason Windsor {BIO 17967688 <GO>}

Yes, we moved to do GWP as we are now in line with everybody else. It doesn't change our reinsurance buying per se, the NWP growth was a bit lower, we've been growing the business that's reinsured a bit more. So -- and we'll give at the half year, we'll give both. So you can see what's been going on. But there's nothing -- there's no change to the nature or the structure of our reinsurance program just to the volume. So we've obviously reinsured a bit more on the corporate and the GTS lines.

## A - Amanda Blanc {BIO 19138679 <GO>}

On the question around fintech, yes, I mean, obviously, the London market and U.K. is especially buoyant in this area. And we watch with great interest around what the fintechs are doing, and we've seen some really exciting as I can come out of that market. I mean I would have seen that before I took on this job for a little while with some of those businesses.

Look, I mean, we have 16 million customers and a massive brand. I think the opportunity for Aviva is actually working with those fintechs in terms of deploying some of the exciting technology and ideas that they have so we've been working partnership, and that is exactly what we're doing. We've got a Chief Innovation Officer, Ben Luckett, who's been working with us.

In fact, we've just run an innovation challenge internally with the business around how we can actually get those fintechs working with us better in partnership because we recognize it's a big organization. I mean this is similar to most big organizations, we're probably not that easy to work with. So we're definitely working on that. We've got some of our own, of course, with Wealthify, which is a really brilliant business, which is giving robo advice, and we really see good growth in that business as well and really exciting opportunities.

So first, we see it as a really brilliant opportunity. We definitely don't see it as a threat. And we believe the combination of the brand and some of that innovation to -- could actually be really exciting for Aviva. On the point around investment in the core business, to just go back to, I think, what we said in March and what we've said before, we're talking about modest amounts of investment in the business.

We already have GBP 400 million per annum baked into the plan. We've talked about that before, for investment in the business. But what we don't want to do is start the business, our investment opportunity where we believe there are growth opportunities, or opportunities to focus on simplification or automation or digitization of the business.

And what we want to do is make sure that we allow the business to do that. But really, the focus on the excess capital to just reassure everybody, substantial excess capital will be around reducing the leverage ratio and returning to shareholders. But we also recognize this is a business where there may be some capability gaps that we need to fill and that we don't want to stop ourselves from doing that.

## Operator

Your next question today comes from the line of Ming Zhu of Panmure Gordon.

## Q - Ming Zhu {BIO 17001429 <GO>}

Three questions, please. First, on your annuities and equity release, how come you got no value of new business, given you've written GBP 1 billion volume? And my second question is on the asset -- your Aviva Investors.

So have you reached that turning point that you will be seeing positive net flows going forward? And where do you see the growth in this market coming from? And my third question is on the GI side, the U.K. personal line. What sort of claims installation [ph] are you having? And sort of pricing and you've seen and the outlook?

## A - Amanda Blanc {BIO 19138679 <GO>}

Okay. Jason, do you want to pick up the first and third question?

## A - Jason Windsor {BIO 17967688 <GO>}

Sure. So you're absolutely right. There was no VNB in the annuities and equity release. There was a very limited investment into our desired asset classes of illiquids and the way equity release comes through is more only in the second half. So we maintain returns.

We sort of have a strict return hurdle when we write new business, but the value and the margin will come through as we move to our desired asset mix in due course. And that will take through the course of 2021. We would expect that to be reinvested primarily into illiquid assets, given how tight corporate bond spreads are today.

## A - Amanda Blanc {BIO 19138679 <GO>}

And on the...

## A - Jason Windsor {BIO 17967688 <GO>}

Aviva Investors?

## A - Amanda Blanc {BIO 19138679 <GO>}

No, no, on the claims point, Jason. Might want to take the detail [ph].

## A - Jason Windsor {BIO 17967688 <GO>}

Okay. On the -- I didn't quite catch the question, but the trends in personal lines, we'll talk more about at the half year. We've seen, obviously, a reduction in Q1 relative to long-term averages for frequency. And as you would imagine, as I said a moment ago, we have seen rates reduce. So the actual impacts of that between is positive, but it's much smaller than it was in 2020 across that.

In terms of pricing, we've seen new business for motor in the first quarter is down 6%. Renewal has been more resilient than that. Clearly, we have got our eyes on the forthcoming FCA announcement. But we've seen that on the home side, it's been more constructive. We've seen rate rises going through pretty much across the book through all channels.

## A - Amanda Blanc {BIO 19138679 <GO>}

And on Aviva Investors, look, Mark was appointed in January, I think that we've made a really good start. Those flows are positive. And we know that, that can, though, be a bit lumpy to use Jason's technical term on BPA. But just in terms of the areas of focus, clearly, ESG underpins everything.

We've made some bold statements on that. And Mark and the team are working really hard on that. There is a focus on real assets, on infrastructure, obviously, helping the BPA business source illiquid assets. And we have seen the fund performance improving, as Jason mentioned in his opening. So I would say a good start from Mark and the team, but clearly, more work to do.

## Operator

Your next question today comes from the line of Dominic O'Mahony of Exane BNP Paribas.

## Q - Dominic O'Mahony {BIO 20307388 <GO>}

Three for me, if that's all right. So the first one is just on general insurance. I mean, clearly, a fabulous combined ratio in Q1 and below 95% is very good for the full year. I'm just thinking about the run rate. And I think if you had 96% in the next 3 quarters, that would get you to around below 95%.

And then at 96% of the exit rate, you could imagine actually, it could drift higher, bearing in mind what's going on with the earn through of motor pricing in the U.K. and Canada, the elimination of frequency benefits and Jason, as you mentioned, the FCA dual pricing review. Is that -- I'm wondering whether you pushed back on that, whether there are offsetting positives that you'd see impacting the sort of the run rate combined ratio in GI.

Second question is just on the cost saves. Very pleasing just to hear continued progress against the target. The target, I think, was set with a bigger group, and I wonder whether you'd consider further shrinkage of the center to rightsize it for a group that is smaller. Any comments on that would be helpful.

And then just a final one on -- I want to ask a full question on capital returns. But I'm just curious about your approach to leverage. Your 30% target, very clear. Is that 30% of sort of a target? Or I think in the past, you said below 30%. Would it be inefficient to stay at around 26%, which, I think, Jason, you said, was the pro forma?

## A - Amanda Blanc {BIO 19138679 <GO>}

Yes. Okay. Jason, do you want to pick up 1 and 3, and I'll pick up that point around cost.

## A - Jason Windsor {BIO 17967688 <GO>}

Okay. So on -- you're right on GI. And we've been hesitant to be too precise in terms of our forecast. We did want to indicate that 90.6% isn't going to be the full year core. And there are material benefits from weather and frequency in that number. But the commercial lines is actually performing really well. There's less going on there.

So there is continued strong growth and strong profitability improvements in commercial lines. As you rightly point out, one of the reasons for our hesitancy is the forthcoming pricing review, which will -- it could be out very soon. And we would have some impact in 2021 as everyone positions ahead of the implementation next year. So we are being a little bit sort of generous in the below 95%, but that's the sort of direction that we are moving towards. But there's nothing we're seeing that is concerning us other than the points I just mentioned.

On the leverage ratio, I think you're right, far below 30% would be inefficient and is sort of below our tolerance. We might drift down in good times when we are building capital. But we wouldn't want to structurally be a long way below that. It wouldn't be the right thing to do. Equally, I've said, I've had no hesitancy if we needed to go above 30% for the right reason, if we wanted to raise some debt capital for any form. Clearly, that's not the topic or the likelihood in the coming periods, but that's -- it's not a cap, but in terms of a range, just being below that 30% is a comfortable place to be.

## A - Amanda Blanc {BIO 19138679 <GO>}

On the cost savings, this GBP 300 million, obviously, was the target that we set, and that was for on the bigger group. And what we said in March was that actually we would now deliver that GBP 300 million from the smaller parameters. So I think we have already challenged that. But clearly, this is a continuing focus for us, and we are looking at all areas. We recognize the need to simplify the business, to digitize the business. We've accelerated our property reduction plan, and we talked about that again in March, and we will look at the center cost. We have to do that.

I think the important point, Dominic, here is that at the end of it, it's not a static ambition. And we said we wanted to be at the quartile and across all of our business lines. And so we would expect that target to continue moving as every other business moves, and we need to move with that to make sure we don't pass on any inefficiency to our customers. So it's a real, real key area of focus for us constantly.

## Operator

Your next question today comes from the line of Blair Stewart of Bank of America.

## Q - Blair Stewart {BIO 4191309 <GO>}

I've got a couple of questions left. Just a word on when you think you'll be in a position to talk more definitively on your capital management plans. Is that just simply a case of waiting for the deals to complete or near completion? Obviously, we've got the first half results in August as the next data point.

And just related to that, when you talk about the various components, you've got plenty of liquidity. We can see today that you're GBP 6.6 billion above the top end of your capital range. So when you think about what to do with that, is leverage the constraint? And I just wonder, Jason, perhaps you can comment. Have you done work on whether further debt reduction is needed to fulfill your capital management plans?

And then finally, just on the bulk and the annuity side, could you just remind me of your appetite for bulks? And maybe a word on what needs to fall into place to get the asset side lined up. I think you've said it before, GBP 4 billion to GBP 6 billion of capacity, but I think that's the total annuities and equity release, but maybe just clarify that, please.



## A - Amanda Blanc {BIO 19138679 <GO>}

I'll pick up the first one. Jason can pick up the second here.

On timing, that we'll keep you updated, I think we've said very clearly. I'm pretty sure that this will be a constant question, and we are very conscious of that. I think just to go through the process, what we need to do is, obviously, complete the deals. We need to collect the proceeds and then we do need to obtain the regulatory approval for distribution.

So we will make sure that we go through all of that as quickly as we can do. And therefore, we can't really be specific on the timing at the moment. But to just reiterate, we're committed to it. We're focused on it. And the substantial return to shareholders is top of our priority list. Jason, on liquidity and bulk?

## A - Jason Windsor {BIO 17967688 <GO>}

Sure. So look, our capital framework I'll point you back to is the constraints that we're using. I think we need to unpick anything that I would say to give further guidance. But clearly, when we did the debt tender, we are thinking ahead, and we make sure that we don't need to do 2 debt tenders.

We've got some redemptions next year. So we can manage debt in the normal course under quite a wide range of scenarios. So there's no -- there's nothing else really to say on that. And I gave Dom the answer on how I think about leverage ratio just a moment ago.

In terms of bulk, I mean, again, so just 5 minutes ago, we wrote 6 last year. So that we'll be very comfortable running 6 again this year. That's the bulks on top of that. And clearly, we want to grow that business. So there is a sound appetite within the organization to grow the BPA business at the right margin, and obviously, the right level of return.

The asset size has been slower. I think there has been an impact on ability to do -- our primary illiquid assets come from infrastructure, non-PFI U.K. infrastructure projects, which have been a bit slower to complete. We have got a nice pipeline, and that's building up pretty well into the second half. As is the equity release market, which has also been a bit slower during the lockdown. So we'd expect that to continue to be supportive to our investment side.

## Q - Blair Stewart {BIO 4191309 <GO>}

So is the GBP 4 billion to GBP 6 billion guidance you've given before, is that somewhat redundant? Now you're saying that you've got ambition to kind of go above the GBP 6 billion. Is that right?

## A - Jason Windsor {BIO 17967688 <GO>}

I mean we would in the right circumstances. I mean, we clearly want to moderate our capital usage and our credit intensity of the balance sheet. But the -- last year is not a high watermark, put it like that.

## Operator

Your next question today comes from the line of Larissa Van Deventer of Barclays.

## Q - Larissa Van Deventer {BIO 21570130 <GO>}

Just a quick question on the retail consumer, please. Protection and Health sales were down 7% and individual protection sales down 15%. What are your views about the pace of recovery of the retail consumer? And how do you expect that to translate into margin over the next 2 to 3 years, please?

## A - Jason Windsor {BIO 17967688 <GO>}

Yes. I mean, we do expect -- the individual protection market has got some particular issues, and we traded in it, through it. We've been underrepresented. It's our business rather than the consumer. We've been very underrepresented in the direct market, and there's been a bit of a shift to that.

So we have addressed that. I think we do expect a materially better volume in IP through the rest of the year. And we've seen some impact, particularly through distribution, which is we have a higher proportion of real estate agents that we sell-through, and that's been more challenging to do during the lockdowns. But we are expecting that to recover.

We have seen -- having said all that, the bright spot through protection has been group protection, and we've seen real tailwinds in companies buying more group life and income protection for their workforce, and that plays directly to some of our strengths. So we are expecting recovery. I've got no particular insights on it versus the Bank of England or anyone else, but we do expect a recovery in the second half, and we are anticipating continued activity and inflows into our business.

## Operator

Your next question today comes from the line of Steven Haywood of HSBC.

## Q - Steven Haywood {BIO 15743259 <GO>}

Three questions, if you don't mind. You've mentioned, obviously, that about capital returns and how you're putting off any remarks on that, obviously. But I just wanted to look at the 160% to 180% Solvency II ratio target and whether you feel that is appropriate, really, for the ongoing future. You've not been actually below the top of the target for the last 5 years since the Brexit vote in 2016. So is this still an appropriate target to have for the group?

Second question on your personal U.K. motor lines. Can you talk about what growth in policyholders you've seen in the first quarter of '21? And what market share of the price comparison websites do you have now? You said it doubled, but I don't know what it doubled from in the past. And then where would you like your market share of price comparison websites to go to?

And then finally, just a quick question. Is a large bolt-on M&A or even to transform -- more transformational M&A part of the agenda for the group?

## A - Amanda Blanc {BIO 19138679 <GO>}

Okay. Thank you. I'll pick up the third question, and Jason can pick up the first 2 on M&A appetite.

We're really focused, Steven, on delivering our new strategy, and you can see that we've been sort of busy doing this. And we've also -- we've said we invest in our core markets to accelerate growth. And we think a lot of that can be done organically, which is our focus, particularly with the sort of strength in the market positions that we have.

But I think it's also fair to say there was sort of inorganic activity is not a priority for us. We are going to be thoughtful about M&A. So particularly where could we enhance our capabilities or accelerate our strategic developments. We did this when we spoke about the high net worth acquisition that we did in Q1.

So I would say we are looking at this, but any opportunities for investments are going to -- that we consider, whether they're organic or inorganic actually, would need to meet a really high bar and enhance -- definitely enhance value for shareholders. So we're very conscious of that. So Jason, on the capital return?

## A - Jason Windsor {BIO 17967688 <GO>}

Sure. So the range was established a while ago, it was sort of -- we're at the bottom of the range, I think the -- and it's great that we made from 150% to 160%. We have had too much debt historically. So when I talk about this, part of the reason that we have been above the top is because the debt component has been too high.

So that would -- that would -- if you take that off, that would a brought us sort of around the top of the range. And it is a good range for us to operate in. I think we wanted to communicate where we'd be comfortable running the company. And we've said excess capital is above the top of the range, just to be clear on that. I don't think we have much more to say. Clearly, the nature of the capital of the business is changing as we go through that, and we'll continue to refine it. But we feel that, that is about the right place.

In terms of policyholder count in 2021, we've got 1% increase in number of policies in the quarter. So it's about 2% overall for rating. I've talked to order [ph] about 6% on new business, but renewal being better than that.

On the PCW market share, I would say it's gone from very low to low. I mean there's plenty of upside for us. We still -- I don't have the numbers, sorry for that, but we've got loads of headroom for us. We only came on to them. This is on the Aviva brand, by the way. QMH is a different conversation. But there's plenty of upside, both on motor and home, for us to keep pushing forward for on that.

## Q - Steven Haywood {BIO 15743259 <GO>}

So for all your brands on the price comparison websites, is it below double-digit market share?

## A - Jason Windsor {BIO 17967688 <GO>}

Oh, yes. Comfortably.

## A - Amanda Blanc {BIO 19138679 <GO>}

Yes. Yes.

## Operator

Your next question today comes from the line of Andrew Crean of Autonomous.

## A - Andrew Crean {BIO 16513202 <GO>}

Could I ask 3 questions, please? Firstly, you talked about the group diversification benefit being -- going down to GBP 2 billion. Where is it at the end of last year?

Secondly, you talk about total capital generation in the first quarter of GBP 1.1 billion. Could you split that between operating and markets and tell me what the market effect has been in the second quarter?

And then thirdly, there's been quite a lot of change in your top management in terms of Head of U.K. Life, Head of U.K. General and Aviva Investors. Could you say whether these were instigated by yourselves or whether you're reacting to circumstances of your managers?

## A - Amanda Blanc {BIO 19138679 <GO>}

Okay. I'll pick up the last point, and Jason can pick up the first two, Andrew.

## A - Jason Windsor {BIO 17967688 <GO>}

Certainly. On diversification, Andrew, I think I've said this in the presentation at the year-end that we had just above GBP 2 billion in the core markets at the end of December. SCR has fallen because of higher rates. And that diversification has dropped a little bit as a consequence. I think it's about GBP 1.95 billion precisely today. So it's just dropped. It was a little bit above, it's now a little bit below. That's explained by the lower SCR that we are seeing today.

We're not giving the OCG or other profit figures. The movement of rates is clearly very significant in that 1.1, pretty much in line with our sensitivities that we've seen, slight contribution from FX that you might not picked up, but through that. But that's probably why we're slightly better than some of the forecasts that you would have used using the published sensitivities.

## A - Andrew Crean {BIO 16513202 <GO>}

And in the second quarter?

## A - Jason Windsor {BIO 17967688 <GO>}

The second quarter has been reasonably flat. I don't think there's material changes to economics in the second quarter that I can point to.

## A - Amanda Blanc {BIO 19138679 <GO>}

Okay. On your third question about the changes in shop management, I mean, just let me be very clear on this. I am extremely pleased with the new team that we've got in place. We needed new expertise within the team that were aligned with the strategy and that were going to drive the business forward. If I look at the team, I think we've increased the capability significantly and the experience of leadership as well as delivery. And I think that's really important. So we have to have people who have had other playbooks that they can bring into play here so that we can get to delivery more quickly.

We've brought in new roles. So the Brand and Communications Director (sic) [Chief Brand and Corporate Affairs Officer], Stephen Doherty; as well as Cheryl Toner coming in to lead the customer and marketing role. She comes in with a strong experience of having done this before.

And the combination of internal and external appointments with Mark leading the Aviva Investors team, Rob Barker coming in to lead the Savings and Retirement team. And I feel very, very pleased with the leadership team that I have around me now. They're all committed to the new strategy, and we can move forward. So to be clear, this is Aviva driving the strategy forward, and we're very happy.

## Operator

Your next question today comes from the line of Gordon Aitken of RBC.

## A - Gordon Aitken {BIO 3846728 <GO>}

Three questions, please. First, if you look at the back book life deals in the U.K. in the last 20 years, and you see that they've all ended up either at Phoenix or with you, are your days of acquiring life back books gone? I mean, there's obviously -- maybe you want to comment on the sort of extensive capital and cost synergies. Would that be appealing to you?

And second sort of related question is, I mean, previous management when sort of asked what this -- they've all -- they indicated a preference for non-life over life, and do you share this view?

And finally, on bulk volumes, obviously been light in Q1. I mean Q1 was always a seasonally very light quarter, that sort of seasonality has dropped away from the market in recent years. Do you think it's going to return? And maybe just comment on credit spread has been pretty tight and it's kind of an irony, isn't it, that when credit spreads are tight, you can't get the uplift in yield. But obviously, it's a situation that when credit spreads push out the market, the investor market stresses.

## A - Amanda Blanc {BIO 19138679 <GO>}

Yes. Okay. Thanks, Gordon, for those questions. On the first question around back book life deals. I think it's important to stress that our strategy is formulated on building the growth in the areas that we outlined back in March, which is around the savings and retirement business, health and protection, the commercial lines and personal lines business. And therefore, I think that answers that question. That is really where we want to focus our attention going forward. We've been pretty clear on that, that hasn't changed at all.

On your second question, preference of non-life over life. I think the way that we look at this is looking at the needs of our customers, where are the trends, where do we see the development going forward. And we see big growth opportunities in bulks, in savings and retirement, in the retail and commercial business. And that's where we'll be focusing our attention. And we'll be looking at where we've got capability gaps and looking to fill those capability gaps, as I mentioned in the answer to my previous question. And Jason, on the bulk volumes?

## A - Jason Windsor {BIO 17967688 <GO>}

I think Q1, actually, sometimes is actually -- there's a bit of a spillover from Q4. So certainly in 2018 and 2020 we had very strong Q1s. But the comparative for us this year is a very challenging one. This year was softer. We don't know the market. You might have more insight as to what has happened across the whole market. We do feel the market is slower overall, and we think we've got roughly our share in the first quarter. We'll find out in due course. But we've had a decent April, May, and that's setting us up pretty well for a good year.

## Operator

Your last question today comes from the line of Ashik Musaddi of JPMorgan.

## A - Ashik Musaddi {BIO 15847584 <GO>}

I think my question was just answered. I think what I was trying to understand is your bulk volumes was a bit lower. Was it just because markets were lower, I mean the entire market? Or would you say that the spread, as Gordon was saying, because of the tighter spreads and all, that is why it was a bit lower. So, yes, I think that is more or less what I...

## A - Jason Windsor {BIO 17967688 <GO>}

I think it's a combination of that. I mean, I've just answered the question. We think the market was lower. It takes the market a little bit of time to adjust to a lower spread environment and sort of people looking at last month's prices, not this month's. So there is a sort of period of readjustment.

We are seeing the pipeline building very healthily across the board. And it's over GBP 20 billion we're expecting to come to market between now and the end of the year across the entire market. So quite a significant pickup. So I think our read is a quieter but not dead first quarter, with a pickup as we've just reported in Q2.

## Operator

There are no further questions at this time. Amanda, Jason, back to you.

## A - Amanda Blanc {BIO 19138679 <GO>}

Look. Okay. Just -- I guess, just reiterate where we started. Thank you for all of your questions. And it's really good to hear.

I mean hopefully when we are together next, we'll actually be physically together. We sort of keep our fingers crossed for that.

Just saying overall, a good first quarter. Reshape the portfolio, strengthen the financial position. The trading performance gives us increasing confidence.

We will continue to build on that and keep coming back to you on the question around capital returns.

So thank you very much for listening, and have a good day.

## Operator

That does conclude our conference for today. Thank you all for participating.