Q1 2014 Sales and Revenue Call - Interim Management Statement

Company Participants

- David Barral
- Ewan Tocher
- John Lister
- Mark Andrew Wilson
- Maurice Tulloch
- Tom Stoddard

Other Participants

- Abid Hussain
- Andrew J. Crean
- Andy Hughes
- Ashik Musaddi
- Blair T. Stewart
- Chris J. Roberts
- Fahad U. Changazi
- Gordon Aitken
- Greig N. Paterson
- Oliver G. Steel
- William H. Elderkin

MANAGEMENT DISCUSSION SECTION

Operator

Good day, and welcome to the Aviva Group Q1 IMS Analyst Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Mark Wilson. Please go ahead, sir.

Mark Andrew Wilson {BIO 6409810 <GO>}

Well, good morning, everyone, and thank you, again, for joining us on our quarterly call. I have my senior team with me in the room here, including, of course, our new CFO, Tom Stoddard. Now, today, as usual, I'll take you through the main points of the Q1 performance and then open up for Q&A.

Now, I do appreciate this is a very busy morning with many of you and we also, of course, have an Investor Day in about two months' time, where you'll get the opportunity, I think, to dig in a lot into our strategy and ask many more questions.

So onto the numbers. Overall, I think this – I'll call it a refreshingly boring quarter performance, I think in marked contrast to the weather and the regulatory developments. Value of new business is, of course, up 13% in constant currency. This is now, in fact, our sixth consecutive quarter of year-on-year growth in value of new business.

The combined ratio, though, has deteriorated to 97.7% due to the harsh winter in Canada, but more on that a little bit later. OCG was £0.4 billion and regarding our balance sheet, IFRS NAV per share is up 6% to 286p; MCEV is up 1% to 469p; and the economic capital surplus is £7.8 billion.

Now, our improved cash position at the group center has allowed us, as you know, to repay £240 million of, quite frankly, very expensive hybrid debt and this is, of course, entirely consistent with our deleveraging plan.

So now onto a bit more detail. There has been tangible progress in our turnaround businesses, where we are gaining up lost ground. Italy, Spain and Ireland doubled their VNB to £26 million. In particular, progress in simplifying our Italian business is well ahead of plan, and the expanded distribution agreements with UniCredit and UBI following our restructuring should improve margins there going forward further.

In our cash generators, I think that's more of a mix story, frankly. Our UK VNB was down 22% with annuity VNB driving this decline. Now on this subject, annuity volumes are down 21% in the quarter. So just to be clear, the volumes are 21% in the quarter, and the VNB is down 43%. I wouldn't want you to get the impression this was all from the budget at all. We were tracking with lower annuity volumes before the budget announcement on March 19 as margins had tightened in that sector, and we had deliberately reduced our capacity.

Looking at the performance in Q1 though and the impact of the budget changes going forward, it looks like annuity VNB, we think will end up about £100 million lower in 2014. This is consistent with our previous indications. And knowing what we're doing and what we have on at the moment, I think that would be a good sort of target to build into your models.

With our excess capacity, we will target mid-sized bulk purchase annuities, and this should offset some of the budget-driven VNB decline. Just to be clear, we are not targeting jumbo BPAs, as we don't believe we can get the required margin at the jumbo end. But obviously, we've been in BPAs for quite some time and we are clearly an expert in this field.

Other parts of the UK Life business have shown improvement with protection VNB up 32%. We also have encouraging investment cells, which probably surprises a few. I mean, actually, the volumes in bitumen cells were up 59% in part due to the platform inflows. We've got a very good platform particularly in the broker market, and we've got a lot more we're doing taking that to consumers. Now, it's encouraging progress both on the investment side and protection, but I'm still far from satisfied with our position. Although it's encouraging, I'm far from satisfied.

Of course, the other parts of the budget changes that are significant is that it will create significant opportunity – and opportunities will arise in particular in asset management and you'll hear much more from that later from Ewan at the Analyst Day when we have that.

Our other cash generator is France, continued its critical performance as its VNB grew 34%. While volumes are up, much of this improvement has come through a greater mix of higher margin unit length savings and protection. This is partly volume but also product mix. And again, there's, I think, some pretty good execution of that strategy.

The contributions from our growth market also are highlighted. Our growth market VNB collectively increased 73% and made up 26% of the group VNB. That's up from 19% in the Q1 2013.

Poland grew 108%. Asia grew 96%, both of which I think are quite adequate. On the other hand, Turkey VNB declined 21%, which is less acceptable. Overall, regarding the growth markets, we are seeing the shape and dynamics of the group changing for the better. And I think we are getting in a much more balanced and simpler proposition.

Onto general insurance. In general insurance, the combined ratio deteriorated to 97.7%, due to the particularly harsh Canadian winter, popularly and euphemistically known as the polar vortex, which produced some exceptional weather losses of around £40 million.

Now, regarding the UK weather, we have previously announced flood (6:52) losses of £60 million in January and February this year. In fact, the total weather losses for the quarter remained at below £60 million, and this was after a very benign March.

I should point out though, these figures are broadly in line with long-term average. But also worth noting they're worse than the first quarter last year that was very benign. We've had a fair bit of feedback already this morning that our weather, UK weather figures are better than expected, and that may be the case maybe versus peers, but it's very much in line with what was said before.

Premiums in UK GI, though, were down 8% as we demonstrated, I think, some pretty good discipline in the face of soft market conditions, particularly in personal motor. That remains very, very soft. However, I think there's still enough to move balance between volume and efficiency so that you get the right volume for the fixed costs, et cetera and achieving this balance is critical. And frankly, in some business lines and I'm not including personal motor in that definition, but in some business lines, I think we'd probably push some of our rating actions in some of our UK cells a little bit too far and Maurice is just looking at the balance of some of that now.

Outside of the UK in general insurance, premiums grew 5% in Canada and Europe in local currency. I guess I should point out, in fact, the UK as well on the life side, actually, the volumes actually grew by about 5%. So but to be clear, we don't chase volume. What we're chasing is VNB, which is where the value is headed.

On to expenses. On our expenses, despite being ahead of plan at the full year 2013 stage, I want to make it very clear that we are not showing any complacency. If you speak to any of our business units, you will not see any complacency on expenses and the progress on expenses has continued into 2014.

I'm not going to give figures and just the quarterly figures. We'll give expense figures and expense ratios at the full year-end at the interims. But just to give you some comfort, the expenses have continued. Restructuring expenses which we have shown here are 67% lower at £18 million, which is nearly all related to Solvency II spend.

So the restructuring, the large restructuring expenses that we're seeing year after year after year in the first quarter were very small. But I should point out, though, again, for a bit of balance, due to the nature of project spend, I'd be not be surprised and focus spent (9:59) on restructuring, as I said, I wouldn't be surprised to see a modest pickup in some of the quarters throughout the year.

We will update you as I said on our expense ratio at half year and we may refine our calculations for this ratio as we go forward. I know we gave you some draft proposals at the full year. And I know some of you have made some suggestions for its improvement. And Tom definitely has his own views on this subject as well.

To the balance sheet. IFRS book value is up 6% to 286p per share. Improvements were as a result of profit in the quarter and positive movements in our pension fund, partially offset by negative forex impact. Now, whilst the market may view this book value growth positively, as it was an issue we had last year, part of this increase was due to the vagaries of IFRS pension accounting, which I have certainly discussed with you before.

But following - nevertheless, following a period of dislocation between the operating earnings and book value growth, we are very keen to see that book value grows with earnings and is not eroded as it historically has been by restructuring costs or investment variances and other below the line items.

Now, as part of this, to make it more predictable, we have somewhat derisked the pension scheme, which is one of the benefits you've seen, (11:26), in this quarter. Our economic capital surplus of £7.8 billion is quite adequate and the group center liquidity of £1.5 billion is, I guess, is pretty strong, is boosted by disposal proceeds.

We have continued to restructure the business with disposals of the boutique asset manager in the U.S., that's River Road in the U.S. South Korea and Turkey GI have also been announced as well as quite a major restructuring of our Italian business. So I think that's a summary, but in summary, despite some, I guess, literal and metaphorical headwinds, the Q1 results, I think, are a testament to the benefits of focused diversification. Diversification in some core markets, with multi-line being general insurance, life insurance and asset management and this means that the group's, despite the headwind, the group results are quite satisfactory indeed.

However, despite some of the areas of our performance, there are frankly still many areas of disappointment or underperformance which we are addressing. As I keep on stressing and telling to my team, Aviva remains a turnaround story and there is much to do. And on that note, operator, I think we can open it up for some questions.

Q&A

Operator

Thank you. And we will now take our first question from Blair Stewart from Bank of America. Please go ahead.

Q - Blair T. Stewart {BIO 4191309 <GO>}

Thank you very much and good morning. I've got a couple of questions and you touched on some of these points in the commentary, Mark, but just firstly on operational cash, how do you feel about the outlook for that given any kind of seasonality aspects and in relation to the £0.4 billion you've put out in Q1?

Secondly, just maybe further on your responses to the UK annuity changes or the UK market changes, you mentioned SME bulks as one response. I wonder if there was anything else in the hopper to the extent you want to talk about that at this stage, and maybe also your view on the guidance debate and how you expect that to pan out? And maybe if possible, just some further comments around the product mix changes that you're pushing through in Europe which seem to be having an effect? Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Thanks, Blair. That's quite a list. And I'll go through some of those and I'll also get some of my colleagues to comment. Yeah, the OCG, as you know, the key issue with cash is, OCG isn't cash, but is certainly one of the stages to get there. The real major (14:42) is what we get in, which frankly can be a bit lumpy throughout the year. And I'm not going to give you the figures yet, but to say that the – we have obviously now getting cash in from the UK Life business, but we're not going to put those figures out. We'll give you that at the half year.

OCG is a good guide, but it's all medium (15:05) is cash. I know in fact Tom's come in and looked at OCG and thinks we can make it clearer and much more transparent with how we go forward. Tom, do you want to perhaps comment on that?

A - Tom Stoddard {BIO 15071280 <GO>}

Sure. Well, again, I'm relatively new here, having just joined a couple of weeks ago and about a month after the quarter end. But I'm looking at a lot of things and looking at a lot of different things going forward. Blair, I think as you look at OCG on a quarterly basis, it's hard to read that across. It has been affected by weather here. But I think as we all know, OCG is an imperfect guide to cash flow. So we'll be looking at trying to improve measures here and to be able to give you a better sense as to how we see cash flow. But I think here, the correlation between the quarterly OCG and what we're going to end up with for the year on cash flow is not that strong.

Q - Blair T. Stewart {BIO 4191309 <GO>}

Yeah.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

And that helps. Secondly, your question – if you take the product question last, something we didn't do that well on product, there's a few things. We have never really packaged product before which we're doing now, and we've never managed product mix as actively as we are. And we do that partly by taking capital away from various cells and putting it to other cells and that's very deliberate. We do that technically quarter-by-quarter, and we do it yearly. So some of the drop annuities was just a technical pull away because we didn't think we can get to the tunes (16:26) and we didn't want to use that much capital on that.

And France is a good example of what they've done moving to higher margin products. And in the UK, moving to protection products, for example, helps with capital usage, it helps the value with new business, it helps with cash flow. So all the stuff's coming together, and it's very deliberate. And frankly, I think we've only started that. Although I said some nice things in my opening remarks about what we've done in protection, frankly, I still think our protection cells are entirely unsatisfactory and the team's working hard on that and hopefully over each quarter, you'll see those increase.

On annuities, just to be clear, I don't disagree with the annuity changes. We were surprised like everyone else, but all that did was speed up some of the other stuff we were doing. Just to be clear, the annuity volumes were down 21% in the first quarter. But I wouldn't want to put that all down to the budget because it simply wasn't. I mean, the budget only came out on March 19, didn't it.

We have got a lot of products that we've been – products such as drawdown products which are quite interesting. We have our platform which is growing very, very fast which accounts for the growth in the investment products you've seen. 59% growth is going in the right direction.

And the other part of it, of course, is on Ewan's product range now. I'll hand it over to Ewan to talk a bit about that, and David might want to add some comment. I don't want Ewan to pre-announce the strategy that you're going to see in the Analyst Day. But you want to add some color on the products and your multi-asset products and things like that as well?

A - Ewan Tocher

Yeah. I think it's very helpful for me to be able to piggyback on the back of the drawdown platform that David's already built. And we already have a lot of interesting Aviva investor propositions. They are volatility-controlled funds, called our mission range. And in actual fact, we've got some high-quality income propositions, equity income, distribution funds, fixed income funds that can sit on that platform.

But Mark is quite right. I'm working, basically, on a range of outcome-orientated funds that will go very directly for the outcomes that are important to clients, which are clearly generating good levels of income with low levels of volatility and good levels of return with low levels of volatility. So that's on one hand. But as we stand at the moment, I genuinely believe we've got a platform and a fund range that's as good as anyone else in the industry.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yeah, and it is very focused and I see you also made – we made an announcement yesterday of a senior hire that you'd made to assist in that process. David, did you have a comment?

A - David Barral {BIO 17035123 <GO>}

Yeah, Blair, just a few thoughts on the European product mix. Firstly in France, our focus has been largely on unit-linked. We've shifted the unit-linked mix of savings from 18% in 2013 first quarter, 25% this quarter. Italy, we've led the market in reducing guarantees on work profits (19:50). And in Spain, we've dialed back significantly in financial annuities that were value-destroying. But I'd also echo Mark's point, I think there's still a hell a lot of upside for us from protection across all of the European markets.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

So now the last point was your point on the advice, Blair. It's going to be interesting to see how this develops. The FCA's working on it. I've had discussions with them. I would hope we get to a place where advice can be online, it can be over the phone. It doesn't have to be face-to-face. That would be our intention, because I think it's just impractical for anyone and way too expensive for the consumer as well to be just to do this face-to-face and we're working with them. And from what I can see, I think the FCA will do the right thing and be pretty pragmatic. So hopefully, that answers all your questions.

Q - Blair T. Stewart {BIO 4191309 <GO>}

Would you expect that to be provided or is your position that that could be provided by the insurance companies themselves, Mark, on that last point?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yeah. And I've had that discussion with them. I think they certainly recognize that we are part of this process definitely. We have obviously the biggest network of brokers and we also in the UK, we're tied up with most of the key banks and one of the reasons that you are seeing the protection sales increase. I'll back up there. One of the reasons last year protection sales were lower is because after RDR, the banks just got scared of providing any advice on anything. And frankly, we and the (21:26) had to coax them back into the market on protection.

You're seeing the early stages of that happening now. So some have put people back on the road. Just in the last quarter, so you're seeing that come up and we're the one with contracts with all the large ones and so that will take us some time. But that's what you're starting to see. You're starting to see the Protection sales pick up because the banks are being coaxed back in the market and rightly so.

Q - Blair T. Stewart {BIO 4191309 <GO>}

Fantastic. Thank you for that. Very good.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Thanks. Thanks, Blair.

Operator

And we will now take our next question from Ashik Musaddi from JPMorgan. Please go ahead, sir.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi. Thank you and good morning, everyone. A couple of questions, first of all, on your protection. I mean, you seem to have said that you're not very satisfied with your protection sales, and how should we think about it? You grew by around 20%, 30% in protection in this quarter. And one of your competitors are saying that the growth expected from protection is roughly 5%. So how should we think about where do you want to land up to in terms of protection and what does that mean for cash and net cash in the short-term? So that's the first thing.

Second thing would be on economic capital surplus, now you're among the very few in UK to disclose economic capital surplus. How confident are you on this economic capital surplus number, given that Solvency II is coming down the road? And secondly - thirdly, if possible, can we get the split of the book value movement? Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. So the first one just on protection. Yeah, I'm aware of the other comments being made (23:09). But we're playing in a slightly different dynamic because, frankly, I think we've massively underperformed for our client base and our distribution over recent years in protection. And so this was a deliberate strategy to get back into it last year. And our key - there's a couple of key things. Cross-sell on the base, particularly on direct, are starting to show some, I'll call them encouraging or surprising results. Early days, but we'll see. And the banks are starting to get back in, so I would've thought our growth rate in protection should far outstrip the market because currently at the moment, we don't have our natural market share and I think that's unacceptable and it's a product range that David and I and the group like. And so this is an area that we're doing.

We're bringing in some extra talent from outside. We've only just started, so the results you've seen have been the start of what we're seeing. Now, could it go up or down in each quarter, of course it could, so I'm not making any predictions, I'm just saying that I'm really disappointed with it. But I'm disappointed where that's strategically because we've got a lot of work to do. That is where you can see an upside particularly in the UK, but not just the UK.

Now the second thing on economic capital, so we disclosed and as you know, we're one of the few on economic capital now. Economic capital versus others in the market, we're the closest thing, I guess, to Solvency II. It isn't the same. I said last year that I thought the outcome of the Solvency II work was satisfactory. Just to be clear, there's still some of this on the horizon. Anyone that says that they know all about Solvency II, then doesn't know anything about Solvency II because you've got the Tier II tax that we still haven't been given.

We think it's going in the right direction. We think we're well positioned versus peers for it. Could have had frankly on the current tax that we'll have ups in some countries and down in others and that's fine. But – and the other key thing that we all need to do and we need to do like everyone else is we need to get our internal models approved by the regulator. Now, we've got some time on that and we're working hard on that. And as you saw, it's cost us a fair bit of money in the first quarter as we (25:33), but that's progressing then quite adequately, but there's a lot of work to do. So there's no doubt that us being on economic capital and we disclosed our stuff to the market, I think it's particularly helpful. It's not exactly the same, but there's a wealth of similarities in it. Is there any – Tom or John want to add any comments to that?

A - Tom Stoddard {BIO 15071280 <GO>}

I'd just comment that the way we run the company is based on an economic capital basis. That's the way we think about managing businesses and allocating capital and ultimately, the cash flows that we produce for shareholders. So that culture is very comfortable here. And again, as Mark says, there will be differences as we migrate to Solvency II and we've got a project team that's very active working on that.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

But it wouldn't go straight to that one (26:14). I can put it that way. That's my job. The other thing was split of book value. We don't provide profit numbers on a quarterly basis, and obviously that would if we split it. So no, we won't split it on the quarter.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. That's very clear. Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Thanks.

Operator

And we will now take our next question from Andrew Crean from Autonomous. Please go ahead, sir.

Q - Andrew J. Crean {BIO 16513202 <GO>}

Morning, all. It's Andrew Crean from Autonomous. Three questions, if I may. Firstly, in simple terms, could you explain what the restructuring in Italy is about? I noticed last year that you had operational cash generation of £88 million and only £12 million came up to group. So whether you could explain what the potential is there?

Secondly, could you say whether there was any growth in your new business profits if you look to the 2013 new business profits on the economic assumptions, which the 2014 were based on?

And thirdly, I wonder whether you could - I see in your statement you say that there's quite a lot of disposals come through and you're looking at the business now as being much simpler. Should we take it that the current portfolio of businesses is largely the ones you're going to be running with and there won't be much further in terms of disposal?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Thanks, and good morning, Andrew. Okay. So three questions. First, restructuring, literally, this is something that we signaled about throughout the year. Italy was I guess, typically, Italian, was our most complex business. It was holding companies that then have JVs, one party that had JVs under that with other parties. And it also had some cross holdings in the banks, non-trade and non-listed cross holdings, which we didn't think fit with our risk profile, frankly.

And so, the restructuring was done for a number of reasons. That was down so we could control those businesses because the JVs a couple levels down, we couldn't control products within there, and because of that, they were making negative VNB.

Now, because with Solven, you're not going to see that, I guess, on the positive year-on-year on VNB because you take it out of that both. But natural fact, that's positive to the group so it's going to add to the growth rates, although you won't see it in the growth rates if that make sense.

So we did it so that we could get rid of the cross holdings that we could maintain, in fact, expand distribution and we could control our product mix and then it allows the cash flows to come up to the group because some of the two levels down, they had too much cash, so the cash was trapped and we couldn't get it out. We aren't going to give you any guidance about what that means for the quarter but I can tell you what's helpful. David, who did all that hard work and I don't think-

A - David Barral {BIO 17035123 <GO>}

Morning, Andrew. Very good summary, Mark. I think the only thing I would add is as well as unblocking and enabling the cash, the other thing that we're doing here is trying to improve the profit margins and stabilize the distribution. So we've extended our distribution with UB by another five years and we are refocusing our UniCredit distribution much more on protection. And the expectation is that, that will enable us to significantly improve the margins and drive the VNB as well as cash.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

So I mean, Italy is still on their turnaround camp, just to be clear. I don't want to let them off very easy. But to be fair, their progress has been faster than we had anticipated.

Your second one, growth in VNB, now, the main growth from VNB is product mix and volume. I mean, there's no fundamental change in the assumptions. The market (30:20) is up and down, I might add. But there's no fundamental changes. There's no games being played in VNB. It's simply some basic product mix and volume.

Q - Andrew J. Crean {BIO 16513202 <GO>}

Well, I was just...

A - Mark Andrew Wilson {BIO 6409810 <GO>}

So if you look-

Q - Andrew J. Crean {BIO 16513202 <GO>}

Mark, on that, I would just say, I mean if you look at the quarterly VNB last year, it goes £209 million, £217 million, £193 million, and then £285 million in the fourth quarter, presumably when the economic assumption changes reflected our interest rates. And so, I expect if that was spread over the quarters, I just wondered where the £224 million this year first quarter actually would have been higher than the first quarter last year on the same economic assumption?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

No, that's the seasonality. I mean, the business still quarter-by-quarter is quite seasonal as you know, which is why we do the comparison quarter-by-quarter. There was no fundamental changes in that. By far, the biggest impact was mix and margin, by far the biggest impact. There might have been some stuff that I needed (31:24) that wasn't major. We check all those. We control all those things at group center, just to be clear.

So that's the way we've been running it. But the thing that has changed, France, as David said before, is quite an easy one to look at. So France, the mixed unit-linked just went up dramatically because it was a deliberate change. And then because of that, the sales also increased and because of that, the margin increased. So you're seeing those sort of impacts more than anything else.

In Asia, you're seeing quite good product mix changes as well. We've fundamentally changed the product in China, which has grown, I think I'm like saying about 100%-odd or something. It just obviously changed the product mix, with fundamental changes in product mix which impacted our margins.

And Aviva's never done this stuff before and we've got a number of years where we need to optimize this year (32:19) and I wouldn't want you to think we're close. But we have had six quarters of growth, I guess, but we've got a long way to go.

Now, the last one was your point on the simpler portfolio. So obviously, we are a lot simpler. We're getting that feedback from everyone, which is good. Again, Tom has some views on that where we're still not, which makes sense. Have we got any others to sell, we have got a few still modest ones to sell. We've got still, as I've said before, we have still some more restructuring in Spain.

We're in another arbitration with one of the banks. I've said that before, so that's more restructuring there. We've still got a few small bits and pieces that we need to give and that will still give us some cash. But I mean, they're pretty modest, they're very modest in terms of earnings or they're negative in terms of earnings just as an aside. So won't have an impact on earnings. But we've got still some that will free up some capital I'd rather allocate to other places.

Our objective here is to be diversified, but be very focused. We want a small number of larger businesses that dominate a market and that can have pricing power in those markets and that we can add scale or we can get scale. So Indonesia was an example where we believe we can get scale quickly. And so, essential to our discussions at the moment, or maybe a lot of these discussions right now is where we allocate capital and where we take it away, and that's the way we're doing business.

So we're getting close. We're not there yet, Andrew. We've still got a few more, and frankly, I've still got to complete or Jason and his team have got to complete the ones we've announced and get the money and cash on our balance sheet.

Q - Andrew J. Crean {BIO 16513202 <GO>}

Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Thanks. Thanks, Andrew.

Operator

And we will now take your next question from Gordon Aitken from RBC. Please go ahead, sir.

Q - Gordon Aitken {BIO 3846728 <GO>}

Yeah. Good morning. Thanks. Three questions, please. First on annuities in bulks. The chairman says – I mean it's probably about 18 months or so ago now that you couldn't make the profits in bulks work. Now post the budget, we're seeing consultants talking about more competition. That's what they're expecting. And also, we've already got some evidence of some of the providers reducing rates post the budget. So I'm just wondering how you square those two.

The second one on pensions. One of the other pre-RDR commission payers reported this morning, they announced a £20 million to £25 million hit due to the new pensions pricing cap. I'm just wondering, would you be of a similar order to that?

And the third thing on pensions in the U.K. again. You've got flat volumes. Just wondering what net inflows into that business were? Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. Thanks. So three questions. So the first one on bulks. What the chairman actually said was the large BPAs and also to clarify that, I think it was midyear last year. So what we see was we were out of the jumbos. In fact last year, we wrote about 60 BPAs at about a value of £400 million, just to be clear. That will increase this year.

Now, we're not going to be in the jumbo end because we don't believe we can make the margin. And I know some people in that market are saying that the margins aren't going to decrease on bulks. In actual fact, I disagree with that. I think with competition, the margins on BPAs, although they'll still be a key part of the market. I think the margins will decrease, which is why we only want to pay them at the end. And we have traditionally been one of the strongest players in bulks.

The reason why we're doing more is with less of the personal annuities, we have more capacity. We've got more capacity to back it with the assets that we back it with. We've got commission mortgages and equity release and stuff like that. So we have more capacity to back it. So that's why we'll do it. But we're very cognizant of the margin. So I think the margins will decrease. I think that's inevitable, and we will only play in that market as much as we can get the margins. We're not going to chase it, because we don't need to. I mean, that's why we're a diversified business.

Pensions cap impact and I saw the release you're talking about. For us, a lot of our stuff is below that pension cap anyway. And certainly, the new stuff (36:54) for some time it has been. So I can tell you it's got an immaterial impact on our earnings. We have got another lever we can pull on that as well and this is one of the reasons it's immaterial, because, of course, we can pull trail commissions. We have a very large level of expense on trail commissions. And one of the levers we can pull is to get rid of trail commissions. So the impact for us is, I will say, modest.

A - Tom Stoddard {BIO 15071280 <GO>}

Mark, it's Tom, if I can just add. We have taken a hit in our MCEV, so...

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yes. £150 million to £200 million.

Q - Gordon Aitken {BIO 3846728 <GO>}

And on the fair price?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yeah. So to speak – that is built in, the £160 million to £200 million is built on, I think it's £200 million, is built into the viv (37:37) So was there – Gordon, what was your third question?

Q - Gordon Aitken {BIO 3846728 <GO>}

The third question is just about you've reported flat volumes in pensions in the UK. Just wondering what the flows were in that business, net inflows? So just the gross versus the outflow there (38:01)?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

We don't actually disclose flows. Now, I can tell you that for the group, non-investment funds flow will be – is a critical measure inside the group. At the half year, we're going to disclose it to you for the first time in the detail and that is a critical measure. It's also one of Ewan's critical measures in his business, so it's something we're very focused on. And we will provide some good detail for you on that. That is a metric you will find us being very focused on.

Q - Gordon Aitken {BIO 3846728 <GO>}

Okay. Thank you very much.

Operator

And we will now take our next question from Abid Hussain from Société Générale. Please go ahead.

Q - Abid Hussain {BIO 17127644 <GO>}

Hi. Morning, all. I have three questions as well. The first one is on Turkey. Can you just talk about the challenges in Turkey and the outlook for that market?

The second one, a slightly technical question. Can you just talk about what was your thinking in applying a liquidity premium to your participating products? Was that driven by peers or do you have more clarity on where (39:16) is heading with that?

And then finally, a question on capital. What's your capacity to redeploy freed-up capital towards – for an attractive ROE into either Europe or Asia? Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Thanks, Abid. So three questions. So Turkey, one of the joys of emerging markets is you will get quarter-by-quarter volatility. Now I think the results in Turkey are actually quite unacceptable, I don't like a growth market being down. Simply, it's, as you know, because of you had some political issues there which impacted credit which impacted – when it impacted credit, you don't get the same life insurance impact. So the whole market's seen in that quarter quite a big drop and we weren't immune to that.

I can guarantee with absolute certainty in emerging markets, you'll get more of that in some quarters. So I'm not overly concerned about it. You might get a flood (40:20) or you might get some political tension in some emerging markets. So it happens. It doesn't change our position in the market that I see Turkey as an attractive market with very attractive margins. We have a fabulous JV partner and we have a very strong leadership position. David, anything to add?

A - David Barral {BIO 17035123 <GO>}

Yeah. I think another thing is our position is quite diversified in Turkey. We've got a strong bank partnership with that bank (40:52). We've got the biggest direct sales force in the market and we're also starting to tap some of the other banshee (40:57) assets, some of their retail ventures with the likes of caliper (41:04). So I think to echo Mark, I think 2014 forecasts really, really quite choppy on the back of credit. But certainly the medium- to long-term outlook for that market is very attractive.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yeah. I mean at some stage in the future. It won't be this year, sometime in the future I'd like to get the analysts down to have a look. I think it's a market that has all the characteristics of Asia 15 years ago and I can prove that with numbers, so I'm a big fan. And now your second question, sorry, I don't know this, I don't know (41:37). I'm going to hand over to John.

A - John Lister {BIO 15438517 <GO>}

So the liquidity premium, we've changed that to bring that in line with our European peers and of course, as we move into Solvency II, the volatility adjustment on fal funds (41:47) just bringing it all in line. It hasn't had a material impact on our numbers.

Q - Abid Hussain {BIO 17127644 <GO>}

Okay.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

And the last one is on capital and redeploying capital. As I mentioned at the full-year, this is something that we're getting much more active in. We've made a lot of improvements. We are making decisions. We saw that in annuity in the first quarter. You saw it in personal motor in the UK. We're making decisions both technically quarter by quarter and then more generically through M&A and exits in countries. What's our capacity to redeploy capital? Well, of course, I see that as part of mine and frankly, Tom's key jobs is deploying capital around the group.

Just to be clear, we're not doing that at the expense of cash flow to the group or dividends, just to be very clear on that. Investment thesis is cash flow and growth. We can get - we're going to put the money in the markets where we can get the highest ROEs and look, day by day, I mean, I had some of the discussion with one of the business sales heads yesterday. Day by day, we're having some fairly - some rigorous debates on the allocation of capital. And some of the cells that are falling below what we believe is reasonable, we're saying, well, we want you to give us capital back, and we'll reward them for that, and you can give it back in dividends, or you can give it back by selling a piece of the business, or you can give it back by just stopping selling new business and we take some of the surplus. So this is very active as part of our management meetings at the moment. (43:25).

A - Tom Stoddard {BIO 15071280 <GO>}

Not a lot to add to that, obviously, we've got our business leaders making decisions about how they're deploying the capital within their business around different products. So at that level, that kind of capital allocation is happening all the time, and then at a much higher level, there are tactical decisions, as Mark has indicated. I would say we are growing in Asia. We had the new joint venture in Indonesia, so we are redeploying capital around the group already. And again, coming in new, one of my tasks here is to improve the financial flexibility of the group so that we have much more opportunity to do that, and that's one of my key areas of focus.

Q - Abid Hussain {BIO 17127644 <GO>}

Great. Thanks. Very clear.

Operator

And we will now take our next question from Oliver Steel from Deutsche Bank. Please go ahead.

Q - Oliver G. Steel {BIO 6068696 <GO>}

Good morning. Thank you for taking my call. I've got two main questions. One is about the change in preparation on the embedded value, which has added about £500 million to your embedded value. Can you break down the effect of the three things you've done, which is effectively adding retail fund management in the UK, adding health and also the changes to the liquidity premiums?

And also, could you tell us to what extent that has actually helped your economic surplus because, I mean, logically, if you've added £500 million to the EV, that is also coming through into the economic surplus? That's a sort of rather long question, one.

Question two is on the UK non-life side, you've sort of said in your statement that there was a sort of balance between I think of lifting prices and volume, or at least I think that's the impression, but given that it is a competitive market, how do you see that panning out going forwards?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. Thanks, Oliver. So just to be clear, the changes that we did was just to bring us in line with peers, so we're entirely consistent. And on the growth rate comparisons, we've put them in both just to be absolutely clear. So the growth rate comparisons, we put them in last year's and this year's. So it's not a case of putting in this year's to show growth. So we just put them in both. So it's a very fair comparison. I don't think we've broken it down any – John, do you want to-?

A - John Lister {BIO 15438517 <GO>}

We haven't broken it out for the market. But there's a couple of hundred million on the expansion of the scope to include the collectors' business and £300 million on-

A - Mark Andrew Wilson {BIO 6409810 <GO>}

So it helps the EV. It didn't help with VNB. Does that make sense?

Q - Oliver G. Steel {BIO 6068696 <GO>}

Yeah. No, I mean, I get the comparatives and the comparatives look good certainly versus my forecasts, whichever way we looked at it. I was actually more concerned about the economic capital effect. Has that added £500 million to the economic capital surplus?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

No. It hasn't rolled through into the economic capital numbers at all.

Q - Oliver G. Steel {BIO 6068696 <GO>}

Okay. And will it ever or was that in there already?

A - Operator

It wasn't in there and we'll see where Solvency II goes. But it's not in our ICA numbers or our economic capital numbers.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

I think the answers are good, but we need to see what Solvency II what the final ticks (46:37) to see whether it does or not.

Q - Oliver G. Steel {BIO 6068696 <GO>}

Okay. Thanks.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yeah. (46:41) Now, second question, Maurice, do you want to take that?

A - Maurice Tulloch {BIO 17683736 <GO>}

Yeah, happy to. So thanks, Mark. And morning, Oliver. I mean, as you know our UK general insurance business is just over £4 billion and we have a diversified book. We look at it in a sale basis. So certainly we have the motor sale, which has been incredibly competitive. Prices in the first quarter are down about 7%. And over the last 12 months, depending on which source you use, are down sort of 15% to 20%. Our overall reduction in net written premiums down 8% (47:09) is in line with our major peers. I think if you look at it by themselves, whether that be our home cell, our small medium enterprise or our corporate risk, several of those cells are actually, in fact, growing. So we do look at volume and profit tradeoffs. When the market falls as it has so steeply in the motor market, we get to a point where there's not positive economic margin to be made and we're certainly not going to chase volume.

I mean, I think if you look in the medium term, certainly growing this business is key. We've got a number of strategies and I think we'll discuss those at the upcoming Analyst Day.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

It's going to be a long day by the sound of it.

Q - Oliver G. Steel {BIO 6068696 <GO>}

Thank you very much.

Operator

And we will now take our next question from Fahad Changazi from Nomura. Please go ahead.

Q - Fahad U. Changazi {BIO 15216120 <GO>}

Good morning. Just a question on annuities and your guidance of £100 million drop in UK in VNB. Could you just give us your underlying assumptions again on GAOs, et cetera? And also in terms of the business you retain on individual annuities, are you assuming constant margin from this point onwards?

And I suppose just another question for simple algebra's sake. In absolute terms, Q1 UK VNB is down £25 million in Q1 2013 and we haven't had the impact on the budget here, times four at £100 million. So I'm just thinking all the other comments you made about protection sales and so on. Will they be compensating enough so that's why you're comfortable giving the guidance of £100 million drop? Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay and thanks. So yeah, I guess – I mean, that's a good question. The £100 million, why we come to £100 million and I'm not going to break it down because we're giving indications of what is driving guidance. We're saying that's our best estimate and I think that (49:05) in all the models.

There's a few reasons for that. BPAs haven't come through and we've got a pretty good idea of what's in the pipeline. So BPAs haven't come through in those first numbers.

So the budget impact, to be clear, the budget impact is only down 21% in terms of volume and that's since the budget. But it varies between 20% and 30%-odd. So our decline in volumes, it appears to be a bit less than the market. But I want to be clear. It's way too early to tell. And so, it's a bit hard to make too many assumptions.

I don't know why we're down about this in the market. Maybe it's because when there's less people going for it, they may be tending to go for the big brands or something. I mean, that's the only reason I can possibly think of.

We don't think the margin on the individual annuities and I will look over to David here. He may want to comment on that. But we don't think the margin in individual annuities is going to change much. I do think the margin of BPAs will come down and - but I'd just make the point the £100 million is because of all the mitigating actions that we know we can take in that, so we're just trying to give you an open indication of where we think it will end up. And so far, we've been proved to be pretty right.

David, do you want to pass some (50:18)?

A - David Barral {BIO 17035123 <GO>}

Yeah. I think it's really difficult to tell what's going to happen to margins in the individual market. At the moment, it's just - it's too early to tell. I mean on BPA, that's a market that's growing strongly and we're pretty confident. And as Mark said, we're building a strong pipeline.

I mean, one of the things I think's interesting is we're pretty sure that annuities or some form of guaranteed income products are going to remain a very popular choice for customers because it removes a lot of uncertainty for them and how that level actually plays out, we need to wait and see.

We're pretty well pleased whichever way it goes though, because we've got a range of guaranteed income products there now. And we've also launched a flexible drawdown product which means that people want (51:10), then we can satisfy that through the platform, which is going really well. So we'll wait and see. I mean, I guess if more people turn to the bulk properties market, and maybe there'll be some potential there. It's a growing market. And we think we can make good profit in the small to medium-size cases where we've got a very strong franchise.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

And just to be clear, our results in the first quarter, it's very easy to blame a budget which is a nice sound bite for the media, isn't it? But frankly, we don't think that's the case. Ours was a deliberate choice on capacity. So we didn't want the capital or to back it with investments that we needed for those sort of margins, because the margins had come down. Are they going to get worse? I don't think the margins will get much worse on the individual stuff. But that was a deliberate choice.

Now, as we have more capacity, we can fill some of that with BPAs, which I think is really what we're trying to say here. And as to what happens to the budget, well, you'll be able to guess as well as us. We seem to be doing okay.

Q - Fahad U. Changazi {BIO 15216120 <GO>}

Okay. Thank you very much.

A - David Barral {BIO 17035123 <GO>}

Thank you.

Operator

And we will now take our question from William Elderkin from Goldman Sachs. Please go ahead.

Q - William H. Elderkin {BIO 3349136 <GO>}

Thank you, and good morning, everybody. Just two follow-ups, really. First, well just – can you give us a sense of how we can translate that guidance in terms of UK VNB development, the £100 million into the impact on IFRS earnings and OCG or at least what we should be thinking about? And then second just on UK motor, I just wondered if you had a view as to the likely direction of industry pricing over next 6 months to 12 months?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. Yeah, I mean, we gave the full year results, sorry, after the budget, we gave a bit of indication on that. It's not major for us, partly because thus far, it's very small single digits is what we'll tell you. So I wouldn't read too much into it. It's not a major factor for us. It's small single digit. So small but I'm talking percent-wise. So that's first.

On the motor pricing?

A - Tom Stoddard {BIO 15071280 <GO>}

Yeah. The only thing – the only thing I could really add, William, look, the prices continue to come down, they're down 7 in the quarter, down 15 to 20 depending on the source over the last year. I mean, if you look at the industry results as a whole, you'd certainly expect at some point that to bottom out and to increase. But at this point, I certainly don't want to signal when that may be but I'd certainly expect at some point that has to be the trend.

There are some other potential developments. The Competition Commission is continuing to look at the motor products. I mean, certainly, Aviva supports that effort. We still think there is lots of cost in the system. We would support things like a wider ban on referral fees, particularly areas like credit higher, the discussions around the small claims track. So those would be largely neutral to slightly positive because obviously, that would have the offset in terms of the claims cost.

So that's the only sort of slight red herring. Without further reform, I think at some point, we need to expect motor result to move up, because the overall industry results on that line are not positive.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

I mean, in fact, we have a company view and Maurice is driving this, but we have a company view that you should go to a no-fault system here. I think the motor in the UK, I think the motor insurance system is flawed fundamentally. And because of that, you get so many claims farmers and other intermediaries in that mix and I think it's poor for UK consumers and I think it'll be good for the industry to go to a no-fault system. And therefore, it will get the industry into far more balance. But we will be active in pursuing that and we'll see how good our lobbying is, Maurice.

Q - William H. Elderkin {BIO 3349136 <GO>}

Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Thanks.

A - Tom Stoddard {BIO 15071280 <GO>}

Thanks, Will.

Operator

And we will now take our next question from Andy Hughes from Exane BNP Paribas. Please go ahead.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi, guys. I've got three questions if I could. The first one is on non-life Insurance again, I'm afraid. I heard someone who previously commented on he was surprised how resilient the top line was in UK GI and I probably should ask you for a bit information when it falls quite a bit. On the UK motor stuff that you seem to be signaling as a key driver of this, I thought that was only less than 19% of the UK GI business?

And I think you had pointed out that you've grown the Household business, which is actually almost twice as big as the motor book. And so maybe if you could give some granularity about which segments are growing and which segments are shrinking? In particular, change from Q4 to Q1? And the comments about returns going forward, are you kind of prepared to tolerate a lower return than perhaps your hurdles rates were before because the market won't accept that to maintain expense ratios going forward?

Second question is on Europe and the Life business. Obviously, one of the things that the results highlight is the fact that controlling your own distribution from the Life side is very important to the group because it means you can sell more unit-linked business. But what does this mean for the strategy? Does this mean that you want to expand the bancassurance business across Europe and perhaps not expand some of the other existing bancassurance distribution arrangements which you've got?

And the third question is on investment business in the UK, particularly the platform business. Obviously, 59% growth in UK and Ireland, investment sales, how much is sort of platform related and how much money you're making on the Wrap platform, because it looks to be very low charged business. Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay, Andy. Thanks. So the first question on the non-life, I'll hand over to Maurice.

A - Maurice Tulloch {BIO 17683736 <GO>}

Yeah. Good morning, Andy. And thanks for the question. We'll probably end up disclosing an awful lot more detail on that at the upcoming Analyst Session. But let me give you a little bit of color. You're right in saying that the motor business is broadly about 20% of our book. It's certainly been driven down pretty significantly in terms of rates. For us, that particular line is down well into the mid-teens. We've decided not to chase volume there. Certainly, at some of the levels in some of the sub segments is actually dilutive. And we're not making a positive economic margin.

We're actually holding our own in the home area. Home rates were down very, very low single digit. Probably, you're seeing a bit of a shift of capital at home because one would have expected with all the storms since October that there would've probably been some inflationary pressure in home. But given the alternative of motor or home, we've seen that come down a little bit.

I think the ones that we have given guidance on previously that has been dilutive in terms of margin and certainly has a significant effort is the commercial motor. Commercial motor continues to be a focus. We have tactically, by design, exited many underperforming sub-segments such as taxis and certain fleets.

And an area just to give a little bit of color that is growing and growing quite positively for us continues to be our large commercial. So I think at the upcoming Analyst Day, I'd be happy to give an awful lot more detail on those breakdowns and margins.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. And the second question talked about the Life side. I don't think it actually just relates to Europe, but I'd say it's global – I'll give you a global answer. Our strategy is very much to be a multi-distribution company, and we are already strong in many parts of distribution. We would like to rebalance that more towards our own distribution though. And owned distribution also includes direct, of course. And I can tell you – I'm not going to give numbers today, will at a later date, but I tell you our direct distribution is bigger than all of you would anticipate. I'll tell you that much.

And owned distribution is critical to our future. That doesn't mean we won't do bancassurance deals, we did – because I want multi-distribution. So in Poland recently, for example, we did a bancassurance deal because the majority of our distribution there was tied. And my view is a very simple one, you don't want to be strategically vulnerable by only having one distribution channel in the country, because if you are and the regulator or government changes the rule, you get wiped out, it's too risky.

So multi-distribution, but more towards tied. And around here, actually, we do have a lot of tied distribution. You've got a lot in France. I mean, AFER is effectively a tied distribution model as well. You have a lot in Poland. I mean, we do have a lot of tied distributions as well, but we need to balance it up in some other countries. So that's probably on that question.

Perhaps on business, I'll hand over to David. Just an introductory comment, investment business you need to scale to make it work, it's about building for the future. Our offering in the platform business is very much to the broker market at the moment. Again, I don't really want to pre-announce stuff on analyst calls, but we will be taking a similar consumer, direct-to-consumer model from what I think is actually turning into a market-leading platform in terms of focus. That's a kind of new strategy.

A - David Barral {BIO 17035123 <GO>}

Yeah. So Andy, the platform, as you know, has been operating from a fairly small base over the last couple of years. But sales have doubled in the first quarter over what they were last year total set and the collectors business. As you can imagine, we're not making much profit from that at the moment. But obviously, we expect that to be a good long-term opportunity for us. And clearly the budget changes cannot play into that.

Interestingly, as Mark says, we get – it's an IFE platform at the moment, and it's highly respected in the marketplace. That's why it's doing so well. We were doing a B2C (1:01:47) offering at the moment. And that's very much our strategy. And I think the finer point of it is that of all the funds that are run there, we're only writing about 15% of those funds (1:02:05) investors. And we think there's a significant opportunity to increase the proportion of those funds and that's something Euan and I are both working on. So we think there's a quite – we're quite optimistic about improving that profitability over the next few years.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

I mean, frankly, you'd expect the normal mix of that business to be double that level, (1:02:20) these investors, too. So as you can see packaging is important.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. Thank you very much.

Operator

We will now take our next question from Greig Paterson from KBW. Please go ahead.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Good morning, gentlemen.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Good morning.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Three questions. One is first quarter. I wonder if you could tell us what the liquidity premium you used was in the VNB calculation? And what it would have been under the old basis?

Second question, what would be the cost to the VRF (1:02:57) if the cap was reduced from 75 to 50 basis points, the sort of view in 2017 by the government, the government wants to reduce the cap? So I wonder if you could quantify the effect? And thirdly, in terms of your drawdown (1:03:13) proposition, I was under the impression that you're going to launch some kind of longevity insurance there. I wonder if it would be in the form of sort of VA rider, like a guaranteed minimum withdrawal benefit? Or it would be in the form of, say, a non-profit deferred annuity?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. So – and actually, the question on liquidity, no, we're not disclosing that. Second question, John?

A - John Lister {BIO 15438517 <GO>}

That was the 75 basis points to 50 basis points?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yeah.

A - John Lister {BIO 15438517 <GO>}

Yes, there would have a bit impact, but we're not disclosing what that impact would be at this point in time.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yeah, I mean, just to be clear, much of our new stuff is sold at that level anyway, at 50 bps, just to be clear. So I don't know it's probably in the focus, but we haven't disclosed that yet as that eventually comes on. But just to be clear, so there's no misunderstanding, evidence – or the new stuff sold at 50 bps anyway. Okay, so at 50 bps, we can make it work.

FINAL

Bloomberg Transcript

Q - Greig N. Paterson {BIO 6587493 <GO>}

All right. So you're not commenting on the first two. The third one, the longevity swap, would it be a VA-type rider or deferred annuity?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yeah, the – yeah, so the third one, we've got a whole of other stuff lined up, but frankly, I don't want to announce that through an analyst call because we've got some very exciting stuff happening. And I don't want to do it to you guys first. And as we announce it, we'll give you all the details and what we think we can do with the new stuff, but I don't want to announce it on the call.

I mean, it's a bit like – I know a few of you are saying we want to see Ewan and understand the strategy, but I don't want to pre-announce Ewan's strategy. And he has only been here a few months as well. And at the Analyst Day, I can promise you guys that we will provide much more detail. I'm setting Ewan up now, of course, and David for his products. So we'll provide you much more detail, but I'm not going to do it on a Q1 call.

Q - Greig N. Paterson {BIO 6587493 <GO>}

All right.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

In fact (1:05:22)...

Q - Greig N. Paterson {BIO 6587493 <GO>}

Well, that's really three no comments. It shows I'm right, asking the right type of questions.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yeah, of course.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Thank you. Good. Cheers (1::05:31).

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Thanks.

Operator

And we will now take our next question from Chris Roberts from Barclays. Please go ahead.

Q - Chris J. Roberts {BIO 20944217 <GO>}

Yeah. Hi, guys. Thanks for taking my questions. I have a couple on the GI business. If we step back from this quarter's results a little bit and we look at what's been happening for the last few years, is this a business that's really going to grow? And if so, which countries are going to be driving that? Most of us model out to kind of 2018 and it just seems like there's negative pressure on premiums and at what point will that start to turn around?

And secondly, if we look at the UK motor business, I think you made your strategy for this part of the cycle quite clear, but could you go into a bit of detail on what your telematics offering is? And whether you feel like it's more sophisticated or less than some of your other listed peers? And if telematics does really take off in the next couple of years, are you going to be ahead or behind as a starting point? Thanks, guys.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Thanks, Chris, and I mean, all interesting questions, aren't they. So there has been negative pressure. I never look at the globe as one market and always split it up. I mean, if you ever look at our results, for example, you've seen pressure on rates in things here in the UK. Actually, the other businesses, you've seen growth by 5%. So I think it's dangerous looking at them as one because we've actually seen some growth. I think there's a few things that we need to do better. One is packaging the products. Historically, we've just haven't packaged the products. As we get more into a digital world, packaging the products makes a big difference. And we're seeing some quite interesting trends in cross-sell that are helpful as well. So that's helpful.

I think there's still going to be pressure on rates in the UK for a while, frankly; some of our other markets, less so. And the packaging is in important. Now what that does mean in a group like ours, we can move capital around, as we've been doing. So we're saying the sub-markets on GI, particularly the ones in Europe and Asia and others saying: well, actually we want you to grow because the margins are X, and we can grow relatively simply. In some parts of the UK market, we've done that as well. But other parts like personal motor: we're saying, look the rates are too soft. We're just not to chase the rates down. It just doesn't make sense. We're not going to make a negative income on margins. So my answer to that first question is very much, much depends on the geography you're talking about. But your point is well made in some of the markets.

In terms of where we do have an advantage and, again we'll show you this in more detail, we do have an advantage in terms of our predictive analytics. That's clearly worked. We can prove that with data. We're bringing that more to the UK now than it's ever been and particularly on fraud prevention and underwriting. We just launched some major new system, a whole new system for our commercial business.

In fact, in the last 10 days our core, Guidewire, that's been a massive expenditure and a whole lot of work. It reduces our costs in that business; makes our underwriting quicker and better. So there's a lot of stuff happening in there. But I'm very conscious, there's no point in me telling you, it needs to come from the results.

And on that point, I'm going to hand right over to Maurice to talk about that and the telematics.

A - Maurice Tulloch {BIO 17683736 <GO>}

Sure. Yeah. And thanks, Mark. And a couple of points, Chris. I think if you look at our general insurance business, we're actually gaining market share in most of the countries we operate in. So in the Canadian market, we've been growing between sort of 5% and 6.5% the last few years. I think if you look at our peer group in the first quarter, our growth was just over 5% and in local currency is actually positive versus our peers. We had decent growth in France and other European operations.

So if you come back to the UK, actually that's also brought in line with our peers that are responsible in terms of management of profit. And I think if I look forward, we've got some unique advantages in the UK. We have an incredible multi-distribution platform. We have the strongest partners in the market. As Mark alluded to, we're already we're good at predictive analytics. We're strengthening that from our Canadian business. We're investing in the latest technology such as Guidewire that just went live. And we're also very quickly expanding our digital footprint to actually get true leverage out of the (1:09:50). So I actually think the growth story for our tail (1:09:55) insurance business is something that we feel quite good about looking forward.

If you think about telematics, we've had a long-standing partnership with one of the global leaders, that being Progressive. We were a innovator here in the U.K. originally with the – albeit rather clunky black box systems. We now use something called My Aviva Drive (sic) [RateMyDrive] app. We've got hundreds of thousands of installations of that. We've just signed a deal in the Canadian market.

I still think that that's probably the future. It hasn't taken off in many jurisdictions around the world. But I would, suffice to say, we're poised if and when it does.

Q - Chris J. Roberts {BIO 20944217 <GO>}

And could you say anything about the take-ups of telematics, let's say, for the under-25 drivers or anything like that? Have you got any numbers you could put behind that?

A - Maurice Tulloch {BIO 17683736 <GO>}

Why don't we take that as something we'll bring forth at the Analyst Day. Happy to break it down by the various segments and...

A - Mark Andrew Wilson {BIO 6409810 <GO>}

I mean, the other thing I should say, for the first time ever in our history, a few months ago, we launched in the UK a single view of a customer. So we now look at the customer across all of our businesses and all of our products. And now believe or not, I know that sounds very simple but we've never done that before.

I can tell you the take-up rate on that has exceeded our business case in the first two months. So the cross-sells have only just started has been pretty helpful. I mean, the take-up rate – I can tell you, the cross-sell rate, won't give you the actual numbers, but I'll tell you the percentage is 300% up what it was before, just to give you a sense of the early stages. It appears to have a far better business case than we had anticipated.

Q - Chris J. Roberts {BIO 20944217 <GO>}

Okay. Thanks a lot, guys.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Pleasure.

A - Maurice Tulloch {BIO 17683736 <GO>}

Thanks.

Operator

And we will now take a follow-up question from Andy Hughes from Exane BNP Paribas. Please go ahead.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi, guys. It's a follow up on UK GI, again, I'm afraid. It's about the answer to the previous question where I asked about the outlook for the UK GI. I'm just trying to think if - obviously, you mentioned that some areas including large commercial can grow. Obviously, a couple of years ago when David Hall joined the group, I wrote a note saying: Aviva is going to grow its large commercial business, it's going to achieve a 95% combined ratio, as he said in the trade press. He's recently left the group, but what's really changed? And can you outline why the previous large commercial growth didn't really work.

And I guess what I'm trying to do really is get a view as to where we're going to be in terms of GI revenue at end of the year because it kind of feels like the 7% percent decline we're seeing year-on-year albeit largely happening in Q1, may spillover into Q2. I know we may see some sort of recovery towards the end of the year. But overall, we can end it with a sort of 7% decline for the year in net written premiums. Does that sound unrealistic?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Yeah. Okay. And thanks for the follow-up. Several questions, which I'll take, I mean, there seemed to be a lot of focus on the UK today. I mean, last time I looked we weren't a UK group, which I think is one of our, well, UK based group, just to be clear, and I think that shows through in the results and the growth rates you've seen across the overall group.

I'll talk first on the CSR and the results in the CSR, we haven't disclosed that separately. I would say the results from the CSR are quite good. And that wasn't why I left it. When you leave and you change the group and you change what you want, some people fit and some people don't, I'll say that much. But that shouldn't be a reflection on the results because the results in that area actually are quite acceptable.

Yeah. I think your characterization of what will happen in the UK results in terms of GI are probably right. I think you'll see it – you won't see a lot of growth in the first half and I think we'll see that pick up in the second half. That's our plan and we're working towards that with our packaging and starting to see some results out of that. But I think that would be a pretty good characterization, what you said.

CSR, we are playing – CSR is a big name for what it is, frankly. I'll call it sort of corporate large commercial/corporate business rather than CSR. And those results are actually going quite well, where it is near we've grown and that's results that the area with results have actually been ahead of plan for what we thought they'd be. Did that, Andy, answer them?

Q - Andy Hughes {BIO 15036395 <GO>}

Thank you very much. Roughly how big is the CSR in the (1:14:36)...

A - Mark Andrew Wilson {BIO 6409810 <GO>}

It's about £600 million give or take. We can get you the exact figures later, but it's about £600 million give or take.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. Thanks very much.

Operator

Thank you. And we will now take a follow-up question from Andrew Crean from Autonomous. Please go ahead.

Q - Andrew J. Crean {BIO 16513202 <GO>}

Good morning, again. It's slightly a pedantic question, but the operating cash generation at £0.4 billion, obviously, the rounding to a billion can hide losses (1:15:03). It could mean that operational cash generation was down 22% or it could be up 28% depending on the roundings. Could you actually give us a bit more details as to what was operating cash generation? Was it up or down and materially either way?

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Andrew, I definitely will give you more details, but it'll be at the half year. What I can say is the – you can look at the underlying numbers and, actually, I haven't given you expenses either. But as I've said, we've made more progress there. We are confident of our cash flow trends, I'll tell you that much.

Q - Andrew J. Crean {BIO 16513202 <GO>}

Okay.

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A - Mark Andrew Wilson {BIO 6409810 <GO>}

I'll just leave it at that. I mean, obviously in OCG, I think the – I mean, the only thing that – there's some areas, frankly, where we're ahead of where we thought we'd be on OCG. The only negative really in OCG at the moment is the Canadian weather, frankly. And if you can predict that, I should talk to you later because I'll get you to insure some for me. But the Canadian weather is the only negative impact on OCG we have. And there's a number of upsides. I'll tell you that much, okay, if that helps you and gives you a bit of comfort.

Q - Andrew J. Crean {BIO 16513202 <GO>}

Okay. Thank you.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. I think that is – operator?

Operator

Okay. There are currently no further questions over the audio.

A - Mark Andrew Wilson {BIO 6409810 <GO>}

Okay. Thanks, everyone. Thank you for joining us. I guess I'll pick my previous comments, despite the turmoil politically, and regulations, and weather, I think this has been one of our quarters with the fewest surprises on the results, which is I think somewhat efficient. So on that note, thank you for joining us.

Operator

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