Y 2019 Earnings Call

Company Participants

- Angela Darlington, Interim Chief Executive Officer, UK Life
- Chris Esson, Investor Relations Director
- Chris Wei, Executive Chairman of Asia and FPI, and Global Chairman Aviva Digital
- Colm Holmes, Chief Executive Officer, General Insurance
- Euan Munro, Chief Executive Officer, Aviva Investors
- Jason Windsor, Chief Financial Officer
- Maurice Tulloch, Chief Executive Officer

Other Participants

- Abid Hussain, Analyst
- Andrew Crean, Analyst
- Ashik Musaddi, Analyst
- Blair Stewart, Analyst
- Dominic O'Mahony, Analyst
- Fahad Changazi, Analyst
- Greig Paterson, Analyst
- Johnny Vo, Analyst
- Jonathan Hocking, Analyst
- Oliver Steel, Analyst
- Steven Haywood, Analyst

Presentation

Maurice Tulloch {BIO 17683736 <GO>}

Everyone, good day. Take your seat. We'll get started. Thank you very much. Good morning, ladies and gentlemen, and thanks for attending. And certainly with the events going on, I'm pleased to see so many of you here. Welcome to Aviva, our 2019 Results Presentation.

Before I start today's presentation, I want to give you an update certainly on the topic du jour, Covid 19. This represents a new uncertainty in 2020. Our primary focus is on operational readiness and the safety of our customers and staff, such we continue to deliver on our promises as we have been for the last 324 years. Our scale, diversity and the strength of our balance sheet allow us to meet the short-term challenges. During the Q&A session, I'd be pleased to provide more specifics related to Covid 19, on our operational readiness, our insurance products, trading updates and market impact.

Overall, 2019 has been a galvanizing year for Aviva, and my thanks go out to our colleagues who have all gotten behind our efforts to run Aviva better. It's still early days, of course, and our 2019 results show that we're starting to head in the right direction. We generated strong return on equity at 14.3%, helping our solvency to NAV increase by 8% to 423 pence per share. Operating capital generation was GBP2.3 billion. Management actions were lower than in 2018, but still significant at GBP0.8 billion.

We further increased capital strength with our Solvency II cover ratio up to 206% and further reduced our debt leverage to 31%. Our IFRS results also showed good progress with a record operating profit at GBP3.2 billion and operating EPS growing by some 8%. The full year dividend has been increased by 3% to 30.9 pence per share. These financial results reflect real gains we've made with customers and on the fundamentals leading to improved operating performance. I'll cover this more during my presentation.

So overall, a decent start, but we are under no illusions. There's still a lot to do to drive up our underlying results at Aviva. And lots of upside here as we execute on our detail plans. Jason will present the financials in more detail, but I'm going to highlight the progress we've made against our 2020 targets that we gave to the markets at our Capital Markets Day just in November.

Return on equity, this is strong and ahead of our 12% target. You would have seen from disclosures that this included benefits from assumption changes and management actions with underlying returns broadly stable. Now, clearly this is an area we're focused on improving through cost reductions, improving fundamentals and capital allocation choices, so that we will deliver our 12% target on a sustainable basis. Consistent return on equity, we've had another strong year in terms of OCG and cash inflows to center. As a result, after the first year of our four-year cycle, we've achieved circa 30% of our cumulative targets for OCG and cash.

We continue to retire debt, paying up GBP210 million as planned. I expect a lot more progress there in the next 12 to 18 months. And expenses are also heading in the right direction, with in-year savings of GBP72 million in 2019 and lots of groundwork done for savings to build to GBP150 million in 2020, well on our way to our committed target. Across the board we've largely where we thought we'd be at this stage. And we remain highly confident of achieving each of our targets. Now, let's turn our attention to our business performance highlights, starting with the Life and Savings business. This slide provides a snapshot of the key drivers we are focused on to improve profits and returns in Aviva's Life and Savings business. It shows solid organic growth, a diversified business mix and an opportunity to enhance margins. Organic growth is represented by the assets under management bridge on the left hand side. In 2019, we grew assets by some 9% to GBP418 billion. While investment markets provided a tailwind, we made good progress on net flows, which improved both here in the UK and also in Europe. The middle panel shows the mix of policyholder reserves by liability type. Over half our life business is in unit-linked, while another 30% is in UK annuities and with profit funds. European with profits account for 18% of the total and this is concentrated in France and to a much lesser degree in Italy. In these markets, products are designed to cope well with low yields, although negative interest rates provide more challenges, which we are actively managing. And Jason will provide some detail later on. On the right hand side of the slide, we show our IFRS operating margins and unit costs. The key takeaway is a reduction in operating margin between 2017 and 2019 is matched by the increase in unit cost. It underlines the need to focus on bringing costs down, to open up the jaws on our underlying results. And that's clearly been one of my key areas of focus I've implemented since taking this role. Looking more deeply at the organic growth picture, what we found across nearly all of our businesses in Aviva is that customers are continuing to choose Aviva, to meet their savings, their investment and protection needs due to our brand, our customer service, and the strength of our balance sheet. In this slide, we focus on UK Life and Savings and Aviva Investors. In annuities and equity release, we increased sales by approximately 30%, as we extended our strong performance in the bulk purchase annuity market. We've got fantastic capability in the retirement markets and we're deploying that successfully, both with commercial and retail customers. In long-term savings, our flow strengthened in 2019, which was a great result and shows the attractiveness of our business, despite the backdrop of political uncertainty here in the UK. Within this, we saw savings and retirement flows increase to a record of GBP7.5 billion. Our workplace and platform businesses are going from strength-to-strength with positive trends in new business and good retention, and Aviva Investors has delivered a strong recovery in flows. The GBP2.3 billion in third-party flows in 2019 included GBP3.3 billion flows in the second half as the benefits of our investments and capability start to show fruit, but there is still much, much more to do. Our GBP10 billion [ph] target for Aviva Investors is undoubtedly stretching, but these results are a step in the right direction. Turning to Europe and Asia, our customer franchise is also continuing to strengthen in our international life business. In these markets, we focused on working constructively with our distribution partners to grow sales and assets, while optimizing our business mix. In Europe, we responded to challenging interest rate environments, proactively managing the sales of standalone with-profits products in France and Italy down by more than 9% during the year. In contrast, we increased French and Italian sales with more capital efficient unit linked, hybrid and protection products by some 21%. In other European markets, we also saw good progress. In Poland, we increased new business volumes by 30%, following the successful launch of our new protection products. In Asia, we've committed to invest in distribution, providing our customers with guidance and much needed choice. We increased adviser numbers in Singapore by 10% to more than 1,800 and expanded active agency numbers in Aviva-COFCO, as well, in China. As a result, we delivered 24% growth in new business volumes in Singapore and 10% in China. Our business mix remains heavily weighted towards protection, which accounted for approximately half of our revenue in Singapore in 2019. Let's turn to our General Insurance business. With the key drivers for profitable growth, our premium volume, mix and margin, our results in 2019 show that we've delivered modest growth, while further shifting our business mix to commercial lines. Net written premiums increased 2% to GBP9.3 billion. Within this, commercial lines maintained its positive trajectory with 7% growth here in the UK and 17% growth in Canada. Commercial lines now accounts for approximately 40% of Group net written premiums. Our combined ratio was 97.5%, which represented a slight improvement compared with the prior year. I'd also like to point out the volatility of our results is extremely low, with the standard deviation of 0.8 percentage points on core over the last five years. As we highlighted in November, for our General Insurance businesses, we are targeting growth and net written premiums of 20% over the four years to 2022 and a combined ratio of 95% or better. We made a reasonable start in 2019, thanks in large part to the recovery in our Canadian results and our performance across the Group in commercial lines. Volumes will always be secondary to margins and so is the reduction in core, that is our primary focus. Let's do a deeper dive on the GI margins. Really on this slide, there's two key messages. First, our accident year loss ratio improved in 2019, due to the recovery in Canada, there's still more to do here. We expect to benefit as previous rate increases continue to earn through into our Canadian results, and while looking further ahead, we're generally seeing favorable pricing trends across most of our key regions and product lines, as shown on the right hand side of the slide. Secondly, costs have increased as we brought our digital operations back into the business. And these will be addressed. As a result, we're expecting improvement in the expense ratio in the coming years. The path to a 95% core will be based on disciplined execution, on efficiency and on mix and on focusing on the fundamentals. The business is capable of delivering this target, while continuing to innovate for our customers. Let's talk a bit about our customers and trust. In the past few slides, I've talked about how Aviva is improving its performance, increasing sales and fund flows and working to enhance profitability. This cannot happen without the support of customers who want to do business with Aviva. Earning their trust is central to our vision. At Aviva, we take great pride in providing fantastic service, often good value products and also being a good steward of the planet. This has been demonstrated in recent weeks as we've supported customers affected by the severe storms here in the UK. As we usually do with such events, we invoked our major incentive plan, setting up mobile offices near the affected areas, so that we could be on site quickly and start working with our customers to resolve claims. The current estimate for the February storms in the UK is GBP70 million across personal lines and commercial lines. This is GBP20 million worse than our LTA at this point in the year. During what's been a traumatic experience for many of our customers, our TNPS in the three days following the storms shows that our efforts are being recognized with a score, a very good score of 53. Critically important to our values is also about being a good corporate citizen. And at Aviva, we've been a leader in ESG and a strong advocate for climate change for over 40 years now. In November 2019, Aviva joined the UN Net-Zero Asset Owners Alliance, which commits us to transitioning our investment portfolio to a net zero carbon emissions by 2050. It is these commitments, including our carbon-neutral operations that help make Aviva a partner of choice for our customers and our distributors. So services one part of the equation, but to win with customers on a sustainable basis it's also about value. To enhance profitability and improve our competitiveness, we need to be efficient. As I outlined last year, we targeted savings of GBP300 million per annum net of inflation. That's about GBP500 million gross savings. We made a good start towards this ambition in 2019. We achieved net savings of GBP72 million with activation costs of GBP59 million. It is a good start, but I expect further progress in 2020. We continue to expect GBP150 million of achieved savings this year compared with our 2018 baseline and naturally, we're aiming for more. While cost reduction is an important goal, we are still investing in this great business and we plan to invest in IT, in efficiency, in automation, and enhancing our customer service. So we're looking to deliver cost program as a leaner, but also as a better business. Before I hand over to Jason, let me recap the key messages for 2019 and give you a sense of what I'm focused on for the coming year. For me, 2019 was a year of early progress. We've clearly made gains with customers, increasing sales, flows and assets and our focus on the fundamentals has supported profitability. But there is much, much more to do, to drive growth, enhance margin and allocate capital. Our focus remains on delivering great service and great outcomes for our customers and our distribution partners. We've increased our intensity and this energy and ambition will continue. In addition to expense reductions, we're continuing to pursue improvement in business mix and we'll use our advanced analytics and risks and pricing to compete with discipline across the market. To conclude, my objective is to run Aviva better. We will improve business performance, enhancing returns with disciplined execution on expenses and underwriting. We will focus capital and resources where we can achieve competitive advantage and strong returns. We will take robust action across the portfolio where our performance falls short, but where we can see a better way of delivering value for our shareholders. Thank you very much. I'm now going to hand over to Jason.

Jason Windsor {BIO 17967688 <GO>}

Thank you, Maurice. And good morning, everyone. In Maurice's presentation, he outlined the important changes Aviva made in 2019 and the good progress we made with our customers and our program to run Aviva better. Those things will also come through my presentation on the 2019 financial performance, which as I first set out at the Capital Markets Day, will provide you with more detailed disclosure on economic returns. It's early days in our performance improvement, but our financial results showed some early signs of progress. So let's start with a snapshot of the key financial metrics.

At a headline level, we've increased return on equity to 14.3%. We had good levels of capital generation, which resulted in an increase of our cover ratio to 206%. We've grown operating profit by 6% with gains across most of our business divisions, and we've also made meaningful improvement in our central costs. It's worth noting that the percentage change as you see in this table are after the realignment of the digital costs into the business units. So there's real underlying progress there. EPS grew by 8%, while positive investment variances also gave rise to a much stronger basic EPS figure. The dividend increased by 3% to 30.9 pence per share, in line with our progressive dividend policy.

Turning to return on equity. Our ROE of 14.3% is a strong total return in 2019. As the chart highlights, this result included GBP944 million from assumption changes and other management actions, which added 6.2 points -- 6.2 percentage points to the return. These items are most notable in our UK Life business, where we had further material benefits from longevity reserves, and in Europe where active asset liability management and hedging helped us to mitigate the impact of low yields. Excluding management actions and the temporary benefit of transitionals in 2018, own funds generation was broadly flat. It's clear that to deliver our 2022 targets, we need to improve our underlying results, and that's exactly what we're planning on doing, by building new business value, reducing our core and improving our cost efficiency. We're confident that you will see those initiatives driving up underlying returns in future periods and help us deliver our 12% ROE target by 2022 with much less reliance on management actions.

Now, moving onto the capital position. Our Solvency II ratio increased by 2 percentage points to 206%. OCG provided 20 points of capital build, which comfortably covered our capital needs for dividends, growth and debt reduction. Underlying OCG was stable at GBP1.4 billion, with positive business progress, offset by the transitional benefit of GBP0.2 billion not recurring. Other capital actions contributed positive GBP0.8 billion.

Looking at the GBP1.4 billion of underlying OCG from a different angle, the capital generated from our existing business was GBP2.1 billion. This is roughly evenly split between own funds generated and SCR run-off. We invested GBP241 million to write new business and cover our debt and interest and central costs of GBP432 million. This shows we're generating strong capital and cash, while still invest and to write new business and grow the long-term cash flows of the Group. But we aren't satisfied with the OCG numbers and consistent with the ROE target, we're focused on ensuring this moves higher in the coming years. In this regard, we expect to increase the underlying OCG in 2020. Of course, while still investing to grow the business.

As you would expect, with strong capital generation across the Group, cash remittances also remained at strong levels in 2019. In fact, total cash remittances of GBP2.6 billion represents around 30% of our full year target. So we're off to a good start. Our 2019 remittance included a GBP500 million special dividend from the UK, as well as a special dividend from Italy of EUR200 million following the sale of Avipop in 2018. Underlying remittances increased by 2%, mainly owing to increases from Canada and Singapore. Center liquidity has remained very strong throughout the year and is GBP2.4 billion at the end of February.

At the Capital Markets Day, I outlined Aviva's track record of compounding value through cumulative dividends and NAV growth, and that continued in 2019. Our solvency II NAV has increased by 31 pence, or 8%, to GBP4.23 per share. Adding the dividend provides a total gain of 16% for the year, bringing our three-year compound annual growth to 13%.

I also talked in November about our focus on prudent and disciplined financial management, avoiding excessive balance sheet volatility, holding strong center liquidity, good levels of capital in our subsidiaries and reducing the Group's debt leverage. This remains important as ever and is reflected in the progress we continue to make on capital strength.

We remain on track to meet our debt reduction commitment. As we previously highlighted, 2019 was a light year for our debt redemptions. We've reduced debt by the GBP210 million that was callable and the leverage ratio has reduced by 2 percentage points to 31%.

Now touching on the solvency ratios for the major businesses, which are all within their normal working ranges. In France Life, Aviva B added around 70 points of solvency cover in the second half, which included a 20 percentage point benefit by allowing PPE following changes to regulations in France. So the position in December was very comfortable and it gave us headroom to manage the volatility from the falling yields that we have seen once more in 2020. In the appendix, we've provided our Group balance sheet sensitivity to the key assumptions. You can see the low levels of risk that we run, which supports our outlook for capital generation and cash flow. Let's turn now to the business unit results, starting with UK Life investments, savings and retirement. The overall theme here is that the business has made good progress with customers, growing premiums and assets, although the profit picture was more nuanced. In UK Life and IS&R combined, return on capital was 9.5%. Our underlying results before management actions on both an economic and operating profit basis were broadly stable at the divisional level. But there were different levels of performance across the major product lines, which I'll cover on the next slide. For UK Life, overall, we had 2% profit growth and we held costs flat, despite high levels of project spending and the inclusion of UK digital costs. We had lower results in Aviva Investors, which as you can see on the chart, saw operating profit fall by 35%.

Revenue in Aviva Investors declined due to prior year disposals and lower assets under management in higher margin propositions. Costs were flat, despite our continued investment in capability, which is now expected to level off. Investment performance has improved, and as Maurice highlighted, net inflows were much stronger in the second half of the year. While it will take time to rebuild momentum in results, there were some encouraging signs in the second half and we have stretching targets for flows into Aviva Investors. Looking in more depth at the major business lines in UK Life, including savings and retirement. Our savings businesses continued to build momentum. We increased net flows year-on-year and saw higher flows in the second half than in the first half. As a result, we saw healthy double-digit growth in assets under administration. Pulling out the savings and retirement business, which will be included in the new IS&R division, net flows were up 10% to an excellent plus GBP7.5 billion. Our workplace savings business again saw great results in terms of winning and retaining schemes, while our platform business increased its support amongst IFAs and customers. We will provide further disclosure on the IS&R division from 2020. To give you a sense of the profit breakdown in 2019, the GBP211 million of long-term savings profit, it is split roughly equally between the modern platform in pension savings business and heritage pensions, which will be included and reported in UK Life. There will also be some overhead allocated to S&R, which we will run through with you later in the year. In annuities and equity release, we had an excellent year. Total new business volumes were up 29% and the returns were attractive, with the VNB margin increasing by 0.5% to 4.6%. Our pipeline of annuities remains strong and we will continue to deploy capital with discipline over returns and payback to grow our long-term cash flows. Protection was challenging and the business has responded. In individual, heightened competition and increased reinsurance costs eroded sales and profitability in the first half, but we refined our pricing and propositions and made good progress in the second half with new business volumes up 25%. But further work is required to enhance profitability. In group protection, new business volumes were up, but we had some adverse critical illness claims later in the year. Our legacy business continued to generate attractive cash flows, but operating profit contribution declined 13%, in line with our expectation. In General Insurance, return on capital increased by 4 percentage points to 14%. In GI, there is a little noise in the reported numbers owing to the allocation of digital costs and the inclusion of amortization of internal intangibles in operating profit. Despite these changes, the combined ratio was 97.5%. Looking through these changes, as we've done on this slide, the results show good progress in both capital generation and operating profit. Let me start with Canada, which was a standout in terms of year-on-year trends. We've responded to the challenges in the Canadian motor market and this is now coming through our results with the combined ratio down 5 percentage points in 2019. Premium volumes improved through 2019, particularly with increases in commercial. We are expecting further progress in Canada in 2020 and we continue to target a combined ratio of 96% or better in 2020. In the UK, the combined ratio deteriorated by 1%. In commercial lines, we continue to execute well with 7% growth in volumes and a 96% combined ratio. Personal lines profitability was resilient, despite a challenging market. Mccallum and his team have good plans to reduce costs and sharpen our propositions, and this should help us improve profitability in 2020 and beyond. Europe GI has maintained solid growth in premiums with attractive profitability, despite headwinds from weather and large losses in France and the gradual softening in the Irish market. Overall, it was a promising year for GI and we remain focused on reducing our core to our 95% target by 2022. In Europe Life, we faced unprecedentedly low interest rates, as I mentioned at the interims. We've responded to these low yields through active management of both the product mix and through capital actions. And that's reflected in our OCG, operating profit, and new business results. Our return on capital was 10.3%. This included a lower underlying result and a higher level of management actions, mainly resulting from our capital management and hedging actions. On business mix, we've moved further away from guaranteed products in new business. In France, we worked on distribution and product design, which helped to move our mix towards unit linked, particularly in the second half where sales rose 109% year-on-year, helped by a large corporate scheme win. In Italy, we deliberately reduced the sales of standalone with-profits, which accounted for 35% of new business compared to 48% in the prior year. In Poland, our business mix is already attractive and we increased new business volumes by 28%, helped by the launch of a new protection product. Across the European Life businesses, we are being proactively managing capital and mix in a very low yield environment. We are working constructively with our distribution partners to build a sustainable business for the future. In Asia, we continue to enhance performance with higher sales, capital generation and operating profits in our key markets. Return on capital increased by 3 percentage points to 12.7% for the region overall with high levels of return generated in our larger markets of Singapore and China. We've continued to focus on enhancing distribution. In Singapore, we increased financial adviser numbers by 10% to more than 1,800, while in China, the agency channel increased its contribution to new business volumes from 45% to 64%. This helps us generate double-digit growth in sales in both markets. Our Asia segment result also benefited from improvements in our Health business in Singapore and a reduction in overheads from our regional office and digital operations. Turning now to outlook. My focus is on improving our underlying performance and there is much to do. The key drivers of improvement will be lower costs, better margins and disciplined capital allocation. We're targeting sustained growth in new business, improved profitability in GI and continued mix optimization in Europe Life. There are also emerging external factors that will require our continued vigilance. Clearly, I'm thinking foremost about the consequences of the coronavirus, both the human and the financial costs. We are well positioned to withstand volatility with a diversified business and a very solid balance sheet. Weather overall was benign in 2019. It is tracking above long-term average so far this year with heavy experience from storms in the UK and Ireland. As Maurice mentioned, it's still early in the year, but it's potentially a source of variation in 2020 compared to 2019. We also continue to work steadfastly toward the completion of the Friends Provident international sale. As you know, this has a bigger impact on IFRS operating profit than on economic returns. Putting all this together, we anticipate improved underlying performance before disposals and external factors outside of our control. And consistent with our comments in November, we continue to expect a significant reduction in longevity and other management actions in profit and in OCG in 2020. To conclude, we've made good progress in 2019, but we need to do better. We've detailed plans to meet our targets to improve returns, reduce debt leverage and enhance sustainable cash flow, while continuing to invest to grow the company over the long term. We are committed to achieving these targets and we expect to deliver further progress in 2020. Thank you. Now, we'll move, Chris to Q&A.

Questions And Answers

A - Chris Esson {BIO 6194371 <GO>}

Thanks. Can we please start with Johnny Vo from Goldman Sachs. Thank you very much.

Q - Johnny Vo {BIO 5509843 <GO>}

It's Johnny Vo, Goldman Sachs. Just three questions, if I may. The first question, just in regards to the BPA business, I mean obviously you're getting volumes driven by your own pension scheme, but outside of your own pension scheme what are you seeing in the market and post your pension scheme, are you still committing to around about GBP4 billion of volume there?

Number two, just in France, you've obviously done some very good hedging. Can you just -- I can't find the disclosure, but can you give us a sensitivity to movement in rates in that and does it mean that we can expect remittances from France, or are you still saying there's a tepid remittance or zero remittance in France?

And the last question, just in terms -- a question for Euan in terms of IS&R. Yes, you're showing good progress, but these businesses were effectively silos before. How integrated are the businesses working together and are we seeing integrated flows in the business at all yet?

A - Maurice Tulloch {BIO 17683736 <GO>}

Great, thanks. Thanks, Johnny. I think what we'll do, we'll take them in this order. I'll have Jason speak to France. Angela is most appropriate to give the market specifics what we're seeing in BPA, and we'll have Euan come up last on IS&R. So we will start with Jason.

A - Jason Windsor {BIO 17967688 <GO>}

Let's start with France. So look, as I said, we've made significant progress in France in the second half, we took a series of actions to reduce interest rate volatility and to improve capital. So we built the cover by about 70 points, 20% of that was the BPA change in France, which we don't include in the Group ratio, by the way. If we did it, it would increase the Group ratio by 3 to 4 points. That's a combination of factors; interest rate hedging, asset allocation changes as well, which can materially reduce volatility. So we've been incredibly focused on just having the best matching portfolio that we possibly can have. But there is an inherent volatility that remains in the business and we saw that in the first half as it went down, in the second half as it came back and we'll see it again in 2020 as the market will fall, but we've taken steps and we're very focused on keeping the volatility low.

On the remittances in France, just to be clear, we had a small remittance out of France net in 2019, which is part of our target. We've got a range for Europe Life of 0.75 to 1.25. The bottom end of that range it seems zero from France Life over -- for the rest of the period, especially as we go to the top end of the range, would include more -- in our base case doesn't assume any dividends out of France Life in 2020. We do expect some contribution from '21 onwards.

A - Maurice Tulloch {BIO 17683736 <GO>}

Angela?

A - Angela Darlington {BIO 19117558 <GO>}

And on BPA, I think as we said at the Capital Markets Day, it's generally been our own internal restrictions, which has kept our volumes in place there. And I think we're very comfortable, we've made very good start to 2020, as you will see with the (inaudible) scheme. So we are committed to that market, we think we have some innovative technical riders [ph], as well we are improving the capital efficiency of our business all of the time. And so I think you can expect us to continue to work hard in that market and we're not seeing any restrictions with PCR [ph]. As we said at the Capital Markets Day, our capital return requirements are key in that market.

A - Maurice Tulloch {BIO 17683736 <GO>}

Henry, hand the mic to Euan.

A - Euan Munro {BIO 2307409 <GO>}

Yes, I think -- thanks for the question, Johnny. I think I can be very positive about the -- look I think part of my optimism about IS&R is the fact that the 10-10 [ph] targets that we announced, which -- will be substantially delivered just by the operations of the two separate business units within IS&R. Obviously, in the second half, if you annualize the second half flows, you're getting something like GBP6.6 billion annualized, which doesn't look so flat against the GBP10 billion target by 2022 (inaudible) Capital Markets Day, where we had outflows. And then, obviously, you've got the GBP7.5 billion [ph] doing it several times. So the two businesses are operating well independently, and Lindsey and Angela have obviously been sorting out their leadership -- go forward leadership team which Lindsey got hers in place by the end of January, and my team are picking up where we've got work streams working together and we actually have some really interesting opportunities are starting to bear fruit quite quickly. So things like in workplace, diverting people away from simple passive funds towards more stewardship, because the client demand is for more ESG-related funds and that allows us to promote into that marketplace the ESG range.

I think the other opportunity will be in areas like smooth managed funds, where the current market volatility actually is reminding people that portfolio construction and taking volatility out is important. So these are the areas we're working on, and I think we will be able to report further progress at the half year.

A - Chris Esson {BIO 6194371 <GO>}

Can we please ask Ashik Musaddi from JPMorgan please.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi, thank you. Ashik Musaddi from JPMorgan. Just three questions. So first of all, your slide number 6 to slide number 10 is pretty interesting, I mean you have just talked about volumes, which clearly kind of suggest that you are trying to divert attention towards the underlying volume growth, so that the business is growing. So that's a good thing. Having said that I think macro backdrop is really challenging, interest rates have dropped. We have uncertainty around recession. So how confident you are that you'll be able to print similar slides going forward as well, i.e. print good volumes in annuities, good volumes in the Life and Savings business, in P&C? So that would be one, especially given macro backdrop.

The second one is clearly the French solvency moved up, but you must have given away some economics as well on that. So can we get some color on what you have given away to get that boost in the solvency ratio?

And the third one would be on OCG. You have a target of GBP7.5 billion, if I'm not wrong, GBP1.7 billion per year is still left, whereas your underlying is about GBP1.4 billion [ph]. So is the remaining being covered by organic or would you say that there is still one-off element in your expectations? Thank you.

A - Maurice Tulloch {BIO 17683736 <GO>}

Great. Thanks, Ashik. I'll take the first question and Jason will take the second two. Listen, obviously, our business is about managing it across various cycles. And as you point out, we have certainly potentially increased volatility as we head to 2020 and not namely just because of the coronavirus. I think if you look at last year, and you look at diversity of our business, it held up very well. I mean there were challenging economic conditions certainly here in the UK with Brexit and political uncertainty. Record flows in our workplace business of GBP7.5 billion was a strong result. It shows the strength of our franchise and our brand, diversity of our distribution and certainly reinforces our position as the number one on workplace pensions.

If you move across to third-party flows, we saw that accelerate in H2 with Aviva Investors with GBP3.3 billion [ph] in the second half and 2.2, or 2.3 overall for the year to date was a strong result. That gives us confidence. I can tell you that trading earlier in the year is continuing to look very positive and a lot of that momentum for us actually started sort of post the August holidays. So we've seen a good pickup, as we get more and more confidence, as we're dealing with distribution and sales and general insurance. The 2% was probably muted. We had to deal with some underlying profit concerns, certainly in our Canadian business. So we certainly we're focusing on profit over volume, but we're now starting to see decent rate environment, and I certainly showed a slide on that.

And I think if you take it forward and we do plan for various macroeconomic scenario. So let's start with the one that certainly is right in front of us, that's in the continent. So we've seen a really good shift, certainly in France with unit linked. It's now -- almost half of our new business volume is unit-linked. We're continuing to see good growth in more capital-light business certainly in Poland and continue to see success in our hybrids. So I'd like the diversity of our business and I think that actually positions us well for different economic scenarios. But as a management team, we will pull the levers based on those scenarios.

Jason, do you want to talk about solvency and OCG?

A - Jason Windsor {BIO 17967688 <GO>}

Sure. So, in France, we have the dilemma that the value of the assets has gone up and also the amount of risk has gone up, but the primary issue that we face on the Solvency II is the one-in-200 stress. So what we've had to do is buy interest rate options that protect that out of the money cost. So the value -- the price of the swaptions, if you like, really is affecting -- isn't fully priced into the benefit that we get, which is to reduce the one-in-200. So it is not free. But the number that it costs us within the range of 5-ish percent of profit. It's not a huge sum to take those sort of steps, and it depends how rates play out over the year. So -- but it is a disproportionate benefit on the SCR.

Q - Ashik Musaddi {BIO 15847584 <GO>}

(inaudible - audience question)

A - Jason Windsor {BIO 17967688 <GO>}

We buy -- there is a series of things that you buy to match your liability. But we tend to buy in its options [ph] with at least a two-year strike into a sort of 10 year or 20-year period that sort of matches the book -- there is a range that you build just to get the best matching.

On the OCG, I think what I've said at the Capital Markets Day was guidance of GBP200 million per year of one-offs in OCG. So with three years to go that's GBP600 million people take, so I think you need to add that, and excluding anything that comes outside of our control, we'll seek to grow OCG in 2020 and beyond from the GBP1.45 billion this year. We are seeking to grow that.

A - Chris Esson {BIO 6194371 <GO>}

Oliver Steel from Deutsche Bank. Please.

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. I have three questions. First, is the positive exceptional in the UK GBP303 million, broke down between GBP900 million of longevity releases and then some negative offsets. I'm more focused on the negative offsets, because you are putting through -- you've been putting through sort of extra provisions for the last two or three years, as far as I can remember in the UK. What are they again, this time, what's the outlook for that within your 0 to GBP200 million guidance going forward?

And secondly, UK protection increasing your new business by 25% in the second half of the year after tweaking your prices. What are you actually doing that? I mean increasing volumes when you're facing falling margins suggests that you've got a cost problem there rather than a -- well, perhaps you can tell us what's happening there.

And then thirdly, since nobody has asked the question here, can you update us on FPI?

A - Maurice Tulloch {BIO 17683736 <GO>}

Okay, great, thank you Oliver. Let me start with the second one. Jason can take the first and I think he provided an update on FPI, but perhaps there's something you want to say. I think, obviously I mean UK protection was probably one of the slight disappointments.

Obviously, it's become an incredibly competitive market. We had to respond to maintain our leading position. So you're right, PVNBP is up. Clearly, margins are down, that's really driven by a couple of things. So one is experience and one is also responding to the competitive market.

As we look forward, I mean, I should note that we do make very healthy margins in protection. But we're certainly focused on further analytical skills as we look to improve our selection, also our mix and also getting more efficient. So it's a business that we like and it's a slight disappointment for this year, but I know Angela and the team have plans in play to improve that in 2020.

A - Jason Windsor {BIO 17967688 <GO>}

So the one-offs in the UK, GBP300 million net, you're right, we had a mortality adjustment which is about 750 [ph] positive on longevity, small negative on protection. We had a GBP175 million product governance provision, which we clearly don't expect to recur. We had a update to persistency assumptions, adverse GBP126 million, updates to expense assumptions, which is adverse 50. That takes you through a number of the negatives and there is also some overhead that is allocated and some debt interest that is allocated into the management actions and other line within that which could net stance the GBP300 million.

A - Maurice Tulloch {BIO 17683736 <GO>}

I think on FPI, I think first thing, as you say the business continued to perform, the management team in the business is doing fine. There were no underlying issues. It's a complex transaction for a relatively small business, involving multiple approvals across border and there's been an interplay in the approval process that we've had to go round a couple of times, unfortunately. We've made some good progress in 2020 and we expect it to close in the second quarter.

Q - Jonathan Hocking

Jon Hocking, Morgan Stanley. I've got three questions please. Firstly on the Life reserves, you made the comment, Maurice, you ought to open up the jaws, all that in terms of the gap between revenue and expenses. (inaudible) expenses are there other things you can do to address the sequential decline in revenue we've seen in the last few years? It's the first question.

And second question on GI. The 95% combined ratio target, it looks like Europe and Canada and probably UK commercial can run materially below 95%. And given what's happening with the sort of rate environment in terms of yields, you'd expect that to sort of reprice. So is it UK personal, which is the laggard there, or are you being conservative with the 95%?

And then finally the comment again Maurice you made in your opening remarks about being proactive in portfolio management, you will take decisions on underperforming businesses or products. Can you give us some color about what you think might fit into that category at the moment? Thank you.

A - Maurice Tulloch {BIO 17683736 <GO>}

Sure. Great. Thanks, Jon. Let me start with -- I'll go question two, question three and question one, and I may get Jason to chip in on question one.

I think on the -- we've set a target of 95% core. I think if you look at our average five year core, it was on the slide, I think it was 95.8%. And what we showed at the Capital Markets Day is we've got a pretty good track record over 10 years of delivering better than market average cores with the low thinner deviation. If we look at the constituent parts, I mean you're spot on. I mean the flight path we always have to assume sort of normal long term weather. The flight path looks good in our Canadian business. Last year, we were getting about 10% in rate increases across personal lines, a big part of that is still earning through and certainly right now the commercial rating in North America is very strong. So that obviously looks positive. I think in the UK we're getting rating generally above the cost of inflation. It's always tough to be in the UK motor market, but it certainly looks like it's poised to harden slightly. Commercial results were good. McCallum and the team are doing a tremendous job running that. I think the one area that needs attention is certainly the UK personal lines. We had a number of businesses, we invested an awful lot of cost and an awful lot of good cost was invested, I would sort of say that we're pretty close the gold standard in terms of efficiency, in terms of simplicity with customers, but we do have some work to do to rationalize the cost. So there is a fair bit of work to do, and you'll see that in the cost-income ratio on the slide I showed. So listen, our target is 95% or better. I don't want to get ahead of myself, but I know that McCallum and the team feel so pretty confident about that.

In terms of the overall Aviva portfolio, I mean, this is sort of how I think about it and I think about the various constituent parts of the Group. As I announced in November, my plan is to run Aviva better and that's my sole focus and that of the team, and I think we're starting to see early benefits. We've made good progress across the five divisions. I mean certainly profit being up, capital up, core like for like being down, dividend up and certainly strong flows. But I'm always going to look at shareholder value, and I'm always going to look at the various constituent parts, and I'm always going to ensure that are they making good returns, do I believe they have a competitive advantage, do I believe that we can continue to grow those returns securely and profitability into the future. And if I don't, then obviously that's something I have to look at in the context of capital allocation and doing the right thing for shareholders.

Jason, do you want to talk about...

A - Jason Windsor {BIO 17967688 <GO>}

So on the Life side, as we talked about, is clearly transforming from the old style, more revenue-rich products to new style products, so that the improvement comes, it's on three lines. Cost reduction, and we set out clear plans to do that. The Life company has made some progress in 2019, but it's got much more to do beyond 2019. Operational leverage. And then we are growing the platform business, as you know, around GBP29 billion. Now, we've been growing that materially over each year. That's now a scale play and we'll get more leverage through that. Same on workplace, we got GBP138 billion in total on platforms. So that's -- we're starting to see real scale in it coming through that and we're getting more efficient as we grow that business. And then frankly in things like protection, we just need to sharpen up the pricing just to make slightly more returns.

A - Chris Esson {BIO 6194371 <GO>}

Question -- Andrew Crean please followed by Blair Stewart.

Q - Andrew Crean {BIO 16513202 <GO>}

It's Andrew Crean with Autonomous. Couple of questions, if I can. Could I just return to that portfolio strategy, because you back in November, you spent seven months confirming that you wanted to keep the current portfolio, you now seem to be taking a slightly more nuanced position. I just wonder what's happened in between November and now?

And then secondly in terms of all that news about strong net flows, I notice that the undiscounted in-force still to monetize, actually fell from GBP24.6 billion to GBP24.2 billion, which slightly imply that the outflows are more valuable than inflows. Could you comment a bit on that and perhaps you may want [ph] to comment on the margins on the inflows in the second half, whether they were high margin there?

A - Maurice Tulloch {BIO 17683736 <GO>}

Yes, great thanks. Thanks, Andrew. Let me deal with the first. I don't think I've necessarily kind of nuanced it. Definitely I very much was hoping -- I think back to even almost a year ago about, I leave no stone unturned. We obviously started with an Asian strategic review. I very much have had at the front of everything that we've done about how do I maximize shareholder value. I think even in the strategic review, I think we evidenced that with respect to the Singapore, we actually found that the business was going to be worth more to us than what the market thought at that particular time and obviously that review does continue with respect to Vietnam and Indonesia. We set a number of targets, specifically coming out of November and those were set by design. So certainly, when I look at a Group target of a 12% return on capital, which as we described was 11% probably with one point of management adjustments as we guided to lower management adjustments in the future, we will continue to look at every business in the Group vis-a-vis those targets and their contribution to safely growing returns. Jason, do you want to...

A - Jason Windsor {BIO 17967688 <GO>}

So look, I mean it's a relatively small movement across the piece. We've had quite a lot of cash flows emerge and then we've taken out from the Life business best part of GBP2 billion as the surface has come out. There are some small discounting. I don't think one year's new business is going to change the margins. But as I mentioned a moment ago, the margin on new business is materially lower than the margin on the back book and that's why we had to take actions to change the proposition to reduce the cost base and look forward.

A - Maurice Tulloch {BIO 17683736 <GO>}

Do you want to add a point Euan?

A - Euan Munro {BIO 2307409 <GO>}

Just comment on the margins in the second half. Clearly, the high-margin business that has flown over the last few years, we've gone from like GBP12 billion to GBP8 billion in AIMS over the last few years and that was a pretty high margin business. Obviously the performance last year makes me -- and also the market volatility, the fact we're up this year, we are up 10% last year, we're starting to see some wealth managers reallocate to multi-strat like games makes me pretty confident that we're not going to see material outflows from AIMS going forward. The mix coming in in the second half was a combination of fairly low margin US credit, it comes in at scale, but also real assets is slightly higher margin. And interestingly, we're getting some benefit from our investment in the equity business, and so our UK Equity Income Fund, some of you might have observed on the (inaudible) and we're starting to benefit from that. So that's quite high margin. So it is a mixture of different propositions. But the AIMS outflow has obviously been the pain point in the last few years.

Operator

First of all, can we have Blair Stewart, then Dominic O'Mahony, please.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks. It's Blair Stewart from BofA. Three questions please. Just going back to one of Jon's questions on the combined ratio target, looking at it more generally, you've got a 2.5 point gap to your target or maybe it's 3.5 points assuming normal weather, or maybe it's 5 points assuming no PYD [ph]. So how do you look at that and what do you think the moving parts are just at a very high level. There's quite a lot to do in a three-year period?

And secondly, just sticking with the general insurance business, could you talk about the commercial insurance risks from business interruption from the current situation with corporate? And thirdly, just an update on the Italian JVs in terms of the renewal process, what should we expect from those in terms of timing, et cetera? Is there any change since you last spoke on that, the Italian JVs?

A - Maurice Tulloch {BIO 17683736 <GO>}

Great. Thanks. I'm going to tackle it. I'll do your second question and your third. And your first I may ask Colm to chip in on the first question. I think on commercial, with respect to COVID-19 and, listen, the vast, vast majority of our commercial policies exclude business interruption due to new pandemics. Our policies actually respond to a specific list of notifiable diseases. So we have minimal exposure with respect to business interruption as it directly relates to coronavirus or Covid-19. On our Italian joint ventures, what can I say, well, obviously, we note the announcements that have been quite public with respect to Intesa and UBI. I'm not here to comment on those discussions. As you're aware, we have a partnership with UBI that's due to expire at the end of this year and they have the option of acquiring our 80% stake. We also have an agreement with Uchi [ph] I mean UniCredito, we've had that since 2007 and we've begun discussions about the future of our partnership, but I think it's also noteworthy, if you look at the last four years, we've done an awful lot of a lot of work to diversify our distribution in Italy and approximately 40% of our new business now comes from Fineco, one of the largest IFAs in Italy.

Colm, rather than me go through the path to 95, you are running it, do you want to give the highlights and touch on sort of weather, expense and the mix of business?

A - Colm Holmes {BIO 18456463 <GO>}

Yes. The key thing to business is the path to 95. I mean as Jason outlined what we've actually done is added back in the impact of UKD, another factor, the impact of amortization of the core. So when you look at the trajectory to 95, we don't just target to 95 core. That's the core we used in terms of pricing. Obviously, depending on market movements we adjust that and we obviously look at volume and mix of business as well.

So within Canada, the trajectory is to get to 95 and almost certainly we would look to continue that trajectory. In commercial, we target a much lower core than we would in channels. So strategic partners is a channel. Our banking channel would have a higher court than you would in the direct. So across each product and across each channel we target very different core -- the volume increases. And the 2% growth that we saw last year the bulk of that came from commercial. We shrunk into UK in personal lines by 4%, grew in commercial by 7% and within that there's 4% growth in motor and 8% in non-motor classes, which is where we're focusing our attention from a growth perspective. So very optimistic about the future in 2020 and beyond, notwithstanding the potential impacts, obviously, of floods, storms and coronavirus.

Q - Blair Stewart {BIO 4191309 <GO>}

Sorry, did you say when the UniCredito agreement comes up for renewal, Maurice, did I miss that?

A - Maurice Tulloch {BIO 17683736 <GO>}

We're currently in discussions with that agreement.

Q - Blair Stewart {BIO 4191309 <GO>}

Right. And if Covid does become a notifiable disease, does that change matters?

A - Maurice Tulloch {BIO 17683736 <GO>}

No, it's not a listed disease on our policies. It is a notifiable disease (inaudible) the moment, yeah.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you.

A - Chris Esson {BIO 6194371 <GO>}

Can we get to Greig Paterson, please and then Abid after that.

Q - Greig Paterson

I have two questions, unusually from me. The travel book, I wonder if you could just tell us how many policies you have in force there? How much specific reinsurance you have? And if you burn through that, whether it will hit your -- your aggregate cover will give you any protection?

And my second question, I was a little confused about the comments around the bulk annuity sales outlook. Did you say that the budget isn't the constraint and you just focus on profitability, or is there a budget for 2020? And then I suppose there's a third question. Am I correct that this year you did a transaction where you effectively brought in a partner by reinsurance or however to finance the credit element of SCR and I wonder if you just want to talk about that and to what degree you will continue doing that next year and how that fits in the budget comments for 2020 on books?

A - Maurice Tulloch {BIO 17683736 <GO>}

Okay. Let me take -- thanks, Greig. I'll take the first one and Jason, I'll let you take the second one. We don't disclose specifics around our reinsurance agreements. But let me give you some color. So currently the travel book for us, it's a relatively small book. We write GBP150 million of travel insurance premium here in the UK that's on a base of about GBP4.3 billion, GBP4.4 billion on a gross basis. To date, we've had 500 valid travel claims presented to us and I do use the word valid, obviously, we've had lots of claims, some not from customers of ours. It's very important to note that certainly we have the disruption add-on, we stand behind our customers and that wording effectively is triggered if you're planning on traveling to a country that the FCO currently advises against -- travel against.

A - Jason Windsor {BIO 17967688 <GO>}

So on bulks, we had a good year in 2019, as we said, for bulks, we grew from 2.6 to 4 approximately. We've obviously got a plan for bulks, which is to grow it again in 2020. We've set out a clear budget and a series of assumptions that we'd expect to meet for that. So we based the plan on how much capital we want to invest and that's obviously subject to returns which depend on the assets. So our constraint is the speed at which we can add the assets into the book and we continue to be very measured in the way that we like to match our annuity production with that asset generation at the same time. So -- but we expect to have a good first half in bulks. As Angela mentioned, we've had a good a good first quarter so far.

I think on the capital management side, we've started to use longevity reinsurance much more since sort of 2016 and 2017 as a tool to manage down, particularly the risk margin. Everyone knows that is bloated when rates they were this time last year, is particularly bloated today and using reinsurance is very efficient. We have done a small transaction as well, which does include different elements of market risk, it's not just about SCR, it's about actually changing the form of the investments. We've entered into that sort of as a test project, if you like, to see the benefits of that and how that can actually make us more capital efficient and increase the returns into future periods.

Q - Abid Hussain {BIO 20229932 <GO>}

Hi. It's Abid Hussain from Credit Suisse. Just one question left for me, please. On mortality releases, I think you said that you released GBP750 million of mortality reserve releases and that's I think a similar level to last year. So I'm just wondering two things; what's the outlook here and then, to what extent you were relying on this in terms of cash remittances in your targets?

A - Jason Windsor {BIO 17967688 <GO>}

Sure. The outlook is materially less. We've released GBP700 million this year and last year and looking forward, we don't anticipate significantly large releases. We just received CMI 19 on Monday, I think. That was pretty much what we expected it to say and there's plenty of work that goes into that. So when we set this year's reserves we kind of knew what would happen to both trends in 2019 and the outlook for improvements. So there is no surprises there. We don't take the biggest move you can possibly take. So there is some strength remaining in there that will be -- I expect unless things change materially lower, as I said, reserve releases in the future, and no -- the capital and the cash remittances. I pointed to the GBP500 million special when we set the target, you had that in this year's GBP2.6 billion. The future is not reliant on that.

A - Chris Esson {BIO 6194371 <GO>}

Steven?

Q - Steven Haywood {BIO 15743259 <GO>}

Hi, it's Steven Haywood from HSBC. I've got three questions here. And on slide 10 you give outlooks for rate on your non-life businesses. Can you quantify or provide ranges around these rate increases? Can you tell us which ones are offsetting claims inflation, a little substantially or not enough offsetting claims inflation here. And then the second question, you obviously don't include the PPA in your Group ratio but other European companies do. Can you explain why you're not including it here? And then third question about your Singapore operations. Is there any concerns or worries that there is a long-term care issue over here? Thank you.

A - Maurice Tulloch {BIO 17683736 <GO>}

Okay. Thanks, Steven. I'm going to probably give a little bit more than I normally would, but it will still be sort of directional at best, because obviously every policy and every risk is slightly different. So in the Canadian business, as I did actually say, we were getting circa 10% across the country. Obviously, there's different jurisdictions. The absolute rate levels come off of that, it's now more in the mid -- the mid-single digits. Of course, that depends on a number of factors, but what we got last year is flowing through. What we're seeing in commercial in Canada, and again, I can give examples where it's 50%, 60%, 70%, but there's also -- if you take the SMI [ph], which is probably a more accurate marker, it's probably high-single digits. Certainly both of those are well above claims inflation, but there're also a little bit of catch-up in terms of the delta to rate adequacy that existed in that market and for us. In the UK, we're starting to see an acceleration in commercial rates, there are certainly some classes that capacity is being withdrawn that we're seeing more, but you once again a wide range, but if you text [ph] me, you're probably in the mid-single to slightly higher, once again ahead of inflation. And then obviously, we are a big motor writer, that's closer to sort of mid, and once again, depending and that is slightly ahead for -- of claims inflation. Obviously inflation isn't the same for everyone. The scale advantage does have advantage. So that's a fair bit of insight.

Colm, if you would like to add any color whether you disagree with me on any of those comments?

A - Colm Holmes {BIO 18456463 <GO>}

Certainly (multiple speakers). Yeah. No, Maurice is absolutely spot on. So in Canada, the one thing I would add is where we're actually seeing a lot of rate coming in is in commercial property, particularly in condo buildings where you've seen a significant reduction in capacity in that market. Some of it driven by (inaudible) work that's being done over there, some it's driven by the attractiveness of the US market. So you're seeing significant rate in. Just to be clear, it was needed. So I think that rate hardening will continue. In UK less so, but we're beginning to see, as Maurice said, rate hardening in the UK. And last year, I think we've been open about the fact that we probably didn't raise -- probably we didn't raise in line with where inflation turned out, so we underestimated the impact of inflation in motor and home, that's been righted in the second half of the year and we're continuing to pull rate through in 2020. So we do expect the continued hardening of the motor and home markets in the UK and obviously the impact of the floods will have an impact on that and similarly the delay and the whiplash reforms and the production rate was going to pass it on to our customers 100%, will now be later in the year. So you will see the impact of that coming through. Then the final piece is obviously the new optimum rate, obviously had an impact on the motor rates.

A - Maurice Tulloch {BIO 17683736 <GO>}

I'd be remiss if I didn't say that the French personal lines and commercial lines are tracking some of the UK and ahead of inflation as well. So Jason, will talk about PPA as well?

A - Jason Windsor {BIO 17967688 <GO>}

Yeah, PPA. I mean, France and PPA and regulatory matters have been an interesting journey the last few months. It came pretty late in our process, so we just decided with the -- all right, we wouldn't put it into our Group numbers just out of expediency and we and they will continue to analyze it. I think going forward, I don't really want it to be seen as part of our productive capital. I mean we don't make a return on it, we can't deploy it into the business. So I'm pretty cautious about including it in our sort of own funds which I am using very much as a measure of value. I don't think I can make a return on it going forward. So I think we'll think carefully about presentation here. But it does provide us a buffer against capital risk in the French subsidiary and therefore, it has value to us.

A - Maurice Tulloch {BIO 17683736 <GO>}

Singapore, was a third question. We got Chris to answer that.

A - Chris Wei {BIO 17014406 <GO>}

Yes, just first thing to say is the long-term care portfolio in Singapore is not the US style long-term care. We do have reinsurance cover on that. Secondly is there is no long-term sort of fixed rate limitations, so we can reprice as experience emerges. Singapore government took back the first law out the field. So we are now covering the excess portion only, so it needs to burn through that before it hits us. We are actually really comfortable with the profitability. We've got a large, diverse portfolio, and we are actually the largest risk underwriter in Singapore. So I think that sort of -- our capabilities in sort of managing the longer-term exposures as well.

A - Chris Esson {BIO 6194371 <GO>}

We have time for two more questions. Firstly, Dominic and then finishing with Fahad please.

Q - Dominic O'Mahony

Thanks very much. Dominic O'Mahony, Exane BNP Paribas. Just two quick questions if that's all right. The first is on the Brexit provision, forgive me if this is in the disclosure and I've missed it, is there sort of actual provision in there? I notice you now include commercial and residential real estate sensitivities in your Solvency II sensitivity table. Has there been any change to the way that you're treating that, because I understand that that was an insulation against real estate sharks? And then secondly, there was a regulatory consultation from the PRA on -- in particular in commercial real estate rent backed that -- that's an important thing for you. And that consultation closes at the end of December. Do you have any update or whether there is any impact to (inaudible)?

A - Jason Windsor {BIO 17967688 <GO>}

So the Brexit regime, we left it. Brexit happened obviously in the 31st of January, they cancelled the 31st of December. I think we would expect to absorb that into the base provisions during 2020. Clearly, there is a specter still of a no-trade deal kind of hard Brexit scenario. So we've been cautious around how we will deal with that. But we didn't change it. We did -- I did include commercial and residential property in that scenario that I showed you in November, just thought would be helpful just to break that out. So you can see how property does flex the capital ratio. I think that consultation was relatively low key. I think and Angela is nodding, there is any particular issues for us there to stem from that. If that's not right, I'll get back to you.

Q - Fahad Changazi {BIO 15216120 <GO>}

Good morning. Fahad Changazi from Mediobanca. Two very quick questions from me as well on protection. Firstly on group, I remember there were -- two years ago, we had some adverse development as well. Could you just comment on this business, just the nature of the beast that sometimes you do get volatility in group protection? And secondly on individual protection, and I asked this last time as well. It's competitive, could you explain the dynamics around the competition? Is it a new entrant, for example if Lloyds were to enter, they have presumably a distribution advantage in which case, the competition could be sustained.

A - Maurice Tulloch {BIO 17683736 <GO>}

Okay, great. Thanks so much.

A - Jason Windsor {BIO 17967688 <GO>}

I think on group protection, you're right, I mean, it makes a significant, but not huge double-digit figures. So if you do have big claims, a bit like large losses in GI, you can see reasonably high volatility on it. Slightly different in 2017 to 2019. But it continues to be very profitable. It's an extremely high return on capital for us and it's continuing to trade well and had good growth in 2019 in terms of sales.

I think on protection there is nothing in particular. We have seen one or two parties try and grow their business. There's ourselves and legals have gotten the number one and two position and we just go for that over from time-to-time. I think the dynamics of that are about having sharp propositions, good reinsurance pricing and good relationships with IFAs. We totally revamped our products in 2016. And we had a great 2017 of this kind of caught up a little bit of copying, if I could say that and we continue to sort of jostle for share. The one piece that sometimes where the reinsurance renewals come up, there have been some significant price rises that are flowing through into our bottom line and we've sort of take actions to remedy that.

A - Chris Esson {BIO 6194371 <GO>}

That concludes the Q&A. Over to you Maurice to close the session.

A - Maurice Tulloch {BIO 17683736 <GO>}

I could just start by saying thanks everyone for coming to our 2019 results presentation. 2019 really signifies the start of a journey. I started with a real firm focus to run Aviva better, have the shareholder returns at the front of my mind. And I think when you look at these results today, there are good early indication of the progress that we're making. As I said earlier, we're under no illusions. There's an awful lot more to do, but myself and the team remain steadfast and focused on Aviva and continue to improve our results. Thanks very much. Safe travels for everyone.