Q4 2015 Earnings Call

Company Participants

- Adrian Gore
- Richard Farber

Other Participants

- Michael Brown

MANAGEMENT DISCUSSION SECTION

Michael Brown {BIO 1479215 <GO>}

Right, if everybody can get settled. Thanks for being here on time. I'm Mike Brown, from the Investment Analysts Society. We're being hosted here today by Discovery Limited for their annual results.

(0:19) CEO, Adrian Gore goes through the company and gives us a very good insight into what's going on right throughout the whole group, and Richard is here as well to answer our questions. So, on behalf of the members of Society, I'd like to thank Adrian and his whole executive team – I see number of directors are here – for giving us this opportunity and chance to connect with them later (0:43). And so, the thanks from the Society. I'm going now to hand over to Adrian Gore, CEO of Discovery. Thank you.

Adrian Gore {BIO 3068929 <GO>}

Ladies and gentlemen, thanks very much. And thanks to – my thanks to Society for the opportunity. It always is a wonderful pleasure to present to you our results, get more and more difficult every year with the scale of the group and the complexity (1:14) that we have been doing and kind of taking a long way how to jog (1:17), I hope that's okay. I went into the wrong room on the way and ended up in an R&D (1:23) structured credit workshop or whatever. (1:27) So let me just start by saying with absolute certainty and candid, it (1:33) has certainly been, I think, for us the most extraordinary year in every respect.

It's been a year of considerable growth, I think robust performance, but it's been a year in which we've undertaken very, very powerful initiatives, and I think are essential to our future, and to an extent in a year – I'm already kind of lost – to extent it's a year in which the economy is volatile. I think we struggled in many markets, China, South Africa, developed markets as well, so kind of we are affected obviously by these things, but I need to tell you that our strategic response is one of investing, of growing.

We believe fundamentally that in difficult times, that is when you invest in your goal. You have seen that in our history and that's what we're doing. And I think strategically and tactically, our mindset is about investing, choosing or favoring investment of the cash flow, favoring new initiatives of the necessary eye for a short-term growth. And I do think if you look at how we've performed, I think is a very good balance coming out of the group.

So in the last presentation, six months ago, I've tried my best to get across to you the Discovery business model in a very disciplined way, the (2:44) what we do. The business is sitting on top of it. The primary market in South Africa, the primary market in the UK, in which both of those we are insurers, multiple insurers in those markets. And then importantly more and more this idea of partner markets (2:56), how we're globalizing into many markets using the power of the model and the power partnerships with the biggest and best in those markets, and that's exactly what we've done.

I will hopefully get across to you the complexity of what we've tried to achieve, but in reality, it's all according to a very focused idea along with core purpose of making people healthier, and impacting positively on the people that we serve. And all of it is towards this ambition by 2018 of being the best globally and that's what we set out to do. You can see the numbers, I think, are very robust. IFRS profit up, normalized; profit up 17%, I'll take you through that.

And new business up 51% off a very high base. There's a bloating there. We managed to check (3:38) the Bankmed Medical Scheme that will come into force during this year, that created a bloating in that new business. If you take that out, the new business is up 15% off a high base and even that is higher, I think the rate of growth than in previous year. So the rate of growth in new business I think has been exceptionally strong.

Despite investment in new initiatives and how we focused, we've generated close to ZAR 3 billion of operating cash flow. And then, we've invested considerable amounts in different areas and in different ways and hopefully that will become clear with (4:06) initiatives. We've kind of said that's (4:08) about ZAR 3 billion and there's a lot in there. And hopefully, through the presentation, we'll get a sense of it.

So, what I'd like to do in this presentation is really give you three dimensions of how we look at our group. The first, of course, is financial in a sense looking backwards and trying to breakdown those numbers for you in a bit more detail. The second is a critical issue, how we're building the business model. You will read today that we have entered into a global alliance, a global collaboration with Apple and that's very important to how we build the model going forward.

I'd like to take you through the thinking around the business model itself around how we're kind of globalizing it, how we're seeing it, how we're investing in it. And then very importantly the South Africa (4:46) collaboration with Apple and how that will work , we work with them (4:49) for now, sometime on the manifestation, a very powerful component for vitality that we will roll out in many markets and I'll take you through that as we go forward.

And in the final part of the presentation, I hope I get this right, is to try and give you a sense of the different businesses, how they're developing, primary South Africa market, the primary UK market and give you a sense of how they are developing according to the plan, I think particularly well.

Let me start with the first part of the presentation, and maybe just to contextualize, and just break down the businesses right upfront so you get a sense of how we're doing. You can see the operating profit of 17% broken down by business. You can see the new business of 51% broken down by operating business. You will see it throughout the presentation. I'm not going to go through this in great detail. Suffice it to say, I think the growth across all has been very strong. A few comments, you can Discovery Health bloating in new business due to the Bankmed transaction. But if you take that out to open scheme, Discovery Health Medical Scheme still managed about 12%, this (5:48) new business off a very high base.

You can see the very strong profit in Discovery Invest. You can see the strong growth of Discovery Insure. VitalityLife had an exceptional period. VitalityHealth, the new business was the only disappointing factor of the result, and I'll take you through some of the rationale behind that. And in the developing markets, we're growing (6:06) very strongly. Ping An in China, new business up maybe 200%. So, we're getting real traction, I think, in that market. And hopefully, through the presentation, we will see strategically how this all plays out.

Maybe not, I'm not going to go through any detailed and Ricky Farber, CFO is here, (6:23) questions you can probe him. But I wanted to just illustrate the reconciliation between headline earnings, which are up 72% and the normalized headline earnings, which are up 16% and operating profit, which is up 17%. We had this very distorting effect in our accounts kind of like a brick in the chimney, kind of works its way through.

The Prudential JV, if you recall if you followed us closely, you'll know that there was – they own 25% of the JV and we own 75%. They had a put option on that 25%. And as part of the accounts, we've had over years greater liability for that put option, and the quantum of that liability has been a function of projections of how big that business will be. So, this liability is growing and growing and growing as the business is growing with it.

What's happened now is during this year under review, we've acquired the 25% and in fact the put option disappears. So, what's happened is you can see kind of in the table on the left near the bottom, (7:15), most of that is really the release of that liability as we've acquired the Prudential share, and it has the effect of bloating the earnings in the year to 72%. That's not really realistic in terms of seeing how the business is doing. So, we reversed that up. So, operating profit up 17%. When you take out tax and few other items, you get to normalized headline earnings of 16%. But of course, from an IFRS perspective, our headline earnings at up 72%.

We've declared a dividend up 14%. Due to the rights issue, there are more shares in issue now and that happened towards the end of the period under review. I think the overall dividend for the year is up about 15% or 15.5% and the quantum of dividend that we pay is up about 16% or 17% reflecting the additional shares in issue. So, hopefully, that's fairly (8:00) clear. Again, that will work its way through next year when we'll have a reduction in earnings, because that bloating will be in the previous period. So, just bear with us. We try every year to explain this in a simple way, which is simply the scale of the Prudential JV and what happened as we acquired that share.

Let me talk about the earnings themselves, and put the group into bit more context. I made the point that operating earnings up 17%. You can see that graphically, we've continued to grow, I think, very strongly. We had kind of (8:27) this growth engine of investing in new initiatives that become emerging businesses, that become established businesses. And I think if you look at the earnings, in fact, it has played out very, very well.

Our established businesses grew 12% off a high base. The emerging business is driven by the UK and Discovery Invest growing very nicely. And in fact, in the new initiatives notably Ping An and Discovery Insure, we actually – the spend was about flat as you can see. The overall effect of all of this brings you an operating profit up of 17%.

I would say though that we have invested considerably in a number of things. And I think, if we're chasing IFRS profits, we could do substantially higher, that is not the intention of Discovery. Our intention is to build. We have unique opportunities and we're focusing very hard on achieving them. So you can see, we're generating cash flow, now that's growing, I think, quite nicely close to ZAR 3 billion in the period under review.

But I wanted to show you, this will be the period of accelerated investment. We had a rights issue of ZAR 5 billion, during this period, I think was very, very successful. That is the amount (9:26) for the UK and for the Discovery call (9:29) that we're acquiring and (9:31) a little bit later.

But in addition, we continue to invest within the businesses, within Discovery Health. We continue to invest in new businesses like Ping An and Discovery Insure. And so the quantum (9:43) of that investment is very, very substantial. And I think the focus on that fundamentally is about building the capability for the future, taking the model and leveraging it out going forward.

Turning to new business, I wanted to give you a sense of this 51%. You can see it's a dramatic growth, obviously, off a very high base. You need to consider Discovery Health and the Bankmed, which is a very lumpy piece. You can see the Discovery Health is growing about 92%. I show you that later if you break out closed – corporate schemes like Bankmed versus open schemes, you'll get a sense of that, and then, obviously, block the established businesses.

Emerging businesses actually do well except for VitalityHealth, and you can see that sort of muted effect, and I'll touch on that a bit later. And then, the new businesses grew very strongly, both Ping An Health and Discovery Insure had excellent periods and you see they come through growing excess about 71%, giving a very strong new business growth, I think, across the group.

Embedded value, I'll touch on very briefly we've had a very strong growth in embedded value. The published embedded value grew by 21.5%. You can see on the right-hand side of the screen. It's important that there are some distorting factors, I wanted to show you that in our mind the core EV has grown about 18%, about 9% to 10% unwind of the discount rate, very good value of new business growing the EV by 6%, very strong positive experience variances of about ZAR 1.4 billion to ZAR 1.5 billion, illustrating that the group tends to outperform the actual assumptions every year. And I think that's excellent. It really does illustrate the power of the model, illustrates especially in lapses and mortality that the model is doing what it's meant to do, and we tend to overperform versus the assumptions.

And then, two distorting factors that I think are very important. The first is the right to issue (11:28) on the right hand side, the 11% we raised capital that goes straight into the group's net worth and that drives up the EV, and that's factual, but it's not really a functional performance, so I've kind of taken that out in terms of considering the EV development.

And then, secondly, in the red is again the Prudential transaction. We acquired about 25% of the Prudential. We acquired it with cash, but we've paid for an appraisal value that exceeded the embedded value. So you get a dilution of the EV as you saw cash for a EV that's less than rand per annum, (11:58) so you get that slight dilution. So the point I wanted to make is, I think the EV growth really is strong, up 18% at the core level, the published EV up 21.5%, I think, in total about ZAR 52 billion embedded value. I think most pleasing for us is the VNB and the positive experience variances coming through in the embedded value calculation.

As I said earlier, (12:19) there is a lot of analysis and I'm sure if you want to dig into we are all around over the next number of days. We will be available to dig through the numbers, but I'll try my best to give you a sense as an overview of how the group is performing. I wanted to spend a bit of time on the business model itself, and I spent quite a lot of time at the previous presentation, giving you a sense of what we're trying to achieve and why. And fundamentally, our very deep view is that there are some profound changes that are disruptive (12:47) in changing our industry.

I made this point before, but there is an expectation in the society and the (12:53) more and more about institutions. We're not just being about making money and transacting, but about engaging, having a positive impact on society and that's the important component and the ability to do that going forward.

There is also additional technology that is a wonderful (13:05), but also in our world, that's very much a powerful enabler and that's very central to what we've done in this particular period. And then, importantly, the nature of the risk is changing, whereas before most of risk was kind of pre-existing, you can pick it up in underwriting and understand, you're learning more and more that risk is behavioral, smoking, physical activity, pulling nutrition drive, 50% to 60% of mortality and critically drive about 80% to 90% of the disease burden.

And so when you think about health and life insurance, another forms of risk, most of that risk is behavioral and the fundamental issue is how you change that behavior. I would put it to you that a greater organization, especially, one that is in insurance has the ability to impact, guide and change behavior and that's the Discovery model, using incentives to change this kind of the irrational responses that people have around thinking that the future will never come, I don't need to exercise, I don't need to eat well, I can't improve.

The whole Vitality model is about using incentives to kind of break that destructive behavioral link. And kind of trying to make the point to the previous presentation that I think in a very disciplined way. We developed a model like we've now (14:09) pulled shared value model, working with Michael Porter and others on this idea that organizations can do really well by helping society.

And the concept of the shared value model is, we share value with our customers. So, essentially, we guide better behavior through the use of incentives. That either leads to actuarial surplus or risk profit. That risk profit finds (14:28) incentives, which we used to guide and incentivize our customers to do better and you get this virtual cycle of better health. You share profits essentially with our customers. And when if the customers (14:41) and, of course, that is absolutely critical. And so you get the shared value model forming, it's a virtual cycle.

On the right-hand side, what you can see is, we played out in a very discipline way. In the South African primary market, in our incumbent businesses, Discovery Health and Discovery Life, and we played into other issues into Discovery Insure integration into Discovery Invest and more will follow. And then, critically, in the UK, the whole input is behind acquiring the JV from the Prudential, was ability able to do the same in the UK. The progress that we made, I think, that was a very good sense of confidence that we can continue doing that. And then, the critical issue of trying to globalize, the realization that kind of (15:17) capital in time. You simply can't get this model into other markets as an insurer.

And so we had the ability to work with the best and the biggest and to almost franchise the Vitality structure, the actuarial models, the pricing and the insurance design, pretty much the Discovery Life model into those markets and really partnering with them. And I think that process has gone very, very well. So in a disciplined way, I think there were three pieces to the group, two primary markets and a part of market that is more and more becoming, what we're calling, the Vitality Network, which I think is quite critical.

I am very pleased with the fact that the business model has got affirmation, you might have seen in these weeks, in fact, in this month's The Economist - Fortune Magazine. Fortune has a list of the 51 companies that, I believe, are changing the world. We're very proud of the fact that Discovery is on that list, we're number 17. We're the only insurance company, in fact, on that list. And I think that does give us a sense of confidence that the shared value model has tremendous potential, and we need to invest and drive it very, very hard. So I think that confidence in what we're doing is very, very strong.

The truth of it is that I think we've developed a model that is, kind of, scalable and repeatable, and I'm going to touch on the UK obviously in detail and South Africa in detail. But I want to just make a point to you, as you've seen over the last number of years, we've been growing out this part of the market, I think, very successfully and very carefully with some of the biggest insurers globally. The first in that was AIA. We rolled out in Singapore and in Australia. The rollout in Hong Kong will take place. During the period under review, we did an exceptionally good structure with John Hancock in the U.S., using very much the same model and rolling out the Vitality (16:48) together with them.

We're in the process of doing the same in Europe with Generali. And that is really the process we're going to do in a very, very careful rollout. I think the learnings from AIA had been quite fundamental. We're about – we've rolled out in Hong Kong to the agency force and that's what you're seeing on the screen. In the next few weeks, I think, we'll be rolling out to the broader public in Hong Kong where is, in fact , AIA is a biggest market, and of course, us collectively with AIA have great confidence as to what we can achieve there with the model.

It's very much the Discovery Life dynamic processing model on the back of a very sophisticated Vitality chassis. In the U.S., we do have a very powerful Vitality capability. We cover about 800,000 employees through corporate health on Vitality, as I think you may know. The actual performance of that has been exceptional. The levels of engagement of people on Vitality, the tracking of improving health, in fact, McKesson one of our customers there, has just won Koop award for its use of Vitality.

So we're getting really good results. This is a fantastic foundation on which to build this dynamic pricing. And so as part of this (17:52) approach market-by-market with top life insurers, we've been working with John Hancock for some time. And during this period under review rolled out exactly the same model, pretty much the Discovery Life model together with John Hancock. I think the approach has been fantastic. The receptivity has been tremendous. and I think the early sales results are very, very strong.

I think together with John Hancock, we are particularly excited about what we can achieve there. I wanted to give you a sense of both how they're positioning, this current of insurance and then give you some feedback on how the receptivity has been. So let me play you a very short video. That hopefully will give you a sense of that.

[Video Presentation] (18:26-20:58)

So, importantly, this is a very important strategy for us. I need to say that this is going to take some time. We're rolling out K3 (21:05) market-by-market. I think the scale of what's been done, the number of people, the complexity is quite remarkable. I think the execution's exceptional. But this is a very interesting complex process. And as you can see, it's a lot of fun (21:17) as well. The kind of taking what's often a stay transactional business, designing, actually engaging, exciting and positive. And then, if we can achieve what we've done through Discovery Life and Vitality Life in the UK in these markets, I think the potential is quite remarkable.

So at the core of it is the ability for our markets here in the UK and all over the world to make sure that the business model is fundamentally sound, that it's cutting edge, that it has all of the right clinical, actuarial, behavioral triggers, that it's deployable, scalable in different markets, and we continue to invest in that shares (21:48) around technology, data, all of the tools, Vitality age, the points, the statuses. And then, of course, the networks that are very physical and linked and have to be built in every single market, and that's, in fact, exactly where it's taking place.

I would say to you that, if you know Vitality, there are a number of fundamental components, of course, nutrition, physical activity, smoking cessation, prevention. These are the kind of the legs of the whole program. Those are the fundamental drivers of mortality and morbidity. We have to keep focusing on them. But it's important to say that physical activity has been something that we've been focused on right from the get-go of Vitality. In fact, if you follow that history, the start of Vitality was really giving people access to gyms through health and records and that became version active and that's been the cornerstone of what we do. So focus on physical activity has been very, very powerful.

What is remarkable is that, all of these things have a tremendous impact on health, but I will say the physical activity is particularly important. We're seeing that firstly the correlation from our data between physical activity and mortality is hugely evident. As you can see on the left hand side, people that are physically active is at a 60% low mortality rate. We're seeing some evidence of (22:56).

So if you look in the middle of the slide, people that are active and become inactive or become more active, you're getting effect on mortality. And then, amazingly and I think this is a critical issue on the right hand side is the fact that our data shows that physical activity is a trigger event. So when people become physically active, they kind of consider all areas of health. They start eating better. They think about smoking cessation, et cetera. And we see that coming through in our data. And I hope you can see that on the right-hand side.

If you look at a sample longitudinally and you find once they become physically active, their engagement in better nutrition in all the other issues and prevention tends to go up like 20% to 40% and the cumulative level of engagement kind of goes up 70% to 80%. So the power of physical activity must never be underestimated.

At the same time, it's clear we say this all the time and people say it is a kind of levels of inactivity that are unacceptable. I was amazed that in this week's Economist, you should read the article that kind of talks of an epidemic of inactivity. And on the left-hand side, it shows some of the data of percentages of adults that are inactive. We are obviously present in many of those markets with really deeming physical inactivity that's the silent killer, it's the new smoking. An amazing statistics walking 25 minutes a day can add three years to seven years to your life. So the power of the stuff is quite tremendous. So we have to keep pushing on around the issue, around the issue of physical activity and making it a fundamental piece of our program.

It's fair to say the technology in this regard is becoming an enabler. I think in the past, the only way you could track or understand physical activity was maybe in a gym setting. Now pedometers becoming kind of trackers and smart watches, the whole world is changing. And what used to be kind of a niche thing where people wear pedometers and that was a very careful, that was a very small (24:35) finding it trackers like Fitbit, I mean, Fitbit's IPO illustrated the power of what's going on in another smart watches, emerging EcoWatch, et cetera, illustrating just how quickly this is becoming. So the opportunity to really do something much more significant has become present.

What our UK business did during this year that has been really tremendous. In fact, the start of this year was launching a concept called Active Rewards. The idea of taking physical activity and making it real-time easy, accessible, kind of, changeable (25:05) in Vitality, used to be almost a batch process (25:08) it was real-time. Any device that you use can be loaded up to get points. Every time you meet your weekly goals, you earn a free coffee at Starbucks. And this was done in partnership with Starbucks. And the whole kind of execution is simple and elegant. So once you got your coffee, it was on the Starbucks' app. As you can see in the chart, you're going to Starbucks in London, you get the coffee for free. In fact, on the full step, you can see on the right-hand side that actually says paid for by Vitality.

So it really gives a person, kind of, this idea of guiding them as to what they should do in real-time, giving them feedback that they're meeting their goals, and then allowing them to actually go and get a cup of coffee free, and this is kind of frequent – the frequent awards and frequent check-in created this idea of Active Rewards and drives that engagement. Our experience with this has been tremendous. I mean, the data is incredibly compelling. So we track how people are physically active prior to the Active Rewards in the UK, and then post-Active Rewards, we've seen a complete and total change.

So the total level of engagement in the Vitality program in this process has increased by about 90%. I mean, the percentage of people that are physically active, meeting their goals increased by 80%. So there's a pretty clear lesson linked (26:13) with that. It's kind of intuitive that you see it coming out in the data that guiding people, giving them frequent feedback, using technology to do so and rewarding them, all the time to do so, gets fantastic results, and we need to do more of that.

From that, I mean, our sense of that was, there is a much bigger opportunity than that. And it made us to think in a very, very different way about Vitality, about our global footprint on what we could do. And to the extent, these intersecting trends are clear, there is kind of inactivity epidemic on one hand. On the other hand, the fact that it's a fundamental risk factor and it's a trigger event, and then on the other hand, this massive industry of technology trackers to smart watches coming out, created a very big opportunity.

And essentially, what we set out to do was an idea of could we take our partnership model, we will be working with AIA, Ping An, Generali, John Hancock, et cetera. Could we kind of work as a network and use a power of this global footprint in whether that we could build a global capability. And that's what we set out to do. And the idea was could we then work with the best in technology to develop a kind of a global collaboration that will offer this across all the markets. And the process has the ability to make millions of people healthier and critically in the process have the ability to develop a product that's scalable, can be deployed easily and forms part of Vitality going forward.

And I'm very pleased to tell you that we have collaborated with Apple on this, I think, remarkably successfully during the period under review. And you'll see today we have announced a collaboration with Apple, focused around of using Apple Watch as the core component that actually will drive this going forward. So we've built the applications, we've built the performance processes, and we're working hard to make sure that this is a very simple process. We're working on other devices as well, but the fundamental issue is to power Active Rewards with Apple Watch.

This will be available in all of our markets going forward. The first launch will take place here on September 22 in South Africa. This will be one of the focal points of our discussion in a few weeks time to our intermediaries and customers here in South Africa. But I'm not going to give away the product hardware. But essentially, it kind of has a similar thinking to how Vitality worked at the start with Version Active. (28:21)

You kind of get access to the watch, but the critical thing is, you get active, you achieve your goals, you get rewarded. And it's done in a very real-time basis, learnings from the UK in terms of Active Rewards. So this Active Rewards of watch is what we're calling it. The watch becomes a central piece that guides, it has the signs, it has all the clinical stuff, all the trackers, and our customers will have access to that through the process of Vitality in different markets. And I think they must be very, very powerful process going forward.

And I think the aims of the collaboration are very strong. Obviously, at the core, I think with the scale of our partners, we have the ability to make virtually millions of people healthier. This will become a fundamental component in Vitality. The nature of it, because the nature that it's online, linked to technology, it's globally applicable, makes it deployable in many markets, and critically it offers an ability, the capability to offer a Vitality-lite on its own, given the nature of physical activity (29:14) a great correlator.

So this collaboration, I think, offers great, great potential. I think credit to our partners (29:21), it's been a very good process, that has brought a product that you'll see in a few weeks' time that is very powerful. We're excited by the potential, and, of course, excited by the global collaboration. So that said, in the business model, I hope I make it clear. There is a lot going on there. We're focusing more and more on healthy foods and all the different aspects. We've had fantastic results of Who It Was (29:40) and Pick n Pay. So all the development, I think, continues to take place, but I wanted to make a point about the focus on physical activity. And I think moving into a slightly different world of real-time online using the best technology available.

Let me turn into the business performance and give you a sense of things. I'm not going to touch on the partner markets again. I'd like to talk about South Africa and about the UK, and give you a sense of how the businesses are performing.

Let me start with South Africa, our primary market. I said to you that it's performing incredibly well. I believe, and, in fact, on both ends of the spectrum, both the incumbent businesses are performing well, and I think the new initiatives are coming on stream and we're going to do more.

At a kind of a group level, I'd like to talk about distribution very briefly, it's something we're focused hard on that. And there's just one or two comments on the businesses. On distribution, obviously, the ability to have an exceptional distribution or set of distribution channels is fundamental to the ability to growth, fundamental to the ability to get new businesses up and running and selling their products. And we've always been a believer in superior financial advice. Discovery Life started out on the broker side with a belief in the independent financial adviser and we've been, I think, particularly successful in working through that channel.

Over the last number of years, we started to focus on an agency force (30:53) advisor distribution capability. (30:55) mentioning here that you can see in the last two years, and particularly, in this last two, we've accelerated that. So the growth of our tied advisor forces has really been very, very strong. You can see it growing from a base of about 400 to 500 just two years or three years ago to now 1,400 to 1,500. We've very carefully hand-picked the quality of Asians that are in that distribution channel. You can see on the right-hand side, typically, they're 180% to 200% more productive than the average industry. So we really have advisors right at the top of (31:21). I think that agency force when combined with the broker force provides a very, very powerful capability.

And then, at the other end of the spectrum, we have accelerated our work on the direct-to-consumer capability, both online and through other channels, but understanding how best to do that. You can see we've increased the head count quite dramatically over the last year or so. And critically in the model, you can see that the channel is getting tremendous traction. 21% of Discovery Health business now is coming direct-to-consumer, 70% of Insure business is coming through the direct channel, and others will follow.

So to make the point that I think what Discovery has and what we're focused on during this period under review is having really broker strength, (32:01) strength and D2C strength. And I think that is very important, not only for the incumbent businesses, I think but for the other businesses as they develop.

Then I thought I'd just mention, just framing our incumbents, Discovery Health and Discovery Life, and if you look at the scale of the Discovery Health Medical Scheme and Discovery Life, you can see in both of the markets, they are the biggest and have the biggest market share.

In the case of Health, I think that's without any debate whatsoever, the scale is tremendous. The Discovery Health Medical Scheme has about a 54% market share, and, in fact, it has a long tail of competitors that are all relatively small compared to it.

In the case of Discovery Life, we are now the market leader by some margin, I think around 29% to 30% of market share. You can see that very strongly compared to our competitors. So the question really is kind of what is the strategic response, how do we make sure that we continue to grow, and we've grown in the right way being number one.

In the case of Discovery Health, I would say to that when you have a business that big, with smaller, more disparate competitors, the response has to be investment and capabilities at the center, that give us strong competitive advantage and lives (33:09) to continue to offer better value to our customers. And that's exactly what we've done.

In the case of Discovery Life, the focus is on creating the model, the Vitality dynamic pricing model that gives us unique competitive advantage and really offers demonstrable benefits to our customers. I believe, through those processes, we get the ability to offer something that is unique and to keep us ahead in both those markets and that's exactly what we're focused on doing during this period.

At the same time, I'd say it in the South African market, what we've seen is the incredible success of the model. And I've shown this to you at previous presentations, but maybe just to restate it once again that all of the indicators are correlated to engagement. So whether you look at claims or lapses and persistency, whether you look at life, health, motor insurance, credit scoring and results in the Discovery Card and debt defaults, all of it turns out the more you engaged the better things get. And it's given us the ability to offer tremendous value to our customers to guide them to get better correlations and it gives us the confidence to build new initiatives.

So Discovery Insure is both exactly out of that idea that if we can get people to change their driving behavior, we can build the best insurer in the market and that's what we've set out to do. I would just want to mention to you that at the previous presentation I spent some time on the Discovery Card and on the quality of what's coming out of the Discovery Card and illustrating the quality of how the model is working in the context of the Discovery Cards. We're seeing fall of a debt default rate in Discovery Card then competing cards, we're seeing the correlation with Vitality, we're seeing that the case for a broader play, and that's what I spoke about at the previous presentation, is based on the idea that the Discovery footprints are client-based is really where the profit pools are in credit cards and banking and that's the opportunity.

We're also a strong believers in this idea of time preference theory that people that have the ability to kind of forgo them now for future benefit, whether it's in health or other areas tend to be better banking clients at the same time, that kind of discipline plays across all of those issues. And then critically, given all of the data, the ability to add the (35:11) data, the Vitality data, wellness data to traditional financial data will give us the ability to take the Discovery Card and blow it into something a lot bigger.

So I'm very pleased to tell you formally and this is something that we sit for some years, but to tell you formally that, our intention is to build a full services retail bank out of the base of the Discovery Card. And that's what we set out to do. So what we've done the year under review, as you know, we've acquired – we had 20% of the Discovery Card, we acquired a further 55% giving us 75% of fair share and owning (35:42) the 25%. We've attracted a team in the process of building an excellent team that's going to drive that into a full scale bank and that's what we've set out to do.

It's a long process. The regulatory process is a complex one, as I think you know. That requires getting the right to the license, even establish a bank and then after that, actually, applying for license (36:01) process. There's no certainty to that. But at the same time, I think we're all gearing up with exceptional people to lead this team and we've earmarked ZAR 103 billion for the purchase of the card that was part of the rights issue and a further ZAR 802 billion in working capital to drive the building of the bank around the Discovery Card.

I'm hopeful that this will be probably, and hopefully, one of the big initiatives that Discovery does. And I'm confident that given what we have the ability do in a model will likely be (36:29) servicing a unique value proposition to our potential clients. So this is a very, very exciting initiative for us.

So trying to make the point that across the primary market in South Africa, we are investing heavily in our incumbent businesses, adding new initiatives at the same time. Let me talk through some of the businesses and give you some insight. Discovery Health has performed, I think, exceptionally well and the Discovery Health Medical Scheme has performed remarkably well.

I made the point about new businesses at 92%. But if you exclude the Bankmed transaction, you can see the second block on the left-hand side, the Discovery Health Medical Scheme, what we call it the DHMS is growing about 12%, this new business about 12% of a very high base. Our close key market has grown obviously by multiples given the Bankmed process. Operating profit up 10% of a high base. We're not overly concerned, we think that's very good. Discovery Health is investing considerably in capabilities, at the same time, we'll continue to do so. So we are very happy with that.

You can see the scale of the last covered by Discovery Health, and amazingly we're getting more and more traction. I think Bankmed obviously illustrates that. Incredible traction in the close key markets. So Discovery Health started out with just focusing on the commercial health insurance environment and that's been our focus. Over the last number of years, we've got more and more competitive around the closed schemes, and, in fact, we've won, I think, seven out of eight of the last tenders. So we're kind of growing in both ends of the market.

The (37:47) that's been built as a system is remarkable. What it aims to offer is better health through Vitality, better healthcare when you are sick at a lower cost and in a better service environment, and everything about what's been built at Discovery Health with Vitality with the technology would be the risk management assets to help assets, et cetera, of our ability to do that. I think the results we're getting are staggering and the value-add to our customers is dramatically better than our competitors. And I think that is behind why there's continued growth.

If you look at how that's manifesting inside the Discovery Health Medical Scheme, the performance this year has been tremendous. So despite the growth of the Discovery Health Medical Scheme, it's solvency (38:24) level is now broken through the 25%. That's a very, very difficult thing to achieve, because the – how medical schemes work is you have to hold 25% of your contributions as reserves.

Now, obviously, as you grow, those contributions grow. As you get medical inflation at CPI plus 3% or 4%, you've kind of got a negative gearing on the assets that you have. So the ability to actually achieve that is not simple. Credit to the team, in fact, credit to the Discovery Health Medical Scheme, the trustees, did a very careful management over the last number of years. You can see, the quantum of reserves that have been built up are close to ZAR 12 billion. There's been a strong growth throughout (39:00) the growth in this scheme in the market share of the Discovery Health Medical Scheme, it's now close to 54% of the total market. So the performance, I think, has been remarkably strong. And I think the ability to continue to drive quality and cost-down is real.

And just this last week, the Council for Medical Scheme released its report looking at all the different factors inside the market. Amazingly, what you can see on the left-hand side is just the results we're getting from a cost perspective. So if you look at the cumulative increase in cost of index, the hospital costs at a 100 (39:31) in 2005, you can see cumulatively today, members inside the Discovery Health Medical Scheme are paying maybe 30% less for hospital care than that would be for the average open scheme out there. And I think that illustrates a whole range of things, the risk management assets, the focus on quality, the focus on tariffs, the focus on all kinds of developments that is driving that difference.

I think importantly on the right-hand side, the administration fees that we charge at Discovery Health Medical Scheme continue to increase at a rate lower than inflation, and now crossed down to close to the 10% level. You can see our rates – our average increase over that 2008 to 2014 has been about CPI minus 1% or so compared to our competitors at a CPI plus 2%. Therefore, we're getting greater efficiencies and I think passing that on to the scheme and obviously to our customers in the process.

(40:19) slide to look at is just how we've actually achieved that 54% market share. If you go back, we started the Discovery Health Medical Scheme, we started really as a kind of – there was nothing in it. In a sense – essentially (40:31) started to grow by 2000, it had about 15% of the market. And if you can see their growth has been very strong to today's 54%. Amazingly from the council data, you can see that the market hasn't grown that much. So we have grown in the markets, and to the extent, we've taken a lot of market share from our competitors, and if you look at that period, over that period, 2000 to 2014, our competitors have shrunk by 1.7 million customers, and we've grown 1.9 million. So there has been kind of a transfer between the two (41:01) but we have a lot of work to do to make sure we keep sustaining that. And I think the team is focused very, very hard on that.

I wanted to make the point about closed schemes. And I think it is very important to contextualize the competitiveness of that chassis. I do believe we offer the capability, as I said, better health at a lower cost in a better service environment. And that chassis has the ability to be useful big corporate teams, that has never been a focus long time ago of Discovery Health, but over the last number of years, increasingly so. We felt that the chassis can be used to make corporate healthcare better for those companies that have their own schemes. So you can see the progression of schemes that have come on. Anglo American in one of the previous periods (41:40), period under review, Bankmed, which is a very, very big scheme, 100,000 principles coming onto the Discovery chassis, meaning at the scale of what's happening there now is very substantial, 0.5 million or so members becoming substantial even relative to the Discovery Health Medical Scheme is significant and I think that's important going forward.

Just to touch on the distribution. I made the point about the D2C capability. At the outset of Discovery Health, we've always focused on independent brokers and there has been a wonderful distribution channel for us. And I might say that has kept us on our toes in terms of working with brokers. But one of the critical things about healthcare, especially, in the community rated environment is the ability to attract young and healthy people and keep replenishing that in the scheme. (42:23), you need a lot of the unhealthy people to fund all the sicker people. So it's a fundamental social requirement, so we have the ability to do so. Our sense of it is that building a direct-to-consumer channel would give us that ability to, in fact, attract young and healthy people, and that's exactly what's happened.

So what you can see through this D2C process we've laid out, just in this year under review, the results have been absolutely staggering. You can see on the left-hand side that this channel amounts to about 21% of our total new business and about 40%-plus to 50% of all individual business. But amazingly on the right-hand side, you can see the quality of business from a risk perspective, dramatically lower age, lower level of pensioners, lower levels of chronic ailments and a critically much high levels of engagement in Vitality. And so, in fact, the quality of business coming through, it's almost a tonic for the Discovery Health Medical Scheme. I think we can continue to grow that, and I think the learnings from that will accelerate as we go forward.

I do want to make a point that we are obsessed with being best globally. Deloitte's did a benchmarking on looking at health insurers across the world and kind of seeing how Discovery Health and the Discovery Health Medical Scheme compare to those best practices across the world (43:31) I think every country that has substantial health insurers and rated them on a number of issues, reserves, growth, marketing, cost containment, et cetera. I'm pleased with the fact that we came kind of almost second across every category, others came first and second and third whatever. We kind of just missed out being the best by I think 0.1 point (43:52) whatever it is, we've got some work to do for next year. And I think the point to be made is that I think what we're offering is globally amongst the best. And I think that gives us the ability in this local market to be remarkably competitive and to add value to our customers.

So I just want to get back to going forward. And I made the point at the outset, when you are very, very big and your competitors are much small and disparate, the strategic response certainly in our mind is about investing in the center, making sure the capabilities are state-of-the-art. And so over the last number of years, we've invested ZAR 300 million or so in new initiatives in about 2014 initiatives. Some of this is substantial (44:25) help idea, some of the digital tools that we're using. We've focused hard on pharmacy benefit management. There's a range of things that we're accelerating.

But going forward, there are a number of profound things, I think, we'll be doing it for reach into the healthcare system. Pharmacy benefit management, the ability to actually get doctors to work with wellness, lots of (44:43) healthcare, and bring that together in our premier practices, linking Vitality to the healthcare system, and then very much all of our digital platforms (44:52) capability that we have to help (44:55) our customers much more access to healthcare through much more powerful tools. And in our launch in a few weeks' time, I think you will see the power of this manifesting in some very powerful plans for our customers and I think plans that will take the environment substantially forward.

So let me finish the Discovery Health and make the point that I think, the period under review has been a really, really good period. I want to turn to Discovery Life and say that, I think the performance of Discovery Life has been absolutely tremendous. I made the point that profits are up 15% as you can see. In fact, we extracted capital out of Discovery Life through a fund restructure, so we're not comparing like with like, the effect of taking that capital out was to reduce the earnings of Discovery Life by about 3%. So in fact, if you compare the like with like, Discovery Life's earnings would have grown by 18% and not 15%.

You can also see on the right hand side, the Discovery Life generated about ZAR 1 billion in cash, but just have ZAR 8 billion of premium came in. We've had about ZAR 5.7 billion in claims and policy holder benefits. We invested about ZAR 2 billion in new business and you can see what's left is about ZAR 1 billion in cash flow. So despite the rate of growth of the business of a very long-term nature and it's a business that has higher upfront acquisition costs, it is now generating strong cash and I think that is important despite the rate of new business.

You can see new business continues to grow in a fairly flat market. So in the period under review on the left hand side, you can see new business grew off a very high base by 11%. On the right hand side, you can see the effect that has been to continuously eek up market share and then accelerating in this period under review. So we've grown that to 29% to 30% of the market and our competitors now are quite a long way behind in terms what we are achieving.

I do want to say this to you that Discovery Life really is about the kind of core Discovery model of linking wellness to long-term risk around mortality and morbidity. And the nature of the product, the nature of how it works is very, very compelling, we've codified the mortality because I've spoken about this many times by Vitality status, and really how the product works in its most generic form is if a market premium on the right hand side is a dotted line, we give people the ability to come in at a discount. And then depending on how they engage in Vitality that premium either decreases negotiably (47:03) or starts to climb up if they don't engage at all.

And it creates a kind of dynamic underwriting, dynamic pricing model that incentivizes people to manage their health and actually brings that in as a risk factor on a dynamic basis. The power of it intellectually is immense. It offers a competitive product, it attracts – it has a selection effect on attraction, it provides dynamic pricing and it creates a positive selection, I'd say, as positive selective (47:28) last stay with us.

The effect in the business has been profound, I need to keep telling you that because as Discovery Life progress and develops, you can see that coming through from year-to-year. And I'd say to you that we strongly believe it must be the best life insurance in the marketplace that's what we set out to achieve.

And I think there are four components to making that case: the first is scale and growth; the second is return on capital and cash; the third is the quality of the book; and the fourth is the impact on our customers through the shared-value model. I just hope we've shown you carefully the scale and growth, the business is growing strongly in profit. And in scale, it's a number one player in its market. The return on capital is close to 20%, we've set a benchmark of risk free plus 10%, and it's covering that quite comfortably. The VNB margins are close to 10%. So the profitability embedded I think is very strong.

But I want to talk to you just briefly about the selection and the quality of the book that's developing and I think that's quite crucial and then I'll talk about the shared valuation effect on customers. When it comes to selection, understand that's an – and I think you do is that when people buy life insurance, they're statistically or probabilistically more healthy than the average.

But over time what happens is they often themselves become less healthy. But, critically relapsing policies tend to be healthier in the traditional model because people out of sick, don't drop their life insurance. So probabilistically over time the people that live tend to be the healthier. And so you get a degradation of the average levels of mortality inside a life insurance block.

What changes the Discovery Life dynamic pricing model is quite the opposite by offering people incentives to be healthy and to bring the premiums in line with managing their health. In fact you keep the healthy in the system. And that's exactly what you're seeing with the data, it's kind of almost the tale of two cities, if you compare a block of cohort in a traditional sense versus what we're seeing over 10 years or 15 years. And we see that playing out in terms of just mortality rate. We're finding in our cohort, our projections of those policies that have integrated to Vitality to dynamic pricing. We experienced a 30% lower level of mortality on average 15 years down the line than competing products on a traditional model.

And then amazingly because the persistency is higher, more than (49:34) the healthier, but we have more of them. So the book tends to be 35% bigger. And I think that really drives the embedded value of the VNB. I mean you look at in globular form then actually you don't maybe appreciate how that looks playing out over time. So the point I'd made is kind of a tale of two cities. I think in the traditional model, you get a cohort of policies coming on stream, over time they kind of (49:56) left when you're sick. This is the opposite. They stay longer and the wants that you left when you're healthy and that's very, very powerful. And that drives the quality of the book, it drives the quality of the profitability. So you've seen this product and in fact the VNB is dramatically higher on any pricing model, three times to four times higher, and then you see the kind of cash being thrown out from this effect on the like-for-like policy, 17% higher after 10 years or so, and 30% higher after 15 years, and that's driving I think the quality of what's being built up in Discovery Life.

I wanted to make the point just ending off Discovery Life that just the impact we're having on our customers is quite remarkable, 20% to 30% of our integrated policies are at gold or diamond level on Vitality. So we have a huge amount of clients that are actively engaged, that are working hard on their health. And that's driving the quality of the book which you'll recall, if you've followed us at the last announcement, we actually took a charge on the EV for this because that level of engagement caused, mainly in the shared-value model, we're finding incentives and structures, and all kinds of things to drive that – to drive that better health. And so we're kind of mainly changed the structure of Vitality to make sure we're getting the right kind of behavior. The one thing that we did that I think was fundamental was, in the construct of Vitality, you'd have to carry points from one year to the next, the percentage of your points would count.

They have been giving people incentives to stay in the program. But in reality, our data shows that is not really a legitimate health issue. You've got to be active every year from the get go. Having a history of – to what you did doesn't work. And so we removed that right to carry over points and we thought that in fact would change or would extend the kind of the move from one status to another inappropriately. What you find in the Discovery Life book is in fact quite the opposite. Customers and policyholders found ways to get engaged in different ways and to get back to gold and diamond and that's why we had that shift in status.

I'm pleased to tell you that while we kind of – it's hard to see on the left-hand side, what we expected to happen didn't happen, our customers found their way to stay where they are and that's a good thing. But from now, from this point, as we've seen over the last six months that's not very sticky and very stable. I think we've done a good job by getting people incredibly engaged and balancing the model out.

And then the other thing, I thought, I'd just tell you that's important is Discovery Life gets older, it's just how our customers appreciate the cover and how sticky the products tend to be. So one of the products we have we call the SupeRater it also sells at lower rate, but every 10 years, your premium jumps by a sizable amount. I think it's 10%, is one sort of jump of 10%.

In our assumptions, we assume there's going to be dramatic lapses. Every time we get a jump every 10 years, we assumed on the gold line, you get a 25% drop off. What's actually happened, as we go through this 10-year periods, as you can see in the blue, is virtually no lapses, no effect of that kind of sharp lapse. So we're seeing a very, very persistent sticky book, and I think that's important.

And then finally, in terms of what Vitality does, we're giving money back to our customers through lot of premiums, ZAR 1.1 billion on the right-hand side every year that's kind of less than they would ordinary pay and then critically on the left-hand side that is payback benefits, cumulative ZAR 1.3 billion. So the shared-value model is giving our customers incentives to engage massive Vitality benefits and as you see coming through here strong benefits of cash back rewarding them for the quality of what they're doing. And I think that really drives Discovery Life in many ways, and that's it and we move on, I'm trying to get through this and make it as clear as possible.

Turning to Discovery Invest. It had an excellent period as you can see, new business up 18%, assets under management crossing ZAR 50 billion. We're focused very much just on the retail end of the market and operating profit of a substantial 39%, so there's been very, very strong growth. I stated that the kind of the effect of all that growth on the profit growth is a function of three distinct things. The first is that the business is getting scaled. So if you look at the kind of the cost of administration versus assets under management, it's come down nicely and that's driving profitability.

The second is if we focus on the retail market share, the innovative products and the margins within that are high. And then the third, due to the nature of the product, most of the money coming in goes to own funds where the margins again are higher. And so when you bring these three kind of intersecting trends together, you get strong growth that leads to a massive profit growth driving profits up by 39%. And I think going forward, given the size of the asset base there are all kinds of opportunities, I think, for Discovery Invest, I think we're excited about what this can do.

Let me turn to Discovery Insure. I hope you're following me. I'm moving here, but enjoying it. Now we're turning to Discovery Insure, I mean, it's important that I tell you that we are very, very pleased with the performance of Discovery Insure. The model, the quality, the team, every aspect about it, I need to tell it you upfront that in fact we're building a business of considerable scale here. We knew that going in and we need to take time to drive this to profitability. We haven't chased profitability. We chased quality. We chased building a model and our intention here is to build the best long-term insurer, the best short-term insurer in the market, that's what we set out to do. And I am confident that in the period under view that's exactly what we're doing. So you can see the levels of growth, new business up 25%.

You can see the inforce API, because of the high levels of new business from the get-go that kind of API is growing very strongly and you see the cars covered I think now close to 120,000, growing very, very quickly. So the business has got considerable scale. At the same time, it's important to say that we are learning so much about the ability to innovate, the ability to use data. The team continues to utilize. This is a very data-rich technology business to do amazing things. One of the recent initiatives that's very exciting is the idea of claims view, that is a customer, you can go online and see your car in the panel beta, right, being fixed.

So you have the ability to see how the progress is being made, and it kind of really gives people a sense of comfort, security, et cetera. I'm personally horrified by seeing my car kind of unaddressed, but that's a personal view. But people really kind of get a sense of comfort about that it removes the extent of claims to our call centers, it drives our perception scores and it's something that I think the panel betas if we work with value.

So using technology and different kinds of things, we have the ability to offer I think unique value-add to our customers. The use of data at every presentation, I'll show you some other issues that we're finding and we're trying to understand because at the end of the day, we're trying to guide people to driving better, make sure that the point that we allocate for how people drive are legitimate or real or appropriate. So I've shown you before, crash alert, how to use actuarial tools to understand the driving fingerprint and understand who's driving the car.

Sony has come out over the last – during the year-end reviews, trying to understand speed, at what speed people should drive. It's quite an amazing thing, I think the colloquial view is the slower you drive, the safer it is. Now, that's just fundamentally wrong, I need to tell you, right. And, in 1964, there was something called the Solomon Curve that came out of the UH data, which shows very carefully that the safest thing is to drive at the average speed that people around you are driving, right. It's just dangerous to drive 10% faster as it is to drive 10% slower. You get that it's kind of the delta to the mean that determines danger, right. And that's been the Solomon Curve that's been around.

Our data is showing a similar thing on the right-hand side. So we've done studies on how people drive and where the optimal point to drive. And we're finding exactly the same kind of parabolic curve as the Solomon Curve. So it's kind of delta to the average that's important, but what we found is that the data is quite interesting. That the safest point to drive, I think, (57:09) is 10% lower than the average, right. So whatever people are driving around you, if you're 10% lower that's the safest point. So a bit of a free ride (57:18) safe ride, so you're kind of (57:21) what the other people are doing. The 10% low would give you best results statistically right, but the point I am trying to make is, I think the data coming out of this business and the ability to make sure that the DQ points and how and what we're incentivizing work is critical to our ability to actually to get the model to work. And I will say to you that the model is working particularly well.

We're finding at the persistency level lapse rates by driver status are incredibly down sloping, so it is far easier to change driver behavior than is to change (57:50) so you'll find it very sticky and then critically you can see on the right-hand side, our loss ratio, our claims levels by status of driving is exactly what we'd expect down sloping, very heavily down sloping. And in the sense, what we are giving away in incentives is what we call the wage. The difference between the flat line on the right-hand side and the loss ratio.

So kind of the more you engage the more profitability emerges and more we can give you back in terms of fuel benefits, et cetera and really is a pure form of the shared-value model and I'd tell you that we actually are learning a huge amount about how to get this model to work in the right way on the context of motor insurance.

But the crucial thing to just talk about is profitability because I made the point on the onset that if you're building a business of considerable scale, it's got to be driven to profit and that's what we're focusing on doing, I think there is a function of duration in the business as time goes on. Our loss ratios get lower, et cetera, and we're seeing that happening very, very strong. And so if you look at the loss ratio progression, it's kind of around 13% over the last two years. The loss ratio by each cohort of business gets lower over time as the duration of the book ages. So the combination of scale, duration and the working of the model is going to drive, we think, considerable profitability.

If you look at the profit, I want to just illustrate to you, how the profit has progressed over time, and you can see that we've invested considerable amounts of money in the business in the blue, that's the IFRS profits. But to actually understand the operating profit, you need to take out the effect of the acquisition cost because this is a business where we're spending huge amounts upfront in advertising, to track business and then kind of getting loadings in the future to pay for that.

So really to look at the real kind of development of the profits, understand when the business is turning to profitability, if you amortize those initial spends, as you see in the white, the real progression of how the business works. And what you can see there, hopefully, very clearly is, we believe in this current year now going to 2016, the business will turn to profitability on a run rate basis. And so I think the quality then, I think going forward in the future, the quantum of profitability will be substantial. And so we are not driving profit, we are not chasing profit, but I must say I think the quality of the business and on the book is remarkable and I think you'll see the profitability coming through over this next year and certainly the next years following it.

Let me turn to the UK. The UK has been for us this year one of the most important and seminal developments within Discovery. You will recall, if you've followed us that we had a joint venture with the Prudential. It was initially a 50-50 JV, it became 75-25, and then in the year under review, we acquired the 25% from the Prudential and it became a 100% Discovery business.

I made this point I think in the past and during the rights issue that this was a pretty complicated process. It had three very, very substantial risks that had to be managed. The first was the balance sheet issue that the life insurance part of the JV was sitting inside the Prudential's life insurance, funding on the balance sheet had to extricated and funded. The second was the funding requirement, the quantum of funding in new business growth is hundreds of millions of pounds over time. And then the third and a very critical thing is dropping the Prudential brand. For us it was a very, very scary thing. We're very concerned about sharp lapses, when you take a brand like the Pru and let it to spin and you change it to a brand that maybe unknown, there was a real risk in that process.

I'm pleased to tell you on all of them, I think we made great progress. So the transaction went on well. The rights issue went well and the process of that, but the process of getting a license for VitalityLife is now well in play with the Bank of England and the PRO FCA (01:01:15) that will take some time, but that process is moving I think forward well. The funding is in line and focused and ready to move.

And then finally I think on the brand, we've made considerable progress. So we've chosen the Vitality brand to use rather than Discovery. We had built up a Vitality brand in the UK and the business is VitalityLife and then VitalityHealth. I wanted to show you, if you watch any of the sport, the football or cricket or whatever you will in home, that Vitality is very evident. But I wanted to give you this sense of some of the stuff that our team has done via a very quick video.

[Video Presentation] (01:01:46-01:02:39)

I was quite amazed, I mean one of the things that we did, we've used this little dachshund as you may have seen as the kind of antithesis of what you should be doing. He is the lazy voice sort of telling his owner, you shouldn't be doing this stuff while we're exercising whatever, and it's been an amazing hit this little dog. I think he is a Capetonian, is that true. They are two of them, I don't know, whatever, I shouldn't tell you that, but.

(01:03:00) one of the real measures of the success of this branding has been apparently – and I think one of the newspaper covered, you might have seen the article, is that the sale of dachshunds in the UK has gone up. So we're not selling you insurance, we're selling dogs. That's really worthwhile, right. But, I think the brand has really done well. And the credit to the team. I think VitalityLife, VitalityHealth in each of their focus areas has really done well.

But at the same time, of course, we'll have to run the business to continue to grow it and do well. I think in the case of VitalityLife, their performance has been staggering. So in fact, our concerns about a fall off, the brand would affect long-term insurance, would brokers be confident about placing long-term business with us. It was not an issue whatsoever. Quite the opposite.

We've seen a dramatic growth in VitalityLife. You can see the growth in policyholders on the left-hand side. New business up 22%. Just to make the point, sorry, we're doing this in rands, and you may think the pound is a lot more muted. Just bear in mind that for the financials you use a weighted-average. So while the rand has depreciated, it's only in the last few, I think the last month or so of this financial year the real effect. So if you're comparing rands with pounds, I think it's about a 4% difference that you get there. So we've chosen rands, so just bear that in mind.

So if you look at new business, the growth is up 22%. Operating profit up very strongly. And all aspects of the business I think have done remarkably well. Our fear about sales falling off has not happened at all. In fact, the last few quarters have been the record quarters for the growth of VitalityLife. And the kind of industry awards across virtually every category we won the awards across the board. So the company really has performed I think incredibly well.

You can see the market share over the last number of years. A few years ago, we were third and fourth in the market, you can see period to period our market share has gone up. And in the last quarter, the last statistics we have which is the first quarter of 2015, VitalityLife in the broker market is the second biggest. And I think that really talks to the incredible progress that the team has made in terms of penetrating that market, the quality of the business and, of course, I think in developing and deploying the brand.

And on the bottom of the slide, you'll see that these are – the competitors are not small companies. We're dealing with Aviva, Legal & General Zurich, Aegon, et cetera. So this is a competitive market. But it does illustrate I think the quality of the team. But importantly, the quality of the Discovery Life model and how can you play that in other markets and giving us the confidence of using that model with John Hancock, with AIA, with Generali in Germany, et cetera and that's what we focus on doing.

I do want to say to you that one of the powerful things about VitalityLife is using, what's called in the UK, the Vitality Optimiser, this dynamic pricing model. The plans in the UK is very, very similar to what we've done here. You get discounts coming in, you get access to the Vitality Rewards, and you get this dynamic pricing that plays out. It allow us to do all of the things I've showed you in the previous slide. It is amazing over the last 18 months just how powerful this product has been. So it's now I think 45% to 50% all businesses on this Vitality dynamic pricing basis. You can see from the chart that even our people get a discount from it, they usually make up their discount by buying more cover with us, more benefits and all of that drives profitability as well, so the VNB in the middle is dramatically higher.

And then the claims levels for the entire business are in fact very much under control. So if I'm not mistaken, the quantum of claims that we've paid out for VitalityLife for this year were lower in absolute amount than we paid out in the previous year despite the size of the book. So the actual lapse rates and mortality expense has been exceptional. But I wanted to point out on the right hand side that in fact the Vitality Optimizer claims levels are dramatically lower on an index basis than the traditional kinds of cover. So it seems it's early days, but I think the sales success, the quality, the impact to the clients I think will be quite dramatic.

Let me turn to VitalityHealth, and I think VitalityHealth had a complex year. And I think the new business for us was the one disappointing aspect in the period under review. I would say to be fair to the team the quality continues to be very, very good and I think to the extent the VitalityHealth team believes in focusing very hard at quality on the lapse rates and the loss ratio to the extent above all else. So it's a complex market, margins are thin. It's very competitive, you can see we continue to bring the loss ratio and the lapse rate down dramatically lower than industry standards, but I think to the extent restraining the business somewhat with that process.

Operating profit has gone up by 10%. It was going to be a difficult year. We've got a number of systems that we've been trying to get rid of after the Standard Life Healthcare acquisition. They're now gone, but during this period, there were still there, so we have that kind of duplicate cost, but that I think will come right going forward. The real issues you can see is the new business. You can see that it came down 15% and if you break it down on the right hand side and you look at it kind of six months by six months, you can see that both of the periods are muted.

So to the extent what I think transpired is that we are very, very tight on pricing driving loss ratio and in that process loss broker support in the ASE (01:07:52) new market and that drove down the new business. There's been a lot of the base of action taken, you can see on the right hand side, it's starting to recover, but I think it's work in progress. So there really is a philosophy of quality in the business, but I think that is costing as in terms of scale and quantum of work needs to be done. I think exceptional is being done in the system side. It's a bit of confusing slide on the left hand, I have always, if you recall, tried to explain to you, we've been carrying duplicate cost on the system side, we've had to pay Standard Life for the use of their (01:08:20), a considerable amount of money as we've got all three systems onto one.

You can see that the businesses has kind of used three systems in the past. The original Pru system that we built, the Standard Life system and our own system evolving. You can see by the end of this year, there was a switch off and today there is only one system in place and that will going forward. That will offer far better service and bring the cost down. And in fact, you can see the cost ratio is coming down and that is expected to drop quite substantially.

So the new business is disappointing, I think the quality is good. But going forward, I think the combination of recovering new business and I think the combination of bringing cost under control through the systems bode well for the future of the business.

So let me end up on the UK and just say that I think it was obviously the most important time. We now have moved from a JV into a fully owned Discovery business VitalityHealth, VitalityLife. VitalityLife is still going through the licensing process through the Bank of England. The quantum of the business is substantial, both in terms of pounds and profitability. And I am confident that this combined business in the UK will generate ZAR 1 billion of profitability during this year. So I think we're all excited and optimistic.

Let me end on China, very, very briefly. China is no doubt, as you know, is complicated with a volatile environment from the economic perspective. But I need to tell you that we are focused on building a right health insurance business and the demand for healthcare, the demand for private healthcare, the demand for private health insurance is growing and that's what we're focusing on. So together with Ping An, we continue to focus on building a business that penetrates both the group markets, the individual market, I think the results have been staggering.

You can see on the left hand side of the chart that's the group high-end market. So we're selling kind of healthcare to big corporates like the Goldman Sachs in China. You can see that we in fact accelerated our market share quite significantly now by a comfortable margin, comfortably ahead of Cigna – of the other Chinese companies in the marketplace. And then critically on the right hand side, you can see the loss ratios year-by-year are very much under control. So we're focusing very, very carefully on the quality of the business. But I do think the point to be made here has been just the success of using the Ping An last distribution channel in the individual space.

I am showing it to you quarter-by-quarter of the progression of sales in the individual space. You can see that we're selling close to 1,000 cases a day of considerable premiums. So you can see over the last year, (01:10:39) just how rapidly the new business is growing and actually we've seen in the new business growing about 200% or close to 200% in the case of China.

On the right hand side, you can see the cases sold result has gone dramatically and quickly. And so let me end up by saying, I've tried my best to stay at a reasonable level that doesn't take too much of your time. I wanted to give you a sense that I think we're focused on new initiatives and the robust performance I think from a financial perspective.

We are very comfortable with the IFRS profits, we're comfortable with cash, new initiatives and of course the new business. I hope that we've made it clear that our business model is – we're investing heavy and that I think the collaboration with Apple, you'll see the power of that now, but I think going forward this opportunity is quite significant, but we invest heavily in the capabilities of Vitality and the business model. And then finally the underlying models I think have done remarkably well.

So for us, I think it has been a very, very good year. There's a lot to do, but I think we are positioned really well going forward. I said enough and like with (01:11:35) Ricky, we always do this if you have questions here now, we'll take them and I can guide them to our key executives here, but much better would be after you're having coffee or whatever, tackle our people and ask the detailed stuff. But if you want, we can take questions here. Thank you.

Q&A

A - Adrian Gore {BIO 3068929 <GO>}

Ruby (01:12:00), it was nice to see you. Thank you.

Q - Michael Brown {BIO 1479215 <GO>}

Mr. Gore, congratulations to you and your team. You spoke of having a really good year, but I wonder if everyone really knows how good a year it was. I look to the bottom line and I see that profit after tax from a high level last year is up 68%. I can only say, well done.

Now before I get on to a question, I'd just like to make a comment if you will allow, at the presentation about a year ago when the issue, the rights issue was being discussed, I suggested that by June – by year-end June of this year, your cash and cash equivalents would be up ZAR 1 billion. I'm delighted to record how wrong I turned out to be. I think you tried to make it come out of me intentionally

A - Adrian Gore {BIO 3068929 <GO>}

That's our only goal.

Q - Michael Brown {BIO 1479215 <GO>}

Okay. Now I want to point to three items; one from the balance sheet, one from the income statement, and also one from the cash flow, and ask whether they've connected. And if so an explanation as to what I perceive to be an anomaly. Investments at fair value on the balance sheet are up ZAR 7.4 billion. On the income statement, there is a line stating net fair value on financial assets, which is down ZAR 1.15 billion. The cash flow statement – let me just turn to it for a moment please, has got a line item. Cash generated by operations, which is down ZAR 1.084 billion, which is very much close to the amount of the reduction on the income statement. Are these three items connected in anyway? And if so, why is cash generated from operations on the cash flow statement down?

A - Richard Farber {BIO 5884718 <GO>}

Thank you. Your questions are getting more complex every year. I just need to point out...

Q - Michael Brown {BIO 1479215 <GO>}

Or I'll ask – while, Mr. Farber is working on it, could I ask another question? Now, your efforts – your marketing efforts for Ping An and Discovery Insure have obviously been very successful. Ping An, as the table on page 20 of the annex shows, API is up 192% which in itself is no small feats, and Discovery Insure is up 25%. Yet on page 21, in the table normalized profit, there's not mention Discovery Insure and no Ping An. Now if we turn to slide 63, which on the screen incidentally was 64, it shows that Insure is close to breaking even. However, there is a footnote to that slide, which refers to deferral of acquisitions. Now, if the deferral of acquisitions is omitted, does that suggest that the loss in the Insure division is larger? And finally, at what level of APIs will Ping An start making a profit?

A - Adrian Gore {BIO 3068929 <GO>}

Let me try and just tackle that last piece. I mean firstly, I tried my best in Discovery Insure to show you in the blue box is that actually what's in the accounts and that includes the acquisition costs. I was simply trying to illustrate, if you amortize those acquisition costs out, that will give you a better sense of how the profit is emerging. So the acquisition costs are held and carried and that's what you see, but I wanted to give you a sense of how it's turning or it's likely, but the more you grow, the more costs you money. And therefore I think it conceals the real progress of the business.

The other point is both Discovery Insure and Ping An sit inside our development sector, we'll take them out as they turn to profit. Ping An is actually a relatively low cost at this stage. Your question is a pretty fundamental one is to wake as to profit. The truth of it is it's not clear because I think we have some strategic choices to make with Ping An. I mean I think, with a drive towards profitability, we could get there reasonably quickly. But given the scale of China, I think Ping An's view might be that we should grow maybe harder.

So it's not clear at this stage how we'll play it out. It is not a dramatic cost to us. I can be really tricky (01:17:05), probably ZAR 60 million to ZAR 70 million is what Ping An is costing us. Given the scale of what it's doing, we are comfortable to continue the growth, but I am not sure we have yet strategic certainly as to whether we're driving hard towards profitability that could be achieved fairly quickly or we should be putting our foot down on distribution and focusing on scale given the – you saw the drop of individual product how that's climbing.

Now that's using, I think about 30% or 40% of the bronze network of Ping An that could be tripled over time. Ping An's view has been let's slow that down and just see how the loss ratios develop. So I think if we're taking a very careful conservative view given the complexity. So the combination of a fairly low cost and the scale of the market is we kind of letting it develop, and we'll see. I don't believe we should be driving for profit. Ricky, do you want to deal with your...

A - Richard Farber {BIO 5884718 <GO>}

Sure, to deal with the first question. So effectively the three items are linked in a way and they all deal with the amount of investments by policyholders. So the balance sheet amount as you've pointed up has gone up by ZAR 7.4 billion. The income statement - there isn't a gain that we've had, but the amount of the gain, the market performance of their investments is slightly reduced compared to last year, but still a gain of ZAR 3 billion for the earnings of the policyholder have had on their investments. And the last item that you highlighted is in the cash flow statement and you particularly picked the line cash generated by operations, that includes the money that we received from new policyholders that have invested through Discovery Invest.

About two lines lower down, you'll see a line that says net purchase of investments held to back policyholder liabilities and very similar amount. So effectively what happens is that we record the money coming in on the one hand and we record the purchase of investments on behalf of all those policyholders. So what has happened in this particular case is we've had slightly less cash flow coming in from new policyholders. You're quite correct, we've had a slightly lower investment return for those policyholders in this period compared to the same period of the previous year, that's the market performance. But overall, we still had cash coming in and we still had investment returns which has resulted in the amount in the balance sheet going up in total.

Q - Michael Brown {BIO 1479215 <GO>}

Thank you.

A - Adrian Gore {BIO 3068929 <GO>}

Any other questions. We've taken a lot of time now. If you're happy, I would rather wrap it up, Ricky. Take questions outside.

Okay. Listen once again, thank you. It's always - really is an honor and pleasure. Thank you very much for attending. I appreciate it.