Legal & General Group PLC Q3 2013 Interim Management Statement Conference Call

Company Participants

- John Pollock, CEO, LGAS
- Kerrigan Proctor, MD, Legal & General Retirement
- Mark Gregory, CFO
- Mark Zinkula, CEO, LGIM

Other Participants

- Alan Devlin, Analyst
- Andrew Crean, Analyst
- Andy Hughes, Analyst
- Ashik Musaddi, Analyst
- Blair Stewart, Analyst
- Gordon Aitken, Analyst
- Greig Paterson, Analyst
- Jon Hocking, Analyst
- Ravi Tanna, Analyst

Presentation

Operator

Welcome to the Legal & General quarter 3 IMS. I will shortly hand over to the Chief Financial Officer, Mark Gregory. (Operator Instructions) Mark, over to you.

Mark Gregory {BIO 15486337 <GO>}

Good morning, everyone. And thanks for joining the call. I'm joined in the room today by various people, including John Pollock, CEO of LGAS; Kerrigan Proctor, Managing Director of Legal & General Retirement; Paul Stanworth, Managing Director of Legal & General Capital; and on the phone we have Mark Zinkula, CEO of LGIM.

Once I've given an overview of these results, we'll then take any questions that you may have.

Today we've announced another quarter of strong growth in cash generation, as well as sales and net flows, which in turn have driven growth in the stock of our business. Our market-leading franchises in annuities, investment management, protection and savings have all had a strong quarter, building on the momentum from the first six months of the year. And benefiting from the underlying macro trends of aging populations, global asset markets, reductions in welfare spending, digital lifestyles and bank retrenchment.

In our Legal & General retirement division, annuity premiums, including the four Lucida schemes, totaled GBP2.3 billion, which was 3 times higher than the Third Quarter last year.

We continue to build our capability in the enhanced and impaired annuity market, with the next phase in December being the launch of quote functionality[ph] for the main annuity portals, enabling further annuity growth over the medium term.

In the short term, we are seeing more subdued activity levels in the individual annuity market as gender-neutral pricing brought forward into 2012 business that would otherwise have been written in 2013. You'll recall we did have a very strong Q4 in 2012.

LGIM. LGIM now manages GBP443 billion of assets, up GBP10 billion in the last three months. We have gross fund flows for the quarter of GBP15.4 billion, up 71%. And net fund flows of GBP3.1 billion. LGIM's international expansion continues, with our LDI and asset fixed income offerings continuing to grow in the US, while index and asset fixed income are driving growth in Europe and the Gulf.

International net fund flows were GBP6.9 billion in the quarter. And international assets are now GBP57 billion, a growth of GBP14 billion in the first nine months of the year.

Our market-leading UK protection business delivered new sales of GBP40 million in the quarter, 11% up on the prior year. And we continue to trade well in the Fourth Quarter to date, with application levels up on Q3.

Our general insurance business continues to have a good year. And early indications are that the Jude storm nine days ago will not have had a material impact on our claims ratio in 2013.

In the US, we've grown our protection sales by 13% to $43 million.

Our savings business had net flows of GBP3 billion, boosted by the addition of Cofunds net flows and the continued success of our workplace savings platform, which now has GBP7.9 billion of assets under administration.

Including the retail investments business that is now a part of LGIM, the total savings assets under administration have now reached GBP117 billion, up from GBP111 billion as at the end of June 2013.

In July, we restructured our business divisions, bringing together our protection businesses with most of our savings businesses in the one division, LGAS. With common customers, common target markets. And often common distributors, this change will enable a more customer-focused organization, realizing revenue synergies.

One example is the cross-sell opportunity of Group protection to our workplace savings corporate customers. Currently, only 6% of our corporate customers have placed both protection and savings schemes with the Legal & General. Our aim is to significantly improve this proportion over coming years.

We also need to ensure that our cost base is appropriate for both our growth businesses and our mature retail savings business, where we will see reducing revenues from products such as unit-linked bonds and from the with-profits fund. A process is now underway to consult on reducing the number of roles within LGAS by up to 600 from the current level of approximately 7,000.

We will also be looking at other benefits as well as further reductions in the LGAS cost base to ensure that we can continue to deliver good value to both our customers and our shareholders. We will give a further update on our progress at the prelims.

Looking ahead, there is a good pipeline of bulk purchase annuity opportunities and LGIM growth prospects, especially internationally, continue to remain strong. In LGAS, our retail protection business is performing strongly, while other areas such as workplace and Cofunds continue to see business growth.

Those are the trading highlights. But it isn't just about strong sales growth. Our net cash generation was also up by 20% on last year, with operational cash growing and lower new business strain, particularly from annuities and our retail protection business.

So all in all, another strong performance in this quarter. And we're confident that our strategic positioning will enable us to continue delivering value to our customers and our shareholders.

I'll now open up the call to questions.

Questions And Answers

Operator

(Operator Instructions) Gordon Aitken, RBC.

Q - Gordon Aitken {BIO 3846728 <GO>}

A couple of questions, please. First, on Cofunds. The Third Quarter inflows were very strong. If you could you just give us a bit more detail as to why that was.

And just looking ahead, you're one of the three oldest platforms and obviously the biggest. Is there a threat that -- you must have a huge chunk of legacy customers -- that those are picked off at some point by some of the younger platforms with perhaps better functionality? And can you just talk in general about the threat from the direct platforms?

And the second question is on annuities. Obviously, good growth there. But how much capacity have you got?

A - Mark Gregory {BIO 15486337 <GO>}

Okay. Thanks, Gordon. I'm tempted to answer that myself. But I'd better hand over to John to answer it. And we'll obviously get Kerrigan to answer the annuity appetite point.

A - John Pollock {BIO 6037447 <GO>}

Well we can always compare notes afterwards, Mark. Hi, Gordon. We've had -- Cofunds is quite a broad-based platform, quite a broad-based client base. We serve institutional partners as well as retail; and we've had some very good wins in the institutional space to date.

So our retail flows have been fine, no particular concerns there. And that leads to your question about it being a legacy platform. It makes me smile a little bit given that platforms are really the new world.

We are -- if, by legacy, you mean the biggest, strongest, I'm prepared to accept that description. I don't feel that we're particularly at threat given the size and scale and the evident growth that we're continuing to deliver.

But I think platforms generally is an interesting area post-RDR and one that you'll expect to see L&G start to deliver changes to how we deploy Cofunds and how we deploy savings products in the months and years to come as we rapidly seek to digitize our business.

So no, I don't -- I'm not particularly worried about the direct threat. And I'm very comfortable with Cofunds' strength in its marketplace.

A - Mark Gregory {BIO 15486337 <GO>}

Kerrigan?

A - Kerrigan Proctor

Yes. Just on the annuity capacity point. As you know, we see attractive markets in all of UK bulk annuities, UK individual annuities, right across the spectrum; and increasingly, internationally in bulk annuities.

So really attractive markets there. And those -- that business offers us an attractive return on economic capital. And while that offers us that attractive return, we'll continue to write the business with no particular constraints in that market.

Q - Gordon Aitken {BIO 3846728 <GO>}

If I can just come back. The question on the platforms, it was legacy customers. So some of your older customers. Are they at threat of being picked off?

A - John Pollock {BIO 6037447 <GO>}

Well if they are, I'm not particularly seeing any evidence of it, Gordon. I think platforms generically are a very strong part of the future of the savings marketplace in the business. And one of the reasons that we completed the acquisition of Cofunds was because it was the largest, strongest, with the deepest customer base that fitted most naturally to our ambitions in becoming more customer-centric.

So certainly not seeing any evidence of customers being picked off or very substantial retail outflows. So if it is a concern, I don't feel it very strongly.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thank you.

Operator

Jon Hocking, Morgan Stanley.

Q - Jon Hocking {BIO 2163183 <GO>}

I've got two questions on protection, please. And one on annuities. On protection, I wonder if you could comment as to whether you're seeing any pickup in the pipeline from the recovery in the housing market yet. And could you also clarify the comment you made on protection and new business strain?

Then on the annuity point, could you comment a little bit on where you are on the enhanced annuity rollout that you were talking about at the first half?

Thank you.

A - John Pollock {BIO 6037447 <GO>}

Pickup on protection, John; you see we wrote a very healthy GBP40 million in Q3. And Mark indicated that we're seeing a pickup in applications during Q4. So I guess the short answer is, yes, there appears to be a pickup.

I think one thing that you should remember is that completions of mortgages. So the housing market protection tends to lag initial applications to something to the tune of three months. So I'm fairly optimistic for Q4 and our volumes there.

And of course, Legal & General's positioning in the housing market is second to none. So yes, I'm feeling fairly optimistic about the housing market.

Q - Jon Hocking {BIO 2163183 <GO>}

Thank you.

A - Mark Gregory {BIO 15486337 <GO>}

On the strain point, Jon, I'll pick that one up. It's fair to say that as volumes go up on protection. So our margins go up with it. And in protection, actually that feeds through quite naturally[ph] into the new business strain equation. So it is beneficial writing more volume.

So again, we haven't disclosed the breakdown of new business strain or surplus today. But it certainly has been a useful delta on retail protection as part of the overall strain equation.

Q - Jon Hocking {BIO 2163183 <GO>}

Thank you.

A - Kerrigan Proctor

Jon, just on enhanced annuity rollout, as you know, we've talked before about that being a really attractive growing market. So we are very keen on that market in the longer run.

And of course, in line with that, we've been busy developing our technology platform. Just to clarify, we do write in all parts of that market currently. So whether that's lifestyle impaired[ph] to generally[ph] impaired, we write all parts of that market.

But we're seeing increasing amount of business coming through IFA online portals and we're making sure we have the technology ready for that. And that is going extremely well. We're well on track to be ready for when that increased volume comes to these IFA online portals, as Mark mentioned in his outlook. So really positive about the technology rollout there for enhanced annuities.

Q - Jon Hocking {BIO 2163183 <GO>}

When do you expect to actually be live on those portals?

A - Kerrigan Proctor

It's a rolling program. We'll start to be online in early December about the 12th[ph]. And we'll finish off that in January/February.

Q - Jon Hocking {BIO 2163183 <GO>}

Okay. Thank you very much.

Operator

Ashik Musaddi, JPMorgan.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Three quick questions. So you made a comment on the margins on the auto enrolment thing. So all related to that.

First of all, can you give us some color on the detailed split of how that 50 basis points is split into the default fund charges and other charges that you are looking for? And can you give us EBIT margin for that? That's the first one.

Secondly, is it applicable to all the schemes, i.e., small, large, etc., or do you have capacity constraint as well on that particular thing?

And thirdly, what kind of risk do you see on a price review on all the product suite, i.e., do you expect the regulator to start looking at the pricing of annuities, protection, individual pension, SIPs, etc.. So that customers benefit more? Or is it just the auto enrolment you're expecting? So yes, that would be the three questions.

Thank you.

A - Mark Gregory {BIO 15486337 <GO>}

Okay. Just on your first one, Ashik, I'll pick up the point around -- clearly, we don't break down precisely how we think about the overall components of the charge that we make. The core to it is the fund charge and our core default fund for our auto enrolment position is essentially a fund-of-funds proposition. But a fund of passive funds with a lifestyle overlay.

So clearly, in terms of our ability to manufacture that, it does play to LGIM's core strength around passive fund management. And that's why we're able to operate at that sort of price point. But we're not going to give the exact breakdown of the component parts of the 50 basis points.

Just on the capacity point, John, around workplace, anything you want to say on that?

A - John Pollock {BIO 6037447 <GO>}

Yes. I think the short answer, Ashik, is we're not really capacity constrained. But a little bit like any market that suffers spikes, then service will be stressed and strained. There's no question of that. So if we go through twin peaks, there will be stresses.

But we've got a pretty efficient organization, ready and well-planned for the increased volumes. We did very well through the initial staging dates to con[ph] a lot of big schemes pretty seamlessly.

So I'm not -- I'm a little nervous about the sheer volume. But we're not capacity constrained. I may have to apologize in advance for --

Q - Ashik Musaddi {BIO 15847584 <GO>}

Just to follow up on that, what I'm trying to gain some color is basically is your 50 basis points applicable to all small and large schemes as well; i.e., are you ready to write small schemes with 50 basis points?

A - John Pollock {BIO 6037447 <GO>}

Absolutely.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. That's good.

A - John Pollock {BIO 6037447 <GO>}

You should understand, Legal & General's position here very, very clear. Adrian Boulding has said it very nicely in the press. We absolutely believe that it is appropriate for auto enrolment for -- into our default funds, which are very often going to be the first pensions experience for many people who have not saved before, we think 50 basis points is an appropriate charge. We can manage to that. And we've been very public in saying the strength of belief that we have in that being an appropriate cap level.

So no, we are not capacity constrained in any respect as far as that's concerned.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you. Third one is any risk on price review on all the product suites.

A - Mark Gregory {BIO 15486337 <GO>}

No. I think no to that generally. Clearly, there is interest in -- where corporate pensions is. I'm not sure we're seeing much beyond that right now. One never says never. But I don't think we're seeing any particular indication that regulator is looking to intervene anywhere else at the moment.

A - John Pollock {BIO 6037447 <GO>}

The regulator has made a number of fairly strong statements about not wishing to be an economic or price regulator. So we'll just have to hold them to their word on that.

Q - Ashik Musaddi {BIO 15847584 <GO>}

All right. Thank you.

Operator

Andrew Crean, Autonomous Research.

Q - Andrew Crean {BIO 16513202 <GO>}

It's actually three questions. Firstly, on individual annuities, I think the growth rates quarter by quarter are up 50% in the First Quarter, then 37% in the second. And down 8% in the Third Quarter.

I think you were explaining this was gender-neutral pricing effects. But you wouldn't expect such strong growth in the first half and then slowdown in the Third Quarter. So perhaps you could elaborate on that.

Secondly, on BPAs; with the rise in the stock market, do you see us in a different environment now and a much more positive environment than we've had in past years, sort of dislocatory positive?

And thirdly, I think you were saying that there was a 6% penetration rate of Group protection on Group pensions. Then you said you hoped to get that up. Could you give us some sense as to what your target penetration would be?

A - Kerrigan Proctor

There's really two effects going on, Andrew. One is pricing discipline and the other one is short-term market factors. I think we're all clear that the longer-term prospects for the individual annuity market are excellent. You only have to look at the rate of flows into our auto enrolment business, for example, just to get a feel for where that money's going and where that market's going in the future.

So on the pricing discipline point, as we say often, we are the only participant in all parts of the individual market and all parts of the bulk market. So in a way, you can just look at our results and work out where's the best place to be placing your money. So there's a bit of pricing discipline going on there and less attractive in parts of that market and more attractive in other parts.

Then the short-term market factors, there are a number of things going on the play. Clearly, going into the end of 2012, gender-neutral brought forward people buying -- males buying annuities, which has an impact on the year-on-year results.

Then there's certainly market competition with a couple of our main competitors in the enhanced annuities market moving to IPO or having IPO; so competitive factors going on in that market.

Q - Andrew Crean {BIO 16513202 <GO>}

Both of those would explain why you had -- would have had a slow start and then built up, not having had such a fast start and then hit declining volumes in the Third Quarter.

A - Kerrigan Proctor

Well I think the pricing discipline point. And if you look at our -- the way we've tackled market share in that market and volumes in that market really shows our judgment as to when's a good time to be in parts of that market and when isn't. So that's clearly an impact for us.

Then bear in mind that gender-neutral really picked up into the -- in Q3 and then into Q4 last year. So if you see that year-on-year comparison, you would expect to see some distortions because of gender-neutral mainly at the end of last year.

A - Mark Gregory {BIO 15486337 <GO>}

There have been quite big market reductions overall, Andrew. For example, the enhanced market in Q2 this year was about 30%[ph] lower than the peak at Q4 last year. So there are some other[ph] market effects going on here as well.

John, do you want to just comment on my comment around 6% trying to[ph] working harder?

A - John Pollock {BIO 6037447 <GO>}

Yes. I'm not going to give a target, Andrew. But suffice to say, we have recognized that with both common distributors and common customers here that there is a space where we can do quite a lot better.

We have quite successfully closed a number of the larger scheme workplace savings schemes and added the protection on top of it. And we think that we can offer our client base a much better service by putting those businesses together.

When we get a little a bit more experience, I might be prepared to give a target. But for now, I would prefer not.

A - Mark Gregory {BIO 15486337 <GO>}

Okay. Just over[ph] to Kerrigan on the point around market environment and if that's helping BPA or not.

A - Kerrigan Proctor

You're absolutely right there, Andrew. The BPA market is spoilt[ph], not just in this country but in the US as well. Rising stock markets; we've seen rising interest rates as well.

And so, yes, it would appear contributions going in at a record rate right across the industry and that is improving significantly the affordability for people to look at buyouts.

We are certainly quoting a lot more businesses with a healthy pipeline, as Mark mentioned, for BPAs. Yes. So we are very positive about that market; very positive indeed about that market.

Q - Andrew Crean {BIO 16513202 <GO>}

Thanks very much.

Operator

Blair Stewart, BofA Merrill Lynch.

Q - Blair Stewart {BIO 4191309 <GO>}

I've got three questions as well, actually. You mentioned in the preamble, Mark, about the with-profits and unit-linked bond business starting to run off. I just wonder if you can comment on the challenges that that brings. How much more profitable is that business relative to the new business that's coming on the books; and what do you need to do from an expense angle?

And secondly, in terms of the UK flows in LGIM, is there any signals that that -- that those outflows are going to start to dry up?

And thirdly, just on Cofunds, you've been the owners of the business outright for several months now. I just wonder if there's anything you can say in terms of any changes to your assessment of the opportunity to try and diversify the product offering in terms of cross-selling onto that platform.

Thank you.

A - Mark Gregory {BIO 15486337 <GO>}

Okay. I'll take the first one, Blair. I'll get Mark to pick up LGIM outflows in the UK. And perhaps John will just comment on his impressions of Cofunds.

Clearly, Blair, this is a trading update, not a profits update. But in the spirit of the question, it is -- I think we've said before and flagged up[ph] that this, for example, will be the peak maturity year, say, for the with-profit fund with be the 25-year anniversary of the peak of the endowment sales back in 1988.

So we will see a decline in with-profit business going forwards. And clearly, part of John's restructuring activity is to make sure that the cost base remains appropriate for any decline in lines of business that we have.

And again, I flagged bonds on the same basis, actually. Those are not selling anything like the volumes that they once were.

So again, same point applies there that part of the stuff that John is doing on the cost base within LGAS is to make sure we maintain an appropriate cost base going forward to make sure we get good and appropriate returns for that business going forwards.

Now clearly, the new business we're writing is a -- there's new world capital light business. And therefore very much around scalability being key to the expense efficiency. And that's kind of core to the model.

Again, John's business on the cost side is very important to make sure we have got genuine scalability so when we do get extra volume that does speed through into extra profitability. That's very much core to the LGAS strategy; indeed, the wider L&G strategy.

Mark, do you want to just pick up the comments on UK flows at LGIM?

A - Mark Zinkula {BIO 16142450 <GO>}

Certainly. I think if you look at I guess our business overall, we have a very large percentage market share in the UK DB business; a very mature market. And this business will over the next several decades gradually decline. And by its inherent nature, it will be lumpy in nature. There are certain things that we can control and influence and others that we can't.

So the outflows that are due to -- just asset rebalances, benefit payments as buyout activity increases over time, as Kerrigan references, the funder[ph] status improves, we're not going to keep all of that. But where we have strategies that are core to our business, our retention rate of assets is well above overall market share.

So I think we're executing on protecting that franchise very well and we'll continue to expand our ranges of LDI and fixed income; and multi-asset now, property products as well for that market.

Then on the flipside, the growth in the UK will be, again, looking longer-term. In DC and then wealth and retail where there's tremendous upside potential for us in those markets, again, the inherent nature of the DC market is that it will be gradual growth though compound over time. And it won't perfectly offset the gradual decline in DB over the next, again, several decades so the net flows will be uneven.

Then obviously, most of the growth now is coming from international flows which are up more than double year over year over the first nine months of the year. Very good momentum there. But again, those flows will by their inherent nature since they're institutional in nature, a lot of large accounts, they will be somewhat uneven from quarter to quarter.

A - Mark Gregory {BIO 15486337 <GO>}

Okay. Thanks Mark. And John, any initial thoughts on Cofunds' ownership?

A - John Pollock {BIO 6037447 <GO>}

Yes. Blair, it's a great question. There is no doubt in my mind whatsoever that the Cofunds' ownership gives us the capability to have a new vehicle for distributing broad-based set of products. And that won't just be my products, won't just be savings vehicles, protection, perhaps putting our mortgage club offering on platform, it's also a decumulation phase and Kerrigan's annuity.

So what we're doing at the minute is working out -- we're towards the tail end of the integration phase, getting the management in the right place. We're now working out our investment profile and how we put a broader offering together in the market.

There's quite a lot of exciting opportunities with Cofunds, including bringing its functionality a little closer to what Suffolk Life does, which has been growing very healthily as well.

So I think if you add the idle[ph] as well, which is another piece in our digital play, then put them together in a number of different ways with different propositions into a wide range of customer pools, particularly for example our banks' and building societies' profile, then I think we are extremely well positioned with Cofunds' ownership. So I'm quite excited about the prospects and opportunities that that afford us.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you very much.

Operator

Andy Hughes, Exane BNP Paribas.

Q - Andy Hughes {BIO 15036395 <GO>}

A few questions, if I could, the first one about LGIM. The GBP3.1 billion of net flows you published for LGIM, that doesn't include, or does in include the GBP2.6 billion of annuities you wrote in the quarter?

And I'm just wondering about the text where you describe the operational cash generation between the businesses. And the way which LGIM is described as a strong contribution as opposed -- given the asset management growth in LGIM, one would have thought that the operational cash generation would be very strong.

And the final point was about the runoff of the unit-linked business and structured products, etc., that you've written through banks and building societies in the past. I'm just wondering whether -- how much that is and how much the growth is needed to fill the hole in terms of expenses going forward? Some clarity on that would be most welcome.

Thank you.

A - Mark Gregory {BIO 15486337 <GO>}

Just on the first one, Andy, we don't include internal annuity of loans in the gross inflows and outflows in LGIM. It all flows through the other market movements and other line. So it's not boosting the LGIM inflows in its own right.

What was the question on operational cash?

Q - Andy Hughes {BIO 15036395 <GO>}

Just in terms of where you were in terms of the commentary on operational cash. You've talked about operational cash being very strong for the annuities and Group[ph] protection. But then LGIM seems to be relegated to a strong contribution. I'm just wondering --

A - Mark Gregory {BIO 15486337 <GO>}

As we've talked about before[ph], we do give guidance on the other -- the four elements we've listed out there; annuities, UK protection, insurance savings and with-profits business. When we did the prelims in March, we did give some guidance on that where we expect the contribution from those four elements to come to this year.

I'm just making a point that the bit we didn't give guidance on, particularly GI and LGIM, are making a strong contribution to our operational cash generation as well.

It wasn't supposed to be overly subtle[ph]; it was just trying to reference that we do give guidance on a component of our total cash generation. But not all of it. So I've just given a bit of color around the bits that we don't guide on.

Q - Andy Hughes {BIO 15036395 <GO>}

Could I ask just a quick follow-up on the GBP2.9 billion of active fixed income flows then there are from third parties? Obviously, that goes against the industry trend that we've seen from other companies that have had active fixed income outflows during Q3. Could you just tell us a bit about what's going on there?

Thank you.

A - Mark Gregory {BIO 15486337 <GO>}

Mark.

A - Mark Zinkula {BIO 16142450 <GO>}

Sure. I'll take that question. The vast majority of those flows are from institutional clients. And the majority would be linked to the risking strategies of plan. So as the funder[ph] status improves and they're moving out of equities and into other products, including fixed income, that's driving your net inflows there.

A very small percentage of our assets are in the retail market where there's been more pressure on selling, although our retail flows have actually held up reasonably well as well, just given the nature of the products there. But it's a small percentage of the overall assets that we're managing.

A - John Pollock {BIO 6037447 <GO>}

I think the last question's probably mine, Andy, in terms of runoff of the legacy book.

I think part of my reputation has been as a cost cutter. My track record at L&G is not to be profligate with money. And I don't know if it's a marriage made in heaven or poacher turned gamekeeper. But I've got an FD, a CFO, who knows exactly what's going on in the businesses that I'm charged with running.

And even if my reputation on its own didn't stand up for being able to run off the costs to keep the cash going, you can rest assured that my illustrious colleague, Mr. Gregory, would be all over me like a rash.

I'm pretty confident that we can manage the business to keep the costs going down as we're running off a legacy. But the legacy does roll off fairly quickly and we will have to be very active in managing that.

Q - Andy Hughes {BIO 15036395 <GO>}

Any idea roughly how much that would be each year?

A - John Pollock {BIO 6037447 <GO>}

Now's not the time to be disclosing that, Andy. We'll try and give a bit more color, as Mark said, at the interims. This is just a trading call so I haven't got the numbers to hand.

Q - Andy Hughes {BIO 15036395 <GO>}

Thank you.

Operator

Greig Paterson, KBW.

Q - Greig Paterson

Just three questions. One is you talk about the 50 basis points and you've done for work well[ph] in getting auto enrollment monies. But the whole of the embedded value margin on the pensions' business looked like it actually will come even more negative than it was before; there's just a perpetual negative margin on this business.

What needs to happen in terms of size or cost structure, or whatever, to turn this? Because it's a headline business for you but it never makes an economic profit. That's question 1. I wonder if you could talk around that.

The second one is whether you can tell us the percentage of your individual annuities that come from internal vestings standard rate throughout that business.

And also, as a third question, the regulator has shown a lot of attention on treating customers fairly around the fair annuities and is actually investigating a single-tie deal. I know it doesn't fit within your framework. But you have multiple single-tie deals on the protection side. Have you heard any noises, or is there any risk that they will start investigating those deals as well?

A - Mark Gregory {BIO 15486337 <GO>}

Thanks, Greig. I'll pick up the first one on auto enrollment and the impact on margins. I'm not sure how much color Kevin has got on the proportion of IA[ph]. But he'll have a go at trying to answer that one. And I'll leave John to comment on if there's any pressure on single-tie arrangements in the protection market.

First of all, Kevin, we didn't actually explicitly divulge the pensions' margin at the half year. We gave a total of savings level which admittedly was --

Q - Greig Paterson

I mentioned in my note that there's been a reversal in disclosure trends. I wonder if you could put that back in, please.

A - Mark Gregory {BIO 15486337 <GO>}

We'll see at year end. But clearly, auto enrollment and corporate pensions is a very big part of our insured savings. So by definition, you're right to say directionally that's a big component of that minus 0.1%[ph].

I think the point to bear in mind here is, Greig, that actually, we're not allowed to take account of any future unit cost benefits from writing more and more business. In some ways, at a point in time, new business margin is always potentially lagging behind the reasons we're doing it.

Clearly, this is a scale game. We're doing it to get the scale to drive the unit costs which will give us the profitability that we need. But we can't, when we account for that as embedded value, we can't take account of the prospective unit costs; we can only take account of where the unit costs are at a point in time.

We're writing it because we believe in the end we will get the scale needed to make this business truly profitable and a good contributor on a return on capital basis to the wider organization. But the accounting doesn't allow for that to be shown through on day 1 when we are still at sub scale. And we've said clearly before we're not yet at the scale we need in this business to be profitable. We're not yet.

Q - Greig Paterson

And just in terms of forecast, just help us in terms of forecast. What sort of funds under management should we pencil into --? I know it's not a precise art. But what sort of --? I perpetually get this forecast wrong. I always give you guys credit for an increased margin here and it never happens. So what sort of numbers should I be looking at to help me out here?

A - Mark Gregory {BIO 15486337 <GO>}

Well I said at the half year, I think you asked that question then, Greig, that we need low double-digit dividends[ph] on the platform.

Q - Greig Paterson

Low double digit. All right, cool.

A - Mark Gregory {BIO 15486337 <GO>}

To get us through the zero point. But clearly, we're not doing it just to break even; we're doing it to make money. This is the long-term play. And our belief is that DC will become a very, very big market in the UK. And we want to be a big part of that market.

And clearly, in part, John's cost business as well is around making sure we take costs out of our growth businesses, not just our legacy maturing businesses. So they're all in the hopper to be thought about.

Q - Greig Paterson

(inaudible), percentage internal vestings?

A - Kerrigan Proctor

Just to check your question there. So I know one figure; I'm not too sure of the others. So is the question about what percentage of our individual annuity flows comes from external or internal?

Q - Greig Paterson

No. You were asked by the FCA and the other players as well to break down your business into internal vesting standard rate, internal vesting enhanced, how much goes into the open market. I want to know the internal vesting non-enhanced or internal vesting standard rate, because that's obviously at risk in this current investigation. I just want to know the percentage of new business at risk.

A - John Pollock {BIO 6037447 <GO>}

Just one minor point that you need to understand, Greig. Our standard rate is already enhanced. It's called post-code pricing. So we're already enhancing annuitants[ph]. There's very little of standard rate stuff left since we started post-code pricing.

So it's a nuance. But it's a position that we have that others haven't got; so they're either poor standard or deeply enhanced through medical underwriting.

A - Kerrigan Proctor

Greig, I get your question now and I don't have those figures to hand. Sorry.

Q - Greig Paterson

Is your post-code pricing such that it produces a much higher EV margin than, say, your impaired and enhanced propositions? I'm just trying to get a feel of the risk of this kind of investigation to your book. Do you feel it's no risk for you? Is this what you're saying to me; the cannibalization risk?

A - Kerrigan Proctor

No. I understand what you're talking about. Right across our book, we have the capability of writing all parts of the individual market. So all our internal customers have access to all those rates and we're very happy to help them go wherever they choose to go in terms of which product line that they would like to take up.

So the margins on those different lines of business, well, they fluctuate from time to time. But overall in the longer run, we don't see any particular risk of cannibalization there.

A - John Pollock {BIO 6037447 <GO>}

We were very, very strongly supportive of the ABI[ph] initiative and have remained in a competitive position. Where the regulators' concerns have been where much poorer pricing has been offered by vesting books, that's not the situation at Legal & General.

Q - Greig Paterson

Then just the single-tie deals?

A - Mark Gregory {BIO 15486337 <GO>}

Reception[ph]; any threat to those?

A - John Pollock {BIO 6037447 <GO>}

I don't think so. I think where the regulators' concerns lie is just to make sure that customers are getting a decent offering. You look at our products, we are price leaders in both annuities and individual protection.

So no, not feeling any particular heat where we work with the regulators on an ongoing basis all the time and all manner of thematic[ph] reviews. And this is not one that I'm feeling any particular difficulties or challenges over.

Q - Greig Paterson

And TCF applies for protection as well, right?

A - John Pollock {BIO 6037447 <GO>}

TCF?

Q - Greig Paterson

Treating customers fairly; the question[ph] falls within that legal ambit.

A - John Pollock {BIO 6037447 <GO>}

Of course. Legal & General's brand positioning is to be high TCF. So we don't regard that as a regulatory hurdle over which we have to jump. We regard it as core to our DNA and our customer offering.

Q - Greig Paterson

Excellent. All right. Thanks for those answers. Very comprehensive. Thank you.

Operator

Alan Devlin, Barclays.

Q - Alan Devlin {BIO 5936254 <GO>}

A couple of questions, first of all on cash. I think you mentioned that the lower new business strain[ph] was driven by the bulk annuity and retail protection sales. Given your confidence in the outlook in both of those businesses, is it fair to assume that the lower new business strain is sustainable?

Then secondly, a question; obviously, one of your competitors has had a profit warning this morning on weather-related losses, admittedly mostly in Scandinavia. But just in your opening remarks, did you suggest that you don't expect to have any material losses from the UK storms in Q4?

Then final question for John on Cofunds. Given you've got the biggest platform in the market, do you expect to get the super claim[ph] discount levels on funds that some of your competitors have talked about. And is there any update on what you're doing in that area?

Thanks.

A - Mark Gregory {BIO 15486337 <GO>}

Yes, just on the new business strain point, we're not guiding here, Alan, on Q4 and beyond[ph]. But clearly[ph], this is another period where the strain is coming ever downwards. So we have to admit that if it does look like a trend, it's beginning to develop again, we're not going to give guidance here and now on Q4. We'll give that obviously when the numbers emerge at the start of March.

In terms of weather-related claims, I think I made a quite explicit point in my commentary there that, no, it is within our planning assumptions. We're not expecting a big impact from the Jude storm in terms of our claims experience therefore impacting on our combined operating ratio in GI. So we are also expecting a good GI result this year.

A - John Pollock {BIO 6037447 <GO>}

Yes. That's exactly right, Mark. As far as Cofunds is concerned, I'm not going to talk about commercial arrangements that we would have with fund providers explicitly. But suffice to say we run the business as a very commercial enterprise and you would expect us to be discussing with suppliers, not just of funds and fees[ph]. But technology and whatever to make sure that we continue to run the business in the most efficient manner possible.

We benefit. And was one of[ph] the reasons that we got involved with Cofunds in the first place, benefit from it being the largest. It's why we think we're a good owner of it and we'll continue to drive every aspect of that business for both efficiency and growth.

Q - Alan Devlin {BIO 5936254 <GO>}

Okay. Thanks.

Operator

Ravi Tanna, Goldman Sachs & Co.

Q - Ravi Tanna {BIO 16926941 <GO>}

Just one quick numbers question, please. You referred to the transfer of the retail investment business in July from savings to LGIM. And I was just wondering as to the size of that transfer whether you could please tell us how large it was.

A - Mark Gregory {BIO 15486337 <GO>}

Yes. In total, structured[ph] products is about GBP15.5 billion[ph]. But actually in terms of assets went across to LGIM, it's about GBP12 billion[ph] from memory is the transfer. That percentage[ph] is the mutual funds unit trust business component of the total.

Q - Ravi Tanna {BIO 16926941 <GO>}

Okay. Perfect. Thank you.

Operator

We have no further questions coming through on the telephone lines.

A - Mark Gregory {BIO 15486337 <GO>}

Okay. In that case, thank you very much for all your questions this morning. And we'll speak to you again soon. Bye.

Operator

This concludes today's call, ladies and gentlemen. If you would like to hear any part of this conference again, a recording will be available shortly.

Thank you for joining. You may now replace your handsets.