

In Focus: Health & Protection business

Company Participants

- Doug Brown, Chief Executive Officer of UK & Ireland Life Insurance
- Fran Bruce, Managing Director, Protection at Aviva Health UK Limited
- Jason Michael Windsor, Chief Financial Officer & Executive Director
- Steve Bridger, CEO & MD, Health at Aviva Health UK Limited

Other Participants

- Alan Devlin
- Andrew Crean
- Blair Thomson Stewart
- Dominic Alexander O'Mahony
- Fahad Changazi
- Greig Norman Paterson
- James Austin Shuck
- Ming Zhu
- Nasib Ahmed
- Steven Haywood

Presentation

Jason Michael Windsor {BIO 17967688 <GO>}

Good morning. Welcome, everybody, to today's In Focus session.

The last time we did one of these sessions was with our Canadian team in July. Today, we're going to cover UK Health & Protection. And it's a pleasure to be here with Doug Brown, CEO of our UK and Ireland Life business, who joined us in April this year. Doug will lead us through the presentation, and then we'll take Q&A afterwards.

The reason we do these In Focus sessions is simple. We want to give you insight into our businesses in bite-sized sessions, and it's an opportunity for you to meet and engage with our management teams. As you know, we've made great progress in focusing our portfolio on our strongest segments, where we have excellent growth opportunities. So, in that vein, we hope this short session will help illustrate the strength of our Health & Protection business. Our plan is to bring you more of these sessions in 2022. But for now, let me hand over to Doug.

Doug Brown {BIO 17345990 <GO>}

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Great. Thanks, Jason, and good morning, everyone. I'm really pleased to get the chance to tell you more about our great Health & Protection businesses.

Aviva is a clear leader in UK insurance, and it's a company I've always respected and admired from the outside. Our UK Life business is very well positioned. We have leading capabilities. Our brand is a key differentiator. And we have strong relationships with intermediaries. Importantly, our businesses are supported by fundamental trends that underpin our growth ambitions across UK Life. That is why I was so excited and privileged to join Aviva earlier this year.

Now today, we will talk about our Health & Protection business and I'll start with a brief overview and then dive into each of the two businesses, discussing the markets in which we operate, Aviva's distinctive strengths and positions, and the strategic priorities we are pursuing.

We'll leave ample time at the end for Q&A, and I also have Steve Bridger and Fran Bruce alongside me today. Steve and Fran are MDs of Health & Protection, respectively, and I'll call on them during Q&A as needed.

So, the key messages I want you all to take away from today's session are shown on Slide 5. The Health & Protection business diversifies well, is capital and cash generative, and delivers attractive VNB margin and ROE. And given it is capital and cash generative, we are keen to continue to grow the business.

And I'm confident we can do this with the leadership positions we have as well as the attractive market growth prospects underpinned by key trends. And we are well positioned to capture these growth opportunities whilst improving margins with our customer proposition centered on well-being alongside our market-leading capabilities.

So, let's look at a brief overview of Health & Protection on Slide 6. As you know, UK and Ireland Life plays a critical role in the group. We serve over 11 million customers and contribute over 70% of the continuing group's cash generation and operating profit. And within this, Health & Protection plays an important role, both for our customers and also for our shareholders, contributing circa 10% of the UK Life profit.

And in a unique and turbulent year in 2020, Health & Protection seamlessly continued serving 4.5 million customers across our individual policies and another 3.3 million through our group schemes. And despite the unprecedented disruption, delivered GBP2.4 billion in sales and GBP170 million of value of new business, all in an attractive margin of 7%.

Now, we have ambitious, but achievable plans for this business over the next five years, and we're confident in the outlook. We expect to be growing volumes at 6% CAGR. This is ahead of expected market growth. And so we anticipate taking some market share, and we expect to achieve this while growing value slightly faster.

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Now, we are uniquely positioned in the UK as I have shown here on Slide 7, and we take pride in being the only leading player serving all Health & Protection needs of our customers. There are tangible benefits to this, not only for our customers, but in terms of our performance, and I will touch on this in a few slides.

We have built and we'll continue to build on this position, bringing the capabilities of the Aviva Group to our customers. Having a number one trusted brand is a key enabler in these markets. We have a customer franchise of 15 million in the UK, serving 4.5 million individual consumers with our Health & Protection offering, with two million of them holding more than one Health & Protection policy with us. And we also know that our health customers have the highest rate of purchase for other Aviva products.

We've developed strong digital assets. It would make it easy for our customers to engage with us, and our products are powered by our leading data science practice, Aviva Quantum. All of these impact the customer and adviser proposition, and the Health & Protection business will continue to benefit from the scale of Aviva.

Our businesses are intensely focused on the needs of our customers, and this is reflected in the high Net Promoter Scores and the industry recognitions we've received as evident on Slide 8. We know that promoters are 12 times more likely to consider Aviva and 16 times more likely to recommend Aviva. And in protection, through providing life insurance, income protection and critical illness, we help our individual customers find financial peace of mind and our group customers drive an engaged workforce.

In health, we provide private medical insurance for our customers and corporate employees, and our leading positioning and strong tie to our savings and retirement businesses enable us to offer a customer proposition centered on well-being that can holistically cover physical, mental, and financial well-being rather than one specific strand. We know that prevention has clear benefits, employees avoid or recover more quickly from periods of difficulty.

As an example, we might provide support to someone with an anxiety, and help them to avoid a major depressive disorder. Employers also benefit from a healthier and happier workforce. And our investment in well-being prevention helps lower the level of claims we see in these lines.

Now, what sets us apart from our competition is not only our ability to serve all Health & Protection customer needs, but our expertise in serving all of their insurance savings and retirement needs. And on Slide 9, I've highlighted our position as One Aviva facing our commercial customers and intermediaries. Earlier, we saw that two million of our Health & Protection customers have greater than one policy with us, and this also extends to our corporate clients, where they benefit from the breadth of our product offering to promote a safe, healthy, and engaged workforce.

On the right-hand side, you can see three notable examples of this at Aviva. On the top right, we have both a group income protection scheme covering more than 3,000 lives, as well as a private medical insurance scheme. Importantly, there is connectivity across

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these schemes. If an employee needs to make a claim, one member of our team can take them through this process across both health and protection policies. So we're providing a unified claims experience, which we call, Active Care. This has benefits to the employee, employer, and we have seen improved persistency from those that use Active Care. And our workplace proposition also benefits from being able to offer a wider range of benefits.

You can see a couple examples where Health & Protection and workplace pensions business have worked together to provide further benefits for pension scheme members. One of the things that has been most impressed with -- I'd be most impressed with since joining Aviva is the passion that is shown for our customers. And I see this every time I visit one of our sites. We know it has been a difficult time for many in the UK over the last couple of years and I'm proud that Aviva has been able to continue to provide outstanding claims support and service for our customers throughout COVID.

You can see some great examples of this on Slide 10, including on the bottom left, Project Teddy, where we fast track children's cancer claims and arrange personalized gifts for the children and their families. We go above and beyond to make sure our customers are looked after by delivering on easy fast claims payouts, rehabilitation services, and new healthcare pathways. And this is evident in the high Net Promoter Scores we consistently achieved, a result I'm really proud of.

So, let's move on to our Health business, which to me has tremendous growth opportunities. The UK private medical cover market consists of private medical insurance for both consumers and companies as well as healthcare trusts for companies. The mix between companies and consumers is circa 60%-40%, respectively, and with the company segment over 80% of the -- within the company segment over 80% of the business is intermediated.

You can also see the importance of direct, particularly in the consumer channel, where it accounts for almost 60% of new business. We expect the market to grow by 3% going forward, which is ahead of recent experience, and we expect to grow ahead of this as we capture some market share.

Slide 13 shows the fundamental market trends that will drive this expected growth. No doubt, the aging population and increasing demand for healthcare is putting stress on the NHS, and COVID has added to the constraints. Our proposition is complementary to the NHS and the amazing work that they do.

Nonetheless, ever-increasing pressure on the NHS, including growing waiting lists will drive further growth in the health market with co-existence of public and private healthcare service providers. Many of us have heard of up to five-year waiting list, and the expectation is demand for elective procedures will grow by circa 30%.

And there will be lasting impacts of the COVID pandemic. We are now seeing heightened awareness of overall well-being and accelerated adoption of digital and telehealth services. This means increasingly, employers are expected and want to do more to

protect their employees' health and well-being. As a result, more companies are now actively putting in place health and well-being strategies to support their employees.

Now, as you can see from Slide 14, we are number three behind the two leaders that have circa 70% share. This gives us a fantastic opportunity to grow in a market that is also growing. Importantly, through our joint venture with Vitality, we are able to combine our scale to procure healthcare services effectively and efficiently. So, even though we are number three, we still have a market-leading expense and core ratio, which allows us to compete with the two leaders.

I also believe we are equipped with the right capabilities to grow and compete for market share. Our brand in the UK is leading and we are recognized as a strong service provider. Our digital prowess means over 70% to customer journeys are digitized, and more importantly, 100% of claims can be started on MyAviva. We also are number one in company broker Net Promoter Score and penetration, while seeing fast growth in new business written with consumer brokers. And we have seen this growth through innovating.

For example, we launched our Expert Select proposition earlier this year and it has been a key driver of growth for Aviva in the consumer channel, helping us reach the significant milestone of one million insured lives for the first time.

I said I was excited about the growth opportunities in health, and on Slide 15, show the three clear strategic priorities that will deliver this growth. Turning to the first of these on Slide 16; when it comes to focused growth areas, our five-year ambition is straightforward. Increase the PMI contribution from the combined higher-margin consumer and SME segments to more than 50% and maintain the scale in corporate. And within the consumer and SME segment, we have an ambition to see direct business account for more than 25%.

This will help us meet our ambition to increase our VNB margin to circa 10% from 7% previously. And we're really confident we can deliver this growth in consumer and SME. In particular, we've been focusing on frictionless underwriting journeys, making it easier for customers to purchase from us directly. We're also benefiting from Aviva's investment in digital and data science in recent years.

For example, our personalized pricing can incorporate postcode data, and more and more of our processes are becoming fully digitized, improving efficiency and service. For example, all claims can now be started on MyAviva.

We work hard to provide the best value possible for our customers, and this can be seen on Slide 17. And we do this through a value-based healthcare framework underpinned by a combination of quality of service, ease of use, and cost of delivery. We are transitioning from a payer of bills to a commissioner of care, where we guide the customer through a pathway that considers the benefits a customer gets in terms of health improvement and ease of journey.

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This represents better value in terms of optimizing clinical outcomes and the cost of providing treatment. And we know good quality care often goes hand in hand with efficient lower cost provision. In finding the optimal balance, we have realized a 5% reduction in claim costs and have seen 100% increase in consumer new business premiums directly due to the launch of Expert Select, our guided approach to health insurance.

Finally, turning to Slide 18; innovation plays a big part in how we engage with our customers. On the left-hand side of the slide, I've included a few of our recent innovations that have shown great promise in driving customer engagement. One I want to highlight, in particular, where impressive progress has been made is Aviva Digital GP.

As you can imagine, it has gone from strength to strength during the pandemic, as individuals felt more comfortable speaking to a doctor from the comfort of their home. The key benefit of this service is that individuals can log into the app and book an appointment with a GP of their choice at a time that suits them and usually within 24 hours. And we've seen a 70% growth in uptake since before the pandemic.

So, in our Health business, we have seen -- we have some tremendous growth opportunities driven by the capabilities and customer offering, clear segments and channels we can target, as well as positive market dynamic -- market trends and dynamics. I'll now move on to protection, where we already have market leading positions in many areas, but some great opportunities to further leverage these.

We believe the market is fundamentally strong for both group and individual, although they displayed different dynamics in the face of the pandemic in 2020. Growth in Group Protection was sustained, thanks to the government's intervention to protect companies and jobs. However, the individual protection market was negatively impacted by lockdown measures affecting the housing market and the face-to-face distribution of protection products.

Distribution has been able to adapt to these changes, and looking forward, we believe both group and individual protection markets will continue to grow at 5% per annum, driven by the fundamental trends shown on Slide 21.

There's a well-trailed protection gap in the UK, and we continue to see a greater expectation on the workplace employer to play a bigger role here. Our group products and crucially the focus on well-being and support we offer in the workplace links directly to this. In addition, we are focused on the evolving needs of different life stages to ensure our offerings are more relevant as societal trends evolve, such as simple or low-cost protection to support changing home-buying trends. For example, more people renting and delayed life events.

The growing focus on well-being and use of digital and data are also shaping both customer behaviors and their needs. People are increasingly aware of their health and that of their loved ones, and they're taking the steps to ensure they have the right

protection in place. So we continue to align the business to a number of these trends as it shapes where we see the growth opportunities in this market.

Looking at our market positions next on Slide 22, we're the second largest player with 18% and 15% market share in group and individual protection, respectively. The market-leading capabilities we have in critical areas is impressive. Our claims excellence is illustrated by high Net Promoter Scores across both group and individual protection. We have strong relationships with our distributors. For individual protection, we are number one in terms of intermediary penetration. For group protection, we are consistently the number one recommendation by the two largest insurance brokers.

For both group and individual protection, our underwriting and claims capability is ranked top two in the market, and we're recognized as having leading digital capability and innovation. DigiCare, which I'll go into more detail on later, propels us into being the provider with the best overall value-added service proposition in individual protection and the most innovative provider in group protection. We've also made significant progress in straight-through processing, growing through the current 80% from 73% at the beginning of the year, making us more efficient and easier to do business with.

On the next few slides, we will go through our three key strategic priorities in Protection to leverage these market-leading positions. I will start with our customer and distribution reach on Slide 24. In group protection, we have material room to grow in small and mid-market, and we will do this whilst maintaining our position in large corporate. By focusing on tailoring propositions and marketing to win more in the SME space, continuing to excel at relationship management to sustain our position in large corporate, and building out DigiCare and other value-adding services to retain our competitive edge, driving higher retention, and new business wins.

On individual protection, our ambition is to accelerate growth in new business premiums from the combined, direct, and intermediated non-advised segments, the latter of which includes price comparison sites and telephony to account for more than 20% of our portfolio. This will more than double our current share of direct and intermediated non-advised amounting to around three percentage point increase in market share.

In order to achieve this, we'll focus on three areas. Accelerating in direct through targeted marketing of compelling easy to by propositions, driving incremental growth in the peer level term sector. We have been underweight in this market, but through account engagement and utilizing our expertise in pricing and underwriting, we are looking to achieve panel positions, which will have an immediate impact on volumes and bring scale benefits. And lastly, we're building our presence on comparison sites using the Aviva and Quote Me Happy brands.

Our second ambition for protection is to further increase productivity through increasingly digital propositions. For group protection, even though we're still in the nascent stage of our digitization journey, we strongly believe we can achieve 70% automation. For individual protection, we don't plan to stop at 80% straight-through processing; we're convinced

85% is within our grasp. And across both group and individual protection, progress is gathering pace on digitizing our back-office functions and processes.

For group protection, as mentioned on the previous slide, we'll work towards delivering on a digital journey tailored for the SME on a platform with comparable capability to the market leader. For individual protection, where appropriate, we'll deploy dynamic journey, which is underpinned by predictive modeling of two million underwriting outcomes and streamlines the customer journey. We're also leveraging machine learning to significantly reduce our average claim time. And we will continue to use our expertise in data science and machine learning, supported by Quantum, to improve our costing assumptions, pricing sophistication and targeting.

Finally on Slide 26, as mentioned briefly before, DigiCare has been a truly differentiating innovation, giving our protection customers access to the tools they need to look after their health and wellbeing. It encompasses health and lifestyle services, including an annual health check, making us the only scale provider offering an annual blood best health check for free.

Treatment in Digital GP, which we discussed earlier in the health deep dive, and it also provides practical and emotional bereavement support. So far, DigiCare has been performing really well as you can see in the performance indicators I've included on the right. It is these sorts of innovations that will bring customers to Aviva and help drive higher and higher retention over time.

So, finally, before I go into Q&A, I just want to recap the four key takeaways on Slide 26. Reinforcing my enthusiasm for these tremendous businesses and the opportunity they have. Health & Protection is a key market, it is both cash and capital generative for Aviva. We are the only scale UK player with leading market positions serving all customer needs. You saw the examples of DigiCare and Digital GP, where we have been able to optimize the benefits for our customers.

There are very attractive growth prospects underpinned by key trends. And we're well positioned to capture growth opportunities at attractive margins with a customer proposition centered on well-being as well as market-leading capabilities, where we have real strengths in distribution, underwriting, claims, data and digital and innovation.

Thank you very much. And I'll now hand back to Jason to kick-off the Q&A.

Questions And Answers

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

(Question And Answer)

Great. Thank you, Doug. And for the Q&A, I'll just run through the protocol. So, if you want to ask a question, please click on raise hand in Zoom. I'll then call your name, and will

unmute your line. And you can go ahead and ask your question. Once you had asked your question or if you wish to withdraw the question, please lower your hand in Zoom.

So, with that, our first question comes from Alan Devlin of Goldman Sachs.

Q - Alan Devlin {BIO 5936254 <GO>}

Hi, guys. Thanks for the presentation today. A couple of questions for me. First of all, on the -- can you comment more on the growth outlook and what could accelerate or disrupt that growth and why Aviva is well placed to capture that growth? And particularly on the Health side, I think you said the Health market growth was a shaker 3%, which seems surprisingly low to me given the pressures on the health service and the demands for elective procedures and the Digital GP, which you mentioned. That was my first question.

And the second question, your big differentiator is that you're the only player covering both the Health and the Protection markets. How much of a competitive advantage is that for you guys? And how much of that has been levered in the past? Because I seem to remember that your accident health -- managed separately at a global level at Aviva in the past. Thanks.

A - Doug Brown {BIO 17345990 <GO>}

Great. Okay. Thanks. Thanks, Alan.

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

Okay. Thanks, Doug.

A - Doug Brown {BIO 17345990 <GO>}

Yes. First question on the growth outlook. Like first, actually getting really good data in the Health market is actually a challenge. So, we've had to use, if I call it, anecdotal, but we deal a lot with other providers, the suppliers and so forth. We can see the trends in the market, which I talked about in terms of increasing demand for elective procedures and so forth. And with that, we believe there's -- the 3% growth is valid. We'll have to see whether or not that ends up more. Obviously, there is other pressures on the NHS. There's inflationary pressures that could also drive the growth, but that will then make us think about our propositions and how we move forward. But I think the 3% we're pretty confident on.

And on the Health & Protection market, just trying to --

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

The competitive advantage of being in Health & Protection.

A - Doug Brown {BIO 17345990 <GO>}

Yes. So look, I think I mentioned, for example, that our Health customers have the highest rate of purchase of other products. I think it's at about 10% versus an average rate of 5%

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that we see elsewhere. And actually, of those sales, 70% of those would be in GI. And I talked about our corporate clients. We know that 40% of our corporate clients hold multiple products with us as well. All that means when we look at what we do with -- I sort of explained active care, how we coordinate with advisors, the solutions that we could put in place for those employers does improve the persistency that we see. So, we do think it's -- it helps us. And obviously, it's baked into our leading positions that we have. And clearly, as a team, we continue to be focused on ensuring that we get that collaboration moving forward.

Q - Alan Devlin {BIO 5936254 <GO>}

Thanks, guys.

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

Okay. Thanks, Alan. Next question comes from Blair Stewart. Please.

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

Thanks very much, and two questions, please. I just wonder if you could tell us a little bit more about the DigiCare. You talked about free NHS GP appointments, I just wonder how that actually works, given the pressures on that system. And you also talked about being the only provider to give annual health checks. I think you said those were free as well. So, just really trying to understand the revenue model for Aviva there.

And secondly, I was interested in the comments around the Individual Protection and the very small proportion of that market that was direct. I thought it would have been higher. I just wondered, is that -- are those stats that you've given the market or is that where Aviva is? And yes, just interested a little bit more color as to how you can drive more direct sales in that market, which I thought would have been relatively straightforward for Individual Protection.

A - Doug Brown {BIO 17345990 <GO>}

Yes. So, why don't I take the second one first and then maybe I'll get Steve to expand on DigiCare?

But we do see the direct -- so the stats that we're showing are actually the market. So, that's not Aviva. So, the direct market Individual Protection actually is quite small. So, if you think of the price comparison websites, they are a very small contributor to the market today. We do think that that could change moving forward. Obviously, the margins are potentially lower in this area, but that's also because the products that will be produced are simpler. So, there is opportunity; and within our plan, we are engaging with those price comparison websites and looking at the offering. But it still is a relatively small part of the market. Clearly, the intermediated space is by far the largest.

And Steve, maybe get you to answer the DigiCare?

A - Steve Bridger

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Yes. Sure. Hi Blair, good question.

On DigiCare in particular, we're talking more around private GPs. So, taking strain away from your -- the local GPs, and we're seeing really strong usage around the 6,000 appointments a month in the Health space. So, it really has driven up that increase due to COVID, and we're seeing that stick. So that is taking pressure away from local NHS GPs. The annual health check part, it was a key part for driving value for customers.

In particular, those sort of biomarkers around understanding your health as it is now and the improvements you can make going forward in a manner that traditionally Protection products haven't offered. And to your point on the revenue side and how we've made that happen, we actually combine our strength across Individual Protection, Group Protection, and Health. We have a single supplier to ensure that unit cost is supportive and that we don't pass increased cost into the street price to customers.

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

Sorry, to clearly just understand better, you talked about, I think, the presentation mentioned NHS GPs, but you're talking about private GPs and the customers pay for that. And just what is the charging model around some of these services? It seems like you're offering a lot of free, it's great for the customer, but what about the shareholder?

A - Steve Bridger

Yes. So that's part of the -- obviously, the negotiation with the suppliers. So, from the Health point of view, that is provided for free on those appointments. We don't charge for those. It's slightly different on the Protection side just to stop passing additional cost into the premium, but that is obviously an attractive rate for customers.

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

Good. Thank you.

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

Right. Thanks, Blair. Our next question is from Dom O'Mahony.

A - Steve Bridger

May be on mute.

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

Dom, go ahead.

Q - Dominic Alexander O'Mahony

Sorry. Can you hear me now?

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

Yes, we can. Thank you.

Q - Dominic Alexander O'Mahony

Sorry about that. Still struck with the mute button. Firstly, thank you for the presentation. It's a bit of a business and a segment that I probably understand the least, so really useful. Can I just ask firstly a question about distribution. I had been under the impression that a lot of UK protection was sold through the bancassurance channel. I'm wondering whether that's right. And if it is material, where it's showing up? Is that an intermediated advised segment here or is it elsewhere? And more broadly, what are your thoughts about the direction of travel on bancassurance?

And then -- sorry, I wonder if I could ask a couple of questions around the sort of the capital generation side. Is this a product, where a lot of the capital generation is quite front-loaded? I can see that in Health, clearly, it's sort of an annual renewal and I think in Group Protection, most of it is annual renewal. On Individual Protection, we have quite a long duration of contracts, is the capital generation front-loaded, the self-capital generation front-loaded or is it actually distributed across the policy duration? And sort of relatedly, I think this is my third question. How -- to what extent are the economics impacted by market movements? So, interest rates, for instance, do they matter or not? Thank you.

A - Doug Brown {BIO 17345990 <GO>}

Okay. Right. So, I think the first question was on distribution. So, I believe the bancassurance would be included in the intermediated section. So, it's still -- obviously, bancassurance is important, but it's probably not as prevalent as it was 10 years ago, like that, but there are still deals and so forth out there. But it's embedded within that number. So, we'd have to get back to you to sort of break that out to provide that split.

On capital generation, I mean, roughly, I always think the -- if we look at the VNB, there is a pretty good correlation on the capital that's -- what we call OCG, a fairly high correlation to that VNB. And obviously, you've got the short-term products in terms of the Health and Group Protection, you got the longer term. But actually, there is sort of minimal strain. We do use quite a bit of reinsurance, particularly Individual Protection, where pretty much 100% of the mortality is reinsured. So, you're not really getting the profits sort of spread out over time, which is why I think it's good to kind of think of the VNB and the correlation with what the capital can generate.

And then the third question on the economics impacted by market movements, I might leave that one to you.

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

I mean there's not a lot of economic risk in this segment. It's pretty -- it's really biometric. So, the VNB is very much the estimated claims. As Doug just said, it's heavily reinsured on the IP side and then the Health side, there's very little interest rate or other economic movements coming through that one.

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Q - Dominic Alexander O'Mahony

Great. Thank you very much.

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

Our next question is from Greig Paterson.

Q - Greig Norman Paterson

Good evening, everybody. I hope everybody is good. Can you hear me?

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

Yes, thanks. Go ahead, Greig.

A - Doug Brown {BIO 17345990 <GO>}

We can. Thank you.

Q - Greig Norman Paterson

I have the traditional three questions. The first one is all I hear about when I listen to your competitors is the proliferation of fintech, new entrants, health, and welfare ecosystems. I mean, Aviva is larger, more institutional, I guess, less number. I worry that you are going to get into a tech arms race that you might get top-line growth, but you'll kill off your profit. And we've just had the experience of your Aviva Garage, which I think is a bad case study. I was wondering what you're going to be doing different from the Aviva Garage to give us confidence that not going to have a repeat of last time.

Second point is Vitality. And I wonder if you could just inform us what part of the health and wealth ecosystem they are providing, because I actually thought they were a competitor. And just give us an idea of how the charging structure works there.

And finally, something pop my ears up when you said post-code pricing in Health. Isn't that -- you're going to start under is that in violation of ESG, the middle part of that economy? I don't think you're going to run into equity issues if you start underwriting on demographic groups and not individuals. So just to me, that's a red flag and if you just want to talk about that. Thank you.

A - Doug Brown {BIO 17345990 <GO>}

All right. Thanks for that. Yes. I mean, obviously, I wasn't around for the Garage and other things. But we still work, I think Ben Lockett is continuing to run that. And I don't know how it worked previously, but clearly now, there's very good engagement with the business, and we work together, looking at opportunities that ultimately can benefit any part of the Life business in GI for that matter. So, there's fairly tight investment requirement around that. We know what we're doing each year. And we sort of move forward. So, it's -- I see it as quite an opportunity. We have examples, where we have a few things in sort of test and pilot right now, both on the Health side and Protection side. So, it gives us the ability to sort of test and learn. And I think we'll obviously continue to do that.

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The second question, Greig, on Vitality; yes, they are a competitor. But what we do is we actually have a joint venture, a separate company joint venture with them, where we combine our purchasing power to effectively negotiate with suppliers and hospitals and so forth. So, it's just -- it enables us -- I always think relative market share is very important. And you sort of look and say, well, we're Number 3, and we're quite a way behind.

But I think that's why I wanted to make the point with that arrangement with Vitality is by sort of putting the two together that we're not at a disadvantage versus the two leaders. And then finally, on post-code underwriting, I'd have to think about that one, but I don't think it falls foul. I mean, obviously, the more that we can do sort of with Quantum and data science and using their science and have more personalized were personalized underwriting. We're doing that. I mean post-code underwriting is being used for years in annuities, and it can be used in the Health business as well. So, I don't see that as a problem moving forward.

Q - Greig Norman Paterson

Thank you. Thank you.

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

Okay. Thanks, Greig. Our next question is from Nasib Ahmed from UBS.

Q - Nasib Ahmed

Hi. Thank you for taking my questions. So, two questions. I think you alluded to in your opening comments as well on the Health & Protection take-up increasing post the pandemic. Just if you could comment a bit more on the trends there. And anything related to this on the reinsurance side as well, how is reinsurance pricing changing post the pandemic, if it is at all?

And then second question, it's kind of an extension of an earlier question, I think it was the first one around the product suite that Aviva has to offer its customers. So, I think when I look at the list of competitors, you're the only one that offers non-life as well. So, is there sort of -- are you continuing to access the cross-selling opportunity there? I know there was a focus in the past. Thanks.

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

Great. Thanks, Nasib.

A - Doug Brown {BIO 17345990 <GO>}

Yes. Okay. So -- yes. I mean I think we outlined some of the trends. Obviously, there's an expected market growth that we've put in there. But we have seen within the business this year. I sort of talked about the success that we're having in the consumer lines with Expert Select and other things. So, we are seeing good demand for Health products at the moment. Protection is still being, obviously, we've had stamp duty changes that sort of came in and coming out, and that did drive quite a bit of demand. That obviously came to an end earlier or just, I think, in September, October. But we are continuing to see

demand for Protection. We do monitor searches and Google searches and try to understand how many people are searching for it and so forth, and there definitely was a spike. I think let's see as the longer the pandemic goes on and people get comfortable that may change. But we clearly did see increased interest from a Google search perspective in Protection.

And then on the product suite, I mean, I think I was mentioning even within our corporate customers that about 40% of them have one or more Aviva product. We do work across our intermediary channel with our GI colleagues from that perspective to ensure that we're maximizing the relationships that we have both with the employer and intermediaries. We obviously have some success. If you think the Health customers, obviously, through MyAviva app. They'll go into MyAviva app more so than, say Protection - Individual Protection customer, who might be looking once a year or so forth.

And we do see, as a result of that, when they go into MyAviva, there is the ability to sort of have the marketing permissions on the GI side. And as I sort of mentioned, we do see the Health customers with a higher rate of purchase than others. So, I do think it is something that Aviva can leverage, and we can leverage more. And I know there's lots of work that we're doing to continue to improve the customer experience through MyAviva and make it seamless, and I think that will bode well moving forward.

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

Okay. Thanks, Nasib.

Q - Nasib Ahmed

Anything, sorry, on the reinsurance trends?

A - Doug Brown {BIO 17345990 <GO>}

Oh, yes. On the reinsurance, maybe Steve or Fran; Fran?

A - Fran Bruce

Yes, I can pick up on that one. So yes, we have seen some changes in the reinsurance market, and we've seen rates have started to harden slightly. So, some of our segments, we have been be tendering and having a look at what the pricing are doing there. So, it is a factor that we expect to see continue certainly in the short term. So, yes, a bit of hardening on those rates.

Q - Nasib Ahmed

Thank you. Thanks for that.

A - Doug Brown {BIO 17345990 <GO>}

Thank you.

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

Great. Thanks. Our next question is from Andrew Crean.

Q - Andrew Crean {BIO 16513202 <GO>}

Good morning, all. I've got three questions for me. Firstly, do you think this is an area, where M&A made their part in order to consolidate? I mean you've obviously got a relationship with Vitality already? Secondly, you talked about margins in the whole area coming up gently over the next five years. And -- but the Health margin is rising from 7% to 10%. Does that imply that the Protection margin is likely to contract? And if so, why? And then thirdly, could you talk a little bit about IFRS 17 on this area?

A - Doug Brown {BIO 17345990 <GO>}

Sure. And then IFRS 17, so thanks for that. Why don't I start with IFRS 17? I mean Solvency II, it continues to remain the economic basis for pricing and measuring performance of the business, and group and Health & Protection are short duration. So, from an IFRS 17 perspective, there's no impact. Obviously, Individual Protection is long duration. So, we do anticipate giving the spreading out over a longer period of the profit that the profit will be slightly lower initially on that. But underneath that, the fundamentals in terms of the economics and how the cash flow materializes and utilizing doesn't change under IFRS 17.

The -- on the M&A point, look, we're very happy with our businesses and the capability that we have, but we're always -- not -- we will look if opportunities arise, but it's not something that we're actively pursuing within this business. And then I think your last question, Andrew, was on Protection margin. And yes, I mean, we are anticipating growth in the margin on the Health business, as you can see. It still forms a proportion of the overall. So, the expectation is broadly neutral, I believe, on Individual Protection moving forward. Obviously, as we look to grow in the non-advised sort of telephony and looking at peer term, the margins are a bit lower there. But then again, you're spreading potentially through volumes, you're spreading your fixed costs. So, we anticipate that margins should remain.

Q - Andrew Crean {BIO 16513202 <GO>}

Group Protection margins?

A - Doug Brown {BIO 17345990 <GO>}

Yes, that was Protection margins, sorry. Group Protection.

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

I think between the two, I think individual is pretty much flat-lining from here. Group Protection may be slightly down. We had a very strong 2020. Most of that effect actually is in '21 already. We've seen that in the first half.

Q - Andrew Crean {BIO 16513202 <GO>}

Okay. Thanks.

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

(Operator Instructions) We do have one -- next question from James Shuck.

Q - James Austin Shuck {BIO 3680082 <GO>}

Thank you and thanks very much for the presentation. First question is just on the margins, because I think going back a few years now, you used to target some margins in terms of Protection as a percent of APE, which is a 40% to 50% number and the Protection margin on the in-force premium, which was 7.5% to 8.5%. Just keen to know where those margins are now, because I don't think you actually make the disclosure anymore on that basis.

Secondly, I -- apologies if I've missed this, but I can't find the presentation actually on the website at the moment, so I can't look back. But just keen to get insight into the kind of whole ecosystem and the value chain and how far you can actually go in it, because there's all sorts of things to consider in terms of breaking it down into kind of prevention and then treatment and wellness and how much of the hospital networks you might be involved in and how much doctors you actually have on your distribution and then all of the kind of post kind of recovery services that could be provided as well. So, just keen to get a bit more insight into how you see that overall ecosystem and your role within it? Thank you.

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

So, I remember very much the number. We don't actually report on that basis any further although we were struggling to be within that range, because we were above it on the Protection side. I'd have to come back to you specifically, James. So, I would expect the new business to be roughly in that range, probably in 2020 for IP at the lower end, actually, within that range going forward. But let me just rerun that, we don't use the APE metric at the moment.

Pick up the second.

A - Doug Brown {BIO 17345990 <GO>}

The second one, I might -- maybe get Steve to expand on that.

A - Steve Bridger

Hi, James. So, it's a tough one to answer really concisely in terms of where you spend your focus on prevention, well-being in treatment. But in terms of that wider ecosystem, we obviously work with all the national providers and specialist clinics. And we're starting to move more to guiding our customers, i.e., this commissioner of care rather than just payer of bills, which means we engage a lot more with pathways and networks.

Networks are effectively our version of value-based healthcare, where we send our customers to those high CQC rated, the Care Quality Commission, the outstanding and good hospitals. You can be assured of strong care and treatment for a given value. At the moment, for example, hip and knee network in terms of a highly elective procedure, we

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would see around 70% adoption. In other words, 70% of our customers would be moving into those networks to help us manage that supply chain and keep those costs affordable.

Q - James Austin Shuck {BIO 3680082 <GO>}

Okay. That's very helpful. If I can ask another quick question just to complete the trio, so 2019, I noticed that the Protection earnings were down 25% in 2019, and the reason given at that time were higher reinsurance costs. So, I just wanted to kind of circle back on that reinsurance. How do you use reinsurance on the Protection side? Is it quite a share? Is it excess loss. I mean, why is that having such a big impact on the volatility of earnings?

A - Doug Brown {BIO 17345990 <GO>}

Yes. So, it's a bit of a mix. But if we think of life protection, we -- as we mentioned earlier, we pretty much reinsure 100% of the mortality. So, the reinsurance rate and then ultimately, what you charge the customer will have an impact in terms of the margin that you see on IP, which is more income protection, it's a bit more traditional in terms of the reinsurance that we use from that perspective.

Fran, I don't know if you wanted to --

A - Fran Bruce

Yes. So, the only thing I would add there is on the Group Protection side, we only use -- we use it to use towards more traditionally, but we use it more in sort of peak risk managing catastrophe risk, et cetera. So, as we don't reinsure as much of the pure mortality and morbidity risk in that space, we do sometimes get more volatility in our earnings. So, in some years, we get more -- we get stronger earnings as we've experienced certainly over the last 18 months. And in other years, we may not. So, we do see a bit more volatility in our Group Protection earnings than we do in IP, which are much more stable.

Q - James Austin Shuck {BIO 3680082 <GO>}

Okay. That's very helpful. Thank you very much.

A - Doug Brown {BIO 17345990 <GO>}

Okay. Thank you.

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

Thanks, James. So, our next question is from Ming Zhu.

Q - Ming Zhu {BIO 17001429 <GO>}

Hi, good morning. And thank you for taking my question. Just two questions, please. First is on the three products, three lines, how sticky is the business? What's -- is there big difference between retention for each of them? And my second question is, do you have any M&A appetite in the Health & Protection market or you are aiming for organic growth only? Thank you.

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

Okay. On the M&A one, I mean Doug answered that briefly to Andrew. I mean we would look at something. There's nothing that is proximate or that we see that is obvious. I think M&A more broadly, we've said we are looking for sort of capacity and capability extension, where that does make sense, but there's nothing here that I would be flagging.

The question on the stickiness?

A - Doug Brown {BIO 17345990 <GO>}

The stick -- I mean, I'll answer it in -- retention is clearly something that we're focused on and can drive value. So, if you think of our Group Protection book and if you have about GBP500 million of in-force, a 10% lapse rate effectively means you need to write GBP50 million, so a business just to sort of stay level. So, if you can impact even by 1%, that's definitely going to help and will help grow the business, which is why we're focused on the value-added services, which is why we're focused on working with our other colleagues in other areas to make that more sticky. The lapse will vary. It will vary versus a large corporate to an SME on the Health business, it will differ from the Group Protection, and obviously on Individual Protection. Lapses are important, because you're looking to make sure you can spread out the acquisition cost over a long time. So, for all those reasons, we're constantly looking at what we can do to increase the persistency of the business.

Q - Ming Zhu {BIO 17001429 <GO>}

Thank you.

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

Great. Thanks. So our next question is from Fahad Changazi. Fahad?

Q - Fahad Changazi {BIO 20210952 <GO>}

Hello.

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

Good morning.

Q - Fahad Changazi {BIO 20210952 <GO>}

Good morning. Could you talk about the competitive environment in Protection? And we expect growth in direct. For example, are you confident of holding market share in the intermediated space? For example, Lloyds is looking to aggressively grow its market share in Protection from here. Thank you.

A - Doug Brown {BIO 17345990 <GO>}

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Yes. I mean we are confident. And obviously, competition is always there. And one of the things within the Protection market, particularly in the Group Protection, you can get outliers every now and there in terms of wanting to buy market share. And I think we've been -- Aviva has been quite sustainable in the pricing and don't go down the route, because it's not longer term of benefit. And clearly, on the Individual Protection. Others might have plans. I think we've got very -- particularly within the intermediated space, we've got very good relationships, and it's an extremely important channel for us, and we continue to focus on the relationship side to maintain that. And then as I said, we have some opportunity to grow in some of the other areas, where we think we're able to compete versus others.

Q - Fahad Changazi {BIO 20210952 <GO>}

Okay. Thanks.

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

So, I think this is our final question from Steven Haywood.

Q - Steven Haywood {BIO 15743259 <GO>}

Good morning. Thank you. I only had one question. It was on the -- back to the growth rate of the market in Health. You're saying 3% per annum, and is this a growth rate on a number of policyholders or a number of -- a total size of premiums? Because it seems quite low if you take into consideration inflation, particularly medical inflation, which might be running at a higher cost. Can you expand on that?

A - Doug Brown {BIO 17345990 <GO>}

Yes, sure. Look, the growth rate is premium. So, it's not number of policies. And you're right. I mean, if you think of medical inflation typically is probably around 7% or 8%, but through the work that we do with suppliers and the pathways and the other things I know, Steve expanded on, we're able to get that down lower to about 3% or 4%. So -- but the overall growth rate is that you're looking at isn't by policy, but by premium.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you.

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

Okay. Thank you. That is the last of the questions. So that brings the meeting to a close. I'd just like to thank you all very much for joining the call this morning, and particularly to thank Doug and Fran and Steve for today's session.

We are planning our next focus session in January, which will be on UK General Insurance Commercial lines. We'll be announcing the exact time and details of that in due course.

In the meantime, thank you all very much.

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