Y 2020 Earnings Call

Company Participants

- Amanda Blanc, Chief Executive Officer
- Jason Windsor, Chief Financial Officer

Other Participants

- Andrew Crean, Analyst
- Ashik Musaddi, Analyst
- Blair Stewart, Analyst
- Colm Kelly, Analyst
- Gordon Aitken, Analyst
- James Shuck, Analyst
- Jon Hocking, Analyst
- Larissa van Deventer, Analyst
- Oliver Steel, Analyst
- Steven Haywood, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to Aviva plc Full-Year 2020 Results and Strategy Update. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. (Operator Instructions) I must advise you, this conference is being recorded today on Thursday, the 4th of March, 2021. I will now hand the conference over to your Group CEO, Amanda Blanc. Please go ahead.

Amanda Blanc {BIO 19138679 <GO>}

Good morning, everyone. Thank you for joining us for our 2020 results presentation. As usual, I'm joined today by Jason Windsor, our CFO. And I've said this at previous financial updates but it's worth repeating. So I do hope you're all staying safe and keeping well.

Before we get into the detail of today, let me start by saying how incredibly proud I am of Aviva's response to COVID. Our people have consistently stepped up and delivered beyond expectation since we sent the home to work remotely in March last year. They've continued to deliver for our customers during what I think we can all agree have been the most challenging of circumstances. And Aviva has also stepped up the support we provide to our communities, from GBP43 million of charitable and community donations to providing support to highly deserving NHS staff. I would like to take this opportunity to say thank you to each and every one of our employees.

Turning to today's agenda shown on slide three, first I will provide an update on the progress we are making towards our strategic priorities. Second, Jason will take you through the full-year results, and finally, I will provide you with further color on how we are transforming performance and accelerating growth in the UK. We will then open the lines for your questions.

So, let's turn to slide five. Seven months ago, I set out three strategic priorities for Aviva which to remind you were, focus the portfolio, transform performance and financial strength. I'm pleased to report that we are making excellent progress on all fronts. We said we would focus on the strongest businesses in the UK, Ireland and Canada, and manage our international businesses for long-term shareholder value. And that is exactly what we have done.

In less than 7 months, we have announced the exit of France, Singapore, Italy, Hong Kong, Indonesia, Vietnam and Turkey. The sales of France and Italy are of course the most significant steps forward in Aviva's strategic transformation. We have strengthened our capital and liquidity, materially reduced our balance sheet exposure to macro risks and realized significant value for our shareholders. We've also made good early progress on the critical task of transforming the performance of our core markets, effectively the new Aviva. But there is still much to do, more on this in a moment.

Central to the delivery of our strategic priorities is the financial strength of the business. We continue to benefit from a robust balance sheet with a healthy capital surplus of GBP13 billion, cover ratio of 202% and central liquidity of GBP4.1 billion. These will further strengthen as we complete the announced disposals in 2021.

In November, we set out our clear intent to deliver sustainable ordinary dividend to our shareholders covered by capital generation, cash remittances and growth from our core businesses. Today, we are announcing a full-year 2020 dividend of 21pence per share with a final dividend of 14 pence per share.

Now moving on to discuss our trading performance on slide six, despite the challenges we all faced in 2020 our financial and trading performance has been robust with record trading results in the key growth areas, 8% year-on-year commercial lines growth, GBP6 billion of BPA new business sales is a record for Aviva, GBP8.5 billion of savings and retirement net inflows.

There were less than pleasing performances in personal lines where topline fell and Aviva Investors with weak profitability. Rest assured, we're on it and these issues are being addressed. We are ahead of our plans in delivering GBP300 million of cost savings by the end of 2022, with a GBP100 million achieved -- GBP180 million achieved to date, all of which contributed to GBP2.5 billion operating profit from our core markets and GBP1.4 billion of cash related to the group, a much stronger second-half performance.

However, turning to slide seven, it is clear to me we need to do a lot more to truly transform the performance of the new Aviva. This is crucial to our future success and to deliver value to our shareholders. We currently serve 18 million customers across our core markets. And our business must be built around each one of them, serving their needs seamlessly and efficiently, regardless of whether they are an individual, a business or an intermediary.

My intention is to focus Aviva on serving more of our customers' needs, especially where we have leading positions and clearly have the capabilities to win. We will be targeting growth. We have an absolute focus on execution with the goal to building upon these leading positions and creating further value for our shareholders.

As we've [ph] said before, we will not be holding the Capital Markets Day. This is not what is needed here. You may even be relieved that you won't have to see sit through one. Instead, we will be providing you with regular strategy updates and occasional deep-dives into our businesses. Consistent with this, today I will be providing an update on the UK, our largest and our home market. In future sessions, we will provide you with updates on Canada, Ireland and Aviva Investors.

Let's move to slide eight. A key part of delivering the necessary transformation starts at the top of the house. In my first statement as CEO, I have made seven appointments to my leadership team and we are now strengthening the next layer. All our leaders have a very clear understanding of what is expected of them, from what they need to do to how they need to do it. When I arrived, 90% of employees had no performance ratings or even simple conversations on how they were performing. How on earth can we raise our game if we're not having honest conversations on performance.

I have made immediate changes so that everyone has simple, clear, aligned objectives and understand how they are performing. This will help us to deliver and develop and retain our people, deliver on our objectives and attract the critical talent we need into the organization. I'm breaking down the silo mentality and establishing a unified, collaborative approach and culture across the business.

If we want customers to see Aviva is one business capable of serving more of their needs, we need to think, behave and act as one business, nothing less than this will do.

So now, let's talk about where we are heading and our targets. Turning to slide nine, Aviva has been a recognized later on ESG issues for many years, but we are going further. As you will have seen earlier this week, we have elevated our ambition. We intend to be net-zero about 2040. This is the most ambitious goal set by any UK financial institution, and yes, we do mean the carbon emissions we produce ourselves, those contributed by our suppliers and the investments we make for our customers and shareholders. It is a clear direction of travel that I know our employees, partners and customers will want to get behind and enthusiastically support.

Meeting these commitments will be hard. I make no apology for that. But what became clear to me when I arrived at Aviva is that we cannot wait for everything to be neatly laid out before we move the organization on the right direction. Let me be clear that we are not doing this just because we believe it's the right thing to do. We're doing this because we believe it makes sound commercial sense. And ultimately, we are focused on creating value for our shareholders.

Today, I am providing further clarity on how we will achieve this by setting out our new financial targets which are set out on slide 10. We are targeting GBP5 billion-plus of cash remittances to the Group over the next 3 years, with the ambition to grow annual cash remittances to GBP1.8 billion by 2023. In November, we upgraded our cost savings target to GBP300 million from the core markets by the end of 2022. Today I am reconfirming this target and going further. Once the GBP300 million savings have been achieved, we would expect all our business lines to go on and deliver top quartile efficiency versus their peers. And this will give us some more stretching and dynamic go-to target over time.

And I am reconfirming our target debt leverage ratio to be below 30%. As you will appreciate, against the backdrop of ongoing national lockdowns and economic uncertainty, we are not announcing specific targets by line of business today. However, we are confident in our plans to grow the overall cash generation of the business and the targets I have just laid out.

Turning to deployment of excess capital, in November I set out our capital framework with the priorities for deployment being, debt reduction, investing to grow our core businesses and shareholder returns. As a result of the rapid progress we've made with disposals, I am today announcing that we will redeem GBP1.7 billion of cash during the first half of 2021. As we promised, this accelerates our delivery of the debt reduction and Jason will provide more detail on this shortly.

Following the completion of the remaining disposals, we will then also be in a position to make a substantial return of capital to our shareholders. While we have made excellent progress in reshaping the portfolio quickly, and I think we really have, we understand the substantial long-term value creation will mostly come from returning to growth and transforming Aviva's performance.

I will return to this topic shortly. But at this point, let me hand over to Jason to take you through our full-year 2020 financial results and to provide further detail on these targets.

Jason Windsor {BIO 17967688 <GO>}

Thanks, Amanda. Good morning, everyone. I'm going to start in slide 12. I'll spend a few minutes and take you through what has been a very busy year with resilient financial performance, setting us up well as we move into 2021. Before I do that, I'll spend some time looking at how we're delivering against our strategic priorities.

We delivered strongly against our strategy. With the recently announced divestment of France and today's announcement of the sale of our remaining Italian businesses, we've made decisive progress on focusing the portfolio. Our Solvency II position and centre liquidity is strong, providing a significant financial flexibility.

Today, we are announcing plans to reduce debt by GBP1.7 billion in the first half of this year, including an GBP800 million tender offer on our debt. This is an important first step in delivering against our capital framework, providing a clear path for returning excess capital to shareholders. As Amanda just mentioned, we're also announcing a new 3-year cash remittances target from our core businesses. This GBP5 billion plus target London will underpin growth in our sustainable dividend.

We're setting this new target with strong momentum across our core markets of UK, Ireland and Canada. Even in a turbulent year like 2020, we have delivered absorbing the impact of to COVID-19 and making good progress in transforming our performance. But there is a lot more to do and we're committed to better performance.

Moving to slide 13, the sales of France and Italy are the most important steps in our strategic transformation, which allow us to focus the Group and they also have repositioned the balance sheet. The transaction significantly strengthened our capital liquidity with excess capital above 180% expected to increase by GBP3 billion and centre cash by GBP3.9 million.

France and Italy were each predominantly traditional guaranteed savings businesses, and this is why the Group capital release is so significant despite the loss of diversification benefits, bringing up capital for investment and return to shareholders. Following the sales, we will still retain around GBP3.5 billion diversification across the Group with over GBP2 billion relating to our core Life and GI markets, a clear benefit of our business model. We expect the transactions to complete by the end of 2021. So, there is still some time before we book the benefits in our capital and cash position.

Let's now turn to an important first step in the progress against our capital framework on slide 14. As a recap, under our capital framework announced in November, we are targeting leverage below 30% and a Solvency II working range of a 160% to 180%, and we target AA credit rating metrics.

We've also said that we will invest to grow our core business, and that capital above 180% was excess. We are announcing today debt reduction plans of GBP1.7 billion, including an GBP800 million debt tender offer together with maturities and calls of GBP900 million. This will lead to a reduction in our leverage ratio of 4 percentage points to 27% by the first half of 2021, significantly less than our 30% target.

The tender will result in us having to pay a premium (inaudible) targeted bonds a relatively short basis, and we estimate the cost is around GBP100 million. At the same time, we expect an ongoing annual interest saving around GBP100 million from this overall debt reduction.

Turning to the next slide, we can see on the left that our deleveraging action will utilize a large proportion of our excess capital above 180% Solvency II ratio, approximately 12 percentage points. On the right, we can see that we will use a large proportion of the extra central liquidity approximately GBP1.8 billion. So clearly, before we take any significant further actions against our capital framework, we will need to wait for completion of the France and Italy transactions in the second half of the year. But this step today unlocks a clear path to substantial future return to shareholders.

However, longer-term value creation for shareholders must be sustainable and not just driven by capital actions. To (Technical Difficulty), we're announcing today a new cash remittance target from our core markets, as you can see on slide 16. This target is over GBP5 billion of cash for the 3 years, 2021 to 2023. It's an ambitious target but one that's achievable given the strong cash generation of our business and the improvements in performance we are pursuing.

While we're not setting individual annual targets, we are guiding you to GBP1.8 billion of cash remittances by 2023. This combined with lower centre cash outflows as we reduce interest and other costs should help us drive excess centre cash flow available for dividend and reinvestment.

Let's now turn to one of the levers that will help us achieve these cash remittances targets, our ability to reduce costs. Our GBP300 million cost reduction represents a significant improvement in efficiency. But as we mentioned in Q3, we're now aiming to deliver slowly from our core markets, increasing the cost reduction from 7.5% to 9.5% of the 2018 cost base. As a reminder, it's an absolute cost reduction target, so we are also absorbing 4 years of inflation.

We are now more than halfway through the program and have delivered GBP180 million of cost savings to date. Over the last 12 months, we've seen a 4% reduction in our workforce, largely through natural attrition. We've also seen a 30% reduction (inaudible) external contractors.

Product simplification within general insurance is also paying off. We further migrated our IT to cloud. And our experience with working from home would allow us to rationalize our property footprint, accelerating some savings which Amanda will cover in a moment. While this is a good start, we have more to do as we strive for top quartile efficiency across the business.

Let's now turn to the 2020 results, which had been resilient over the year with a strong second half. This is on slide 18. Group operating profit was stable at around GBP3.2 billion while IFRS profit after tax improved 9% to GBP2.9 billion. Cash remittances were much stronger in the second half, totaling GBP1.5 billion for the year across the Group, with the vast majority of this coming from the core markets.

Operating capital generation showed similar resilience, with core markets up 5% to GBP1.95 billion. At Group level OCG was lower, primarily owing to changes to the French life model. These changes also had a negative impact on the Group's Solvency II return on equity, which reduced to 9.8%. However, underlying ROE improved from 8.1% to 9.8%.

So let's look in a bit more detail at how each of our core markets has performed, starting with UK and Ireland Life. Overall, UK and Ireland Life operating profit was 3% lower at GBP1.9 billion. There was good growth in savings and retirement, BPAs and group protection, as well as a GBP98 million higher benefit from management actions and other. This was partly offset by lower new business profits in individual protection and equity release. I'll come back to each of these areas in more detail in a moment.

Profit from Heritage was GBP68 million lower, reflecting the run-off of the book broadly as we would have expected. And Ireland Life made a small loss owing to transformation spend and higher protection claims. Operating capital generation was stable at GBP1.26 billion, with new business trend [ph] also stable despite the increase in BPA volumes. We continue to focus on expense efficiency which helped reduce cost by 5%. There's more that we can do as we pursue our goal of being top quartile for efficiency.

So, let's now turn to the areas that will drive quality growth. These, as Amanda will come back to in a moment, are large and fast growing (inaudible) market where we already have leading positions and capabilities. So on slide 20, you can see that Savings & Retirement achieved a 35% increase in operating profit in 2020, helped by 17% increase in revenue to GBP571 million.

The cost income ratio in the business remained high at 79%. This is a business which will benefit greatly from operational leverage and we expect this to be more evident in future years as we grow revenue and focus on efficiency. The strong revenue growth benefits from higher average assets, which rose 13%, driven by market movements and record net inflows of GBP8.5 billion. These strong flows were underpinned by workplace which added almost 0.25 million new members. Our platform also performed well achieving 3.7 billion in net flows, ranking second in the market, increasing its assets by 18% in the year.

Moving onto Annuities & Equity Release where we had a good year, particularly in bulks which grew new business by 48% or GBP6 billion. Operating profit of GBP815 million was 6%, as higher profit from bulks was offset by lower profits from individual and equity release in particular.

In terms of profitability, BPA VNB increased by 33%. However, new business operating profit was more muted owing to the greater impact of quota share reinsurance. We expect to continue to grow in BPAs albeit not always at the rate seen in 2020, and the growth may be lumpy year-to-year. We maintained our number one position in individual (inaudible) sales of GBP1 billing as demand was impacted by historic low interest rates. However, we also managed to double VNB to GBP65 million.

Equity release new business was most directly impacted by the lockdown restrictions, with sales and new business profits down. Looking forward, we expect our strong position in this market to deliver growth as people increasingly access the significant value locked up in our homes.

Moving to another value giving franchise, Protection & Health, with the number two position in Group and individual protection and number three in health. The strength of our offering has helped drive a 2% increase in sales, driven by a record year for group protection with sales up over GBP0.7 billion. However, our individual protection business saw a reduction in sales of 11% as lockdown measures impacted the housing market as well as some of our distributors. This was the main reason for the reduction in operating profit across Protection & Health. Health sales were flat with growth in corporate offsetting more subdued market in SME and consumer.

Before I move on to GI, I wanted to take you through Management Actions and Other. The benefit of these items increased by GBP98 million to GBP469 million. And as I signaled with Q3, this was above our longer-term guidance of up to GBP200 million a year. We continue to see benefits of longevity releases although these halved compared 2019 to GBP390 million.

The benefit in 2020 stems from our detailed analysis of trends. It is not an effect of COVID-19, the impact of which is still too early to predict. Importantly, we also benefited from improvements in efficiency which have led to GBP123 million expenses reduction compared to an expense reserve increase of GBP60 million in 2019. We're continuing to expect benefits to management actions and assumption changes to be approximately GBP200 million per year on average.

Let's now turn to the core GI businesses in the UK, Ireland and Canada. As you know, this part of our business has been most directly impacted by COVID-19. So, it is really (inaudible) to see that despite an GBP84 million impact on claims and commissions from COVID and lower investment returns, the business delivered a 2% increase in profit to GBP500 million. This increase in profit has been driven by strong improvement in the underwriting result with core improving to 96.8%. Core based on average weather losses and excluding the impact of prior-year development and COVID-19 improved by 5 percentage points to 95.8%.

Premiums remained stable, reflecting a buoyant commercial lines market and more challenging conditions in personal lines. So, let's look at this in a bit more detail starting first with the UK. In personal lines, premiums declined by 7% as COVID lock down impacted our distribution partners, including the UK banks. We also exited some unprofitable lines of business.

Personalized underwriting improved significantly, partly boosted by prior-year development and weather, as well as the impact of COVID on claims frequency net of commissions. The core excluding these items also improved but at 101. 6% remained too high. We must continue to improve the efficiency of the business.

Turning to commercial lines, we can see that it's part of the business which is really moving ahead of pace, with double-digit topline growth. The business has benefited from rate hardening and high levels of retention, cementing our number one position. It was also very encouraging that despite the backdrop of the pandemic our trust score with brokers remained significantly ahead of our nearest competitors and even increased over the last 12 [ph] months to 95% despite the challenges posed by business interruption claims.

Let's now turn to our Canadian business on slide 24. Within personal lines, we saw largely flat premiums of around GBP2.1 billion as customer relief measures and COVID-19 impacted our distributors, as in the UK. The underwriting margin improved strongly, building on the profitability actions we initiated in 2018 and 2019, and we saw favorable weather and lower claims frequency. Our business is well positioned for the future and we're investing in our product range, including a digital direct-to-consumer offering.

Commercial lines continue to see good topline growth, with very rate hardening partly offset by focus on more profitable business. In contrast, the underwriting result worsened, mainly owing to the business interruption claims. While 2020 had been a tough year for profitability in commercial lines, the underlying performance has improved significantly, and we expect this to continue with tailwinds in the rate environment.

Turning now to Aviva Investors on page 25, overall the business had a tougher year with lower revenues and -- partly offset by lower costs. However, it was pleasing to see that in contrast to many asset managers, the business continues to attract assets although some of these came from lower margin liquidity funds.

Total net flows were GBP8.5 billion, of which GBP1.7 billion was from third parties. As announced last week, Aviva Investors France was part of the perimeter of the France divestment. We therefore highlighted separately the operating profit for Aviva Investors France.

So, I'll be spending a moment on the crucial role Aviva Investors plays in our strategy and the growth ambitions under the new leadership of Mark Versey who has recently taken up the reins. First, its investment solutions helped millions of customers save for retirement through our workplace pension business and second, its capabilities will continue to be pivotal to help us grow in the bulk annuity space.

We see huge potential in leveraging our decades-long track record at the forefront of ESG and sustainable investing for the benefit of the wider group and third-party clients. We intend to build on significant success with strong momentum in real assets, liability management and credit, areas that are close to (inaudible) heritage. We also know that we can become more efficient. The actions we are taking to drive efficiency combined with future growth will enable us to significantly improve our cost to income ratio.

I'll touch quickly on the performance of the manage-for-value markets set out on slide 26. In France, profit was stable as we saw improved product mix, which offset adverse protection claims. However, as we indicated in Q3, OCG reduced as a result of a correction to a mis-applied rule in the French life model. It was exacerbated by the low interest rate environment. The impact on this -- on Group OCG post diversification was much lower. This impact on capital together with regulatory restrictions on the payment of dividends as a result of COVID significantly impacted cash remittances from the manage-for-value markets, (inaudible) GBP127 million or just 8.5% of Group remittances.

Our Polish business delivered a resilient performance despite the impact of COVID, while in Italy higher AUM as well as favorable claims experience resulted in profit growth. With the announcements regarding France and Italy as well as the sale of Turkey, we're making excellent progress in refocusing the Group on our strongest markets.

So in summary, as I've just mentioned, we've made decisive progress on focusing the portfolio just 7 months after announcing the new strategy. We've accelerated execution against our capital framework, with action on debt that will reduce leverage below 30% by the half-year and that will bring us closer to returning excess capital to shareholders. Most importantly, our business is well-positioned for growth. With new cash remittance target underpinned by further efficiencies and winning positions across the UK, Ireland and Canada, in savings and insurance, we can deliver sustainable long-term growth.

With that, I'll hand back to Amanda who will outline in more detail why and how we can win in the UK.

Amanda Blanc {BIO 19138679 <GO>}

Thanks, Jason. As I said earlier, we are making tremendous progress in focusing the portfolio on the new Aviva of UK, Ireland and Canada. In this and in subsequent sessions, I intend to set out for you our key strengths, how we will grow the business, how we will transform performance and ultimately how we will create value for our customers, our shareholders and our people.

I'll start today with the UK, our largest business and our home market. In future presentations, we will provide detail on the other core markets. Okay, so let's turn to slide 29 and get going. For Aviva to be successful, we must win in our home market. We have a unique opportunity here that we must capitalize on. I have a big vision for the UK, to be the leading insurer by establishing ourselves as the go-to-customer brand for all our customers' insurance, protection, savings and retirement needs, for individuals, corporates and their respective intermediaries.

Aviva is the only insurer in the UK that supports customers throughout their lives, from buying their first car through to starting a family, saving for their future and securing an income in retirement. Over the next few minutes, I want to share with you my views on the strength of the UK business and our strategic priorities to transform performance and deliver growth.

Now, I know many of you would have heard this kind of presentation many times before and you will be skeptical. I get that. Now, please allow me to step you through this. Hopefully, you are beginning to see that we are delivering what I said we would and we intend to continue to do this.

Slide 30 sets out our strategy, which is ultimately centered on our customers, what they need and what they want from their insurer. From individuals to multinational corporations, they are all seeking financial security, be it saving for the future, securing income in retirement or protecting what matters most to them.

The insurance industry has specifically made the customer experience more difficult and complicated than it needs to be. So, what customers want from their insurer is really very simple, fair prices, a trusted brand that delivers on its promises, excellent service, ease of access and all of this from a company that acts in a sustainable and responsible way. Aviva understands this and have delivered on all of those points. This is unique.

On the next slide you will see, we have been serving customers for over 300 years. We are part of the financial fabric of the UK, as more than one in seven UK handles save (inaudible) with Aviva and we already serve 15 million UK customers.

We have a strong platform that we can develop and grow. We are the number one trusted brand. We are recognized for our excellence and leading customer service. We have developed strong digital assets, which customers are using on a more frequent basis. 5 million customers are now registered on MyAviva and customers are buying more from Aviva with 30% now holding two or more products with us.

And as set out on slide 32, I see our intermediaries as important customers as well. They play a crucial distribution role in this market. As the chart on the left illustrates, most of our segments are more than 70% intermediated. And this has been consistent over recent years. Given our market position, it's no accident that Aviva has the strongest relationship with these intermediaries. We are consistently ranked number one in broker surveys and won general insurer of the year at the Insurance Times Awards in December.

What intermediaries value from us is no different to our direct customers. They want a company with a strong brand and financial strength, they want fair prices and great service, they want their issues resolved quickly and they want a company that's efficient and simple to deal with. And we can deliver all of those things. These strong relationships that are key underpin -- to Aviva owning lead market positions across UK insurance.

Slide 33 sets these out. Number one in General Insurance, number one in Workplace Pension, number two in Protection & Health, a top three player across Annuities & Equity Release, and these are attractive and growing business lines. Yes, I said growing, we absolutely see opportunities across our key business lines to deliver meaningful growth, and I will go into more detail on this shortly.

Now, I'm aware of course that there has been talk about whether Aviva can truly be successful as a composite in the UK. But to my mind, this completely misses the unique opportunity and potential that is right in front of our noses. Aviva is the only insurer in the UK that is capable of serving all customer needs. That is unique, a tremendous asset and a platform from which we can expand and develop further.

Let me bring this to life for you with a very simple but powerful example on slide 34, one of the many examples that we can demonstrate. You can see on the slide how Aviva's wide offering means that we can meet multiple customer needs from our leading position in Workplace Pensions. We can offer our 24,000 workplace corporate clients broader employee benefits, for example, Health & Protection, as well as helping them de-risk the balance sheets through defined benefit solution.

For their 4 million employees who are now Aviva customers, we can offer personal insurance, health insurance, protection and personal savings products. And their workplace pension funds and personal savings can be invested into Aviva Investors, including our market-leading ESG funds. In turn, Aviva can continue to invest in real assets, supporting the wider UK economy. And that's just one example, one of the many opportunities that we have in the UK because of the breadth of our coverage.

Now this structure not only delivers benefits in meeting multiple customer needs, it also delivers significant synergies, be they capital diversification, benefits from economies of scale, brand leverage or capturing more of the value chain. But -- and here is the opportunity, it is obvious to me that we are not capitalizing on these strengths as effectively as we should be.

Let's turn to slide 35. Aviva has not delivered the growth for the underlying performance that I think it should have done, given the strong foundations and leading positions. Our people deliver amazing service to our customers day in and day out, but it is not consistent enough. We are hitting trading records, but they are not translating into the market-leading performance that we should aspire to deliver. Therefore, to address this, I have identified four actionable priorities to turn our unique position into a sustained advantage, improving our financial delivery, bring more customers into our franchise and serve more of their needs. Let's step through each one of these in turn.

The first priority on slide 36 is to continue to propel Aviva into the modern world to ensure we can meet the ever-increasing customer expectations. Being efficient and simple to transact with is a non-negotiable, and we are dialing up our delivery on this. As Jason outlined earlier, we are making good progress on cost savings. You don't just deliver GBP180 [ph] million of savings from trimming around the edges. However, with our ambition to deliver top quartile efficiency, there is a lot more to do and we're on it. We're digitizing and automating more of our customer journeys. As of today, we are at 50%, which is increasing our suite of service and delivering better customer outcomes. I am raising that with the ambition to be at 75% by 2023.

Helping customers with a complex health claim or supporting a loved one following the loss of a partner will always involve human interaction, with an experienced and sensitive Aviva representative. But the reality is most of our customer interaction should be through digital channels. In General Insurance, we have been making excellent progress in simplifying the number of products, delivering a 30% rationalization of the product estate over the past 2 years. We will go further with this.

Tackling the legacy in our IT estate is also vital. Aviva is this year celebrating 325 years and in some parts of the organization, the IT is a bit too, shall I say, heritage. We've made good progress, catching 27% of IT applications in 2018. But we intend to go further and faster with this.

And as we enable a greater level of digitization and agility across our operations, we will need fewer physical premises, with our employees about to work remotely as they service the needs of our customers. By the end of 2021, we will reduce our property footprint by 30%. All these actions will help to deliver better customer outcomes, sustainable cost transformation and greater agility to Aviva's operations.

The next key priority, which I've set out on slide 37 is growth. Some people tell you that the UK insurance market is mature with limited growth opportunities. I absolutely disagree with that, and the facts speak for themselves. There are macro trends driving customer needs over the coming years that present material opportunities to build upon our success and deliver material growth. We will allocate our capital and target our attention towards these opportunities.

For example, one in four people in the UK are forecast to be over 65 by 2039, presenting a massive opportunity to deliver substantial growth in our individual savings and retirement business. If we consider the BPA market, current forecasts estimate GBP30 billion to GBP50 billion of flows per annum over the next 5 years. That's a tremendous opportunity for Aviva to sustain the record volumes we have delivered in 2020 and to grow further.

In commercial lines, we are witnessing one of the hardest rate markets in memory. We have achieved good growth in 2020, 7% from rate increases and 4% from new business, but we can do more. Our leading positions in SME and mid market set us up for tremendous success and further growth.

Across personal lines, we are targeting areas of profitable growth. For example, we announced earlier this week we are expanding our high net worth offering with a market-leading underwriting team joining Aviva from a competitor. The outcome of the FCA pricing review will result in customers moving to stronger brands and of course Aviva has the strongest brand in UK insurance, 10 points higher than the nearest competitor.

Speaking of brand, turning to slide 38, I said in November we would relaunch, reposition and recognize the Aviva brand to grow further, and ensure we deliver this growth. Our brand needs to be built upon trust with our customers. It must build confidence and reassurance that our product offering will meet their needs at every point in their lives.

In April, we will be re-launching the Aviva brand under the title 'It Takes Aviva'. This will be supported by a full media campaign. We expect the vast majority of the UK population will view the brand at least 21 times within Q2. I make no apologies that you will be seeing a great deal of us.

But awareness of the brand is just one measure, we want our brand to work harder to create a more meaningful, emotional engagement with our customers. And this connects to our final priority set out on slide 39. We must drive greater customer engagement. We must service more of our customers' needs, offer them the opportunity to more easily purchase more products from us and to stay with us for the long term. Ultimately, we need to build an efficient, enjoyable, engaging and digitally-led customer experience, and to do this consistently across our business.

Customers want to purchase and interact with their insurers through mobile-led platforms. If we look at our own experience, MyAviva login to the user are at 45% during 2020. Our Q3 launch of Aviva Connect for our intermediaries has been tremendously successful with 410,000 logins in January. We need to leverage these digital interactions by connecting the rich data we collect to offer customers the right products and services at the right time in their homes. And to sustain our position as the UK's leading sure and be here to celebrate another 300 years. We need to continue to lead the UK market with innovative products and services.

So, let me recap and turn into slide 40. Aviva is the only insurer in the UK to conserve all our customers' needs at every stage of their lives. That's a unique ability and we need to make much better use of that than we have in the past. We will achieve this by delivering meaningful growth, simpler and more agile operations, build engaging digitally-led customer experience and ultimately a transformed financial performance.

So as we set out to deliver this transformation, how will we measure our success? On slide 42, I've summarized the metrics and KPIs that we will focus on as we go forward. We will be expanding our customer franchise by winning more customers, meeting more of their needs and delivering meaningful growth. We will modernize our operations, delivering top quartile customer service and an increase in digitization. We will continue to be the UK's financial services leader on sustainability and seek to grow our share of the UK population, saving and retiring with Aviva. And ultimately, we will create value for our shareholders by growing the cash generation of our businesses to support dividend growth over the long term.

So turning to slide 43, let me conclude. I am under no illusions that our shareholders expect us to deliver tangible improvements in our financial performance and to do it at pace. I understand this and all my senior colleagues understand it too. I'm confident we have the right priorities in place to deliver this. We are focusing our attention only on our core markets and have announced the disposals of France, Singapore and Italy in less than 7 months.

As a result of this rapid progress, we will redeem GBP1.7 billion of debt during the first half of 2021. We will then be in a position to make a substantial return of capital to our shareholders. I have re-invigorated the senior leadership team. This will have an impact. Our strategy is clear, placing the customer at the center of everything we do and serving more of their needs throughout their lifetime.

We will enhance customer engagement by placing digital at the heart of our business, and there are clear opportunities to accelerate growth in areas where we have leading capabilities. We have actionable plans underway to explore [ph] them. Transforming financial delivery is our absolute focus. It will take time and we will keep you updated as we make progress.

Thank you for listening. I'll now pass back to the operator, and we'll open the lines to take your questions.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Your first question comes from the line of James Shuck of Citi. Please ask your questions.

Q - James Shuck {BIO 3680082 <GO>}

Thank you. Good morning, everybody; two questions from me. First question -- so thank you for your commitment to return capital above the 180% Solvency II ratio. I'm just interested to know, to what extent the leverage target of below 30% is the binding constraint. So if you have line of sight into that number kind of -- if it kind of go up, if -- above that 30% threshold, if you have line of sight that it will drop down below 30%, given book value growth for future disposals.?That's first question.

And secondly, just on Poland please, would you mind giving us the own funds and the SCR as well as the diversification benefit component? Thank you.

A - Amanda Blanc {BIO 19138679 <GO>}

Okay, thanks, James. I'm going to let Jason take these questions.

A - Jason Windsor {BIO 17967688 <GO>}

Hey, Good morning, James. On the first one, our strategic target levels is less than 30%. That means it could in times go slightly higher or lower (Technical Difficulty), but that's the level that we want to be at. I wouldn't expect us to be higher than that for any prolonged period of time. I think if you're touching on in 2022 where we've got some significant maturities of GBP1.3 billion, I think we had actions that sort of looked forward and looked through the (inaudible) of those and they lost (inaudible) near term it's very clear that we had the cash at hand on the balance sheet and we had a book leverage figure a gross basis, we would look at the cash (inaudible) that together. There's no reason we wouldn't be able to do that.

On the Poland owed funds figure, I don't have that at my figure tips. It's around GBP1 billion from memory. Don't take that as scripture. I'll come back to you with a more precise figure. I think in terms of diversification, it's a much smaller figure for Poland. Given the nature of its business, there is not much risk in the Polish business compared to Italy and France. And therefore, there is much lower SCR in that business and the diversification of obviously is proportionate, so therefore it's a small number of hundreds.

Q - James Shuck {BIO 3680082 <GO>}

Great, that's very helpful. Thank you very much.

Operator

Thank you. The next question comes from the line of Oliver Steel of Deutsche Bank. Please ask your question.

Q - Oliver Steel {BIO 6068696 <GO>}

Good morning. And sort of -- (inaudible) can I congratulate you on everything you've achieved so far. First question is just looking at the cash remittances targets you've set, I mean GBP1.8 billion by 2023, that's presumably based on the higher tax rate as well. It implies 10% growth from the 2020 core remittance (inaudible) per annum. And then on top of that, you've got lower central costs and lower debt costs. So I'm just trying to sort of rationalize in my mind then how that sort of interacts with the low to mid-single-digit dividend growth rate and what you're planning to do with the excess that implicitly builds up in every year?

Secondly, you talk about sort of investment into the business. And obviously, one of the sort of key topics at the moment is how much excess capital you might want to return eventually to shareholders. Can you give us a bit more guidance on what you're thinking that you will be investing in or indeed the cost of that?

And then the third question I've got is, are you considering buying back any of the senior debt because obviously that doesn't count towards solvency?

A - Amanda Blanc {BIO 19138679 <GO>}

Okay, thanks Oliver. I'll pick up the first two of those questions and Jason can pick up the third one. So yeah, on the cash targets and the growth and the generation from the core markets and the dividend connectivity, look, I think -- I would like to start by saying sort of one step at a time, we're sort of in the process of resetting the perimeter and I think we've made quite rapid progress on that. And we saw -- for the time being, we're not changing our dividend guidance. We think it's at a sensible level. Our aim is to sensibly grow the dividend per share over time by low to mid-single digits. And for the time being, we really want to focus on delivery and being resilient. We are confident on the cash generation of the business and coupled with our focus on the transformation of performance, but I think at this point in time, we're just focused on delivery.

In terms of the investment in the business, then I think obviously the new cash remittance targets demonstrate that we are confident about the delivery and we will invest in the core businesses as we see material opportunities to accelerate the growth ambitions. We already have, and I think we've mentioned on various calls before, GBP400 million annual investment costs across -- investment across the Group, and which is now of course being focused on the core markets.

So, we believe that is a significant investment and any additional investment that we would put into the business will be directly focused on accelerating growth and continuing the transformation of the business. And you saw earlier this week, we made the announcement around the high net worth team and it would be in those sort of areas really. And -- but we're very focused on the long-term view and generating strong shareholder returns.

(inaudible), Jason?

A - Jason Windsor {BIO 17967688 <GO>}

That is a very easy third question, and the answer is yes. We published this morning the tender price across suites of bonds, (inaudible) maturities. The two senior bonds are included in that. We're looking -- I think it's a (Technical Difficulty) just over GBP5 billion and we're looking to -- we've decided to take GBP800 million of that.

Q - Oliver Steel {BIO 6068696 <GO>}

Sorry, so just to save me having some -- go through that document, (Technical Difficulty) the whole GBP800 million you're accelerating, the buyback of the senior, is that right?

A - Jason Windsor {BIO 17967688 <GO>}

No, it's the GBP800 million across the series of bonds. I think the 6 months in total, the senior and two of them -- I think it's actually 8 months [ph] -- the six priority ones to obviously make sure we get the volume done. It's a -- senior [ph] cost of it and I think pro rata it's about 28% of the total.

Q - Oliver Steel {BIO 6068696 <GO>}

Right, thank you very much.

A - Amanda Blanc {BIO 19138679 <GO>}

Thanks, Oliver.

Operator

Thank you. Your next question comes from the line of Jon Hocking of Morgan Stanley. Please ask your question.

Q - Jon Hocking {BIO 2163183 <GO>}

Hi there, good morning everybody. Just on the -- first question please; in terms of the substantial return of capital, the amount referenced, have you got any views in terms of what form that capital return might take? I think everyone's assuming it's going to be a buyback, but would a special dividend or any other form of capital return be something you might consider?

Secondly, on the GGBP1.8 billion of remittances in 2023, just to sort of follow up on all at this point, is that reflected in the UK corporate tax rate and is that a level which you might expect to grow from or at least maintain? Is there any sort of one-offs in that GBP1.8 billion?

And then just finally on the IT spending, Amanda, you referenced sort of the heritage IT that you've got. Are you intending to sort of re-platform the business? I think you've still got quite a lot of legacy mainframe, some middleware, et cetera. And if so, is that going to be something which is going to be contained within the GBP400 million of the investment spend you just mentioned? Thank you.

A - Amanda Blanc {BIO 19138679 <GO>}

(Technical Difficulty) I'll pick one and three and I'll ask Jason to pick up two. So in terms of the substantial return of capital, I guess we were sort of expecting the question around this. I guess we were asked it a number of times today. We're not going to outline today in what form that is going to take. We set out the framework last November. We stated that once we completed the restructure of the Group, we'll return the excess capital above 180% to shareholders. I think we've made good progress with the be disposals.

We're clear on the priorities. First is debt reduction. Jason has outlined today what we're going to do. We've used the collective liquidity so far to deliver the announced GBP1.7 billion debt reduction. That will be completely -- completed by the first half. Then we talked about the investment in the business and the substantial return of capital to shareholders. When we've got more to say on that, we will update you on progress. But we're not going to be drawn today on what that -- in what form that will be.

On the IT spend and the re-platforming, look, I'm not a massive of major IT projects and re-platforming, I have to say. I think that you can confuse the organization massively, spend a lot of money and perhaps not even get to where you need to get to. There are other areas of the business where we really could invest in the equity release business in some of the systems there. And we know that the digital that's really our key focus, how do we simplify the journeys, moving more applications to the cloud, we've already done some of that, we can do more of that. So, these are the sort of investments that we would consider.

Yes, a significant amount of that is in the budget that we've already set. I don't want people to get spooked by what we are saying. What we're saying about investment is to accelerate growth and it is where we believe -- in areas where we believe we don't currently have capabilities. Jason?

A - Jason Windsor {BIO 17967688 <GO>}

So tax -- so insurance tax growth is obviously extremely complex. It's got [ph] many different features. We are in 2023 (inaudible) knew this, but we're bringing in IFRS 17 which will change substantially the profit recognition within insurance as well. So needless to say, we sort of have IFRS 17, we didn't anticipate quite a big rise. We weren't expecting a rise in corporate tax. To cut a long story short, we don't see significant impacts of tax on our businesses. We will just have to work it through.

Q - Jon Hocking {BIO 2163183 <GO>}

(inaudible) are there any sort of one-offs you're expecting in the GBP1.8 billion, is that a new run rate that we can sort of (inaudible) going forward?

A - Jason Windsor {BIO 17967688 <GO>}

Yeah, sorry, I (inaudible) that, nothing beyond the guidance that I gave, that we brought this with GBP200 million approximately for management actions in our -- that we expect and we plan for. So, no specials or anything like I've indicated before.

Q - Jon Hocking {BIO 2163183 <GO>}

Okay, thanks Jason. Thanks, Amanda.

A - Amanda Blanc {BIO 19138679 <GO>}

Thank you.

Operator

Thank you. Your next question comes from the line of Blair Stewart of Bank of America. Please ask your question.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. Good morning all. I've got three questions, I think the first one is really just a check on my numbers, please Jason. You talked about pro forma capital ratio of 236 [ph]. We then need to knock off I guess 12 or so points for the debt. So about 220 [ph], so about 40 points over the 180, which by my reckoning is about GBP4 billion of excess capital. I just wondered, is there anything wrong in those calculations?

My second question, just on growth, Amanda, you talked about accelerating growth in the core business. Is that something that you're currently looking at purely organically or are inorganic opportunities as well that you might consider?

And thirdly, I just wondered how you saw Aviva, has Aviva a dividend stock in your eyes from an equity story perspective, at the moment you pay out 80% of your net cash as a dividend, which seems like a pretty appropriate payout for a yield stock to me. I -- just coming back to some of the points around what happens to the dividend as potential to shared leverages and as net cash goes up from the various actions, I just wonder how you saw that dynamic playing through. Thank you.

A - Amanda Blanc {BIO 19138679 <GO>}

Thank you. Jason, do you want to --

A - Jason Windsor {BIO 17967688 <GO>}

On the first one, we've tried to set out two things here. We obviously give an update (inaudible) been through, but that (inaudible) in Italy position is the most significant change to the balance sheet and you can see the big dip SCR from GBP12.8 billion to GBP10.4 billion pro forma and that's a new baseline. So 180% of that -- obviously less than 180% of the higher figure. So you just need to get -- make sure you just work that through when you do your model. And then if you think of the absolute reduction in debt as a percentage, it's going to be slightly higher or (inaudible) lower SCR, it's the 12 points that I'm indicating there. Very broadly, your numbers are right in terms of the proceeds and the debt reduction.

A - Amanda Blanc {BIO 19138679 <GO>}

On the -- on your second question around growth and -- I think you spoke about inorganic, I mean, look, we do see tremendous opportunities to grow Aviva and I think my confidence has been improved by -- enhanced by what we've seen during 2020. Commercial lines, we can see that the market is hardening there and we've got a really key position. We've seen GBP8.5 billion of savings and retirement net flows, I think that's a really strong performance. And we know that, that is going to be -- there is a real demand there, GBP6 billion of the BPA new business. So, we see that the macro trends do support our growth opportunities and we believe we've got some capabilities that can meet those.

On your sort of inorganic, in the past I think we've said never say never to that question. I think as we seek to transform and grow the core business, well, inorganic activity is not currently a priority for us. We will be thoughtful about where M&A could enhance our capabilities or accelerate our strategic development, but suggest [ph] ratio everyone, this will be a high bar and anything that we do must enhance value for our shareholders and this is one step at a time. We've got a lot to deliver.

And on your question around what you see -- whether I see it as a dividend stock, I mean obviously dividend is very important for our shareholders, we know that. I guess we'll let you decide how you define it. But we will -- we are focused on cash generation and growing the customer franchise. That's our key areas of focus.

Q - Blair Stewart {BIO 4191309 <GO>}

And on the 80% payout as an appropriate level?

A - Jason Windsor {BIO 17967688 <GO>}

I think, Blair, we've not set ourselves targets for that. I was (inaudible) in November to talk about the new EPS which we delivered today of 21 pence and we've set a low to mid single digit growth rate and so I think -- think of that as we go through the transformation in the back, that's the sort of guidance that I wanted everyone to take away. (Technical Difficulty) in 2020 is really quite depressed in a relative (Technical Difficulty) and we're expecting that to deliver, but is sort of one step at a time as we start to think about how we develop from here.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah, I appreciate it and I won't push the point. But I do think that low to mid single digit dividend per share growth is there normally here. I think it's already come out in a couple of questions. It doesn't make sense given everything that you're doing. But I do respect to fact that you want to be given time to kind of to do what you're doing.

A - Amanda Blanc {BIO 19138679 <GO>}

Thank you.

A - Jason Windsor {BIO 17967688 <GO>}

Thanks, Blair.

Operator

Thank you. Your next question comes from the line of Andrew Crean of Autonomous. Please ask your question.

Q - Andrew Crean {BIO 16513202 <GO>}

Good morning, everyone.

A - Amanda Blanc {BIO 19138679 <GO>}

Good morning.

Q - Andrew Crean {BIO 16513202 <GO>}

Three questions I had. The first one is, I just wanted to dig a bit more on the debt. Obviously you're looking to pay down GBP1.7 billion of debt this year. You've got redemptions of GBP1.3 billion coming up next year. I'm just wondering how much of the -- of that is -- you're going to be tendering this year and whether you're intending to redeem everything next year with that re-fine [ph] in order to increase the amount of debt that you pay back as you equally reduce the capital through overheads. And that was the first question.

Second question is on slide 13 where the SCR is falling from GBP12.8 billion to GBP10.4 billion, could you tell us what the loss of diversification was on the French and Italian businesses? And also in the final bullet, you said that of the GBP2.5 billion of remaining diversification, GBP2 billion is from core markets. Does that mean essentially that there was about GBP0.5 million potential loss of diversification if you (inaudible)?

And then the third question, simple one, the legacy book -- UK legacy book, would there be any intentions to look to dispose of any part of your legacy UK Life business?

A - Amanda Blanc {BIO 19138679 <GO>}

Okay, thanks Andrew. I'll let Jason pick the first two and I'll pick up the third question. Jason?

A - Jason Windsor {BIO 17967688 <GO>}

So yeah, morning Andrew, thanks for that. So on the size, the 2022 bonds are in the tender offer. We are not indicating what we'll do in 2022, that we're wanting to do around those bonds. I think our clear statement is to take the GBP1.7 billion down and that's the action that we are announcing on that. We have got some flexibility in 2022. It's a lower debt [ph] and there is quite a few things that needs to happen between now and then.

On specification, there was a significant buying [ph] effect of the French deal, which was a -- I think a feature that we've talked (inaudible) -- around -- over a period of time, approximately GBP1.5 billion for France Life and GI. I've talked in the past about GI and I've talked in the past about International Life, but if you take the French business, it's around

GBP1.5 billion. Italy much, much smaller than that, lower percentage, I can't remember the exact number, around GBP200 million, GBP300 million in the Italian SCR.

I think of the remainder, it is normal Poland [ph] businesses in there. There's China, there's the stake in Singapore, there is Poland, and it's not just the GBP0.5 billion, and this isn't us little bit trying to say exactly how it would re-run through the model once we took things that, but Poland is a piece of that, but it's certainly not anything like GBP500 million. I think we SCR in Poland is only around GBP400 million or GBP500 million in total.

A - Amanda Blanc {BIO 19138679 <GO>}

And on your point around heritage, it's a key part of the Group and we're focused on serving the many customers that we look after there.

Q - Andrew Crean {BIO 16513202 <GO>}

So, that's call?

A - Amanda Blanc {BIO 19138679 <GO>}

Yes.

Q - Andrew Crean {BIO 16513202 <GO>}

Okay, thanks.

A - Amanda Blanc {BIO 19138679 <GO>}

Thank you.

Operator

Thank you. Your next question comes from the line of Colm Kelly of UBS. Please ask your question.

Q - Colm Kelly {BIO 19140684 <GO>}

Yeah, good morning, and thank you for taking the questions. Most of mine have been asked, but I'll -- I have one remaining just on the returns and growth for the core business. So we're seeing good progress this year on the underlying -- Solvency II return on equity has increased 1.7 percentage points to 9.8% and it's still a bit below the 12% you're targeting by 2022, So, is that still a key target for you?

And then related to that, I think one of the main levers you stated to achieving that target was after capital allocation, higher returning segment, which makes a lot of sense given three-quarters of the capital you allocate to the core markets is for UK Life which is generating an underlying return of 5.1% this year whereas the other business divisions are generating 3% to 4% (inaudible) even within a COVID year.

So if I look at the mix of capital between 2019 and 2020, that mix across the core businesses haven't really changed much. So, it feels like that -- you've made a lot of progress on our cost base growth, but it feels like maybe the active allocation for higher returning segments is one of those areas where there is a bit more to do that you talk about. So can you articulate a bit more the actions you're taking to amplify that capital allocation, the higher returning segment, within the target of 12% return on equity? Thanks.

A - Jason Windsor {BIO 17967688 <GO>}

So, thanks. You're right, we've made a significant step forward in the underlying return. I know the UK Life business is (inaudible) metric and sometimes not -- certainly not flat -- has made a quite significant step forward. It has gone from, as you say, from 4% up to 5.1% underlying. But there are -- there is the other action that's -- it does beat across [ph[the capital at the overall level.

I think the 12% figure that you mentioned needs to be retuned following the reshaping of the Group and the reshaping of the balance sheet. And if you think of UK Life being a much higher percentage, that is a lower return, much higher in terms of cash flow, it's good quality and it's more predictable and it's long bases. You don't get over a period of time -- the (inaudible) you book, that level of return you bring it forward. So, we will be re-calibrating that and it's not (inaudible) 12% for the Group in the future.

Q - Colm Kelly {BIO 19140684 <GO>}

Okay. I mean in terms of allocation of capital (inaudible) segment, is there anything you can say around taking actions around that, because it was one of the levers you stated to getting that return on equity up?

A - Jason Windsor {BIO 17967688 <GO>}

Yeah, so there still is that sort of more -- major actions, for example, around cost reduction, which does drive -- there is a more significant piece of work around how we use reinsurance to BPAs which allow us to improve return on capital. And there is a whole suite of micro-actions that you would imagine, of course fine-tuning distribution channels, fine-tuning different product pricing structures, and starting at General Insurance which is a higher ROC business. And whilst -- we've done that pretty well in terms of commercial lines in 2020 and we expect that to continue in 2021. So, we will make sure that the GI business has more than enough capital to make sure that they can continue to grow.

Q - Colm Kelly {BIO 19140684 <GO>}

Okay. And just to follow up briefly, I mean is there any (inaudible) capital from UK Life segment and recycle [ph] then to those other divisions to accelerate that?

A - Jason Windsor {BIO 17967688 <GO>}

You see this sort of Heritage run-off as effectively doing that. Amanda answered a question a moment ago, but that is producing capital each year, we pay that out of UK Life and then we sort of allocate out the dividends or to growing the other segments our across the board. But we are trying to grow the UK Life business at the same time. So allocating the (inaudible) Annuities and Protection and Savings & Retirement, these are cash generative but we don't want to pull out more capital than they make. We want to continue to see some growth potential in those segments.

Q - Colm Kelly {BIO 19140684 <GO>}

Okay, excellent. Thanks a million.

Operator

Thank you. Your next question comes from the line of Ashik Musaddi of JP Morgan. Please ask your question.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, thank you. Hi, Amanda. Hi, Jason. Just a couple of questions; first of all, on the cash outflows from the central liquidity, basically if I look at the last year, it was about GBP630 million of cash outflows which is external debt, internal debt, cost, some other incoming result. So, how do we think about that? I mean the reason I'm asking is basically I'm just trying to square up the cost saving number into this central spend as well as your plan to reduce internal debt, so how that will work out. So, that would be the first one.

And secondly is UK PNC results were pretty strong in second half, any cost on that would be great. And lastly, as you -- I mean the manage-for-value businesses, Poland and other JVs, if you just remind us what are these other JVs, I remember India is one of them, but any other JVs that we would flag would be great. Thank you.

A - Amanda Blanc {BIO 19138679 <GO>}

Thanks. Jason, do you just want to pick up the first one?

A - Jason Windsor {BIO 17967688 <GO>}

Sure. I think (inaudible) question, I mean the cash outflows are going to come down (Technical Difficulty) three reasons. First and foremost, lower interest cost and (inaudible) the GBP1.7 billion released about GBP100 million run rate reduction. So that means lower central spend as we reshape the Group, we'll be taking that down. And third, the repayment of the internal loan, at the moment we're paying of GBP50 million a year and that comes out of that. But we make a significance repayment following the French transaction. We wouldn't have to do that. So, that would be a sort of GBP50 million upside to those outflows. So, I think that's what I would say on that.

In terms of -- I didn't quite get the question on P&C reserve, sorry actually. Could you state that one again?

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, I mean if I understand correctly, I think your second-half P&C result in UK was pretty strong compared to first half. Obviously, first half was more impacted by COVID reserving, but what was the driving factor of second half? Is it like just frequency benefit without any COVID losses or was there anything other major positive as well like reserve releases?

A - Amanda Blanc {BIO 19138679 <GO>}

I mean, yes, I think in the second half the business continued to grow, so there is good rate increase in there, a reasonable benefit from frequency and obviously no COVID claims are coming in the second half of the year. But we also saw the impact of, as Jason mentioned earlier, the distribution -- some of the banking distribution not being open, which has depressed the revenue in personal lines.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay, thank you.

A - Amanda Blanc {BIO 19138679 <GO>}

On your third question --

Q - Ashik Musaddi {BIO 15847584 <GO>}

(multiple speakers) JV.

A - Amanda Blanc {BIO 19138679 <GO>}

The JVs that we currently have are India and China, and obviously we have a 25% stake in Singapore which we announced back in September.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay, very clear. Thank you.

A - Amanda Blanc {BIO 19138679 <GO>}

Thank you.

Operator

Thank you. Your next question comes from the line of Gordon Aitken of RBC. Please ask your question.

Q - Gordon Aitken {BIO 3846728 <GO>}

Good morning. Thank you very much. Three questions from me, please. First on post-Brexit Solvency II reform, so with the ABI published their response last week, what would you do differently if the risk margin reduces?

Secondly on illiquid assets backing Annuity liabilities, can you just tell us a bit about what illiquid assets you're keen on and less keen on, I mean particularly you mentioned infrastructure? In particular, it seems that the UK Government is very keen for help in ticking its climate change box. And finally, on cross-selling, on slide 34 you talked about cross-selling and somewhere else in the presentation you mentioned skepticism. And we've heard the cross-selling opportunity from your predecessors and indeed other UK insurance CEOs for at least 20 years now.

So -- and if I think about one of the things you showed in the slide, bulk annuities is very, very price-driven in terms of sales in that market. Is it feasible that you would win deals purely because maybe you had a relationship on workplace DC? And maybe what metric will you point to in the future so that we know that cross-selling is actually working? Thank you.

A - Amanda Blanc {BIO 19138679 <GO>}

Right, okay. Thank you. I'll pick up the question around the ABI and Jason can pick up the more specific one around illiquid assets, and then come back to me on the cross-selling. So as far as the ABI stance and Brexit, and Solvency II, we're obviously completely aligned with the ABI on that. Our priority is the rules absolutely reflect the specific characteristics in the UK market, which will allow us to provide our projects the customers and value and long-term stable investments in the UK.

So, we would like a wider range of assets to be eligible for matching adjustment. For example, by changing the criteria for (inaudible) assets from fixed payments to predictable payments, this increases our scope to invest in long-term infrastructure and climate [ph] transition as you quite rightly pointed out. And we believe that the design of the risk margin should be changed to reduce its size and volatility and that would support the provision of annuities to business and retail customers, giving them more certainty in retirement.

On the cross-selling, what's different, well, quite a number of things are different. I know people have talked about this for the last 20 years. But for the -- in the last 20 years we did not have the digital capability that we have today and we did not have the data capabilities that we have today. And so, I think that makes it a lot easier for us to know and understand our customers and understand what are the most relevant products for them at the time of life where they're at. That is unique to Aviva because we will be able to have that information across a number of product ranges.

In terms of what you said about what will we measure this one, it will be on the multi-product hold-in, so we will be -- that will be something that we will be holding ourselves to account to.

And so, whether you say it would be feasible to win a BPA deal on the back of getting more customers -- I think the example I used was around Workplace Pension and what we do know for fact is those customers that have workplace pensions with us and that is the corporate customers, they are extremely keen for their employees to have access to other projects, whether they be personal lines or health or protection products. And we've also -- we know from our own numbers that those customers are more likely to buy an Aviva product than not. So, we are really quite excited about that and those conversations, they're more dynamic. Ten years ago, we would not have been having those conversations and today that we are,.

Jason, on the (multiple speakers) --

A - Jason Windsor {BIO 17967688 <GO>}

Sure. On the liquids, 2020 was (Technical Difficulty) to 2019 as you most imagine, we saw it's much harder for projects to get completed and the funding did slow down. We filled up the gap with some significant purchases for corporate bonds in 2020. But we expect spending on 2021, 2022 to return to the full levels of infrastructure into PFI [ph] origination that we've seen historically. So that's quite UK and we're sort of (inaudible) from the balance sheet perspective in Europe [ph] and in North America. We started to diversify that and that as a capability for Aviva Investors -- is a key focus, both for the balance sheet of the insurance business but also to third-party clients and we continue to see good growth across real assets.

In terms of the new announced infrastructure buying [ph], I think we look totally clear what it is. It feels (inaudible) said yesterday that's a bit of a replacement, the EIB, in the UK. EIB is obviously a big participant in a number of these fundings, so sort of step one. Step two, maybe it can produce more funds for equity type investments in projects. We tend to have much higher appetite on the debt side just given the annuity business that are -- if they can come in and do that I think that would be helpful.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thanks. Just follow-up on the first question, would you reduce the amount of longevity reinsurance on new business if the risk margin comes down?

A - Jason Windsor {BIO 17967688 <GO>}

Possibly, it has come down a lot would be the simple answer. I've answered this before. It will come down and price go up, so that will make a difference. But it would have to be a material reduction. It's so disproportionate. These are the levels of interest rates, then the storms is attractive. It gives us the capital benefits and obviously helps us manage the risks. So I sort await developments, but I'm re not -- I'm not expecting it to come down enough that it would fundamentally change our insurance strategy.

Q - Gordon Aitken {BIO 3846728 <GO>}

So ABI saying there basically 75% reduction, do you think that's optimistic?

A - Jason Windsor {BIO 17967688 <GO>}

Well, that's sort of the consultation that's gone in. I actually don't know, to be honest, still what it could be. So that's -- then that would be a big reduction. And the regulator has said that they expect capital overall not to change dramatically. So if they took away on the risk margin -- took away the requirement on the risk margin, you don't know what could come back on the other side. So I think we are pretty cautious on developments in this regard.

FINAL

Bloomberg Transcript

Q - Gordon Aitken {BIO 3846728 <GO>}

Okay, thank you.

Operator

Thank you. Your next question comes from the line of Steven Haywood of HSBC. Please ask your question.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you very much and good morning. Particularly on the GBP800 million tender for the debt instruments, can you tell me whether you were considering a fair price market tender for the preference shares or not or if these are sort of off the table now and can't be redeemed?

Secondly from me, can you give an update on the dispose -- potential disposals and the Italian disposal for the -- about assets under management that may disappear from Aviva from Italy and Poland, and also where are we standing now on the Polish bancassurance agreement with Santander?

And then finally from me, we obviously saw a big uptick in the management actions at the end of 2020 from the previous guidance. Do you have any plans or guidance you can share about 2021 management actions, whether they'd be slightly higher or expectedly higher than the previous guidance? Thank you.

A - Amanda Blanc {BIO 19138679 <GO>}

I'll pick up the first on the preference shares. I think that Jason had said previously on this, this is not a file that we have or plan to reopen, and we won't say any more on that. I mean, Jason, do you want to pick up the --

A - Jason Windsor {BIO 17967688 <GO>}

Yeah. Perhaps just to be clear, (inaudible) to debt tender. We're tendering for institutional bondholders first of all, and (inaudible) somewhat by institutions, somewhat by resale. This is not a part of that transaction.

In terms of the disposal, as you call them, Italy, I don't think very much of the assets is managed by Aviva Investors at all, and what is managed Aviva Investors is in the Aviva Investors France, so sort of incorporated in that AUM figure and that profit figure that we provided you as well. Aviva Investors Poland has got a subsidiary actually in the Polish business, it's not very big but it does manage a lot of the assets itself. I mean I'm not going to comment on bancassurance with Santander other than to say we've very strong agreements and very strong relationships with them.

In 2021, I don't have anything further to say at this point other than the general GBP200 million guidance that I gave, which is an average. I can't predict sitting here in March what we'll do on things like longevity. We tend to look at annually and we tend to do that in Q4.

So -- but across the board, we don't embark on a year with lots of prudence. We do try and keep up with events but we also expect to find some opportunities.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay, thank you very much.

Operator

Thank you. And our final question comes from the line of Larissa van Deventer of Barclays. Please ask your question.

Q - Larissa van Deventer {BIO 20764470 <GO>}

Thank you. Two quick questions from my side. The first one on bulk annuities, you did have a very strong showing in 2020. Do you have any target, either related to volumes or margins, that you would like to write in the bulk annuity space? Basically, are you going to make a strong play in bulks?

And the second question is on cost reduction. On slide 17, you did have some of what you've done and some of what you're likely to do. The first question is, does that include the lower debt? And the second really question is, where else do we -- should we expect the remaining GBP120 million [ph] to come from? Is it mainly IT or are there other aspects we should consider?

A - Amanda Blanc {BIO 19138679 <GO>}

Yeah, okay. So on BPA, I think as I said, we do see the BPA market as an important market for us and one that we will seek to growing. We won't be giving specific targets on that. As I also said, we are not going to give line of business targets today.

In terms of the cost reduction, it doesn't include the low debt costs. The GBP300 million includes the operational improvements across the business and they come from areas, as we've spoken about, more simplification, more digitization, legacy platform reductions, product simplification, and also opening the draws [ph] as we grow the Savings & Retirement business, improving the expense ratios. So those should reach the upper quartile target that we mentioned. Thank you. Okay, thank you very much everyone. Have a good day.