Q4 2018 Earnings Call

Company Participants

- Adrian Alastair Montague, Chairman
- Chris J. Esson, Investor Relations Director
- Jason Michael Windsor, Chief Financial Officer-Aviva UK Life
- Maurice Tulloch, Chief Executive Officer & Executive Director
- Nitinbhai Babubhai Maganbhai Amin, Group Chief Operations and IT Officer
- Thomas Dawson Stoddard, Chief Financial Officer & Executive Director

Other Participants

- Andrew J. Crean, Analyst
- Ashik Musaddi, Analyst
- Blair Stewart, Analyst
- Dominic O'Mahony, Analyst
- Gordon Aitken, Analyst
- Greig Paterson, Analyst
- James A. Shuck, Analyst
- Johnny Vo, Analyst
- Jon M. Hocking, Analyst
- Oliver Steel, Analyst

MANAGEMENT DISCUSSION SECTION

Maurice Tulloch {BIO 17683736 <GO>}

Welcome. Welcome, everyone. Delighted to be here. Incredibly excited to be the new CEO of Aviva, and welcome to our Results for 2018. I'm going to start by handing over to my Chairman, who was our Executive Chairman just out to few days ago. So I'm going to hand over Adrian in a second to make a few comments. Then you're going to hear from Tom, who will walk through the numbers.

I'm going to be a little bit quieter than normal today. I don't get used to that by the way. But then after Tom, you're going to come up and hear and I'm going to give you some of my initial thoughts on Aviva and start to share some of my leadership philosophies and then we'll open up as we normally do to Q&A.

So, I'll start, Adrian, by handing the stage to yourself.

Adrian Alastair Montague {BIO 14013574 <GO>}

Well, good morning, ladies and gentlemen. Welcome to our 2018 results presentation. You may notice a change of tone this morning from recent years. We're going to be more matter of fact. We're going to be more down to earth, and I think there'll be fewer fireworks. After all, what could you expect from a couple of ex-lawyers like Tom and me? So, I'm just going to say a couple of words before handing over the stage to Tom, who will lead us through the results presentation, and then Maurice will come back for his first thoughts and impressions.

So first of all, I'd like to congratulate Maurice on his appointments most warmly. He will be an outstanding CEO. He's an operator. He knows the business inside out. He has built strong teams against - across both our life and our general insurance businesses, and he knows our strengths and he knows more importantly where we need to improve. So I'm confident that he's extremely well-qualified to reenergize Aviva and to deliver long-term growth.

Now, I said in October that we will conduct a global search, because we wanted to be sure that we had the best possible CEO for Aviva. We look closely at a number of external candidates, and it ultimately came down to a straight but very, very tough choice between our two excellent internal candidates. And in the event, the board unanimously selected Maurice.

We have been extraordinarily lucky to have two candidates of a caliber of Maurice and Andy. And I'd like to pay particular tribute here to Andy who is the consummate professional and really worthy of the highest recognition. So, next, I want to explore briefly how we have prepared for the arrival of our new CEO. Again, I said in October, that we would not let the grass grow under our feet, and we have not. There's a lot to do to enhance the operational efficiency of the group. We have taken some good first steps, but we've also paved the way for our new CEO in identifying a number of further opportunities for the future. Maurice will say a word about this later on. But first, I'll hand over to you Tom for the results.

Thomas Dawson Stoddard {BIO 15071280 <GO>}

Well, thanks Adrian, and thanks Maurice. And good morning, everyone. Today's presentation will focus primarily on Aviva's 2018 results followed by a brief summary of our outlook for 2019 and our current priorities. This is my fifth year reporting on Aviva's performance and I'll try to keep my part of the show straightforward and as dull as ever. I hope you won't mind that.

As you know, we've had plenty of unexpected news over the last year, including a CEO change. And so it's good to get past the past and focus on the business we're running for the future. Let me add that it's great to have a homegrown talent like Maurice taking the reins so that we can move quickly at keep building on today's results. Now, the headlines on the slide behind me are solid. Operating EPS, up 7% to £0.584 per share; beating our target. Solvency II cover ratio at 204%, well above our desired working range, cash remittances up 31% to a record £3.1 billion and a cash dividend per share up 9% to £0.30.

Aviva has delivered steady results again and our people should be very proud of their performance.

Having said that, we recognized there is still much more work to do to optimize our performance and reignite the self-help agenda in terms of cost efficiency, business complexity and reducing debt leverage. This is the task for Maurice and will help make Aviva simpler, stronger and better at serving our customers.

Now, over the last five years, we've significantly improved the company's financial flexibility and capacity for growth. Back in 2015 and 2016, operating EPS grew modestly as we absorbed and consolidated a large acquisition that bolstered the balance sheet and improved cash flow. Since then, we've been able to both invest for growth and return excess capital to investors. Operating EPS has increased by 7% for each of the last two years, and throughout this time, we've also delivered strong growth and dividends per share which have doubled from £0.15 for 2013 to £0.30 in 2018.

Meanwhile, we've increased our spending on digital innovation and modernizing our IT infrastructure while reducing integration restructuring costs to zero for the first time in recent memory. We're very pleased with the way our track record has developed. At the same time, while we've clearly established the foundations for future growth, we have been disappointed that a number of the investments we have made have not paid off as quickly or as handsomely as we might have hoped. And so we are redoubling our focus on execution and reconsidering how we might adapt our operating model to drive higher returns. On the one hand, this means more focus on customer outcomes and managing closer to the business. On the other, it means renewed focus on eliminating duplication, complexity and excess cost from the business. Now, more than ever, our future success depends on how well we execute.

So as we try to extend our track record of growth, we can see that our new CEO will need flexibility to make strategic choices about how and when to invest in growth opportunities and how to reshape the business. So, to provide that flexibility, the board has decided to move to a progressive dividend policy, which means that the dividend remains safe and secure and should grow as the business grows over time.

Meanwhile, Maurice will have the latitude to consider different choices from those we might have made in order to hit the prior payout ratio target of 55% to 60% by 2020. So while we achieved a payout ratio 51.4% this year, in the future, the board will simply consider dividend increases more aligned with its long-term view of the business and likely to be lower in terms of percentage growth and the rapid increases you can see on the slide that we've experienced over the last five years. The future payout ratio may be higher or lower than this year, but our plan is to maintain or grow the dividend per share every year.

Okay. So let's get into the 2018 results in a little bit more detail. As you can see here, we continued to see good breath of performance from our major markets, with six of the eight delivering better than 5% growth. Aviva Investors taking a step back and Canada flat but regaining momentum. Collectively, our major markets increased operating profit by 7% to £3.7 billion as you'll see in the fuller picture on the next slide.

Now, this was no small feat in a year of increased competition in difficult markets. On the life side, value of new business, VNB, actually declined 3% to £1.2 billion, but after adjusting for disposals, was up 2%. On the general insurance side, net premiums written were stable at £9.1 billion with more growth in commercial lines offset by softer motor markets and the combined operating ratio is steady at 96.6%. We're pleased with this performance in this environment.

I'm going to take you one by one through the major markets, but I'll come back to this slide again. As I review each market, it's important to keep in mind the headlines, because we manage the group as a whole with an eye on how each market is doing. Again, the headlines are that operating EPS was up 7% to £0.584. And since for the first time we ran no integration and restructuring costs below the line, operating EPS after such costs was up 12%. Back in the appendices, you also see that operating return on equity increased to 14%.

So without further ado, let's get into the markets starting here in the United Kingdom. UK Insurance was up 7% to £2.3 billion, which was a good result in the face of increased competition and other challenges. The UK also remitted £2.5 billion in cash to the center, and I want to make a special point of thanking Andy and his team for that performance. Our five main operating segments in the UK saw operating profit increased 4% to almost £2 billion, and our success in managing back books of life insurance and annuity business including the favorable impact of longevity trends has added other profits of £350 million. As I've mentioned previously, we've reinvested some of this extra profitability in digital innovation, modernizing our IT estate and other regulatory and other change programs that should position us better in the future.

Within the UK, operating profit in annuities and equity release rose 7% to £779 million, with sales up 12% on the back of higher bulk purchase annuity volumes including our largest ever transaction of £925 million, which we reported to you at the half year. Also, our asset origination caught up with liability matching as expected during the second half. Long-term savings operating profit also rose 7% to £198 million. Net fund flows were £5 billion versus £5.6 billion in the prior period. We had higher fund flows and workplace pensions where our innovative propositions helped us to win new schemes with large corporate such as British Airways. This was offset by lower flows into the advisor platform, which was affected by disruptions caused by our migration to a new IT provider and are now largely resolved. Weak investment markets at year end meant that assets under administration ended at £116 billion, down a bit from £118 billion at the prior year end.

In protection, operating profit was flat at £226 million with better results in group protection where we addressed adverse claims experience from 2017. But offset by weaker results in individual protection where new business volumes fell 8% due to increased competition and where margins were lower in part due to increased reinsurance costs. The legacy life portfolio is running down as expected, with operating profit declining 4% in the year to £318 million.

On the general insurance side in the UK, operating profit was £415 million and the combined operating ratio was stable at 93.8%. More favorable prior year development offset higher weather and large loss experience. Net premiums written rose 3% to £4.2 billion, propelled by increases in commercial lines. Overall, our UK GI business has been a consistent contributor to results for over a decade now and won the Insurance Times General Insurer of the Year Award for the fifth consecutive year.

Okay. Turning now to Aviva Investors. As you know, the fund management industries had a challenging year, and Aviva Investors has been no exception. Top line revenue growth slowed to 4%, but was still positive. And the AIMS range of funds saw assets reduced to £10 billion from £13 billion. Nevertheless, we've continued to invest for the future, not quite at the pace we would have liked, but in any event, with expenses increasing faster than revenues. We've continued to build out our capabilities in equities and in real assets while also absorbing MiFID II costs without passing them on to customers. The result has been that operating profit at Aviva Investors was down 10% to £150 million. This isn't really that bad though, I mean, very tough year for the industry. Euan is more encouraged at our start to 2019, although future results will depend critically on investment markets and performance fees.

In Canada, the overall result is flat to last year, but this belies how much progress come and the team have really made. Elevated weather and large loss experience have weighed on the result, as have persistent challenges in the motor market and cost of completing the integration of the RBC Insurance book. Prior development was favorable. The combined operating ratio came in at 102.4%, about the same as last year's 102.2%, and net written premiums were also stable at £2.9 billion.

Now, looking forward, in Ontario, we've received approval for an 8.6% rise on the Aviva motor book and a 16.8% rise on the RBC book. This will be implemented in the first quarter and will partially benefit results in 2019 and more so in 2020. Accordingly, we remain confident that we can achieve our sub-96% combined operating ratio goal for 2020.

In France, operating profit of £546 million was up 8% in sterling and 7% in local currency, with increased demand for savings products leading to a 6% increase in new business volumes to £4.3 billion. Life insurance operating profit grew 7% in France to £436 million on the back of higher average asset balances and tight control of expenses, which increased only 1%. General insurance profit rose 5% to £110 million with net written premiums growing 5% to £1.1 billion with most of the growth in commercial lines and the overall combined operating ratio remained stable at 94.5%.

Patrick and his team are realigning our distribution channels in France under the Aviva brand, and look forward to continuing our momentum as we invest further in the brand, distribution and digitization in 2019.

In Poland, operating profit of £190 million was up 7% in sterling and 6% in local currency, despite subdued trends in the life insurance market. Adam and his team responded with a targeted product strategy through our distribution partners delivering record levels of customer retention and managing expenses tightly. Our life businesses increased new business volumes by 3% and operating profit by 8% to £170 million. In general insurance, operating profit was about flat at £20 million with lower profitability in motor insurance where we need to build more scale.

In Italy, operating profit of £188 million was up 16% in both sterling and local currency, with life insurance sales rising 37% in local currency to £6.3 billion. Our hybrid products, which combined with profits, unit length and protection features grew 161% and contributed 44% of our total life sales, up from 23% from the prior year. We also expanded and diversified our distribution capability with non-bank channels now contributing over 40% of life insurance sales. So altogether, our market share of premiums on the life side is now up to about 6% in Italy. And in general insurance, net premiums written fell 7% as we wrote less motor business, but margins improved, so GI operating profit increased 25% to £32 million.

I should also point out that it's been a volatile year for the macro economy in Italy with fiscal policies adversely affecting credit spreads. So, these results show that Nacho and his team have done a great job for Aviva, managing both our rapid expansion and our capital position in this market.

In Ireland, operating profit of £100 million was up 16% in sterling and 15% in local currency, including the acquisition of Friends First, which completed on the 1st of June 2018. As reflected on this morning's opening slide, we extended our sponsorship of the Aviva Stadium in Dublin, which is a key element of our brand strategy, and very important for John Quinlan and the rest of the team in Ireland.

The acquisition of Friends First accounted for most of this year's increase in operating profit although the GI business increased slightly as well to £56 million with the combined operating ratio staying strong at 91.5%. In addition, we prepared for Brexit by incorporating a new legal entity and taking other steps to transfer our Irish branch business back into Ireland from the UK.

And finally, in Singapore, operating profit of £125 million was up 14% in sterling and 16% in local currency. We continue to grow our Aviva Financial Advisors network to 816 advisors. And our total advisors network in Singapore is now up to 1,540 advisors. As a result, new business volumes increased 11% to £1.3 billion and life operating profit increased 21% to £141 million. However, our GI business continued to run at a loss in Singapore, primarily due to adverse claims experience in our health portfolios, which we are remediating.

Stepping back, as I look at this business overall, I continue to find remarkable the complete revamp initiatives accomplished in our Singapore operations, taking us from overreliance on bank distribution to an entirely new business model based on high margin sales through affiliated financial advisors, really, really well done.

So overall, our major markets were up 7% to £3.7 billion of operating profit. But it's important to consider the remainder of the P&L because we managed the company on an overall basis and make decisions in the context of being able to deliver for Aviva as a whole. As you can see from the slide, partly offsetting the major market growth is an increase in costs from our investments in strategic investments and corporate and other costs. Now, the increase in strategic investment costs to £142 million is largely attributable to the development of our digital capabilities in the UK, some of which we had expected to recoup from higher sales volumes and internal commissions.

However, we fell short of our internal ambitions on sales as market conditions softened, which left less to cover some of these development expenses. Digital remains central to our strategy, but we are revisiting how we can drive stronger commercial outcomes from our investments in this area.

Corporate costs rose to £224 million as we stepped up the pace of investing to modernize our IT infrastructure, as well as absorbing other spend on IFRS 17, GDPR, and other major change programs. Now, we've calibrated the cost of such investments against the profitability afforded by our businesses, including the benefits of longevity releases, so that we can make Aviva better for the future while still delivering steady results in the year. I expect this will continue in 2019 and 2020, but these programs all have planned endings.

Put differently, we could have invested less in modernization and delivered a higher EPS result as a consequence. But because we were satisfied with 7% operating EPS growth, we've been able to take a longer term view of what it takes to position the company to compete in the future. This means spending to move applications to the cloud, investing in data, and streamlining operations. So please keep this balance in mind as we explain EPS movements in the next slide, and later, when I talk about our outlook for 2019.

Now, this next slide takes a different look at our profitability, summarizing some of the moving parts, explaining the 7% increase in operating earnings per share. Disposals had less of an impact than we expected because of the ongoing delay in completing the sale of Friends Provident International and capital management had a larger impact and will give us a bit of a tailwind going into 2019. More importantly, in the middle of the page, you can see that underlying growth was about 3% and the net contribution of other impacts was a positive 1.5%.

So, while we're satisfied with 7% operating EPS growth, we need to drive stronger underlying growth. Within the green bar on assumption changes, we have the benefit of releasing longevity reserves of £780 million, which is in line with the prior year. This is partly offset by additional provisions, including a £175 million increase in customer remediation reserves related to very old advised sales by Friends Provident. And as guided previously, the other segment in our UK insurance business would normally be expected to contribute between £150 million and £200 million to our results, but this year it has been higher than normal at £350 million relative to £260 million in the prior year. Note that it may be above the expected range again in 2019 unless longevity trends reverse.

Now, they should stop at some point but in the meantime they're providing an extra boost to our profitability. And as I mentioned before and as included in the red bar in the middle, we are reinvesting some of this excess profitability in a higher temporary level of change spent. We also continue to believe that our longevity reserving remains towards the prudent end of industry benchmarks even after the releases in 2018.

Okay, turning now to the balance sheet and beginning with net asset value or NAV. You can see that book value per share was flat as we return capital to investors and we're impacted by negative market movements and pension remeasurements. Brexit remains very topical today, so you should note that within the market movements we've added an additional £100 million to our Brexit reserve as at year-end, bringing the total to approximately £400 million in addition to other customary reserves. Basic earnings per share of £0.382 was stable relative to the prior year with additional benefit from a positive exceptional item related to the Ogden rate where we've revised our assumption from a negative 0.75% to simply 0%. And as I mentioned previously, we've absorbed all integration restructuring costs this year in operating expenses, so there is no extra drag below the line from that.

Our capital story is a pretty good one. Despite returning £1.5 billion of capital and paying out £1.2 billion in dividends, and despite difficult investment markets, our solvency capital ratio increased another 6 points to 204%, keeping us well above our target working range. We've simplified that working range slightly, making it 160% to 180% with a midpoint of 170%. Now, we've increased the bottom end of the range from 150% primarily because we found that the levels of capital we're targeting at our subsidiaries combined with the group diversification benefit Aviva enjoys actually makes it very difficult for us to end up at 150% as a practical matter. So, under normal circumstances, we should operate in the 160% to 180% range, and we continue to carry excess capital at the moment, which is not a bad place to be [Technical Difficulty] (00:23:22) Brexit and other external uncertainties, but we would also expect to return [Technical Difficulty] (00:23:32-00:23:39) our capital also remains relatively insensitive to various stresses [Technical Difficulty] (00:23:44) to limit residue risk.

In the events of Brexit, we've taken additional steps [Technical Difficulty] (00:23:50) and the Brexit reserve I mentioned earlier. This should give us more room to deal with future adverse effects on UK property prices should they arise. We do lots of scenario planning including extreme stresses and reverse stress test, so we feel about as well-prepared for adversity as we think [Technical Difficulty] (00:24:08).

The steady uptick in our capital ratio over the last few years is a good indicator of how we think about management. We've consciously managed our investment portfolio, although we have a very big balance sheet. Three quarters is unit linked report participating business where Aviva bears only a minority of the investment risk. [Technical Difficulty] (00:24:35) of our shareholder portfolio including our annuity [Technical Difficulty] (00:24:40). We maintained [Technical Difficulty] (00:24:42) portfolios and corporate bonds and government debt and a mortgage portfolio with low loan to values and high coverage ratio.

In terms of capital generation, 2018 was a year for operating [Technical Difficulty] (00:25:01). This breaks down [audio gap] (00:25:03) of other capital actions. [ph] £100 million (00:25:18) in prior year and partly because [Technical Difficulty] (00:25:25) benefit.

Now, we returned [Technical Difficulty] (00:25:46) capital to investors, paying down hybrid debt and buying back shares together with a [Technical Difficulty] (00:25:52) FRPS. We returned £1.5 billion of capital to investors, paying down hybrid debt and buying back shares. Together with a modest amount of M&A, we redeployed £1.7 billion of cash toward our goal of deploying £3 billion over the course of 2018 and 2019. And we're not rushing to spend the remaining £1.3 billion. Rather, with our new CEO and shifting priorities, we're extending the timeline beyond 2019 and we'll prioritize reinvestment in our existing operations and debt de-leveraging. Based on our current outlook, there's less appetite for M&A in 2019.

Capital has begun turning into cash in a big way with a record £3.1 billion of remittances in 2018, up 31% over the prior year. As I've explained in the past, there typically is a lag between capital generation and conversion into cash remittances to the center, and you can see this playing out in our numbers. We've now generated £1.25 billion in special remittances from the Friends Life capital synergies, as well as another £750 million of special remittances in the UK from our capital of the cash project. I'm anticipating additional special cash remittances in 2019 and 2020 from around the group.

You'll also recall that we upped our cumulative cash target from £7 billion to £8 billion, but we fell just a hair short in the end, deciding to hold some extra cash in Italy and still not yet completing the sale of Friends Provident International. Nevertheless, our liquidity remains where we wanted, with center cash of £1.6 billion right in the middle of the £1 billion to £2 billion range we expect to hold. Our underlying cash flows cover the regular dividend to shareholders, while the special remittances give us additional capacity for debt to leveraging. And our plan is to repay without refinancing at least £1.5 billion of debt by 2021 or 2022, primarily from special dividends from subsidiaries. Relative today, this equates to about a 20% debt reduction, taking us about 10 points closer to our desired Solvency II capital working range and trimming 4 points off of our debt leverage ratios. We're comfortable now. We'll be even more comfortable at that point. Paying off this amount of debt will also save us about £90 million a year in cash interest expense. Now, we only have about £200 million of debt maturing in 2019 and £500 million the following year, so we may set aside some extra cash at the center to effectively diffuse (00:28:24) maturities out in 2021 or 2022 ahead of time. And you might ask, could we pay down more than £1.5 billion? Well, possibly. But it would depend on other strategic decisions on where we want to invest and how we want to optimize our business and our product mix.

And we'll leave that to our new CEO, Maurice, which takes me to my wrap-up. Last year for 2018, we provided relatively specific guidance around drivers of operating earnings per share and our overall target for operating EPS, which we ended up beating with 7% growth. This year is a little different. For 2019, given external uncertainties including the potential impact of Brexit on the UK and Europe, our near-term outlook is more muted and Aviva is not yet confirming any earnings targets today. Having said that, our underlying businesses should continue to perform and I know that Maurice intends to drive commercial outcomes very hard with increased focus on insurance fundamentals and operating efficiency. In addition, we've tried to set ourselves up for future success by addressing legacy issues, preparing for Brexit, strengthening the balance sheet and taking a pro forma adjustment in our Solvency II cover ratio for potential regulatory change on equity release mortgages. I'll also point you to a few specific potential headwinds and tailwinds on EPS. In 2019, we may have a higher operating tax rate depending upon business mix, especially if and when Canada begins to bounce back. We have some lingering impacts from disposals with uncertainty around when and if we'll be able to complete the sale of Friends Provident International. And on the positive side, we will benefit further in 2019 from some of the capital management, share repurchases, and debt repayment that we did in 2018 and we would expect Canada to continue its recovery towards the 2020 combined operating ratio below 96%.

And speaking here today, it's also hard to say to exactly what degree beneficial longevity trends will offset the change spin we're undertaking this year. And with the new CMI tables due to be published again soon, we may yet again find in 2019 that we have more material benefits from longevity and future results. As I mentioned earlier, our capital to cash program should drive high levels of cash remittances including additional special dividends from subsidiaries around the group, and this will fuel our debt deleveraging clients. Finally, in terms of shareholder dividends, as I said at the outset, we're moving to a progressive dividend policy in part to emphasize the safety and security of the dividend while providing more us a little more flexibility around future targets. So, that's it for me on results.

But before I hand it over to the guy you really want to hear from, let me say that we know you all have lots of questions about potential changes in strategic direction, and Maurice will have plenty to say, just not today. I'll ask you to be patient just a little bit longer so that Maurice can imprint his vision on our plans and come back to you with a better definition on where Aviva goes from here.

And with that, let me welcome to the stage, my good friend and colleague, Maurice Tulloch.

Maurice Tulloch {BIO 17683736 <GO>}

Thanks, Tom. Thank you, Tom, and thank you, Adrian, for your kind words this morning. And I appreciate the warm welcome that many of you in the room have offered me here today. It gives me great pleasure to speak to you as the new CEO of Aviva Plc. I'm incredibly excited to take on this role and perhaps somewhat out of character you might want to understand that it's only day four and had – I had to keep my comments brief today. Don't get used to that though. As many of you know, I've been with Aviva for most of my career and actually I was recounting, I think I've worked in every one of our business units. I've just gotten hold of the steering wheel, so while I naturally have some pretty strong views about our strategic direction, I will spend time engaging with our investors and colleagues.

Today, I want to leave you with really three points about my leadership philosophy, which ultimately will help shape a new Aviva. First, I'm going to bring a different pace and cadence to this organization. This is just how I've always operated. The board has hired me to drive long-term growth and re-energize this place. We are far too complex and this is holding us back. This will change. Second, I will ensure a relentless focus on the fundamentals of being a great insurance company. We have all the ingredients, just not executing consistently. I plan to leave no stone unturned to drive better performance, and that has to start with delivering an exceptional customer experience. You know what, it's all about how you make people feel. This is a proven strategy. I pursued this some five years ago in running our UK general insurance business and most recently in running our European business unit. Third, my strategic and financial decisions will be rooted in commercial sense. This means being more disciplined on project investment and in returns and making sure we are prioritizing resources to the areas that will move the needle.

There is much more work to be done on reducing leverage as Tom mentioned, improving quality of earnings and return on our shareholders capital. Aviva has so many strengths, committed and energetic staff, tremendous and diversified distribution, deep technical expertise and, most importantly, 33 million customers that rely on us each and every day. We need to be brilliant at pricing, underwriting, savings and retirement, investment performance, optimizing our product mix and improving our cost efficiency each and every year.

For me, these areas will form the basis of an improved delivery for our customers, accelerate growth and improve margins across Aviva. So, let me recap, three themes. One, I'm going to bring a different pace and cadence to this place, I guarantee it. Two, I'm going to bring a relentless focus to the fundamentals of insurance for our customers and shareholders. And three, my strategic and financial decisions will always be rooted in commercial sense. This will undoubtedly form an integral part. You might want to call the Aviva self-help story, and I'm excited about unleashing the real potential, the untapped potential here in Aviva. As Tom said, we have some headwinds and tailwinds, which may tamper growth in the short run. But make no mistake, I'm incredibly confident about growing this business over the long run. I've got a track record of doing just that.

I will come back to you in shorter, in fact in the second quarter, on what I'm doing, what the team are doing to drive operational improvement and make Aviva simpler. Then, it is our intention to do a more detailed event in the latter part of the year here in London. In the meantime, I look forward to meeting many of you in the coming weeks, re-establishing old relationships, building new ones and getting a quick start on the task at hand.

So, thank you. I'll now move into Q&A.

Q&A

A - Chris J. Esson {BIO 6194371 <GO>}

Great. Can we start with James Shuck from Citi, please?

Q - James A. Shuck {BIO 3680082 <GO>}

Thank you. Seems you have lost the balls we throw around (00:37:04). So, I had three questions if possible, please.

A - Maurice Tulloch {BIO 17683736 <GO>}

The balls cost us lot of money, so...

Q - James A. Shuck {BIO 3680082 <GO>}

There's another joke there somewhere. My first question, I mean, one of the criticisms about Aviva is it's a strange collection of businesses with little kind of strategic coherence between them. Maurice, I'm just keen to get your idea of how you actually drive value as a cohesive unit out of those eight or so focused markets?

Second question, on the digital and big project initiatives, I mean, I appreciate you're accelerating the spend against the longevity reserve releases, but there has been a big uptick in the digital and project spend. How do you view – how much of that is actually optional and how much you can actually turn that off? And when you actually comes with setting projects, what would you look at in terms of returns, in terms of IRR's payback periods, that sort of thing when you're justifying that spend?

And then, a final question. Like, I may misinterpret this, but the dividend policy move away from a payout ratio towards a progressive one, to mean (00:38:22) by guaranteeing the absolute level of the dividend and that growing that might suggest that you're less prone to do large-scale disposals. Because by doing so, the earnings actually might fall and therefore you have to guarantee the absolute level of that dividend. But perhaps I've just misread that, but trying to read things into the outlook for M&A. Thank you.

A - Maurice Tulloch {BIO 17683736 <GO>}

Great. Thanks. Thanks, James. Let me take the first two questions and I'll pass the third one on to Tom. Listen, I think when you look at our 14 markets and our two global businesses, one of the challenges, what is the transitional glue that holds them together. I've been hired to make Aviva effectively run better. And my immediate focus is going to be on the fundamentals of the business and it's also about getting world-class customer experiences. So, those are the two themes. I want people to walk in, whether they're walking into Vietnam or they're walking to Poland or whether they're walking in to one of our UK businesses that we're tremendous with insurance. Whether that is being greater pricing, whether that is in how we service our customers, whether that's our investment management skills, or whether that's cost efficiency, that should improve each and every year.

And the second thing, for our customers, I want the experience. I don't want to be saying, hey, we're customer-centric, the customers at the heart. I think those might be nice words, but they can come across as being a bit hollow. I wanted to be something a motive, where our customers feel that whether they're buying the product or service with simple and exceptional, whether they're having a claim, it's clear and clearly articulated in what they should expect, or whether it's a renewal or whether when that product arrives, it's real simple and it does what it's going to say on the tin. I think that's an important transitional glue that great insurance companies have and that's what I plan to do, so that they all feel very much like Aviva.

I think on your second question; listen, when I look the costs, I'm not pleased to see our center costs up 24%. Now clearly, there are some things in there, whether it'd be GDPR, whether it'd be IFRS 17, whether it'd be some of the IT that we had to do; but I would describe those costs as almost a high water level mark. The digital costs were absolutely viable. We took that off site, we're going to bring that back into the business, and we have to build that innovation technology.

And Chris and Blair and the team have done amazing things in terms of MyAviva and the number of customers, I think we're now at up to 5.3 million. But listen, that's only touching about 9% of our customers globally. So, one of my theme is to bring what we've done and what we've learned and take it to the other 91%. I'm a channel-agnostic leader. Our customers will decide how they want to come to Aviva. So, look at it as a high water level mark and look for me to get value out of that spend as we move forward.

Tom, do you want to talk about the (41:00)

A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Yeah, just to pick up on the dividends and the question as to whether there's any read across there in terms of M&A or strategic activity and – I'd say, no, and I imagine we'll get other questions here, so let me just kind of attack it generally that I think if we wanted to, we could go ahead and hit the old targets and hit the 55% to 60% payout ratio. But what we're trying to do is actually provide more some opportunity to think about strategy and reset financial targets in a way that makes sense with the way he's thinking about the business. So, you shouldn't read anything else into that than we're just trying to create a little bit more flexibility and de-link it from the formulaic way we've been talking in the past. So, there really shouldn't be any read across in terms of whether we would or wouldn't sell a business.

A - Chris J. Esson {BIO 6194371 <GO>}

Jon Hocking from Morgan Stanley, please.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Good morning, everybody. Jon from Morgan Stanley. I have three questions please; two for Maurice, and one for Tom. Maurice, looking at the shape of the group, you talked a little bit about project spend and how you're clearly not comfortable with the level of that. If you look at the group, where do you see the areas of strong performance and where do you see the areas of weaker performance? So, what are the priorities for you in terms of trying to address some of the areas that are underperforming? That's the first question.

And then secondly, so looking at your career, you've obviously run life insurance businesses, but I think you'd probably agree that you're sort of – most of your career has been (42:26) P&C technician. How do you see life insurance and what do you see as sort of key success factors in life and savings, and how do you think it will bring change the way versus the group approach those parts of business? Second question.

And then Tom, in your remarks you mentioned some of the investments the group has made haven't paid off. Was that a comment that was focused on the digital investment or were there other investments that you think haven't really performed as anticipated? Thank you.

A - Maurice Tulloch {BIO 17683736 <GO>}

Great. Thanks, Jon. I'll start with your second question and then go to your first; and, listen, a fair comment. I've been with the organization for 26 years and probably spent about 20 years of that in general insurance. I would note that obviously the last two years I've been running Europe, which contributes about £800 million in operating profit from the life insurance businesses. So I have learned a fair bit about life.

I don't profess to be a global expert, but when I look at life insurance I'd probably start with two things that are critically important. We have to have absolutely the right asset management skills. Secondly, it's about the product design, and the product design for really two reasons. One is around the capital intensity for our shareholders, and the other one is about the customer attributes. When we designed the new product in Italy, we very much looked at the macroeconomic environment in Italy, some of the spreads, and what customers were wanting; and they still wanted some security, but they also wanted upside, and that's why we had a hybrid product which had a par guarantee and it also had unit-link to get upside growth with an insurance protection wrapper.

I think beyond those two attributes, it's a bit of a misnomer that when you get into the life business, it's actually quite similar. You got to be exceptional at distribution management, you got to have people that understand your product, you have to have easy systems to do business with so that they can interact with their customers in our distribution channels, and the other one is about efficiency. And I think I'm pretty proud that when I look at, certainly, our Polish and Italian businesses where we have cost to income ratios in the mid-30s, I mean, pretty exceptional and competitive and I think hence why we've seen the results that we have.

When I step back and look at the group, one of the things that I've been hired to do is take the growth and actually put it on through a new plane. So, when I look at six of our eight major markets, starting with our biggest market that Andy runs in the UK, had a pretty good year against sort of macroeconomic uncertainty, and the strength of our brand still does pull in as a quality franchise. You look at our European businesses and they've done exceptionally well and are poised to actually probably accelerate some of them from that standpoint.

Obviously, Canada has had a tough year. That was a market phenomenon. I wasn't happy with the pace of turnaround. We brought in one of our strongest leaders in Colm Holmes. We finished last year at a run rate in H2 of £105 million to be at now at £102 million and accelerating, and actually having got our biggest rate increase ever close to 17% in RBC. And whilst that's the one I'm concerned about, it's a concern that's – as Tom has said, we're reiterating the guidance. That gives us – I'm not going to be reiterating guidance on my first day, if I don't believe in that. We feel pretty good about the prospects.

And I think the other one that stands out obviously is Aviva Investors, but Euan and the team have actually done the right things, right. We've grown our revenue by 4%, and being part of Aviva, it allowed them to continue to invest against the backdrop where many of their competitors were sort of cutting investments, because we actually believe in the strategy that we're putting forth for Aviva Investors. And outside of that it's going after the efficiency. And for me that is the low hanging fruit, and whilst I'm not going to set targets today, expecting – when we come back in May – that we'll have something to say.

A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

And Jon, to pick up your other question, I think we've planted a lot of seeds and you pick out digital, you can talk about that, but there's others that I can point to as well. So I'd look at the Canada acquisition that we've done which we still think is going to be a great acquisition for us, but it just turns out our timing happened to be just at a time when sort of the market is turning down.

(00:46:34)

...so we've got more work to do. So, the point isn't so much that these aren't investments that we should be making; it's more a question about driving execution and driving commercial outcomes from them. And so, we still think we're going to get payoffs, they just aren't developing as quickly as we thought we might get all around the group.

I'd put on the other hand, I'd highlight the investments we've made in Singapore around building the distribution network there is ones that have actually paid off quicker than I would have expected and, really, are showing good, tremendous results for us. So, one of the things that excites me about having Maurice on board is that he's really a hands-on leader. He gets into things, he drives, he's relentless in following up, and I think that's what we need to make sure that we really get the payoffs from some of the investments we've been making.

A - Chris J. Esson {BIO 6194371 <GO>}

Johnny Vo, Goldman Sachs.

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah. Hi. This is Johnny Vo from Goldman Sachs. Just three questions if I may. Just, Maurice, in terms of your appointment by the board, I guess, the basis of your appointment; is the basis of your appointment based on any restrictions in terms of, it's steady as she goes, or is your mandate open-ended in terms of the direction you want to take the business? That's the first question.

Second question is just in regards to the balance sheet of the group. Clearly there has been significant de-risking of the balance sheet. I see a high proportion of government bonds on there. What has the impact been on the earnings of the group as a result of this? And third, related to that question, just relates to does this go in anti-phase 2 growth in bulk annuities which increasingly is taking on more risk on balance sheet? Thanks.

A - Maurice Tulloch {BIO 17683736 <GO>}

Okay. Thanks, Johnny. I'll take question one. I think Tom will take two and...

A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Sure.

A - Maurice Tulloch {BIO 17683736 <GO>}

...we might hand off part of it. So the simple answer is, there are no restrictions. I've been hired by the board effectively to make Aviva run better. I think there is, as I said earlier, an awful lot of things that I can go after in the short run, and I plan to work with my colleagues to do that. We'll set some pretty aggressive targets. I like setting clear accountabilities and working with people to ensure we deliver those accountabilities. And that's across a range of things, so that, that's obviously efficiency and I talked about that, but it's also in how we work and whether that's pricing, whether that's making sure that we get the right sort of investment management performance, whether that's service attributes for our customers, that's what I plan to do.

I think today to talk about what's in the perimeter, what's the shape of group, and what's the strategic direction, listen, this is day four and I would hope everyone in the room would afford me some comfort to meet with our largest shareholders, to spend time with my colleagues. But as I alluded to in my opening comments, I do plan to come out and speak of a little bit broader themes beyond the self-help story towards the end of the year.

A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Look, in terms of your question around the balance sheet and the opportunity cost around earnings, I actually think that's a really hard question to sort of pin down because you're talking about lots of different capital management actions. I work pretty closely with Martin Muir, my Chief Capital Officer; with Jason Windsor in the UK; and my other CFOs, and we try to focus more on an EVA analysis. It's not something we publish externally, but we look at our decisions in terms of whether we're adding value to the organization from an EVA perspective.

In some of those cases, by diversifying more and sort of getting better on the efficient frontier, we're actually adding earnings and adding value to the organization. In other cases, you may see short-term hedging costs, et cetera. And again, we manage the business more on a Solvency II basis than on an IFRS basis. So, a lot of times, there's not sort of a direct translation into short-term earnings. So, I don't think of it that way in terms of there being a big near-term drag.

When it comes to bulk annuities, I mean, that's a good example of a place where we are taking more risk and we have grown that business. We're happy with the growth that we got there. And I don't know if you want to talk any more about that or...

A - Maurice Tulloch {BIO 17683736 <GO>}

I think it's a fine business, but I think what Andy and Jason have done has shown incredible discipline and control around margin. And I think, when you're Aviva, you're going to get invited to every dance. I mean, our brand resonates with UK corporates, but we've shown discipline to play in that market when we think the financial terms are attractive to us.

A - Chris J. Esson {BIO 6194371 <GO>}

Blair Stewart, Bank of America.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thanks for introducing me, Chris. It means I don't have to bother. Three questions. What's happening with the FPI disposal, quickly. Secondly, on debt leverage, you've talked about a minimum of £1.5 billion. Now, you've got that excess liquidity already out to 2022; I'm guessing, you'll build more. So how should we think about that? Is that a very conservative estimate, how far would you want to take deleveraging, do you want to be averagely levered or below average? And thirdly, Maurice, you talked about Aviva being a complex group. What did you mean by that and how would you address that? Does that come down to the perimeter of the group or is there something more detailed? Thanks.

A - Maurice Tulloch {BIO 17683736 <GO>}

Okay. Tom, you can take probably one. I might make a couple – one point on number two and I'll take three.

A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Okay. Okay. So on our Friends Provident International, that sale was agreed to over 18 months ago. We are still committed to getting that deal done as is our RL360. We've got one of the regulatory approvals, but we're still waiting on the Hong Kong approval , that's proving to be somewhat difficult and is taking some time. The regulators are being very deliberate in that process, but we continue working with the buyer to try to get that done and we're committed to getting it done, but obviously there are some risks just given how much time has already elapsed.

Q - Blair Stewart {BIO 4191309 <GO>}

(52:33)

A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

I'm sorry?

Q - Blair Stewart {BIO 4191309 <GO>}

What's plan B?

A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Well, plan B is we keep working at maybe making changes to the transaction structure, et cetera, addressing regulatory concerns. And if that doesn't happen, we'll have to consider a number of different options. (52:50)

A - Maurice Tulloch {BIO 17683736 <GO>}

Obviously, (52:51) on the debt leverage is obviously we're not planning on doing tender offers. So, I think if you look at our maturity schedule, I think it's £200 million is coming due this year followed by £500 million in 2020, and then £900 million the following year before we get into a peak maturity. So, Tom do you want to comment on the £1.5 billion and how we'd get that?

A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Yeah. Look, I think, could we could we do more than £1.5 billion? As I said in my remarks, possibly. We're pretty comfortable ourselves in terms of the debt leverage, in terms of where we are right now. And in terms of the way we're dealing the debt capital markets, we're AA-rated, we issued long-term debt in the fall in euros, sub-2%. So, our borrowing costs are cheap, and if I could refinance that whole stack tomorrow I'd love to do it, but it's really a question in terms of the equity markets and perceptions around our cost of capital. And so I think, really, that's the benchmark. So we're going to bring it down closer to peers, we're going to continue to look at what peers are doing, and when it stops becoming an issue that's when I'll stop dealing with it.

A - Maurice Tulloch {BIO 17683736 <GO>}

Complexity, Blair, let me give you some examples, and they also form opportunities. We're incredibly complex internally, and you see that – certainly, that's proliferated most here in the UK, where we have a group office and we have a UK business head office, and we also have shared services. And I would think that, from my standpoint, that that hasn't been built to effectively optimize and be efficient. So, there's internal challenges. The same could be said in some of our larger overseas businesses.

But more importantly we also have challenges externally for our customers. Our customers can choose from 50 different colors of a home insurance product. We have different pricing models that go across different channels. And that creates confusion with our customers. It also can be the root of customer complaints, and that is something that I think has been our gift to fix.

But I also – more importantly, there's a cultural benefit of reducing complexity, and that's one of accountability. And I'd like to work with leaders that have clear accountability that allows me to measure their success and allows us all to collectively course correct. So complexity is not just my view; our employees tell us that we're incredibly complex and bureaucratic. It's one of the big levers we can pull to really sort of free up this place to move forward.

A - Chris J. Esson {BIO 6194371 <GO>}

Dominic, please?

Q - Dominic O'Mahony

Thanks. Dom O'Mahony, Exane BNP Paribas. Two sort of specific questions and then sort of (55:34) broad question. One is, I think you mentioned in terms of internal cash remittances a potential for special dividends beyond the UK. Is there anything in particular driving that? And then secondly, in terms of the group Solvency movements, a chunk of that was the recognition at group level of the French DVA. Any chance you could give us an update on the ratios in the major solo entities? Thank you. And then sort of a broader question, Maurice, I realize you've only had four days, but reflecting back on your 26 years, what would you say is distinctive and different about Aviva?

A - Maurice Tulloch {BIO 17683736 <GO>}

Okay. I'll let Tom start and I can think about my 26 years while he's answering those two questions.

A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Sure. So special remittances really come from two sources. One, we've had some big capital actions and, as I said, there's typically a lag, so we've had some of that in France for example. The other, I mentioned that we have a capital to cash program going on, which is a program that we've been running to try to make sure that all of our subsidiaries are optimized. And effectively what we've seen is that through the process of moving to Solvency II, we've ended up building buffers on top of buffers through sort of natural conservatism of local Chief Risk Officers and local boards and just local pragmatism.

So, we've gone back, we've looked at that closely. We've worked with local subsidiary boards. We set a new policy, for example, in the UK this year, and we're trying to drive the businesses closer to where they should be, not only just on a onetime basis but on a repetitive basis. So that means there's a stock of capital that comes - it becomes cash and comes up, but we also ought to get flows on a recurring basis out of subsidiaries. So that is one of the things that will drive some of those special remittances in addition to some of the big capital actions that we've had not just in the UK but also France and elsewhere.

We really don't publish where we are in terms of our subsidiaries in terms of exactly where those ratios are but, again, as you would expect with our excess capital position, I can tell you that they are all in a, what we call, our green zone with the exception of Italy which is sort of amber just given all the volatility we've had in that marketplace.

A - Maurice Tulloch {BIO 17683736 <GO>}

Yeah. Thanks for the question, Dominic. I'll still align from Tom's opening sound bite. It's okay to be dull and my parallel in that, you know what, it's okay to say I work for an insurance company and I'm going to make it the best damn insurance company there is. And I think too many times when we or when I have failed, I've forgotten that I work at an insurance company and if I can get sort of the basics right around the technical fundamentals and the customer service, I truly believe that I can put this organization on a different plane for growth.

And the second thing is I have to realize that customers are going to want a deal at their time, in their manner with this organization. And the reality is, when 90-odd percent of our business comes from different channels, why would I not invest in those channels? Why would I not sort of realize the power of what we can deliver around distribution management to actually create inertia? There are so many partners and IFAs and brokers around the world that have been waiting and waiting patiently for Aviva just to say, hey, we love you too, right? And I think doing that and having the right leadership, taking out the noise and the bureaucracy, this place, it goes to a different spot.

Now, you're going to have to judge me in the months to come, but I would sort of say where I've instituted that sort of fundamentals and being tactical, which also includes, you know what, sometimes in claims we don't pay them because they're fraudulent, and that's okay too, right. We have that duty to all of our policyholders. But judge me on the track record. I've had a lots of learnings in my 20-odd years.

Media called me a veteran. I actually felt old for the first time.

A - Chris J. Esson {BIO 6194371 <GO>}

Can we do Greig, and then Ashik and Oliver, please.

Q - Greig Paterson

Morning, everyone. Greig Paterson, KBW. Three questions. One is, just, can you talk about PS 13/19 (59:48) what pro forma adjustments you did in Solvency II? Second point is, I noticed, I mean (59:56) adjustment was £0.7 billion and you had guided much lower than that – and there's a point I want to make here – there's also a £0.5 billion of hedging and modeling costs; I mean, these are black boxes and difficult to understand. I wonder if you could just talk about the potential for further of these in 2019? And then finally, for Maurice, Italy, France, and Poland, what synergy do you see those life businesses have the UK Life business?

A - Maurice Tulloch {BIO 17683736 <GO>}

Okay. Thanks, Greig. I actually am an accountant, but I will defer the first two questions to Tom if you don't mind and happy to come back on the synergies in the continent.

A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Well, I'm going to try to get other people in the room involved here. So, I'm going to ask Jason to talk a little bit. But essentially, the impacts of the equity release consultation turned out to be less than we thought they were going to be, but there may still be some impact and so we've decided pro forma that.

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

Sure. On 31/18, whatever it became known as, there was no impact on our balance sheet when we ran the PRA's effective value test, so that came through as zero. The consultation came out with another consultation into SCR that hasn't been published yet, but we think there will be some impact and we've estimated that at £0.2 billion and we pro forma-ed that through the balance sheet.

As it relates to your second question, Greig, about risk reduction within the balance sheet, we did a lot this year to optimize some second order risks, equity volatility, for example, some interest rate risk, and you can see that, how the SCR is reduced on a group basis. But we feel, I think, as Tom was saying earlier pretty well in balance around the risk and reward profile as to where we are across the investment risks.

A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

And look, more generally around capital actions, I agree, it's a black box. It's kind of hard to explain all that as we're working on it, we've had very strong other capital actions three years running. But if you go back and you look at some of the things that were driving that, we had the Part VII transaction in the UK a year ago, we had DVA and FRPS in France this year. I'm not talking about another big one of those things. I don't have another big internal merger project. So, there may be some small amounts, there's always a bit of tinkering with the modeling. Some of that will go the other way as well as regulators say they want to see us strengthen things as they get to understand Solvency II better. So, I think the prudent thing to do is to expect the capital actions to be lower going forward I think we've gotten through most of the pipeline of the big capital actions.

A - Maurice Tulloch {BIO 17683736 <GO>}

And, Greig, thanks for your question. I'm going to spin it a bit on its head. I'll actually start with our biggest business, our flagship business in UK Life. It's a tremendous business. We have 16 million customers, we're top three in all major product segments. And we obviously look for the depth of skills and talent in that business whether it be around modeling, whether it be around sort of capital, whether it be around asset management, we look to bring those to Europe.

Now, within the continent, we've got some terrific business as well. Certainly, our French business is very strong. It's particularly good on the distribution side. We've got a direct business. We have the fourth largest agency network. We have the leading IFA channel and (01:03:21). And we've also got UFF, wealth managers. So, they're particularly good at distribution. Our Italian business forced with a challenge a few years ago when we had high guarantees, had to be innovative around product design. And I think if you look at us going from number 12 in the market to number 5 in the market in the better part of three years, that's something right now that we're looking at Poland.

But we do start with our flagship business and we do think there are synergies particularly in the accumulation and savings space. I mean, obviously the de-accumulation is different on the continent. It's more about sort of drawdowns and tax planning and state planning. We don't have the sort of annuity market like we have in the UK. But when Andy and I talk about it, we say, there's huge opportunities. People always think that it's easier to share the general insurance attributes. That's nonsense. There's lots we can share in life.

A - Chris J. Esson {BIO 6194371 <GO>}

Ashik.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi, Maurice. Hi, Tom. Just a few questions. So, first of all, Maurice, going back to your far too complex comment again. Sorry, coming back...

A - Maurice Tulloch {BIO 17683736 <GO>}

It's okay.

Q - Ashik Musaddi {BIO 15847584 <GO>}

...on the same thing. Is it fair to say that the geographical presence is not far too complex according to your – will that be a part of your far too complex comment as well? And if that's the case, if you want to trim down your geographical presence, I mean, will Solvency II diversification benefit be a bit unhelpful in that situation? Because I remember around three, four years back, there was a slide back which showed that the diversification benefit from the international businesses are quite good just because it's a different product, different geography. So, any thoughts on that would be great.

And second, to Tom, any thoughts on cash basically, because how does it support your deleveraging plan and maintain a progressive dividend policy? Will you be trying to use a bit of central liquidity or you are comfortable that this will more or less still stay and you'll still be able to meet these two dividends and the deleveraging plan? Thank you.

A - Maurice Tulloch {BIO 17683736 <GO>}

Great. Thanks. Thanks, Ashik. I hope I don't disappoint on my answer on your first question. It is day four and I'm very much been hired by the board to make Aviva better. And the first task at hand is focusing on the stuff that I can see in front of me that we're going to change, and I'm going to come out to you in May and give you color, real color that you can hold myself and the team to account. Longer term, which I know in this day and age, I can't say that's three or five years what's – I'm signaling my intent to come out towards the end of this year and we'll look at the shape of the group. We'll look at the perimeter. We'll look at the componentry. We'll probably be guided by strong commercial sets, so it'll be what can we expect in terms of return on capital? Can we expect that this market will continue to thrive? What does Aviva bring that is unique and, hence, you should be expecting me to outperform the market? Those will be all of the sorts of attributes today – I mean, sorry when I speak to in November. But today, I don't want to be drawn into speculation, so I'll say, stay tuned.

A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Yeah, and on the cash story, the cash story is really good right now. So, we've got lots of parameters around how we try to manage cash from a risk perspective. So, we keep central liquidity in that £1.2 billion to £2 billion range, we always keep a minimum of at least £1 billion. We also have a liquidity coverage ratio test that where we look out over two years on a stress scenario basis to make sure that we've got enough cash to pay our bills as they come due, including dividends. And under normal circumstances, we got to be able to maintain that, grow the dividend, and do all the debt deleveraging that we're talking about. So, the cash situation is quite good right now.

A - Chris J. Esson {BIO 6194371 <GO>}

Just two final questions, Oliver first and then we'll go to Gordon please.

A - Maurice Tulloch {BIO 17683736 <GO>}

We might do three.

A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Yeah.

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. Three questions. First is on the IFRS guidance that you're giving us, the headwinds that you're talking about. I haven't worked through all of the exceptionals yet, but it looks that you've got sort of 10% to 15% of the result coming from net positive exceptionals. In terms of the sort of less than 7% guidance or the headwinds that you're talking about, is that more a function of the underlying core business, core operations or is it the exceptionals that you're talking about? But you can just give a little bit more granularity around that.

Secondly, taking that whole IFRS approach to the dividend. If 10% or 15% of your IFRS profits are actually exceptional, then your dividend payout ratio is in the upper 50s already effectively. So, I'm just sort of - and that's not even going into any impacts from IFRS 17. So, what happens or how should we be thinking about underlying growth when it comes to the dividend?

And then, finally, on the Solvency II number, you've kept the upper end of your target range unchanged even though you've put sort of quite a lot of black box numbers into the new solvency ratio. If 10 points of that are being deducted over the next four years from debt reduction, it still looks to me as if you've got excess solvency, and yet you say you want flexibility. That sounds if you want flexibility to spend money rather than to save money, so I'm just wondering how you'd comment on that.

A - Maurice Tulloch {BIO 17683736 <GO>}

Okay. Great. Great, thanks. I'll take the first question on how do I sort of look forward in terms of our business. I'll probably hand it to Tom on the flow through around dividend and I think the last point was on sort of Solvency, the Solvency II. Let me start by saying, because I can see my team here in the front row. Not changed any of their targets. The targets that have been established, the targets in which that they'll be remunerated on remain as is.

My long-term incentive plans with Aviva are predicated on growing EPS of this firm. What we said today is based on some things out there that we can't control. I mean, I did see that the OECD also sort of downgraded global growth today, but we have Brexit and uncertainty and the potential macroeconomic impacts of that, we certainly, as you'll be well versed in, have a rather jittery investment market. Those may have implications.

But also, what I'm saying very clearly is I think that with the self-help story from efficiency, they're running this place like an insurance company, I will put Aviva on a different plane for growth. So, our comments today about guidance should be very much viewed as, in the short run, the numbers may be tempered because of things that we can't control. So, I wouldn't overly read into that. Tom, you want to – the flow through (01:10:29) dividend and Solvency II.

A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Yeah. Let me pick up from there. I think you're overestimating a little bit sort of a net impact of some of the additional items, but let me just talk more generally. As we look at dividend affordability, we look at Solvency II underlying cash flows and we look at the regular remittances coming out of the business, so the special remittances that come on top are extra, that's all gravy. So, the dividend is definitely affordable sort of by the underlying business, and we've thought about payout ratios in the past based on that.

In terms of the impact of sort of those net exceptionals, I think of it as we've given guidance that the other income coming out of the UK Life business should typically be £150 million to £200 million. This year, it's £350 million. So, it's about £150 million more than it might otherwise be. And we've said that, actually, it may remain elevated next year and possibly longer than that depending upon what happens. So, that's not as big as sort of that 15% contribution that you're talking about. And in any event, when we have exceptional items running through or special cash remittances, we're not considering them in terms of looking at dividend affordability.

Finally, you're exactly right that, in terms of where we are on the Solvency II cover ratio, it's going to take us a number of years to pay down the debt and make progress on bringing that number back down to the more efficient capital range, where we'd like to be. And then, it's going to be part of our long term planning in terms of thinking about how we deploy capital. I'd like to be putting that capital to work, so that we're writing new business. I'd love to see more new business strain as the company grows faster, so...

A - Maurice Tulloch {BIO 17683736 <GO>}

You and me both.

A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Yeah, exactly. So, give us some time on that. And absolutely, that's one of the things that we need to optimize further.

A - Chris J. Esson {BIO 6194371 <GO>}

Gordon, please?

Q - Gordon Aitken {BIO 3846728 <GO>}

Thanks. Gordon Aitken from RBC. A couple of questions please, and first on mortality. You talked about mortality releases and how these are being used to invest in digital. And I reckon in 12 months' time, we're going to be sitting here and hearing you saying that you have released over £1 billion of mortality reserves. Just wondering, I mean, all your projects have end dates, you said. So, will the spend on digital also exceed £1 billion? And the second question is...

A - Maurice Tulloch {BIO 17683736 <GO>}

No. That's an easy one. No.

A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Yeah, no.

Q - Gordon Aitken {BIO 3846728 <GO>}

That's quick. And the second question is – I mean, in my time in an insurance company, I was always amazed how old the systems are and that probably runs for every company in the UK sector. And so, the question is in your UK business, how many mainframes are you running and how many were built in the 1970s? And this is just to get an idea of where you are in this journey of transformation?

A - Maurice Tulloch {BIO 17683736 <GO>}

Well, I'll let Tom take the first question-and-a-half, I think, Gordon. And we've never had our CIO come up and answer a question before. So, Nick's getting ready to come up and talk about the number of systems that we have. Is it from the 1970s specifically? Is that the decade you want? We can cover lots of decades with that, but we'll start with the 1970s.

A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Yeah. Look, just to cover it off, it's – I can't plan on what the longevity releases may or may not be next year. We actually have to look at the evidence and do the actuarial work. But, clearly the way this has been developing over time, it looks like we are likely to have more material longevity benefits again next year. So, you're right. And that may be a big boost to income. We also had some offsetting provisions this year which kind of tempered the impact of what was coming through. We also had some elevated spending and, as Maurice said, he's laser focused on that spending. So, if we did get £1 billion, that's going to be a big positive boost to income.

A - Maurice Tulloch {BIO 17683736 <GO>}

Nick?

A - Nitinbhai Babubhai Maganbhai Amin {BIO 17263805 <GO>}

So, yeah. We have quite a few mainframe systems and quite a large set of applications that support our businesses or conversely UK, but we have a formal program which is funded to drive our migration off the mainframe systems onto cloud.

A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

The exam question, I'll hover to Nick. What would it take an investment to significantly reduce our run rate in IT? And that's the kind of investment that, absolutely, I would make because it is probably our single - next to staff costs, it would be our single biggest line item, would be IT cost globally.

A - Maurice Tulloch {BIO 17683736 <GO>}

We squeeze one in from Andrew?

A - Chris J. Esson {BIO 6194371 <GO>}

Yeah. We'll finish with Andrew Crean, please.

Q - Andrew J. Crean {BIO 16513202 <GO>}

Thank you. It's Andrew Crean with Autonomous. Couple of questions. Firstly, could you give us some clearer guidance on the special cash remittances coming in 2019 from the capital actions in 2018? And secondly, I think about it, six months ago, you talked about the strategic investments coming down to about £0 by 2020. I think you're now talking of them rising from minus £142 upwards. Could you tell us what's happened in the meantime and some initial thoughts on the broad range of Asian JVs which are presumably contributing to that?

A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Yeah, I'll start and then Maurice can add. So, look, on special remittances, targets generally - that's something that we need to come back and talk to you about. As Maurice talked about earlier, there's going to be some updates later in the year. We're not providing sort of a new set of financial targets today other than the debt deleveraging that that we've talked about. But absolutely, understand the interest in trying to quantify exactly how much that could be this year, the next year, over a longer term sort of cumulative basis.

In terms of strategic investments, yeah, you're exactly right. I was not anticipating effectively the overspend that you saw this year in terms of digital. And that, the Asian businesses have been performing nicely. So, most of that increase in expense is caused, as I said my remarks, from continued spending for digital innovation which we thought was going to be covered by higher volumes at better profitability coming out of the UK business, some of - on the GI side, some on the life side. But in a softer market, we just didn't get those volumes, didn't get that profitability. So, we ended up with an overrun.

A - Maurice Tulloch {BIO 17683736 <GO>}

The only comment I'll add - and I know there's been an element of impatience with our Asian strategy. I think if you look at the Singaporean business, which some would have written was dead after we lost DBS, I mean, what the team's done - and Tom has already alluded to this - I think that's a pretty exceptional thing, and we should expect that business to keep growing. I mean, we launched a new proposition in Hong Kong, a first digital initiative of its kind. That's starting to see some early gains. I mean, China had a good year. I, along with Chris, would arguably be disappointed with Indonesia. So, we're certainly going to make it our focus, and Chris has hired a great new executive in Randy Lianggara who's got experience in Indonesia. And listen, we are still cautiously optimistic albeit we have got nothing to say today on India, but suffice to say we hope to be advising on that shortly.

A - Chris J. Esson {BIO 6194371 <GO>}

Thank you very much. I'll hand back to Maurice to close.

A - Maurice Tulloch {BIO 17683736 <GO>}

Yeah. Thanks everyone. I mean I appreciate the comments and questions today. I should also thank Tom because he kind of held the entire show and he's probably given me a bit of a free pass today. So, thanks Tom. Not only for doing that, but also just on – in 96 hours, the guidance and counsel you've given me...

A - Thomas Dawson Stoddard {BIO 15071280 <GO>}

Happy to do it. Happy to do it.

A - Maurice Tulloch {BIO 17683736 <GO>}

...in getting ready for this. They asked me to be an awful lot more downbeat. Not my normal self. So, I hope that came across. But I will very much look forward to May. I'm not one to dangle things and I'm not one to speak in riddles. So, you will get clarity as I know it on where we're going to take this great company. So, thanks very much.