FINAL

Bloomberg Transcript

Q3 2021 Sales and Revenue Call

Company Participants

- Amanda Blanc, Chief Executive Officer o
- Jason Michael Windsor, Chief Financial Officer, Executive Director

Other Participants

- Abid Hussain, Analyst
- Alan Devlin
- Andrew Crean
- Blair Stewart, Analyst
- Dominic O'Mahony
- Greg Patterson, Analyst
- Larissa van Deventer
- Louise Miles, Analyst
- Ming Zhu, Analyst
- Steven Haywood, Analyst

Presentation

Operator

Welcome to Aviva PLC's Q3 2021 Results Call for analyst and investors. I will now hand you over to CEO, Amanda Blanc.

Amanda Blanc {BIO 19138679 <GO>}

Good morning, everyone. I hope you're all well and thank you for joining Jason and me for our Q3 trading update. I'll start by providing a summary I've been on the progress we are making towards our strategic priorities before I hand over to Jason who will take you through the detail of our results. We will then open the lines for Q&A.

I'm pleased to report that we continue to make extra marketing strategic progress right across Aviva. After a busy quarter, we're almost there with our portfolio refocusing, having now completed the disposal of the funds and Italy General Insurance. We have collected GBP4.9 billion of proceeds from the total of GBP7.5 billion.

The last remaining disposals of Poland, Italy (Life) and Vietnam is expected to complete by the end of 2021 with all the regulatory approval processes and completion activities currently proceeding to plan. Our GBP750 million share buyback is progressing well and we have already executed over half of the total since we announced this in mid-August.

As I said previously, we remain absolutely committed to returning at least GBP4 billion of capital to shareholders by the half-year 2022. So as we come to the short end of the disposal process, we will go through the regulatory approval process and provide an update on our plans for the remaining capital return at our full-year results in March 2022.

In terms of transforming performance, we are also making strong progress and it starts with our customers. MyAviva customer registrations have reached 5.5 million, the highest level ever and up 17% from the start of the year. And customers are continuing to use MyAviva more regularly with average monthly logins in Q3 2021 of 22% versus the prior year. This customer success is translating into growth and in the first nine months, I'm really pleased to see that we are delivering in our target areas including the highest general insurance premiums for a decade driven by commercial gross in premium of GBP2.9 billion which is up 14% year-on-year.

Savings and Retirement net fund flows of GBP7.3 billion, up 21% year-on-year. Purchase Annuity volumes of GBP4 billion and we expect momentum to continue in Q4. And finally, Aviva Investors external net fund flows of GBP1.6 billion, up 37% year-on-year. We continue to remain highly focused on improving cost efficiency with controllable costs down 2% year-on-year despite absorbing inflation headwinds and our targeted investments in growth. We remain on track to achieve our savings target of GBP300 million in 2022 and this is a way point on our path to top quartile efficiency. Importantly, our balance sheet remains extremely robust with a Solvency II cover ratio of 215%, center liquidity of GBP4.5 billion and debt leverage of 28% below our 30% target.

Turning to ESG. Aviva target of being net-zero by 2040 continues to be industry-leading and we remain committed to being at the forefront of tackling climate change as a core part of our overall sustainability ambition. Indeed Aviva were awarded the best climate change reporting in the FTSE 350 at the PwC Building Public Trust award last month. By the end of 2022, we expect to invest GBP10 billion of policyholder funds into low carbon strategies, and we have committed to invest an additional GBP10 billion in core UK infrastructure and property by 2023. This is really important to us, to our employees and increasingly to our customers.

So in summary, I'm pleased to report that we are making excellent and rapid strategic progress to focus and re-energize Aviva. We remain on track to meet our key financial commitments, and we are focused on generating attractive value creation for our shareholders through the return of substantial capital in the short term and through the delivery of growth and a transformed performance over time.

Let me now hand over to Jason who will take you through the Q3 trading numbers in more detail.

Jason Michael Windsor {BIO 17967688 <GO>}

Thank you, Amanda, and good morning everybody. Let me start by reiterating that we are on track to meet or exceed our cash remittances and cost savings targets, and also that we have positive momentum in our key lines of business. So let me take a few minutes to walk through some of the key numbers in today's update. I won't be covering everything in the release, but there is a few areas that I'd like to highlight beginning with our trading performance.

First, we saw strong continued net flows in the Savings and Retirement business which increased by 21% to over GBP7 billion with record inflows in the first nine months of the year. Our advisor and direct savings platform continue to perform very strongly with net flows are more than 60% to GBP4.2 billion representing 12% of opening assets. We delivered our two highest quarterly inflows ever in Q1 and Q3 this year.

In workplace, net flows also remained strong at GBP3.6 billion representing 4% of opening assets and while this is slightly lower than last year, this largely reflects the return to more normal level of outflows compared to 2020 when we saw particularly strong persistency owing to fewer people moving between jobs.

Aviva Investors continues to show positive progress with year-to-date external net flows of GBP1.6 billion, up by 37%. It's pleasing to see the progress the business is making as it focuses on its core strengths in real assets, infrastructure, private debt and of course ESG which runs across the business. Following a subdued first half of the year, bulk purchase annuity volumes improved in the third quarter with GBP2.4 billion of new schemes written. This takes the total amount of BPAs written in 2021 to GBP4 billion with a healthy pipeline in place and we expect to write GBP5 billion to GBP6 billion for the full year.

As seen in previous years, VNB margins are lower at this point in the year pending achievement of our target asset allocation and finalizing our reinsurance. While we expect margins to improve by the year-end, the current low spread environment means the margins will be lower than in 2020. Of course, we remain very focused on returns and we're confident that the quality of the business we've written has very attractive IRRs, which will deliver long-term value to shareholders.

So while the credit spread backdrop does provide a near-term headwind, our outlook for BPAs remains positive in 2022 and in the medium-term. Our general insurance business continues to perform strongly as evidenced by a combined operating ratio of 92.4%. This is a 5.7% improvement on the prior year despite the weather events seen in July. Of course, with claims frequency beginning to normalize and with softer rates in personal lines now earning through, we do expect the quarter tick-up was in the fourth quarter. However, the guidance I gave you at the half-year are better than 94% combined ratio for the full year remains unchanged.

Premiums and General Insurance grew by 5% over the period to GBP$6.5 billion year-to-date. This is the highest level in at least the last 10 years and included 7% growth in the UK and 4% in Canada. Personal line premiums were down 1% in the period, a good performance considering the rating dropdown. Of particular note is that UK retail business, which grew 4% had strong performance and price comparison website. Commercial lines were up 14% benefiting from a combination of strong retention, well-priced new business and continued rate momentum. In the UK, we saw excellent growth in SME digital as well as across mid-market and global specialty while in Canada, we saw strong growth in mid-market, a key target area for us.

Turning to costs. As we've said before, efficiency is a key focus for us at Aviva. Controllable costs of GBP2 billion are 2% lower year on year. This excludes the cost reduction implementation and IFRS 17 costs. We remain on track to meet our GBP300 million cost-saving target in 2022. And as a reminder, this is above absorbing inflationary headwinds.

Onto capital now. As you may recall, we provided a pro forma Solvency II position at the half-year. This made allowances for returning the entire GBP7.5 billion pounds of cash divestment proceeds including GBP4 billion directly to shareholders. Using exactly the same assumptions, the Q3 update for this pro forma ratio also aligns the impact of interest rate reduction since the end of September is estimated at 197% compared to the 195% we reported at the half-year. The increase being favorable market movements and net operating capital generation. Under our capital framework, we continue to consider capital above Solvency II ratio of 180% over time as excess. As such, any excess is available for two key uses. First, for investment in the business, organic and inorganic and also for further returns to shareholders. As we -- as we said at the half-year, we'll update the market on our capital return plans with our results in March following the completion of our divestments.

So in summary, trading in the first nine months supports our confidence in Aviva's growth potential. Strategic delivery has been swift but we're not resting on our laurels. There is much to be done.

So now let's hand back to the operator for Q&A.

Questions And Answers

Operator

Thank you, Jason. We will now begin our question and answer session. (Operator Instructions)

A - Amanda Blanc {BIO 19138679 <GO>}

Okay. So I think we -- we are ready to take some Q&As.

Operator

Our first question today comes from the line of Louise Miles of Morgan Stanley. Please go ahead, your line is now open.

Q - Louise Miles {BIO 20765435 <GO>}

Hi, good morning. Thanks for taking my questions. Just three from me, please. So the first one is on the FCA pricing practices, which obviously being implemented on 1st of January. Can you just give a bit of color about how you're adapting the pricing ahead of this. That's in the UK obviously.

And then my second question is on the BPAs. You've had very strong volumes in the third quarter. I'm just trying to get a bit of a feel of the market competitiveness more generally, really. Obviously, there are a couple of annuity writers. You've also had lower volumes in the first half. I'm just trying to understand, was there a lot of activity in the markets? You are creating on a lot of deals or was it just a new kind of price of a few deals the best of everyone. So could I get some color on that?

And then finally, a question on capital. So you're clearly very committed to the capital return of GBP4 billion and you're clearly very committed to delevering and that's clear from what you said today and earlier as well. I'm just wondering, obviously, you've given the pro forma Solvency as 197% once you've allowed for all of that. I mean, that means there is only about 17 points left above the 180 -- that's roughly GBP1.5 billion. I mean, what would you do in a scenario that there was a very attractive target put in front of you or there's a very compelling investment opportunity put in front of you but you're not able to fund from those 17 points. Perhaps this opportunity offered very strong growth or something. What would you do in that scenario? Thanks.

A - Amanda Blanc {BIO 19138679 <GO>}

Okay. Thanks, Louise, and I will pick up one and three, and Jason can pick up question two. So on the FCA pricing practices review, obviously, we've been working very hard on this since the FCA made the announcement and actually we support the announcement around bringing greater clarity and consistency to consumers. So we've been working with the FCA and with the industry to make sure that we're implementing the new rules.

I think it's really important that the changes that have been made are fair to everybody, and I think the industry does remain vigilant but they don't know some unintended consequences to some groups of customers and that's the processes we will be going through as we launch our new rating and making sure that we are in good shape. But we're all prepared for it, and we'll be ready to do that in January.

As you know, Aviva has already taken some actions previously about reducing the difference between new and renewing customers. And we are -- so we're in reasonably good shape but we are currently testing all of our new projects, all of the new rating annuities -- engines and -- but as I've said many times on this call, this is an unprecedented change. There has never been a time before where everybody, every insurer in the market will have launched a new rating model that as exactly the same time. And therefore, I think there could be some tricky periods over the -- over the coming -- the coming months, as everybody settled into this new way of working on rating.

And on your points on -- on I think your question was, if it was a compelling investment opportunity, what we -- what we do? I mean, I think, look, to just go back to the core margins will come up a couple of -- a couple of times. Actually, the focus here is about transforming the performance of Aviva. And we talked today, I think given some good proof points about growth and efficiency and it is largely going to be an organic strategy, but we are very thoughtful about where M&A could enhance our capabilities or accelerate our development. But there will always be a very high bar for M&A investments, and everything that we do has to be and fit very well with our strategy and enhanced value for our share holders.

And I think we -- the other point I would make is, we've been very clear that the capital return is at least GBP4 billion. And I think we also said last year that our priorities would be around debt reduction, which I think we've -- we've done what we said we would. But also investment in the business to accelerate the organic growth and also the simplicity and digitization of the business. So hopefully that sort of answered that question.

Jason, you want to pick up the BPA market?

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

Of course. So BPA market does remain pretty well supplied actually from people coming to the market and the capital seeking to write new business in the market. One of the stats that we look at to sort of sense check whether we are about right on pricing is that sort of win rate in terms of new business, and we're [ph]run of birds which is sort of roughly where we'd like to be. We obviously know exactly which ones we want to win and not, but it's around that sort of level and that feels about right across and our market share sort of is in the 15% to 20% space.

So, I feel that whilst it's competitive, we're winning where we want to play. I think others obviously got their own strategies and trading through the year, but we continue to see value there. We continue to see really good growth in that market and that is -- that is sufficient to keep the industry all pretty busy actually.

Q - Louise Miles {BIO 20765435 <GO>}

Thanks, Jason.

A - Amanda Blanc {BIO 19138679 <GO>}

Okay. Thanks, Louise.

Operator

Thank you. Your next question today comes from the line of Blair Stewart of Bank of America. Please go ahead.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you very much. Good morning all. I've got two to three questions. Firstly, just on the annuity margin outlook. I think you have been clear in guiding about two things. It's very volatile on a quarterly basis and we get trued up in Q4. I just wonder if you could talk a little bit about some of the risks to the asset allocation side, perhaps. And just also on the guidance for margins. Annuity margins have been in the kind of low-4s, mid-4s, high-4s over the last year two years to three years. So could you maybe help us a little bit in terms of where you expect that to land rather than just (inaudible) comment.

I wondered a little bit -- second question, I wondered a little bit about pro forma liquidity number that you've given. These are very helpful, by the way. Just wondering what are the moving parts there. You've obviously got more ends and a few more routes of course, but what assumptions have you taken, Jason, on the -- on the kind of normal cash remittances and the outgoing as well in terms of dividends. Just wondering what you're thinking in there if you've made any assumptions.

And finally, just looking at the -- at the combined ratio. The guidance for this year below 94. What would be the reasons for that to deteriorate or change, let's say, going into '22? You talked about softer pricing being down through a return to a more normal activity levels and of course we've got the pricing forms as well. So just wonder what your thought processes with regards to the combined ratio given the below 94 starting point going into next year. Thanks very much.

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

Okay. All right. So on the annuity outlook, I'll just take it in the order that they came. We did pretty well in terms of asset origination, but it does tend to be Q4 weighted, it has been every year. And we also for our reinsurance in sort of normally shortly after we transact. Some of the reinsurance has already gone in. That wasn't there in Q3, that's another little bit to do. I mean, one of the uncertainties is also the volume and we've given a relatively wide range of 5 billion to 6 billion. So that will also -- and if we have better success on the asset side, it will probably write a bit more if we have some more challenges on things but into Q1, we'll write a bit less.

So we're reasonably confident around the margin growth across the board. I mean, my comment is mainly around VNB and the IRRs remain good. We manage the capital to the level of assets that we've gotten and that will -- that will step up. I'm not going to give you more specific guidance as there is quite a bit of -- quite a range on this going in to the full year numbers. But the IRRs remain in the teens and it's quite an important thing as we allocate capital across the board. The...

Q - Blair Stewart {BIO 4191309 <GO>}

Just -- sorry, just -- just (Multiple Speakers) have you already originated assets to back the business that you've written or is it a little bit of going to shortfall there looking at were hosting in some way?

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

We are sort of excess liabilities, if you like, which is why the margins are lower at this stage. So, we're backing with cash and gilts and then we'll sell that as we switch into assets over the period. As you might imagine, we never -- we never precisely on and we've got a good strategies around managing that gap. The pro forma liquidity is very much just for the divestments and the capital return assumptions. So, as of Q3, I'm not saying anything about future remittances or future dividends as purely if we were to do the capital return and all the divestments completed, that's what you have for capital 197, liquidity 2.3. Obviously, capital returns to be Q2 next year. That's how we've got everything in place. So there'll be dividends paid out, there'll be remittances receipt in and that will -- that will move further forward.

On combined ratio, I mean, the only statements there'll be some capable of providing here about whether large losses I think. But our broad assumptions are quite -- quite conservative. I think we are 92.4 as we go into Q4. We've had six months -- six weeks, sorry, of Q4 already and we're pretty confident on the target.

Q - Blair Stewart {BIO 4191309 <GO>}

That is more a question on, obviously, you can't predict whether, but it's more a question of whether you're your pricing is at least in line with claims inflation or expected claims inflation, for example.

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

Absolutely. We've been through -- on the commercial side, the technical rate is actually strong and it's very strong and we're working that through. So that's something as you might imagine that we keep a close eye on across the board. On personal lines, Amanda is talking earlier about some of the uncertainties into motor particularly in Q1 with our rating is keeping up with inflation and we're comfortable that there is. The technical price is going through. Notwithstanding, there will be some volatility between new business and renewals.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay, great. Thanks very much.

Operator

Thank you. Your next question today comes from the line of Dom O'Mahony of Exane BNP Paribas. Please go ahead.

Q - Dominic O'Mahony

Hi, folks. Thank you for taking my questions. Three, from me, if that's okay. Just on to start with the saving. I mean, really great volumes. So I wonder if you could give us some sense of what sort of revenue margin you achieve on your new contracts? I mean, I can see on the website you have a 40 basis point charge but there is obviously adjustments for large balances and I suspect that workplace not or may be lower than that, but I would really appreciate some sense of what the revenue margin sort of blended basis for new contracts.

Second question on equity release tell me that the main moving parts in annuity and activities is the BPA stuff. Curious to hear what's going on in the equity release markets, whether that's rebounded properly and how are you just taking in that. And then really quick simple one. Again, I'm not sure I've seen what the proceeds in Vietnam are expected to be. Is that something you've disclosed or that you can't disclose? Thank you.

A - Amanda Blanc {BIO 19138679 <GO>}

Okay. Okay. Thanks, Dom. I think these questions are for Jason.

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

Vietnam is around GBP150 million car member the precise number, but it's in that -- it's in that ballpark and we expect that to come in by the end of the year. Actual release, I think had a very strong first half bouncing back actually as of Q3 year-to-date. We are up 27%. So it's nice pick up. We got to do more that. I mean, 2020 was depressed. So whilst the percentages are very healthy indeed, there is more that we can do to support that market into '22 and beyond. But I haven't -- on the saving side at this point I can just point you to the growth in the VNB, which is the stop in the actual release. You can see it's very healthy uptake on savings and retirement, 78% pick up to GBP141 million of VNB.

It does remain competitive obviously on the revenue side. I touched on that a little bit at the half year but we are driving further efficiencies there and growth particularly on the advisor platform for us where we were a bit smaller than we'd like to be. It's coming through now in terms of operational leverage quite positively, and we're starting to see. Whilst the revenues in our margins as you say, have got some competitive pressures, we are getting to scale but the platform is now some 40-ish billion and we like it to be bigger than that, but that's starting to make a big difference. The workplace side, we're number one in the market. We are -- we are a scale player and that is profitable growth.

Q - Dominic O'Mahony

Thank you.

Operator

Thank you. Your next question today comes from the line of Larissa van Deventer of Barclays. Please go ahead, your line is now open.

Q - Larissa van Deventer {BIO 21570130 <GO>}

Thank you. Good morning. Two main questions from my side. The first one on BPAs. You've spoken about the pipeline being robust and companies coming in. Are you seeing competitive margin compression as everybody is getting for the space. Would you believe that current margins are sustainable? Then the other one just on personal lines pricing. You mentioned on weakness coming through the earnings at the moment and you've spoken about the challenges around the fiscal through out next year. Do you have a sense of where the pricing pressure is likely to be in longer-term challenge or do you expect it to be a historical levels as the markets normalize alternative quarter of next year? Thank you.

A - Amanda Blanc {BIO 19138679 <GO>}

I'll pick up the second point and Jason can pick the points on BPA. On personal lines pricing, I think to assume that they will move to normalized levels after the first quarter is probably a little bit ambitious. I mean, as I said earlier, this is a significant change that we will see, and what the likely consequence of the pricing practices review is if we renew prices will come down and new business prices will go up. I think we've always been very clear that that there isn't significant level of excess margin particularly in motor that the market can just absorb that and everybody's prices will come down. If you look at the recent ABI stuff I think the motor pricing is already 70% down sort of this year versus last year.

So we've already seen some changes this year because of frequency benefits as a consequence of COVID. You've got the whiplash reforms and the new portal coming in place, then you overlay that with the FCA pricing practices review. I think 2022 is going to be an interesting year as we see those players perhaps without back books coming into the market and making statements and those whiplash was having to correct. So I think I would say 2022 could be an interesting for the whole year.

All I can say from an Aviva perspective is that we've been in a pretty good shape it. The brand is really strong. Our growth on the price comparison websites is really strong. We had taken a lot of action around the sort of the new and renewal premium already. So we are in very good shape. Of course, we operate in the market with competitors and we will have to respond to that competitive landscape as it develops.

Jason, on BPAs?

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

I think I mentioned this a moment ago, BPA is competitive. So the question is, what are your competitive advantages? I think we've got a number particularly on the asset origination side. We've investors who do a great job for originating good quality long-term assets. We've got scale, we've got good buying of reinsurance and direct relationships with insurance partners, we can deliver to clients swiftly. Chetan Singh is now running that business. He is doing a great job of actually winning new business. And we've got an efficient balance sheet. We're diversified players across the board. Our capital does give us an advantage. So whilst there will be competition in like any market, I think we're well set out for the success.

Q - Larissa van Deventer {BIO 21570130 <GO>}

Thank you. Just one question to clarify. Amanda, on the pricing of personal lines, is that mean that you maintain the (inaudible) combined ratio to align cost efficiency and pay management, is that a fair assumption?

A - Amanda Blanc {BIO 19138679 <GO>}

Yeah, yeah. I mean, I think to maintain I spoke, you have to do all of these things. You have to have very good pricing sophistication. You have to be efficient and you have to be managing your claims indemnity. I mean, the great position that we are in is that obviously being a scale player. We do -- that is a significant benefit. We also have our (inaudible) car and repair network, which is the second largest network in the country. So these are all benefits to play to our scale.

Q - Larissa van Deventer {BIO 21570130 <GO>}

Thank you very much.

A - Amanda Blanc {BIO 19138679 <GO>}

Thank you.

Operator

Thank you. Your next question today comes from the line of Andrew Crean of Autonomous. Please go ahead.

Q - Andrew Crean {BIO 16513202 <GO>}

Good morning all. It was a question really around central liquidity, because obviously if you're going to exceed the GBP4 billion capital return, you need the headroom over the 180 but you also need the cash. Historically, you said that your central cash target is GBP1.5 billion to GBP2 billion, but that's when you had a much bigger prominence of businesses. So I was wondering really two things. What is -- for the current perimeter of businesses, what is the central cash that you'd like to keep?

And secondly, against that GBP2.3 billion of cash at the center, what are the remittances which are coming through in the fourth quarter? Is there a sort of a big amount of dividends to come through in the fourth and first quarter of next year as different businesses sort of complete that year and payout to the group?

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

Okay. I'll jump in on that one. So in terms of the fourth quarter, we are not giving a specific guidance. We've said we've done GBP1.1 billion thus far and businesses will be up strongly on the GBP1.4 billion that we did last year as we grow towards GBP1.8 billion. I talked about this at the half year. So a number that we're expecting better than GBP1.4 billion, strongly better than GBP1.4 billion, less than GBP1.1 billion that we've already received as to the guidance in Q4 that we've gave you.

In relation to center liquidity. Look, we've not re-established our formal liquidity appetite. But I would expect it will land around GBP1.5 billion. It will be slightly lower than the guidance I've given you in the past. It might be slightly higher than that before dividend and slightly lower than that after dividends as we look at cash profiles across the board, but we don't expect a clear path to build back to that. So I think for guidance purposes, I think around GBP1.5 billion would be a sensible assumption.

Q - Andrew Crean {BIO 16513202 <GO>}

Okay. Just sort of following up on that. It sounds to me the cash remittances coming in the fourth quarter will basically paves the final dividend which would leave you with central liquidity, which is about GBP800 million above that GBP1.5 billion, is that sort of a right logic?

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

It's not crazy, Andrew. Of course, the final dividend is paid in May. So we do tend to get quite a lot of remittances in the first half of next year. I mean, this year, we got GBP1 billion, just over GBP1 billion in the first half. So it's a moving target as we manage cash through the period. So you have to think -- you have to look forward. The way we manage cash as you can imagine is really to look 12 months forward.

Q - Andrew Crean {BIO 16513202 <GO>}

Okay, great. Thanks.

A - Amanda Blanc {BIO 19138679 <GO>}

Thanks, Andrew

Operator

Thank you. Your next question today comes from the line of Ming Zhu of Panmure Gordon. Please go ahead, your line is now open.

Q - Ming Zhu {BIO 17001429 <GO>}

Thank you. Good morning. Thank you for taking my questions. Two questions, please. First is on the BPA asset allocation. What is stopping you to execute your assets on day 1 or within the very short period of time once you got liability rather than wait in Q4 because some of your competitors are able to do that to execute all the corporate bond on day 1.

And my second question is on the GI. You've had very strong growth in commercial. Could you just give some color on how much of that is due to rate and how much is underlying organic growth you will be expecting going forward? Thank you.

A - Amanda Blanc {BIO 19138679 <GO>}

Okay. Thanks, Ming. I'll take the piece of your second question and Jason can talk about the asset allocation. On GI, the growth in commercial lines is about 50/50 rate on to new business, which is obviously very pleasing and I think Jason referenced it in his script. We basically are seeing good technical pricing and good discipline in commercial lines which obviously is very encouraging and our strong position with distributors means that we are able to really capitalize on that.

On the asset allocation, Jason?

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

Sure. On BPAs, we could back it immediately with corporate bonds. So that's not RS allocation strategy. RS allocation strategy is balanced between corporate bonds, equity release and illiquid assets. Equity release comes through in it. On the DRIP, as we write GBP178 million a month on that and then the illiquid assets tend to be projects. They do tends to complete in Q4. We've seen that. I've been involved in this now for five years to six years and we do see that coming through pretty consistently and that's no different this year. So ahead of that, we don't want to not trade on the BPA side. So we just aim off a little bit. Of course, the day we book it, we don't have those assets so the margins are a bit lower.

Q - Ming Zhu {BIO 17001429 <GO>}

Okay, thank you.

Operator

Your next question today comes from the line of Greg Patterson of KBW. Please go ahead.

Q - Greg Patterson {BIO 21641359 <GO>}

Good morning, everybody. Can hear me?

A - Amanda Blanc {BIO 19138679 <GO>}

We can.

Q - Greg Patterson {BIO 21641359 <GO>}

Just three questions. One is you mentioned a new entrants into the bulk annuity space. I wonder if you could just call out who they are and how many have entered recently? The second question is, the private debt origination to me is a bit of an arms race and you've got to constantly look at new initiatives to get new types of collateral. I wonder if you could give us some -- some of your thinking around your pipeline for new collateral categories?

And then the third question is having spoken to competitors of yours, Aviva has been cited as one of the players aggressively going for share in the second half of this year in home hoping it will stick post the -- it's review. I wondered if you could just comment on whether you recognize that characterization? Thank you.

A - Amanda Blanc {BIO 19138679 <GO>}

Okay. Thanks, Greg. I'm not sure we did mention new entrants in the (inaudible). But if we did, I'm not sure that we meant to. I think we see the usual players in that market, the private equity backed players and also the strategic like us. So I'm not sure whether perhaps we (Multiple Speakers). The second point around the private debt origination and new collateral, I mean, I think we will be constantly looking at that and we have -- we benefit from having Aviva Investors and the fantastic real asset team, probably one of the biggest real asset teams in the market helping us to do lot of creative things in that space. So I think we are always looking at best at that point.

And in terms of aggressively going to share on on home. No, I don't think it's -- I don't think it's crazy that the numbers that I'm looking at shows that we've increased our customer count by about 5%. So I would say that is not aggressive in anybody's space. That's in our direct portfolio.

Q - Greg Patterson {BIO 21641359 <GO>}

Thank you very much. It gives hope.

A - Amanda Blanc {BIO 19138679 <GO>}

Thanks, Greg.

Operator

Thank you. Your next question today comes from the line of Steven Haywood of HSBC. Please go ahead.

Q - Steven Haywood {BIO 15743259 <GO>}

Good morning, everybody. Thank you. I think, Jason, you might have mentioned about the BPA outlook for 2022 remain positive. Can you elaborate on that? But you're going to be seeing 5 billion to 6 billion BPA per annum or do you potentially could see more than that going forward?

Secondly, within your Solvency II ratio for the quarter and also year-to-date, can you tell me if there has been any inflation impacts? How much they have had an impact on your solvency ratio progression over the year?

And then finally on Canada in non-life rates, can you discuss expected rate changes in this market, when the review process is happening and what are the implementation of any potential new rates coming in here? Thank you.

A - Amanda Blanc {BIO 19138679 <GO>}

Okay. Thank you. Jason, you want to pick those?

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

Okay. It's set in an order. So we then -- on the BPA, so that we would expect to grow the BPA business (inaudible) over the period. I've said many times, the GBP6 billion last year with an excellent performance. I think GBP5 billion to GBP6 billion this year will be another excellent performance. But we would expect to continue to grow from that baseline as we look forward. We're not going to leap into multiple billions about that, but we want a good quality business, making good -- good returns, utilizing the asset production that we have in-house. So that's my expectation. So certainly for the foreseeable future.

On the inflation side, I mean there is no direct sort of specific impact that I would point you to. We have made assumptions as you would imagine, across both the life and the non-life business in the back for inflation as we think about that impacts claims, that impacts equity release, that impacts commercial property, all of which is baked into our Q3 estimate. We'll obviously update those in Q4. So we look through it. I mean, one short spike of inflation in the next six months to 12 months really won't make a big difference on the capital.

A - Amanda Blanc {BIO 19138679 <GO>}

On Canada, the rating, I didn't quite catch all of the question but in commercial lines the rating is pretty much as we said earlier is 50/50 between rate and new business, the growth. On -- in the personal line space, of course, the the rate is lower because we've seen frequency benefits flowing through and we have -- we have made changes as we submitted to the various provincial regulators.

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

Yeah. Things have stabilized. There were some rate reductions I've talked about particularly in Ontario Motor which is our biggest segment with the full reopening of the economy or -- certainly the full reopening all the roads. I think in time, they may kind of slightly more working from home than slightly more on the road. So we're seeing actually regulators open-minded now to rate rises. I think that is why to be in the next few months starting to be earned the first time in 2022.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay, thank you very much.

Operator

Thank you. Your next question today comes from the line of a Abid Hussain of Shore Capital. Please go ahead.

Q - Abid Hussain {BIO 22270436 <GO>}

Hi, morning. I think I've got two, probably three questions. The first one is on operational efficiency. Once you reach your cost targets of 3 million production, where do you think you'll be in terms of operational efficiency against your peers or your benchmarks? Is it fair to sort of fell that you are sort of targeting or you will be top quartile across the segments or will this will become segments where you will acquire scale in the industry to further work? That's the first question.

The second question is on capital. You talked about the GBP1.5 billion excess capital above the 180%. I just wanted to get a sense of how much of that GBP1.5 billion would you typically utilize for investment -- organic investment in the business over the next two years to three years. And then just this one. Just a quick clarification on the commercial lines. You said, Amanda, that the business was growing 50/50 between rates and general new business coming on to the books. Just curious if you can give a little bit more color on the new business coming on? Is that sort of new product lines you've hinted or is it taking market share in existing line and sort of what do you -- how do you see the outlook of that new business element coming through in the next couple of years? Thank you.

A - Amanda Blanc {BIO 19138679 <GO>}

Yeah. Okay. Thanks, Abid. So on the operational efficiency, we've been very clear to say that the GBP300 million does not -- will not get us to the upper quartile and it will get us a long way to the upper quartile but it doesn't -- it doesn't get us there across all of the segments. And so we will still have some work to do once we -- once we reach that GBP300 million, which I think we are in good shape to do. I mean, of course as we get closer to achieving that number, then we have much more clarity around the types of projects, the types of things that we need to do to take to cost out and to make us more efficient. So we've had headcount reduction and simplification in terms of our spans and layers within the business, we've got property reduction cost, technology reduction cost and then automation to help us with some of the processing. So I think that will -- there will always be more work to do because the competition will always move and therefore we have to -- we have to move along with them.

In terms of the -- I think you've asked will there be some segments, whether it's more work to do than in other areas. I think I do -- I get out corners -- a couple of areas. It's obvious I think that the cost to income ratio on Aviva Investors needs to improve and putting in place a lot of work in the area to take decisive action to address that, and I think that we saw good progress in the first half of the year and obviously we reported that at the full year about the sort of the progress that has been made there. Also touching on retail General Insurance, which we obviously done a fair bit this morning.

It's obvious that we will need to do more to ensure that we get to top quartile in that space because it is such a competitive space, and so there will always be more work to do there. But I think every line of business, what we are doing is we'll measure the top quartile against the competitors within those product segments to make sure that we are competitive, but we won't blend the cost of business because then I think you do lose some of the -- some of the necessary action that you need to take.

I think on the capital in the GBP1.5 billion, how much would we typically utilize for in investment. I mean, I think we've spoken in the past about the amount that we -- that we invest in the business and the fact that we want to accelerate the growth. I mean, on a typical year, we invest about GBP400 million in the business, which is to do regulatory changes, to do the changes that we have to do on things like investment in cyber and then any growth or acceleration projects above that.

We have though said that we will want to put a little bit more investments into the business because we do believe there is an opportunity to accelerate our growth and do things like improve pricing sophistication across the Life and GI business, but also to simplify processes for the benefit of our customers and also obviously for the cost of the business. So we won't -- we're not going to give specific numbers on that today. I'm sure a lot more to come on that in the future.

On the commercial lines rates versus new business, what is it? Yeah, I think we are taking market share. We know we're growing in the mid-market. We're growing in the SME. We are growing in some of the -- some of the specialty lines. We have launched some new products for example the XXL team that joined us in the high net worth space. We'll obviously see some growth coming from that area. We've launched some fiber SME product.

So I think we will continue to look at where the gaps are in the market and we'll continue to to fill those. But I think we've got plenty of headroom in our market share whether it's in general insurance or in commercial lines. So there's plenty opportunity for us to continue to go and to maximize on I think the market leading position we have with our intermediaries, which of course this is, as you know, launching two mediated market and therefore having that strong position with intermediary is absolutely key for our growth agenda.

Q - Abid Hussain {BIO 22270436 <GO>}

Thank you. That was useful color there.

A - Amanda Blanc {BIO 19138679 <GO>}

Thank you.

Operator

Thank you. Your next question today comes from the line of Alan Devlin of Goldman Sachs. Please go ahead.

Q - Alan Devlin {BIO 5936254 <GO>}

Hi, thanks guys. A couple of questions from me. First of all, just a follow-up on the platform. I think you said, Jason, that was reaching -- reaching scale. Is the advisory platform actually profitable today and if not, what level of AM do you need to get to before it reaches the scale.

And then a second question is on the FCA reforms coming in. Your predecessors announced the launched Aviva Plus product, the multi-subscription service, a few years ago. I just want to highlights kind of doing in the market and does in the post-FCA world you would expect this product actually gain a lot more traction. Thanks.

A - Amanda Blanc {BIO 19138679 <GO>}

Hey, thanks, Alan. Do you want to pick up the platform one, Jason?

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

Sure. So the platform is profitable. It's very profitable for VNB obviously where we're looking through in the current trading and you can see that in the numbers -- in the release where the pickup in VNB obviously we're taking different persistency type assumption. But on a cash basis, yes, it's profitable, has been not hugely so, but it is continuing to produce IFRS profits, which I talked about a little bit at the half year. But we'd expect that to grow materially through the next three years as we've gone from north sort of GBP48 billion and as we go up beyond GBP50 billion ideally and further and further that will continue to be significantly accretive to profit.

A - Amanda Blanc {BIO 19138679 <GO>}

Yeah. On the on Aviva Plus. Yeah, we launched a huge amount from from Aviva Plus. And I think that what we've done in the last year is launched the Aviva online products on the PCW which is as we've noted this morning going very well, a 4% growth year-to-date there and about a quarter million new customers.

So I think we are very, very pleased with what we -- what we learn from Aviva platform, what we've learned from our digital experience status. I think we will expand this in good stead there. The key thing though, I think we learned from Aviva Plus is there on the pricing and the investment in that pricing sophistication and the requirement to ensure that you our analytics is really good, that we are constantly keeping on top of all the -- all the pricing sophistication with tools within the market and that investment definitely pays off when it comes to looking at the FCA pricing practices will be next year.

Thanks, Alan.

Q - Alan Devlin {BIO 5936254 <GO>}

Thank you.

Operator

Thank you. There are no further questions at this time. Back to you, Amanda.

A - Amanda Blanc {BIO 19138679 <GO>}

Okay. Thank you everyone and thanks for dialing in. And I think a really good range of questions there. Just a quick summary, I guess, to repeat myself, but I think we're making some real excellence and rapid strategic progress across Aviva. We are on track to meet our key financial commitments and hopefully what you can see is that we're really focused on generating attractive value creation for our shareholders, and we are very much looking forward to speaking to you in March at the full year 2021 results.

Thank you very much. Have a good day.

Operator

That does conclude our conference call for today. Thank you all for participating.