S1 2015 Earnings Call

Company Participants

- Adrian Gore, Group Chief Executive Officer
- Arthur Thompson, Executive Board Member
- Unidentified Speaker

Other Participants

- Unidentified Participant

Presentation

Arthur Thompson {BIO 1533918 <GO>}

Good morning, ladies and gentlemen. I'm Arthur Thompson. I'm from the Investment Analysts Society's Board, and it's on behalf of the Investment Analysts Society that I welcome you here today, and I thank Discovery and their Management for hosting us here today and for the wonderful presentation that I know that we're going to receive. It's been a superb presentation for more years than I can remember. It tells you exactly what you what you know about the company, about the business model, about what has happened during the year, and most importantly, what is happening in the future. And that gives us some idea of the strategic direction with which (inaudible) analysts can then go and populate the spreadsheets.

So without further due, I'd like to hand you over to Adrian Gore, Group Chief Executive. Thank you Adrian.

Adrian Gore {BIO 3068929 <GO>}

Arthur, thank you for that kind introduction. Ladies and gentlemen, indeed a great pleasure and an honor to be here. We would like to tell you it has been a incredibly, I think, successful six months, massive amount of work done, I think very strong organic growth from our businesses, and really I think well positioned for future growth.

I'd like to tell you there's kind of complicated instructions that I hope we kind of get it right. Let me start by just giving you a bit of an overview. It has been a very good period for us, headlines earnings up -- normalized headline earnings up 20% to just under 2 billion. New business up 17% to just over 6.6 billion. So I think a very strong rate. I think if you look at the run rate of new business, I think that's kind of improved over the last number of years, illustrating, I think, the quality of the businesses coming on stream.

But throughout the entire organization, I think, there has been frenetic activity at building, at driving quality, and I think the most notable thing in the period has been United Kingdom, UK, where we acquired the outstanding 25% of Prudential's share in the joint venture with us. It's a steady fundamental, beside the transaction itself, it was a whole requirement -- I'll take you through it later -- there is a requirement to restructure the business in every respective brand, structure, funding etcetera, so there is a lot of work taking place in that.

I do believe that the organization is well positioned to pursue two specific growth opportunities. We've announced a right issue today, I think you will be aware of that, of between ZAR4 billion and ZAR5 billion. I will give you details of that a bit later, and in fact, most of the detail will take place in a few weeks time on the 10th of March.

We have continued -- I would like to spend a bit of time on the strategy and the business model, but I would like to just start out by saying, I am very proud of the fact, and I think our team is proud of the fact that we stuck to our core purpose, make people healthier, and to a large extent, I think, as you'll see how the business model has evolved, and two, this focus on making people healthier has not diluted, in fact if anything, I think this model has intensified, and is playing out remarkably well. We stay true to our eight core values, and I'm particularly, on the behalf of our entire team, grateful for that, so we stay the course in terms of focusing values, and again I think they'll become more intense rather than less as the organization has grown.

And then we've laid out this very ambitious goal of being the best insurer globally by 2018. It really is built on the confidence we have in our team obviously, but I think the confidence in the business model. We believe very strongly that we have a model that is unique and applicable and relevant as well and we've articulated in some detail what best means. It isn't biggest, it certainly is a force for social good, and I think that is fundamentally important going forward.

And in that context, we have five things I'd like to get across to you today. I'd like to talk about the development of the Discovery business model, where we've go to. There has been a lot of discipline, I think, good intellect around how we've developed the model.

The second is the methodology of expanding it. If you accept that it's applicable, the kind of vexing issues, how you expand it and how you grow, and I'd like to give you a bit of insight into this growth engine that hopefully we are creating and have created.

The third point is of course the meat of the presentation to an extent is the financial performance. I'd like to give you insight into earnings, new business and the embedded value. There is a lot more detail and our guys are all here to answer questions of it, should you need.

Then, I'd like to go to strategic observations. It's a difficult area because the business has got so big with so many different pieces to it, but I'd like to give you some insight into that. And I've picked out a few things. I don't think I've done justice to the businesses, but I've tried my best to give you the points that I think are relevant.

And finally, I'd like to end up on the capital, the 45 billion rights issue to give a bit of a sense of where that's going and why, and hopefully that gives you a sense of the way forward.

So five crisp issues, I should be done in two or three hours. So, let me start with the development and evolution of the Discovery business model. I do need to say this to you and I am being repetitive here, but we do hold dear that we do have the ability to build a relevant -- globally relevant unique insurance model that's applicable for the time.

The fact is society's expectations are changing, the people we serve are changing, the millennials expect civic responsibilities, social purpose engagement, the world is really changing. Insurance is becoming more complex. People are living longer and they're living longer, sicker, and all kinds of technology (Technical Difficulty) and insurance needs have to emerge from that.

The third is technology, which really is driving change; we know that. Within our neck of the woods, the issue of big data and how you use that is critical. Wearable devices and how that affects our industry is critical. To an extent, they haven't really been harnessed, and I hope our business model does it very, very well.

And then finally and critically the nature of risk is changing. We've made this point to you, three behavior types, smoking, poor nutrition, poor physical activity for 50% to 60% of mortality. And amazingly in developed markets, 80% to 90% of the disease burden is driven by factors from behavior. So it's a fundamental issue, this fourth point. And the question always is, why is it that people don't change. We know why, it's kind of the -- behavioral economists know the paradoxes of hyperbolic discounting, over-optimism. People don't really listen in the short-term because of instant gratification.

I will put it to you that there are only two real entities that monetize, mortality and morbidity. One is government obviously, because they feel kind of the knock-on effects entirely of poor mortality and poor mobility. The other is the insurance industry, we monetize health and mortality, that's what we do. So beside our narrow business, we have a real social responsibility in a sense to work on improving behavior in bringing down mortality and morbidity. And I think the great thing about it is, it really is good for us, good for our customers and good for society, there is no trade-off.

So to an extent, the Discovery business model really has evolved, I think, very, very well into this idea of engaging people through vitality. Vitality over the years has become an incredibly powerful tool. Using loss aversion, using all kinds of behavioral techniques, vitality, age, going through a pathway, earning points, getting a status, getting rewards. We've underpinned it by all kinds of technology, all kinds of data, etcetera, has really evolved.

And then on the back of it, building the best-in-class health insurance, life insurance, short-term insurance and other financial services and I hope I show you through the presentation that I think it works remarkably well.

But critical thing to understand is the model isn't about kind of vitality of the base. It's not the interplay between vitality and these insurance models. The ability to price risk dynamically that is fundamental to the model and to make the health insurance or life insurance more relevant, more dynamic and more appropriate, and fundamentally, I think, more sustainable over time.

We have a clear manifestation of this one. I think the purest form of it is the Discovery Life model that in fact we're globalizing through the UK to other partnerships. And I have mentioned this to you, but I do want to take you through it again because I do think that it is quite central to kind of where we're heading.

Fundamentally, the life insurance model, as it is today, the traditional one, is fairly static and really fragile. If you look at the mortality curve, that's what we expect people to exhibit, the kind of curve. And, when we underwrite people, we look at them at a point in time with their pre-existing conditions, underwriting there often and then that caters flat premium as you can see, both from the underwriting and inception.

It kind of makes sense, the flat premium, which you pay is the present value of that underlying mortality curve. But in reality, if you accept that 60% or more of the mortality risk, mobility risk is driven by behavior during the currency of the policy, it doesn't make sense to have this very static, transaction-based model.

And therefore, the Discovery model is very, very different. We've managed to codify mortality by vitality status as you can see on the left-hand side. So, we've actually broken out our mortality/vitality status, giving us the ability to actually charge different mortality rates to different levels of status, understanding how that works by gender, by cohort, by age etcetera. But the real benefit of it is on the right-hand side, how the model works.

Effectively, how our life insurance model works is, we start out at a discount to the market premiums that we assume get you a better life coming in, and then as you engage, your premiums stand out. So you can only gauge that all your premiums club over time. If you do engage, you may attain your discount. If you engage heavily, the discount gets deeper. The power of it is incredible, it's got a few profound things.

First, it's price competitive. At the outset, we saw that at price points without price competing low in the market, it creates a right of selection. Second you get behavior change, the financial incentives to engage are massive. Beside the traditional vitality incentives, the truth is that the incentives we're engaging in saving premiums over 30, 40 years is massive. And then finally the critical point at the end is it's a selective lapsation. When people get to the end or to the end of the policy and that is far too less, what kind of people lapse in the traditional model. Healthy people lapse, because they tend to think they're overpaying.

In our model, we're pricing down good lines and pricing up people that are not engaging. So you get a kind of a positive selection lapsation effect. You get all the reversal and instead of a kind of a fragile model, I'd argue, you get a robust model, you get the right kind of selection in and the right kind of selection out, and you get a very, very strong performance coming out of this.

The reality is, if you look across all of our businesses, there is a variation of this basic theme that's flowing, and across all of our businesses, claims, loss ratios, and lapses, you can see the correlation to the vitality status.

So I think we're getting that into action right. We really are pricing properly, getting this dynamic model where people engage, claimless people engage, leave us at lower rates and therefore we get a more persistent, more robust, more appropriate model across health, life or short-term insurance. And that really is at the core of the model.

I would say that over this period we've started to articulate the model in the Michael Porter sense. We have done work with Michael Porter. In fact, you can see, he has written a case study on Discovery around shared value at Harvard -- on shared value insurance.

Changing behavior through incentives, because of behavior change, you get actuarial surplus. With the actuarial surplus, you change behavior through incentives and you get this kind of virtuous cycle, good for members and policyholders, good for us, and I'd argue, good for society. And so you get this incredibly strong shared value model.

I'd say, if we get it right, it's transformational. It takes a very static transaction-based product and makes it engaging and relevant and real. It's robust in matching risk and prices. Moral, because we actually deal with things that everyone regardless of health or gender or age can engage in vitality appropriately, it is hugely competitive (inaudible) profitable. So it really is a share-value model. I do want to make one point here. It is quite important how we manage the business on the right-hand side is that the kind of actuarial interpretation of share value is at the VNB or the embedded value is flat by vitality status. That I sound a bit kind of satiric but let me just explain it to you. The idea is that, regardless of our people engage, if your VNB is flat, it means you're giving away the value of the good behavior. Is that fairly clear? So, if you get this model right, you should get a very stable, almost agnostic embedded value by vitality status. And I would argue that we're getting it fairly right in different parts of our Group, and we kind of maximize this identity carefully to get the right kind of behavior change as we go along.

So the model already has, I think, evolved quite well. I do think and I think we hold very little, as I said at the outset, that this model is globally applicable. As we'll see in the partner markets, we are approached by some of the best companies in world to take this model into their market.

Every company, every life insurer and health insurer is trying to understand how you underwrite better, how you get pricing advantage, how you underwrite dynamically, how you're in wireless and wearable devices into the space -- so the model has great applicability. If you accept that the real question is, how do you expand? What's the nature of expansion? And to an extent I would say to you that Discovery in the past has expanded fairly opportunistically. I think over the last two years, we've been a lot more disciplined as to how we expand.

So, first thing to say is that we thought about kind of primary markets, markets in which we all insure like South Africa. The expansion into adjacent markets like we've done health into life into motor insurance into investing etcetera. So, almost expanding in a primary market through an adjacent expansion and making sure the model in that context keeps its integrity.

We now have a second primary market, the UK. In the period under review, this is fairly critical that we take an ownership of it, building the insurance entities under it, and therefore the UK is the second primary market for us. I made this point in our previous results announcement in our rebranded Vitality Life/Health with the two organizations, VitalityHealth and VitalityLife.

Primary markets, the same business model, the same approach, and essentially giving us over time opportunities to hopefully over time expand adjacency in that market as well.

And then there's a bunch of markets out there around the world where there is great applicability. As we visit, we don't want to waste the opportunity. We have a lead in this space. And essentially what we've done over the period in a very disciplined way, created this partner market unit (inaudible) franchising the ability to put this model into different countries in partnership with leading companies in those countries.

So for example, AIA has been our first play across Asia. We announced earlier a couple of months ago a partnership with Generali that we're in the process of forming across Europe. And then next month, we'll be launching the US, a partnership with a life insurer in the US using the same model. It's a complicated process, which requires a lot of focus from us that is relatively capitalized and does not expose us to risk, gives us ability to, in essence, globalize the model into markets that I frankly don't believe we're going to be in and out ourselves as an insurer. So to an extent, we've done a lot of work about primary markets, partner markets and in the period under review, I think we really have kind of blown out the model in the right way, optimizing against capital risk and of course human bandwidth, which is quite critical. And I think we have the right kind of mix. And organization really is positioned, I think, quite well across these three distinct phases.

The other point I'll say you to about the model, is if you accept that it is repeatable, it gives us the opportunity to grow at about kind of our long-term cost for capital. An organization can only grow kind of organically to a point. You then have to find a way to repeat it. You can undergo through acquisition, but of course that is risky and is dilutive of capital, our approach has been kind of an incubator approach.

If your model is repeatable through other markets or other adjacencies, let's start as a new -- let's them emerge and let them become established. If you can achieve that, obviously, you can get kind of supernormal profit growth and that's what we've said, we'd like to grow at 20% to 25% a year, not simple, but I think we're tracking towards that, and I think if we achieve what we set out to achieve in terms of our new businesses, and I hope you see some of the stuff coming through, I think the potential to do that is real and quite powerful.

So in that context, let me talk to the financial performance. There is a lot more information, there is a lot to say. I hope I get across to you. Discovery (inaudible) grew strongly in new business. I see, it grew by 17%. Normalized headline earnings up 20%. I think the quality of the growth I think has been superb. Lapse rates and loss ratios across most of the businesses, I think, have been quite exceptional and I've demonstrated that to you.

The fundamental point in the period has been the considerable work done around the UK. Beside the financial aspects of the transaction, the reality is, actually the complexity of rolling it out, growing the business, restructuring, you'll see that come through.

Discovery Health had a great period. It's new business was up 7% but in fact the open scheme business was up 15%.

So we have these closed schemes that are quite lumpy. We're becoming more and more competitive in that market. Last year, we did Anglo American, others will hopefully follow, I'll take you through some of that. But some of that (inaudible) new business was about 7%, the open scheme business went by about 15% off a very high base. Operating profit up 11%. Inside the Discovery Health Medical Scheme, performance I think has been really of great quality.

Discovery Life new business up 9%, I think, in line but slightly higher than previous periods. Operating profit up 17%, it really is a manifestation of the quality of the models. We'll see lapse rates and mortality profits very, very strong, ahead of expectation.

Discovery Invest continues to grow strongly in its focus on retail savings market. New business up 22%. I think assets under management up 27%. The operating profit just over 29% up.

Discovery Insurance had a fantastic period, I mean its new business has grown by nearly 60%, and it really is growing quickly, so we're getting this real big slices of new business come through into a new company. So, you can see the in-force premium growing by 82%. I think the real issue is the quality of the business, there is a real adjacency of taking Discovery model into how people drive and I think we're getting fantastic results. I'll give a bit of insight into that later.

Ping An Health had, I think, the most phenomenal period. We finally are, I think, breaking through into understanding how you sell individual health insurance in China. You can see new business grew by over 200%. We're doing over 1,000 cases a day, in fact, and I think the quality of business emerging is very, very strong. So for the first time, I think we're seeing a very, very strong growth and great potential coming out of China.

The UK itself, lot of work done. I'm going to touch on that later. Operating profit up 20%. New business up 7%. VitalityLife had a strong period. VitalityHealth slightly down. I'll give you some insight into that. And in the partner markets, I've just made a point about rolling out to partner market's unit that really is focusing on markets that we're not going to be in as a primary insurer. I think a lot of progress has been made. AIA has started rolling out to

Singapore, Australia, and quite soon Hong Kong, and a new deal in the US will roll out in April. Lot of work done on that, that will become clear a bit later.

Maybe just going through kind of the face of the income statement and give you a sense of it. Operating profit growing by 19% as you can see to just over 2.8 billion for the six-month period. Essentially normalized headline earnings went up 20%. The headline earnings themselves have gone up over 100%. Now if you've kind of had this distortion in accounts over last number of periods, that is almost as highly related to the Prudential acquisition, that's important to understand it.

So the figures I'd say important to my mind is, 19% increase in operating profit, 20% increase in normalized headline earnings, and then we issued shares to WDB, our Black Economic Empowerment part of the diluted -- the earnings per share, the normalized headline earnings per share 17%. We're declaring a dividend in line with that growth of 17% to 85.5 cents.

What I just want to show you is this distortion. It is quite interesting because every time we announce the results, we have to explain this complicated Prudential put option effect. But I do want to make it quite clear what has happened. The deal with Prudential is that we own 75%, they own 25%.

On the back of that minority, they had a put and we had a call on the 25% this year we've now taken care of. But the fact is, over time because of that put option, we get to hold the liability on our balance sheet in terms of that put option liability and a corresponding asset and so we have this continual distortion particularly as the business has grown.

So you can see how the value of that 25% has grown in our projections, reaching, how much? I think I've gone the wrong way, I'm sorry. I missed something here. And we just got four, and I do want to explain this to you. It has disappeared off my slides and I'm -- no, that's not it. I'm in charge, I prepared it.

So the put option liabilities, you can see, grew quite substantially (inaudible) 4.2 billion, and that is based on projections to 2020 and discounted back. And from accounting standpoint, we're conservative in setting off that liability. In reality, it has an effect on both the earnings and the embedded value.

On the earnings post in the model, when we actually acquired it last year, we paid 2.79 billion, so effectively we paid for it, but it released a liability of 4.2 [ph]. So you get this massive earnings impact of positive 1.4 billion and it's that distortion that drives up the earnings over 100%.

On the embedded value side, you get the opposite. We paid 2.79 billion for it inside their purchase prices, not only embedded value, but some appraisal value because we're paying for present value of some new business, right, that is due to Prudential, that is what you pay to acquire control. But in terms of the embedded value, you can't take it into account, so you have a negative effect on the EV of 1.5 billion.

So when you look at both, you need to take it into account that you got this bloated earnings that you need to take out to normalize, and on embedded value you have this effect that you can't really bring goodwill which you paid into account and you start with cash for goodwill, giving you a dilutive effect on the EV.

So let me try and get back to where we were. So, therefore, if you look at the earnings up 19%, I made the point there. normalized headline earnings up 20% and the earnings per share up 17%, taken WDB issue into account.

If you look at the breakdown of the operating earnings up 19% to 2.8 billion, you can see in fact the sort of incubators coming through. The established businesses, I think, performing very well at 16%. The emerging business at 23%, giving you the kind of boost in operating profit, and we spent about 8% of earnings on this current incubation process.

I think what's in that incubation piece is quite substantial Discovery Insure. Ping An in China, and the partner markets that I think we are planning well for 8% or less earning. In fact the spend on those new businesses has in fact come down. It was about 10% last year. It has now gone down to about 8%. I think the businesses themselves are starting to get, Discovery Insure, and Ping An Health.

Let me take you to new business. I made the point that new business is up about 17%, slightly ahead of the long-term run rate of 6.6 billion, you can see, versus 16% increase in the previous five years. Looking down, you can see what it's made up of. I show you, Discovery Health grew 7% in total, but 15% in the open scheme market. Discovery Life had a robust growth I think in that period. You can see the emerging market growth, VitalityLife had very strong growth. VitalityHealth went backwards slightly and I'll show you a bit of that late in the presentation.

Most notably though, you can see the new businesses at the bottom, Ping An Health and Discovery Insure really driving up the new business growth, over 100% in that respect. Let me just show you that graphically so you can get a sense of that. It is quite interesting that these two businesses are of course kind of adjacent interpretations of the Discovery model. They're actually not dissimilar in age, about three or four years they've been busy building them.

In my experience, it takes three to five years to build an institutional business of any real scale, and five to ten years to get proper established scale out of it. So these businesses are three to five years old. You can see the rapid growth of Discovery Insure growing its new business by 57%. Obviously that's not possible to continue growing at that rate into the future. The truth is Discovery Insure is catching I think about 15% of the market. So, if you continue growing it 50% a year, in five years, we'll have the whole market. Obviously, that's not possible right. We're going to certainly try, but that's not possible, right. But the point is, with that scale of growth, with that absolute value, you get this massive growth coming through in the underlying business.

In the case of Ping An, I said, it's a slightly different story. You can see the rate of growth has been staggering. We were kind of growing quite well, but we've really started to crack through this individual spacing. You see the growth is really staggering.

Where will it be? We don't know. The truth is China and the health insurance market is wide open. We're really scratching the surface. So I think it has great potential to grow, and I think that for us is one of the challenges and exciting pieces going forward. So that really is pushing new business up I think very strongly.

Let met turn to the embedded value. The embedded value up 14% to just over 45 billion. Three things I want to point out there is. Firstly the impact of the Pru acquisition, I've just made the point, the Pru acquisition diluted EV by 1.5 billion, taking off about 4% of EV. We think it's a good trade because in fact we've acquired it for the AV, we're going to grow the business off that base.

The second is that, if we use a beta that's formulaic and algorithmic, that's come down from (inaudible), so it brings down our risk discount rate. It bloats the embedded value by about 1 billion, that's a 2.5% effect on the EV. I think our people will give guidance as to if you flex that risk discount rate, well that embedded value might give you confidence to how sensitive it is.

And one critical point is that the organization continues to outperform the actual expectations. So if you look at the experience variances, they are positive virtually across the entire range, generating positive experience variances over 0.5 billion in the period under review.

And I said, on the financials I hope it gives you some insight. As I said, I think robust performance and I think well positioned for growth. What I'd like to do is just talk about the businesses and give you a bit of insight into them. (inaudible) there really is a lot going on.

In the case of Discovery Health, I think the performance is really good. You can see the breakout of the new business from 7%, about 15% growth in the underlying open scheme business, which I think is quite remarkable, dramatically faster than previous periods. And interestingly, we're getting more competitive in the close scheme market, as I said. It's a bit lumpy, so we did something in the previous period. More will come through over time, but I think one really interesting statistic is over the last 18 months, I think we've participated in six tenders with closed schemes. We won five out of six, and I think we can hopefully continue to up the grade over time.

Another interesting statistic is that on the open scheme medical business out there, we're capturing 60% of it. So we really are I think razor-sharp in terms of competitiveness from Discovery Health perspective and you can see it driving up the operating profit up 11% over the period.

Inside the Discovery Health Medical Scheme, growth continues, and I think the performance has been absolutely phenomenal. Lives covered 2.6 million, the reserves inside the scheme have grown to nearly 12 billion, and a very important point, we've crossed the 25% statutory solvency level inside the scheme despite the growth and despite medical inflation. So the performance inside the Discovery Health Medical Scheme has been remarkable. Lapse rates continue to be very low levels around the 4.0% to 4.5% levels. I think the dynamics of Discovery Health and Discovery Health Medical Scheme have been actually quite tremendous.

I wanted to make a point that I think what we're trying to do is develop a healthcare system for our members that is excellent and brilliant, and it's made up of really four components. One is, the vitality piece that integrates with how to make people healthier. Two, as I said, the intra healthcare system that is big, connected, the broadest hospital and doctor groups that are linked to us, has assets across the board that manage quality, optimize quality and cost. And then finally on the third piece, offering the broadest range of benefit options at the lowest cost.

And given all of the risk management work, the lower tariffs we've managed to achieve benefit-for-benefit we estimate that it will be 14% lower in cost than our competitors. And then underpinning all of this, intelligent, intuitive digital tools like Health ID or apps that reside on people's smartphones is quite amazing. With 600,000 of our members or 80% [ph] who use our Health ID, I think there are 300,000 more of our members now using our online applications that bodes well for quality service and of course over time efficiency.

So I think the healthcare system we're trying to build for our members needs to be intuitive, accessible, and brilliant, and that's what we're focusing on. I said to you that in the period under review, we've launched into 2015, a lot of this stuff is actually taking place and a number of very exciting initiatives will continue to kind of blow up, Vitality, the success we had with healthy food, the idea of getting 25% of healthy food. We've now pushed them into HealthyCare and (inaudible), we've introduced Dis-Chem. Along with Clicks, we've introduced (inaudible). Sportsmans Warehouse along with Totalsports, and they joined Pick n Pay and Woolworths. It's very simple but I think crisp idea.

And when you're doing the right things and you buy healthy things, you get a 25% discount. So that is really for us quite exciting. We've extended the idea of physical activity, not just going to the gym, but yoga, CrossFit and other kinds of activities.

We've integrated wearable devices into the offering and now the medical scheme covers part of cost of these wearable devices, becoming part of our design and drive to get people to actually focus on being more physically active.

And then finally in that regard, (inaudible) Vitality into the healthcare system. So for the first time, doctors with Health ID can actually manage wellness in addition to healthcare and I think that gets to the vision of Discovery Health right at the core.

We're also linked to Cleveland Clinic. The second opinions, we're doing a lot of work in terms of Discovery HomeCare. We've rolled out (inaudible) and I think it is very exciting to get the low-income end DISCOVERY PRIMARYCARE of large corporates, very efficient access to primary care for all of the workers.

So, there is a lot of work going on across the healthcare system that I think is very, very powerful. It's interesting I've made the point about the closed schemes. We are, I think -- I think, we do have the ability to offer corporates running their own or having their own schemes considerable advantage by taking them and essentially bolting it onto the Discovery Health chassis.

Two schemes that have been with us for some time, and you can see the effect of this. One is REMEDI, the (inaudible) scheme. Been with us for a number of years. Joined us in 2010. One of the key issues was medical inflation prior to joining Discovery Health and having Discovery Health manage their scheme, now experiencing like 14% inflation. You can see, it has now averaged about 5% over the last number of years. So, we've really done -- I can get a really good job there. In the case of Lonmin, one of the issues with the low levels of solvency is 6.84% [ph], joining us many years -- I can see over the years how that's managed to grow and I think we're getting better and better at it.

So the ability to offer the Discovery Health chassis to other close medical schemes, I think, offers a real opportunity for growth in addition to the continued growth inside the Discovery Health Medical Scheme. So I do think we are positioned well for growth.

I just want to say three things about Discovery Health from a kind of societal perspective. There are few things we have to do going forward. One is, we have to control medical costs and inflation. In that regard, we actively support the competition commission. The more that is known, the more understood about healthcare costs, the better. The second is, we have to carefully intervene in the health care system, areas that drive up quality and bring down costs. We're doing more and more of that. And then thirdly we have to continue to build the South African healthcare system.

On the first, I just wanted to mention this to you that I think is really, really interesting, because there is always this kind of paradox in healthcare that, why is it that kind of members feel they're paying too much, doctors feel they're paid too little, but they tend to agree with each other. What's the missing piece in the middle. There is always this kind of, what is going wrong.

I want to show this analysis that may give you a bit of insight. I think Discovery Health is doing a good job of keeping the cost of goods and services in the health system under control. If you look at the actual inflation rate of the tariffs, in other words, the rate increases we're giving doctors and hospitals, we're actually giving doctors above inflation. We work on other parts of the healthcare system to bring it down. But what you see in the chart, on the left is the rate increase of tariffs year-to-year. You can see that we've managed to keep it in line with CPI. In fact I think this year, slightly below CPI. So the parts of goods and services in the healthcare system, from the Discovery Health and Discovery Health Medical Scheme perspective, has largely stayed in line with CPI.

What's interesting is, if you look on the right-hand side, if you look at coronary bypasses or caesarean sections, we do huge number of these. We see 100 cases a day of C-section deliveries, we get the data out of that.

It's quite remarkable that the cost of those events is growing by about CPI to CPI-plus-one as you can see. So those events are really the amalgamation of all of these tariffs, but there is some potential inflation in that. So it's kind of another prove point illustrate to you that to an extent I think the price of goods and services, whether it's an individual consult or it's coronary artery bypass graft, we're keeping kind of in line with CPI to CPI-plus-one.

But on the left-hand side is the question. What is the difference between that and medical inflation, which runs at around CPI plus three [ph]. Now there are number of drivers to it, but there are two that I thought you should know. One is good and one is bad.

The good one is on the left, it's technology, and in healthcare, unfortunately, technology can do more and it costs more in terms of inflation, and that might change over time. But at this stage, more and more can and will be done. So in this period of last year or so, this is one of the biological drugs that has come on stream, it just gives you a sense what you're dealing with, Sovaldi for hepatitis C, costs $1,000 per pill. It's remarkably expensive, right? Now I'm not commenting with (inaudible)I'm simply saying that we need to fund technology. That's a good thing to do. We need to, as a healthcare system, have access to the best quality that I think is our social goal and our social mandate I belief. And the thing that I think drives our costs, we need to be aware of that.

It's on the right-hand side that I see no real benefit. And that's the price of adverse selection. It turns out very much like the (inaudible) there are three behavior types that create 4% of a cost drag. Three things; people, when they're sick buy up, when they're healthy buy down, or delay joining medical scheme environment (inaudible). Now they can do that because you have a egalitarian system, we have basically open enrollment community rating. That's a good thing, it's good for society but its inflationary.

And those three behaviors, and that's one of the fundamental messages we like to get across in the direction under Competition Commission. Now those three [ph] behaviors create 40% of that medical inflation cost. It's quite remarkable.

Now I'm not sure what's right or wrong. That's for society to decide. That is the price of an egalitarian system. I do think there maybe levers and regulatory levers that can be used carefully to keep egalitarian nature of the system, to bring that drag down. If you look at Obamacare. Obamacare has individual mandate. If you don't join the system, you pay a penalty. So you get less of the gain that goes on. Is it bad that will happen, but I wanted to illustrate to you that I think the one of the key issues that we have to deal with and we say it every time we represent this issue of adverse selection. I think the Discovery Health in that context is doing well.

Secondly to make the point that we have intervene in certain areas in the healthcare system. I work with MedXpress, Southern Rx, we're working in the pharmaceuticals side around the logistics and distribution, I think they are areas that we can selectively drive, get rid of efficiencies, drive up quality. More of that will happen down the line.

And then we're focusing on building the healthcare system in many different ways, trying to help with the NHI roll out. But I wanted to mention to you that the Discovery Foundation has explicit desire to drive up the number of medical specialists in South Africa.

Our strong belief is, if you get quality at the top, it will trickle down. You can see over the last number of years, we now have -- we now have 241 awards. You can see that we're actually educating 162 doctors at a very high level, 52 PhDs, nearly 60 specialists, and we'll continue to do that. So very strong belief in focusing and spending at the top end of the healthcare system. There is no reason why should not South African healthcare system to fall behind, we have to keep doing that and more of that. So there are a number of things beside just our competitiveness that I think are important.

Let met turn to Discovery Life and Discovery Invest and make the point that I think your performance has been good. I made the point about Discovery Life's operating profit up 17% and Invest up 29%. The performance of Discovery Life has been remarkable. I explained to how this Discovery Life model works. I think if you actually look at kind of the yield we're getting out of it, it's remarkable.

So, I said to you that by kind of developing this dynamic underwriting model, you get better selection, better behavior, better selective lapsation. The question really is in the case of Discovery Life how we're doing. But I tell you, if you look at the measure we see, we're attracting people into the pool that is over 21% better mortality than the others. So, we're getting the right kind of selection. We've had an amazing integration or engagement with Vitality, far faster and far greater than we expected with a sevenfold increase in engagement at the high levels, gold and diamond, and I think that bodes well for the health of people that we cover.

And importantly, we're getting this amazing selective lapsation, so that people leaving us or exhibiting mortality twice as ahead as people that stay with us. And I think that's quite the opposite of what you'll expect in a life insurance portfolio.

All of this, I think, is driving superior VNB and the actual life expectancy of our engaged members is dramatically longer.

So we're getting the right kind of thing from the model.

If you actually look at some of the components, claims continue to perform dramatically better-than-expected. We keep strengthening the embedded value assumption. Despite that, I think claims or loss ratios are better than assumed. We had a very good run of lapses. Lapse rate continues to come down and you can see in the middle of the chart. And then our team has done an interesting analysis on this idea of selective lapsation. We actually track people leaving us and when or if they die versus people staying, to see the kind of relative mortality levels. What you see from the chart is regardless of age, the stayers at 100% versus the leavers in the blue, you can see, they're dramatically different.

So as I said before, if you look at the leavers, they're exhibiting mortality 1.5 times to 2.5 times higher than the people staying up, illustrating the efficacy of the model. And clearly, if we continue to do that, keep getting the right people in, getting the right people to stay, you get this virtual cycle that over time I think value really is created. There is often a lot of debate about engagement in vitality.

I wanted to illustrate to you one of the important features over this period. At the start I said to you that the VNB should be agnostic by vitality status. In other words, if you set up the model correctly, regardless of your status in vitality, the VNB should be kind of flat. In the case of Discovery Life, we made the gold and diamond very rich to get the right kind of behavior change. It is a critical risk management tool to get people engaged, and that's exactly what's happened.

And other point you can see in the middle chart that the level of engagement at the high levels is seven times higher than it was in the past, and in fact we're giving away considerable benefits in that regard. The effect of that financially is, in fact in this period, we've taken a charge in embedded value of over 300 million, reflecting the value of that effectively difference in the embedded value and that's built in to the EV. We've taken that charge. Our sense is that while we could make changes to the product in that regard, we haven't.

I think in the long-term, it's a great investment. If you look on the right-hand side of the chart, mortality is lower-than-expected, but amazing as people get older, the difference between what we assume mortality would be and what actually is, is bigger and bigger.

So I think the investment in the long-term in terms of bending the lapse rates down, bending the 2Xs [ph] down, bending mortality down is going to be faster and deeper than we think now, and I think that will come back to us not only in terms of getting it back to my members, quite the opposite, I think in terms of better behavior, lower mortality, lower morbidity, and along with persistency stuff. and I think that's very important for the model.

I want to turn to quality of earnings, because I think there's often a lot of debate, Discovery Life particularly is a very complex business. It's one of the own insurers that started up by setting purely long-term business with its long tail, with big negative reserve and often there is confusion about is it cash-generative, what is the quality of the earnings etcetera.

So just to make -- just to tell you how this played out in the period under review, Discovery Life and Invest generated about 4 billion of income. After claims, servicing, management expenses, setting up reserves, that cost 2.9 billion, but threw out about 1 billion in cash, 1.07 billion in cash in the green as you can see.

We invested almost all of it into new business, so effectively taking the cash and acquiring new business. In life insurance, you had this upfront investment and then you recovered it over time, hopefully generating the right kind of quality over time. The question then is, what is the quality of that investment. What is the quality of the earnings.

And to an extent for guidance, we've suggested three ways of looking at this or testing it. One, in terms of quality of earnings is that the return on capital is high and the payback here is acceptable and there is considerable upside. The second is if there is prudence in the pricing, the business performs better than we expect. And then finally, this robustness of the value of new business.

So I felt important just to illustrate to you in this particular period what that looks like. Now I made the point that we are seeking to achieve risk-free plus 10%. On our assumptions, we expect to earn risk-free plus 12%, I mean that's kind of what we see playing out of that investment. But on the right-hand side, I think is a very interesting chart. It illustrates to you over time how long an investment takes to emerge, and effectively what's the return of that investment over time.

So if you look at the Life and Invest portfolio, we invested that 1 billion into new business. We'll see that we get the cash back over six years. We're on the risk discount rate of eight years and we're risk-free pus 10% after about 17 years. So you see the long tale of the business.

If you look at the actual upside, if you continue to perform as we are performing. In other words, in terms of lapses and mortality, we'll earn kind of over 23% over time, which is substantially above risk-free plus 10%. So I'll be giving some sense of the kind of return of capital hurdles and how that played out over time.

I think in terms of prudence, the business continues to generate positive experience variances, and I think that illustrates prudence in very strong second tier margins at bolt-up, so you can see over time we've generated about 1.2 billion of positive experience variances. And on the right-hand side, I think this talks to the model in a different way. Having generated by two sources, better lapses than expected and better mortality than expected, and that really is the play-out of the model in a different way.

And then finally, just giving you a sense of the robustness of the value of new business, the VNB is about 650 million we just published. If you up the risk discount rate by about one-and-three-quarter-percentage to risk-free plus three, you can see that goes down. If you up it to risk-free plus five, you can see that goes down further. So obviously at risk-free plus 10, you should get naught, that's the internal [ph] rate of return of the business. So what we like to do going forward is trying to simplify the earnings of Discovery Life and Discovery Invest and illustrate its quality against backdrop of few key hurdles that have to be achieved. In summary though I think that the quality of earnings in the period is good, and I think Discovery Life and Discovery Invest are very well positioned going forward.

Let me turn to Discovery Insure. I'm very excited by the growth of the business and the quality coming through. I've made the point about the new business growing by about 57%. You can see the effect of this growth on the underlying size of the business. In-force API, in-force book it has grown by 82% over the period, the reason being we're taking massive slices of new business and layering it on top of each other. So you get this really large growth in the underlying in-force up 82%. We now cover about 100,000 cars across South Africa.

I do want to show you this growth graphically, which is kind of a complicated graphic, I hope this works, but I want to give you a sense of where this growth is coming from. Just have a look at this. I think it does work. Just to show you that and initially we though our point would be (inaudible) this is at a time since the start of the business.

You can see that it's actually very important that we get a kind of growth across the country. There is a network effect of Discovery Insure, especially given the application we've created, the challenges we're doing, the data we're creating. So the business is growing, not just in our kind of our Heartland in certain areas but I argue across the country giving a bit more color of the sense of where the growth is coming from, I think the scale of the growth.

So I think we're quite pleased that by December 2014, the growth of the business, I think is very strong and it really is fairly present across the whole of the country. Most important is the quality of the business, and if you look at it over time, our funds before but it gets stronger and stronger, if you look at by duration or by the behavioral model, all of this is correlated. So importantly, if you look by duration, the lapse rates come down dramatically by duration, the business gets stickier, and the loss ratio comes down by duration. So we're keeping the right kind of lives. And then the important point is in the right-hand side, this whole adjacent model of trying to incentivize people to drive better, is it working. I know, here it is.

So if you look at the lapse rate or the loss ratio by Vitalitydrive status, you can see it's working particularly well. In fact, change in behavior is I think we said is quicker than the healthcare side. People respond quickly to the incentives, we can see a very sticky book as people drive better, and in fact the loss ratios and claim levels are dramatically lower. So when you bring together the effect of duration and the model, I think over time the quality of the business being built, I think is quite remarkable.

What I would say to you, and to an extent this is really kind of the power of the Discovery model, is the ability to create an underwriting engine that is much richer in data. So to an extent, if you think of the traditional underwriting factors in most insurance, it's age, gender, the type of car, the model, the year, way people love, the credit rating etcetera. We have two different dimensions on adding data, but one is how people drive through the telematics and there's a lot of very accurate data, acceleration, braking, steering when they drive, exposure to risk etcetera. The other dimension is a Discovery cross company data, all the other aspects of vitality status, how they're behaving in different elements, smoker status, health usage etcetera.

(inaudible) gives us, I think, unique opportunity to continue adding great value to our customers and to building our kind of actuarial management function that is dramatically better. And I think over time that quality will come through.

One example of this and I found is interesting is our partnership with Uber that is interesting. It came out of the sophistication. If you look at the way people drive, it turns out when you look at risk factors based on when people drive, there's a 10 times higher risk of an accident at night as you can see from the chart.

So for a number of reasons, probably some alcohol-induced, I shouldn't be saying it at the podium here, but you can see that the risk of accidents are far higher late at night. The solution that we came up with was incentivizing people to use Uber, right, instead of being exposed to those kinds of accidents. So, really using the vitality mindset of a partner, you get a 40% discount, a seamless integration that's on the Uber application on the Uber app on your phone. It works unbelievably well. It has been a very, very powerful benefit. So we've done a -- along with people studied 1,700 people that are using the benefit. It's remarkable, their driving scores have improved. They're using Uber hopefully, and critically the loss ratios seem to have come down 3%.

So early days we're trying to illustrate, I think the exciting role that Discovery Insure brings in addition to impact alert (inaudible) understanding how people drive. There are many applications, I think, over time, that will come out of Discovery Insure as we drive forward for better quality and for scale, and I think it's been a more remarkable period in that regard.

I wanted to talk about Discovery Card. It's in fact something that, I think, we've never spoken about in this forum. It's a JV with (inaudible) I think it has been relatively successful, but I actually wanted to illustrate it to you in the context of the Discovery model of incentives and using careful pricing and behavior, instead of getting out of better health getting better credit underwriting to an extent.

And I think the call has been quite remarkable. If you look at its performance, it really is an adjacency in South Africa, the exact model there. The better you manage your health gives you vitality, the deeper your benefits tend to get. The reality is that the card is performing really well. The monthly spend in the card is I think 2.5 times more the bank average. So it's really being used quite considerably.

The bad debts are half the average. And on the right-hand side, you can see our market share compared to the banks has tended to really grow. So (inaudible) kind of absolute above-the-line performance has been, I think quite exceptional.

I think the ability to use the Discovery Vitality chassis has allowed us to offer a very differentiated product offering. The more you engage, the better benefits tend to be, often really I think great value on travel and retail. But I thought the last one gives the sense of where we're going with the Discovery Card, the idea that if you buy healthy food or you do healthy things, you get his kind of mile multiplier. So buy healthy food at Woolworths or Pick n Pay or buy healthy gear at Sportsman's Warehouse. (inaudible) you earn ten times miles as your status goes up. So using really I think substantial rewards, we're going to offer people benefits but to drive behavior at the same time.

And I think all of that is adding to a very, very powerful capability. It is interesting that I would argue that the Discovery Card it probably the best card in the country. If you look at the ramp-up where our market is, I'm using kind of traditional bank segmentation from low income to the affluent, you can see that 80% of profit pools in banking kind of sit in the mid income to the mass affluent. If you then project on that, on the right hand side the Discovery client base by distribution versus the rest of the industry you can see that the lot of our clients are sitting in that profitable mid income mass affluent area and therefore, that's why when you get successful traction with the Discovery Card, we get the right kind of spin in the right kind of behavior.

But I think what's more important is the idea of bringing in behavior into credit scoring, and there's a lot of work done on those -- we work on academic at Yale in -- as we wrote the book Super Crisis around (inaudible) preference theory, where the people are the present buyers, the future buyers and we know this issue that people who are present buyers have an instant gratification, those kinds of people are a bad creditors, which he tries to get its future by its people.

Refund correlation and I think you would guess for the vitality data. So you look at on the right hand side of the chart, we found that people that are engaged in vitality tend to be future buyers, more future buyers than the others, because they clearly are planning for the future in managing their health.

So the ability to use the vitality segmentation offers a unique opportunity to get benefits out of the card and if I say you would like Discovery Insurance, they do we kind of the traditional bank credit underwriting factors that are used in terms of demography in historic credit behavior, we add to that, the kind of the (inaudible) to the data coming out of vitality. Vitality, you've trimmed benefits, healthy food, Discovery Card and the other cost coming (inaudible) that we getting, it offers your ability to really segment a lot better, and you can see that coming through, I think, this is quite remarkable.

If you look at default rates by vitality status in the card down sloping considerably. You look at less rate [ph] of the card, down sloping the vitality status and then you look at spend and I guess that just people engaged with us in using our products lot in can just spend more and getting more the rewards. So the whole behavioral model, I would argue is trying up remarkably well in the context of Discovery Card.

I want to just show you along with -- I mean skip that and just make this point and I think really shows this additional underwriting capability. If you think about banks underwriters from the low risk, medium risk to high risk, what it shows you is kind of expected default rates in kind of the dot black on the left hand side of each chart.

When I want to -- this side is the superimpose the vitality data, you take that, the current average when you break it down into more accurate components and therefore the point I wanted to make is what we found is applying this adjacency into credit scoring and into segmentation of the client base offers unique ability to -- creates a really unique value proposition. But at the same time to score credit in banking in a very different way. Then I think that's a very exciting platform going forward.

Let me take on China, I want to be quite precise, I just tell I think the performance has been tremendous, I need not remake the case with China, but it is quite standing, this is a market with 700 million middle class, it's an aging population by 2050, there will be more old people in China than the entire US population. But the Chinese government is pushing hard on private healthcare, pushing hard on tax regulatory changes around incentivizing private health insurance and this is kind of development all over the place, I think together Ping An, we're the market to be well positioned, the growth in the middle really shows the exposure, you can see that on the individuals in the middle. The courage individuals are spending about RMB1.5 trillion on healthcare out of focus. So, the scale of the health insurance opportunity I think is quite remarkable.

The question really is how you capture this. I think our partnership with Ping An is showing really, really good growth, we've gone into two distinct areas, the Group Corporate space really focusing on the multi-nationals, but few years ago you can see we were kind of neck and neck with Cigna, the American company in the JV in China. You can see Ping An health over the period is really rocket to the head. On the right hand side, you can see the quality of the loss ratio of 2013, 2014, pretty stable and in fact coming down. And I think that shows a good quality of business they are very captive, but I think the real story is on the individual side.

One of the key challenges we've had is, how you actually get individual health insurance to sell in China Ping An has 0.5 million agents across China. The ability to get it into that distribution channel, and to get that selling is a critical success factor going forward. We had this kind of this goal together with Ping An of a 100 cases a day, that was the goal over the last 18 months, one of the real breakthroughs was this kind of idea the white labeling of getting this product into the Ping An lock channel by changing into essentially to Ping AN life product and we be kind of behind that pretty much some of the learning's from what we do with the Prudential.

You can see what has happened over the last two quarters, in fact this period in orange, massive, massive growth to kind of RMB180 million per quarter of new business and the cases sold per day has this kind of rocketed. You can see it locked about 20 or 30 down the right hand side, suddenly breaking through to 400, 500 to 800 effective in January, that's post the supporting that [ph] we buy at about 1,000 and 1,100 cases of sales a day. So there's real, real potential and I think the growth going forward will be very, very interesting. We currently operating to 17 of Ping An regions of 2015 again up to 36 of the regions. So I think the growth will continue.

Our challenged year with Ping An to be -- to be make sure the quality is there, the loss rations are right and the left sessions are right, and I think the early indication is good, a lot work in progress. So I think there is real growth potential there.

I want to touch on the partner markets, I've made the point about what we've done on the partner markets, one of the key things and I'm getting a -- but taking again I think you need to understand repeatability of the model comes from this very simple idea. We've managed to codified mortality curves by vitality status, so we kind of know the data. The key issue's ability to take that to the reinsurance market and offers to other companies and other countries, that's the kind of big repeatability. Once you've done that you can effectively transport the model at early and also company's risk taking capability on their basis. We developed two very interesting products that can be used in the generic sense, the one on the bottom is what I'm showing you is the Discovery Life product. But I wanted to show you this, I think it is really interesting. You see, many markets they are still buying universal life and unit-linked products, like to how the model works there is, if you engage, but your mortality cost come down. So if you engage in universal life product, the mortality charge comes down and then your cash values go up.

So instead of a lower price, if you engage in consistent universal life unit-linked products representing the value proposition is if you engage in vitality, your time and your savings goes up. I think it's a very, very close message, so there are two kind of different players of this. In addition, over the period, we've actually developed I think a very disciplined financial model.

If you look at the VNB, there is an uplift when you use mortality, part of which you give back the policyholder, but in effect with our partners, we calculated that VNB uplift and we share the economics with them on that. So essentially the financial deal is, as you write business you must pay us for the VNB uplift that you're achieving in addition to IP fees and other fees. So this is a relatively capital loss initiative that lets us capture the value on overtime.

I'm not going to dwell on this, because I think we have to see how this plays out. We started rolling out AIA, within the process of looking at three markets which generally in Europe and lot of work has been done in the US over the last year and that will be rolled out properly in April, I've been fairly quiet about the intentions. I think it's a very good partnership in the US around that. We're getting very good traction in Singapore on the right hand side. 53% of AIA policies, this policy in Singapore are attaching the Vitality link, not dissilient to what we are seeing in Discovery Life and in fact in the case of the other prudential.

So almost the franchise mindset across global markets giving us really I think global exposure in markets that I don't believe Discovery will win, giving out -- giving optimization of capital and then that is something very exciting opportunity not projections, let's see how they plays out.

Anytime to what I think is the most important development over the period and that's the acquisition in the UK and really the restructure of the UK business into VitalityHealth Life. It is interesting that I think Discovery plays really well in well-developed markets, with kind of the structures were not to be, I think to better in a market that is stable and commoditized and I think the UK offers that opportunity high, prevent the disease of lifestyle and aging population. Third biggest markets, third biggest life insurance market in world and highly, highly commoditized.

So the share value model has the ability to undercutting price of a better dynamics, better selection, and I think that is been impetus behind what we're doing. We have a clear vision to build the best protection business in the UK and that's what we set out to do. It's been a journey that I think you know because a 50-50 JV with the Prudential, we went up from 50% to 75% in 2010 through the acquisition of Standard Life Healthcare and it's the injection into the JV and then we have this very complex Puttencove I think a very good process with Prudential has been a fantastic partnership. We've now acquired the outstanding 25%, now Discovery owns it fully.

It's required a considerable amount of work, it's not just the acquisition, understand that we were using, the JV had its own health insurance license, but using the license of the Prudential for life insurance side. So now in its new form as you can see in the middle of the chart, we have to really look at two license entity Vitality Life, VitalityHealth rooking out [ph] the Bank of England, the regulators around the regulatory process on that. So it is a pretty complicated process. We have to extract out of the Prudential life fund a lot of work to be done. But I would say to that there are three distinct hurdles in the process.

The balance sheet regulatory process, I'd put kind of a half-tick on that, that's going to take us some time, but I think the pathway [ph] is well set. The other two is brand and funding of acquisition costs, those are the two real big issues we had to work on.

On the issue of brand, I think we are thinking very hard about losing the Prudential brand. Please understand, I think you do, the Prudential in the UK is a remarkably powerful brand. So the decision to go off that presents risk, we're concerned about (inaudible) about a slowdown in new business, and there's a lot of work done on it and then the funding issue.

On the brand itself, we spent a lot of time thinking about what brand to use, I think we've made it clear, we used the Vitality brand, we've got fantastic cut through of the Vitality brand also more and more we explaining our product is one kind of composite is in Vitality and a life insurance product, health insurance product, the whole thing is Vitality. So we've kind of use the brand in a careful way. We focused on sport, an association sport, I think that's got really, really good coverage. And then we've used this kind of local heroes as ambassadors, Jessica Ennis and Jonny Wilkinson to give us feeling of kind of the link with sport and wellness and both of these people bringing incredible amount of reputation to what we're doing. It worked remarkably well.

So the brand side I think has done well, but I did want to show you I think it is next, I wanted to show you the kind of the core commercial we're using around DTC in the UK. Work is done, you can see this dog in the middle, right. This dog is interesting, what he or she kind of personifies is caricature of life society, lazy, hate exercise, grumpy, cynical et cetera and then just opposing that with Jessica Ennis who is quite the opposite idealistic, once the exercise et cetera and trying to illustrate the fun at work we're doing. So I wanted to just show you this, I think it's on here, this ad.

(Video Presentation). So a kind of fun and (inaudible) the value proposition that's really gets across, I think what we're trying to do gets across some of the benefits. It's interesting that after this -- I think in the first stage Jessica Ennis' website had 215,000 hits, right? And you know our fear of new business really dying hasn't materialized.

You can see the inbound sales calls into Vitality Health has in fact climbed significantly, quite quickly into January and now into February. So my sense of it is that we are not through the branding, but I would say that the fear of losing the new business and having lapses has not materialized and I think quite the opposite, the opportunity to present a fresh new brand to the UK is real and I think that goes well going forward.

So looking at the UK, I think the bones has been strong taking to account for consumer activity over the period. New businesses are 7% I'll show you in life and health, separately operating profit at 20% in the period, you can see that the combined JV is approaching 1 billion of profit for the year, that kind of quantum and in fact is not insignificant. I think our ability to grow of that is quite substantial. Turning to VitalityLife, the performance has been really strong, operating profit of 18%, new business up 20%. Amazingly you can see our model is working. Clients impact in absolute terms, despite the growth in the book were lower in pound terms than in the previous year, in the previous period and that has continued to come down, so I think the quality is quite remarkable.

If you look at VitalityLife graphically, on the left-hand side, you can see a fear of kind of new business going down has not materialized. The last month in the year -- the last quarter in the year has been the best ever. So in fact and you're getting additional traction, the vitality link has over 50% of the policies, you can see the exponential growth in the policyholder base.

And then in the universe of really strong competitors in legal and in general, Zurich, Aviva et cetera, we really are making headline, I've shown this before we're quite a long way down a few years ago you know a third in terms of the market share in the Hi-Fi market, capturing about 12% of the market and I think that we're kind of hopefully knocking on the door of the second competitor over time, depending on how we do.

In the case of Vitality Health, I need to say you cannot see this on a number of occasions, the focus on management teams of quality, this is a very tight margin business. The focus has been on quality, lapses and loss ratios. You can see the operating profit up 24%, the new business has grown over the last number of periods has come off -- it's come off over this period.

There has been a focus on pricing, we may have priced up [ph] too much in certain sectors of the market. The management team believes it's the right thing to do at this stage, the market will rise and we need to be well positioned to do that. You can see the right hand side, loss ratio over time, the lapse rates, how they've been managed. I think they have done a good job in that respect.

I wanted to mention also Vitality is getting fantastic attention in the UK, I think the quality and the nature of (inaudible) is tremendous. During this period, as part of the launch of this new brand, we're all at three very important partners the Vitality British Airways, discounted flights, and in Starbucks and Apple with iTunes. And I think it's a very interesting benefit because what we're doing in the UK is (inaudible) benefits that if we do a certain numbers of steps a day, you earn kind of a free coffee at Starbucks, you get a free tune at iTunes. So trying to get this kind of frequent low-value, high frequency benefit coming across, that's driving right now in the UK. You can see on the left-hand side, our tariff engagement that was completed in 2012 have doubled in 2013, almost doubled again in 2014. So I think the extent of engagement in the program is quite exceptional.

So all in all I think that the business is well positioned. I wanted aim up [ph] on section five on capital, I made the point that the asset that we're announcing the rights to issue today are between 4 billion and 5 billion and certain details of this we're still busy with. It's important just to say that the Group I think has been relatively careful around raising equity capital. We started that in 1992 at 10 million of equity capital that really started Discovery. The next raising was in 2003, we raised 875 million, that is around third of our market cap at that stage. Today we are announcing 45 billion, nothing significant, but I think related to our market cap about 6% or thereabout.

So I think the approach, I think is consistent and hopefully appropriate. It's important to make the point and I hope it illustrates to you that we're growing across the entire group, there are many opportunities that we're deceiving. In the main, I'm very comfortable where we are. But the fact is that two, I think very exciting opportunities we want to pursue that require the rights issue.

The first is in South Africa, there are a few key opportunities, adjacent opportunities that we're thinking about or continue more of that now and I hope to give you more insight into that over the next two weeks as we finalize the rights issue. The very important destination of the rights issue finding is the UK. I want to explain this to you. We've made the point that the acquisition of the 25% was done within the resources of Discovery is exactly the reality.

The real challenge though is the funding of the new business acquisition costs of VitalityLife. That's a big market with new business strain to grow like we're growing requires a funding of the acquisition process. You've seen how VitalityLife is positioned, but if you peel away its performance and you look at the underlying economics, it's very much like in the life insurance business where you have this upfront acquisition costs, and you -- over time see the premium loadings, the cost of that acquisition in return on net capital.

I think it makes the UK exciting is because premiums are flat and insurances are low. The asset that you create is around at negative reserve runs of very quickly as you can see from the chart, runs of over about 7 to 8 year period. So that offers the ability to match those cash flows in a very short space of time. You can see how we've been finding it in the past that's been using the Prudential balance sheet. So the prudential in the middle has been funding that acquisition costs inside it's lifetime. You can see the quantum of it, it's reached about 350 million pounds, given the scale of the business.

If you look at it current just from a (inaudible) perspective, and you invest money in the asset new return, you'll earn about 13% return inbound which is not insignificant given the lower rates of interest, so -- the investment in and of itself, I think is very appealing. But what we're doing now is the funding issue, how you fund those acquisition costs going forward, so just going to the left hand chart, I am just repeating what I just showed you, the Prudential has been largely funding that through the life fund of 2014, that's reached 350 million pounds.

The scale of growth we expect from VitalityLife, I mean over time getting to that 750 million, 800 million pounds of funding wherein asset both have inside VitalityLife.

I am methodologist to do the following. First it's important to say that the Prudential is keeping their a funding in place, that's part of the deal and that will run off over time as you can see in the blue. It's 330 million, it's kind of runs off. The balance will be funded from three sources. The first is, we will fund through equity capital, the statutory capital required. The balance of the acquisition cost capital were doing 50% financial insurance, the kind of a quota share agents and mitigating some of the risk.

And in the other side, using debt-equity structure that matches that seven year run down of the negative reserve.

We think the combination of that three provides ability to get that kind of funding across. It gives us exceptionally good return on our capital and mitigate risk somewhat. In the case of the previous arrangements of the Prudential, in the sense it was almost a 100% funded by debt, because it was pre-funded and the rate of interest were very, very high.

So what we're achieving here, I think is a far better lower risk, high return of capital methodology by bifurcating the funding to few different pieces. You can see on the right hand side, if we do what we're saying, we're going to do, we think we can earn between 25% to 35% on net capital as VitalityLife grows.

So I sense of it (inaudible) of capital amounts to about 150 million pounds over time, that's about 3 billion in capital and the bulk of that will be into this investment, we think it earns remarkable returns, superior returns in a hot currency.

So to fund the VitalityLife growth is the bulk of the rights issue. So let me say this to you. I think you look across the group, the rights issue left two destinations, one will be the UK, primarily the market will be in the UK to fund the acquisition cost funding of VitalityLife. And then second will be an adjacency in South Africa, then you have it in a few weeks' time. We'll give you detail on that, how that is developing and that's in a sense we were at.

So let me conclude by saying that, hope I made it clear that there has been discipline in the model, discipline in the expansion, I think there's been rigorous development across all of our businesses and I think the performance has been robust and we're gearing up, I think going forward for strong growth.

And that's it from me. Let me end there, and thank you for listening. We will take questions, I suggest that not too many. I think we are a bit out of time, but may be Ricky, if you can come and join me up here. All of our key executives up here will be outside. I think it's a better place for come with detailed questions (inaudible) we're here for your clarity. Thank you very much for listening.

Questions And Answers

Q - Unidentified Participant

Thank you. Once again congratulations on first rate results. Let's have a look at the financial position in the old balance sheet. Three items, assets arising from insurance contracts, equity securities, and equity linked notes. Now the increase alone in those three items over the last six months, largely offset the increase in liabilities arising from insurance contracts, re-insurance contracts and borrowings at amortized costs.

Over and above that, there is a further 1 billion increase in cash and a further 3 billion increase in retained earnings, totaling plus-minus 4 billion.

Now, I'm not going to come to argue for a moment about the need for additional capital borrow [ph] of raising funds, but since you already have 4 billion additional amount of money in the last six months and the expectations of getting another 4 billion in the next six months, why can't you simply fund it out of your own resources?

A - Adrian Gore {BIO 3068929 <GO>}

So, I guess if you go through all the different pieces that you've been through to summarize your question, as it looks like from a balance sheet there's a lot of cash. And in fact the cash has increased in this period by 1 billion. But it is -- but much leading in two respects. Firstly some of the cash actually belongs to policyholders. So when we've unit trusts or endowment policies that are sold on our balance sheet, included in the cash and cash equivalents includes policyholder cash, so we can't use that money.

And then the second part is that, when you have an insurance company such as Discovery Life or in the UK VitalityHealth or VitalityLife, you have to hold statutory capital. And particularly in the latter two cases, we hold that statutory capital in cash and cash equivalents, a pretty conservative investment policy. So sitting in net cash and cash equivalents, for example is close to 200 million pounds of statutory capital for VitalityHealth, and you can't really use that either, it has to stay there, it's ready to take the policyholders in case of adverse times.

So, although it looks like there's a lot of cash on the balance sheet and the cash has increased, it's not available for new business initiatives, I mean, the business is very well capitalized for the existing business, but to grow the business particularly (inaudible) VitalityLife and in other new insights since we're looking at. The funding is just not there.

Q - Unidentified Participant

Thank you, Mr. Farber. Next point please. There are two tables, one on page 20 of the Annexure, one on 21. On page 20 the table is new business annualized premium income and we see very, very happy and healthy increases from Discovery Insure and Ping An Health. However, when we go to the table on page 21 normalized profit from operations, those two segments are excluded, suggesting strongly that they haven't made any profits and are possibly still in a loss-making situation. What is the status of those two segments. Please?

A - Unidentified Speaker

That's correct. They are making losses. That's why we're keeping this kind of incubated, the truth in both, I think, the case is sure is a loss that not tuned quite substantially moving towards profitability. In the case of Ping An, I think it's fairly flat and hope it will return. Both are not that materially in the (inaudible) Discovery context, and that's why we're keeping that kind of a development sector.

Q - Unidentified Participant

Finally, please. The cash flow statement shows interest received of 411 million, interest paid of 41 million. Where are these approximate amounts included in the income statement? I cannot pick it up. Could you help me please Mr. Farber?

A - Unidentified Speaker

Sure. I put -- so the interest paid amounts are sitting in other financing cost, the interest, and it's not there exact interest received is a sitting on investment income in the block, you'll see it, little bit higher in the revenue section.

Q - Unidentified Participant

Okay. There's another finely, please Mr. Gore. If you're not going to use your resources, as Mr. Farber explained for various reasons, what about paying down the 1.5 billion loan that was recently taken out?

A - Unidentified Speaker

That part of the press, if you go through to decide how this year allocate capital to makes the optimize cost for that, so that will be in the in the mix of all of this kind of capital thinking.

Q - Unidentified Participant

Thank you.

A - Unidentified Speaker

Thank you.

There is very little time. Can I suggest we wrap it up, all of us are around if you need and as I said, we'll be giving a lot more detail quickly over the next few weeks. Once again, thank you for the time. Sorry, we're bit late. I appreciate it.