Y 2019 Earnings Call

Company Participants

- Adrian Gore, Founder, Group Chief Executive and Executive Director
- Christopher Gilmour, Board Member

Presentation

Christopher Gilmour {BIO 1510052 <GO>}

Good morning, ladies and gentlemen. My name is Chris Gilmour. I'm a Board member of Investment Analysts Society of South Africa. And it gives me great pleasure to welcome you today on behalf of IASSA on the occasion of the presentation of Discovery's Interim Results to end of June. I've introduced Discovery on a number of occasions and I have to say that Adrian Gore, is probably -- no, not probably, he is the best presenter on the investment analysts circuit. He takes exquisite care and attention in the preparation of his presentations, and it's thus little wonder that Discovery is a regular winner of IASSA's communications awards.

From an investment perspective, I have noted over the years, the folly of being negative on Discovery when regulatory and other issues come to light. So for example, when the group had an issue with the Registrar of medical aids, regarding reserves, about 15 years ago, the market got a bit nervous about it, but the issue was resolved, and everyone moved on. Likewise, today, we have a lot of noise surrounding the possible implementation of NHI. And so the market gets nervous, it's understandable. Discovery, remains one of South Africa's most innovative and dynamic companies and that dynamism is being exported to many other countries in the world. So given the aforementioned comments, I guess, you'll understand that I'm a big fan of Discovery.

And all that remains for me is to ask you to switch off your cell phones or put them onto silent, sit back and let's listen to another virtuoso performance from Adrian Gore.

Adrian Gore {BIO 3068929 <GO>}

Sure, that's a very kind introduction. I can only [ph]ruin that expectation of virtuoso performance, but I greatly appreciate it. And welcome to everyone. As always, really appreciate the time and the opportunity to present our results to you there for the full year to 30th June 2019.

You will have seen, I think, some of the key numbers, and I hope they are fairly clear. There's a lot of, obviously, complex dynamics I am going to take you through. But I thought maybe, firstly, just giving a bit of context. These are incredibly complex times and they're kind of issues of micro complexity, I think, that I want to mention, of course, and then macro environment. But maybe make the point that, at a market level, I think, it's fairly clear, the period under review was framed very much by a decision to invest in a bunch of five key new initiatives, most notably the bank causing us 21% of earnings. We did this going into the year. There's an expectation that we bring our profitability down. That's a trade-off we felt it's worth making to build things like the Discovery Bank, out of kind of an operating profit approach.

The unexpected was a spike in mortality claims in the first half of the financial year. I think we made that clear to you -- communicated that fairly clear to you at the last presentation. I'm very pleased with how the team has really got on top of that and brought that down in the second half that has really been largely ameliorated and take it up. So from a micro-perspective, those two things do very much kind of frame the financials. But I would just say from a macro perspective, it is a time of unprecedented complexity, as you would know. And to an extent, I'm seen often as this naive optimist about things. I have written a number of papers on the power of optimism, the importance of being optimistic. And our team, I think all of Discovery is built on the value system of innovation, optimism and, of course, prudence, which I think is important.

And maybe make the point to you, please don't mistake optimism for naivety. I think we have a very deep conviction that I think great businesses are built on the ability to seek positive signals, to seek opportunities in difficult times. But at the same time, the ability to see real risk and manage it. I mean, I think it's a combination of those two that I think if you can do well, really creates greatness in an organization. It also leads, I think, to obvious kind of corollary, which we believe very strongly in, and that's it's important to build in difficult times. It's in difficult times that opportunities are present that others don't see. It's in difficult times that opportunities and assets are under-priced. And so our deep philosophy is about building in difficult times, and that is not easy. It's not easy from a sentiment perspective, but that is our deep conviction. I think the -- the year under review will hopefully, will strongly illustrate that. Also, I just want to make the comment, just to thank our Discovery people. The ability to go and do what you've done in this year has taken just a huge amount of work of all of our people. And our team, the Board, our Executive Committee is extremely grateful for the work of 10,000 and more people in what they've achieved.

So let me just make a few comments. I made the comments about the micro-environment. On the macro side, it is unprecedented, the complex. Every single thing we thought was normal is going the other way, globalization, interest rates, inverted yield curves, every single issue, the NHI, where we operate, there is complexity. There are specific risks, the NHI and the sentiment it creates is of important development. It creates complexity for us. In the UK, low rates of interest, I think, are fundamental issue and something we have to manage very, very carefully. But juxtapose against these macro issues is our model, our shared value model that I would argue is getting more and more relevant, and to a large extent, is providing a considerable kind of [ph]angst and it is very, very complex times. And I hope that comes through in the rest of the presentation.

So having said that, our translation of all of this is into our four key kind of chapter headings, four key focus areas in what we've tried to do, and I'm using these four as kind of an agenda for the presentation this morning. The first is growth and prudence, pursuing both growth and strength in the balance sheet at the same time, and that's what we set out to do. The guidance is built on the deep belief that we should be building in difficult times. And if you need to really do things on both ends of the spectrum, growth and prudence. The second is, I want to make it clear how we are growing. This is an organization, the growth seems organically from a start-up after it creates considerable difficulty and complexity. We do that in a way, we hope that is very disciplined. And I'd like to take you through a bit of that thinking.

I'll touch on a bit of what we've done, we continued to invest considerably in the data, the systems, the technology around the shared value Vitality model with a deep belief that it can really transform financial services, illustrate how we're going into this idea of a customer-centric composite model. And I think it really has great power. And then finally, and this is probably the bulk of the presentation, executing on four strengths, South Africa, trying to build this perfect composite; the UK; China; and Vitality globally through the Vitality group and give you a sense of how that plays out.

So let me firstly deal with the first growth and prudence at the same time. And it's probably a good chapter heading to illustrate the numbers to you. I'm going to go through in fairly quickly therein, hopefully, in the handouts on what you will see. We've tried our best as always to give you as much disclosure as possible. But show you kind of some of the main themes. And hopefully, what will come out of that is you'll see a pursuit of growth and prudence at the same time, which I said, I think is fundamental to the period under review.

On the issue of new business, grew, I think, fairly strongly, 13%. Its rate of growth, I think, is in line or higher than previous periods. You can see the makeup of the growth if you go down the table. We did illustrate these a few days ago in the SENS announcement. A few call-outs I'd make is that you can see Discovery Health fairly flat in new business. We'd like to do better, but it's a very tough environment. And the reality is, a lot of our new business is from growth in existing companies that we cover. So in difficult economic times that so-called type two growth tends to slow down, but it's a very high base. You can see ZAR6.6 billion or thereabout.

I'd also mention Discovery Insure, went slightly backwards on the personal lines. If you add the new commercial insurance, up 3%. We've had a focus on quality there. We'd like to do better there as well, but I'll take you through some of the thinking in that regard. Very strong growth in the UK, very strong good quality of business in Vitality Health in the UK. Ping An Health continues to just really blaze its growth, and I'll touch on that a bit later in the presentation.

And then across the board, I think, fairly robust growth from a new business perspective. Normalized operating profit, you can see it across the board. There are two things that really drive this. So two points I've made in the opening, and it's the same with the six-month period. We invested 21% of earnings, including finance costs in new starts, most notably the Discovery Bank. You can see there was an increase of over 100% in that. That has a very, very substantial effect on the operating profit. The other is Discovery Life, mainly result of the claims spike. Discovery Life's operating results were down 9%, that's like a 20% or 15% swing on where it should have been, given the scale of Discovery Life, it's obviously material to the group. A few comments on the other stuff, Discovery Health, I think, pretty robust. The rest of business, if you close your eye down the table, I think the growth is strong and robust. You can see the emerging businesses are really, really doing quite well.

Let me just do a few bits that I'm going to touch on very briefly, taking the operating profit of minus 3% and running it down to the reported profit at 16%. Two things that are worth pointing out. One is the gain from the sale of CMT, the company in Boston, that you had a share of, or a slab of share of, which reduced that down softer and buying to that. You can see that of ZAR808 million. The other is technical accounting issue on the Discovery Card transaction. The first round, we have to bring that gain into the income statement. Those two get your profit after tax up to 9%. When you take out tax and press your dividends, you go up to 16%.

The tax rate was low. We start to recognize a deferred tax asset in the US due to the emerging profitability of that business, and that has that impact. Taking that reported profit down to headline earnings, it's just really reversing out the CMT and the Discovery Card transaction gives you the headline earnings and then reversing after-tax effect down to normalized headline earnings.

And so just giving you how that's fairly clear. A few big issues that really take the operating profit to reported earnings all the way down to the normalized headline earnings up or down 7%. We've made a point, I think, a few days ago, yesterday or the day before, we're just declaring the dividend. Nothing special here. We continue to focus on our capital plan. We took you through at the half year that given the rate of growth and the investment in new initiatives, we should keep the dividend flat, which is what we've done. So we kept that at in fact ZAR1.14. And therefore, we did dividend going forward. And we'll see how that plays out as the group goes forward. We're very happy with the capital plan and how it's kind of staying intact through a very difficult and complex process.

Turning to the group EV. I'll make just a few comments. The EV at 10%, return on EV, 13.5%. You can see the makeup of it. Experience variances in total non-economic positive, economic slightly negative. You can see the effect of the group EV of the new starts. So it is actually quite an important point to make that the emerging businesses discovering Ping An Health and the Vitality group, we've got considerable scale and not in the EV. That's one point to make. The other is the, the new initiatives, the new businesses are expensive. Of course, operating profit that hit the NAV, the finance costs associated with that, they're also not -- you can see the fact that they're in the EV, so obviously not accretive to the EV. So I'll just go through the EV. We're fairly comfortable with the 10% growth in it.

Let me just turn to the operating model. And hopefully, it'll just give you a sense of how we're trying to grow the organization. But at the same time, managing very carefully the capital plan and the cash generation. If you follow that, you will have seen this -- we call it the so-called washing machine as you flow through this process, by fate, what it shows is growth on the left-hand side, I'll touch on that a bit later.

We start our businesses new organically. They emerge over time, and they become established. I hope you'll see that cycle playing out. Fundamentally, they generate profit and cash. The cash generated and spent on new business, new businesses and tax and dividends, et cetera. And then you have the capital base at the bottom out of three components. The underlying capital base of our operating entities. And there's a philosophy, they have always been strongly capitalized. Allocated capital and debt to make sure we can go through the planning cycle without recourse to outside capital, and then importantly, a buffer that we shall hold at 1 billion to 2 billion as you go along. And this kind of washing machine is got us through a cycle of making sure we build businesses in a disciplined way. We manage cash appropriately, and we have a strong capital base. And that's really been the focus of the organization. I would take you that during this period, given the complexity and the focus of new starts, we've been very, very careful as to how we cycle through the process.

So first, in terms of managing cash, I think we're quite pleased. The group generated net ZAR1.7 billion of cash. You can see, if you look at the slide, the makeup of that on the income side, the operating businesses generated about ZAR14.6 billion of cash. We spent it on new business, new businesses. You can see the investment considerably in new businesses. But in new business, particularly new business chain of the life businesses elsewhere in the group, giving you a net cash flow of ZAR1.7 billion. So this has been a fairly well-known process of Discovery as we've kind of evolved, but I wanted to make a point to you that we're focusing quite hard on the discipline around cash. Discovery has not been absolutely fixated on cash generation.

We have to say that our long-term business is the fundamental premises, as we believe very strongly, investing in new business and the long-term potential of that. So a lot of our investment is an explicit decision to take cash and invest into new business chain, and that's kind of what we seek. But at the same time, we've been very focused on making sure that cash is managed very carefully. So three kind of indicators we are now managing carefully: one is kind of cash diversification, making sure that not one business generates more than 50% of the cash of the group; the second is making sure that a certain percentage of cash, over 50% of the profit is cash profit; and then finally, making sure just that there's enough cash always to their finance costs and dividends. In other words, making sure that operating cash flow at the center is always 1.5 times bigger than financing costs and dividends. So to an extent, setting targets for each of those, and you can see we've actually made considerable progress over the last two years or so. And I'd say to you, most of these cases in the next year or so will actually exceed the target, so I think we're coming down quite nicely in terms of making sure that not anyone business consumes or generates more than 50% of the cash, the operating cash flow or the operating profit is at least 50% cash. And it's cash at the center to fund what we need to do. So if you look at how we've actually run the organization, to be careful to make sure our leverage is never over 28%. We'll be careful on the cash flow. We're trying to manage these in a very tight way to make sure the discipline is here, particularly as we go very carefully.

Turning to the capital base. I think we're trying our best to derisk the balance sheet. We've been very careful in this regard. At the top of the screen, you can see the three components of the capital structure, as I mentioned. But first, the capital base of our various regulated and operating entities. You can see across the board, we're very careful in terms of making sure capital coverage or solvency coverage is very, very strong, so that's something that's a bedrock principle for us. We've brought down the leverage quite substantially around 27%, 28% a few years ago. That's now down to 23.3%., we hope we can maintain that through the planning cycle. And then importantly, the cash buffer has grown quite strongly to about ZAR4.3 billion, above the ZAR1 billion to ZAR2 billion, the group has grown in different ways. It's under a lot more growth focus. And therefore, I think it's probably not inappropriate. So just a sense of, I think, being very careful around how we grow. But at the same time, make sure we're prudent and carefully manage our capital and our cash.

So let me turn to the second focus, and that's on the issue of the other side of the operating model. Sorry, guys. I'll ask my colleague to help me. There's a bit of coffee over there. Now it's not the best time for a coffee break but realities, thank you. Sorry, for this. So just turning to the second kind of theme of the focal areas, pursuing organic growth in a very disciplined way. And it is important, we show this, I think, every time, but it's important to understand that starting a business from the ground up, especially something like a bank, is not an easy thing to do. Nothing is running and nothing is planned. Things don't go according to plan. But generally, we found the three phases or three cycles to a business. It's a new kind of start-up phase, it's emerging phase and it's established phase. And they have very different attributes. And I think we're trying our best to apply discipline to all of them. The established businesses of scale they're disruptive, they're market leaders, they're robust. The emerging business is often don't generate cash, but you want them to be uniquely positioned. There should be evidence in that. In fact, they are leading and making a difference, and they're scaling fast.

And then importantly, the new businesses have to be disruptive, but they need to be according to plan. And I think it's very important, we are spending 21% of operating profit on new starts. We need to make sure there's considerable discipline in terms of the new businesses. Having said that, we put up this kind of spaghetti diagram. At the last presentation, a lot of feedback around, so I mean it is very interesting. If you kind of calibrate all of our businesses. Of course, they started in different points of time. But if you flip them back to the start and calibrate them properly, that's kind of what you get. You get this diagram. Everything starting at kind of day zero and escalating. You can see the Life turndown is at minus 9% in earnings, as you can see, but you've got a whole pocket of different things taking place.

If you look at the established and emerging, which I think is important, is very, very interesting. The established businesses, they're, I think, of considerable scale. If you look at the UK as a composite. You look at Life, Health, Invest, all of them are ZAR1 billion or higher in their profitability. So the established businesses are all ZAR1 billion or multi-billion in the operating profits. They all are robust. I think they are all very strongly not sustaining the Discovery Life claim spike but very comfortable. They're robust. They're growing well. And I think they're well positioned for growth going forward.

If you look at the emerging businesses, I think they're really are coming of age, you can see they have turned at different points in time. The pace of turning is different through that kind of their value at depth. But I think the emergence is very strong. And the rate of growth is very strong, so this is a fairly unique, I think, fairly unique business process of starting businesses organically entirely from the start-up within the institutional setting. And to the extent, managing this cycle is critical to our ability to succeed, and I think we're pleased with how that is performing. On the emerging businesses, we are often asked, hopefully, it's becoming less and less -- a meaty evidence is that are they emerging, are they going to give a return on capital? This is just a sense of if you look at three emerging businesses, I would argue that all of them from a social perspective, are really well placed.

Discovery Insure I think is really brought into the market, and so they're driving safely, driving better. We're getting considerable, I think considerable traction, but real -- I think, real benefit. Ping An Health really is, I think, the leading health insurer in China. And the Vitality group is -- they're really scaling the model globally with a very unique different value proposition of being the best platform and biggest globally. But if you look at the stack, I think the rate of growth is very strong. Our profit growth is for the stack like 94%. So the profitability of this group of businesses is approaching ZAR0.5 billion. You can see the revenue growth is strong. Discovery shows that in the local South African market, it's not going to grow. I don't believe the revenue grow much faster than 18% to 20% a year, but we're pleased with that. But you see our Ping An is growing, our Vitality group is growing. And they have greater, I think just blue sky, given where they are, obviously from a revenue perspective. But you find that it's just to illustrate on the left-hand side of their chart, just capital invested, so try to illustrate the amount of investor to date. I see my colleagues have taken out some of the totals, but I think it's about ZAR5 billion. I hope I am not violating anything on telling you that, so across the step, invested about ZAR5 billion in total in these three businesses. It's hard for us to put a value on them. You can see on the bottom of the chart, each of them on a running rate is achieving a return on equity risk-free plus-10% or thereabouts. So for the total of the three, we have risk-free plus-11%.

In the case of Discovery Insure, we do need internal-embedded value calculation with our partnerships. As you can see on the right-hand side of the chart that there's range of that embedded value. How we see it, considerably exceeds the capital invested. And then you can see in the other businesses in the fairly undemanding kind of forward P/E. They're dramatically worth more than what you put in, so just directionally, just trying to give you a sense of comfort about the rate of growth, the scale of the profitability, and I believe that they can grow very, very quickly into the future. So we're feeling good about their potential and scale. I think we're feeling good about their potential in terms of returns on capital.

And so when you think about the established versus emerging businesses, we're feeling pretty good about how they are positioned. In the case of the new initiatives, this is a very complicated process. This is core to, I think, that you're investing in new starts. I mean just -- there's a lot of kind of block and tackle in how we're growing these businesses. Every one of them has a different challenge -- different set of challenges. As I said before, no start-up kind of grows in a linear way. But two things to mention, two bits of discipline: making sure they are on target around capital invested or the meeting their plan; and secondly, are there writing the business if they need to write in terms of what the plan says. These things as I said are hard to track in terms of the business plan because things do meander. But simply from the Bank perspective, I think, the biggest and most important in the step, kind of our view is like a 92% and a 90%. They kind of spent 92% of what we thought, and I'll show you that a bit later. And the new business plan is kind of 90% on track. We're feeling pretty comfortable. There's a lot to do, but I think we're feeling comfortable about how the Bank is paying out.

Vitality Invest, I think, is having a difficult time. We're on targeting in terms of what we spent, but way behind on attracting funds. There's work to be done there, and I think we're not comfortable with that at this point. Vitality1, I'll touch on that later. It's a critical piece of technology across the group and across the world for us. I think it's exceptionally good. We're slightly over in spend. But I think the rollout is very good.

Discovery Business Insurance, we spend more. It looks like we're slightly behind the new business been. But in fact, in the last two months post the reporting period, the pipeline has been remarkably strong. So we feel pretty good about how that will play out. And then our Umbrella Funds, behind new business, slightly less than the spend, work to be done. So giving you a bit of a kind of a diagnostic, not uncomfortable at all. At this stage, it's early days, feeling I think good about the Bank, Vitality1, feeling good about Discovery business, Insure and Invest and Umbrella Funds needs some work, but there's some good traction happening, and we're feeling a sense of confidence. Give us time, these things are not simple to do.

Let me just turn to return on equity. And just to make the point that the established business we're generating like roughly plus-14%. You can see that the emerging, for the first time, you can hardly see it on the slide that are actually starting to contribute at that kind of level. As I've showed you before, it's the new business and the financing costs to bringing that down. This is not unexpected. So it's just kind of the flip side of listing operating profit in new businesses. It's going to retard your return on equity. So our target is risk-free plus-10%. We have kind of risk-free plus-7.5%. Over the planning cycle, that should hopefully return as we turn those businesses towards profitability.

So the second point, I hope it's clear, kind of growing organically in a disciplined way. A couple of established business, I think, very excited about the emerging businesses, work to be done on the start-ups as you would expect.

Let me just turn briefly to the model itself and just make a few comments about the model. I mean it is important to say we are very, very pleased with the idea of this shared value Vitality model, the kind of translation of it into a tactic of taking an institutional business and kind of playing it onto a behavioral chassis that we've done. It's getting more and more traction globally. I think we're learning more and more about how to do it. But I think what we've done very well is to done it in different industries, as you can see on the right of the chart and getting to integrate in a very powerful way. But I think the intellectual bases for what we're trying to do -- not simple to do, but we're trying to do is based on two things. The first is that there's just a few behaviors per industry that drive most of the risk. You've seen this from us in different ways, whether it's four behaviors in health, smoking, physical inactivity, eating badly and alcohol, they drive 60% of deaths. It's the same in driving. It's the same in banking and the credit risk, just a few behaviors drive that risk. That's the one issue. So if you can somehow address those behaviors per industry, you can really have a dramatic effect on risk.

But the other important point is the correlation. It turns out that people who manage things in one dimension well tend to do the same in the other. So if you consider health versus managing money, you find that people that manage their health well tend to manage their money well as well. So if you go down, you go across the metrics, so diagonally, you can see the effect on default risk is quite remarkable. So there's a very strong correlation. And I think the scientist are starting to back this up that people -- they can withstand instant gratification in one environment, can do so on the other at the same time. And so to the extent, if you accept the hypothesis of these two, if you can bring the two together into a composite, in other words, a behavioral chassis that deals with all of these behaviors, how you drive, how manage your health, how you manage your money, et cetera. And you can put onto the top of these an integrated set of businesses, the ability to build of a customer composite is very powerful.

And to an extent, obviously, in South Africa, we have much more control and scale. The ability to do that is much more real than any other markets. But the power of that, it can't be understated. I think the architecture of that allows us to stack the rewards and incentives. So if we can get economic value of all of the savings into one set of rewards, you can get an incredibly powerful nudge for behavioral change. But the value proposition is very different. I think the competitive moat or the ability to compete in the long term is quite remarkable. I mean, critically, in many of our markets the ability to get your customers directly and efficiently is critical. So an omnichannel distribution of a very different kind of call to action.

And then finally, our core purpose, attract the right kind of clients, make them healthier and make them safe and make them manage their money that is more powerful. So that is really where we try to get to with this model and more and more of the work, Vitality1 and the stuff we're doing, is trying to get to this composite. In different markets, it will take a different form. They're weak form. So there is just one dimension, that's health. The strong form is like we're doing here, health, driving, how you manage your money. And then in certain markets, you'll see in the future, where it's more of a tenant-based approach where the chassis sits there, we don't have to own all of the businesses, like we do in South Africa. We could work with a bank or another in different countries, so to an extent, giving us a sense of the architecture of how we time to take their shared value model and make it a customer composite through the eyes of the customer, giving us, I think, a very powerful competitive advantage. And that really leads to the fourth piece of our presentation. Kind of executing on the four strategic strengths of organization. So I've kind of taken you through established emerging and new. I'm now looking at the businesses through the kind of physical locality, South Africa, the UK, China and the global Vitality expansion.

To make the point, I think we said this at the half year, they four strengths in South Africa, we're tried to build this kind of perfect composite. We see the bank being a very important composite maker in that process. In the UK, I think we're tried to build a very differentiated insurance organization. We need to get the shared value composite to work. They've been two very different businesses. We need to pull them together, and you'll see some of that work. We tried to build the leading health insurer in China, and we'll try to build the biggest and best behavioral platform, transport and financial services through the Vitality group. So those are the four strengths. What I'd like to do is just take you through the thinking of those through the businesses and the process, hopefully, give you some insight into how the businesses have actually performed and how they're developing.

We're okay with time, let me keep going. So firstly, just to cut the businesses by kind of market and what we're trying to do, I'm just restating those numbers I showed you before, as you can see them, but I thought it, maybe worthwhile, is so much to tell you, to try and lift it out of the businesses, the very strategic issue, we think, is relevant looking at. So in the case of Discovery Health, you'll see, I think, the performance is stronger and very robust. Obviously, the strategic question is how will Discovery Health navigate the NHI. In the terms of Discovery Life, absent the claims spike, we're pretty pleased about the performance. The obvious issue is the narrative and the valuation in all of the debate that we have. And I'd like to make some comments on that.

In the case of Discovery Invest, it's how the business scales in quite a volatile weak market and hopefully give you some very quick insights into that. I don't have the time, but show you that. In the case of Discovery Insure, it's profit starting to emerge. There's a very strong focus on quality and behavior. It's really understanding how the emerges and how it will scale. In the case of Discovery Bank, critically, I think the issue is, obviously, overall budget. Is the functionality working? Are we gaining traction? Will we meet the business plan? Give you some sense of that.

In the case of Vitality Health, in the UK, and its many, many ways, was kind of the start of the show, outstanding performance. The question, obviously, is can we continue to grow that at that quality in a stagnant market. I'm not sure the answer to that, but I think there probably is an important question. In the case of Vitality Life, I think, the most difficult of the environment, given low rates of interest. We're trying to re-purpose the business, restructure it to make sure it's fit-for-purpose in a very low-interest rate environment, the lowest in history, and I'll make some comments on that. In the case of Vitality group, the growth, I think, it has been exceptional. The question really is, can we scale it, can we get kind of financial relevance and create real value globally?

And the case of Ping An Health, it's self-evident. The growth is remarkable, but it's a trade-off between growth, quality and profitability. It's kind of this trilemma, you can only have two out of the three, not all three. You could decide which two you want. We've chosen, I think, quality and growth at this stage, and you can see our profit emerges, so I'll take you through a bit of that thinking. So trying to give you a sense, I think we're comfortable about the performance, but it's important, I will kind of answer these questions as we go forward.

Let me start at Discovery Health, I'll make a few comments. There is enough time to do any of these businesses real justice. And we're all here, our key people are here to answer questions afterwards. Discovery Health, I think, the performance is really, really good. The new business is not as good as we like you can see up 1% of a high base. Membership are touching over 3.5 million in total, including Discovery Health Medical Scheme and other closed medical schemes. Operating profit continues to be robust, growing by 10%. The Discovery Health Medical Scheme continues to be just a kind of a gold standard in every respect in health care financing, 57% market share. You can see growth is strong, fairly strong compared to, certainly, the rest of the market. Second part, every aspect, every measure about the scheme, I think, is quite remarkable.

On the bottom right-hand side of the chart, just to make the point that the lapse rate is 4.7%. It's remarkably low. And it's a point I should have mentioned one or two slides back is that one thing that's quite incredible, regardless of how difficult times on the market is out there, virtually all of our businesses that had lapse rate very, very sticky and low, really talks to the quality of the model. So regardless how difficult the times are, people are joining us, getting more and more engaged, and not leaving us, and I think that's a very important aspect in how the business is playing out. Making comment about medical inflation, I mean, you make this point every time, our social mandate is try to give people access to healthcare, the best healthcare at an affordable cost. It's a very, very complex and tricky thing to do. Medical inflation sits -- it's touching about 10% to 12%. And it is hard to bring it down. And if you break it down, I wanted to make this comment that if you break it down, it's made up of three components: one is the core kind of inflation of tariffs, kind of the price increase of doctors and hospitals and pharmaceuticals; the others that we call supply-side inflation, in other words, technology, drugs and all the stuff that healthcare can do that keeps getting bigger. That's expensive, but that's a good thing. That's we're hoping happens, and healthcare can do more.

The third is, I think, quite wasteful as we shook demand-side kind of pool. People getting sick by, particularly, adverse selection. And that's a problem, a lot that is wasted. If you look at that chart and the things do differ over time, but I would say to you that what you will see is we kind of -- we managed to keep tariffs almost in line with inflation. Are they using scale and negotiating and working with the supply side? We're keeping the supply-side cost about 1% to 2% in inflation. It's the demand side that really is, I think, problematic. And put it differently, per unit of demand for a given set of demand, we can give people access to the best quality of healthcare kind of CPI plus-1% to 2%. I think that's not a bad result. I'm not, in any way, sort of saying it's good enough. Not at all, I'm just here making the point that I think the system can offer for a given set of demand access to the best quality healthcare in 1 to 2 percentage points above price inflation.

If you look on the right-hand side of the charges just to the bottom, it's just a set of examples of kind of cancer drugs that over the last number of years have come on stream. Healthcare is just expanding. Technology drives cost up, but we have to fund that stuff, and we're trying to fund that stuff. And we can at kind of a margin of 1% to 2% above inflation. It's the demand side that is really problematic. It's kind of partly the cost of social solidarity community rating. People join when they are older. They join when they are sicker. They buy less comprehensive plans. When they're younger trying to move up, and they are sick. So those kind of forces are having a dramatic effect on medical inflation. So it's something, we have to fast all the time. Next week, we'll be announcing our rate inflation for the Discovery Health Medical Scheme, but this is an ongoing battle. But I assure that we are working incredibly hard to make sure we can sustain what we do.

Obviously, a central strategic issue is kind of post the reporting period, but this has been an issue for many, many years, is the National Health Insurance Board. I have to say to be pretty clear in articulation of our position, we are supportive directionally of what is trying to be done here. They've got all kinds of emotions, and I think it's right in the debate about affordability, can it be done is, of course, going to be something that will last many, many years, and this is critical. But at the same time, the status quo is not acceptable either. And therefore, we have to work towards the change and Discovery Health is very committed to being an active partner, engaged in trying to build something that is sustainable. But I think the fundamental issue and the point we've tried to make, and this is not based on self-interest in our business, is rather the private healthcare system of medical schemes. We think it's just fundamentally counterproductive for private healthcare to be curtailed or medical schemes to be curtailed, and we make that comment, I think, very, very carefully. It's not based on any ideologies. It's based on the fact, we think it would be counterproductive. I mean I think the numbers illustrate just how complex it's going to be to roll out this NHI, and also, the numbers also show just how stark the levels of inequality are and why something is needed to be done.

So let me just take you through this analysis, this is not meant to be kind of totally instructive. It's meant to give you some direction of thinking. On the right-hand side of the chart, just the cost per person. You can see the differences. In the medical scheme environment, we spend about ZAR1,700 per month per person on healthcare. In the public sector, we spend about ZAR372. Now there is endless debate and stereotypes that private sector is overpriced, that public sector is wasteful and mismanaged. These are all the kinds of things that go on. I'm not going to comment on that. But to say, you can see the stark differences. As a benchmark, people often think that the NHI could be the NHS. Just to give you some statistics, the UK spends about ZAR4,000 per person on the NHS. And if you adjust it down, that the WHO does on posting par-parity in the health care system, you are at about ZAR1,700. It's interesting. The spend on the NHS is almost spot-on what we spend in the private sector, on health care, I think it's important to know. But you can see the stark differences in spend.

So the question here is, how do you see the private sector in a complementary way? That's the fundamental question; and how could that money be used. So in the middle of the chart, this is billions of rand. You can see the public sector spends about ZAR223 billion on about 49 million people and the private sector spends about ZAR200 billion on about 8 million or 9 million people. It's an out-of-pocket expenditures you can see there. So let's just think hypothetically if you were the most draconian, and you said let's put all the money to go into one pot, so simply added together, what you get is ZAR469 billion, right, in one fund to fund healthcare for all. That's obviously socially desirable and very egalitarian mindset, but the question is how would you achieve it? The only way you could do that would be to tell people in medical schemes, don't have medical scheme contribution.

We're going up your tax rate. So we've done the work on the right-hand side on those lines to illustrate what tax rates would have to go up by to fund that pot. So simply put, if you wanted 100% in the pot, right, you wanted the ZAR469 billion, you'd have to up personal tax rates by about 40% to 50%, right? So that's what we'd have to do. There's no magic to that number, that's the complexity here. On the right-hand side, it tells you what you would get. So if you took the whole pot there and you now spread it across all, we found that the average goes from ZAR372 in the public sector to ZAR576. The problem you have, that's obviously a good thing for people that aren't in the private sector, but those who are formally employed would see their health care go from

ZAR1,700 down to ZAR500. So put differently, without any efficiencies and all kinds of arguments, the complexity shape would be very difficult, I think, to the economy, to up tax rates 40% and cut healthcare by two-third, and if you can find ways to do that right.

So making the point that at its stark extremes, the stereotype of not doing anything and not building an NHI is not acceptable given the inequalities. The other extreme of just thinking in a draconian way, you put it all together is also very difficult to do. This is a complex process to achieve. There's nothing cynical about this slide, just trying to illustrate the complexities, the need to do this, but to do in a responsible way. So we're trying our best to obviously be constructive in every regard. I think Discovery Health, Jonny Broomberg is here with us. He has been out there making a lot of very clear comments about our desire to be constructive partners in this and to help in every regard. We think it's an important process to go through, this is going to be a multi, multi decade, I think, process. Having said that, I mean, our strategic plans, we've made it clear, are not differing at all. We see our role continuing as it is and all our planning, all of our capital allocation, we'll continue to pursue what we're doing.

Let me turn to Discovery Life and make a few comments about Discovery Life. As I said, of course, the claims spike is pretty fundamental. As you can see the normalized operating profit going down by 9%, driven primarily by that spike in claims. But the rest of the business I think is performing quite well. Core new business, up 6%. Market share has gone up to 31%. So it is now bigger than double the next competitor and that I think it's quite important. A few comments I'd like to make. Embedded value grew by 9% to ZAR33 billion. So some of the qualitative issues. On the mortality side, you can see we're at 123% of expected. I think at the previous results in detail showed a small number of very large claims created that spike, a lot of work was done by the team, reinsurance structures were structured in place, and you can see how that is somewhat ameliorated. Visibility claims and particularly income protection claims, elevated very bad times. There's a slight elevation.

But overall, we're quite comfortable how mortality and the whole kind of the claims experience is playing out. In the case of the embedded value, a critical issue is experience variances and non-economic experience variances. It's crucial that we generate positive experience variances. As you can see in the period, we're quite strongly negative over the first half. We kind of cut that down by 90%, so there's still small negative experience variances. But I think they're flipping positively. We're very confident that in the next year, the work done on the business. And we invite I think people here to the technical session in a few days' time to see the work done in the Discovery Life. It's quite remarkable in a whole range of different areas that I'll touch on.

On the actual business, I wanted to kind of make the point that there's considerable narrative about Discovery Life, the valuation, the embedded value. And I have to say to you, we listen to this very, very carefully. We listen, we learn, we value external validation, critique, etc. And we are very careful in how we build the business and how it grows, but I would like you to hear our view on a few of these important issues, right?

The first thing to say is that the Discovery Life is a different business. Now I'm not suggesting that of course it defies any economic logic, quite the opposite. Just making the point that no one has done this. This is a business that is mono-line. We do one class of business, long-term whole life insurance with upfront acquisition costs. That's the nature of the business, creates a very different set of economics. It's the first point to make.

The second is the business itself is very, very different. This is the value proposition. We think that kind of the traditional flat premium, not fed by inflation, fed by age and behavior is an Old Star model. You underwrite a person at a point in time. You charge them the same rate for the next 30 years with, in fact, we know now that 60% to 70% of the risk is behavioral, so the kind of the dynamic price shared value model, which companies around the world and I'll touch on a bit later, are adopting, is this idea that, give people a discount in a way and assume their select lives, get them to behave healthily and let their premiums adjust downwards or upwards based on their behavior, creates a very different dynamic.

And the four things that I think are critical that the model should create: Number one, better market share, you're more competitive, you're offering a very different value proposition and you are cheaper. If you do that, you should get increased sales, and that's a good thing. The second is that the people that are attracted to the model should want to pursue a healthier lifestyle, so your selection on the way in should be better. You should get better behavior while there are with you, they should be engaged and they should relate to all kinds of spin offs in terms of longevity and health; and then finally, a critical issue is the lapse rate should be lower, but critically, it should be lower for healthier people. This is a fundamental issue. Because in the traditional life insurance model, the whole (inaudible) getting bogged down with kind of actuarial science, but the whole idea of selecting ultimate live is the assumption, we know this statistically, that people that come in are healthier, but over time, the pool gets worse because healthier people leave and sicker people stay. In this model here, we expect opposite to happen because you're pricing in people that are engaged, they should stay. And you're pricing out people who are not engaged, the people not engaged should leave.

So it's a very different set of dynamics. So hypothetically, better sales, better selection, low mortality and better selective lapse rate. That's what we expect. What are we seeing? Out of the data, the data now is two years old. It's not really debatable. The effect has been absolutely tremendous. In terms of market share, I would argue that the sales has been tremendous. A start two decades ago against competitors that are, in many cases, centuries old, we've really dominated the market. I think this year coming up now, we'll be over 33% market share. So one in three policies sold will go to Discovery Life in this year, we expect. In terms of selection, you can see the fully 65% of people applying for insurance or other select or lifetime select in our rating. Amazing, the mortality is 20% lower at the blue level and dramatically lower at the engaged level. And then the critical issue, second from the right, is the mortality of stayers is dramatically lower than the mortality of leavers, so we're getting a very, very positive selection cycle.

And then finally and critical, this dynamic is important, while they're healthier, the lapse rate goes down. So people are in a diamond or gold class, lapse rate are at a much lower level. So if you summarize this, and I think this is important to you. So my important point, the duration effect of lapses is what we see happening is that if you follow-up on what does the actual data from people joining in 2009 to how they are in 2019, what you see is the percentage of blue goes down, the percentage of gold goes up. And that happens by the very selective lapsation process I am telling you. People that aren't engaging tend to kind of leave, people that are intend to stay in greater number. So distribution of status tends to change. The effect of that is in the middle of the chart because the people in the high statuses don't leave. Your discounted mean term goes up with status. And therefore, the discounted mean term of the portfolio, instead of being 10 or 11, goes from 12 to 14, we're currently seeing DNTs of 40% higher than the standard book would be. And this really is a function of this nature of people that are healthier, staying and going up in engagement and lapsing less. That's just what's happening.

So a summary of that is quite an amazing outcome. There's no assumption to this is what we see, 31% market share, 20% lower mortality, last aspect in our book is 81 years old. The lapse differential between healthy and sick is 70% and our kind of our terms are 40% longer, that's what you'd like to see. We want people who are with us longer and highly engaged. That's the idea of the model and it's exactly what we see. So it's kind of no debate about this. Where I think the debate comes, where I think the attributes are different. There's two important issues of how the model works. So I'd just bear in mind, as I said to you, this is quite a unique model. We don't have a mix of different products. We have a monoline business of setting whole life on this basis. It is two unique attributes that both present considerable differences in risk. Risk that we see, risk that we manage, I have to say. And risk we are comfortable with. One is kind of the cash generation, the attributes of how cash emerges. The second is how you value the business. The long term, if you were to have manage long-term cash flows like any insurance business, but what value would you put on it. Let me make a few comments.

On issue of the cash, I hope that this may be an old argument, but I'd like to put that to you anyway. There's often kind of the narrative Discovery Life eats a lot of cash and doesn't generate a lot of cash. Just to make it clear to you, if you were theoretically to start a life insurance business with a profit margin, a long-term business with upfront acquisition cost as we have them, you project that the effect is you will not see cash for 25 years. So if you've got 10% of your compound or 15% of your compound, it will take 25 years for the business to generate cash even if you're profitable. That's a mathematic solar, just is a function of paying acquisition costs upfront, recovering it over time. And then the next year, you get the next acquisition cost, and that's just mathematically what happens. There's nothing complex about it. That's the reality.

Why we do it then? Well, our view is that the asset we're building is hugely valuable. So this is about taking a lot of capital, investing it into superior return. That's the business model, so that's the first point. It's an explicit choice. In the middle of the chart, there's a lot of work the team has done to let cash emerge over time and something I thought that's important to reveal is that as the shareholders, the group, we're putting ZAR2.2 billion in total into Discovery Life. We'll receive that back with 8% return. So regardless of what goes on inside Discovery Life as Discovery, we've got our money back with 8%. But in addition to that, we have the embedded value wrapping around that, of course -- sorry, within that is the negative reserve. So all in all, we are very happy as an investor into the business as to how it's performed, notwithstanding if the cash generation is a secondary priority for us. That's the first point to make.

The second is on the valuation of the long-term cash flow. This is obviously a very, very complex point, but often we find accounting issues and embedded valuations often get mixed up. Just to make the point the way we see it. And again, this is our view. It's not the absolute definitive issue. We're having a technical session in a few days time. We listen and learn. But to make a few important points. The first is that we need to separate out the embedded value from the balance sheet value. They are two different issues. So on the balance sheet, you will see there's insurance contracts and insurance asset, which we call the negative rand reserve. That is the value of that future cash flows to pass back to the acquisition costs that we've incurred. That's not a theoretical numbers, it's an actuarial present value number and it's valued on a very conservative basis. In the balance sheet that sits at ZAR30 billion, there's a further margin above that set by Tier 1 and Tier 2 margins, it's a statutory requirement.

So this is set in a very conservative way. Just bear in mind, we've spent ZAR40 billion on acquisition costs. So this asset sounds like a lot of money. We spend more than that on acquiring the business, and that's why the asset is very important, right? But the asset itself is not quite bulletproof, but it's set where the margins can sustain a one in 200 year stress. So put simply, those claims that we had in the first six months, I think it was 22% above expectation, those margins are ZAR20 billion that are not on the balance sheet could sustain those additional claims forever. So the asset is valued, I think, in a very conservative way and the experience variances on that are always positive because it's valued in a very conservative way. That's on the balance sheet, in line with our accounting standard and should not create any discomfort whatsoever, quite the opposite and.

We are comfortable with the process of doing it. It's the second issue that I think is maybe more complex, the embedded value. The embedded value is not a balance sheet item. The embedded value is a valuation that people do what we do to put a value of the economic value of the organization. That's done on a best estimate basis. There's nothing about margin in that. We're trying to put a realistic value on the economic process of Discovery Life. And that will vary, experience variances will vary from time to time. I showed you at the heart of the presentation just how the variances were negative. They have been positive in the past, as you can see from the table that, over time, they add up to about 0. So the embedded that hasn't been dramatically off. The assumptions, and in terms of percentages, those assumptions, those experiences variances have been in a corridor of about 2% above and below the embedded value. But on the actual assumptions, I mean, obviously, the most important assumption, this is a long-term cash flow process, is the lapse rate. What percentage of people are going to stay with us from here to here, that's a fundamental assumption into how conservative you are.

Now the embedded value is meant to be done on a best estimate basis. What we're showing on the left-hand side is our lapse rate in blue, so that the data actually shows over 17 years. You also have lapse rate of specific ages to understand it. In the embedded value, the dotted line is what we use. So while we're trying to be best estimate, the actual lapse rate in the EV is slightly higher than we're seeing actually, so there is some margin in that, but we are comfortable with that as a basis.

What is important is people often think when you project out, you just project out 20 or 30 years. Bear in mind, that projection is an actuarial projection. We project that with the probability of people lapsing, so put differently, what we assume, the average policyholder joins us at 45. What those lapse rate assume is by 65, 80% are gone. So the lapse rate in effect, the translation of lapse rate into reality is we assume in the embedded value calculation that of people joining at 45, 80% of left us by age 65. We're seeing a lot of less than that leaving, but that's the assumption in the embedded value. We flex it up and down, so if you flex it up, you are going to see 85% are gone. That's the process of projecting out those cash flows. So we give ups and downs and we try this to disclose what we can and then we let the investor decide what the embedded value should be, so that's the process we go through. We're hopefully very careful not to confuse kind of the embedded value process with a balance sheet process, the accounting policy.

In terms of management actions, as I said, these two attributes, the cash and the projection of long-term cash flows, is something we seek. That's the nature of the business. That's how we do it. We manage it very carefully. We are completely aligned to making sure that the experience variances are positive. A lot of work has taken place in half two to get into where they need to be, but you'll see if you come to the technical session that will be held, there is a huge amount of stuff that we've done. We've changed product design, we offering from age 65 going next year, certain ability to flatten out your premium rates if you're engaging in Vitality. There's all kind of structural changes to the Vitality status to make sure correlations are right. So we continue to do that throughout the duration of Discover, I think that's how the business works. But I think trying to get the point across to you is that it does have unique attributes. We see closures, we seek to manage them. And I hope that is fairly clear.

Let me turn to Discovery Invest time, I'm running out of time, so I'm going to kind of move quite quickly. Just to make the point, I think in a pretty tough market, the performance was of a good new business, up 6%. Assets under management at 12%. Profit is actually quite substantial, approaching the 1 billion level, so up 9%. I think, amazingly, the shared value formula of giving people this idea of boosting their funds if they behave appropriately, so save earlier, save more, draw down less is having an amazing effect. I mean, we're quite amazed with the effect that the lapse rate were down during this period. We've expected very difficult times people to take their money out.

Markets are difficult, inverted yield curves, etc, we're seeing a reduction in lapses by 32%. But across the board, we've seen people longer terms to retirement, drawing down less, higher engagement in the program, so I think we're very comfortable with that. And then just to make the point, the kind of the core value proposition is if you engage, you get a boost your funds. And if you kind of translate the boost to your funds to the underlying fund returns, the net effect is that most of our choices get people into the top quartile. So the effect of that behavioral boost is very, very substantial. So I thought this pie chart is quite interesting. But if you look at our client base, across the board, 71% of our clients, or 81% are engaged clients, were in the top quartile in terms of the net effect of all of this on the economy investment performance, so really trying to give us sort of shared value into investments and into the effect of investment returns.

Let we turn to Discovery Insure. As I said, you can see the new business down 1%. We do expect quite strong growth this year. There's a lot we're going to do there. But there was an explicit focus on quality. I'll take you through very briefly. Total premium originations went up 18% to just over ZAR3.2 billion. The combined lost ratio -- the combined ratio has come down nicely about 3% down to 95% hence, generating the profitability, up 128% so that's kind of quickly emerging out of (inaudible) into an established business. The actual focus on quality did have an effect on new business. You can see if you look at our different channels, IFAI agents in the other three blocks. We actually had good growth elsewhere, but we actually cut out certain brokers if we felt were poor quality, certain broker call centers we felt were offering poor quality business and accepted kind of a downturn in new business in return for the quality. We've seen the quality come through, you can see that, in fact, 54% of the book is in our highest plan, so we're actually attracting better and better, more expensive, higher quality business and a massive increase in people engaging in the behavior model. So from the get-go now, fully 87% of people engage in the driving better registering in being part of the process.

I wanted to make a point that I don't have the time to do it in detail, but the dynamics of the Discovery Insure model is almost exactly the same as the Discovery Life model. People come in, they get engaged, if they get engaged, they get rewarded and that means they engage more and they don't leave. People who don't get engaged or are poor drivers tend to kind of blow off and out of the system. So you get this very strong behavioral duration effect. Over-time, lapses come down. The combined effect of the behavior and that engagement brings the loss ratio down and so that -- all of that stuff brings the combined ratio down, so this is an interesting analysis the team did. You can see how the combined ratio went down from a few years back, we were loss-making down to the 95%, as you see today. But if you take just the durational effect, the expected growth, the expenses, how they should go down, we see a kind of a confidence band around the blue line, we expect the combined ratio to go down to 91% to thereabout by 2023 with a confidence band, as you can see.

So the business I think is quite meticulous in its mathematical kind of roll-out of the model, it's giving us confidence about how that could kind of go down. There are all kinds of variations around it, whether this that and the other, how new business plays out, but it's quite strong confidence about how that will go down and how the profitability will emerge and therefore the growth in profit, we think can continue quite strongly going forward.

Let me turn to Discovery Bank. I'm taking a lot of time here, hope you are following me. Let me turn to Discovery Bank and make a few comments. In terms of the rollout from a time perspective, I have to acknowledge it has taken us a bit longer. The key issue is that the plan some years back is that we got our license towards the end of 2017, we launched in November 2018, and then came into market by March, April 2019, that's a few months ago. The truth is that if you look at the two plans, the test phase took us a lot longer. So we thought we'd be in the market by kind of March, April. We actually got going on I think in the end of June, and only really have been out there July and August. That's the reality. The team, I think, is meticulously being focused very much on the customer journey and felt that, that should be really, really good.

We think it's a trade-off worth making. And that's what we did. If you look at the actual spend on the bank, this is not about P&L, capital profitability. This is simply checks are written, how much many we spent. If you look at the spend on bold, test, run and infrastructure, the total is about in line with what we said, that's kind of where we're holding at the moment. The board cost was slightly more, took us a bit longer. The effect is, I think, a bit more functional than we thought. There's a lot in Discovery Bank, if you actually are a client to the bank. But the other buckets, I think, are largely in line, giving us a total spend that's not far off what we expected, so we're not uncomfortable with the spend. Being a couple of months late kind of shifted the business plans slightly that will effect internal rate of return unless we can catch that up over time and that's, of course, important.

A few months back, I think, since we spoke, we did a kind of a press release on being out in the market, acknowledging we're late, but saying we're trying to get to like 500 clients to 1,000 clients a day. This is not a light bank. We're not looking for hundreds of thousands of accounts that don't use the bank. It's about getting people to actually use the bank, deposit money, borrow money from us, et cetera. So if you look at the last two months, I think we're quite pleased with the rollout. We're getting to our 500 to 1,000 quite comfortably now. 22,000 unique clients at 50,000 accounts, I think we crossed barrier 200,000 today in retail deposits. We granted 900 million. I think it's climbing quite quickly. You can see the spend in the blue, below that about 20%, 25% of the limits granted in spend, not unlike the rest of the Discovery Card, so we're quite pleased about the -- this is six weeks really of data. It's early days, but pleased about the early kind of kind of roll out.

The other point to make, just a study that we did. So this is an independent company, but getting their journey right was important to us. One of the key things of the bank is when you kind of when you go online and you do the on-boarding, it should be quick and easy and simple, the whole thing should be on the face of mobile and your card gets delivered to you. Venture One is doing that and we kind of benchmarked against the other banks, you can see that we are, I think, dramatically quicker than many other banks. It can be a complicated process and we are working hard to make it simple, but it's a very, very impressive piece of technology, getting people on very easy and getting to functionality, hopefully is clear. The one thing I have to say is that I think there's work to be done to getting people to understand what the bank does, how it works, what features there are and that's a lot of what the marketing team is busy with it. We started the advertising campaign just two days ago, you may have seen it, and we expect that the rollout to kind of accelerate.

On the functionality, I mean, the bank really is loaded with functionality, idea of dynamic discounts, dynamic interest rates. There's a lot that we're doing at the moment that we're rolling out next week in our annual launch. I thought I'd highlight one or two things to you. The one is kind of a purple category. So importantly, we've had the purple card. That's been a very limited card, just a few hundred people. We're introducing a purple category above black. So for people earning, I think, over 2.5 million, that's going to be a specific category of the bank. We're rolling out with Apple and iStore, we spoke about this a few months ago, but for roll out our very, very functional way to the bank should appear on the face of your mobile. You go to the store, you get the Apple -- the new Apple iPhone basically for free and depending on your behavior, that's how you'll pay for it, very much like the iWatch, the watch benefit in active rewards. And then critically, selling at the research showed, we've actually created this currency of Discovery miles. So we made the point, I think, you may have heard it that we're trying to create this ubiquitous currency called Discovery Miles that really you can earn through health, doing healthy things, physical activity, through driving responsibly, or critically if you manage your money well. And the idea here, this is really very much the composite make of the idea that when you're part of the Discovery community, through all of the behaviors in the group, you're doing it well, you're earning a currency and the currency itself should be remarkably accessible. So not a kind of a batch currency, but something that stays with you real-time. So you should be able to earn it through money behaviors, through sending responsibly, through active rewards. Every time you close your ringer, you have the ability to earn miles and active rewards so it really should be a fun thing, which you can earn money by doing healthy things. And I think that's actually a very powerful idea.

And then the principle of the actual spend of the money should be real-time and I actually wanted to show you if I can, this is my own bank account, so I hope please don't, let me just clear that. She doesn't look as good as I was hoping. I don't know what happened this morning, but just bear with me a moment. So essentially, this is the face of my bank of purple and diamond, status which is valuable, as I've said before, and I can kind of thumb my way through the carousel of all my different accounts, as you can see. But it's very exciting now, is Discovery Miles is an account, right? It's money. So it's real-time earned, and it's on the bank rails. It's not a kind of a loyalty currency that is what we we're getting to, is this will be a real-time currency on kind of the Visa bank rails, right. And what's exciting about is you touch on it and I'll go into it, it's an account, right? It shows me what I've earned those miles on. Again, please don't look at what's over there, but something should be healthy things, right? So Woolworth's spend. So far so good, okay?

So I earned these miles, but I think what's exciting is the visibility. It's a currency. So there are three things I can do with it. I can transfer, I can pay and I can convert on a real time. I can monetize them just by touching a transfer, so if I transfer, I am going to push that button, I can decide what account it goes to, so I can put it into my credit card. I'll just say how many they are, I am effectively monetizing 1,000 miles. That goes straight to my credit card and it's gone, it in money form. I can pay with it. So I can pay my contacts with miles. I can pay people linked to their account. I can pay in-store with it by just in a sense deciding again I'm going to use 1,000 of my miles, I'm making this up, create a QR code, it's ready to go. What I think is really quite powerful, is I can convert the miles, right? So if I convert them, I could choose our partners that we work with and I can put into British Airways miles, SA, Voyageur, Emirates just by touching there and deciding how much and you have those miles. So the whole idea is creating a kind of a completely real-time currency that really sucks in I think both on the earn side and the spend side and on the earn side, the ability to give people through doing healthy things and other things, the ability to earn miles and the liquidity to access from the face of mobile as you do with any other currency, more functionality will follow. So on the bank side, I think we are quite comfortable.

Let me turn to the UK, make a few comments. I think that the overall business has grown well. If you add the numbers up together, the new business are 10%. Lives covered up quite substantially, up 21% to over 1.2 million lives in the UK; profitability, up 15%. The combined EV of the UK is nearly one-fourth of the group. But I think in the UK, what you will see, again, in October, hopefully with no massive Brexit fallout is we're rolling out this different of the customer composite. This is something we've spoken about for a number of years, something that has taken a lot of time to do. But we think the opportunity is quite substantial here. The UK market is quite fragmented. So a different distribution channels, insurers are in specific markets, amazing on the bottom left hand side, the cost of acquisition is so high, 200% to 300% upfront commission, very complex to do. So the cost of selling insurance is high.

And then in the middle, if you look at our Vitality Health clients and Vitality Life clients by the Mosaic segmentation, you find they're quite similar, quite different to the UK population of total, but amazingly, only 1.5% of our client base has both Vitality Life and Vitality Health, so the opportunity is substantial. Only 5% of our brokers have ever sold both, so the ability to bring the two together to a composite will create a very different dynamic. So in the process of launching a very different composite stacking rewards together, bringing new partners in it will do that. You'll see that roll out in the next month, hopefully during October month and we'll communicate more to you.

On the businesses themselves on Health, on Vitality Health, the performance has been up in staggering. Everywhere you cut the business, 50% growth out in new business. Individual business where the margin really is, a 25% growth rate; lives covered, up 11%; operating profit up a strong 22%. I don't see that reversing easily. If you look at the loss ratio continues to be at a very low level. Lapse rate continues to be very low. All the dynamics I mentioned about engagement in lapse rate takes place inside Vitality Health; cash generation, very strong, ZAR384 million out of the back book and after investing in new starts and all the different stuff that we did, given about a ZAR15 million net cash flow generation.

In the case of Vitality Life, I think, a much more difficult kind of tale of two cities. Vitality Life, I think operation is running well, except for lapses, I'll touch on that. But I think the real issue is about just rates of interest reducing. It is an incredibly complicated thing to deal with as a long-term insurer. This is about kind of reinvestment rate to premiums. So if your rates will just go down, it really makes things very, very difficult. If you look at the core metrics, I think it's pretty impressive, new business up. We've been very careful about how new business is priced, up 5%. Lives covered up 16%; operating profit up 7% to just under GBP32 million. The core kind of operating measures are, I think, pretty good value. The VNB margin has been pretty stable, the value in-force is slightly higher. The claims experience below expectation. The key issue for us has been the lapse rate. I mean, it's an environment where brokers are going out of business. It's an environment where I think we've been too permissive about allowing brokers to drift from four year commission terms down to two year commission terms.

So we kind of took a pretty harsh view over the last year, particularly last six months. We took a cost of GBP6 million of lapses and we cleaned out a whole part of the book, outstanding premiums, made a decision to clean it out once and for all, costing us a substantial GBP13 [Phonetic] million. You can see in the lapsed section of the business, so not something we're happy with at all. I think we have some comfort that the team is getting on top of it, but work to be done. But I would tell you that, of course, the main issue is rates of interest, we have to watch it very, very carefully. There's a lot of capital plan revenues we're doing at the moment. We feel fairly confident we'll operate within the capital plan as we go forward.

Finally, we talk about the partner market areas, Ping An Health in China and the Vitality group globally. I'm going to be very brief here on Ping An, just to make the point that the growth continues. I think the quality continued. You can see new business up nearly 80%; written premium, up 84%. The business has an internal goal of getting to RMB10 billion of premium over the calendar year, so that's ending December 2019. I think there's now a considerable amount of confidence that we will achieve that. We can see the profitability growing. The margins are fairly low. You can see profit inside the business and profit out of the eye expenses are managing part of the business growing by like 60% plus or thereabout. As I said, we're not chasing profitability. We really are chasing quality. If you look at the loss ratio, it's been very, very low. There has been some basis changes to some calculations, but it remains very stable, very low. A lot of work has been done by the team.

The retention rate has gone dramatically high, and in fact, above target. But the critical thing is that when you grant 80%, it's kind of physics when you get to like the speed of light, things change to relativity. I mean, when you're growing at 80% a year, the new business strain is considerable, right? So these are kind of annual contracts, but just how this works is you pay the commission upfront and you get the premium over the year, so just the strain of that six months of premium from an accounting perspective, when you're growing at 80% a year, dampens the margin. The other point that I think is valuable to mention is that there is no -- there is kind of no expense spared on technology and infrastructure growing at this rate, the team is pretty clear. And Ping An group is clear about investing in AI and technology.

So on the right-hand side of the chart, you can see there's been a 10 times spend in technology spend. They money spent on expenses, in fact, has grown faster than the premium. So it has to be said, I think in our deliberations with Ping An, I think we've been fairly comfortable. We've pursuing growth in quality, not profit in the early stages, so this is a long-term evolution of profit. We feel comfortable with how it will play out. There continues to be a focus on distribution, Ping An Health opened a branch in Chongqing. That's a very important area. We continue to grow the distribution channel. You can see the scale of these cities, each of them is kind of like a nation state. We've had tremendous success of Ping An Health App; in just two years, it has like 13 million to 12 million users. It's attracting great quality lives, buying high levels of cover from us and they're younger. And then importantly, I'll leave the slide with you, but we're using for the first time Vitality Active, which they call Hello Run as part of the app, where that's kind of the principal of getting people onto the app, actually interactive to be kind of physically active. So we're kind of very pleased with the performance of Ping An Health and it continues on its growth trajectory.

Let me talk in end of the Vitality group. Performance, I think, is really good. The amount of premium that it's attached to across all of our partners has grown by 155% up to ZAR12 billion, about $850 million. Revenue to Vitality Group up 92%. Operating results (inaudible) profitability, up 71%. And that membership has grown very strongly over the period. The Vitality group is trying to get value, create value in three distinct ways. One is through our kind of call the national champions, companies like Manulife, Sumitomo, AI, etc in their markets. Certainly a scale working in smaller markets, but with great companies and trying to scale it significantly in a much more limited product offering, not bespoke, but repeatable and execute in a fairly quick way. And then adjacencies attained with Aetna, Walgreens are just rolled out, we are in the process of rolling out and others will follow, working closer with Apple on some of those.

And I think through these few approaches, we think they will get considerable value. I think in the case of the national champions, it's important to say that our hypothesis is that we should earn money from the core business of what they're doing. But we think that if they do well, additional opportunities tend to emerge, and that's what we're trying to do. We thought giving a case study of one. We've never really shown the extent of how the engagement has worked. But one of the companies I thought worthwhile showing is a case study is John Hancock in the US. This is probably the most competitive, difficult life insurance market in the world. The statistics here show you how profound the Vitality share value model has been to their business. The buy-in has been tremendous. NPS scores are 8 times better than their non Vitality book but you can see the actual market share that they had a 10 times growth in the new business in the Vitality integrated product to the standard product. So it really is dominating in a sense the growth of their business, so the statistics coming out are quite remarkable out of John Hancock. I thought it's important just to have from the CEO and President, Brooks Tingle on this, just to give you a sense.

[Video Presentation]

So not trying to give you a commercial, but trying to give you a sense of within each of our partners, the fit we think is profound and coming out if you think opportunity for growth with them is real. On the other extreme, the franchise are very different. This idea about scaling very quickly. We've worked hard on being able to repeat the Vitality model in smaller markets on a very standardized platform. You can see the time to build and the cost to build is coming down dramatically as we move forward. Key to that is part of the technology Vitality One that we're investing in. We have three smaller partners that we're busy with. There are 27 in total that we're kind of in different parts of the pipeline, as you can see from the chart. The idea there is we think we can scale it significantly. There is opportunity within many markets. But in isolation, they can add considerable value, of course, to us.

The other point I did want to make is just the spend on Vitality One, I can't underscore, and that's how important this Vitality One technology is to us. The ability to have one piece of technology across the world. South Africa, the UK, all of our markets that we're working is remarkable. If we can do that, create one product change goes across all markets and other markets themselves to do something on the federal basis based on their needs, that what we're trying to do. So Vitality One is about creating a scalable platform. We spent already ZAR653 million on it. It's growing, I think, very, very nicely, but it's quite a unique piece of technology. I want to give a sense of just what it's trying to do is, it's a very sophisticated capability that is now working in markets like Japan, where I think the expectations are remarkable. So a director of the individual, it has all of the different aspects that can be kind of chosen and built into the Vitality program. As we were last telling you, we call gateway that we built in, it allows all of the health tech to sit on the Vitality chassis.

On the other extreme, we have the vitality data exchange, all of the stuff you do with physical activity, whether it's (inaudible) Apple, whatever goes on to that platform that allows us to offer active rewards. We've done a huge amount of work on fraud and understanding behavior on the Vitality Exchange. If you've got your dog running around with Apple Watch, this is the cloud that will come to get you with the handcuffs and maybe some other instruments, but really trying to get the stuff standardized, repeatable, scalable and the back of the actual capability really is what I tell people is like a Netflix stack, is using the best technology we can and critically, all of it kind of has the ability, to have all of the products here, and I think this is a critical thing that when we develop the Apple Watch kind of benefit or active rewards 2.0 that has mental well-being. All of that stuff can be sent across the World kind of instantaneously, that we're trying to achieve. So scaling global something as complex as this requires a very different kind of technology, this has taken us a number of years to get to. Credit to the team. I think the reality is kind of getting together.

So maybe summarizing, just like the point that if you arrange the businesses in the four strands, I think we're doing a lot of work across the board. I think we're pleased with the progress across the board. There's a lot of work to be done. There's a lot of challenges and risk in all of the stuff that we're doing, the focus in SA on the composite does pivot around the bank. The UK, you'll see a launch in the next month. Ping An Health continues to grow. Vitality Group is growing very nicely, but a lot of work to do. No hubris at all, there's a lot of challenge there. And I think if you re-project that again for you this chart of how we see investment in new business playing out. You can see it staying quite high because the bank has been delayed. We see that investment staying fairly high for this year, but over time coming down. We see the earnings growth potential, we still think we're on track to achieve that. We see leverage coming down. There are all kinds of risks to the plan. I think the most important one is rates of interest the UK, we have to manage very, very carefully. But in summary, what we've tried to achieve, as I said, I hope it's clear, a very tricky environment we try to grow, to be prudent. We're trying to grow really well in a very disciplined way. We're keeping a very careful eye on the startups. We're focusing hard on the shares value model and the four strands, I think, are largely intact.

That is our presentation. I thank you very much for being here. As I said, we're having a technical session on Friday. So for -- we're happy to take any questions here that you want. All of that team are here. But as I said, on the technical stuff in addition, please come if you can and we will discuss all of the complex Discovery Life valuation issues. We've worked hard on trying to get every single critique over years and years and years and actually illustrate all of technical stuff for that discussion and debate. We're really trying to learn.