Capital Markets Day

Company Participants

- Andrew Brem, Chief Digital Officer
- Andy D. Briggs, Chief Executive Officer - Aviva UK Life & Chairman - Global Life
- Blair Turnbull, Managing Director - UK Digital
- Euan George Munro, Chief Executive Officer-Aviva Investors
- Jason Windsor, Chief Capital & Investments Officer
- Mark Andrew Wilson, Group Chief Executive Officer & Executive Director
- Maurice Tulloch, Chairman Global General Insurance and Chief Executive Officer, Aviva UK & Ireland General Insurance
- Thomas D. Stoddard, Group Chief Financial Officer & Executive Director
- Unverified Participant

Other Participants

- Andrew J. Crean, Analyst
- Andy Hughes, Analyst
- Ashik Musaddi, Analyst
- Barrie Cornes, Analyst
- Blair Stewart, Analyst
- Greig Patterson, Analyst
- James A. Shuck, Analyst
- Jon M. Hocking, Analyst

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Okay. Good morning, everyone. Welcome to Aviva and our 2016 Capital Markets Day. Today's session will focus on two key things. Firstly Mark and Tom will outline some strategic and financial information and then we'll move on to our businesses. And the focus of today is the UK, which as you all know is the dominant contributor to group earnings and cash flow.

What I will do, just from a procedure perspective before we get started is, there are no tests scheduled for this morning and so, if you do hear an alarm, it will be the real thing and so, please have a look at the instructions on this slide.

With that said, I'd like to hand over to our Chief Executive Officer, Mark Wilson.

Mark Andrew Wilson {BIO 7102576 <GO>}

Well. Good morning, everyone and welcome to this Investor Day at the Aviva HQ. Of course we nestled here right in the heart of the city of London. And London, I might add, it has been I guess a little bit dismayed and somewhat introspective over recent results in the UK referendum and I guess, indeed for the several months leading up to it.

Now to quote a delightfully British phrase, it is a statement of the absolutely bleeding obvious to state that these are extraordinary times. And I think many commentators have struggled to find the right words to capture what it all means. And I think the market and commentators' response in the first few days, or I guess first two weeks after the referendum, consisted mainly of words of the four-letter variety. But despite this environment, now is when the benefits of the work of the last few years at Aviva really show. Our balance sheet, our capital brands, scale, diversity and our resilience to shocks has all of a sudden become a rather helpful advantage, and I think it is really a competitive advantage to us now.

Actually before I start out I'm a bit - I missed, I should have welcomed you to this wonderful new auditorium. In itself it has gone through quite a transformation over the past six months. As it wasn't long ago it was in fact a disused car park and a basement and I think it turned out a little bit better than I expected. There was a few suggestions as we walked in this morning that some of you wanted to watch Portugal-Wales this evening or the Wimbledon but maybe we can arrange that as well.

But let's start by providing some context for today's presentations. We've come long a way over the past four years. We fixed the balance sheet and certainly Friends Life transaction helped with that. And in these challenging markets, markets that I think have been really a perfect storm for many insurers, our resilience has certainly been proven. We're no longer capital constrained. And we can finally run our quality franchises the way they should be run and that has been a longtime coming.

Our results have been consistent for some time. We've reduced expenses. We've improved profitability and underwriting and these objectives in what we've been doing still continues on from here. We've reduced our footprint. We have a consistent strategy and we have strong franchises, something we're going to talk about a lot today. We're going to give you the detail and the data that you need to see that. But it certainly has not been easy. And I'm certainly not saying that everything in the garden is rosy. And indeed, Brexit has clearly been unhelpful in terms of adding a layer of uncertainty to the whole economic outlook.

But we also understand you have questions over our ability to grow. And you have also told us that we are too complex, and I agree. So what do we hope to achieve today? Well, what are we here to answer? We're actually here to answer the questions that you have asked. Our primary focus is on the fundamentals - how can we grow earnings, what's the outlook for capital generation, what does this mean to our dividend and how strong is our balance sheet?

We'll also provide a clear indication of our philosophy when it comes to capital management. We'll talk about the quality of Aviva's franchises, which we certainly believe remain well underappreciated. And overlaying all of this is the question of Brexit. And given the apparent absence of any political plan whatsoever and the resulting investment market volatility, there's obviously heightened uncertainty in the macro environment today and we have taken this into account.

We'll also answer some of the questions on digital with respect to its scale, its margins, and how you can measure our progress, again questions you have asked. But the bulk of today will focus on our biggest business and our home base, and that's of course here in the UK. And I might add, we are also aiming to have a separate Investor Day later in the year in our high-quality Canadian business and then we'll hopefully we'll have another one on Poland or one of the other emerging markets early next year. So there is a bit of pressure on our IR team to organize it.

So I thought I'd really start, just start at the high level. What's my view on insurance? You know what, I've said this before, but insurance is all about diversity and splitting risk. That's what insurance is. And for me and for Aviva, diversity is about being multi-line, multi-country but doing that in a focused and disciplined way.

I believe that the decade of mono-line, single country insurers has come and gone. And in the digital Solvency II world, I believe this is now the decade of composite insurers. And we'll cover why a little bit later. But on that note, let me turn to our strategy. Despite the uncertainty and this extraordinary environment, we have maintained strategic continuity. We want consistency here. Our overall thesis remains one of cash flow plus growth. And the strategic anchors that underpin this thesis, they are also entirely consistent. You won't see any change in that today. In fact you'll see much more detail – true customer composite, digital first, and not everywhere.

So who are we? What do we stand for? What's our identity? We're going to sum this up by saying British champion, focused composite. I believe we are uniquely positioned as a British champion and a focused composite. A clear leader in the third largest insurance market in the world and we often forget that. We're the only large-scale composite in the UK and focus only in other countries where it fits our British band and where we have a competitive advantage, markets like Canada, Singapore, Poland and even China, who is developing a very close relationship with the British government.

I've said a number of times before I want Aviva to be a blue chip stock, a stock that investors want to own for quality and reliability rather than simply for being cheap or because we have a good forward dividend trajectory. Now to do this, a strong balance sheet goes without saying. A balance sheet that isn't overly sensitive to interest rates or sensitive to spreads and we have that. We have quality core franchises and we still have significant room for margin improvement in those franchises.

In our biggest market the fact is we also have quite a significant cost and the capital advantage in our market. We will deliver consistent and reliable profits, that's our aim. We will also deliver capital generation and dividends. And along the way this surplus capital generation will give us options for future investments in return. And on the last point on the slide here, I'll talk about oaks, acorns, and apple trees a little bit later.

So what can you expect from us? Well, three key messages, three simple key messages, operating profits. We believe over the medium-term we can consistently deliver mid-single digit growth. Now Brexit does create uncertainty. But at the moment the impact is very hard to quantify. So we have to be pragmatic. In the shorter-term, mid-single digit growth in some markets may be more challenging but we still expect to grow. In India the entire belief (10:06), in this low – extremely low interest rate world, I believe any growth is welcomed by investors particularly when coupled with a progressive dividend and that is a very clear investment thesis.

Now over the next three years as we will show, we also expect our business units to remit £7 billion of cash. This supports a sustainable dividend. And in this regard, we expect to increase the dividend pay-out ratio to 50% of operating EPS, that's in 2017 up from 42% in 2015. And this is an important point. Now we note that's 85% of our earnings comes from in-force business. So it gives us resilience and confidence in our dividend trajectory. And also our current pay-out ratio, which is clearly lower than the market gives us room to move even following Brexit.

So let's talk about Brexit first in terms of structural issues. In structural issues, we do not expect any significant impact. So the vast majority of our businesses are locally incorporated and regulated and we have limited reliance on passporting of services across jurisdictions. Nearly all of our businesses in overseas countries are subsidiaries. And even our businesses like Aviva Investors, their funds are well structured for this eventuality.

Now we may have to think about how we structure Ireland as just last year we made that a branch, so we're going to have to go back and look that now, but really the structural issues are not a big issue for Aviva. And as many of you will know that EU is not even one single insurance market, each country has its own regulators and regulation, and even Solvency II is quite different country-by-country. So it's just in fact as easy for us to do business in Singapore and Canada, as it is in France and Italy. So our position in or out of the EU should not have a major impact in our ability to operate our businesses quite normally.

Second, in terms of capital, we have proven resilience and our capital ratio has remained near the top end of 150% to 180% working range. Third on earnings. There is economic uncertainty and that could impact trading. That's the downside. However, as you can see on the slide here, we do benefit from a weaker sterling, quite a bit weaker sterling, and also the diversity of our earnings. As you can see on the slide, this insulates us to some extent.

As you can see here, UK Life for example is 44% of the earnings and you've got many other countries that are substantial contributors. This slide here that is on the end of last week's exchange rates. But ultimately, there remain a number of unknowns right across Europe. I guess and for that matter, there is a lot of political unknowns in the U.S. and unknowns in Asia as well. And the path of politics and regulation I think is totally impossible to discern and the depth or duration of any setback to economic growth cannot yet be quantified.

So on to capital allocation. I cannot emphasize enough how much the dividend is paramount. We are committed to a 50% pay-out ratio in 2017, and growth in line with earnings thereafter. But there is also a capital story. We do expect to build up a surplus overtime and are likely to have additional capacity in our balance sheet as a result of reallocation initiatives, management action and of course normal capital generation.

Our expectation is, we may be in a position to consider capital returns and other actions in the medium term. But given the current market uncertainty, it is certainly sensible to take stock for the period and revert later. I want to see what will happen to the markets and where we are. And I make no excuses for this whatsoever, we worked very hard to rebuild our balance sheet and I make no excuses for prudence and ensuring our dividend is sustainable and growing. I think this is only what you would expect and what our investors would expect of us.

So, what about our philosophy when it comes to capital management. Well, first and foremost our intention is to maximize returns for shareholders. I guess that's obvious. But it's important where there was never one answer across all scenarios as recent events showed. But in this regard, dividend is paramount and when we do reach a point of having surplus capital in cash, we have a number of interesting options. We are committed to investing organically in our businesses, this just makes total sense. We will consider bolt on M&A if it strengthen core businesses, just like we did in RBC in Canada, but only if the returns are compelling when viewed against other options.

We would return capital to shareholders in excess of ordinary dividends. And we would also consider retiring some of our expensive debt which in turn helps our earnings and cash flow. Now, it's important to realize that these options are not mutually exclusive. Our intent would be to provide a balance of investment and addition returns in that timeframe.

Now, to I said, I'll come back to this in terms of oaks, acorns, and apple trees. This is how you should think of our portfolio of businesses, our geographic portfolio. We have a small group of very strong core businesses that are delivering consistent and growing profits and cash flow and support an attractive and sustainable dividend.

These are our oaks, they are therefore cash. Oaks are strong and I looked up Wikipedia on this, they're strong, they're resilient, they're dependable in a storm and they're uniquely resilient to disease. But a mature oak still gets growth, solid, sustainable, dependable growth, new shoots each season.

We also have acorns. Acorns in markets where we can deliver attractive long term growth, businesses that need to be nurtured in the right growing conditions. These are the future stars, some of which will deliver very fast growth and over time become material contributors to group profitability. In fact, our oaks - our acorns like Aviva Investors Singapore and Digital as you'll see later, already are significant contributors to profitability of Aviva. And finally, the apple trees, which needs some work to harvest, there will be some good apples someday, some of that will need to be pruned and restructured to bear the most fruit. There's still a lot of work to do on our apple trees.

Now, on this next slide, let's fit the criteria to our current portfolio of businesses and just focus on a couple now. Our oaks are the UK, France, Poland and Canada. In the UK, our priority is to deepen our position with our 16 million customers, and ladies and gentlemen, we have the products and the systems to do it. It's one hell of an oak. You're going to see them in a bit more detail soon.

In Poland, our priority is to grow from already strong number two position. Now, though the political and regulatory backdrop in Poland has provided uncertain challenges in the past two years, we believe this market retains substantial long-term appeal with its demographics, and we will continue to invest in that business, that for us, has an extraordinarily high return on capital. What about our acorns, our acorns are Aviva Investors, Digital, some parts of Asia and Turkey.

In Aviva Investors, the businesses are now on the right course and it's full steam ahead. Performance is excellent, you'll see today flows are strong, and there's enormous opportunities on working closely with UK Life, probably for the first time in our entire history.

Asia, Asia is simple. It's all about one word and that word is disruption. For example in Singapore and Hong Kong, there is now a perfect storm with a very aging agency force, an agency force that wants more independence and increasingly active regulators. And our recent moves in Singapore that I'm sure you've read about a few weeks ago are certainly I think a sign of things to come. And I might add, this is a focused capital-light strategy.

So, what does all this mean? Well, to me it means that we are a focused composite, we're concentrating on markets where we believe we can win in the short-term and long-term, our short-term notes (20:16) and our long-term options for superior growth. And going forward, we do expect to alter the shape of the group growing more in asset management and general management, but we do not manage this group by a pie chart. And to be clear, we don't have any set targets to what this earning mix should look like. Any reshaping is more likely to occur through tactical withdrawals, organic investment and unconventional bolt-ons that strengthen our existing businesses.

Now to be very clear here, you should not interpret that as an ambition for more large scale acquisitions. While we can't unequivocally say Aviva will never do a large deal again, it is not something that me and the management team are considering as we simply don't need it.

So what about digital. Digital is central to our thesis. Now the building blocks of our digital strategy are largely there. We have the team in place, we have the pricing algorithms, and we've done a huge amount of work on infrastructure. For example, by the end of this year, all of our customer systems in the UK will be able to talk to each other. Now, many of you have been covering insurance companies for many years, but I think this is unique for a large insurer and is a fundamental key building block for cross-sales.

Many investors have said to me, look, this digital strategy makes sense. Yeah we get that, but how do I measure it, what are the leading indicators? Well, when it comes to leading indicators as you can see on this slide, I would focus your attention on one thing, that's MyAviva registrations. Our data in pilots prove if we can get our customers on MyAviva, the number of products held by that customer substantially increases and the margins improve.

And as you can see on this slide here, by cross-selling to existing customers, we believe we can reduce the total cost that's claims, acquisition and administration expenses in excess of 30%. Now, we share this margin with customers and that will drive growth, it will drive retention, while still driving vast improvements in our operating margin and we'll cover that in a little bit more depth later. But if we can deliver and we believe we will, it makes it very hard to compete with our proposition. And the customer and Aviva wins particularly here in the UK. Our ambition and plan for operating profit from UK digital alone is to reach £150 million in 2016 and to double that figure between 2016 and 2018. So, why are we confident? Well two reasons. First, the UK is the ideal market for digital insurance and we are the only scale composite. Second, we have the systems in place, we have the pricing algorithms in place, and we have the team. And third, and this is important, we believe our brand is the key source of our competitive advantage. But you know what, you don't have to take our word for that, I'm going to use your information.

The chart on this slide was published by UBS Evidence Lab in a report that was titled, What Customers Want. It also shows some of the other countries in Europe if you want to have a look at it. It shows that in the UK two companies standout in terms of the intersection of brand awareness and preference for brand consolidation, meaning the brands that customers will consolidate their products under.

Now Aviva and Direct Line are the only two that stand out. And one of us is a composite, which takes us nicely into the UK, which is the focus of our presentations today. We like the UK, I like the UK, Aviva likes the UK. It's our home market and we often forget it's the third largest insurance market in the world. We have 16 million customers, in fact we don't need any more. 5 million of those are pension customers and we have 11% and growing share of the GI market and that's a hint for you.

I will leave it to the team to discuss their businesses in more detail, but I do think it's worth spending a few moments on why I think the UK as a market is attractive for Aviva and for investors. First, there is potential for growth in the UK. We have something called auto-enrolment that provides structural savings growth and this market should triple in the next 10 years.

Second, in life and savings, it is a highly involved market. Unlike many markets around the world, the industry transitioned to capital-light products about a generation ago and that I guess is unlike Europe and it's unlike Asia. But as a result, UK insurers typically do not have the same level of interest rate risk as their continental European counterparts.

Third, the UK insurance market is relatively consolidated and mostly publicly listed if you think about it. Mutuals are part of the competitive landscape in the UK, but their influence on the industry is very modest certainly compared to other European markets.

And as a result, the industry in the UK is undoubtedly competitive, but there's an underlying current of discipline and nationality in pricing, particularly from the larger, long-term focus players. So, that's going to be the focus of today. And we're going to be going into a lot of detail. I'll leave it to the businesses throughout the day. We're going to have some Q&As after each one, we're going to hopefully answer the questions you have.

But before we get into that, into our UK businesses, we thought it was going to be good to have a session on the financial questions that we posed earlier at the start of my presentation, questions on the balance sheet, on the earnings, and importantly on the capital generation. And, so to take you through all that, I'll hand over to our CFO, Tom.

Thomas D. Stoddard {BIO 15071280 <GO>}

Thank you, Mark. Good morning, everyone. So our purpose today is to try to answer the questions you've been asking, and to provide better guidance on what to expect in the future. Brexit, of course clouds the near term picture, but it does not affect our business strategy nor the demands we put on ourselves or on our businesses. Our job continues to be about improving returns on capital, deploying capital well and providing investors with a predictable growing dividend. And doing our job really well means outperforming and providing enhanced returns to shareholders.

So given recent events, today I'm starting with the balance sheet again to reinforce your understanding of the strength of our position even in the midst of market stresses. I'll also provide you some information on our exposure to interest rate risk and exposure to credit, as I know this is an area where you'd like more detail. I'll also discuss our current thinking on how Aviva will generate, reinvest and manage our capital surplus, including excess capital.

And finally, I'll provide a bit more of an overview on how we expect to grow from our current position of relative balance sheet strength. Our business leaders in the UK will give you much more detailed insights into those growth drivers a bit later this morning. So how stable is the balance sheet? Well, we've done a lot in recent years to rebuild it. We've been operating toward the top end of our Solvency II working capital range. We reduced our debt leverage and are decreasing the cost of our liabilities.

Our center liquidity is reasonably good and should build over the next couple of years, at least before we take actions to redeploy it. But consequently, our ratings profile has been improving, although the impact of Brexit may slow us down a bit with the rating agencies.

So what this means is that we're very well prepared to weather adverse conditions. You can see on this slide that we're relatively insensitive to market stresses with Brexit providing a live example. Our investment portfolios are diversified and are performing as expected.

So what's driving this resilience? Primarily, it's a function of our prudent approach to the balance sheet. Over the past three years to four years, we've taken actions to strengthen our position, improving matching, reducing credit risk and addressing problematic areas such as the UK commercial mortgage book and latent exposures in UKGI.

We're also relatively fortunate in terms of business mix. In years past, we exited areas where potential volatility was a concern such as US Life and Delta Lloyd. Our remaining businesses are in markets with low, flexible or no guarantees. And our concerns about market risks have continued into this year and so we have not been stretching for yield, nor attempting to re-risk our balance sheet. We do not think Brexit would happen, but we were prepared for it.

So you may notice that this slide here is very similar to the slide presented at preliminary results. In fact, the recent volatility has shown that we've actually performed consistent with or slightly better than our illustrated sensitivities.

Now, turning to our exposure on interest rates. Looking at balance sheet impacts, the first point I would highlight is that we have resolutely pursued our strategy on matching assets and liabilities. This stands us in good stead during times of stress. Our interest rate sensitivities reflect the reset of transitionals in line with PRA guidance. In our European business, we have low guarantees and have been reducing it in several (30:41) recent years.

This brings me to the P&L impacts. We've made significant improvements to our business mix. Globally, we shifted our mix towards unit linked and protection. Now, we're not immune from interest rate impacts, but we are vigilant. In our GI business, the average yield is 2.7% with returns on new money of just under 2%. This is a headwind that we need to overcome as we pursue earnings growth.

Low interest rates have also had an impact on our new business volumes in our UK annuity business and that's something that Andy Briggs will talk about in his presentation. But the point you should take away is that while interest rates do have an impact, the effect on our balance sheet and profitability is comparatively modest.

And we also understand that in times of stress, investors rightly scrutinize insurers for exposure to credit. At Aviva, we have a conservative portfolio. These are the numbers that we shared with you at year end, but they're not materially different and we have experienced minimal defaults. We have taken action to reduce risk. In 2015 as you know, we disposed the £2.2 billion of non-performing commercial mortgages, so I feel very good about now.

And the LTVs at year end were 61% in the annuity book, down from 85% at the end of 2014. So, we'll update you further on these numbers at our half year results presentation, which will be upon us very soon now.

At our 2015 results, I said that Aviva should be able to deliver annual earnings growth in the mid-single digit range over the medium term with 2016 expected to be slightly down on this due to the increase in average share count, arising from the Friends Life acquisition.

As I look at our suite of businesses today, mid-single digit growth continues to be my base case. However, we have to recognize that Brexit creates some near-term uncertainties and provides some possible headwinds. For example, challenging investment markets may affect AUM balances from which we derive fee-based income, lower bond yields put pressure on investment income for our GI business and affect activity in the annuity market, and weaker growth could weigh on trading activity generally.

So at this early stage, there's considerable uncertainty about how the political and economic landscape will be reshaped as a result of the Brexit vote. And so it's difficult to quantify what impact these factors will have or how long they will last. And you should also recognize in the first half of this year, we've had to contend with several headwinds against operating results, including additional government levies in the UK and Poland, forest fires in Canada and adverse weather in France.

Now, typically, our second half has been stronger in recent years. So, even though the second half has now become more uncertain, we remain optimistic that we can achieve momentum in our annual results for 2016. Now I'll come on to the dividend later in my presentation, but we will continue to pay a growing dividend during the current period of uncertainty, this is paramount.

Finally, note that EPS growth will be driven by our franchises and is not predicated on large scale M&A, this is an important point that shouldn't be overlooked.

As Mark said, we're committing to move to a dividend pay-out ratio of 50% by 2017. That will entail significant increases in the dividend over that time period. Thereafter, we would expect to grow the dividend in line with operating earnings per share.

Now, this pay-out ratio is not meant to be a ceiling. We can return capital through a higher dividend pay-out ratio or other means. What we're trying to indicate is a balanced approach between returning cash today and investing for growth and higher cash tomorrow.

So, what funds the dividend and future growth? 2016 through 2018 remains a transition period for us in terms of capital and cash. The benefits of the Friends Life acquisition are still coming through. Over this period, our businesses should generate approximately £7 billion of operating capital surplus before investment variances.

Thereafter from 2019 onward based on our current footprint, we should generate approximately 20 points capital surplus per year before investment variances up or down. This is net surplus generation, after the strength of new business and funding growth, but before debt and center costs, plus capital surplus generation should grow sustainably from 2019 onward.

And we expect that overall the businesses will remit 80% to 100% of this amount, to the center in the form of cash. Mark and I will insist that businesses generating lower returns will remit more cash, possibly exceeding 100%, while those offering better prospects may retain more and grow faster.

Which leads me to talking about our capital management philosophy. As Mark said, our first priority is paying a stable, steadily growing dividend. We will normalize the pay-out ratio next year and then grow the dividend with earnings thereafter. That means that we are looking to invest capital in organic growth consistent with generating an attractive return on capital. This can be extended to include partnerships and bolt-on tactical acquisitions like the RBC General transaction in Canada. Thereafter, if we still have excess capital and liquidity, we will return it to investors. This might mean paying down expensive debt or it could mean share repurchases.

So part of Brexit, we'd anticipated that we might be in an excess capital position later in 2017 or 2018. Now that may still prove to be the case and if so, to the extent that we do not have superior opportunities to invest in the business and provided that we would remain within our desired ranges for solvency cover, liquidity and debt leverage, we will explicitly consider whether buying back our shares provides good value. So in summary, we plan to grow the dividend and may provide an enhanced capital return on top.

Now switching to growth in the UK, you'll surely be hearing from our business leaders discussing the prospects for Aviva here where we expect to deepen our penetration of the market. This should translate into earnings growth across the board, once we get through any near-term dislocations from Brexit. We have cost, capital and customer advantages in the UK that give us a unique opportunity to win in this market.

So this slide summarizes what we expect in terms of operating earnings growth in the UK. Our business mix does not change dramatically, but it will emphasize more capital light protection and savings products. At the margin, we're expecting a stronger contribution from Aviva investors and from GI and health, but UK Life should be growing profits as well.

In Life and GI, we still have further hard work to do on expense efficiency, our systems, processes and organization can be streamlined further to align better with customer needs. So, overall the combination of selling more capital light products and better expense efficiency should result in an improving return on capital and strong cash remittances, while nevertheless sustaining earnings growth, here in our home market.

So, my final slide is exactly the same as the one that Mark used on our expectations. Our expectations are clear. Even in an uncertain world, we're well positioned with strong businesses and a strong balance sheet.

So, thank you. I'd like you to enjoy the rest of the day and Mark will join me here on the stage. We'll take questions now. Chris over to you.

Mark Andrew Wilson {BIO 7102576 <GO>}

Okay. Chris, are you going to facilitate this?

Q&A

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks very much. It's Blair Stewart from BofA Merrill. Tom, a couple of questions. The £7 billion, that you talked about cumulative cash, can we just break that down between what's truly operational, recurring, et cetera, is there anything, something special in terms of one-off contributions? And then, the 20 points of capital surplus post-2018, how does that relate to the 5 points to10 points that you guided on with the full year results, and is there any way to kind of break that down between cash and capital? There's a difference between the two, right.

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Sure. I think we're not detailing a lot of the split as to how we get to the £7 billion, but we do have some of the benefits of the Friends Life acquisition coming through there. So we talked earlier about £1 billion of special remittances coming out of UK Life, so you should sort of factor that into the number.

More generally in terms of thinking about the 20 points of surplus generation. The 5 points to 10 points that we had talked about this year was after center costs and paying a dividend. So you should think of the 5 points to 10 points of surplus generation to show increase in the cover ratio as being a net number. When you think about the 20 points, that's more of a gross number as to what's coming out of the businesses on an ongoing basis. You would need to subtract center costs and the dividend in order to get to what we would expect in terms of being able to increase the cover ratio from there.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

In Andy's and Maurice's presentations later, they will give more of a breakdown of some of the numbers coming out as well, that maybe helpful.

Q - Greig Patterson

Morning. Greig Paterson. Three questions. One is to me, in terms of your balance sheet, it's not so much defaults but the risk of downgrades post the sovereign downgrade. I wonder if you want to talk about that if you are experiencing some of that and how you would translate that thinking through to your large SMB mortgage book in the UK. Second thing is, my understanding is you did some hedging post balance sheet to protect the downside on Brexit. I wonder if you can just give us some color on what that is and whether it's changed the sensitivities? And the third question, in terms of digital, you gave the 2016 number and the target in 2018 (40:59) to know what the 2015 number is. And given your forecast for earnings I was wondering this, obviously the non-digital business is going to give up some operating profit. I was wondering what your thinking is around that or some kind of feel for that.

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Could you just give me your first question again?

Q - Unverified Participant

So, the first question is that typically if you listen to the UK executives, except yourselves of course, they would say, oh, since 2008, we've had no defaults. We've only had £100 million of defaults. The reality is downgrades as far as the Solvency II and IFRS mechanism is effectively a default and literally the industry has had billions of it and what concerns me is we had a sovereign downgrade and that's going to have a knock-on effect all the way through the corporates et cetera and what is also of a concern is that the sort of non-liquid internally rated stuff that you guys have, particularly if you think about the SME mortgage book. How - what's the risk of downgrades and negative variances hitting the solvency ratio, just trying to understand what the risks are there and how you're thinking about it?

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Okay. So, I'll take that. So, the first is on downgrades and the second was a little bit more on some of the hedging that we've done. So, on the risk of downgrades, that's something that we've been looking at. We haven't seen a whole lot of that actually coming through other than some of the actions that are affecting the sovereign. We've looked at the potential impacts of a one and two notch downgrade and then the question is how much of the universe could be affected by that.

So, that's something that we're focused on. We haven't seen a whole lot of the impact of that happening in terms of actual downgrades yet. But you're right to think that some of that may come along and it's something that we are trying to protect the balance sheet around. Now, in terms of additional hedging activity this year, I guess there are three things that I'd point to. We did do some additional credit hedging this year to try to protect the balance sheet.

We did push down some of the hedges that we put on last year at the center level. We pushed some of those down into our UK Life business to make them more capital efficient. And there are some other things that we've done in terms of hedging this year again to try to improve our overall capital efficiency.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

And Jason later may add a bit more comment on that in his section as well. You asked two other questions, one related to, I think, commercial mortgages and the other to digital. Commercial mortgages, we're in just - we're in a fundamentally different position to where we were a few years ago. We've announced previously, we sold about £3 billion of the low end of our book. So, we've cleaned up that book a lot. On Tom's slide you saw, we had a 61% loan to value ratio at the end of 2015. I mean, I don't have an updated figure on that obviously, but that gives us a fair bit of headroom we just didn't have before. So, we're in a fundamentally different position on that, which I think should be quite helpful.

On digital 2015 number, I don't know for the simple reason that we didn't have that then. We haven't calculated it. There was still a – the digital businesses, when we pooled them all together, there was still a reasonably large number there, but we only had to pooled that information together this year. But we're going to report on that going forward year after year, because as you can see, it's already quite a significant contributor. I expect that number probably surprised to people (44:18) today and it's going to be growing fast.

Now, on the consumer side, undoubtedly, there'll be some cannibalization. And that number is basically the vast majority of that is UK consumers, all UK and its consumer and undoubtedly that will cannibalize the some of the UKGI. But it's with a much higher margin as we'll show you later. And how big it can actually get, we have no idea except that we're well placed and it's going well, post that figure it could be, could it be 10 times that, I don't know. I guess, we'll have to wait and see, but it's quite an interesting proposition.

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

Thank you. It's James Shuck from UBS. I have two questions please. Just I wanted to return to the capital generation number. So, the 20 points that you show, which is an annual number, if we take off the debt – the center and debt cost, I think that's about 7 points, gets you to about 13 points. There's management actually included in there and I think you identified roughly £1 billion or so from Friends Life synergies, which will emerge over time?

A - Thomas D. Stoddard {BIO 15071280 <GO>}

No. Let me correct that, because that 20 points is sort of like a 2019 run rate thereafter. And so, think of that as an operating number. So, don't think of that as counting the UK Life, Friends Life actions.

So, think of 2016 to 2018 as a transitionary period, where we got some of the follow on effects of the Friends Life integration still coming through in terms of capital. Thereafter 2019 onward, we think from an operating basis we ought to be getting that 20 basis – or the 20 points of surplus generation.

So, that 13 points you should get should be repeatable and should cover the dividend and fund additional growth.

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

I see. So, I just wanted to be clear then, so the – okay. If we look out on the sort of 13 points, so, effectively you're increasing from what you said previously the 5 points to 10 points, you're saying that once you get through this earnings growth then you're going to be closer to the 13 points, and there's no management action (46:31).

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Again you've got – also got to subtract the dividend from that, right. So then you're going to be down into somewhere in the mid single digits in terms of the potential net increase in the cover ratio this year.

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

Yeah. But does that number include any management action, and if it does could you separately quantify that base.

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Look, I mean, we've got a big balance sheet, we're always going to have some amount of management action. So, whether it's expense saves or changing investment mix, et cetera. I think of that as what we do every day, I don't think of that as one-offs. But really – but the thing that I would point you to is some of the things we've got going in UK Life in terms of the Friends Life integration and some of the optimization there. But otherwise, there's not sort of a big component of management action that drives that number going forward.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

And again, we're going to cover this a little bit later but just on management actions. So things, the big one-offs like Friends Life okay, let's put that in a separate bucket. Then there's a whole group of stuff that you would expect every single year. We're going to talk about that later and say what is – give you some guidance about what you should build in your models for management actions. And I think of it like this, if you're running an insurance company prudently, you will price prudently. You'll price your expenses a bit higher than they actually are or you'll take management actions to bring them down and so on, and if you build up that then you should be releasing that over time. Our objective is to release consistent management actions year after year after year after year after year. And we're going to give you some help on that in the later sessions which I think will probably help answer some of your questions.

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

Yeah. That's great. Thank you. Sorry, can I just have one second question?

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Sure.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Yeah, sure. You can go.

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

So, I just on the EPS medium-term target is a welcome figure. What you haven't given here is an ROE target, whereas many of your European peers do have those and in some cases those are a stretch. When I look at the LTIP awards that were given in the Annual Report, they fully rest on the performance side of things for an average of 10% ROE over the next three years, which you're already hitting so I don't really see where the incentive is to drive up ROE.

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Yeah. Well, there's different numbers. So, the LTIP calculation is a sort of a full number, so that picks up amortization of AVIF and also integration restructuring cost, which don't show in the operating EPS. So that number is actually lower. So if you look at it, we've got an operating ROE of sort of 13% roughly, as we move forward and that's a number that we'd like to try to push up. That's sort of Mark's job and my job to make sure that we're allocating capital and we're trying to increase that number. We haven't set a target as to where we think that that's going to go, but it's clearly one of our major areas of focus.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Yeah. That's just really a hangover from the past that we brought down the LTIP's operating numbers to about a lower number so they can include everything that you could possibly think of with us, deal costs, amortization, today (49:30) whatever, so all those things go in to a totally (49:32) different number. We can take you through the detail a bit later if you wish.

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

Thank you.

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

Okay. Jon Hocking from Morgan Stanley. Two questions, please. First one on the reinvestment yield. Have you changed your sort of risk appetite in terms of types of assets you're buying post Brexit? I realize it's only a week or so. And that 1.8% you mentioned for GI, has that been refreshed post Brexit as I guess, swaps have fallen but spreads have blown up a little bit?

And then second on the Asia strategy, Mark, you mentioned disrupt. Is this a shift versus what you've been saying historically, and that should we expect this in the same country footprint you've already got and is this tech led in any way?

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Yeah, we've looked at a whole variety of options as to how we could re-risk the balance sheet from a financial perspective whether it be buying less reinsurance, whether it be allowing some of our hedges to roll off, whether it be taking more investment risk. And we just haven't seen a good return on capital for any of that given where the world has been and so our preference has been to try to find opportunities to take more insurance risk. That's where we see the best return on capital.

And so, we really have not done much in terms of changing our investment mix to try to find more yield. We've talked about it a fair amount in the GI business as to whether we should be looking at more of a total return style of investing. We actually haven't executed a whole lot there, but that's an area that we've talked about and it's something that we may come back to at some point. But to this point, we've really been favoring more insurance risk and less of trying to take other kinds of financial risk, just because we haven't seen a good risk return out in the marketplace and so that has been an intentional strategy. And again, we hadn't anticipated the volatility we're seeing now, but we feel rewarded for it because we haven't taken that extra financial risk.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

When it comes to geographic footprints in Asia, Jon, I mean a few years ago, we were selling stuff because we had to. Thankfully, we're not in that position now that - we got all the capital we need, and a bit more. So now, we think our job is about reallocating capital and I would expect over time, the footprint of our group to be more focused. I still think we're too complex and I'd like to be simpler. There is a big gap there. I don't look and we don't look at our businesses by region. I think that's total nonsense in insurance, there is no economies of scale by region, there is - it's only market-by-market, for the simple reason is that each market has got its own regulator and customers and all that sort of stuff.

When it comes to Asia, we are going to be focusing on some key markets and you've got some - they're all acorns except for Singapore, I guess, that's already material. Now Singapore, we've got a great brand position, we have a big in-force base. Post DBS, we still keep all that tough (52:19) and all those customers. And most of you know, I spent a long time in Asia, what's clear in Asia is the market is ripe for disruption.

Agency forces have a dominant distribution (52:30) Hong Kong and Singapore, and a few others, and agency forces always reach to pinpoint. When they're about mid-50s and the average age in agency force in Hong Kong is about 53. And then when regulators get involved, and they are now, so in Hong Kong, they're talking disclosing commissions, for example. I expect you're going to see a significant change in the landscape of intermediated distribution particularly in Hong Kong, and Singapore. And in Singapore, we're stable. We got the brand, we got the position, we're going to disrupt - we're going to disrupt two ways. One in digital, we've got a great platform, we're bringing our UK platforms there to a system underlying it into our Singapore platform, that's already got scale. And then on the agency force we've started a program that is so far, you may have, we never made a public release, but we, there was - there's been a lot of press on us in Singapore in The Straits Times where people never look (53:22). Recently, we just announced that we had, I've been saying this a lot, that we've just taken 250 top advisors from another company and brought them into an FA model not an IFA model, but a FA model. So aligned with us, because these agencies as they are getting older they want more independence, and they want a home. And this happens in every market around the world. It happened here, happened in Australia, happened in New Zealand, and it always reaches that tipping point.

Our view is that several markets in Asia have reached that tipping point now. And just for a better context, this is capital-light, it's a variable cost, it's paid over a few years for about 10% of what would've cost us DBS, we'll get about the same VNB, just for a better perspective. So it's a really interesting strategy. We're not betting much money on it. We're not relying on it. But you know what I think Asia is ripe for disruption.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. Thanks so much, Andy Hughes from Macquarie. Three questions, if I could. The first one is about the apple tree pruning, it sounds a bit like restructuring costs. Could you update us to what is happening with restructuring costs over the next few years? And I guess on the capital and balance sheet, obviously, we can see it's pretty robust on the

Solvency II metrics. What happens to the leverage ratio? Is that similarly behaved or does that get more out of control as it'll be based on total adjusted capital with a limit on leverage calculation? And I guess on the solvency sensitivities, so as we roll over year-after-year with lower interest rates and less and less on transitions, does it become more sensitive to the things you show on the balance sheet, so if we look at it in 2018, would we see a much more sensitive business or not than we see today? Thanks.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

I will take the first one, you take the second in a moment. Yeah, the apple trees, I think it all depends. Just to be clear, no, that wasn't the objective we're saying about having restructuring costs. I mean when I say pruning, we might technically withdraw from some segments or some markets as well. We might invest in or restructure, but no, there is no intention to signal any restructuring cost and that wasn't the objective. A lot of people are asking what we will do with expenses going forward, we're not putting out of target today. But we are thinking about what we do and in a crisis of situation economically you always should take opportunities, you should never waste a good crisis. And so we'll look at that. Now could there be some there, I don't know. We just haven't gone into that into detail yet but no that wasn't the intention of saying that.

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Yeah. I would just comment that restructuring cost and integration cost have been a big area of focus for me this year. They were high last year understandably because of Friends Life acquisition. They will continue to be higher than I would like this year in part because we've got additional work on the Friends Life integration, we've also got the Canadian acquisitions, some other things happening. But it's caused me to take yet another look at some of our policies here and for example I'm looking at our Solvency II cost, which we had below the line and now that we're into a Solvency II world, I'm thinking about pushing those above the line as an operating expense. We haven't taken a decision on that yet, but there are some things that we're thinking about to effectively try to focus our business leaders more on not ignoring some of those, not that they do, but there's less focus on things that happen below the line than above the line. So I'm trying to tighten our policies and push more of that expense up there. The other reason why this is important is that, part of what it enables us to pay the increasing dividend frankly is reducing integration and restructuring costs and that improves our cash efficiency. So, that's one of the things that will be happening over the next two years, and that allows us to get to the 50% pay-out ratio. So, there will be more work done there.

Secondly, in terms of looking at debt leverage over time. We would expect our debt leverage to sort of gradually trend down, more of our focus right now is on optimizing and reducing the after-tax cost of the debt. When I look at our balance sheet, I think the balance sheet generally looks quite good. From a ratings profile perspective, I'd like to improve our fixed charge coverage ratio, that sort of the thing we would need to score better with the rating agencies right now. So, it's more reducing that cost of financing that's a priority for us.

So whether debt leverage comes down, or whether we continue to maintain it at the same level. It's sort of not a big area of focus. It may become a little bit more volatile in a

Solvency II world if you measure it against Solvency II capital. But again, we think it's in a range that all that is quite manageable.

In terms of what our sensitivities will look like over time, I don't know if Jason or John if you've got a view that they're likely to change. I don't think that they're likely to change. We have to continue to maintain our hedging strategies and we'll continue to evaluate that over time.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Thank you. Jason?

A - Jason Windsor {BIO 17967688 <GO>}

So there is no inherent reason why the...

A - Mark Andrew Wilson {BIO 7102576 <GO>}

The mic here, please Scott (58:28). Number 13, please?

A - Jason Windsor {BIO 17967688 <GO>}

Hi. Andy there is no inherent reason why the sensitivity should go up post the 2016 business. The risk margin like any other liability, we can choose to hedge it as we enter into our hedging strategy. So we'll just think about it in or around (58:54), so I wouldn't expect the sensitivities to go up, they'll just be a different strategy for the front book and the back book.

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

It's Andrew Crean from Autonomous. Three questions if I can. Can you give us what your Solvency II coverage ratio is? I know you said it was near to where it was, and it was a good deal better than I thought it would have been using your sensitivity so some clarity there would be nice. Secondly, I think 22% of your profits are coming from three countries, which weren't - haven't really been mentioned this morning, or not planned to be part of future Investor Days, which is France, Italy, and Spain, two of which I think are apple trees. Would you (59:36) withdrawing completely from any of those countries and under what conditions? And then thirdly, can you just give us a qualitative view as to if we do see a 20% fall in commercial or property prices in the UK, where that would affect your business and how?

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Okay.

A - Thomas D. Stoddard {BIO 15071280 <GO>}

I take the first one or -?

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Yeah. You take the first one and I'll take the second.

A - Thomas D. Stoddard {BIO 15071280 <GO>}

So on the cover ratio immediately after Brexit we put out a statement to basically let people know that we were still operating towards the top end of our range. We've continued to see some weakness in market since then. We will be publishing our June 30 cover ratio in about a month's time, and so we're still finalizing that. Obviously some of the additional volatility is not just another small handful of points from where we were, but we're still operating towards the top end of our working capital - our working range for solvency cover.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

And Andrew we're not being evasive. We just haven't done the work yet. So, and as we get to half year, we'll do the work, but it's - as Tom said, you'll expect a few points knock off, but we are remarkably resilient, which is, and I suppose. On the others, yeah, Canada we weren't intending just to spend the time on Canada. The objective in Canada was to show you our high quality business and cover some of those other businesses as well.

So, perhaps if I can get a better feedback from you later about which businesses you want to see, and there's a lot to see. I was talking to someone last night, and I said all this is opportune. And the fact is up until now, there was no point going to detail when we're showing you the franchises, because if one liked, he was worried about capital or the balance sheet in just a fixed space (01:01:19).

Now, we've done that. We're getting into what I call normal business as usual. We're going to show you - show you all stuff. (01:01:26) today. We can really have as many of these as you wish. We'll be delighted to show you more of our businesses and the next one we think we will have in Canada later in the year. That will - to give us a better feedback.

And on what we're going to do with some of the apple trees. I mean, it all depends. And I'd say there's some good apples in there, and there's some bad. And it might mean tactical withdrawal from some segments of a market, or possibly whole markets in some situations. It might mean investing, it might mean balancing out our portfolio. So, it makes it a composite.

There's different strategies and if you have a look in that page, there's a whole list of words on there and different things could apply to different ones. The good thing is we can take our time and do whatever is right, because we don't need the capital. We're not capital constrained. So, we'll do whatever just makes sense.

But I have said to the board and we've got our Chairman here too. I said to the board at our off-site meeting, I see businesses in countries not as family, I see them as paying guests, right. So, paying guests must pay their way, or they must be a really good paying guest later. So, it's just making a pragmatic decision and looking at all these businesses as we always do and frankly that's our job as the management team.

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Can you talk about the impact to commercial property?

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

Property prices.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

(01:03:01) do you want to answer the property question?

A - Unverified Participant

Sure. The numbers for the capital ratio that we put out on the 24 of June, we made an estimate for the reduction in commercial mortgages, so that's embedded in that number. As Tom and Mark mentioned we're going to continue to refine that. But beyond that for a 25% fall in London office prices and a 10% for outside of that, we think that's around £100 million extra impact, give you a sense of the sensitivity on the capital figures. Just as a reminder within IFRS, we've got £600 million default reserve on the commercial mortgages and we've got that £900 million at the year-end, slightly higher at the half year for the corporate bonds about £1.5 billion of that reserve remains in place. So, we feel that the balance sheet both IFRS and capital is pretty well structured and materially lower risk than in through the last crisis to withstand this force.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

And we did sell £3 billion of our portfolio for above book value. So, that looks like it was pretty good.

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Yeah. I think there's also sort of the ongoing run rate impact of if there's less commercial mortgage origination volume there, that impacts our annuity business and we saw a little bit of that in the first half and again that's something we'll be looking at – we'll be looking at other asset classes as we go forward.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi. Good morning, everyone. Ashik Musaddi from JPMorgan. Just one question for Tom. Can you share – I mean, what sort of debate are you having with PRA at the moment with respect to risk margin. Clearly, I mean stock (01:04:32) has more or less gone down north of 100 basis point. Are you getting an intention that PRA would just say, I don't care about risk margin, just ignore it or do you think as long as we are under Solvency II, that there is still some limitations for PRA to – will remove that on an internal model basis or in terms of sort of discussion with insurance companies, any thoughts on that?

A - Thomas D. Stoddard {BIO 15071280 <GO>}

It's an evolving discussion. I mean I think that when the risk margin was conceived, it was not conceived with an expectation of sort of a zero to negative interest rate world. So, I think the PRA has been rethinking. It's utility is a prudential management tool, and so we've actually been quite cooperative around things like the interest rate reset. And so, that is worth relatively well I think for the industry. So, I think, the PRA's posture is appropriate and relatively responsive to the industry right now. Now, how quickly that will lead to an evolution and change, hard to predict. But an interesting area for ongoing conversation.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

If you look at Sam Woods' speeches, I think he's been very definitive on this. I think they think it needs to be changed and it isn't working into the way they thought it would. I think it's inevitable it will be changed. The question is when and I think Brexit just adds a bit of uncertainty as when that would happen. It's clear from Sam's speeches if he could change it by himself, he would. So I think it's inevitable. It's only a question of timing. As you can see, it doesn't – again we're in a pretty good place, so.

A - Thomas D. Stoddard {BIO 15071280 <GO>}

Any other questions?

A - Mark Andrew Wilson {BIO 7102576 <GO>}

We've got a – just for a bit of comfort, we have some – I'm sure there's going to be a whole lot more questions after the Life section, which is next and the other sessions which are following. We have Q&As, two more Q&A blocks, at the end of the session we'll also come back for a final wrap-up at Q&A and we can give some thoughts there as well.

A - Unverified Participant

Thanks everyone. So we have a 15-minute break. We'll be back in at 10:00 AM for the start of the business presentation.

[Break] (01:06:46-01:07:15)

MANAGEMENT DISCUSSION SECTION

Andy D. Briggs {BIO 4311809 <GO>}

So a while Todd come on to the stage to music (01:07:16). Welcome back everyone, and good morning. We're now going to move on into the UK business unit presentations, starting with UK Life. So the key questions in this section, starting with the market. What is the size and growth potential of the UK Life markets. Then, what is the quality of Aviva's UK Life franchise? How will we win in this market and how does UK Life support the true customer composite? For now, look at the financials, so how do we make money in UK Life, in terms of IFRS earnings, and how fast can we grow. And finally, what cash will we deliver to group. There are three key messages for our UK Life business. Firstly, we have leading positions in growing markets. Secondly, we have sustainable competitive advantage from our multi-line products and distribution model, a true customer composite. With the Life business, the anchor to deliver it. And thirdly, the combination of these will drive growth and cash flow, low to mid-single digit earnings growth and cash remittances of between of £3.5 billion and £4 billion over the next three years.

Pre-Brexit, I would've been talking about mid-single digit earnings growth. Brexit clearly brings a range of uncertain scenarios to the broader UK economy. However, the strength of our franchises means that I'm confident we will still be growing earnings even in the more adverse scenarios. And we have a strong and resilient balance sheet, as Tom just covered at the group level and which Jason will expand on for UK Life in a moment.

Hence, I remain confident post-Brexit in the £3.5 billion to £4 billion cash remittances. So, let me expand on each of these three key messages in turn. And let me start with our view of the market over the next decade. The UK insurance market is the third largest in the world, and we expect assets in the Life market to double over the next decade. So there's decent growth.

This chart starts with a customer and their lifetime along the bottom axis, and then the grey line shows the accumulation and de-cumulation of their assets over their lifetime. We've then broken the market down into five areas: Firstly, long-term savings, £1 trillion of assets, the main parts being workplace pensions and platforms. So, fee business growing at a significant rate due to automatic enrolments, the DB to DC shift, the growth in digital with pension freedoms leading, this now carries on into the de-cumulation phase.

Next, we have annuities and equity release with £350 billion of stock and £25 billion of new annual premium flows. So spread business, again, with decent growth particularly from de-risking defined benefit schemes and the aging population.

Then we have private defined benefit pensions with £1.3 trillion of assets that finance directors largely don't want. Hence, the growth in both in annuities and the shift to long-term savings, the white (sic) [black] (1:11:00) flow arrows on the chart.

Then, we have legacy £275 billion of assets in closed products mainly with profits and unit-linked bonds and hence declining over time. And finally, protection with the £1 billion annual new business premium, it's a risk business growing up to 3% per annum going forward.

Once again if we consider Brexit, the top end of the growth ranges here are where we were pre-Brexit. Even with some of the worst scenarios of Brexit playing through, there's still decent growth over the next decade. That is because the fundamental drivers, the aging population, the move to digital, the DB to DC shift, auto enrollments, they're all unchanged. So while there may be short-term headwinds, the fundamental growth drivers are still attractive.

Okay, that's the market. How is Aviva placed within that?

The summary is, we have strong scale market positions. In long-term savings, we're the number one player in workplace pensions with £51 billion of assets and our £3.2 billion net fund flows in platforms is a top five position. In annuities and equity release, again, the number one player by assets with £52 billion and by premiums at £3.8 billion. In protection, we're the number one player for enforced premiums and the number two player for new premiums with £230 million. And in legacy, we have £83 billion of assets, which while in structural decline, will fuel growth in both long-term savings and in annuities. As I'll come on to in a moment, the key point to note here is that legacy only represents 20% of our UK Life profit. So that's the first key message. We have leading positions in growth markets.

The second key message, we have sustainable competitive advantage in three areas driven to a significant degree by the benefits of being a multi-line player, the composite model. As Mark mentioned, you could argue that the last decade has been the decade of the monoline. I firmly believe the next decade will be the decade of the multi-line player.

Why? Firstly, it gives a significant cost advantage on the left here. The table here is based on published data. With the full benefits of synergies, we will have a 34% cost advantage over our major peers. That's about £300 million per annum.

Secondly, we have a capital efficiency advantage and there's a double benefits here. Within UK Life, the benefits of being a scale player across multi-lines gives us a 47% diversification benefit. And then beyond that, the benefits of being a composite lead to a further 15% diversification at a group level. This is a substantial capital efficiency advantage.

And finally, we have the potential to drive significant benefits as a true customer composite, underpinned by having 16 million UK customers, strong long-term relationships with many of those customers, and the strongest brand in the market. In the digital age, the potential to make it easier and better value, the customers to do more things with us is substantial. And the Life business can be the group's anchor for delivering the benefits of the composite model.

With those advantages in mind, customers are asking, I'm already saving for retirement through the Aviva platform, why wouldn't I use Aviva investor funds? Why wouldn't I take advantage of Aviva to excellent general insurance products, particularly when MyAviva makes it so easy for me?

Material competitive advantage. People often ask me, how is it at Aviva. What I love is building strong businesses that make a big difference to our customers' lives on an ever bigger scale. Have friends, I couldn't even dream of competitive advantage like this. In my three decades of insurance, I've not seen a insurer with Aviva's potential, so for me, very exciting times ahead.

And the third key message is that our market-leading positions and our competitive advantages will drive both growth in earnings and cash flow with £3.5 billion to £4 billion of cash remittances to Group over the next three years.

Let me take a moment just to describe the breakdown of our earnings between the different products areas I've just set out. And what I'm going to do shortly is talk through the drivers in terms of volumes and margins in each of these products areas, which I think will give you confidence in our ability to grow earnings going forward.

So, the profit from long-term savings is £130 million and growing very rapidly. The profit for annuities and equity release is £520 million, and again, growing rapidly. Similarly, the £180 from protection will also be growing going forward.

We generate just over 20% of our profit from the legacy business of £350 million, which we do expect to decline going forward. But judging by the investor meetings I've done recently, this will be a surprise to many, just 20% of our profit from legacy.

And then we have management actions of £260 million last year, driven primarily by cost reductions. I see this very much as a sustainable part of our profit, given we have a dedicated team focused on optimizing our £240 billion balance sheet, albeit I think the sustainable level in the longer-term would be more in the region of £150 million to £200 million per annum.

In summary, I expect the combined impact of the four product areas towards the left here, to give us a low-to mid-single-digit earnings growth plus the benefits of the remainder of the cost synergies on top of that. So, effectively this extra from the cost synergies offsets the reduction in management actions to that sustainable longer-term level and hence, we expect overall low mid-to-single digit earnings growth. And at the same time, we expect cash remittances to Group to be between £3.5 billion and £4 billion over the next three years. And this is fully supported by capital generation within the business.

So why am I confident that Brexit doesn't have the big impact beyond the short-term? First, over 80% of this profit is from our existing book. Second, we're very diversified. We're not overly exposed to any specific trend. So, strong resilience in our earnings as well as in our balance sheet.

Let me now move on to talk about each of these four market areas in turn, covering both our market position and the financial drivers. So, starting with long-term savings, where I'm going to focus on the two main parts: workplace and platform.

In workplace, we expect strong market growth with assets potentially tripling over the next decade driven by the DB to DC shift and also enrollments. Scale is critical here. And we're the number one player with £51 billion of assets and 2.5 million customers. This is a 17% market share.

Across the composite, Aviva has 45% of the FTSE 350 as clients. And we have a good competitive position with controlled distribution. 80% of our sales coming from our existing schemes, and also a strong direct engagement model with both businesses and employees.

After that, our market leading platform and compelling customer propositions including the new solutions we're co-developing with Aviva Investors and I am very confident in our ability to at least maintain share in this rapidly growing market, as evidenced by our £2 billion positive net fund flows into our open workplace business last year.

Moving on to the platform part of long-term savings, the market growth there is even stronger with up to fourfold increase expected over the next decade of both - sorry, across both advisor and consumer platforms.

Now, let's be honest about it, we're a challenger here with the lowest share of stock, but we are growing very rapidly as a top five player in net fund flows, which will be further fueled by the launch of our consumer platform last year. And we have strong advantages, which makes this one of our most exciting growth opportunities and one of my top priorities. We can leverage our market leading existing pensions book of a £100 billion assets and our broad distribution reach alongside the in-house advice capability we are now building.

In terms of the platform itself, we're investing in migration through a single platform, all integrated with the MyAviva digital front-end. You'll see demos of both of these later. Just last week, our new consumer platform won the Lang Cat Award for the best platform for beginners, easy to use.

And we're also working closely with Aviva investors here, building wealth and income solutions such as AIMS. We now have 32% of adviser platform flows going to Aviva Investors, double the flow of two years ago, and over 60% of the consumer platform flows. Overall, a compelling proposition to drive growth.

So, to finish off on long-term savings, let's bring together all the parts of this market including workplace platform and individual pensions, and let's look at the drivers of the £130 million of earnings that I covered a few moments ago, splitting existing and new business. Okay, so the £84 billion of assets starting on the top left here. Their earning is a margin of 27 basis points going across the top, making an existing business profit of £228 million. So, £84 billion of assets, 27 bps margin, £228 million of profit.

This scale is essential. We've seen both Blackrock and Access step away from workplace and platforms recently. You need scale to win. Okay, we then secured £2.8 billion of positive net fund flows last year, the second line here from the left. The other product lines I'll cover in a moment are insurance products, where we take some of the IFRS earnings upfront. In the case of long-term savings, as an asset-based product, we need to offset our new business costs of £98 million here against the existing business profit. Hence, the total profit of £130 million.

Okay. So to enabling (01:23:26) into project forward from here, firstly, we expect asset growth between 6% and 11% per annum. The growth of 2011 was less - sorry, 2015 was less than this, largely because equity markets grew by less than we'd ordinarily expect on a long-term basis. And I'm also expecting to pick up our pace of growth in all product areas as we complete the integration.

Secondly, we expect to have profit margins to be stable going forward. This is the net effect of some expected revenue margin compression and the operational leverage of a largely fixed cost base, reducing unit costs. So coupled with a strong asset growth with stable margins and offset the fixed pounds new business costs, and hence my confidence in very strong growth in our long-term savings profits going forward.

Moving on to the second market area, annuities and equity release. There is also decent growth in both the stock of assets and new business premiums here. And once again, Aviva is in a leading position, as the number one player on stock with 15% a share, and number one player in terms of new business premiums, also 15% a share.

This may surprise a few people as well. Aviva being number one for new business in this market in 2015. Again, I'll be honest, there weren't any mega bulks or big insurance back books last year, areas where we don't play. Small to medium bulks have been quiet in the first half of this year due to Brexit concerns, while there have been mega bulks and insurance back books. So we don't expect to be number one in 2016, but we'll still be a major player.

Going forward, we do have an increased appetite for bulks, given the attractiveness of the market and the strength of our balance sheet, and will move up the size spectrum. To be clear, not mega bulks or insurance back books and steady growth from these sorts of volume levels. Alongside this, we plan to maintain our leadership position in equity release and individual annuities. And you can see that many of our competitors are mono-lines. We believe that our multi-line model gives us better capital diversification as well as cost efficiency and diversification of earnings.

Success in this market requires two fundamental core capabilities. These represent significant barriers to new entrants and they represent significant competitive advantage to those that have them. The first is illiquid asset origination. Working in partnership with Aviva Investors, we are able to originate highly attractive illiquid assets and hence strong yields for a given level of risk. The chart here shows the asset mix on the Aviva back book. There is a good opportunity to increase the yield on our back book through shifting the asset mix to include more illiquid assets.

Our target is over 50% of the back book in illiquids. The opportunity on the friends book, where there is a much lower level of illiquids is even greater. As we will see in a moment, this will drive margin expansion for Aviva. For our new business in 2015, 75% of the assets we originated were illiquids.

The second area of focus is longevity. As I've already said, we're the number one player with over £50 billion of liabilities. This is across 1.3 million lives. With our 200-plus years' experience, this gives us unrivalled data, over 10 million life years of exposure. It's riveting stuff to analyze and it's significant competitive advantage.

All of our business is underwritten through a combination of medical and lifestyle factors and agent postcode, which is further enhanced by our broader customer data from our 16 million UK customers, and we selectively use reinsurance to manage longevity risk.

So annuity and equity release financials. I'll take the same approach. Our £53 billion of assets, top left here again and a margin of 45 basis points going across the top, generating £236 million of existing business profit. And then our £3.8 billion of new business premium, middle on the left, at a margin of 7.5% generated £288 million pounds of profit, a total of £524 million.

You'll see here, I've split the new business premium between annuities which add to year-end assets and equity release of longevity swaps which do not. Going forward in the market, we expect to see growth in both assets and new business premiums. And I've already said, we want to maintain our position at individual annuities and equity release and increase our focus on bulk annuities.

In terms of our margins going forward, we expect to see expansion of both existing and new business margins. This is driven by the illiquid asset strategy and cost reduction and is particularly pronounced for the existing business margin. Hence, what I want to be clear that shorter-term including the first half, is more challenging for new bulk business. I expect strong growth in profits going forward in the medium-term to longer-term.

So moving to our third market area, protection. The growth here in the market is more modest, but there are strong new business margins and it's capital light with no strain. Aviva is number two, with 23% share. And I guess, here a quick mention for the other Wilson, Nigel. I've still not forgiven him for outdoing me by £1 million. Joking aside, scale is particularly important in the protection market, as cost and reinsurance are both significant paths of the value chain.

Mark has already commented earlier that the UK market has concentrated down to fewer major players compared to other countries. Here is clear evidence of that. In the same way as in other markets, we don't have this strong market position by chance, it's because we have sustainable competitive advantage. And it's a great example of integration giving us best of both.

Over 60% of our individual protection business comes from long-term tight partnerships, including some excellent brands, as you can see on the slide. This is underpinned by our recent major platform investment in ALPS. We now achieve 75% of new business with straight through processing. Lower cost and a much better customer proposition and distributor experience, again you'll see a demo later. And a significant investment in digital creating some strong TCC opportunities.

Moving to the profit drivers for protection, again same format, our £1.7 billion of in-force premium, top left here, with a margin of 7% going across the slide, gives a £116 million of existing business profit. While a £0.2 billion of new business premium, at a margin of 28% drives $66 million of IFRS new business profit, making a total of £182 million.

Going forward as well as benefiting from market growth, we once again expect significant margin expansion, both from existing and new business, driven by cost reductions, adoption of digital and our market-leading underwriting engine. So that's significant earnings growth in all three markets I've covered so far.

And finally, let's look at our legacy business. I mentioned before, this is largely with profits, plus unit-linked bonds. First key message, this is only 20% of our earnings. Second key message, while we expect this to run off at about 10% per annum, we also expect to keep the margin broadly stable.

The reason for this is that we have a strong core capability in managing legacy books. We've consistently reduced and verbalize our costs, supported by successful platform migrations. And of course, we have a real focus on capital efficiency. It's worth noting that the majority of this business is with profits, and as this runs off, so the excess capital in the reattributed inherited estate also runs off and will be available for cash remittances to group.

The other key strategic lever for legacy is deepening customer relationships to create long-term value. So we're linking our legacy products into MyAviva to transform the customer's experience. And then look to meet to broader range of those customer needs, including general insurance and fueling our retirement income of platform businesses, when the time is right for the customer.

In terms of our financials here, the set £91 billion of assets, sort of middle of the slide there at the top, at a margin of 38 basis points going along, leads to $350 million of profit with roughly 10% per annum run-off and stable margins going forward.

So, our focus there on each of the four product areas and the financial drivers. Before I hand over to Jason to cover the financials in more detail, I want to summarize by pulling all this together from a customer perspective. As Aviva, we are uniquely placed to build deeper, long-term relationships with customers, businesses, and intermediaries. Unlike many of our competitors, we're focused on mass market and mass affluent customers, recognizing we still deal with the high net worth as well.

We're very much digital first, but then have that digital first capability available through our three channels and routes to markets, workplace, intermediated, and direct - digital direct. Blair will talk about TCC for individual customers in a moment. But just for a moment, I want you to stand in the shoes of an SME or a large corporate. We at Aviva are unique in being able to bring you a broad range of market leading solutions across the full range of your needs, including asset management, general insurance, and healthcare, the composite model.

Yes, this gives us a material cost advantage over competitors and a material capital efficiency advantage, but more importantly from your perspective as a business, it means we can make it much easier and better value for you to do more with us and stay with us for longer, building ever deeper relationships. You have fewer suppliers, lower cost, better value for money. Look at it anyway you like, that's a pretty attractive proposition for business customers and for investors.

And with that, I'll hand over to Jason, who's moving into the UK Life CFO role and he's going to cover the financials in more detail. Jason? Jason.

Jason Windsor {BIO 17967688 <GO>}

Good morning. Thank you, Andy. It's good to be standing out here as we say, ahead of taking up my role after the interims in a few week's time. It's certainly what is going to be a very interesting time. So, Andy has gone over our plan to increase the UK Life profits, at a rate of growth in the mid-single-digits per annum for the next three years.

This slide sets out the breakdown, the 2015 profits, and margin expectation in one place, and I won't repeat it in detail. Just to go over the growth, it comes from a disciplined in selective approach to new business, benefiting from our scale and customer advantages, increasing margins on our existing business, and cost reduction, and better asset optimization, and a manageable run off to the legacy business at around 10% a year, and confidence in ongoing management actions to enhance profitability, and that growth builds on a business that has well-diversified income streams and good resilience even in turbulent and uncertain market conditions.

The key part of our profit growth is cost efficiency. We operate in a competitive market that Aviva has scale and efficiency advantages. We do have a strong track record on cost reduction. The Aviva business reduced costs by 14% each year from 2012 to 2014, and in 2015, we reduced costs in the UK Life by 11% to £865 million, which included £73 million of merger synergies with a run rate of £113 million at December 2015.

And so far in 2016, we're making very good progress with the integration and we will update you fully at the half-year results on the progress. Looking forward, keeping cost low is a key area focus for us. And we will continue to explore opportunities, for example, the consolidation of platforms and the digitization and automation of the business. We expect the cost of income ratio to fall from 37% in 2015 to 32% over the next three years.

The key objective of the UK Life business as part of the group, Mark might call it an oak, is to produce strong and reliable cash flow. Our planning and strategy is to run a business which can and does deliver sustainable dividends, even in turbulent and uncertain markets. We have to realize also the capital and cash benefits of the Friends Life merger.

We're targeting a core dividend payout of around 70% of IFRS operating profit after tax which was £800 million in 2015. And we expect that core dividend to grow in line with profits. The core dividend is covered by underlying capital generation, with minimal capital strain from new business growth. Beyond the core dividend, capital and other integration synergies support a further £1 billion as special dividend payments. So overall, we're forecasting £3.5 billion to £4 billion of cash to be paid out to group over the next three years.

I've been close to a lot of the actions taken to improve the UK Life balance sheet in my current role. We have a dedicated team managing the balance and a strong track record on adding value through balance sheet optimization. And as Tom mentioned, recent areas of focus have included the restructuring of our commercial mortgage portfolio with divestments of over £3 billion to Lone Star, Apollo and Kennedy Wilson, £4 billion equity release securitization, and a number of equity interest rate and credit hedges to improve capital efficiency.

Our current focus is on the integration and that work includes two major Part VII transfers targeting completion by the end of 2017, and implementation of the internal model to Friends Life for 2017.

Looking forward there is a wide range of potential opportunities to drive additional benefits. For example, further expense reductions, which increase capital, asset optimization and selective hedging and reinsurance.

This wide range of options gives us the confidence we can generate a sustainable £150 million to £200 million per year of IFRS profit from those management actions, as well as delivering the capital synergies to support the special dividends.

Turning to the balance sheet. On December 2015, the UK Life SCR coverage ratio was 156%, which is at the top of working range, and that's new disclosure. As Andy described, the UK Life balance sheet benefits from the diversity of our products and our risks.

That philosophy is embedded in our view that we are efficient, we also aim to be resilient. And as you can see, the UK Life balance sheet has very limited sensitivity to market movement in equities and corporate credit.

The exposure to interest rates is also very limited, and as I mentioned earlier, interest rates in the UK have fallen into 10% to 15% part of the curve by over a 100 basis points in the first half, still very significantly. And most notably under the Solvency II regime, lower rates leads to a materially higher risk margin.

Although this does not significantly impact the capital surplus as the transitionals that apply to the pre-2016 business or reset at June 30 in line with the PRA guidance, which is mentioned yesterday by the FPC.

So, we will continue to manage the balance sheet with a very low interest rate risk appetite. The strong ALM focus and active balance sheet management gives us the confidence underpinning our cash targets.

So, to summarize, and get back to where Andy started the UK Life presentation, the UK Life has leading positions in the segments at the UK market that are growing, competitive advantages from our customer-focused, low cost operating model across all product segments.

And in terms of the financial outlook, these strengths lead to growth for the profit outlook of low to mid single-digit growth per annum and cash for the forecast £3.5 billion to £4 billion of remittances over the next three years. Thanks.

I now hand it over to Euan. Thank you.

Euan George Munro {BIO 2307409 <GO>}

Thanks very much, Jason. So we've had from representatives of one of Aviva's mighty oaks, and I'm an acorn apparently. But I wouldn't argue, I'm an acorn, has germinated that is sprouting and we're already in the growth phase, but still an acorn.

What I want to talk to you today is just remind people where Aviva Investors is at the moment and then discuss how we're going to win and then just shaped by what success might look like for an asset management business within the Aviva Group.

So, what are we? We're a scale operator. We might be and I think it's justifiable to describe as an acorn within the context of the Aviva Group, we're only 3% of Aviva's Group profits. But we have scale in other ways we're a £300 billion asset management business spread across the multiple locations. We cover most of the major asset class disciplines, and that's ideal for building this on multi-strategy solutions that are really – they're the future.

And that the locations are extremely important just in the context of Brexit as well. So I am in the fortunate position against many of my peers, that I've got £100 billion managed out of Paris in a fully – with all the relevant licenses, a core European country.

We've got our own Luxembourg SICAV business, and we have all of the entities necessary to continue to function in the EU regardless of what happens in the UK. So, that diversity of asset class is in legal structure is actually proving extremely important in terms of giving us strategic options and business resilience.

But, it's very important also for allowing us to build the solutions of the future that we're talking a little bit in more detail about the AIMS target return. But we are in an environment where traditional investment solutions that may well have worked. Well, we've been in this multi-decade fall in interest rates, when the straightforward asset class beta exposure to bonds, exposure to equities has generally done quite well during that period.

That may be, it might, in spite the change, and may be some cleverer solutions requiring skill and judgment and requiring access to your illiquid assets are going to be much more important over the next decade, and perhaps, they have been over the past, we're ideally suited to play in that field.

When I arrived at Aviva Investors, I was very pleasantly surprised by the quality of the investment professionals that are in the business. I think it's no secret we had to make changes to the leadership, we had to provide direction to the business. But a matter of fact, substantially our funds were ahead of benchmark and we had fund management teams that were capable of delivering performance.

It's just hasn't been put to commercially viable and interesting propositions, but the basic skills of being able to generate investment performance were there. So, that's a very good start.

And we've made a start in improving the profitability. So, last year profitability and Aviva Investor was up 33% and we are looking forward to continue on maybe not quite in that trajectory, but as you see from the final point there, double-digit profit growth in Aviva Investor.

So, we are at transformation journey. I believe we are halfway through a five-year transformation. We are right in the sweet spot with the right solutions for our time, I am going to talk about some of the solutions that we are selling successfully into the marketplace at the moment.

And I am also going to talk, and Andy has mentioned several times in the course of his discussion, the dialogue and the work that's going on between his business and the Aviva Investors. But genuinely, if you had asked me 10 years ago, as really a manufacturing asset manager, how important is it to be close to distribution.

I would have said not really. Everybody has got open architecture platforms. And really if you build a great proposition, you'll sell anyway. That is changing. Most platforms now are more or like guided architecture.

And being close to distribution is actually crucial and I'm in a very fortunate position with the Aviva Group and we shared some of the information already about the strength of the Aviva brand, we really have an opportunity to distribute strongly with high quality solutions through that network.

So, that's why we believe that successful Aviva Investors can make a difference to the share price because not only what will be a double-digit growing element of the Aviva family of businesses, but the success of Aviva Investors might allow the investment community to be a higher multiple on the whole of Aviva's businesses.

So, the transformation journey. In 2014, when I started in the January of 2014, Aviva Investors had certain control issues that needed to be fixed. I needed to change the top team, 100% of my executive team has been changed with very high quality people that we were able to attract then because it wasn't just myself that saw the opportunity at Aviva Investors to build a fabulous asset management franchise and we had to give the business a vision of what the future could look like.

What (1:48:31) was not in the right place, and then asset manager without module is not going to succeed. So, that was the challenge in the early stages. And then what we had to do was we had to rebuild the proposition set.

We were managing older fashioned benchmark plus 50 basis points to 100 basis points type propositions, and I was very convinced and my executive team were very convinced that, that wasn't the type of solutions that we're going to work in the future.

I think a number of asset management businesses are just happy to sell what will sell and I wanted to sell what will work, and what will work in the future is going to be fundamentally different as we've said already.

So, we need to build those solutions and then the journey beyond the 2016 is to grow and monetize those solutions. And before we started some of these things already, we need to deepen our distribution reach. We need to become more on the likes of global consultants and we need to continue to build our high performance culture, so that's the trajectory that we're on and 2016 is still a rebuild year.

We've had a number of accelerants as well, the way we think about our business is effectively the foundation business, the managing the Aviva balance sheet, then we've had some accelerants. We've had additional assets dropped then to Aviva Investors through the Friends Life deal, for example, and commercial mortgages came on as well and to the Aviva Investor stable. And those are accelerants that allow us to build profit more quickly and then you've got the rebuild, the new solutions that's how we think about our business.

I've said that the solutions of the future are going to be different from the solutions of recent time and you don't need to take my word from it. This is work from Casey Quirk who have done some thinking about what kind of solutions are going to be demanded in the next five years.

And you can see it on the - on your extreme left, we've split the market into retail, institutional and defined contribution pension plans and then looking at the kind of assets are going to flow out, so traditional active equity clearly and presumably classical active fixed income as well not so interesting. We're going to see outflows from that.

You can see in the retail space passive is still going to be growing, but there's this big new active lock that they're identifying as where the future is going to be in all of these segments and that's very much my philosophy, it doesn't really matter whether you're retail investor, an institutional investor who are in defined benefit plan.

The only fundamentally one of four things, you want growth, you want income, you want to beat inflation, or you want to beat some specific liabilities and those truths are true across all of those segments.

If you look and you break the important type of solutions that they think the market is going to be building, you can see there's almost $4 trillion of demand for multi-asset solutions - sorry, $ 4 trillion of demand for new active solutions. $1.3 being multi-asset and $1.1 being real assets, private assets. And those are the two strategic thrusts that we've gone with Aviva Investors.

We're building a range – return on target income propositions in the multi-asset space and we're also one of the leading investors in infrastructure debt and private placement credit and so on. So, illiquids and skill and judgment solutions, those are the things we are focusing on and I believe we are in the right in the sweet spot of where demand is going to be for the next five years.

Of course lots of people are in that space. Lots of people are talking about being solutions provider, but few is actually winning. Perhaps, surprisingly we're starting to see evidence that we are winning already. The asset management industry normally comes with a time lag.

Normally you have to wait three years to develop a track record and then the consultants will come in and then the fund raising agencies will rate your proposition and then you'll start to make sales.

But you can see as early as Q1, Q2 of 2016, we were already selling more than £1 billion of our AIMS proposition, AIMS target return and then the yellow, you've got the target income, quite a unique proposition, no one else has a multi-strategy target income fund quite like that.

Obviously, there's a number of competitors in the target return space, but you can see demand is building. We have the six of the major global consultants have buy rated us. We're on positive watch with most of the others. We've got good joint platform, wealth platforms are distributing our proposition in addition of course to our own platform.

And so, good distribution for the AIMS fund, growing to most recently in the middle of June, £6 billion across the various strategies. So, that's encouraging progress, and it's stacking up quite well from a relative point of view. This isn't looking at one segment of the market, it's looking at the wholesale market.

This is the high margin part of the marketplace selling to platforms and retail investors that Aviva Investors really wasn't historically successful in. And you can see that in the first quarter, which was a very difficult quarter, there was outflows generally from asset managers and we just stack up quite well against some of the people who would be seen as peers.

And so you can see that it's not entirely the alternative, the AIMS strategies. There's also some of are slightly more conventional fixed income strategies like high yield and so on, that did well in that period. But flow is already positive and that's encouraging. So we're getting some early proof points of success.

Why do I believe we can win faster with Aviva? Well, one of the things is that Andy mentioned the dominance that Aviva Life have in the workplace pensions environment, £51 billion of assets. Aviva Investors manages very little of those assets at the moment because the workplace proposition is very price-driven.

And so, normally, they come onto the platform to go straight into passive solutions and Aviva Investors is not a passive fund manager. However, if I am right, over the next few years, passive is going to offer a lot of volatility with very little return.

And as I said, we want to build solutions that will be saleable, but will also work. And we want to have the possibility of putting better quality solutions in front of workplace savers. So, they'll have the opportunity to pay a little bit more for a higher quality, less volatile proposition that hopefully we'll take them on a smoother journey towards a successful retirement.

So, having that £50 billion odd of potential that we can cross-sell better solutions, I believe in the years ahead will prove their worth and prove to be worth every penny of additional fee, then I think, that's a great potential.

Of course, we're already selling on the advisor platforms and Andy talked about the increase in Aviva Investors' share on the consumer platforms rising as with the 60% on the digital platform. That is a massive improvement and is testament to the much greater collaboration that there is now between that goes to my business and Andy's business and our understanding of each other.

We believe we can do so much more to make the platform better providing some intellectual input, market input, views and so on to make that platform even better and drive higher volumes for us. So, make the pie bigger as well as maintain and even grow our share of the assets on it.

Andy's business plan also touched on the demand that the Life business is likely to have for illiquid asset. We have originated in the first half of the year about £1.4 billion in infrastructure assets and private placement debt, and that's been quite a difficult period.

There's a lot of projects were held back because of concerns about Brexit. Post-Brexit, things might be difficult for a while, but there's some potential upsize of the EIB, for example, moves out of the UK, that could be a huge opportunity for us to step in and do more lending.

So, there's opportunities for us to do more illiquid lending, support the Life business, but also give ourselves and expand, there are already £17 billion franchise in illiquid alternative income strategies and take that to third party investors. So, great opportunity to succeed together with the UK Life business.

And finally, the digital channel, Aviva as a consumer brand is obviously well – more well-known for its insurance characteristics and we have the opportunity to change that slightly and subtly to embrace asset management and we're very excited to be working with Blair to make that happen through digital platform.

So as I said, we are on a trajectory, we are interesting (1:58:41) we've got distribution agreements in America and Canada with top quality distributors for our product. But the internal opportunities to work with Aviva is also compelling.

My executives team and I, we've decided that we needed to give some kind of framework to our people as to what success would look like. What would that mean over the next five years or so years? And this is what we came up with.

Truly just to say, unless we're on a journey, we know we're on a journey and this year in 2016, we are in the status of being the asset management team and the asset management business that might be the one to watch the potential disruptor. And I'm sure that and I know from a fact because I was in another organization that in 2011, 2012, 2014, Aviva Investors was not much of a source of angst for other fund manager.

In 2016, I think that is starting to change. I'm getting some evidence that our competitors are watching us much more closely. They're interested in our proposition, they're interested in how our brand has changed.

And so, we are attracting attention and we are being watched carefully. We're on a journey that we want to be known as a leader in investment solutions, initially dominating our home market in the UK, but ultimately being a serious global competitor.

And so, I would just encourage you watch our development. I'm confident we've got the right products. I've got – for today's environment, flows are now positive and we think that we can accelerate that by working with Aviva distribution and we are already on a growth track and I look forward to the day when I'm introduced as one of Aviva's mighty oaks, rather than an acorn.

Now, I think I have to invite Andy and Jason up and we're going to do questions on Life and asset management, all in one session.

Q&A

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

Okay. John Hocking of Morgan Stanley. I've got three questions please. On the UK Life presentation, just taking you through sort of product by product, you've got some margin expansion in most of those product lines depending the future forecast. I just wondered which of those products you think is the most risk attached to that margin improvement, it's the first question.

Second question, just looking at the bulk annuity market, are you quite clear that it's going to be tougher in the short-term. If that sort of UK gilts curve stays where it is, do you think there is a repairable damage to the pipeline in the medium term? Is there some need for Life for funding to rebuild and the (2:02:01) the pipeline in that space? Second question.

And then just on the Aviva Investors business, you're talking about multi-assets plus illiquids. Are you further ahead in multi-asset than illiquids at the moment? And then, with illiquids how much of that is internal versus external ultimately? Thank you.

A - Andy D. Briggs {BIO 4311809 <GO>}

So, I mean, I'll be happy to take the second, if you want to take the first, Jason.

A - Jason Windsor {BIO 17967688 <GO>}

Yeah.

A - Andy D. Briggs {BIO 4311809 <GO>}

I'll take the last. So, I mean, on the bulk annuity market, we – finance directors have got this £1.3 trillion of assets in DB schemes. And basically, there's a lot of small manufacturing companies out there was talking great big financial services business called the pension scheme tied on the side and they don't want it.

So, I only see, this is a kind of temporary blip. People just – a lot of financial directors are thinking mostly impact of Brexit on their business right now rather than thinking about the pension scheme. Obviously, you got an impact of that liabilities would have gone up a bit because of lower interest rates and yet the assets have gone up the other sides.

The deficit will be bigger to a degree, but a lot of the de-risking solutions that you and I are working on and our teams are working on, they aren't necessarily built by out sort of one goal, you start to think about LDI mandates you might buy out, people as they come to retirement, or just buy out a tranche of the older customers.

I also think we might see a shorter term kind of blip in the origination of the illiquid asset, which is part of getting the yield you need to get the attractive price for the customer. But again over time, I find it hard to see why you wouldn't start to save for example infrastructure investment and so on a significant scale.

So, I'm kind of talking a 2016 blip rather than longer term then that I still think that drive the finance directors to get rid of this – if anything is accentuated by the uncertainty of Brexit, I just don't want become a hassle and concern of it.

A - Jason Windsor {BIO 17967688 <GO>}

So on product margins, I think I would point out three things. Firstly, the scale and the increase particularly on the saving side. Those growth drivers are embedded (2:04:08) enrollment is going to continue and we expect the insured assets to double over the next 10 years.

Secondly is costs, and we've got pretty good visibility on cost reduction and that's clearly as part of the margin improvement, and we can see that and I gave you the cost income target in the next three years of 32%, so that's within it.

And the third part, I guess has got some risk associated with it, as a good segue, and to your last question to you and around our ability to source more illiquid assets and what we are particularly with the buyback of annuities, expecting to do this over time transition out of cash and go since some higher rates of corporate bonds and into more infrastructure and commercial mortgage-type illiquid products and they have got a much better capital treatment and a better margin for us. And clearly the market will pause a little bit and risk premium what we've set.

I think an answers to your question, we've got greater scale illiquid assets, so we'll be doing it for longer and – but mainly for everyone purposes, so is a more internal group of business, AIMS is the sort of scale and judgment (2:05:15) solutions, AIMS is turning external much quicker.

And having said, we – the illiquid asset opportunity is quite an interesting one because when you're dealing in very long-dated illiquid assets, the normal fund management model where the fund manager manages on an agency run principle basis. In other words, you take the risk and I look after it.

That doesn't work so well if you're entering in to 30-year infrastructure deals. So, a skin in the game model, where clients can co-invest with Aviva where we are managing the asset, but actually maybe 50% sits on our balance sheet and 50% goes to third party clients.

That's an attractive proposition to the third-party marketplace, but we haven't polished upper pitch. We can take an external to the same extent frankly because the demand for illiquid assets is so high from the internal client at this stage. Yeah.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. I'm sorry. Andy Hughes from Macquarie. A couple of questions, it's good about the kind of mix of earnings. So, £260 million management actions. Roughly, where is that in terms of the business lines, where is that up here? Is that kind of mainly legacy? Or is it coming through in long-term savings or even annuities?

And on the long-term savings bit, you've got £100 million of acquisition costs, which if you kind of is about 3% of the net flows on the long-term savings and you're making a margin of 30 bps a year, which seems quite excessive. I guess if the business grows is not an issue, but I guess plan B would be cutting costs.

So, presumably if you are in market environment where protection sales decline where savings business doesn't emerge, what kind of options do you have to preserve the profitability, given the operational leverage in many of the business lines? Thank you.

A - Andy D. Briggs {BIO 4311809 <GO>}

So, again I'll take the second, you take the first, Jason. So, I mean on the second, yeah, it's absolutely the plan to grow. And as I said, our growth last year was – it was good and we did well in terms of growth given we were doing the integration, but I definitely want to accelerate the pace of growth quite significantly going forward.

Things like the consumer platform, we built that and launched it towards the end of last year. We are spending marketing and development cost in continuing to build that, that goes into that kind of acquisition bucket.

What we've already seen in acceleration, so for example in the first five months - I talked there about £2.8 billion of net fund flows for the whole of last year in the long-term savings market. First five months of this year, we were plus £1.6 billion of net fund flows.

So, already quite a significant uplift in terms of the rate of growth. If we're not going to grow, we will get rid of that cost and we've got a strong track record of doing that and we will continue to do so, but we see it's an attractive growth market and we're prepared to invest in this capitalized area.

Of course 27 basis points as well is just in the Life company. So, as we start to get more of that, and we are already on the platform side through into Aviva Investors, and we haven't done anything on this yet today, and we may or may not do in the future, but we're thinking about how it flows through into the asset management side as well in terms of the operational leverage.

A - Jason Windsor {BIO 17967688 <GO>}

Yeah. On the management actions, I mean, there will obviously apply to where they are the two biggest profit contributors are, the annuity book, the cost reduction or change in margins and I would have go through in the annuity book.

And on the profit side, the legacy is quite a lot of profit work we can do on cost reduction there, that would appear as a benefit in the legacy side. So, the £260 million was a mixture of actions and it's a primarily a cost reduction and that will then be applied across all over the different products that are related to.

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

It's Andrew Crean, Autonomous. Can I just stick on that slide35 and just unpick the proportion which is legacy of it. From my math, I think £350 million over £1450 million is 24% or 20%, but I'm not sure where how that comes through, but the definition Friends Life had of legacy, included quite a lot of the annuity and also the individual pension side, and I can see the reason for that.

And I was just wondering, if you were to give a more full view of legacy, what would that be? Because I suspect in the long term savings, profits coming certainly from the platform business are not very much. So how much that is individual pensions?

And then the second question, how much of the £8.4 billion of solvency capital requirement in UK is tied up with legacy, because presumably there's a quite a good release come from there?

A - Andy D. Briggs {BIO 4311809 <GO>}

Okay. Again, I'll do the first, you do the second. So on the first there Andrew, what we've basically done is we defined in legacy those product lines where we're not actively going for and gunning after new business that kind of close product lines. And then, so for example the back book annuities, I've put back into the annuity and equity release block. And ultimately, we need to originate enough business to offset the runoff.

We expect the assets in that market, the £350 billion of assets in that market to grow by circa 3% going forward. We need to do our share of that by writing enough new business that offsets the annual payments out, so our stock of annuity grows as well. We're confident in our ability to do that. And that's kind of the way we manage it. We manage that as a block of annuities, we're looking to price the longevity, we're looking to run the operations and the people, the customer service operations around it. We're looking to originate the new liquid assets across both the new business and the existing business.

Then, what I've got in terms of the margin progression going forward and the ranges we've given on that, that allows for shifts between the different elements. So, in long-term savings, that allows for the expected, and I said in my sort of prepared remarks that we expect some revenue margin compression over time. But we also expect to get the benefits of operational leverage against a largely fixed cost base, net effect of that including the shift between that the individual pension elements of that into platforms and so on. Net effect is we're confident of at least stable margins going forward.

A - Jason Windsor {BIO 17967688 <GO>}

I don't have the answer at my fingertips. I don't think it'd be hugely different 25% of the SCL, but I'd have to check on as to how much of the legacy capital is part of the SCL, and I'll let you know afterwards or at another time.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks. Thanks very much. This is Blair Stewart from BofA. Andy, just going back to your very helpful breakdown of how the IFRS profits are generated across the product lines. The new business aspects for both protection and annuities look very high. Obviously it's taking a lot of profit upfront, can you just maybe talk about how that works in realities, especially on annuities side? The protection number was also very high too, though. Could you remind us or remind me of the split of protection business between individual and group? And thirdly, the speed of the runoff of the legacy book is quite quick. You said about 10% runoff a year, so it was surprising.

A - Jason Windsor {BIO 17967688 <GO>}

Actually, the last question is true. I know as we look forward it might be slightly dependent of asset growth and customers. But as we look, both the Aviva business and the Friends business that we do expect that and we have sort of modeled both scenarios. So, I think 10% is a good guide, maybe it might be 8% to 12%, but 10% is a good point in the middle.

On the protection...

A - Andy D. Briggs {BIO 4311809 <GO>}

I'm happy to kind of come in. What we basically do is we put prudence into our IFRS profits. And therefore we take a proportion of the profit upfront. And then the balance comes through in the existing business that they're after. I don't think we're particularly out of line with others in terms of how we do that, I think that's relatively not normal practice in the market.

And if you kind of look in sort of Anna (2:13:36), she talked about value of new business today at all, just because I don't think the generous investors are particularly focused on that as a metric. But, we're sort of taking just over half I guess of the value of new businesses as IFRS profit up front with the rest emerging over time, I think that's particularly unusual.

On the protection side, what I would say is overall in terms of the new business, it's roughly half individual, half group protection. The difference though is that the group protection side is - it's not written as a long-term contract, it's written as a two-year contract that's then renewable every two years. So, on the individual protection side, sorry, the group protection side, you don't get the same amount up front, that front base, it all emerges over time. It's a bit more like the long-term savings market if you like in terms of how that plays through.

Q - Greig Patterson

Three points. One is just, I love the way that you keep referencing value of new business, both the CEO of the UK and the group, you obviously consider economic value an important driver of long-term value in the stock. I was wondering in that context and also in the context that ultimately dividends supplied by free surplus generation and you've dropped that or you're not focusing or haven't provided that disclosure? I mean, what's all this thing about IFRS? I mean, when a investor says though, are they creating economic value, we can't answer the question. If they say we're going to pay the dividend, you can't answer the question. What's the thinking behind that? That's question one.

Second one is just in terms of AIMS, your current cash flows look quite strong in the first quarter and second quarter and your key competitor GARS seems to having problems. I was wondering what - in the structure of your AIMS product is different to GARS and in that you didn't suffer from correlations breaking down and they did. I don't know what - can you explain what's going on there?

And then just in the third point, I do appreciate the margin expansion point in terms of operational leverage and cost cutting. But post audit your gross margins coming down quite materially, if you listen to your competitors, and also, you've had increased competition, you have a new entrant in the equity release and you got quite an aggressive, possibly desperate competitor in the SME bulk space. I mean, isn't it quite aggressive to assume that there's not going to be competitive pressure in secular margin compression going on there?

A - Andy D. Briggs {BIO 4311809 <GO>}

So I'll take the first and third of those and you can take the second. So, I mean, we've given materially more disclosure today than we've given before on UK Life and we consciously tried to give you a much stronger breakdown of the stock of assets in the different areas on the margins. We've given you guidance on margins going forward.

I mean, I guess we are gearing it, Greig, around what we're hearing for investors when we're out and about. So when we're out and about, they're asking us about earnings growth and then they're asking us about cash remittances to Group and the kind of capital position. So what we're basically saying is we are looking to grow our earnings low to mid-single digit, right?

We're then basically saying that our post-tax IFRS operating profit, we want to be remitting at least 70% of that as cash remittances to Group each year and therefore, we want back to grow as well at the low to mid-single digits with the £1 billion on top of that separate. We're also saying that in terms of the underlying capital generation in the business that the ordinary dividends, that £800 million of cash remittance growing at low to single – mid-single digits, that is supported by the underlying capital and cash generation inside the life companies as well of the £1 billion of one-off being supported by the underlying – sorry, the management actions that we're undertaking in support of that.

So, that's the framework we're kind of presenting this in and we're basically doing that on the back of what investors are asking us about when we're at and about. So, I know you've got a strong liking of embedded value. I cannot remember the last time an investor asked me about embedded value. I mean, it doesn't happen. So, we are genuinely trying to put the disclosure around what people are asking us about.

A - Euan George Munro {BIO 2307409 <GO>}

Just on – I mean, the truth is I don't regard GARS as the only competitor, we're in a so much broader, broader marketplace for investment solutions and these days, I actually don't look at how GARS is positioned. I'm much more focused on my own business and the AIMS target – income target return.

What would I say is a number of solutions do seem to have an outflow of market exposure. So, you can predict that the market goes down i.e. in January, they will go down and some of them seem to have quite a lot of dependence on factors like Brexit, for example, which is obviously quite binary, but if you're taking a genuinely global view as we try to, why we do be so exposed to a local decision in an economy that's in 5% of the global economy, you don't need to do that. You have the world to play in, and so, that's why we didn't go down over there.

So Friday, Monday, we were up slightly because frankly 50-50 bet, turned out it was 50 to 40. But with something like that, if your entire – if you make a lot of money or you lose a lot of money on an event like that, you're not good at portfolio construction. So my view is, we need to be taking a global perspective, plurality of use, and really focusing on what we are going for the client rather than having one eye on the completion.

I think you've – if absolute return funds become lightly old balanced funds, and we all copy each other's positions, then the industry will go down together. And I wouldn't take any comfort from failing conventionally. So I really want to make sure we're doing the right thing for our client, we're highly diversified, and we deliver the outcomes.

A - Andy D. Briggs {BIO 4311809 <GO>}

If I just – I'll make a short comment on your third point and maybe Jason will check it as well. So in terms of the margin predictions going forward, we covered-off existing business and new business there. On existing business, I'm really confident because ultimately that's in our control. We've got that business on the books already. It's down to us to get the cost out the business. It's down to us to get the illiquid assets in place. It's down to us to digitalize our business and automate our business, and I'm really confident we will do that and we will execute, and we will grow those existing business margins.

Yes, there is some variability in terms of the new business margins going forward, that's the beauty of being a multi-line composite player. So, if margins in both annuities are not attractive, I won't do it, I don't need to. I can put the cash elsewhere, either within UK Life or elsewhere within the broader group internationally in general insurance. So one of the real advantages of being a multi-line player is, you don't have to pursue a particular line. If the new business in that particular line is not attractive at a point in time, you can redeploy your capital into other areas.

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

James Shuck from UBS. Just wanted to return to the annuity margin breakdown. You answered the question before around the protection side of things. I just want to understand the new business margin and the margin on the assets. I think on the protection side you said you recognized about 50% of the new business profit upfront in on the margin side. I guess could you just explain the similar dynamics as you see them on this annuity slide, on Slide 41, so I can understand just how that back book margin works and the new business margin.

And kind of associated with that, you have obviously got the margin going from 45 basis points, you're saying that can grow to close to 70 basis points over time. Can you split out the moving parts of how you get there? You have alluded to investing in liquids, the cost reduction. Presumably, there's going to be a re-pricing with the LTIR at the end of this year, which is going to be a drag on that number. So, could you just give me the building blocks of how you actually get to that margin improvement, please?

A - Andy D. Briggs {BIO 4311809 <GO>}

Yeah. I'm going to get, I'll let Jason cover most of that. But broadly what I'll say is when we get to half year, we will disclose on this basis, and we will also disclose the NB. So you'll kind of see it pretty clearly when we get to half year, and you can go back and look at last year and when I guess there might be some product categorization stuff you need to split. But basically, come half year, we will disclose on this basis. Generally, again, I say we're giving materially more disclosure than we have given before here. I'm not going to give the elements that lead to the margin split, and give all that detail. But you might want to make some more general comment in terms of the balance.

A - Jason Windsor {BIO 17967688 <GO>}

Yeah. Sure. I think you're right and – as Andy mentioned in the question previously, there is a high degree of confidence from the back book of annuities that we can reduce the costs. The cost will be a few basis points and the material uptick is in the asset return. The way that the re-pricing was, that's a spread, so assets and liabilities will re-price.

Actually, you'd say, well, can I continue to make swaps plus another 5 basis points or 10 basis points as I reinvest into different assets. So it's not a re-pricing point, it's actually a sourcing point across the board. So, in effect, we're looking at, can we get 10 basis point or 15 basis points more across the entire portfolio, now in a £50 billion portfolio that's a lot. So, we'll take this time and then to build toward that. So we're not going to heroically extra risk within that portfolio, but that's the big jump up as the extra asset optimization.

A - Andy D. Briggs {BIO 4311809 <GO>}

Maybe just to add – again, as I sit here at the moment, the first half of this year, I expect us to have dockings to that range in terms of the existing business on annuities. Yeah, so ...

Q - Unverified Participant

Just one question. On your annuities new business, are you expecting any sort of longevity transfers as well, i.e. offloading longevity to third-party or is it purely taking on your own book? And do you have any plans for your back book longevity, any thoughts on that? Because we have seen your competitors very aggressively offloading longevity, so can – and how liquid that market is, especially now, given that rates have just collapsed?

A - Jason Windsor {BIO 17967688 <GO>}

So, I mean we look at longevity very carefully across the group. I mean, we've got our pension funds where we entered into some very large longevity swaps. Historically, that's the market that we've traded into. The Friends Life book is about half swapped that came into us as part of the merger. We've got some longevity swaps that we do on impaired lives in the UK Life book, and we're looking at other smaller, more tactical longevity reassurances on the – some of the individual business this year.

We're not in the wholesale longevity swaps at the moment. We've looked at it very carefully and we'll continue to review. And it's the balance of do we want to take longevity or credit risk and how do we look across the market, that's on the new business.

Your question on the back book, I think, it's unlikely we know that we'll do wholesale longevity swaps on the back, but we'll continue to keep under review. It's an option available to us if we chose to go that way.

A - Andy D. Briggs {BIO 4311809 <GO>}

But there is a big difference actually between pre January 1, 2016 and post because pre January 1, 2016, you have a transitional deduction against your risk margin, so it's more marginal. The new business from the start of this year, I definitely expect to be doing longevity swaps on decent jumps in the new business from the start of this year both individual annuities and bulk annuities.

A - Unverified Participant

Thank you very much, everyone.

Let's have another quick break for 10 minutes or 15 minutes and come back in for the GI.

Yeah.

Thank you.

MANAGEMENT DISCUSSION SECTION

Maurice Tulloch {BIO 17683736 <GO>}

Good morning, everyone. In 2015, our seven general insurance businesses accounted for over £7 billion from net written premiums and operating profit of £737 million. Our combined operating ratio was 94.6 the best in nine years.

Turning to UK, this is our biggest general insurance portfolio representing around 50% of the groups, GI portfolio. I believe, our business in the UK is uniquely well-positioned in the market. Aviva is the number one general insurer in the UK, and we are growing in a controlled and well-managed manner.

We have an unrivaled brand that offer our customers a broad range of products and channels. Our success is underpinned by world-class core capabilities across the insurance fundamentals of pricing, underwriting and indemnity management. We excel innovation through predictive analytics from flood mapping to wind and store modeling to exposure management to fraud, detection and prevention.

After nearly three years as the UKGI CEO in June this year, I passed the baton on to my colleague, Colm Holmes, who joins me here today. Colm has been my CFO for the past two years. He possesses the intimate knowledge of UKGI to take this business forward. Now, of course, in my new role, I'll be sitting very close to how Colm does.

Today, I'm going to take you through why I am confident we will continue to win. The key questions, I'm going to answer how do exploit our market scale advantages? How do we maintain and strengthen our diversification? What are our sustainable sources of competitive advantage? And finally, how we grow our business?

Aviva has £4 billion in gross written premium, an 11% market share. We're the dominant player in both commercial lines or we're number one in personal lines or we're number two. In 2015, we delivered combined operating ratio of 95%. Our scale delivers significant benefits in the areas of claims procurement and data, our life blood in the general insurance company.

Over the last two years, we delivered a £100 million or 14% reduction in our operating spend space. Further opportunities remain to reduce the cost base even further, particularly in our consumer base where low-cost manufacturing is not just a prerequisite, it's a fundamental for future success.

Last year we returned to top-line growth and we'll continue to build on this momentum in 2016 with HomeServe and TSB, both coming online. But let me be clear, when we target growth, it's underwriting profits.

Now it may surprise some of you in the room that our business is actually very well-diversified, both by products and by channel. For example, in product, our personal motor lines account for only 27% of our premium, a significantly lower proportion than a number of our peers. And furthermore, the balance between personal lines and commercial lines is moving nearer to 50-50.

We have the broadest distribution footprint in the UK with partners, intermediaries, and a growing direct business. In fact, in personal lines, our digital channel is the fastest growing account, and now represents 35% of the overall personal lines portfolio and 60% of new business.

Our financial metrics demonstrate a track record of strong market performance. Our priority remains in line with the group's key strategy of cash flow plus growth. In 2015, we delivered operating profit of £368 million and a 95% combined operating ratio despite some of the worst floods on record which in December cost us a £132 million.

I expect our combined operating ratio remain in the range of 94% to 96% across the insurance cycle. Now it's the nature of our business that there will be headwinds and tailwinds that may move us in half-year of 2016. For example, our combined operating ratio will have a short term hit of 1.5 points from the new business strain of HomeServe. This will be offset though however as the deal matures and premiums earn through.

Our consistently strong results and capital position have enabled us to pass £1.1 billion of cash upstream to Group over the last four years. We expect to pay a further £900 million to £1.2 billion in cash to group over the next three years. We've also reduced the internal loan balance from £5.8 billion to £1.5 billion closing this issue.

Our business is resilient to external shocks and volatility as seen in our peer comparison. This resiliency reflects the benefit of scale and diversification, our market leading core insurance capabilities, our comprehensive re-insurance program, an action recently taken to reduce volatility in our latent books.

In terms of market outlook and ambition for our UK business, we are continuing to see improving trends in the motor book based on hardening of about 7% over the last 12 months. The homeowner book remains competitive, and despite recent weather events, were well positioned with the broadest distribution footprint in the market to grow this very attractive segment. In home, our challenge will be to maximize our partner platforms and accelerate on our direct propositions.

Specialty lines offer strong growth potential across a number of lines, high net worth, boiler and machinery, travel, mobile device insurance, and antique cars, just to name a few. In fact, in April, we launched our Aviva private clients proposition to tap in through an insurance market, the high net worth individuals, forecast to exceed £750 million by the end of 2017.

The commercial motor market remained soft and whilst there's been significant improvement in our combined opting ratio over the last three years, these results at 99 for me is still unsatisfactory. Commercial market conditions remain soft overall and the challenge is to retain the business we have and focus on the discipline. I will always choose profit over growth.

Why we will win? Our business has distinct characteristics, which are hard to replicate, I've already spoken about the benefits of diversity and scale. Our focus is on expanding our digital capability and I will give examples as I go through our main product line. Access to larger volumes of data deliver underwriting in marketing advantages. I will illustrate how we leverage our advantages and things such as flood mapping and fraud detection a little later.

The combination of all these competitive advantages gives me the confidence as we execute our growth plans. Turning the Personal Motor, I'll now explain how we're exploiting these strengths and initiatives in our key lines of business. Investment and digital technology means we have moved our motor business from being a predominantly broker line to a digital line. Today 60% of our motor business is via digital direct. More than half a million motor customers use the industries first online only customer journey and getting their motor calls from Aviva. Our direct motor channel operating ratio – combined operating ratio was 94% (sic) [98%] (02:34:25) in 2015 at 10 points better than the industry average.

This emphasized the low-cost advantage of digitization and automation. Our Quote Me Happy brand operates on a growth distribution ratio about half of that after digital insurers. Across all the motor channels, however, we used sophisticated underwriting techniques and analytics, which stayed at the forefront of innovation at times we change our prices daily.

We have begun investing interesting factors such as whether customers drive in the sun in the morning drive or drive into the sunset, on their evening drive. The type of tires that come on their new cars, the viscosity and the average rainfall in a certain area, all of these are factors. We also look at their mobile phones and whether they use their phones for data, text, or just phone calls. In conclusion, I'm confident our motor business will continue to benefit from our move to digital, our continued investment in analytics and the hardening market.

Commercial lines, we have a very successful commercial lines business at Aviva, the number one player in the UK. This spans small and medium enterprises, where we lead the markets and large corporate risk, where our book is expending.

In corporate risk, our ambitions for growth in this area will be balanced. To continue to focus on risk classes, where we possess significant intellectual capital in underwriting expertise. Our corporate risk combined ratio for the ongoing business is average 93% over the past five years. This market remains highly competitive for the challenging rating environment, although there are some signs of hardening now in large commercial property.

Profit remediation remains essential. We have pulled back from unprofitable segments such as elements of commercial motor. We've become more efficient with our distribution ratio, falling by 2.5 points over the last two years. Our gross written premium per FT stands at £1.2 million versus £800,0000 in 2011.

We're not done. We want to move our written expense ratio to 10% by 2020 from 12% today and what was 14% in just 2011. There is more to come. We're investing in new systems, in Automation, including Guidewire, rationalizing our organization through systems thinking. We will continue to invest in analytics. We have further opportunity to extend our market leading capability in personal lines in the commercial, such as modeling flood.

In conclusion, our commercial business is in a great position to grow. We've maintained a steady premium. We've delivered growth in the right areas with excellent retention rates and disciplined underwriting. I believe we're poised to pounce as this market hardens.

Returning to personal lines. Home is a cornerstone product, which represents about one-third of our personalized product portfolio. While reducing home premiums at first sight is disappointing, this is also a great opportunity. Following significant pruning of less profitable home business, our home strategy is focused on the digital channel where we have seen 7% growth in customer numbers since 2013 and are our market leading strategic and affinity partners.

For Aviva, this includes four of the five big banks with a new deal TSB that we just signed, which will open up access to a further 4.7 million customers. Home is also at the center of our TCC strategy. We've increased the number of home insurance sales to existing Aviva customers by 15 percentage points over the period.

Accessing our existing customer base of 16 million customers unlocks an opportunity to further improve our home business and improve our overall efficiency. I view the home market as being ripe for change. It allows us to offer customers new ways to protect their home through insurance prevention and emergency cover.

For example, last year we announced a five-year relationship with HomeServe, to underwrite home assistance products for their 2 million customers in the UK. And as in motor, we use sophisticated underwriting techniques and analytics. Our underwriting strength was demonstrated during the December 2015 floods, where our exposure was 60% of our market share. The value of digital flood mapping is proven. (2:38:59) areas that we used include distance from the road, slope of a plot.

In conclusion, growth from our home book will build on leveraging our distribution through banks, revitalizing the direct-to-home proposition and deploying world-class underwriting capabilities. What I've got here is actually big enough, and I assume that you can actually see it - this is York, for those that perhaps don't recognize it based on the flood zones. But what we actually did, the area in blue was our expected flood mapping at different levels of severity 1 in 10, 1 in 50, 1 in a 100.

The area that's red-hatching is where it actually did flood in this past December. All of the green dots represent residential risks, and the gray dots, which you can see in the concentration of the downtown area, represent the commercial risks. The red triangles of the claims, so in an area where there was probably about 200,000 potential claims, we had about 20 losses. This was flood and storms, the ones that are actually away from the river what it says to be as we had some wind damage.

After every single event, we learned something. So, in this particular event, we learned around vegetation on the sides of the river banks, we learned that our topography, which is accurate to 15 centimeters in areas that we revisit that, we looked at soil type and drainage, this isn't something that could be easily replicated.

This is Aviva proprietary information, it's something that we've spent the better part of the last decade. This is the sort of competitive advantage that I'm talking about.

The other one that - and I recognize this illustration may not work quite as well, so let me give you the voice over. I talked enough all about fraud, and when you think about our business, we spend rough numbers about £3 billion a year on claims.

The best estimate that you can kind of get on fraud - and fraud is organized crime. It's not being honest and it's exaggeration. So, across the full gamut, it's about 8% to 10%. So, in our business that could be £250 million to £300 million.

We deploy - what this is a social network. So I'll give you a recent example, it's been a complement in the press recently. But one that was quite outrages, we are pursuing fundamental dishonesty, you'll be glad to know, was a particular individual that his network made 55 claims to Aviva over an 18-month period. And what we actually track with these is the common link.

So, whether it's the IP address, whether it's the phone, whether it's the broker that they bought the policy on, whether it's the type of coverage he bought, whether it was the body shop or the tow truck operator, and once you find a link that glows red, it starts and then go back to the spider map and starts to connect people. And we use this technology to our one particular executive claims management company that had done 55 completely fraudulent claims.

What's going to happen in 2017, we're really excited about, it's great to have this capability at the time of an incident. It's even better to have this capability at the time of underwriting. As we're moving all of this in real-time to the underwriter's desk effectively to give us that sort of real-time insight. We think that's a tremendous opportunity. Context for us last year, we detected and stopped about £60 million of frauds. So clearly the size of the price is still ways to go.

Routes to growth. I mean to recap, we're ambitious and determined to continue growing our business. Our target is mid-single digits underwriting profit CAGR to 2019. We will achieve this vision by lowering cost to simplification, digitization, automation, winning in an increasingly digital world, expanding our products and propositions, home, corporate business, specialty propositions, prevention services, and cyber, build further customer loyalty, releasing our TCC potential, deliver our strong deal pipeline, making the most of our existing partnerships with our brokers and our banks, further broadening our reach.

In conclusion, earlier on, I said I would answer four questions about why and how Aviva will win in the UK General Insurance market. Let me summarize the key points. Our scale advantage is in data, claims, pricing, and fraud management are market leading.

We're uniquely positioned with an unrivaled brand offering our customers the broadest range of products and channels in the market, and the benefits of our digital and TCC journey are starting to come through, whoever (02:43:42) is going to talk to that next.

Our continued success will be underpinned by the ongoing investments in our core insurance fundamentals of pricing, underwriting, and indemnity management. All of these will allow us to maintain well-managed and profitable growth.

Our financial results have demonstrated our resilience through the insurance cycle, I expect our combined operating ratio to remain between 94% and 96% with mid-single digit underwriting growth through to 2020. I expect to pay cash remittances of between £900 million and £1.2 billion to group over the next three years.

In conclusion, I am confident that the outlook for UKGI is strong. Thank you. I'm going to ask Andrew to now come up.

Andrew Brem {BIO 17056073 <GO>}

Thank you, Maurice. Great. Turning now to digital. There are four questions we're going to answer. The first is what is our digital strategy? And the second is do we have the capabilities to deliver it? The third is, are customers actually responding to what we're doing already? And the fourth is, how does it deliver to the bottom-line? I'm going to cover the first two; I'm then going to hand over to Blair, who runs our UK Digital business to show that it is working.

So first of all, on our strategy. Quite simply, our strategy is to engage with our customers digitally so they choose Aviva right across insurance, savings, and investments. In that way, Digital unlocks TCC for us. And I guess, stepping back from it, in the UK with our 16 million customers, we've actually never really tried to do this before.

There are three critical elements, things that we've been building over the last year. The first of those is to deliver an outstanding customer experience. Our customers expect our experience not to be good for insurance, good for financial services, but is good as the very best, the Amazon, and that's why we now have the skill to do and that's what we are delivering.

The second area that we're working on, Mau made this very clear, is to develop more and deeper customer relationships. In the UK today, 2.8 million register to MyAviva, that's only a start. Of course registration is not an end in itself.

Registration is our lead indication in this area. What we're really looking for is the frequency with which those customers come back and engage with us and then eventually when it's right for them, choose Aviva to extend their relationship.

The third area is creating leading composite propositions, that's where we are working on too. Now those capabilities that digital assets were designing and building are negligible across the world. However, the recipe for success, the commercial strategy does vary a bit. So in the UK for example, where we have a strong brand and there is an established digital direct channel, we go direct to consumers digitally.

In other markets, France, Poland, for example, consumers are still interacting frequently with agents, and we have strong agent field forces, there where we go to market in an omni-channel way, it's up to the customers. Digital, agent that's fine, it's totally integrated.

And then third, there are other markets China for example, where we have partners, they maybe kind of our formal partners or just partners that we have affinity deals with, have millions of customers, that's what we leverage in those kinds of markets.

So what is it really mean, now? Why would customers choose us for this? It's actually quite straightforward. We know our 16 million customers, we can therefore pre-calculate, pre-underwrite their policies. We can put an end to the long form filling the quotes and actually just make one-click possible within insurance, so it's ultra convenient for them.

There's then a second point, which is in a sense more innovative for our market. Pricing by product is actually not value maximizing in a composite world. What we've actually found is that there are quite interesting and sometimes unexpected risk relationships between seemingly unconnected products. We can take those into account and value maximize at a customer level and price at a customer level rather than just a product level.

So that's all good for customers. What does it deliver for us? Well, look, I mean quite frankly this isn't sort of fluffy digital economics, it's quite straightforward. Ultimately, customers we believe are choosing to have more products with Aviva. At the same time, what we're finding is, they stay with us longer, both of those goes straight to the bottom-line.

And what the customers actually see? What we've created and continue to create is additional ecosystem, some of those elements like our public facing websites, are as much for non-customers as customers. That way you are inspired, where you inform yourself so you can make these decisions.

We then of course have our centerpiece, MyAviva which is where our existing customers can interact with us, and where these pre-calculated, pre-populated products already on the shelf for them.

We then have tools, those are for customers and potential customers, and those are where digital design really comes in. Fundamentally, they make – they help customers make smart decisions on what we know a quite complex things such as planning for your future, planning your savings and retirement. And finally, we have a set of apps as well.

In the last year, what was really also changed is the people that we have to deliver this. I've created an entirely new digital leadership team. We have some veterans from the industry, part of the early teams of AG and First Direct. We have people from lastminute.com, britishairways.com, a whole set of very, very strong digital consumer retailers.

They're experts in four main areas, I'd say. One is digital product and design, the other is customer analytics, that's absolutely critical for presenting relevant things to consumers at the right time. Digital marketing experts, we have a center of excellence there now, and digital engineering, that's where it all really happens. Those are the builders of our products.

It doesn't all take place in our garages, many of you visited – many of you were in our London garage last night, but those locations are incredibly important icons for our business to understand not only what digital really means, but actually the culture change that's going on right across Aviva.

And then finally I'd say, we believe this transformation is best done through digital businesses. And so, the clearest one that we've created, a separate standard and distribution entity is UK Digital. We also have digital businesses in other key markets and leaders in those markets.

Now I'm going to hand over to Blair, who is going to show actually what's being delivered in UK Digital today. Thank you.

Blair Turnbull {BIO 21725766 <GO>}

Thank you, Andrew. Now last night at the garage, a number of you kindly reminded me that you are digital natives. You've got your Bloomberg app on your phone and you're on Facebook. And you pretty much said to me just show me the numbers which is all very exciting and we'll do that today.

Definitely we're going to have a session where we show you tangible proof points around our customers and how they are increasingly using MyAviva to manage their insurance and savings needs and how this translates into higher margins and earnings growth.

Now, today we're introducing UK Digital to you for the first time. So let me set the scene. UK Digital is an FCA-authorized insurance intermediary. Now it's particularly focused on the direct channels but it supports all of our Aviva channels.

Now we didn't create UK Digital to be a company. We created it to really connect with our 16 million customers here in the UK. And MyAviva, the online site and the app, is where we bring it all together. It's where we bring our Aviva products and services together in one place for our customers. It's a great proposition. It's simple and it's working.

But before we review the MyAviva site and the progress we are making, I just want to take one step back and just reflect on the UK market from a digital perspective. Now it might surprise a few of you in the room to know that the UK has one of the highest internet usages at 91%, higher than the U.S., higher than Australia, probably even higher than New Zealand and also higher than Singapore.

Now what's most important is that 30% of all retail and travel is now completed on mobile devices, and that is expected to grow to around 45% by 2020.

Now thankfully, a love affair with online shopping on high street also extends to financial services. And, 40% of UK customers are choosing online as their preferred financial services channel, and 70% are using it to see their bank statements online.

But, and there is a but, within financial services, unfortunately insurance is lagged, and at the heart of this underperformance does that customer see insurance as complex and confusing, and with loads of paper and lots and lots of questions, and this will drive lower trust, lower engagement, and weaker loyalty.

Now, as someone in the insurance industry for 20 plus years discovering this wasn't my proudest moment. But, on the flip side, all this confusion is that – from this all this confusion is that a large number of customers are now seeking to have one insurance and savings provider simply to make things easier. Now, this preference in the case of MyAviva increased to over 50%, to have one services provider.

And so, the message is pretty clear. Many of us find insurance and savings is pretty confusing. But if we are happily consolidated with one insurance and savings provider, just to make it easier. And, what I want to show you is that right now with MyAviva, we believe we have that solution.

Now this is a screenshot of MyAviva landing page, hopefully some of you in the audience here you've seen this before, hopefully others will kindly see it soon, see me afterwards. Now the secret sauce to MyAviva is bringing all of their composite suite of GI, Life, health and investment products together into a single database.

And that you might be thinking ho-hum, ho-hum, but I'll show you connecting a 26-core Life and GI systems together into a single base – single database is insanely a hard problem. Now, having a single view of the customer enables us to display all of our customer policies and details in one place on MyAviva. And this enables the customer to do self-service.

So, let's try to think about a quick easy example. If you had three policies with us previously and you wanted to change your address, you couldn't do it online. Most likely, you would have ended up going to three different service centers, which does two things, makes it very frustrating for you as a customer. And secondly that makes it impossible for us to really do cross-sell.

So, when we bring it together and also it creates a lot of telephone calls, which we'll get that to later. So, bringing it together makes it a lot of easier. And here is where the fun really begins because previously we would have also asked you a bunch of questions, over 200 in fact. We keep asking you your name, your personal details each time you have a product because we kept your data previously, separately around the UK.

By having a single database, we bring it together on one place. And by having that single view of the customer, we only ask you once, which opens up composite. And most importantly it enables us to start offering customers pre-populated office as you can see on the screen. Now we've also recently launched a 20% flat discount rate on MyAviva with no fees, which is proving pretty successful.

Now, the key point on the slide and all these examples is that we're leveraging data to really change the customer experience and drive a step change in performance, and this is not easily replicated. Data is the brains behind really good digital.

Now, it's time to have a closer look at those much promised numbers. Now, this is a pretty cool slide, so I'm going to pop over here and have a good look at this, right. This is a lifecycle of a digital business.

And as we alluded to you before, it really starts with a single database, so we bring all of our customer details on to one place. This time, in January 2015 last year, we had about 4.5 million of our 16 million customers onto that single database.

In April, we had 8.5 million. By the time summer arrives, I'm hoping we've got about 13 million. By the end of this year, we want all of our customers, all of our customers onto that single database. Now, that's when we can really start to open up registrations, and bring people into the MyAviva site.

This time - beginning of last year, we did about 1.8 million people registered on MyAviva. We're now just a shy - a few shy of 3 million, and clearly 3 million is a lot. We've got 16 million customers that makes 13 million not registered and that's a lot more.

Now, once we get them registered, we really want them, as Andrew said, we want them to come back, we want them to come back, and this is why the MyAviva logons are really, really important. And what's pleasing about this, this is my magic slide, is watching it go from 350,000 customers per month coming to MyAviva to now we're roundabout 700,000 customers a month, and that's increased in the more recent months.

Of course, what really counts our real success is where the customers enjoy the experience, and the net promoter score, which is a proxy for customers satisfaction has significantly jumped up to plus 32.

Now at the end of the day, Mark would be remiss of me if didn't say this is the trading business, we have to do business, we have to do buy and sell quotes and what's pleasing is that the increased traffic is also resulting in increased transactions. On average, we do about 300,000 direct sales a month of those 70,000 are new business policies.

Now, last night a number of you also said to me, you get composite and you get cross sale, but can you really make it work and I should say feedback is a gift, it is a gift that keeps on giving. So, pleased to, we really do appreciate, the only way we improve the size, so I welcome feedback on it.

But let's have a look at that composite and building deeper customer relationships. Nice pretty bright slide. Now here is the key one, here is the key one, average policy holding, so this is how many products someone has with us, on average someone has about eight financial services products, on MyAviva they have 2.5 versus 1.5, which will be the average across all of that channels. So, we know when they come into MyAviva, we can build deeper relationships.

And at the heart of that is, they stay longer as well, the 78% there is how many customers with two or more products make it to five years. And that would compare to just over half for a customer with one product.

Now, we particularly like retirement customers. Retirement customers are over here on the 12, retirement customers come back about 12 times a year. Also, I have a much, much high propensity to buy a second product with us. So in 2015, our retirement customer had 10 times of propensity to buy a product with us than the GI-only customer, that's sticky, that's sticky.

So far let's just recap. We're seeing the traffic coming into MyAviva. We're building deeper relationships. This is a third leg and is about efficiency.

Now as Maurice said earlier, GI has been the standout in delivering 40% reduction in unit cost, a lot of this through digitization. Now why GI has led the way in this front, we see similar really attractive opportunities in Life.

Now, we have a number of pilots underway to digitize 30 million pieces of letters that we send out annually, actually that's quite a lot of oaks, if you look at it that way. We also have 13 million telephone calls that we have to take, and thousands of people literally get up and take those calls which often very routine. And we do 730,000 claims payments per annum.

So, traffic is up, usage up, composites up. We're building deeper relationships. We're using digital to be more efficient. So, how does this translate into enhanced margins and earnings growth? Now I want to use a very simple model to sort of illustrate this, and this is a model where a customer pictures a home policy and then would model that over five years.

And the first case on the left is where this come through an intermediated channel traditional model which involves commission. Now, we're going to compare this to UK Digital environment where we would take back to an existing retirement customer.

And what you see here is that when we sell to our existing base, we have a 30% total lower cost as Mark alluded to earlier, because there is no commission, and we have significantly lower acquisition costs.

Now through data analytics that Maurice also mentioned, we found that marginally, we have marginally lower claims cost through retirement customers as well that is just due to risks. So, digital direct is very simply a lower cost business model.

Now, we often share this with our customers. You saw that in the yearly in MyAviva 20% discount. So, this is really very much a win-win situation for the customer and for Aviva.

So, let's recap this journey. This is what sort of a top gear digital dashboard would look like. Starting on the left, the single customer database, it is about the data, it is about bringing that data over 16 million customers together in one place. We are hovering in the middle of year about 8.5 million.

By the end of this year, we want to be at 16 million. Now once we head them on to the single database we can bring them through in terms of registrations. Registrations at the moment are just shy at 3 million as I see it. We want to register pretty much everyone, we are pretty bullish in that regard and watch this space about how quickly we can go. I think we are going to surprise the number of people in the room.

Now once we are in there we've got them engaged. We want to build those deeper relationships to propositions that Andrew referred to get them repeat visits coming back, but just remember, remember what the research upfront said that more than half of people prefer to have one single provider for insurance and savings because they find it really hard.

So, we do this well. We will see those customer relationships deepening and ultimately when we get those three lead indicators right, would drive attractive earnings. We are planning to double digital direct operating profit from £150 million in 2016 as a plan to £300 by 2018 and who knows what the upside could be.

Now, I know insurance isn't safety for many people, but surely to a room full of analysts, that's a good thing and that's a good number. Now, for every Insurance Analyst Day we have, I seem to have about a dozen disruptive events and a number of analysts challenging with their insurers will be the next codec moment.

Now, I think Aviva can not only survive but really thrive in a digital environment and I believe Aviva will win. And let's recap on why. Because we have scale. We have scale. We have 16 million customers in the UK around one in every three households. Very, very few brands can boast that.

We are truly composite. We are truly composite. And that gives us reach into a customer's wallet. We now have and certainly gone very quickly on a single view of the customer, and that enables us to open up cross-sell and build those deeper relationships.

We've always had fantastic risk in pricing analytics, fantastic. What we're now doing is building leading customer data analytics. And data drives digital. And we have a cracking brand. We have a cracking brand. And this is arguably our strongest competitive advantage.

Now with that, I'm going to welcome some of my colleagues up on to the stage here. And we're going to take some questions. We've got Colm, Maurice, Chris Wei and also Andrew.

Q&A

A - Unverified Participant

(3:06:37). We don't have the mic on yet, one sec. Do you have a number on it, just, number 10.

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

So, Jon Hocking for Morgan Stanley. I have got two questions please. So, you've got a pretty good start in terms of the - some registrations with MyAviva app when you put the startup about how many people are logging in.

What sort of things are people doing when they're logging in? Are they doing simple things like looking statements and what's the depth of engagement, you're guessing when people actually do logins, it's the first question.

And then secondly, what are you doing looks very progressive, are you just digitizing at the movement, the legacy product? What are you doing to actually think about new things you can do with the product in additional environments as we increase interactivity with the customer et cetera?

A - Blair Turnbull {BIO 21725766 <GO>}

Well, look, it's excellent. So that we tracked very, very closely. We've got some great tools like (3:07:33) and Adobe that will track people as they come into the site and we know where they go and when they are clicking on it and how long we are staying.

A lot of retirement customers come into the see their balance, 12 times, so they do come in to see their balance, track what their funds are doing and then move around once a day, we do see them buying through other product sales.

We have a lot of GI customers, and we know that because that's been a strength for Maurice's business. So, we do have a lot of people, on most 80% of their GI customers are now doing end-to-end online.

So, they are renewing but coming in and getting in noticed that they're coming out to the renewal period and they are coming and doing it fully end-to-end. So, and we're also seeing on average every month, 3 million people come to aviva.co.uk, 3 million, 700,000 of those registering to MyAviva. So, we're getting a lot of visitors, who'll stop, who're just interested in what we're doing in insurance and savings. And I think we're meeting their needs.

In terms of the second question in terms of digitization. Note, we have a lot of pension customers, a lot of pension customers who have became unengaged. Through digital we can reengage them, we can reconnect them.

We can show them what the fund balances are. We can help them start to unravel the confusion around pension. So we will be bringing them all. We're very excited. Over the next few months, we're going to bring on 6 million retirement customers into the database and then we're going to start bringing them into MyAviva.

But once we want them – earlier Andy talked about the content-rich platform, the consumer savings platform where we really help people unravel this mystery called pension and help them save better because we know we have a savings gap. So, we're really focused on the content-rich side of it.

A number of you in the room last night, we had a pretty cracking conversation about connected cars, connected homes, connected wellness and apps and someone even showed me their app and their heartbeat I thought (03:09:25) are certainly talking to them, good fun.

Now we want to do that. But we're also very, very aware we need the brilliant basics right. You need to be able to decide your policy, be able to transact before we can start talking to you and linking up with your wellness. But that's very much on the radar, that's not too far around the corner, but we want to do both. Brilliant basics and really start to get connected.

A - Andrew Brem {BIO 17056073 <GO>}

We haven't talked at all today about the sort of 5% or 10% of our effort. We have Aviva Ventures, which gives us an eye into some really interesting very different sorts of businesses. Some of the innovations that we're doing on the side. That's because they're not delivering the big value today but they are acorns for the future.

Q - Unverified Participant

(03:10:11). On your 20% customer discount, loyalty discount, I might have misunderstood it, but it looks like it's just for Life products, are you - is it for - if I've got a motor policy, do I get a 20% discount on my home policy on the quote. It didn't come across on the screen like that.

A - Blair Turnbull {BIO 21725766 <GO>}

Yes. Some of them - what we have found is that when people see a pretty populated quote and it's got the number in it, they're actually much more likely to take that quote as opposed to just seeing a flat discount rate. But actually the flat discount rate applies right across their product, right across their suite. In fact, six months ago, we had numbers going everywhere, different product rates everywhere. We completely simplified it and we put 20% across the board and it's proven to be really successful.

A - Maurice Tulloch {BIO 17683736 <GO>}

I think what I would add James turns (03:11:01) that was a starting point. If you go to lifetime value of a customer, you'll get far more sophisticated. And the benefit and also to build on Jon's question, if you take someone that has a pension right, and the permutations and combinations are (03:11:11) because I'm starting a pension, I'm going to home, so that's the point of this example. Depends on the home, quite frankly what it gives me, as the risk taker is effectively a view on the underwriting risk attributes.

So, it's a proxy for credit. So, on basis of, whether it's a monthly pension contribution, whether it's an annual based or a tax refund or a bonus or based on a quarterly, I get different variables on that risk attribute. That allows me to instantly, one, pass the savings. And not everything is a savings. I could have someone that's an equity release once again going to home, their propensity to maintain them home is probably slightly lower than normal, because they've actually entered in to a contract, it actually might be slightly the other way. So that's one thing it's the risk attribute and then there's also the distribution costs. So someone that hasn't - I haven't had to pay for them to come to Aviva Direct, they didn't have to go through any intermediary or channel, they're on MyAviva. I mean the distribution costs are effectively as expensive as the email that was sent out.

So those are the two streams that build up to in the case of the 30%. And I think the other one on product is a simplification of having that data from the pension where I know their name, their address, then I go and make a call to the size of the home, the square footage of the home. I have the data that says the crime rate, the water rate, the fire risk, the wind risk for that customer they may only have to tell me is that they have a small base business and they have seasonal home, so I'm worried about it being vacant. So, your question that goes from here to here. So, you have to think around a number of dimensions. That's where it really gets.

A - Blair Turnbull {BIO 21725766 <GO>}

Maybe if I can just add one more on that is and the key point is – it's just a lower total cost model and by having – not having the commission, not having the acquisition cost of going above the line on television being able to go to your existing base, by digitizing the paper and the calls and doing up to 89% end to end processing. That enables us, it just gives us a lot more room to get back to the customer and for us to keep a good attractive margin too. The model just works and being really honest, no one else can replicate that in the UK. We have the scale, we have the model, we have some really good propositions. We just needed to bring it together and the juice to bring it together was that single customer database.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. Thanks guys. It's Andy Hughes from Macquarie. Just a question on the things you probably haven't really said on the kind of direct digital and non-direct business. And so if 60% of the new business is coming through the direct business, if I look at the charts on kind of page 72 on the home one, they're not growing rapidly. And I guess we would expect about 80% of the most of new business to be on the direct. I call it direct because obviously it's equal to digital. And so the implication is I guess nearly all the motor policy profits are coming from the direct or digital channel and the broker business was a combined ratio of over 100% and it looks like the direct business has a combined ratio of like 90%. Is that the kind of numbers we should be thinking about? And in terms of how this moves over time and so, is the broker business going to shrink from here or/and the direct business grow? And in terms of the direct business, is there a large acquisition cost in year one and does it kind of drop down for renewal profits? Thanks.

A - Maurice Tulloch {BIO 17683736 <GO>}

So let me – I'll rely on guidance I've given previously and answer as much I can and note your question for future guidance. So previously, I'd certainly talked around the – and I'll talk motor. The motor book was underperforming. If we go back to the Analyst Day that we did 2013, I actually flagged that at £102 million and I flagged our direct business at £92 million. I did say, earlier on that our direct motor COR in 2015 was £94 million. So, you could extrapolate on effectively a one-third, two-thirds, what the broker book was.

I'd also say though that I'm somewhat channel agnostic, so I look at every distribution channel as a manufacturer and I factor in the distribution costs and I price it appropriately. So, in the last 12 months in the broker motor book, I put through close to 22% rate. Now, I've had a corresponding reduction obviously in volume, but the results have improved. So the starting point wasn't where it is. There's obviously distinct advantages both to persistency, longer customer attention, the ability to buy more. The consumers are actually wanting to go direct on motor. So I think that we'll continue to see that, but I'll still look – I won't look to run broker motor at a loss. And on the first question you asked was on home in terms of reduction. So two things were at play there. So, one, you can see that we've maintained the COR in around 90%, 91% and that's last three years against three relatively tough years in terms of weather events. The top line is falling for two reasons. One, we took some action on some underperforming books, so we had a big block with one of the big regional brokers of about £60 million which we exited. But the other thing is our bank partners a lot of them actually stopped selling and that was a little bit around the regulation in terms of the fear of advice coming out sort of the back of the PPI. What we have seen with the bank partners is they're now starting to sell again and they are starting to leverage their branches and we feel confident because we're seeing the early signs of that in 2016 and with TSB coming on line we feel better. So, that's sort of the – the sort of short-term view on home and why the revenues have come down.

A - Jason Windsor {BIO 17967688 <GO>}

Okay. I would just add to that that in 2015 what you're seeing is 2014 earning in (03:16:51), which was a very tough motor year. So what you will expect to see in 2016 is the hard market that we saw in 2015, will actually start to feed into the 2016 numbers. So, broker will continue to reduce in motor, that's a fact that will actually happen. And that's something that we are pursuing the direct business against the broker motor business in personal lines than in high networks and in some specialist motor areas, you will see some broker activity, but you're not going to see it in the mass market area.

A - Maurice Tulloch {BIO 17683736 <GO>}

One additional point that people haven't made yet, and the reason why we're anchoring it on retirement and registrations, is we won't disclose the exact number, but the dominant majority of those customers don't have a GI with us. So, that's actually the opportunity when you register and engage them on MyAviva and you present them a pre-populated quote for home and auto, that's the additional sort of juice that we can – we are really looking forward.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi, Ashik Musaddi from JPMorgan. Can you give us some sense about how this quote mechanism works? So, for example the quote you're showing in the MyApp or MyAviva is that your like a regular quote from MyAviva website or how does that work and the discount is, how do you compare the discounted quote versus a price comparison website, how does that look like because I mean 20% discount sounds quite impressive, so any thoughts on how this quote mechanism work gross and net basis?

A - Maurice Tulloch {BIO 17683736 <GO>}

Yeah. I think, so at this point, we looked across thousands of variables. And in a perfect world, which is probably my earlier question, that the discount would vary because not every set of attributes is perfect. But we looked at sort of what's the blended and we wanted to sort of get into the game, so that's where we've ended up at the 20%. The reality is to the illustration that some customers may get 30%, some may only get 10% or 15%.

So, I think as Blair talks about the evolution, getting people all on to MDM and then getting a single view of the customer, the laser-like approach will get even more precise, so it was a starting point the 20%.

A - Blair Turnbull {BIO 21725766 <GO>}

What I would add to that is, and in the fortuitous position where we have two good brands, we have a Quote Me Happy that plays in the aggregator space and we do pay a lot of attention to what's going on there in terms of pricing, and then we have Aviva. And Aviva has – the brand depth is a lot different. It's emotive and customers do stay with us. So we're able to really be competitive in both those spaces. Because we understand customers are different and that's what really nice about having the Quote Me Happy and Aviva brand.

Q - Barrie Cornes {BIO 2389115 <GO>}

Hello, it's Barrie Cornes at Panmure Gordon. Couple of questions, if I may. First of all, Maurice, I think you talked about commercial combined operation ratio looking to reduce the expenses from about 12% down to 10%, how are going to achieve that, and what sort of your timescale? And the second question was on the commission side under commercial – under combined operation ratio, I see it's coming down fractionally, but a 20%-odd still feels intuitively high in the lines of business you're doing. Question, does that include commission overwrite or profit share making it up to 20%?

A - Maurice Tulloch {BIO 17683736 <GO>}

Yeah. So two questions. So, the first one, we've actually come from 14% to 12% on our commercial lines expense ratio. The view to then go down at 10% is effectively leveraging the investment in Guidewire. So, if you think around Guidewire actually it was David and I who made the decision four years ago to, that was going to be our global platform in General Insurance. We probably got off to a slightly quicker start in Canada, where we're now live with claims and policy. The UK we started with commercial we probably – I would've started with something else, but we have seen that journey through. Angus Eaton runs that. That's now live. We've got about 60% of our business now on Guidewire. Once we get that journey, it's effectively releasing underwriters. It is a pure – it's a pure expense savings play so that's where we're seeing the further reduction.

And with respect to the commission, it has come down gradually. What I'd say it's a tough market because of the aggregation by the regional and national brokers or the smaller brokers. The game they've historically played is, we'll buy this and they come down to the markets and say we want more commission. We're on record with one other insurer in the market. We said earlier this year we're not playing that game anymore. And in fact we're actually looking to drive down commissions and actually put more in the variable spot. It does currently include the fixed and the variable. We'd certainly like to get the relationships with a little more skin in the game so but we're on record of not paying for your deal making.

A - Blair Turnbull {BIO 21725766 <GO>}

Okay. I will just add as well that we have now rolled out Fast Trade. So one of the reasons why our costs will continue to go down is we'll directly price a lot of the smaller business in the commercial line that have traditionally been underwritten locally. So, we'll reduce their footprint as a result of that and what you will actually see is a lot more business being straight through priced on the smaller end of commercial. So that will actually reduce the operating expense of the business and coupled with Guidewire, you'll see quite significant cuts into costs of our business going forward and that will also impact the commission line.

A - Maurice Tulloch {BIO 17683736 <GO>}

The other point I should mention, we launched very stealth like a direct proposition for the micro end of the market. We defined that as five employees and under. And if you think about the UK, 87% of businesses I think there are 9 employees or 10 employees and under. Without really marketing it, when it was sold over 2,000 policies. It's part of the market that and there's no commission involved there. It's part of the market that is completely underserved. The average premium is circa £800, £900. There's not a broker in the UK that's kind of getting on the bed to get the 15 points, 20 points on that. So I think you're going to see that part of the market also move to a more efficient distribution and consumer friendly approach.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks very much. It's Blair Stewart from BofA. Maurice, the tone of your presentation seems significantly more optimistic than the combined ratio target, which doesn't really imply a huge amount of progress as far as where we've been. And actually it doesn't look like it's enough to offset the investment margin headwinds that you're going to see, which you agree with that. And secondly in the markets where you are operating with agents, what's the feedback or the pushback perhaps from the agency because it in a sense digital is a competitor for them?

A - Maurice Tulloch {BIO 17683736 <GO>}

Yeah. So it's a really good question. I was actually thinking about it in a post Brexit world. So I think if you go to - if I go back to Tom's slide and you take our yield at 2.7% and falling to 1.7%, and we could argue maybe it's 1.5% depending on where markets and the macro world ends up. Personally, I remember our float in UK GI, so let me strip out the internal loan, it leaves me with about a float of about £4.5 billion. My average duration is about four years.

So, that one point differential circa £45 million, that will come on, pretty evenly over four years, so sort of £10 million to £12 million, £12 million a year (03:24:21). If you go to the target we set at 94% to 96%, when I first started in this business, you could run 102%, because we are getting a 11% on our float, 98% became the new 100%, and now kind of 95% to - 94% to 96% is the new 100%.

I think if we're lower for longer, absolutely expect us to set an even lower target with respect to COR. Listen, in our business, we - in our pricing factors we put in, expected market yield. So, if we're going to be lower for longer, then at some point, certainly the guidance we're giving today isn't - I'm sure, Tom and Mark, would be challenging me to alter that range. So, that's my thought.

The confidence though, was about the ability to take out further costs, and while we haven't given a clear number, I set some directional things in terms of my cost income ratios in my different businesses. I have confidence in the fact, that I have four of the five big banks, and we really haven't landed those as the kind of growth engines (03:25:17) they should be. I've got a direct business, which for my area of manufacturing is starting to hum, and I expect it to really hum, and I know these gentlemen from my left and the right are on the hook for it to hum.

And, I actually have a commercial business, we're number one in the market, and my analytics have been light compared to my personal lines which continues to prove event and event again, that we can deliver. So, I have lots of levers that I haven't pulled. This was a business that was 98% to 102% historically. We've now got it down significantly lower, General Insurance is the game of ventures (03:25:49), £1.40 million of underwriting profit. So my – perhaps, my ambition is running ahead, in my head of where I think I'm going to get to.

The second question and probably the best and this is a UK day, so I'll be very light on the answer. If the fear of traditional distribution in bringing digital to play, there's this sort of meeting of the minds and you lose a bit. If that fear, the best example would be Canada. So when we announced the partnership with the Royal Bank of Canada, and we have a £4 billion (03:26:22) Canadian broker business, and if the fear was they we're going to run to the hills, none of them are running, none of them are running. Frankly, as a manufacturer, I'm (03:26:33) consumers will make their choice on advice, convenience, simplicity. So I think those days are perhaps gone, that would be my take on it.

A - Euan George Munro {BIO 2307409 <GO>}

Okay, could I just add to that that one of things that you're not seeing in the whole motor and commercial list of growth that we've had in MDI and specialty lines. We've grown from £300 million to £600 million in three years in MDI. We have a huge focus in specialty lines, where we expect to see a lot of growth. Eventually, you'll see these as lower margin businesses as they develop. So we have what we were showing you today is actually what we're doing in our core businesses. But in specialty lines, we expect significant growth in top line business. Now if we can write that volume at that core level, and whether it's down or up, that's a significant growth in our operating earnings that you should expect over the coming years as we get traction in those areas. And there are areas that we're underweight, but areas that our brand should play extremely well in our capability and our distribution. So it's something that we are very much focused on delivering in those other areas.

Q - Unverified Participant

Maurice, you're (03:27:48) open to IT questions. One is, have you ever pondered why Guidewire is taking you four years to or five years to roll out and others have taken I think the quickest is 18 months. Does it tell you anything about the business or potential of the business? And in terms of the fraud module, I've seen similar presentations from competitors on that sort of mapping of fraud and some of the competitors are actually the underwriters and currently making use of that data as well. I'm just trying to understand how easy is that to buy off the shelf? Or is there some kind of bespoking that prevents people from copying that?

Third question, re digital on both the Friends Life and Aviva pensions plan, not once have I been contacted, emailed, once tried to get on the Friends recently to try and figure out what my policy value was et cetera and struggled with that. I mean, as a client, I'm not feeling that digitalization, is it producing a data warehouse, and can't integrate the data at a bottom level, I mean can you explain that.

And the third thing is a question I get back from investors all the time is, hey, I've just presented -seen a Allianz presentation, or a Direct Line presentation, or an AXA presentation on digital. I mean digital is like slide three on everyone's presentation. I'm not suggesting you're not doing it better, but I'm just trying to – if you could differentiate what you're doing versus them as opposed to just being a composite versus a monologue, but what's your key differentiation?

A - Maurice Tulloch {BIO 17683736 <GO>}

Let me tackle the first two and hand off to the third one. So I think on Guidewire, listen, you have to learn from your challenges in life. So our first install was actually UK corporate commercial. If you think about any software tool, it's akin to a sausage factory. When we started with corporate commercial and it was because we had at the time a 166 (03:29:40) from the regulator here, we needed a better system. Think of it as the brokers across the street with their complex bankers' boxes, perhaps the software wasn't built for that kind. So, that was learning.

What I would say since then, both the UK and Canada, we did claims in 16 months under budget. We did personal lines in Canada that went live in May in one year, fastest install ever in Guidewire. And we've started to go live with claims here in the UK and parts of it. So, the first one which I did allude to comes with the warts and the pains, but certainly we've learned from that. You're right, anybody can buy, there's a bunch of companies Dedica is one, SAS (03:30:22), is another. They make those social spider webs if you like. It does come down to how you deploy it. It comes down to the richness, the amount of data that you have. So frankly you can get an awful lot of false positives if you don't have scale. And in our business, if I ever go in, through a court and I say this person is a fraudster because the computer told me so, I'd tell you the bad faith claim and our most important value is our brand. So we aim for no bad faith claims. It's also then your network of claims investigators. Any time we get a yellow or a red, we just then guide our scarce resources of investigators and which ones they're going to investigate. Just because I said it's red, doesn't mean it's fraudulent. So there is – anyone can buy it, how you use it and the amount of data you have are absolutely critical otherwise it won't work, so. And the third question?

A - Andrew Brem {BIO 17056073 <GO>}

Yeah. I guess, on the other points that you mentioned. The first, you unfortunately haven't yet been contacted as a Friends pension holder because our journey to getting all of those customers on to our single data base as Blair explained isn't yet complete. It will be by the end of the year and we look forward to welcoming you digitally as well as commercially. So we're on that journey very frankly.

On the differentiation, it comes to a couple of things. One, the primary one is actually the quality of execution. So the work that we're doing at the moment, Blair referred to brilliant basics, being able to engage with us digitally. There's just this huge difference in quality of our execution. Secondly, is that we are creating some reasons for you to come back and engage with us digitally. They are a little bit different. Some are in tests at the moment, some are actually there already for you to again look at.

So for example, home checker for example gives you unique insight that comes from within our own proprietary systems about where you live. That in of itself isn't enormous, but things like that are reasons for you to come back again and again. And ultimately, we're looking for stickiness and engagement that's not simply about selling products. It's about sharing with our customers things that we think they're going to find useful and interesting.

And in terms of really radical new ideas, there hasn't been - like, really radical new business models. That hasn't been the focus of 2016. But as we've said, we have a partnership with Brent Hoberman's Founders Factory. We have our own investments. It's those sorts of things that we think will in due course change the industry rather than just make buying and choosing great insurance and savings products is brilliant.

A - Jason Windsor {BIO 17967688 <GO>}

If I can add one. To me the most important point and I've spoken to a lot of peer companies and management teams, and other companies. I think what I truly believe is the fundamental belief from the board down to my senior management colleagues that we need to disrupt ourselves. And that is not an easy thing to do. That is the recognition that if we don't run ahead of the competition that we will be disrupted ourselves.

Now the true points come through really strongly. You heard Maurice just say he's really clear that - he's agnostic to channel. It's about the customer. I mean bluntly there aren't that many peer management teams that I've talked to that will fundamentally act on that. So it - the secret sauce is actually very much in the cultural belief and the leadership in the organization.

The other bit is we're not looking, although we're doing a bit on the venture side. We're not looking for a magic bullet, there is no such thing. The challenge is actually fundamentally digitizing our core business and it's painful, it's expensive, and we need - just need to do it. Otherwise, the magic bullet can never be inserted into a traditional business. So, the fact that we are fundamentally looking to change the way we do business, at the same time, you get a lot of the best - the benefits that Andy and Maurice have talked about in terms of cost reduction, that all fits in together as one model.

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

James Shuck from UBS. Two questions, please. One on the average policy holding. You mentioned the 1.8 figure on average into the direct channel. I suppose, I mean, best in class is probably about 6 or 8 something like that depending which country you look at, that that'll be best in – absolutely best in class. Where are you seeing you can get to in terms of the average holding per customer in that profit guidance that you've given and where would you actually aspire to going? That's my first question. And then secondly, I mean, we've heard a lot about kind of driving Internet traffic, digitizing the core. It's still quite basic stuff. If I were to hazard a guess, you're kind of still on page one of the digital manual.

And I'm kind of interested at what stage will you actually start forensically mapping the customer journey. So you actually can understand very clearly the touch points and what areas you can get better and slicker at, strive up Net Promoter Scores that may well be better than others but at 32 are not particularly strong?

A - Blair Turnbull {BIO 21725766 <GO>}

Maybe I can tackle that, I'll be the first to say, I tell everybody who listens we're 1% finished. We're at the beginning of a journey and I think we're making great progress. But this is the new world. This is how we're going to do business. In terms of the APH, what does good look like, well, it looks 2.5, we're not happy with 2.5 and that's under MyAviva of course the direct book we have about 5 million direct customers, that's at the 1.8 or 16 million customers come down to the 1.5. So, we know, once we get them into MyAviva, we can build those deeper relationships, we can have more contact, more repeat visits, we can be more engaging with them essentially.

So, that's why getting them on to the single database, getting them registered, bringing them in, having those connections is so important. But look, Wells Fargo in north of eight, a lot of the best banks, top five banks in the world are sort of north of five. We have a big suite of products, we're clearly not happy with 2.5 and we need to get that up. And we have the health, we have the Life, we have GI, we have investments, we need to get that deeper relationship.

And in terms of – are we on the first page of the manual. I see a lot of digital, it's all about shiny toys and labs. I think we're very ruthlessly focused as Chris said, we're very, very focused on the customer. And what we're seeing on the customer satisfaction is, our customers being very satisfied. It's been a big leap up to 32 on the Net Promoter Score. We'd would like it to be north of 50, 60, 70, that's where we want it to be. And we're really – we are very, very focused, very forensic, on what's causing the pain points, what's causing the pain points, and what's causing them to say, leave the online rep, and having to ring up and then call someone and ask if they can't get the right answer. We're very focused, things like change of address, it might sound simple, but we have hundreds of thousands of people wanting to change their address because, they move around and are very frustrated that they couldn't until recently do that online.

So, things like seeing all their balances, the gentlemen over here who couldn't see their balance on Friends Life within coming months, we're going to bring that in. And come see me afterwards for your Aviva one, because we should be able to do that right now for you. So, we – look we are very focused on those pain points and we're systematically hitting them down. And look last year we probably in total with 1x, how we deliver (03:37:59), eight or nine releases where we upgraded. This year, we've probably done 80, next year, we might do 10-fold on top of that. The key is agility and speed and keep moving it forward. And I think that's what we're starting to become quite good at.

A - Jason Windsor {BIO 17967688 <GO>}

If I can just add one more point. The road map is clear and it's slightly harsh to say, we're on page one, just because that first page, which is getting all of our legacy systems to talk to one other, getting that one customer view is a massive page, that's a thick page. But if I can link it back to what the first question Jon asked, why we're cross-selling GI product right now is it's a easy to understand relatively commoditized product.

So car insurance everybody gets, right. So if you make it really easy for somebody to buy a car home, travel, that makes sense. The next phase is to – and by the way, we understand that the minute you throw a form in front of customers, they'll bounce. So you've got to make it really simple, you've got to pre-populate, pre-underwrite. So it's a guaranteed issue. We're now designing products, and David's team is leading the way on this around health, easy, affordable, complementary health products that are easy to make decisions on, that's the next phase.

The last phase is to go, instead of closed Aviva platform is to then become an open platform. So we don't know, where the hundreds of millions of customers are going to come from next. We think platforms like Amazon are a pretty decent bet. Facebook, Instagram, WhatsApp is a pretty decent bet. So we've got to start engaging with open platform customer regeneration engines. And by the way, if we've got 16 million customers with brilliant insight, we become a very attractive platform for other partners then to potentially distribute through us, which is potentially another revenue stream all together.

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

Thank you.

A - Unverified Participant

Thank you.

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Just before we move on. Just some admin. There was some oversight at the start of the day. This should have been the first slide, my apologies. This will be reflected in the pack that is on the website and sent to you.

I'd now like to invite Mark to finish this session.

Mark Andrew Wilson {BIO 7102576 <GO>}

Wonderful backdrop. What I would like to do just before we sum up is may be open up to any final questions. I'm hoping we set off at the start of the day to try and give you the data that you wanted.

Now, being the group that's in the room, I would have been very disappointed if you haven't had asked for more data.

Of course you will, I think it can be single analyst meeting of heading to be single country of voice have that. But hope you have a lot more detail particularly in the operating units in the UK.

The other thing, I was hoping was that you would see and get more exposure to some of the team and I think you've got that. What I'm hoping you're seeing is that you get a very consistent message from all other teams.

I'm hoping you've seen that there's very much an alignment of strategy and approach between the team. And hoping you're seeing for probably the first time in our history, now, this does make us unique, that the team, there's a huge amount of crossover on the projects and the approach and the sort of composite model and I do think that's fundamentally unique.

And certainly in the digital space, I do think that's sets us apart. I'm not sure of seen any group in the world that can actually do that yet.

So, what I would like to do is open up for questions and then we'll have a bit of a sum up. Any sort of final questions on any subject. I've got my colleagues here in the room with me.

Q&A

Q - Unverified Participant

A quick question. I mean, when you first announced the expense targets...

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Yeah.

Q - Unverified Participant

Of £225 million. You said that they were conservative, it was definitely a sense that they've been improved upon.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Yes.

Q - Unverified Participant

And there is being sort of general silence over them ever since. I'm just wondering, why that is, and whether it does reflect the fact that you can hit them, probably not beat them and you want to reinvest?

A - Mark Andrew Wilson {BIO 7102576 <GO>}

I've said quite the opposite of silence. I mean, before looking at the facts, the facts we say, we'll get £225 million in three years, and we bought up four, the one year to say at the end of this year. So I'd say that's an increase not a decrease. It would've been – we consider coming out with a target on Friends integration of higher target.

It would've been a bit mischievous to do that because we can't actually – not really differentiate between the old Friends business and the old Aviva business, because there've been the integration is so well advanced.

Are there more cost savings to come out of that group, as a whole? Yes, there are. I'm not going to say anything more on that today. But, clearly, there should be more cost savings coming out of the group, now Maurice and Colm said, I've mentioned that before, we haven't given the numbers yet, we may do at some stage in the future, not today.

But – and there's two parts of that, I believe on the General Insurance space, we're going to have to reduce cost to compete into the digital world. I think that is inevitable. And the rest of the group, particularly Life and the Group office and some things like that, we still have a lot of room to move in that and some of the overseas businesses too, there's a quiet of bit of room to move there. The message, I would give on that is, we're an optimist on expenses, yet.

Q - Unverified Participant

Okay.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

You've been a busy man today. That's not as long as the last one, is it?

Q - Unverified Participant

No, no, no. That I'll take the point. The Solvency II.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Yes.

Q - Unverified Participant

Do you think there is potential for any movement on that, I mean, because I remember that speech of the...

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Yeah. Good question.

Q - Unverified Participant

In the Brexit - post-Brexit environment, should we not see some relief coming?

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Yeah. Well, a couple of things, you've seen in the last couple of days transition, we say sort of announced, I'm not sure we actually (3:44:17). It surprised me little bit, because that wasn't - I don't think that was new news, I know the media picked it up as new news, I don't think to see this new news. With respect of the transactional reset of quite some considerable time.

I think, the key areas, I would focus on. Do I believe of withstanding here in another couple of years Solvency II will be the same for us? No, I don't. And I think Sam Woods in the PRA is being very clear in the guidance on that, particularly things like the risk margin, I've spoken about DVA as well, which clearly isn't consist across Europe.

So, both of those things would have been effects for us. Now, so - do I think that will happen? I think they've been pretty clear on that. Have we got any idea of the time? I think the time has become less certain with Brexit, because you might have regulators that don't want to move. I guess, assuming we are exiting the EU would seems the way we're going, and then, the regulator here will have their own ability to determine what they want to do.

However, I should also note, that they've been very clear, that they like Solvency II, it was pretty consistent with ICA and they don't see major changes, save on things like the risk margin with a - have given pretty strong indications there will be.

So, that's where I'd look at. So, I can see Solvency II being improved from the current system that is still need some work, (3:45:58).

What else on any subject to what, okay. Yeah. (3:46:08).

Q - Unverified Participant

Just two quick ones. One, obviously you're throwing off surplus capital even after raising the payout ratio and efforts will inquire what you'll kind of actually invest to M&A. The shape of the group going forward and in the areas you'd like to strengthen?

And then may be kind of just associated with question just asked, but - you given a target range of Solvency II ratio and obviously one can play around some of the calibrations and interpretations according to different financial authorities.

But if you get a benefit from a change in calibration, do you then shift your target range? Or if it pushes you 20 points above it, is that in surplus capital?

A - Mark Andrew Wilson {BIO 7102576 <GO>}

The second one is a big question. I'll start the first on M&A and I want to give some very clear messages in the M&A today. We don't see ourselves and we're not considering any large scale M&A. We do not need it.

The Friends transaction has been particularly helpful for us especially after Brexit, I mean, it did provide us with some products with capital benefits and other things and clearly the benefits we see when we announce that transaction have come to more than we said, that was helpful.

We don't need and are not looking for any large transactions and there's no direction. I can never ever will rule something out in the future that'll be a bit foolish, but it is not just something that went out GI back at all.

Now, tactical bolt-ons, yeah, sure now. RBC was a good example. RBC had about 15% roughly, when you took on the diversity benefits on top of that, about 21%, it's significantly accretive. And I think probably most people we met, liked it.

If there was stuff like that, that balanced out existing portfolios and existing businesses at the right prices, well then, that's fine. What have this stacked up against other things though and in my presentation, I gave a list of other things to use the capital for.

We can, Tom said, this is surplus capital I'm talking about, and if get to the surplus position, well it could be paying down expensive debt, there could be buybacks, there could be whatever. And I think it would be, important to me to say, well here's a ranking because I think it all depends on the market at the time and it all depends on conditions and I think that's what all of you would expect as well.

The Solvency II, do you reset the ratio. So, the 150% to 180% is actually a mathematical formula and technically if you have a look at the formula, it could actually move in the range. The problem with doing that with loans at the moment, you could actually move your range down technically.

The problem with doing that is, the market will you guys will understand, but the market generally would understand moving your range down, even though technically that's actually how the maths work.

So, I guess people could do that. I think, the important thing to note, though in Solvency II is, as all of you know it's different to a bank, so 100% is there, minimum capital, a 100% is one in 200 event. So it's different from an insurance company and you see the retroact from, for example the Government or the Bank of England, or regulators is fundamentally different, when they talk about insurance companies to banks, because they see insurance companies and banks in fundamentally different positions and we do deal with these people every day.

And we are – I didn't mention it beforehand, but I think for the first time in a very long time, I have to be bit careful to say it, but I think the first time the UK in terms of the heads of its two main regulators, you have two first-class regulators.

They're tough, they're prudent, they were best, you can pick up the phone and you have best discussion with them. So, Andrew Bailey go to the FCA, I think he's got a lot of work to do, but he's got some really good people in there and he is a good regulator and we know him well.

And Sam Woods, you probably haven't has as much exposure to Sam. Sam is an ex-Treasury. He is a key leader, he's got to be a good thing. And he is a first class regulator. And what you want in regulator, who someone who is prudent, who is tough, who ring you up and give you a tough time. You want that in the regulator.

But what we have now is people are pragmatic and they are smart and they are willing to listen and that's what we ask for. So, I'm actually very comfortable with where we are in terms of the regulators now, and hopefully, it's a new phase of forward-looking regulators, and I think they have probably shined in the last few weeks.

Did I get all that right, Angela (3:51:06)? I did it? Good.

Q - Unverified Participant

All right. Thanks very much. So just stepping away from the operational information deal, which is very useful but just on the investment thesis of Aviva. It seems to me you are positioning as a stock that will grow, as a company that will grow fairly modestly, a balance sheet that seems to be fairly robust with an overarching emphasis on the dividend.

Yet the stock trades in a 7% yield, which suggest me the market is not convinced over the sustainability or the robustness of the – how you want to phrase the commitments, it depend.

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Yeah.

Q - Unverified Participant

What's the market worried about or should be worried about? Or some of the risk factors that you are worried about?

A - Mark Andrew Wilson {BIO 7102576 <GO>}

I mean, I think that's actually a pretty good summary as you have said it. I'm coming back to play that that better myself. And obviously the only way we really answer that is keep on delivering.

So, in 2017, we get to 50% payout ratio and we get good sustainable growth year-after-year-after-year, well it's going to be the low yield in that. What's the market might worried about. I think the market is not worried at the moment, but you guys are probably in a better position to answer that than I am, it's (03:52:28), isn't it?

And – but Aviva is fundamentally a self-help story. So, if we get under too much pressure on growth, well we'll cut some expenses and we'll make sure we get the growth. It is fundamentally a self-help story here.

So, if you've got – if we had a broken balance sheet like we did a few years ago, and not lot of people still have long memories on Aviva and I get that. And if we had a broken balance sheet, it wouldn't be able to be as confident as we are, and if we didn't have all those capital when cash flow coming up, you wouldn't be able to be as confident.

If we didn't have the team, you've seen the team today here, I wouldn't be as confident, but we've modeled all the scenarios and the thing you won't see though, is those since last in the year (3:53:17), we look at the downside and the upside, the main risk here is a macro risk.

Now, a lot of investors I talked to, particularly in the U.S. would say, well you're an insurance company, so therefore you're really sensitive to interest rates. Well, I think you all know that's total rubbish for Aviva. I think we are probably quite unique in that positioning.

We're not overly sensitive to interest rates or spreads. Now would be more sensitive if you had a lot of large scale defaults and that's not the same as interest rate cap obviously, but if you had a lot of large sales, I thought that would impact us more. But our balance sheet is in fundamentally different position.

So, to macro risk issue, I might add though that clearly if you look at us and a whole lot of stocks in the UK, the market obviously doesn't believe anyone is going to get any growth. So, I think there may be a disconnect between, I'd suggest the sell-side, that's mainly the one, and the buy-side perhaps.

I don't know, you guys maybe able to give us far more guidance than that, but the only thing we can do is just keep on delivering the results. Now will this year be more modest in terms of growth than it otherwise would have been before Brexit?

Well, it's actually gone a lot before Brexit because there's quite a few months leading up to Brexit, there's a lot of uncertainty in this market in particular. Yes, it will be more modest in terms of growth than it would have been otherwise Brexit, but there's still going to be growth.

And in a market where we can get growth and we get an increasing dividend and we move to a 50% payout ratio, I think, that's quite some investment pieces. Yeah? And that's up to the market and you guys decide whether this is good enough versus others, right? And that's the way we think about.

Yeah, okay.

Q - Barrie Cornes {BIO 2389115 <GO>}

All right, so Barrie Cornes, Panmure Gordon. Just following on from Blair's question railing your answer. Last night, a lot of you guys were talking how good and upbeat things were, I think (3:55:18) especially surprised about the share price.

Now, I know you're in a closed period at the moment, but I just wanted – prior to that, obviously a few, maybe week or so ago you won some close payout, doesn't see lots of buying going on by Directors' and PDMRs?

A - Mark Andrew Wilson {BIO 7102576 <GO>}

Yes, we have, I bought some month ago at, don't remember the price here, Chris might be able to help me, I think, it was £4.36, I bought, by the way. I feel it was cheap then obviously.

So, and we have been in the close payout after sometime now coming after this event, so with that being the close periods, there has been some bond, that's good point, thank you. That wasn't to say that, by the way. And the truth – I actually bought up for my daughters.

Any other questions?

Well there is sort of – this is two summary slides at all. If I just put the next slide upper for me. I'm not going to go through the detail of this, but hopefully we wanted the key questions that you put up. This is being a fair bit of proof points and things, I mean I will pick this point that Aviva is a self-help story. I know there is a lot of fear in the market, I get that.

The fact is that we have – about half our earnings outside of the U.K. we've got 44% of that earnings in U.K. alike. It's low but less than when it was a couple of weeks ago, because the pound has changed the ratio a little bit. But we have got this remarkably diversified business for the strong balance sheet that isn't sensitive to interest rates or spreads, and I think that's really the key point to get home.

If you go to next slide of this, if I guessed this really three takeaways, to get it down, really, really simple. From what you have heard today, we have resilient balance sheet, which is I think remarkable less in this time.

We have growing core franchises and yes some of them will grow faster than others, obviously, but some will grow faster than others, but we clearly and I think you've seen to the team today. You've also seen a fair bit of enthusiasm and belief and passion in the business and you can't fake that. You just can't.

And lastly, which I'd suggest a lot of industries won't be doing this, a lot of companies won't be doing this. Sustainable dividend growth even in this period, I think is a pretty good outlook.

Now we are going to be cautious. We are going to more prudent and cautious in this environment than we otherwise would be. Of course we would be. And that's what you'd expect from us. But I can close three things to give in a very low interest rate environment in the sort of market going through is a pretty compelling investment proposition.

So, thank you to the team. I should also say, I know many of you know John Lister from many years who are following us now. John is actually retiring after the half year. The half year results in UK Life will be his final signature, I guess.

He's been thirty years with Aviva. He has been a remarkable servant of the group through the good times and the tough times and has been one of the architects that gives us sort of financial position and balance sheet that we are in.

So, John, I wanted to publicly acknowledge that in front this group as well.

So, on that note, ladies and gentleman, please join us for lunch. We can take further questions and thoughts in. And thank you for attending.