S1 2021 Earnings Call

Company Participants

- Adrian Gore, Founder, Group Chief Executive & Executive Director
- Deon Marius Viljoen, Group Chief Financial Officer & Financial Director
- Unidentified Speaker

Presentation

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Good morning, everybody. Welcome to our presentation this morning. Thank you very much for the time and it's always an honor and a pleasure to present our results to you. We are all reporting for the six months on our interim results to 31 December, 2020. You would have seen -- I assume you would have seen -- our results. It has been a period of very strong robust performance. We grew by 19% operating profit, our new business grew by 3%, and our COVID provisions remained at ZAR3.4 billion of others -- exchange, I will take you through that. Headline earnings were down 10%. I'll explain that later in the presentation and normalize headline earnings were down 1%.

Four themes to the presentation, I'm going to take you through them and essential forms an agenda for the talk this morning. First, I would like to demonstrate the robust operating performance and the adequacy and prudence of the COVID provisions. Second, I want to show the operating model and growth model. Organic model has driven growth and it's now likely to drive growth going forward and it's creating, I think, very strong position in capital and liquidity. Thirdly, there's an emerging opportunity obviously in a COVID and post-COVID world of our growth and we are starting to pivot towards that and the model plays to it. And then finally, I'm going to take you through the businesses, how that position in four strategic strength South Africa, the UK, China and the Vitality Group, globally. And it illustrates, we think our businesses are really well-positioned.

But to start off, I want to talk to context, which I think this is a remarkably difficult time. I think it's a profound time and it's a very, very tragic time and we need to reflect that the six months being really over the real waves of the pandemic. We've seen 112 million people worldwide infected, 2.5 million deaths, we've seen over another 140,000 deaths. We estimate in South Africa of 120,000 and in the UK, it is a difficult time, the time of grief and loss. It's important to acknowledge that, I think, the presentation obviously deals with numbers in capital and the rest of it, but the reality is, we must take time to decide, just to reflect in the state on the environment that we're in.

I'd say to you from personal perspective, we've seen different waves of emotion and phases through this initially just understanding it, learning to live with it. And I think now hopefully, we're in a period of some positivity. There's hope for the vaccine on the trade globally being rolled out and hopefully the South Africa is no different. So, we are entering, I think, a period of hope. And so, the context is -- positive one, but rest remain in the environment. The second point of context I wanted to make is just the issue of our relevance. I think an organization like ours, the core purpose is to make people healthier, a life and health insurance at the center of the pandemic. We don't share that responsibility. We do not share our responsibility in the South African context. We have a very important role to play in helping the country never get through this and it's a responsibility we take very, very seriously.

Allied to that is the importance, I think, relevance of our business model to an extent in the environment for sure is going towards wellness and resilience, the importance of healthcare, importance of digital engagement and the importance of corporate purpose, I think, Discovery is well-positioned. And then the final call out to our people, we've lost 5,711 people in the Discovery community in total. We've lost total of our staff to one person a week. So, it's something really to reflect on. We feel their pain and just express deep gratitude to our staff, who worked tirelessly over the spirit and the set of results and the progress made is due to the people of Discovery. So, I just express gratitude in that regard.

So, let me start with that, and I want to talk about COVID. I think it frames everything about it, what we've experienced over six-month period, our expectations of the future. On the chart on the side, if you see, this is essentially the -- of how we've managed this COVID environment of focusing on our people, our members and customers, supporting our country and the communities around the world, we can where we operate. And then, critically with foundational and financial strength, resilience and discipline, which is required in pandemic to focus on capital expenditure and prudence. And I think across this entire thing has been a considerable amount of work focusing on flexible work environment.

We are working with all of our products for our customers in every regard. And I think critically working to help in navigating the pandemic and I'm proud of our role of Discovery in the South African vaccine roll-out program. Our people and teams were involved in many aspects of it, who are working with government, who are working with business. And I can say there's a lot to be done and a lot of potential risk in the rollout, but I think they're good people. All are being government in business. And our teams working hard to make sure the vaccine roll-out program is successful. I'll talk about that a bit later.

We do remain of the view and I made this point in a note sent to our clients, we do remain with the view that we require a coordinated approach. The realities that the vaccine, at this stage, is in short supply has to be rationed. Secondly, several risk factors make certain kinds of people susceptible to serious illness and death. And therefore, you need a consult -- you need a coordinated effort in summer to make sure that things are done properly in a prioritized way. So, at this stage, we are very strongly of the view that we need to work hard as a country and to rollout the vaccine profit. I think that mirrors efforts in the -- which has done remarkably well and hopefully other country.

So, at the core of the conflicts is our role in COVID. What I mentioned in the UK at the slide, I think, I hope you're clear. I have been talking about to navigate through them. On the left-hand side, you can see the waves in the UK, actually the first wave predating this reporting period. And then the second wave now and you can see in the middle of the chart that color shows the different strains of the virus. And in orange, you can see from November, the more vicious periods that started coming back the performance in the UK.

You can see the second -- kind of the second wave that was obviously more serious than the first. I think the issue points from our perspective on the right-hand side is just the mortality we saw in the Vitality UK client base, actually went down quite substantially in the second wave. So, for whatever reason, our modeling tends to show that our people, our clients are so much sheltered bed at homely. There are maybe other factors driving it, but to the extent, the first wave was much more significant financially than the second wave. We have seen very controlled position in our business in the second wave. I think that it is comforting and hopefully as the UK vaccination program, which is really now becoming quite remarkable, really starts to -- starts to bite, I think we are getting stability in the UK.

South Africa has been different. If you look at the South African waves, the first wave happened just entering into this period. The second wave has been much more pernicious, -- our target market has been much more marked. So, you can see in the right-hand side of the chart, if you look at the mortality, the client exposure, the financial exposure has been dramatically higher in the second wave and into post reporting period to 9th of January -- that fall of infections and mortality is enough, of course, that's important both the personal and human level, and of course, the financial level.

But of course, the question is from our perspective trying to understand, what happened in the second wave? And what really drove this in a different way and our analysis and modeling shows that sitting at the base if we are looking at the mobility to the coast, the holiday period in certain super -- events, where a lot of gatherings and those kinds of things. You can see the effect on the infection rates. On the left-hand side, just looking at -- mobility data, you can see that mobility came down quite substantially, obviously in the lockdown phase and after the first wave. But inside the graph significantly moved up in the December period, as people moved out to the coast and holiday areas. And there we saw certain super spreader events, now we analyzed, for example, certain post-matric celebratory events, lot of young people, gathering together.

You can see in the chart there, we actually model the points in that they're kind of the shaded area in the slide in the middle. We modeled when those events happen and looked at infection rates amongst the 60 to 20 all band in the light blue. And you can see literally days after that super spreader set of events, you get those massive spike. It's not quite clear that you can see the effect of the holiday period and the gatherings that have the effect of creating the second wave. And on the right-hand side again, the South African variant from September climbing in a rate of infection becoming the dominant strain in the second wave, it doesn't appear to more dangerous, but much more contagious, I think people know.

So, we kind of learning through the second wave, that gatherings and super spreader events have significant danger. And therefore, social distancing and trying to stop those gatherings if we can, as we understand as we work through towards vaccination and immunity, I think is a crucial message. Important point though is one of the observations we've made. And you would have seen this comment made by -- it's made news globally around the fact, that we believe that over 50% of -- infected and contracted COVID. It's obviously a -- it's not a great thing to say from a human perspective, that from a community perspective that it may be very, very good news. And where we -- our calculator we did this strongly, simply looking on the left-hand side of the chart, if you look at the number of deaths through the two waves, the chart in the orange, as you can see the lower chart of the official -- you can see, but then the excess deaths that were not attributed to COVID, you plot them against the wave, you can find that they're exactly almost in line with those two waves.

So you would deduce that the majority of them are related to COVID. Those just haven't been classified as such. And so, death rates of 40,000, so actually we are close to 140,000 and those excess deaths were quite substantial. So, we are starting to get a handle on the actual number of deaths in our COVID, when you look at the data graphically. So, I have got to be patronizing, but effectively you can work out how many people in the population of being set on the right-hand side of the chart. The number of deaths is equal to the total population that's being infected times the mortality rate. This is kind of a straight equation.

We know the number of deaths, as I've just explained, and we know from the science and the data, the mortality rate and rework out, we can now work out the population infected. The population infected is just a transformation of the equation. It's a number of days divided by the mortality rate, which you know both. So, in the matric, you can see on the bottom right-hand side of the chart we are just flexing on the vertical assuming 85% of the deaths are due to COVID. The excess deaths on the left-hand chart came down to 95% and then flexing the mortality rate somewhat. We know there's age, weight and -- and what you find, when you divide these two things actually find that the population infected to get that number of deaths is over 50% by any scenario. So, as I said, I think, that's an important observation, when we think about the way forward. As the fundamental issues trying to understand is it going to be a third wave? How big is it likely to be? What are the human issues around? What are the financial issues? And clearly from our perspective, how do you think about our provisions in --

On the left-hand side, so this is again a very busy chart, but there is no definite science about reinfection rates, understanding the third wave is a critical issue in the context of community, if a lot of South Africans have had COVID. The number we settled on is, assuming that 1/3 third of people that have had COVID can be re-infected by other variants. And taking that statistic and then subjecting it to the probability of being in contact. And I was testing positive, you get about a 8% chance of reinfection. So, we've done a lot of work on trying to understand the risk of reinfection, given this variant. It could be future variants, and of course that presents a considerable danger. But if we're trying to understand what a third wave may look like.

And I think, you can see in the right-hand side of the chart, this is kind of just empirical finding. We kind of looked at the number of people that are in our base have been infected. We've multiplied this out by the modelling numbers if you've got this from 8%. And we expected about 700 people to be re-infected, once you see from actual infections, the vaccine are 174 as you can see. So, what is it saying is that our assumptions are probably not that incorrect at the stage. There are many variables, different strains, et cetera, but it's giving us sense of how to model in the reinfection risk. So, when you bring this altogether, all of your observations, you try your best to understand, what a COVID wave may look like in the future. It's a function obviously of immunity factors, people are immune, one minus immunity, those aren't immune. That's a function of herd immunity of reinfection rates of vaccination as -- vaccinated induced immunity.

Then it's multiplied by the probability of content with COVID people that evaluation, social distancing and community prevalence and then finally, -- mortality is a functions of resilience index staying. They are using more of the technology, all of those factors. We try to base the model work we think, third waves may look like and what you see on the chart is the two waves and then the projection going forward of a potential third wave. And it is a callous way of showing it, that we're trying to show the human cost of a potential third wave in terms of deaths on the right-hand side of it. So, if you get a kind of a second wave runoff, not that happens that is very possible if you social distance and we're disciplined in the -- towards vaccination. It's possibly get around not a dramatically significant third wave. That could probably be -- the number of deaths would probably be 20% of the second wave. If you have a few super spreader events during the Easter period with reinfections, we get about 100% of the deaths of the second wave. That's about 90,000 people or so.

And then, finally, super spreader event with infections that's a vaccination somehow hasn't affected kind of half way down to 44,000 or deaths. So, those are the assumptions we are going forward on. We are taking an optimistic view that hopefully and we have vaccinations getting out there, and hope we can avoid some super spreader events. But in our provisions, we're all making sure we understand the effect of the potential of what could happen. Two important points come out of this for my side, maybe at a policy level from a Discovery perspective. The first is, we want to stress the need to avoid gathering, especially during these holidays. And need to try as a country, not have what happened in December happen again. And that they have a whole lot of policy implications and those discussions obviously government must have been making beside on.

But secondly, the vaccination program has to be successful and it has to be record until you extent the kind of framing real thinking about it. And I think, policy makers as well, I think about is, can we get a high risk groups vaccinated by midwinter, that could be a big victory. So, you will know that this Phase 1 healthcare workers, Phase 5 high-risk groups and Phase 3 the balance. If we can get Phase 1 and Phase 2 done by midwinter as a country, we'll be in a much better place. So, to an extent, I think, two real strong observations from our modeling comes out of this. If we achieve that, I think that's of course, index outcome.

I will take you from Discovery's perspective, we're doing a lot of work in our client base. Discovery Health is stratified and our members into Phase 1, Phase 2 and Phase 3. So, we know exactly who people are, what the risk factors are. Are they are stratified by these -- in the left-hand side of the chart, so we have about 27,000 workers are, about 1 million in Phase 2 and another million in Phase 3. We're doing a lot of work on the right-hand side of the chart. Despite around building a capacity that educates people through the vaccination process that illustrates benefits on subscriptions et cetera. And we are building registration portal and more to help people register to the national process.

We've also a parallel system to help these complementary will guide our people into that system and help government in the process.

And then I think, we're proud of the fact that our people are part of consortium that is looking to build 40 to 50 vaccination sites around the country, working with our partners. And others to making sure that we can actively vaccinate people at quite a rate. We estimated we get to try, we could probably vaccinate 20% of the total population of probably public and private. We estimate at around 40,000 to 50,000 vaccinations per day. So, as a country, we need - 250,000 a day, that would be remarkable. We could probably do 20% of those in this kind of initiative.

So, I would expect you will see over the next number of months, a massive of focus on the vaccination program. I think the budget process -- the budget yesterday, a lot of the funding work we just got this taking place. And again, I think, our team is working very hard and very well. I think excellent people in different sectors to make this happen. So, that is the context for the presentation our operating results reframes how kind of environment we've been in. Incredibly how we think about going forward. So, we make you a proven key provided for.

So, let me deal with the results now and look backwards and just make the point that operating profit grew by 19%. We've repeated that obviously. I think the point we made if you actually look down the chart in the -- two days ago, across the board I think that the all the businesses performed really, really well. SA composite business 5% and UK composite really churning around nicely at 56%, and then very strong performances from partner business Vitality Group and Ping An Health. And we spent about the amount about 1 billion same as last period in our new business growth.

To make the point I think discovering a continues operational excellence in these. He is doing remarkable work in the context of the vaccine and COVID. Discovery Life assessment has actually navigated a very difficult pandemic. You'll see we spent I think about 700 -- paid out about ZAR700 million of planes in the last number of weeks. So, it really has been testing in regard. You'll see that the performance has been excellent, strong positive operational experiences illustrating the business, exceeding expectation. Discovery -- slight reduction and good quality earnings, there were some issues in the previous period that boosted earnings. We expect out the rest of the year for that to grow and hope our business will cross a billion by the end of the financial year. Discovery had a remarkable period, obviously had a very good strong margin, but at the same time growth is strong as you can see.

And Vitality Health a strong, a very strong period. You will see the quality of the earnings, the stability and their vastness. And then I think probably to an extent the story of assets critically to turnaround the VitalityLife. I think great in the super growth in net profitability. And then superb performances from Vitality Group and Ping An Health. So, more to be said, but I think the performance across the group and has been strong and I think quite deep in terms of our businesses.

Talking about the provisions, we made the announcement that we set up 3 billion, 4 billion of provisions. And at the start of this period, we kind of back this and we back this 3 billion, 4 billion going forward. They're made up of different components. And there's much more detail if you wanted which is probably in the presentation when if I do a bit of an overview. In the case of the UK, we started up about GBP65 million of provision. Essentially with the second wave, the reduction in claims in VitalityHealth has continued. So, there's been a continued growth in provisions in the VitalityHealth business -- of about GBP69 million, GBP70 million.

In the case of Discovery Life, we started out with about 2.1 billion or 2.2 billion of provision. You can see that is half, that half is ex-provision, half claims provision. The realities these in both the UK and so we've seen talking of excess. So, if anything the provisions turn out to be very, very prudent. Of course, the claims of -- some of that provision, they are very much in line with what we anticipated. We strengthen the provision somewhat of ZAR153 million. And then new business has fed the provision in addition. So, we've ended up at a slightly lower number, but I think well provide. So, the claims provision now can sustain going to June, fully a first wave of deaths. So, ignoring vaccinations and herd immunity, we have in the claims provision embedded in Discovery Life, the ability to sustain deaths even to the first wave. We saw probably about 50% of the second wave. It can gets really proved, and of course, we have a less provision that is available should it be needed. So, we're feeling pretty comfortable and confident that the provisions of ZAR3.4 billion are both appropriate and we hope to be and we hope prudent.

I wanted to just make a point about the difference between the operating kind of level of 19% growth and the headline earnings of minus 10%. We tried our best in the sense announcement to explain this, I think importantly these factors have nothing to do with cash flows, capital liquidity. So, these are issues of volatility in the IFRS statement dealing for CFR, I would like at the end of the presentation maybe to take us just through some of the details issues and indications.

But to give you a sense of them, the first rejection, well I can sort of the charter, the movement in interest rates have been used to value -- insurance assets and our insurance contracts are really discounting those cash flows. Those rates have continued to climb, and climb during the previous period and we explained this in the previous period. That continue to happen during this period. Of course, it's my turn around in the six months, as we'll see. But the effect of that is really to bring down the value of the asset and the insurance contract. And that does flow through the --. It has not impact on capital cash flow if we normalize it out.

On the left-hand side, importantly, what we've always done and just given the capital commitments we managed the offshore investments very, very carefully. And any capital it's committed or acquired offshore, we typically age out these exposure, to make sure when the capital is needed. It's available or we put it into the various subsidiaries in different ways to make sure the capital is available. So, we never want to take the currency risk, and therefore the currency hedges, intercompany loans et cetera. What you'll see on the left-hand side of the chart, is just what happened to the Rand. What you see is that in fact on average the Rand did weaken by 11% to the dollar and 15% to the pounds. If you look at it from the earnings perspective did weaken. But if you look at it at a spot level, at the date of the reporting period closed on at the end of June -- at the end of December 2020, what you find is that the Rand has strengthened by 6%, against the pound and by 16% against the dollar.

In effect of that obviously you have to mark to market those instruments. So, you get this intra-period volatility in those hedging instruments, ultimately when the capital is required, the economic value of our strategies pays off. But in these intra-period year ends and interim reporting cycles, you will get this kind of volatility. So, it has no impact on cash flows of capital. I would say it's not ideal if you have this -- if this fluctuating up and down. But we do think, it's worthwhile not to take any risk from the capital pain to make sure the capital is carefully allocated and is always there to meet expectations like a about seven transfer potentially in few years' time. That's fully hedged and it's in the capital pain very tightly et cetera. So, these are kind of intra-period volatility. I hope over time we can manage our volatility better, but it should have no impact on the actual operating performance. And Deon I think in the -- maybe you can take us through some of the balance sheet. I'm affected I think is just to explain it -- good job.

This is a further explanation on the face of the income statement. On the left-hand side, you can see the operating profit up 19%, you can see the effect of the interest rate effect on Discovery Life further down. You can see the ForEx effect that I spoke about. And on the right-hand side, you can see it graphically that the operating earnings all that 19% growth. Auto finance costs by 20% growth. The currency effect on those hedges and structures drop to down by about 20% in the -- further 9%. So, the 30% operational is explained by both moving the interest rates and moving the currency gain. Deon I'll leave it to you later in the presentation.

And if you turn to operating model and taking -- I'm not doing a good job, I'm taking way too much time. But let me keep going, I want to do about the second part of the presentation. And just explain, the operating model and illustrate how the dynamics I think playing very, very well. If you follow Discovery, we know that we start our business organically from new to emerging established. We are very carefully focused around the cycle of generating cash, making sure our capital model is intact. And make sure all the variables and structures are fully in place.

I think in the period under view, the efficacy of the model, I think, is very strong. On the left-hand side of the chart, this is really taking the business is 19% operating. But the cutting it by phase of evolution. So, instead of by country, you can see new at the bottom, emerging and at the top the establish businesses. What you'll see is, is what we like to see. The establish grew by about 10%, which is a good growth rate supported by the UK, obviously. And the emerging businesses at a multiple time growing by 81% and the new business is where the investment in two steps ahead. So, the growth was zero. If you look at the right-hand side of the chart, you can see the effect of especially in the emerging businesses that growth of 81%. The emerging business is now represent the lump of businesses, few businesses and first 0.5 billion of earnings in a six-month period. This is become like 1 billion of earnings on an annualized basis we are growing very, very quickly and we're very happy with that.

If you look at the new business, the 8% % increase versus 8% total. We show that the front 3% that's core new business, 8% includes some of the in-house schemes done by Discovery Health. It gives you a sense of what's happened in a similar view. The minus 5% is not the ideally outcome. I think it takes large businesses were face-to-face and -- the face-to-face distribution do their job during a pandemic as you can see. But again, you can see the borrowing effect in the emerging business at 24%, a very strong performance. And then the new businesses VitalityInvest, Umbrella Fund, DBI, et cetera are really coming through very-very strongly over 1 billion of new business. So, you get this kind of mathematical effect of growth we established business CPR plus a couple of percentage points, but the emerging business coming through and I think doing very-very well.

This is a very interesting analysis. Just looking how the group is growing. And I think makes the point graphically very strongly. On the left-hand side, if you look at the revenue of the group, just few periods ago in 2018 revenue for the six months was about by ZAR25 billion as you can see. That's now grown to about ZAR40 billion, so about a 60% growth over that period. I think it's about 16% compound. Ping An Health obviously helped that even stripping out Ping An Health, it was about 12% per year compound. You can see a similar effect on the total new business API. But if you look on the right-hand side, it actually gives you a makeup of what that was made up from. So, the total revenue share of our emerging businesses in 2018 just few years ago was 13%, now it's close to 26% or 27%. If you look at the new business, it was about 16%. It's now with the new businesses around 37% and claiming very, very dramatically.

So, we're in a phase now, where these emerging business are coming out of the yield curve. Hopefully that profitability will grow very, very strongly. But you can see the effect that's really starting to have on the growth rate of the group and they get to really scale. I think the effect will be significant. The emerging businesses, I think, we're very proud of Discovery Insure, Vitality Group and Ping An Health. You can see at the top of the chart on the left-hand side, illustrating the growth rates are very strong. But we've done the analysis of just looking at the kind of the run rate, the profitability of equity. So, the return on equity in the year, although these are kind of emerging, you can actually see return on equities actually very, very strong, 11.6% to make sure just maybe 21% in kinds of Vitality Group and that close to 10% in the case of Ping An Health.

Ping An Health, of course, is not chasing operating profit as looking at scales. So, that's not turning at the business is driven forward. Having said that, I think, that's a good return on capital in the Chinese market. And you get as a lump of business as you can see the profitability around 0.5 billion for six months, where the return on equity, combined consolidated return on equity of that 13.5%. If you look in the new businesses, we have made this point clearly and hopefully we'll see and hopefully us making progress and what we're trying to achieve. We've made the point that our guidance since staying in new business, it should be around 10%. That's the aim. Obviously, we've taken a big bets like Discovery bet -- will lumpy. You can see on the left-hand side of the chart, while we spend 26% of operating profit in the previous period, stands about 22%. And if you look at the pie chart at the bottom, you can see the bank is becoming more, more dominant. You see on the other -- the other star that is coming down now, the bank remains kind of a bit to make sure taper off going further down.

In the rest of the chart, I'll talk much more about the bank. Right on the presentation you can see the rest of the chart. I think very, very good progress and performance around, actually growth in new business. So, we are feeling good about the traction we are getting, much more needs to be done to give these businesses to scale. But I think you can see the extent of growth, the resonance of VitalityInvest in the UK market. I think around 7 or may be around GBP7 billion or GBP8 billion of assets under management this time strongly. We're getting traction nicely through Discovery Bank, where we are getting about 0.5 billion to 1 billion in net new retail deposits every month.

In the right-hand side, investment in the Vitality One is alliance to scale the Vitality Group across strongly our new markets continuously with Israel, Maccabi in Israel and other countries in Mexico, Latin American, et cetera, coming on stream. So, trying to make a point of the growth model around building businesses product and you get scale and coming to emerging businesses of value worth in return on equity, we think is progressing well. So, flipping around the cycle to cash generation, the group generated about ZAR5.8 billion of cash over the six-month period. As you can see, we spend about ZAR5.4 billion of it on the right-hand side of the chart. You can see the cash has come from the major businesses in different forms and we spend that on ZAR3.9 billion of that on new business, so investing in new business in Discovery Life and VitalityLife with those -- with the coverage of five. And spending about ZAR0.9 billion on new businesses like Discovery Bank. So, we watch those new businesses very carefully that I must put into context in how they're playing applying out in the rest of the group.

Moving on to capital, we made a point at the previous announcement. We are focused very strongly on being in the strong capital position, highly liquid through the pandemic. I think we are comfortable where we are. On the left hand side of the chart, you can see that all of our businesses from a regulatory capital perspective is very strong and stronger during our effort in our financial --, stayed around the 25%, 26% level, a slight increase during the pandemic we have great liquidity. You can see liquidity second from the right is very strong. So, at the group level at ZAR12 billion of liquid assets ready for the pandemic. And then in the center, our goal of always holding ZAR1 billion to ZAR2 billion of cash remains fully intact. So, we're very comfortable from a capital perspective.

I think you bring it all together at the group level, you can just see that the development of the embedded value of the group. I think to me most pleasing selling, I think, we are most proud about the left-hand side of the chart. Its positive non-economic experience variances. If you look at about business across the horizontal or by category type lapses, expenses, mortality and morbidity et cetera, they are all positive. So, when you stand on that that is about business or by category, the period has been one with the group has performed better than expectation. So, if you look at the build-up of the embedded value from ZAR7 billion -- ZAR 8 billion, ignoring the economic factors, we get about ZAR76 billion. You can see the buildup of the RNB, unwanted discount rate and these positive variants. And of course the economic impact I just spoke about does bring the EBITDA. So, return on EV at about 4.2% annualized, really brought down by those economic impact. If you ignore them, it would be close to 12%. So, I think the development is clean, healthy, and clear and really reflects, I think, how the group is performing.

If we turn to the third aspect, we wanted to cover. Just a focus on a pivot to growth. I think it's important to say that the group is incredibly disciplined in a shared value model. Our shared value behavior model with its life, health, long-term savings, motor, insurance and banking. The focus is absolutely clear -- excellent on the behavioral platform and the behavioral platforms are all now the same Vitality with its health, money drive et cetera. It's about earning Vitality points, intuitively getting a status, you can see from the data below claims and lapses are correlated. And when you engage, claims levels come down, persistency tends to go up. And I think we've developed a very disciplined model in each of these silos. And if you kind of explore out Vitality there, the data that take the programs or partners are all aligned to the various silos that we're in.

So, in terms of thinking about growth very important. I think the model is very, very disciplined. Having said that, I think, we are really trying to focus on how to interpret a COVID world and a post-COVID world. And I say that without -- get through COVID, as humanity. But when we do there are number of important things that we need to care about. I think really care about the relevance of our modern and the confidence of what it will do in a postcard with world. But I think if you look at what is really accelerating around the risk, technology, the rush to digital, corporate, purpose, climate, all of that. There are a number of things are playing out. We've been very, very disciplined, and trying to focus on where those areas of growth could be.

So, four things I wanted to mention. I hope I get to these across clean and clearly. Our focus on wellness and resilience were well placed for enough protection. The second is for sure an importance of healthcare, health insurance, healthcare financing. Thirdly, just the rush into digital, with growth of digital platforms. And what that means for business models kind of fall and that presents opportunities. And we then finally corporate purpose, we've -- I think in a posted chart of our about purpose around make people healthier, but there's an emerging world of ESG. I'm not just ticking boxes in substance leading in the space. And each of these, we think we have unique assets to develop.

In the case of resilience and in wellness, just to make a point and I won't bore you with all these steps. I wanted to make the point that our data and our knowledge in our asset base is really accelerating around understanding the correlations between behavior and morbidity, sickness and death and that's critical. So, a much deeper insight into things like cardio fitness, not just the United States -- the second from a left understanding the long -- as people increased physical activity levels what happens. And then on the right-hand side, just the correlations to physical activity and disease type ability to really structure mortality, mobility curves, based on these factors has accelerated.

In the case of COVID, we really are getting excellent insight into fair. I would guess this is probably the biggest -- globally that really correlates these things. You can see on the left-hand side of the chart, really understanding physical activity from low to medium to high by age. And you can really see the down slope nature of it. So, the importance of physical activity to make sure, people were resilient against infectious diseases in addition to NCDs. I mean just in preview, you can see that a person 60 with no chronic conditions, if there are very physically active, there is instances not that dissimilar to some of 40, who isn't physically active. So, you really can reverse the effects of that and healthy living.

And then on the right-hand side, just to make the point in COVID. The correlations are so steep with Vitality status. People that are engaged in Vitality, exhibit far, far low mortality rates through the COVID pandemic. So, these are critical things to understand. What I think you will see and I'm not going to dive into this too deeply is, in the case of Vitality it's been a kind of inverted t as we call it. That underpins our institutional businesses. It's largely being proprietary and structured one-size-fits-all, wrapping into much greater technology, layers of capability. Our behavior will have attribute is really blowing us. And UK and global teams have really developed this remarkable ability to get each individual based on their risk factors. Specific things they need to do to manage them and guide them properly. And then critically, the second low, we call gateway.

Actually there's a market out of what already coming hundreds of health as meditation, sleep, physical activity, whatever we've developed a technology in SDKs, we're able to actually create this online market, where we can curate, connect quickly, guide people towards them, incentivize them, pick up a noise in the system. So, they don't have to refresh to get points, just automatically happens, giving us the ability to really create an open platform for health helps. And then of course, thinking to our partners like Apple and other all partners. And any offers all the different lines of business.

So, I think, you will see through this new world of resilience, a very different approach and like a personal approach to vitality into the COVID. Secondly, in the world of healthcare and healthy ecosystems, I would argue, we would argue strongly and united prepared VH I have to do this. We'd argue strongly the essence of Discovery Health and we built over a decade, considerable cost, sophisticated and quite unique and applicable in many, many markets. So, we have learned through working in the UK, working in China and in South African in different healthcare systems the power of these assets.

So, we've been in a disciplined approach on lifting these assets after apply them into different markets. They are aim to end from wellness as you can see to the heavy lifting of claims administration to entirely digital ecosystem, to all the data analytics and health intelligence, and then into the product design structures, networks, virtual care. So, this is an end to end capability that we're looking at it's remarkable. I will talk a bit later about Ping An Health's -- the Ping An Group's ecosystem. I think there are few groups in the world they can build a healthy ecosystem of the scale. So --

So, let me move quicker. So I don't know, I lost, but to make the point that. That we have a platform that is quite unique, with an ability to really lift and shift into different markets. I wanted to make a point again that the digital health ecosystem really is unique and ability to move patients, finders, and doctors and assets and implications, where a patient can know their health wellness and prevention, their care and treatment. Virtually doctors can reach digitally to patients, virtual consultations, manage patients if they see the data parameters is non-accessible are concerned. All of this can happen digitally. So, about on breed capability globally, that we want to accelerate in its process and that's a focus of the group at the moment.

The third issue that I think is really, really exciting is just the growth of digital platforms and the unique opportunities to really make a difference. You will know that Discovery Bank went to a migration of the SMB card, if you follow that -- or the Discover card out of it. And interestingly, one important issues I think we kind of ambiguous was the service model, always a digital bank, the people use call centers, with a lot of work on that stuff. But I think the combination of this massive sudden loads of the migration. And I think some of the channels not being built initially, there is some service difficulty, since that time we have actually recovering very strong a faction in the bank. And I think the services is very, very strong.

But the truth of it is that the ability to really use digital platforms now to change the entire service model is really in different businesses, the bank is a great example. So, I think the idea of the banking on the face of the mobile is very, very powerful. But the Zoom and the Team, you can now access your banker on the face of the mobile. So, in the case of Discovery Bank where people are navigating the app and using their bank. The ability to use these platforms both your banker and we are concurrently working is powerful. We thought we'd show you just a quick preview of what will be rolled out in the next month or so, around this idea of really a Zoom banker. Zoom banker is co-browsing with you. I hope this is clear.

(Audio-Video-Presentation)

The point we're trying to make here is that, the power of Zoom and Teams is obviously we see that in a flexible work environment. It offers fantastic opportunities for business model, service models et cetera. And then finally just a point that I think is critical our ability to actually function in an ESG world, in a world of purpose, I have to say with -- I think we're proud of our role, we said we are making people healthier and shape daily model. And really I think conceptually our ability to influence and be a force for good. It's a fundamental in central assumption of our model. But the reality, I think is that, if you think about the issue we explain, we are very determined to make an impact not in terms of ticking boxes, in terms of proper substance and influencing communities in which we operate. Digital climate is a fundamental one and one that we're focusing over the last number of years. But to make the point this is an area to get with our core purpose, if you us something it brings to you in the organization that's progressive, that is leading, and then they've seen as such in the world.

So, if you think about our climate, our current carbon footprint about 55,000 tons per year, as you can see on the left-hand side. It's actually relatively low compared to financial services groups, and a lot lower than the average in the JSE top for the Australia mining companies and complicated structures and there is different. But I think on balance, we are very light emitter of carbon. We have a stated goal now of being carbon neutral by 2025, and that's of course is important. All of that I think will happen. But the opportunity for us, given our business model is much, much greater. And a concept we've been working over the last numbers of years really creates a kind of multiplier effect because the idea of influencing health is about changing just a few basic behaviors and then people healthier.

Climate is a similar issue. There are four key behaviors that really driving individual's carbon footprint and the ability to change that here is probably not that difficult. So, the very virtuous cycle of this idea of incentivizing people to change using financial means to incentivize their change, getting this virtual cycle, applies absolutely to climate, as it does to health. And to the extent, climate is about health. That we are making people healthier, absolutely stretches into the climate concept as well. So, the idea of Vitality Green is something that we've been working on for a number of years. And we think, we are securing the next number of months to roll this out. It will manifest in different ways, probably in form of green layer in many aspects of our Vitality prominent and different companies and individuals.

I think it's super powerful. We know that booth the tools to give people the ability to know their carbon footprint, ways to improve it and get order to do so. So, now only your footprint about nine years for behaviors, electricity, your nutrition what you are eating. How you're driving, what's you're driving and how you're flying. Of course, we understand for us is a complex issue we set to ask people to fly and to work on all kinds of offsets, to actually deal with. Those are the four important behaviors. And then giving people ways to actually reduce that footprint. As you can see it, fighting them and helping them, we developed tech around helping people in their homes and the electricity usage. And then really securitizing the behavior in the carbon markets and using that to fund awards.

So, there is a very powerful -- powerful capability we are building up to do that. And I think, you'll see that rolling out during, certainly during this calendar year, a lot of work has taken place. And as I said before, the intention here is not to focus on ticking boxes on ESG. We must do that and do that well. But the intentions really is that we are making people healthier, being into force, we are leading as a corporation around the world, making the world better and safer and that's something if we are determined to do. So, trying to interpret some of the opportunities coming out of COVID, as we move into a, hopefully a post COVID world.

Let me turn to the last section. I will move quickly. I'm sorry we're taking so much of your time. The first section, which is just talk through the businesses briefly. I don't have time for any comments. I will be making as quick as I can. But essentially the businesses are stretched out in four strategic thrusts, the SA composite building, an exceptional composite that the bank hope you will really ring-fence in the South African context. UK composite building, the best insurance group in the UK, making use of the shared value composite model, composite from client perspective. Moving to best health insurer in China and importantly building the largest platform through Vitality Group of -- and more things financial services and impact a network effect over time. Those are the strategies and all I have spoken about both feet through and seek into the businesses.

Individuals South African comes at first. Talk about the bank. I think the bank has made excellent progress over the period, has been important period. The migration of the cards out of it -- days Discovery Card into, the bank took place. In addition, we've had a change of leadership is a strong focus on a number of different areas of growth and integration into the group. Having said that, there's been a clear focus on growth of deposits, growth of deposits accounts, gathering a retail deposits, growth of accounts. And it's only prudent managing of the pandemic. So, we've been very, very careful around lending the advance. But you can see that clearly on the face of the slide times it grown to just under GBP300,000 to GBP560,000. We are very much on budgeted in terms of growth. Retail deposits are climbing in about GBP0.5 billion to GBP1 billion a month. But the advances will be staying fairly stable. We have been very, very careful in that regard.

If you look at the actual growth rate, the actual new to bank sales are really climbing strongly. At the start of the period, we are sitting in about 70 to 100. As you can see, that's now about 330 per day that we are getting so about 600 accounts or more per day, if we're starting to get. And therefore, trying to get about 500 short space of time. I think we are having confidence that we will achieve that. That's important to say that the bank is about a full service offering. So, it's important if we -- while we've got the quality of growth is there. So, you can see the bundled accounts, the credit card, the suits and the values, you can see make of a fair share of the product mix. We have to improve, and I think, --, but we are pretty pleased about, where the mixes at the moment.

And then you can see in the bottom right-hand side of the growth of revenue components, you know, all are coming through fairly strongly. So, we really building a bank of full service, full offering. And I think the rate of growth is in line. The rate of growth is in line with budget. I think we need to focus hard on the mix and I think we are pretty pleased with where is at the moment. On the retail deposits. I think the growth in deposits has been really, really strong. You can see the growth graph on the left-hand side. The growth is both sticky and diverse. So, you can see by length of deposit my tenure. 44% of our deposits are over three months in duration. It is not concentration. And the largest deposit we make up is 5% of the entire deposit book.

And then the right-hand side, just an interesting comparison. We are building a bank that's on the mobile, but that just stressing the point. It's a banker version shared daily behavior. It's not a newer bank, it's skinny. So, if you look at banks in our space time, months of revolution in the UK, they're not gathering deposits the rate we are. So, we are building a bank of people, need to use as a primary bank over time. I think that's a strategy and we are getting normal comfort that is possible. In terms of the advances book, we are being very, very prudent. If you turning about 75% or so of applications. We kept the books steady, flat and we are starting to grow it. That of course has financial consequences but we need very clear. During the pandemic it's not a time to be cavalier around growing our advances book. We are very, very careful.

Credit quality remains very hard, but we believe the potential for growth is substantially. You can see on the right-hand side of the chart that about 50% of our clients' needs the credit card and use it, as their number one card. Actually 90% use it either as a number one and number two card. So, I think the brain and the bank place us in a position, where people use it. They use it primarily and I think that's a critical issue. I think, we are very pleased about the progress of Vitality Money. This is at the core of the bank that people engage in it. And this is the engine that gets a segmentation and the behavior change. You can see that is either 70% take up of about 80 million people starting to use the rewards and incentives. There's a huge amount of noise out there about points and miles and all kinds of things and whatever. I think we're trying to get people interrogating. If you look at the bank, you look at the concept model, the value of incentives and rewards is very, very high.

On the right-hand side of the chart, you can see the correlations, where is really dramatically lower for people that are engaged. Much higher deposit levels for people and engage in greater sense. So, all of the correlations, I think, coming through and that does well for segmentation pricing of course the profitability. And then in the middle of the chart, I feel very kind of is an excellent result, is kind of illustrating the legality and nature of Vitality Money. So, kind of down the vertical all the different levels of card the gold card, down to black card and the purple card. It's a kind of income stratification, but as you go across the chart, it tells you the percentage of people in different statuses of Vitality Money. And what it's saying regardless of level of income, you can engage. That's the idea, to look like it's -- VitalityHealth, it's not about healthy people is about to make -- it's about making people healthier.

In the same the case of Vitality Money, it's not about being rich or having high incomes. Whatever your state of income is, can we help you, guide you to make, make you manage your money going up. That's a critical outcome. So, we are getting more and more comfort about the efficacy of Vitality Money. And just going forward a lot you will hear about from him and a lot more from the leadership of the bank. In this, we are pretty clear about the value drivers, where they are, global clients, which is in line with budget at the moment, deposits getting strong. We need to grow the advances book very carefully. We need to keep focusing on the product mix. I think the potential for growth is strong. You can see in the middle of the chart, I think, you see analysis that shows our Vitality members by status and each of those have bank accounts.

I would -- do the numbers, if you are a Vitality member, certainly you have been engaged Vitality member, the bank is going to give an unprecedented value. But you can see that there's a huge number of members sitting there they are just unpenetrated at this point of time, so, our Bronze members 7% on the bank, our Silver 13%. So, just looking in the Vitality base as it is now ability to grow into that is substantial. So, we've laid out a number of focus here is about accelerating growth. Leveraging the concept model, continue to differentiate the product is a slow in our mission that we will be rolling out in the next six months. And then a very strong focus on service. I think the focus is based very different that was before, enrolling things like the Zoom kind of COVID hours in banking and those kinds of initiatives. So, we're in a very exciting phase. We are in a growth phase post migration. We are comfortable with the progress and we'll see how that goes up.

I'm going to turn to Discovery Health just to make sure that I'm not taking too much of your time. Turn to Discovery Health, I think the performance has been absolutely remarkable. Operating profit at 6%, that shows improving in the star membership, inside this closed, inside the schemes have been pretty flat. The market is very, very tough. But we continue to do well in the closed schemes and in the non-scheme products like gap, primary care, et cetera. And so, new business was down 5%, but the growth remains across the board. It's interesting to look at that 5% reduction. I mean, I think this is a potential traveling issue, I think from a commentary about employment that we know.

On the left-hand side, you can see the growth rate in Discovery Health Medical scheme. If we go top one, which is new business joining the scheme down 7%, but an expected during lockdowns et cetera. But is traveling is a top two, which is really people joining employer groups that are ready with us. That's not really a function of our growth, it's a function of employer's grow, in many years before the growth year, you can say there is no reducing really a function of consolidation, less employment, shedding of jobs et cetera.

We are doing really well in the first key market and during the period end review, we closed Liberty Medical Scheme by acquiring the actual administration company and working together with Liberty on this. We probably doing about convincingly do great job for Liberty in that regard. And then you can see on the right-hand side, the non-scheme products gap cover, primary care, healthy company growing by 36% year-on-year. I have to say, we believe this is an area of considerable potential growth. This is an area about I think great social benefit to people, things like, primary care office access to healthcare. And we focus on things like prepaid healthcare, which creates some regulatory debate, but these are things that we think need to be aid and debated in the environment.

The Discovery on medical scheme is of remarkable strength. The strength continues in this period is accelerated dramatically. You can see that as a market share in the left-hand side of 57%. In the middle of the chart, plan movements, you hear about people buying down and you hear about this 830. It's actually not happening. You can see the movements of tiny. So, from one year to the next, the plan movements are tiny kind of 3% up and down. And that is more upgrades and downgrades in 96% of -- 97% of the membership stay.

Yes, debit order rejections kind of a proxy for lapses, as you can see kind of stable and come down. And in the reserve positions the chunk of market will be about that ZAR9 billion. So, the scheme is sitting on a massive amount of capital of cash and near cash. And that's a function obviously of our reduction in healthcare usage, as we gone into -- through the pandemic. You can see the AAA rating of the scheme. So. it is remarkably capitalized. Well capitalized entity.

And then on this chart here, just showing we drove that you can see, hospital or it's a hospital index or out of hospital index on the left-hand side chart, you see the reduction in healthcare usage. And that typically down in our 40%, 50%. And then top psychiatry hospitals and day clinics, private hospitals, you can see the effect of the lockdowns and kind of coming back into this period. But you can see right here, you can see restrictions coming back and going down again, as we found going through the waste. The manifestation of this insight, the scheme has been a rapid rise in reserves as a matter an effectively low rate of increase during this year. It's also allowed the trustee DHMS 3 billion out of the advertisers to fund the vaccine program. So, the scheme is strong. I think the strategy is right and the ability to impact on the vaccine program is very, very strong.

Let me turn to Discovery Life, I think the performance has been remarkable again. You'd expect those new business to come down 6% relatively comfortable, with normalize offering profits at 3%. On the chart, you can see a few blocks there. It's important to note two things. One is group life claims were very high due to COVID. You can't provide to the group life as a year-by-year business. So, that Discovery Life felt a bit of their pain. And then we generate -- we distributed a lot of capital in the previous period to the group. So, the capital base is a lot lower and the return on the capital is lost. So, if you compare life with life, it's closer to 14% growth and you look at the performance of Discovery Life.

But I think to me the story of the six months is just the positive non-economic variances, on the right-hand side of the chart. Over a ZAR0.5 billion across -- are very strong across the board. There are some negatives there. They are quite small. So, we are very, very pleased with points of Discovery Life. When you look at the actual -- performance and break it down are much lower than expectation, claims have come down. The non-COVID claims much better than previous period. Our new business VNB has come down. We expect that we written this new business and with high rate of interest, the present value of their business is lower. But I think, pleasingly the actual new business margins climbed by 40%. We really have strong focus on margin of -- control, our focus on business et cetera. A -- lies in the EV by about 6% over six months and annualized by 12%. So, I think a fantastic performance of Discovery Life.

If you -- on the left-hand side of the chart is shown to illustrate to you the cash generation at ZAR7.6 billion of income during the period. After claims and operational costs about ZAR2 billion of cash after new business it's around about ZAR650 million of cash and then after FinRe cost about ZAR231 million of cash. You can see that the capital position remains strong. The liquidity position remains strong, even after the record second wave and claims coming out of that. I think the liquidity is remarkably strong. So, it's kind of navigated, I think this pandemic so far very, very well.

We thought it good to give a bit of a cross-section of the second wave. And this is an analysis, I think, is fascinating. About just looking at how we kind of navigated the second wave from the 31st of December 2020. So, literally it's kind of two months ago. And you can see about that stage, we paid ZAR3 million of claims. By the end of 18th of February just a few days ago, we paid out of ZAR1 billion of claims. So, the net claims paid out was about ZAR700 million over the last few weeks. You can see the effect on the provisions coming down ZAR1.7 billion to about ZAR1.064 billion. Well expected, when we modern the provisions we are reading the face of the second wave. So, the strengthening of the changes that was done in expectation of this. You can see the bottom of the chart, just the claims between the first wave and the second wave dramatically different. In the last page it's only now becoming kind of industry related. You can see that as the pandemic vast and death rates go up, lapses rates go down. So, there's an incredible appreciation of life insurance in the protection that it provides to people is very, very difficult times. And I think that is important.

Let me turn to Discovery Invest. I made the point that operating profit slight down 3%, there was some boosted elements in the previous period. We're pretty confident that this will reverse in the next six months. New business was down 3%. I did not expect unexpected. The assets grew strongly by 11% to ZAR107 billion although the growth were strong. It happened towards the end of the period and therefore the asset management for the fees coming through up about 5% over the period.

I mean, the focus on invest, I think has been always around us would be a shared value of changing behavior and long-term savings. There's no ambiguity now at all. We were at one stage thinking about our role in asset management. We are real pretty clear. We are not an asset manager. We work for the best, if we can work in our partnership model. So, we done, I think, work remarkably with Ninety One. They continue in the local context. We're now working exclusively with BlackRock and Goldman Sachs and also offering the traction that is -- has got has been remarkable during the period end and I think, therefore continued.

You can see in the middle of the chart, I think the shared-value dynamics, excellence of people are saving earlier, they're drawing down less incentives. I think are working and the withdrawals were down. On the right the withdrawals are lower than expected. And amazingly, given Discovery in this progress and actually is the fastest-growing unit trust business in the country. So, there's more that can be done. We think but I think the strategy is appropriate. You think that the business being a billion-line business at the end of the financial year.

Let me turn to Discovery Insure. I think the performance has really been remarkable. Operating profit came up 43% is really starting to come through. New business is growing. I think a very difficult time that's very much under control despite the pandemic. Gross premium written grown over ZAR2 billion, up 16%. The market shares now up by 7%. The actual margin is grown by about 50%. We made the point and I made it many, many times in these presentations around just the hypothesis of how the model works? And if we can get people to -- if we can get the positive selection of people buying our product in, get behavior change in the systems and know to drive better, and then better drivers have been rewarded. So, they don't rest. So, you get kind of this, you turn the flywheel a better selection and -- in better behavior, better attention. And so you get this car process.

I think we spoke to look back now at the data emerging that's exactly what's happening. The loss ratios our status of slightly down. But in lapse rates slightly down. So, I think it's a better people staying. And the loss ratio by duration is very down sloping. At the same time, we're getting scale. I'm really proud of the fact you can see the public buying that we are growing faster than any company in the marketplace. The growth in total written premium up 16%, when you compared to other companies it seems to be double, probably the next competitor. And all of this, I think the combination of the pandemic that was less driving the combination of these dynamics. And the combination of growth around expense base that shows a dramatic growth in the module. Hope we can keep that margin going as we go forward.

I think it's important to just make the point if we do see, I think, the attraction of auto insurance globally, it's a market, where behavior is a fundamental issue of market, where you can earn very good returns on capital. And we're focusing hard on the ability to internationalize the Vitality Group. You will know we announced, the UK announced a JV with Covea. We've worked a lot, 18 months with Covea about the Vitality car insurance capability in the UK. But the opportunity is vast. I think the behavioral factors and the data is giving us considerable pricing power, considerability to construct our product.

So, what it is showing it's a complicated slide that I thought worthwhile showing is about 14 billion kilometers of driving data now by car, by age, by sector, by have you cut the date and our team has remarkable expertise in that regard. The question of course is doesn't give you additional pricing power. What this shows you is, when you look at the traditional rating factors, what car you drive, gender, age, where you live et cetera. Those of course important factors and meaning that they're property and casualty insurers use. But when you actually plot out the experience by behavior, so by Vitality Drive Status, you get considerable differences. And therefore, what it shows you is that those factors of behavior have considerable information to the pricing of the risk.

And on the left-hand side of the chart, you can see it coming through. And the kind of hazy pink line of -- so you can actually see the underlying graph. But that is really the kind of the loss ratio of planes ever by status if we see. Once you find if you done use behavioral factors, you kind of cross it in the gray line on the left-hand side. So, you tend to underprice bad risk and overprice good risk, which is not a good thing to do. When you use a behavioral factors, that I think we are learning to use generalized linear modeling to do that, you get the blue line, it's really tracks the loss ratio well. So, I would say to you that the data coming to really is compelling around safety, around consumers, around the wards. But from a pricing perspective gives us an amazing opportunity to really build a layers of expertise around Vitality Drive, use the data and work with companies like Covea. We work Tawuniya in Saudi Arabia and others will follow around using this model to globalize. And I think the opportunity is vast.

If we turn to the UK and talk about the UK. I think the performance really has been good and you can know our operating profit up by much 36% much strongly in Rand, the Rand average is weaker than the -- growing by about 5% and growing from ZAR3 million. It's a business of considerable sales with total premium of GBP400 million and the new business not an unexpected, lot of our new business is face-to-face is down in the period. I think the work done by the UK team around kind of a foot of the Rand, the personality its relevance since the society has been absolutely remarkable. So, we are seeing vitality engagement, a very high levels of vitality program itself uses the best partners. Our worker partners like Apple has been exemplary. And then you can see the attribute experience is the correlations coming down. The brand is well established. I think the brand is bending into things like in different parts of sport into celebrating women in sport. Those kinds of things, where I think we illustrating about purpose and I think we are starting and we're trying to achieve.

And then service recognition at the UK customer experience was Vitality UK was the overall winner, which is remarkable against companies like Direct Line, Virgin Active, Virgin Money et cetera. And there's a very singular focus on simplicity. So, one journey at a time, one Vitality through the face of the mobile. So, there's a considerable simplification of what are very, very complex products. The composite today looks as you see it VitalityLife, VitalityHealth, VitalityInvest is now playing out and the JV with Covea will be VitalityCar.

And as you see it and I think the power of the composite is just simple. There is a lot going on in terms of how you drive, how you manage your health, et cetera. But what you've done, I think there is smart and the team has done well is, it's just a simple interpretation of how the value proposition manifests in the market and where a comparative issue is. So, in the case of VitalityLife, if you engage properly you pay less for life insurance as a price more, as the same as in health insurance. The case we actually pay less; you pay less asset management fees.

In the place of your car insurance, you get a much lower deductible. So, we've chosen the very pivoting point that the market tends to find competitors. We are finding and it gives us with us much more differential product offering the ability to grow. So, I think we're very pleased with the growth with the potential in the UK market. It's a complex tough market. Wonder if you can differentiate you can get the considerate growth.

Just turning to the big businesses Vitality Health performance. I think really robust operating profit up 8% announced, a very careful focus through the pandemic, you can see the numbers on the screen. New business down not unexpected, but the qualities are remarkable. Lapse rates to remain really low. And I think that's a critical thing through the pandemic, and the same people didn't have access to private hospitals. So, in effective it was difficulty to pay, despite that the net rate stayed stable. You can see the cash generation has been remarkable. That was shown more and more cash. You can see in this period throwing GBP59 million of cash in six months and then often invest in new business and other issues. You can see the net cash on the right-hand side of the chart, so the performance, I think it's been very, very strong.

And the issue of the claims provisioning, you can see graphically very strong. You can see what happens to the first wave in April and May, really retardation of people using benefits.. And there we started to build our provisions that started to rise again, actually broke through, we've stated. So, there is an expectation. I understand private health in UK is about elective surgeries of people -- I think the people are not having done now through the pandemic, they all have a down in the latest.

We need to actually understand that -- care. But you can see as we gone into the second wave, it's going down again. And you look on the right-hand side to the waves, the purple line is what we expected to -- the white line is what we expected to happen. You can see that they're tracking what's expected. But again in the second wave, we've had a reduction in the margin. That we explained why we've continued to build up the provisions and the reserves in the Vitality. I think the business is in a very strong position going forward well as of well providing. I think very conservatively emerging through the pandemic.

VitalityLife I think is a great story. It's been a very difficult period of operating environment of considerable complexity really, really low rates of interest with a pandemic. Normalized operating profit really growing by 160%, GBP50 million. And you can see the rest of the numbers life cover grow very much 7%. New business was down 24%. I think effected two things we really have taken a life to poor quality business to poor quality brokers. At the same time on the right-hand side, you can see the UK market is very much a face-to-face intermediate marketing space we are in. And that was down about 22% as well. So, there's nothing untoward, I think healthy other time we'll climb. There's no desire to chase business. There is not of good quality.

But I think the story to me has been the remarkable success of the turnaround program of VitalityLife. On the left-hand side, the JV was 10 points. We communicated I think in previous two reporting periods of focusing on operations, focusing capital strength to make sure the business is resilient from interest rate perspective and efficient. And then focusing on the liquidity. I mean, you can see in the middle of the chart, we really have turned around the lapse situation, lapse so dramatically low than expected. On the right hand side, if you look at all the variances on that flipping to being positive and then when you look at earnings, I think it's a very, very different picture.

On the left hand side of the chart, this is what we showed you at half 2020 a year ago. We kind of generate a ZAR15 million of profit before experienced variances. The negative variance is about ZAR6 million, taking the profit now to ZAR9 million. And then the interest rate effect at ZAR16 million effect on the earnings to credit hedge strategy to prevent against any solvency issues and other issues to that. But when you normalize effective earnings effects that you compare like-for-like was about far from ZAR8 million of earning stream, strong negative experience variances. What's happened this is very different ZAR50 million of operating profit, a positive ZAR9 million of experience gains is coming through. We've actually strengthened provision, virtually all of them as you can see leaving a ZAR50 million or so profit. So, the quantum is good. That's not really the issue. The issue is, I think, the business in a different robust position. I think right-sized for a very difficult mark I think we feel much more confident about its ability to grow going forward.

Let me turn to the partner business is Ping An Health and working through Vitality Group with and insurers globally. Ping An Health continues to grow. Written premium growing about 62% as you can see the ZAR18 billion over the six months. The business really has considerable scale. The business generated ZAR1 billion of profit in the six months. So it really has been I think a very, very good period. Operating performance and investment returns has been good in the business. Our share is about 25% and as you can see that ZAR353 million at 26%. The profit as of the high expenses, all the stuff we do not take. We see that 65%. The new business growing by 31% is not a -- it's a growth rate, but Chinese standard we are seeing premium is not massive growth impacting. Local currency is about 14%. That is important to just to contextualize that. Ping An Health and Ping An Work in a calendar year. So, the target was set.

So, if you look at it on a six months by six months, you see that the first months of the calendar year 2020 were remarkable growth. And therefore the second six months tend to taper down. So, there is a strong focus on target and achieving them. And when you look at the growth calendar year and calendar year it remarks very strong at the very high base. So, we are not overly concerned. And there's a strong focus on growth. A strong focus on making sure that we achieve gain of the branch in our 14 Tier II branches across the country. I understand it. More than 50% of the entire continent -- health. Branches is a very strong focus on distribution channels around agents inside the Ping An group around business-to-business, group business, around customer platform and non-government and to continue to build more platforms in that regard.

I would say to though that probably the most important strategic development has been a massive, massive focus on the Ping An Group. Honestly they have healthy ecosystem that really brings together users and patients both offline and online providers. Businesses like the doctor if we're taken public on massive in this regard. And I think the fundamental strategic issue as Ping An Health has been incorporated into this ecosystems, one of the payers of suspicious health insurer. We see their opportunity as the ecosystem nicely grows and Ping An Group is trying to do. There's been a consolidation of a number of opportunities in the Ping An Health front after phasing is now consolidated into good -- and becomes Ping An Health act that really is about prevention, treatment rehabilitation process itself.

On the right hand side of the chart, you can see is now the largest provider of online health services in China. So, its ability to service lesser number of clients and hopefully together customers for Ping An Health becomes real. So, this is a fundamental strategy of the Ping An Group, of course and Ping An Health is consolidating and focusing its future into their course of the world. Let's think about what we can do.

Maybe turn to the Vitality Group. I'm going at quite a pace and I hope you're following. I hope it's not overly boring just a lot to -- this is last section. I think we are remarkably proud of and the Vitality Group, I think really is going to scale and repeat very, very rapidly. Our insurance partners over the six months wrote about -- than USD37 million of new business, which is what we are participating. It's down 9% due to the pandemic, again not -- The revenue of Vitality Group was up 10%, as you can see. And operating result really is a function of gearing, kind of getting scale on one hand.

On the other hand, as part of -- it's dollar income, rand expenses. So, to a certain extent you are getting thick of that, it's a profitability up 95%. You can see the total membership has climbing quite nicely by 17% and over USD2 million as you can see it. I think, the important thing is just the emerging data is so compelling about the power of the shared value model. So, making the point on -- of the side, the new business of our partners has shrunk by 9%. It will help you recover. But I think the fascinating point is when you look inside their businesses, the rate of growth have been non-integrated Vitality products to be integrated. You can see on the chart, just how compelling it is. So, the quality integrated Vitality have grown very strong, even though the pandemic. The business is -- So, if you look across Pan Asia with AIA, you can see the difference between -- John Hancock in the U.S. massive difference in integrated product sales, Sumitomo Life 16% and Generali in Germany, where we're now working with the DVAG and I think the attraction is very good, you can see the effect at the start.

So, we expect to see excellent results out of persistency and out of better mortality, that's critical. But the efficacy of the modern and just creating a much more robust, much more appealing value propositions is very clearly. And I think the pandemic has underlined that. At the same time, the engagement remains very, very good. So, the worry to the pandemic where people not being able to exercise as you can see on the left-hand side an analysis of all of our partners. Engagement came down slightly, but generally stayed very buoyant. And our partners did amazing things, I think we all fit different ideas between each other bringing people out -- focusing at home. In Latin America, Saludsa created the largest virtual gym. Sumitomo Life focused on run and walk challenges et cetera. It's amazing how the work was done. So, really strong focus on what could be achieved around engagement during the pandemic and I think a lot of lessons learned.

On the right-hand side, very excited about the fact that many of our partners are using Vitality around the vaccination program, using it to guide to educate, to incentivize people who will be vaccinated. So, a lot of best practices will be shared across the platform over time. So, we are very excited about, what they can do. And then to make a point about the repeatability, Vitality is not a -- that can just be repeated. That's a complex business model with external factors affecting premium rates, partners and country. I think the team has done the most remarkable job across the ability to scale too many markets. We continue to do so. I made the point about partnership with Maccabi in Israel. There is lot of vaccination -- in that process partnership with Covea on the P&C side, a partnership with Tawuniya on the P&C side, the auto side. And you can see that Vitality One is playing that role with ability to multi-tenant different mangers.

The face of the mobile looks different in every single country with the functionality is there. So, ability to scale and repeat I think is powerful. I think then building into the ability to scan and repeat the car insurance, auto insurance, well, I think offers great liaisons and opportunities for us. So, that is a run through the businesses, and maybe to make a point. I hope it's clear that we are focusing on the SA composite and primary using a bank to create the composite maker. The focus is very strong in the UK composite. I think with Covea, with Vitality investment, the performance of life and health and feeling good about that. A strong focus on Ping An, and of course working with Ping An Group around the health ecosystem, I think just amazing power of the Vitality model with our partners. And I think the opportunity there is not only just to penetrate with consumers, but the remarkable effect it's having on our partners together with us, offers all kinds of opportunities for further collaboration. Hope you'll see that coming out going forward.

So, may be to end, where I started. I think a robust operating performance. I think we are well provisioned for COVID, as we'll emerge. We are focused on trying to make with the vaccine rollout work and work well. And we're committed to doing that. The operating model I think is performing where you are seeing the dynamics of the model coming through and then there's a number of ways we're interpreting a post COVID world. And hope we're well positioned to deal with it.

So, those are six months of performance. We are hoping that will continue into the next six months. We do acknowledge have on energy. We expect is very volatile we flip the other way in the six months because the nature of our competitors -- remaining confident about where we are. We are staying with the position of not paying a dividend, given just the uncertainty of the environment and once we are focus on doing so. That policy remains in place at this point. But the group is well capitalized and confidence of growth. I thank you for listening. We're enthusiastic about the business but again just making, the point about in the environment of considerable complexity and in brief, but hopefully there really is hope so.

And that said, I've taken a lot of your time. What I'm going to do is, we have all of our key executives available, who'll take questions and I will kind of chair the session. Any question want, I think you can just send through, we will see them and I will take first the appropriate person. Maybe Deon Viljoen, our CFO, maybe just quickly you wanted to make some points about the headline earnings issue and its fit.

And I hand over to you Deon.

Deon Marius Viljoen {BIO 15316870 <GO>}

Thank you, Adrian. Yes. I think it is, as you mentioned quite a complex period. And I thought maybe just to give some context to and particularly the impact from currency translation. We discussed the economic assumption impacted quite some length at the year-end last year. But maybe just on the currency translation, the first point I'd like to make is that obviously, the income statements are translated at average rates. And so, the impact slightly less pronounced, but as we convert to translate to balance sheets, that is done at spot rates at reporting period end. And so, that creates quite a bit of volatility.

And I just wanted to point out some four main components of that. The first is, the normal translation of those foreign entity balance sheets in order to consolidate -- into our consolidate group numbers. Now that translation difference actually goes through our foreign currency translation reserve via other comprehensive income OCI. And so you don't see the impact of that coming through the P&L as such. But you will see that when you look at the OCI, there's quite a significant impact they have about GBP1.4 billion.

Now, the reason for that, as you pointed out in your slide, we had quite a lot of volatility with the rand, as it weakened towards our year-end last year. And then some of that actually recovering during this reporting period. In fact, if our year-end coincided with the calendar year, these impacts would have been far less pronounced. But just important to note that there is that impact as well from the translation of our foreign entities, as we bring them through into the consolidation. And that doesn't go through the P&L. There are then a number of other items that actually do impact on the income statement. The first being, where you have our currency assets for instance on the SA balance sheet. Those translations happen through the P&L, so these are foreign currency bank account balances. But also some of the intercompany balances and that sounds a little bit counterintuitive, because obviously those inter-companies eliminate on consolidation, but the translation of those intercompany loan accounts still flow through your P&L. It's the difference between capitalizing the subsidiary, will actually advancing on loan account. And that was quite substantial between those hard currency bank accounts and intracompany loans you'll see there's about ZAR362 million odd impact pre-tax coming through from that.

Then there is a further component and you also mentioned that, we as part of managing our financial risks, we do tend to hedge any significant currency exposures. And there has been an item on the balance sheet for some time now that relates to the capital commitment. Ultimately, when we do the Part VII transfer -- transferring the backlog on the prudential license to the VL book in the UK. Now again, somewhat counterintuitively we are hedging the economic exposure there to fluctuation in the rand. But because it's a future capital commitment you actually don't have the offsetting asset or liability that in terms of IFRS allows you to apply hedge accounting.

And so that hedge instrument wallet is taking risk off the table from a currency perspective for us, from an economic perspective actually creates some volatility that comes through the P&L. And that was approximately ZAR207 million odd impact in this reporting period. And obviously, these movements on a half year result where your denominators actually add a small quite a material impact on the reported growth rates. We don't note in our presentation of normalized measures. We don't normalize for those translation differences that come through P&L. The only item we do normalize for is the ZAR207 million on the Part VII currency hedge. So, just to point out that there are quite a few moving parts in that, given that volatility of the rand and the fact that we had a year-end right in the middle of that sort of weakening in recovery.

Questions And Answers

A - Adrian Gore {BIO 3068929 <GO>}

(Question And Answer)

Deon, thanks for that. There're a few questions coming up. I'm going to try and just get them across, David Iberdrola of (inaudible) Capital Management asks economic assumptions continue to get -- negate operational performance such an EV per share not exceeding inflation over the last five years. Under what conditions do you see shareholders at least earning a sufficient return on capital invested in the business by the EV calculation?

And then maybe to make a point -- also my colleagues and one point to make is, of course, if the economic environment, interest rates, et cetera, remain as they are, you should see very strong EV growth going forward. I'll also point out that I think what has happened in markets like the UK and not just the EU events, in the UK, the interest rate environment has been unprecedented, the worst ever since --

(Technical Difficulty)

A - Unidentified Speaker

We can't hear you, Adrian.

A - Adrian Gore {BIO 3068929 <GO>}

I'll keep going. Sorry, if you lost it. So, the actual conditions are quite unprecedented. But to make the point that I think if conditions improve in theoretical a pretty rapid increase in EV calculation. In any way, you might want to comment, I'll also just make the point that EV does not to capture many of the emerging -- none of them. We haven't created any embedded value calculation for Discovery Insure or Ping An Health or the Vitality Group. So, there's a considerable amount of value building up in the Group that is not covered by the EV calculation. So, I think the point raised is a good one.

Andy, do you want to maybe make some points to that commentary, which is more of the same?

A - Unidentified Speaker

If I can, Adrian -- thanks very much, yes. I think just -- David, thanks for the question. I think maybe just to elaborate for a little while on that; so, the embedded value return is really (Technical Difficulty) the discount rate and that will -- we have to expect that to happen every year; that's sort of 13% to 14% return in South Africa and 3% or so in the UK. And think of the value of new business that's being added and that is positive across all of the entities, and we're comfortable that the internal rate of return on the new business return on capital of writing new business is above the hurdle rate. So, I think we're very comfortable with that.

Then you've got the experience for instance, which contribute to the overall return and that's again as you can see from this period's result is positive across the Board. And then you've got the economic or the experienced changes. So, the answer to your question is if the economy and the moving parts and interest rates and inflation stay level from here, we would expect all of those positives I'd just spoken about to come through very strongly or if things improve and I think you'll get a multiplier effect on that.

The other thing to remind is the movements of the economic numbers have been quite extreme in both the UK and South Africa over the last year or two. And certainly in the UK, we've seen a quite a big normalization of that in the last few weeks. I think interest rates in the UK have gone from 75 basis points of the long end to about 140 nearly. So, there's been a big change there. So, we're comfortable with the return on capital and the business discovered by the EV and the value of new business that we're writing on those.

Adrian, back to you.

A - Adrian Gore {BIO 3068929 <GO>}

Andy, thanks for that. I'm going to move on Hatim Konje of Risk Insights asks, we've been your tracking your company's performance on ESG over the last five years. The disclosure on environment -- social government sectors is quite good. With the gross environmental factors, what is your Company's strategy towards tracking renewable energy issues?

Maybe Andy, back to you again; I think you can answer this or deal with it.

A - Unidentified Speaker

Yes. I think, Adrian, we've had a -- I mean, there's a whole lot of initiatives going on with our response to climate change and I think many of those -- I'm probably not at liberty to talk about it at the moment. I think we want to give them air time and later in the year, but we're looking and obviously managing very carefully our own footprint and there's a lot of activity with regards to that in terms of Scope 1, 2, and 3 emissions. We're also working hard on products to encourage the sort of Discovery with customers, clients, members to engage positively with reducing their own carbon footprints. And we obviously have the capabilities through shared value to encourage that and I think you'll see a lot more on that coming in the next -- the rest of 2021.

And Adrian, I think you've already made some pronouncements around our strategy towards achieving carbon-neutral -- neutrality.

A - Adrian Gore {BIO 3068929 <GO>}

Yes. Andy, thanks. Hatim, thanks for the question there. There are actually no further questions I see on our screen. There's nothing further. It's hard to tell sitting behind the screen if we're getting this all across. I want to say there'll be many, many meetings with our team. We remain of course committed and to talk to you on any questions that you have. So, let me end it there. It's been a long presentation. I hope it was worthwhile. Again, thank you very much for the opportunity. And just thanks for the time and please stay safe out there.

Thank you.